QUESTIONS ON THE LEGAL TREATMENT OF UNREGISTERED FOREIGN TRADEMARKS

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INTRODUCTION

As the surge of brandname consumerism washes over international markets, it leaves in its wake, not only an increasingly widespread demand for more of the goods, but also a burgeoning industry that flourishes on imitating the tide that went before it.

Italy, for instance, has a booming fake industry which manufactures wide ranging imitations "from obvious hoaxes to almost perfect forgeries of high quality brandname goods," such as Cartier watches, Gucci leather, Pucci dresses, Levi jeans, Lacoste shirts, Parker pens and Rayban sunglasses.[1]

Japan, which was once considered as the source of cheap copies of Western products that earned the unflattering epithet "made in Japan,"[2] is now being battered by a wave of replicas of Japanese cameras, tape recorders and canned foods.[3] Her international markets from Helsinki to Sao Paolo are awashed with Taiwanese, Korean and Hongkong products "that bear an uncanny resemblance to Japan's bestselling exports."[4]

How far-reaching the extent of the fake industry is, no one knows. The International Chamber of Commerce, however, would estimate that commerce in counterfeit goods may comprise as much as 2 percent of all trade worldwide, or fully $40 billion.[5] In Italy alone, the estimated value of the trade in fakes is at least $100 million a year, involving thousands of workers, retailers and peddlers.[6]

In the Philippines, the tide of fake consumer items has also reached the local markets. The Supreme Court, in taking judicial cognizance of the worldwide breadth of the problem in the case of *La Chemise Lacoste v. Fernandez,*[7] underscored the seriousness of the situation by repeatedly stressing in the first and last pages of the decision, its concern as to the magnitude of the counterfeit problem in the local markets.

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* *Member,* Editorial Board, Philippine Law Journal.

1 NEWSWEEK, February 20, 1978, p. 43.
2 NEWSWEEK, April 23, 1984, p. 27.
3 *Ibid.*
4 *Ibid.*
5 NEWSWEEK, December 24, 1984, p. 36.
6 NEWSWEEK, *supra,* note 1.
7 G.R. Nos. L-63796-97, May 21, 1984, 129 SCRA 373.

No less than President Marcos himself, in issuing Executive Order No. 913,[8] stated that infringement of internationally known trademarks and tradenames has reached such proportions as to constitute economic sabotage.[9] As a response therefore to the perceived international menance of a seemingly unshackled predatory trade practice, Philippine law governing trademarks has cast a proctective mantle over foreign trademarks, whether registered here or not.

Much like a safe harbor during a squall, the Philippines has in effect, offered a refuge to these trademarks much abused by imitative pirates elsewhere in the globe.

But these are hard times. Philippine economy itself is a much abused target of piratical economies of the dominant capitalist systems. More than ever, the imperative is quite pronounced that local industries, in view of the economic crisis, must be allowed to survive the economic juggernaut of foreign capitalist centers.

This paper would thus condone the infringement of foreign trademarks that are famous worldwide but unregistered here, and the owners of which do not invest in the local markets. In order to justify this seemingly subversive thought, this paper would point out that:

a. Philippine jurisprudence has deviated from the main conflicts rule on the matter of trademark protection, resulting in unwarranted legal overprotection of unregistered foreign trademark owners.
b. The present legal setup is based on an economic philosophy which is tenuous when seriously considered.
c. There is ample justification for allowing imitation of unregistered foreign trademarks.

THE PROBLEM

The coil of international piracy of famous trademarks is not a function of weakness in the enforcement of the law but the dearth of inherent legal protection where the scope of the problem leaps national boundaries. It is not that the law fails to protect trademarks, since in practically all countries, trademarks are protected even in the absence of special legislation.[10]

Indeed, no legislation is required as the concept of trademark infringement is a matter of violating the equity principle of honesty and fair dealing in trade.[11] Thus, the law is allowed to step in and protect a trader, as the violation of the right of the trademark owner is now in the concept of a tort of passing off or unfair competition.[12]

8 Exec. Order No. 913 (1983).
9 *Ibid.* see Preamble.
10 1 LADAS, PATENTS, TRADEMARKS AND RELATED RIGHTS 13 (1975).
11 2 LADAS, PATENTS, TRADEMARK AND RELATED RIGHTS 987 (1975).
12 *Ibid.*

Jurisprudence on the matter has, however, evolved into a recognition of the trademark as a property right belonging to the trader who had so used it. And this is well enunciated by Justice Holmes in the following words: "In a qualified sense, the mark is property, protected and alienable, although as other property its outline is shown only by the law of torts, of which the right is a prophetic summary."[13]

A trademark, therefore, in any legal system, is sufficiently protected. But as intimated, it is when trading transcends national boundaries that the adequacy of national legal systems shows itself incapable of offering the usual protection. For then, the law must necessarily resist the temptation to make itself felt beyond its territorial borders. The rule on the matter is clear that the law of trademarks rests upon the doctrine of nationality or territoriality.[14] This controlling conflicts rule is best expressed by Wolff:

> A State will protect only such patents, design, trade marks, trade names, and copyrights as it has itself granted, either by particular act or general statute. No State applies foreign law to questions of patents, copyrights, and the like or recognizes rights of this class created under foreign law.[15]

As a result, a trademark owner will be protected only in the country where he registers his trademark. If he desires protection in a second country, he may apply there for registration. But each registration is operative within a particular territory only and is governed by the law of the country which granted it. Conversely, in the country where the trademark is not registered, the owner lacks the personality to invoke either the protection of that country or that of another in which his trademark is registered. Hence, his trademark may be freely imitated.

It is in this legal limbo where capacity to sue is lost and where the protection of the law melts in the shadows that the moment opens itself to the virulence and fertility of trade piracy.

In its irreducible form, the problem of trademark piracy is one involving a foreign trademark owner, whether an individual or a corporation, which is not doing business in the forum, which is not licensed, and unregistered to do business there, but whose products bearing the trademark are widely and favorably known in that forum.

In effect, while the trademark owner does not invest in the local market, but the popularity of his trademark has created large scale demand without satisfying it, local firms desiring to fill in the void and wanting to share in the market which has, in the meantinme, turned too enamored to particular brands to the prejudice of the local trades, take

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13 Beech-Nut Packing Co. v. P. Lorillard Co., 273 U.S. 629, 632 (1926).

14 CALLMAN, UNFAIR COMPETITION AND TRADEMARKS 1006 (1945).

15 WOLFF, PRIVATE INTERNATIONAL LAW 547 (2d ed., 1950).

advantage of the unprotected trademark and ride on its profit prowess. Indeed, what it means to take hold of a successful trademark is to take hold and exploit an "economic asset of great value."[16]

LEGAL TREATMENT OF UNREGISTERED FOREIGN TRADEMARKS IN THE PHILIPPINES

While the prevailing conflicts rule in most jurisdiction is the one expressed by Wolff,[17] and that is, a State can only protect such trademark as it has granted, the trend in Philippine jurisprudence is to protect not only trademarks which it has granted but trademarks which it did not grant as well.

Instead of having to labor under a defect of personality to sue caused by the operation of the doctrine of territoriality, the unregistered foreign trademark owner is invested with the special advantage of not having to contend with the threshhold issue as to his standing in Philippine courts.

Thus, a foreign trademark owner seeking redress for unfair competition before Philippine courts may either file:

a. a civil action under Sec. 21-A of the Trademark Law,[18] which is based on violation of the rights to use trademarks, or

b. a criminal action under Art. 189 of the Revised Penal Code,[19] which in the language of the Court in *Ogura v. Chua,*[20] is "not based on any violation or infringement of such rights but on fraudulent and unfair competition committed by the [respondent] in imitating the former's trademark and introducing it to the public as if it were the same as the [petitioner's]."[21]

Sec. 21-A of the Trademark Law echoes the pertinent conflicts rule that if a foreign corporation transacts business in the Philippines, it must have the necessary license therefor;[22] it cannot sue on such business unless such license have been obtained.[23]

On the other hand, an action under the Revised Penal Code echoes the other rule that if the foreign corporation sues merely on isolated acts (hence, does not transact business), the action may be allowed even without the license.[24]

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16 LADAS, *supra,* note 10 at 564.
17 See note 15, *supra.*
18 Rep. Act No. 166 (1947) as amended.
19 Rep. Act No. 3815 (1932).
20 59 Phil. 471 (1934).
21 *Id.* at 476.
22 CORP. CODE, sec. 132.
23 CORP. CODE, sec. 133.
24 Marshall-Wells and Co., 46 Phil. 70 (1924); Atlantic Mutual Insurance Co. v. Cebu Stevedoring Co. Inc., G.R. No. L-18961, Aug. 31, 1966, 17 SCRA 1037.

A. SECTION 21-A AND THE MENTHOLATUM CASE

The case of *Mentholatum v. Mangaliman*[25] laid down the rule that a foreign corporation doing business in the Philippines without being licensed therefor could not prosecute an action for infringement of its trademark. In that case, what proved fatal to the foreign company's action was the operation of Sec. 69 of Act 1459 which provided that a foreign corporation shall not be "permitted to transact business in the Philippines or maintain by itself or assignee any suit for the recovery of any debt, claim, or demand whatever, unless it shall have the license prescribed" by law.[26] And it proved fatal since the foreign company was represented by a local drug firm in the sale and exclusive distribution of its products, an arrangement which the Court found as enveloped by the term "doing business." And there being no license, the law was applied fully.

This part of the ruling was subsequently abrogated by Congress when it amended the Trademark Law by enacting R.A. No. 28 which incorporated sec. 21-A into the said law.[27] This amendment found its judicial application in the case of *General Garments Corp. v. Director of Patents*,[28] where the argument was posed that before a foreign corporation may file the action, its trademark should have been previously registered under the Trademark Law. In answer, the Court said that the argument misses the essential point since under sec. 21-A, the foreign business is allowed to sue "whether or not it has been licensed to do business in the Philippines," pursuant to the Corporation Law, precisely "to counteract the effects of the *Mentholatum* case."

While it would seem that the Court favors a liberal attitude toward a foreign corporation struggling to keep its survival judicially viable at the threshhold of the justice system of the forum, the case of *Leviton Industries v. Salvador*[29] has, however, imposed some stringent requirements for the availment of the remedy under sec. 21-A.

Accordingly, under sec. 21-A, Leviton Industries, as a foreign corporation, must affirmatively allege that:

a. its trademark which it claims to be violated is registered with the Philippine Patent Office or, at least, that it is an assignee of such trademark;

b. France grants to Filipino corporations or juristic entities the same reciprocal treatment, either thru treaty, convention or law;

c. that (it) is licensed to do business in the Philippines.

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[25] 72 Phil. 524 (1941).
[26] *Id.* at 528.
[27] Rep. Act No. 638 (1951), sec. 7.
[28] G.R. No. L-24295, Sept. 30, 1971, 41 SCRA 50.
[29] G.R. No. L-40163, June 19, 1982, 41 SCRA 50.

The first two requisites are clearly stated in the case of *Leviton;* while the third one is clearly imposed by sec. 133 of the Corporation Law.

In that case, Leviton Industries, a foreign corporation, filed an action based on sec. 21-A. But the defendant was able to obtain from the former the following admissions:

> a. that plaintiff is not actually manufacturing, selling and/or distributing ballasts generally used in flourescent lightning;
>
> b. that plaintiff has no registered trademark in the Philippine Patent Office of any of its products; and
>
> c. that plaintiff has no license to do business in the Philippines....[29a]

It was thus ruled that:

> In the case at bar, private respondent has chosen to anchor its action under the Trademark Law of the Philippines, a law which, as pointed out, explicitly sets down the conditions precedent for the successful prosecution thereof. It is therefore incumbent upon private respondent to comply with these requirements or aver its exemption thereform, if such be the case.[29b]

It was therefore not enough for Leviton, a New York corporation, to merely allege that it is a foreign corporation. If action is based on sec. 21-A, it must show capacity to sue.

B. ACTION UNDER THE REVISED PENAL CODE

While the *Leviton* case sets requirements for a foreign corporation's capacity to sue for unfair competition under sec. 21-A of the Trademark Law, it does not restrict the capacity of a foreign corporation not doing business in the Philippines to sue before Philippine courts.

The applicable doctrine is one that is laid down in *Western Equipment Co. v. Reyes.*[30]

> A foreign corporation which has never done any business in the Philippine Islands and which is unlicensed and unregistered to do business here, but is widely and favorably known in the islands through the use therein of its products bearing its corporate and trade name has a legal right to maintain action in the Islands.[31]

The foundation of this judicial thinking rests on the theory that

> [t]he right to the use of the corporate or trade name is a property right *in rem*, which it may assert and protect in any courts of the world—even in jurisdictions where it does not transact business—just the same as it may protect its tangible property, real or personal against trespass or conversion.[32]

[29a] *Id.* at 423.
[29b] *Id.* at 425.
[30] 51 Phil. 115 (1927).
[31] *Id.* at 115.
[32] *Id.* at 128.

While this doctrine was installed during the American colonial administration, the rule still prevails today, and has found prominent enunciation in the most recent case of *La Chemise Lacosta v. Fernandez.*[33]

The effect of both cases on the question of capacity to sue is that such capacity is not required to be proven. All that the foreign corporation is required to allege before the courts in support of its standing is that it is a foreign corporation, and it has not done and is not doing business in the Philippines.[34] This is nothing more than obedience to the rule that the right to the use of trademark is a property right which may be asserted and protected in any court of the world.[35]

The *Lacoste* case, however, points to an important facet of litigating claims for protection of trademarks by a foreign corporation not doing business in the Philippines. It should be noted that the triability of the *Lacoste* claims were not merely based on the concept of trademarks as property rights and hence can be asserted in any courts of the world, but on the fact that in the criminal action under Art. 189 of the Revised Penal Code, the injured party was the People of the Philippines. Consequently, "[p]etitioner's capacity to sue would become, therefore, of not much significance in the main case."[36]

But more than this, the Court was moved to dispense with the trouble of adjudicating capacity to sue by applying the provisions of the Paris Convention for the Protection of Industrial Property,[37] to assure foreign corporations with unregistered trademarks the same treatment in the Philippines as that available to citizens.

The Paris Convention, which became binding on the Philippines on September 27, 1965, provides in part that

ARTICLE 2

> (1) Nationals of each of the countries of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to the nationals, without prejudice to the rights specially provided by the present Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided they observe the conditions and formalities imposed upon nationals.

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[33] 129 SCRA 373.

[34] Whether or not a forein corporation is doing business in the Philippines is determined by the rules and regulations promulgated by the Board of Investments pursuant to its rule-making power under Pres. Decree No. 1789, otherwise known as the Omnibus Investment Code.

[35] *See Western Equipmest Co.,* 51 Phil. 115.

[36] *La Chemise Lacoste* 129 SCRA at 386.

[37] Paris Convention for the Protection of Industrial Property, March 20, 1883, 61 O.G. 8010 (December, 1965).

ARTICLE 6bis

(1) the countries of the Union undertake, either administratively if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration and to prohibit the use of a trademark which constitutes a reproduction, imitation or translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well-known in that country as being already the mark of a person entitled to the benefits of the present Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an imitation liable to create confusion therewith.[38]

"By virtue of art. 2, nationals of each member country enjoy in all countries the protection and advantages granted by law to nationals."[39] This expresses the national treatment principle. In view of this, "discrimination existing against foreigners not domiciled or established in the country in which protection of trademark is sought have been abolished."[40]

While it would seem at the outset that the Convention shakes the very foundation of the doctrine of nationality and territoriality that permeates the conflicts rule as enunciated by Wolff, a United States Circuit Court of Appeals had explored the real meaning of the Convention and found the doctrine intact. In the case of *Vanity Fair Mills, Inc. v. V. T. Eaton Co.*[41] it said that

> The Convention is not premised upon the idea that the trademark and related laws of each member nation shall be given extraterritorial application but on exactly the converse principle that each nation's law shall have only territorial application. Thus a foreign national of a member nation using his trademark in commerce in the United States is accorded extensive protection here against infringement and other types of unfair competition by virtue of United States membership in the Convention. But that protection has its source in, and is subject to the limitations of, American law, not the law of the foreign national's own country.[42]

The Philippine Supreme Court, in the *Lacoste* case is also of the same mind and states that "we are obliged to assure to nationals of 'countries of the Union' an effective protection against unfair competition in the same way that they are obliged to similarly protect Filipino citizens and firms."[43]

In the matter of Art. 6bis, while art. 2 is described as a provision of "a self-executing character and must be given effect in any country of the Union regardless of the provisions of the national legislation,"[44] in Philippine jurisdiction, the self-executing provision is more for the national

[38] *Ibid.*
[39] LADAS, *supra*, note 11 at 970.
[40] *Ibid.*
[41] 234 F. 2d. 633 (1956).
[42] *Id.* at 635.
[43] *La Chemise Lacoste*, 129 SCRA at 389.
[44] LADAS, *supra*, note 11 at 971.

treatment principle. This is shown by the fact that the Minister of Trade on November 20, 1980, as the "implementing authority" under art. 6bis, issued a memorandum addressed to the Director of the Patent Office, directing the latter

> ... to reject all pending applications for Philippine registration of signature and other world famous trademarks by applicants other than its original owners or users.
>
> The conflicting claims over internationally known trademarks involve such name brands as Lacoste, Jordache, Gloria Vanderbilt, Sasson, Fila, Pierre Cardin, Gucci, Christian Dior, Oscar de la Renta, Calvin Klein, Givenchy, Ralph Lauren, Geoffrey Beene, Lanvin and Ted Lapidus.
>
> It is further directed that, in cases where warranted, Philippine registrants of such trademarks should be asked to surrender their certificates of registration, if any, to avoid suits for damages and other legal action by the trademarks' foreign or local owners or original users.[35]

The validity of the memorandum was affirmed by a decision of the Intermediate Appellate Court in the case of *La Chemise Lacoste S.A. v. Ram Sadhwani*.[46] This decision was in turn cited with approval by the Supreme Court in the *Lacoste* case.[47]

If to some, art. 2 of the Convention would constitute a distortion of the nationality and territoriality doctrines, art. 6bis would seem equally a distortion of the national treatment clause of art. 2. For here, the treatment of foreign corporations is more advantageous than that of the national, who has to comply with the formalities of registration in order to have his trademark protected. On the other hand, by virtue of the memorandum, well known marks are given prior determination of ownership, without hearing on the application for registration before the Patent Office. In short, at the outset, the brands are protected without benefit of registration.

Again, courts in France and Belgium had explored the meaning of the national treatment clause in art. 2 and held that the article was "all-embracing and self-sufficient, and could not be limited by any reference to any articles of the Convention *except that additional rights or protection may be granted by such other articles*" (underscoring mine).[48] And if any other articles provide that additional protection, that could be art. 6bis.

In summary, the legal treatment of trademarks owned by foreigners is not one of prohibition to sue. While the controlling conflicts rule in

45 *La Chemise Lacoste*, 129 SCRA at 389-390.

46 AC-G.R. No. Sp. No. 13356 (1983).

47 *La Chemise Lacoste*, 129 SCRA 373.

48 LADAS, *supra*, note 11 at 971, provides the following footnote: "See decision of Court of Appeals of Paris of March, 14, 1953, in the *Omega* case, affirmed by the Supreme Court's decision of February 3, 1959, Annales (1959), p. 1; Court of Appeals of Brussels of June 18, 1963, Quaker State Oil Refining Corp. v. Pennsylvania Petroleum Products Corp., *Ingenieur Conseil* (1964), p. 36."

most jurisdictions is the one expressed by Wolff, which bears repeating here:

> A States will protest only such patents, designs, trade marks, trade names, and copyrights as it has itself granted, either by particular act or general statute. No State applies foreign law to questions of patents, copyrights, and the like or recognizes rights of this class created under foreign law.[48a]

the Philippine conflicts rule is to recognize the trademark rights created under foreign law. Its posture is one of adherence to the consent doctrine.[49] And this recognition of foreign created rights is in three forms:

a. In case the foreign corporation is doing business in the Philippines, it can invoke local judicial protection by filing a civil action under sec. 21-A of the Trademark Law, but must prove capacity to sue as required by the ruling in the *Leviton* case and sec. 133 of the Corporation Code.

b. In case the foreign corporation is not doing business in the Philippine, it can prosecute its claims under Art. 189 of the Revised Penal Code, without the need of proving capacity to sue.

c. In case the foreign corporation is an owner of any one of the well-known trademarks specially mentioned by the Memorandum of the Minister of Trade, then, there is already a prior determination of ownership of trademarks, and the Director of the Patent Office is under the legal duty to reject all pending applications, or, if one has been registered, to require the surrender of the certificate of registration.

POLICY CONSIDERATIONS BEHIND THE SPECIAL TREATMENT

The policy of special treatment toward foreigners attending the state of Philippine jurisprudence is derived from the way the law balances the configuration of interests involved. In the whole scheme of interests pervading the law, there are four classes of interest under consideration. Ladas identifies them as the following:

> a. The interest of the trademark owner not to be interferred with in his advantageous relations he has created in the market place through the use of a certain symbol and in the reasonable expectation of future custom secured by the public's recognition of such symbol as indicating his origin or sponsorship of particular products.
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> b. The competing manufacturers' or traders' interest to be free to market their own goods under any symbol which belongs to general use and which should not be monopolized, thus hurting their liberty to sell goods in lawful competition.

48a WOLF, *supra* note 15.
49 SALONGA, PRIVATE INTERNATIONAL LAW 344 (1981).

> c. The interest of the customer of goods against act tending to create false impressions and to deceive him or confuse him by inducing the belief that the business or products of one manufacturer or trader are those of another.
>
> d. The social interest of promoting fair dealing in the marketplace and preventing unethical and unfair practices in trade.[50]

The concept of the first class of interest is well developed in Philippine Supreme Court decisions. In the leading case of *Ang v. Teodoro,*[51] the Court stated that "[t]he original owner is entitled to the preservation of the valuable link beween him and the public that has been created by his ingenuity and the merit of his wares or services."[51a]

In the same vein, the Court in *Etepha v. Director of Patents*[52] observed that the purpose of protecting trademarks is to "point out distinctly the origin or ownership of the article to which it is affixed, to secure to him, who has been instrumental in bringing into a market a superior article of merchandise, the fruit of his industry and skill. . . ."[52a]

The third class of interest also figures well in the decisions of the Supreme Court, such as in *Asari Yoko Co., Ltd. v. Kee Boc,*[53] and *General Garments Corp. v. Director of Patests.*[54] In both cases, the Court pointed out that the law is not only for the protection of the trademark owner but also, more importantly, for the protection of purchasers from confusion, mistake or deception as to the goods they are buying.

This stance is also echoed in the *Lacoste* case, where the point is made that "[t]he greater victim is not so much the manufacturer whose product is being faked but the Filipino consuming public. . . ."[55] The imperative is that "the public consumer must everywhere be protected against deceit."[56]

Equally well entrenched in Supreme Court decisions is the fourth class of interest. The Court in the *Lacoste* case, citing as source of thought the case fo *Baltimore v. Moses,*[57] stated that

> The law on trademarks and tradenames is based on the principle of business integrity and common justice. This law, both in letter and spirit, is laid upon the premise that, while it encourages fair trade in every way and aims to foster, and not to hamper, competition, no one,

[50] LADAS, *supra,* note 11 at 968-969.
[51] 74 Phl. 50 (1982).
[51a] *Id.* at 55.
[52] G.R. No. L-20635, March 31, 1966, 16 SCRA 495.
[52a] *Id.* at 497, citing 52 Am. Jur. 508.
[53] G.R. No. L-14086, Jan. 20, 1961, 1 SCRA 1.
[54] 41 SCRA 50.
[55] *La Chemise Lacoste* 129 SCRA at 403.
[56] LADAS, *supra,* note 11 at 969.
[57] 182 Md 229, 34 A(2d) 338, cited in *La Chemise Lacoste,* 129 SCRA at 398.

> especially a trader, is justified in damaging or jeopardizing another's business by fraud, deceit, trickery or unfair methods of any sort.[57a]

In protecting the trademark owner, "the modern trend is to give emphasis to the unfairness of the acts and to classify and treat the issues as fraud."[58] Indeed, it is the same modern trade and commerce which the Court in the *Asari* case[59] held to have demanded that "depradation on legitimate trademarks of non-national should not be countenanced."

Conspicuous, however, for its lack of any commentary is the second class of interest; that is, the competing maunfacurer's right. The idea is that the exclusion of this particular interest is not the rejection of competition in the free market, but as a matter of fact, the rejection of monopoly occasioned by predatory trade practices.

In passing the Federal Trade Commission Act[60] in 1914, the United States Congress approached the problem of unfair competition "on the assumption that it is a facet of monopoly."[61] The sponsors of the act asserted that "it is now generally recognized that the only effective means of establishing and maintaining monopoly . . . is the use of unfair competition."[62]

On the other hand, the "protection of trademarks does not involve any element of monopoly."[63] For the protection of trademark is "nothing less than the protection of business"[64] itself. And this is so for the reason that "competitors cannot long maintain their own position in the market if they should be allowed to destroy the symbols of identification of business and goods by immitation and encroachment."[65]

It would seem therefore that in allowing the interplay of interests, there is a necessary exclusion of the competitor's interest. In the ultimate scheme of things, the trademark owner occupies an exalted position in the market, and in law. It is his individual interest of advantageous business relation that is secured by the protection of trademark.

While it could be said that the social interests in furthering fair dealing, and in protecting the public against fraud, are equally the *raison d'etre* of the law, still, it is the trademark owner's interest which permeates the very fiber of the policy in protecting trademarks. For indeed, the end of law is to protect the unique advantage of the trademark owner

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57a *Ibid.*
58 *La Chemise Lacoste* 129 SCRA at 398.
59 *Asari,* 1 SCRA 1.
60 DEWEY, MONOPOLY IN ECONOMICS AND LAW 189 (1959), citing 38 Stat. 717.
61 *Id.* at 188.
62 *Ibid.*
63 LADAS, *supra,* note 10 at 31.
64 *Ibid.*
65 LADAS, *supra,* note 11 at 969.

> to encourage investment in new ideas and creative efforts for the satisfaction of human needs and for social and economic progress. Such progress an increasing volume of resources which will not be forthcoming unless there is benevolent attitude toward granting the advantages created by the application of such resources.[66]

It is his creative initiative which is recognized as central to the concept of general progress. He is therefore indispensible to economic development.

In summary, the arrangement by law of interests produces two truisms. It would seem, first, that there is a necessary exclusion of the competitor's interest. Secondly, this view of the law is a universal one. It suggests in effect that there is no difference in the administration of the trademark law between national and foreign marks, and more importantly, between big and small nations.[67] This universality is projected, as far as the Philippine Supreme Court is concerned, in the concept of "modern trade and commerce" as demanding that depradation of trademarks should not be countenanced. "For the fundamental object of the trademark law is *everywhere* the protection of the business and goodwill of the trademark owner and in interest of the public against deception and fraud." (underscoring mine).[68] Hence, foreign trademarks, although unregistered, are accorded a special treatment. And more so considering that the special treatment is based on the recognition of the owner's unique advantage in the marketplace.

QUESTIONS ON THE LEGAL TREATMENT OF UNREGISTERED FOREIGN TRADEMARKS: ARGUMENTS

Condoning Infringement

Wolff has already given us the controlling conflicts rule in most jurisdictions, that is, "a State will protect only such patents, designs, trademarks, tradenames, and copyrights as it has itself granted . . ." The pure, unequivocal force of the logic is that the assertion and protection of a trademark is not triable just any where in the courts of the world. The Philippine Supreme Court has chosen however to rule that protection of foreign trademarks is triable in any court on the basis of the following:

a. It is a right *in rem.*

b. When brought in a criminal proceding, the injured party is the People of the Philippines.

c. The protection of unregistered trademark is a treaty obligation.

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[66] LADAS, *supra,* note 10 at 13.
[67] *Id.* at 567.
[68] *Ibid.*

A. In the matter of trademark as a property right, the following challenges are thrown:

Firstly, it has no basis at all since the conflicts rule enunciated by Wolff is the one prevailing in most jurisdictions.

Secondly, there is no property right to be protected where the trademark is not registered. And a reading of the law shows this to be the moving spirit.

Under the provisions of the Trademark Law, trademarks of persons, corporations, partners or associations domiciled in any foreign country may be registered in accordance with the provisions of law.[69] For this purpose, the law recognizes and protects the ownership or possession of a trademark appropriated in accordance with the law in the same manner and to the same extent as are other property rights knokn to the law.[70] The recognition and protection, therefore, of a foreign trademark is only applied to trademarks which are registered in accordance with the law. It is the condition of registration which confers to the trademark owner the enjoyment of the right to be protected. This much is admitted by Ladas in the following words: "A producer or merchant who wished to have his trademark protected should apply for its registration."[71]

It is therefore clear from the law that if any right is reserved to an owner of an unregistered trademark, it is *not* the right to be protected. But the law indeed grants him one right. And this is the right to register his trademark on the basis of ownership.[72] But even here, there is no special protective treatment available to him. Ownership here, as a condition for registerability, must be based on actual use in commerce or business. [73] In this regard, the Supreme Court has held that the trader is entitled "to protection in the trade he has built up and the goodwill he has accumulated from *use* of the trademark" (underscoring mine).[74] This requirement of actual use is considered by the Court as widely accepted and firmly entrenched because it has come down through the years.[75] And the rational is clear. "What is to be secured from unfair competion in a given territory is the trade which one has in that particular territory. This is where his business is carried on; where the goodwill symbolized by the trademark has immediate value; wher ethe infringer may profit by an infringement."[76]

It is the very concept of actual use which defeats any concept of special treatment toward foreign unregistered trademark owner, who does

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69 Rep. Act No. 166 (1947), sec. 4.
70 Rep. Act No. 166 (1947), sec. 2-A.
71 LADAS, *supra*, note 10 at 33.
72 Rep. Act No. 638 (1951), sec. 7, amending sec. 2, Rep. Act No. 166.
73 Rep. Act No. 166 (1947), sec. 2.
74 Sterling Products International, Inc. v. Farbengabriken Bayer Aktiengesellschaft, G.R. No. L-19906, April 30, 1969, 27 SCRA 1214.
75 *Ibid.*
76 *Ibid.*

not invest in the local market. For instance, there is no prior use on the part of the unregistered trademark owner, where he has no direct hand in the introduction of goods bearing his trademark in the country.[77] In the case of *Lim Kiah v. Kaynee Co.*[78], a South Carolina corporation, owner of the trademark "Kaynee," which was registered in the United States, was refused registration here for the reason that its trademark existed in the Philippines primarily because of the activity of a local supermarket which extensively utilized the newspapers, radio and television advertisements to promote the trademark owner's goods. No actual use on his part was proven.

From the foregoing, no property right exists where the trademark is not registered. And no right to register exists where no actual use is proven as where the owner does not actually engage in the local business, or where the introduction of goods bearing the trademark was not at the expense and due to the effort of the said owner.

One last thing about the *Kaynee* case. There, the local imitator was also disallowed to register the "Kaynee" trademark when the foreign corporation was able to prove that he was not the owner. The question is, why penalize the local trader for meeting the local demand aroused by the publicity of a foreign trademark the owner of which does not even make an investment in the local market? This query will be considered later.

B. In the matter of a criminal action for infringement of an unregistered foreign trademark, where the party injured is the People of the Philippines, thus rendering irrelevant the personality of the owner, the challenge thrown is a simple one. Professor Prosser stated that "crime is an offense against the public at large, for which the State, as the representative of the public will bring proceedings in the form of a criminal prosecution. The purpose .... is to protect and vidicate the interests of the public as a whole...."[79]

If the trademark owner is not doing business in the Philippines and does not even apply for registration, then, it is clear that his welfare is remotely connected with the country. Any injury to him would necessarily mean an injury so far remote to the consciousness of the public at large. To be sure, when the state acts to prosecute and punish an offender, it is but to restore public order and trust.[80] But it is inconceivable that public order could be invoked where the trademark owner is nowhere to be found in the mainstream of the public activity. It is clear therefore that the designation of The People of the Philippines is purely a procedural convenience rather than a recognition of an injury to the People of the Philippines.

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[77] Lim Kiah v. Kaynee Co., G.R. No. L-24802, Oct. 14, 1968, 25 SCRA 485.
[78] *Ibid.*
[79] SALONGA, *supra*, note 49 at 332.
[80] PARAS, PHILIPPINE CONFLICTS OF LAW, 399-400 (1976).

In any event, the inury has no factual basis. That factual basis could only be formed if the trademark owner registers his trademark. Only then will his trademark be vested with public interest for the purpose of his protection. Only then will his trademark acquire the right to protection from the State which will then be responsible for the prosecution of his claim of inury.

C. In the matter of giving the trademark owner the right to maintain a suit in the Philippine courts as part of the treaty obligation under the Convention, this should not stop the Philippines from investigating and reconsidering whether the treaty is in our national interest. A review of the entire gamut of economic dealing that the Philippines has entered into with the dominant economies of the world shows a deplorable picture of persistent exploitation by the latter.

It was shown by Lichauco [81] that throughout the range of experience of Philippine economy, the process was one of wealth extraction by foreign investors. That was because the local economy was streamlined by the policy of "open economy" which placed minimal restriction on trade and capital transactions, and of giving foreign investors "national treatment."[82] These two principles, which facilitated the process of extraction, are painfully familiar principles in the Convention, particularly with reference to the nationality treatment clause of Art. 2 thereof.

If the national treatment principle was instrumental in exposing the local economy to the predatory activities of foreign investors, then there is no doubting that the national treatment clause central to the Convention may eventually lead the country to the same exposure. In fact, the seeds of monopoly in the realm of trademarks may have been already planted. Espiritu particularly points to the desperate situation that with regard to patents, trademarks and copyrights, specially patents, at least 94 per cent of the patents in the Philippines belong to foreign interests, particularly the multinational corporations.[83]

But the picture is indeed clear. The Philippines is caught in what Samir Amin[84] would describe as the problems arising from the bifurcation of the capitalist world into "central" and "periphery" economies. It is suffering from the effects of parasitical linkages between the two economies, which linkages "provide the means whereby a considerable share of the burden of the crisis (in the capitalist center) are shifted to the shoulders of the underdeveloped nation."[85] And the results are deplorable. For the Third World, particularly in Asia, where the process of wealth extraction

[81] LICHAUCO, *The Lichauco Paper: Imeprialism in the Philippines, in* MONTHLY REVIEW PRESS 25 (1973).

[82] *Ibid.*

[83] *See* SALONGA, *supra,* note 49 at 397.

[84] SAMIR AMIN, ACCUMULATION ON A WORLD SCALE, A CRITIQUE OF THE THEORY OF UNDERDEVELOPMENT (1974).

reaches major proportions. In 1963, for example, Asian states received $181 million net private capital investment, but the outflow of net capital amounted to $708 million.[86] In the Philippines, this same piratical trade practice gained the foreign investors, in 1970, some $7.08 for every dollar they brought in.[87]

Another predatory practice was for the foreign investors to raise their capital requirement from domestic savings and credit institutions, thus, not only deceiving the local economy as to their capital contribution, but also competing with Filipino business for scarce credit resources.[88] Added to this, the country was placed by the International Monetary Fund under a regime of tight money, even way back in 1962, which drove Filipino-owned business to bunkruptcy.[89] In 1966, approximately 1,500 firms were in a state of collapse.[90] This was magnifiel in 1970 in connection with the second devaluation in order to obtain stabilization loans from the International Monetary Fund.[91]

Today, the situation has already ballooned into crisis proportions. Without going into a discussion of the present crisis, it suffices here that the pattern of exploitation is traced and described. But the point is clear. Given the conduct of international trade which puts less developed countries at a disadvantage, the policy of giving special treatment to unregistered foreign trademarks could operate as one more trade practice that may put the Third World at a still further disadvantage. A simple analysis would reveal the following:

a. It allows the monopoly of lucrative trade by foreign firms which do not even have any local investment of resources and transfer of technology.

b. Where they do not invest in the local markets, they create large scale demand without satisfying it, and local firms desiring to fill in the void barred, thus stunting badly needed growth in the Third World and at the same time, ensuring dependency on foreign products.

c. Local firms cannot remedy this by coming up with their own trademarks.
   - They cannot compete against foreign brands enoying a status symbol.
   - Foreign firms have the advantage of advertising expertise. They employ the best minds in the business.

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[85] Magdoff, *International Economic Structure and the Third World,* in 33 MONTHLY REVIEW (1982).

[86] LICHAUCO, *supra,* note 81, at 26.

[87] *Ibid.*

[88] *Id.* at 33.

[89] *Id.* at 35.

[90] *Ibid.*

[91] *Ibid.*

— Foreign firms themselves generate demand by the magic of high powered advertising.

— Even if local products are of good quality, they cannot overcome the artificially created bias for imports.

It could not therefore be in the national interest to carry on with the treaty obligation under a doubtful international convention. Indeed, if any national interest should be served at all, it is that our own garment factories employing Filipinos be revived and allowed to survive the debilitating effects of the present day crisis.

The pressing relevancy of this point could not be doubted. Dr. Gonzalo Jurado, in a lecture,[92] revealed a proposition to the effect that "we are not suffering from a shortage of capital (which would justify the utilization of foreign capital)." He pointed out that we may have low income, low savings, low investments, but we have capital, in the form of equipment, tools, and buildings, and these are only half utilized. The country is suffering from idle capacity. Textiles industries like Gentex, Utex and Columbia were producing only at a fraction of their potential rated capacity.[93]

Jurado points out that it is "not because Filipinos don't need shirts, but because Filipinos are not in a position to purchase the textile at a price that would permit the owners of these industries to make a sale at a profit."[94]

Be that as it may, it could only be said that the under-utilization of local factories is the result of lucrative trade being monopolized by famous trademarks. It would therefore be an absurd proposition that this position of profitability must still be reserved to unregistered foreign trademark owners, while local garment industries are dying from under-utilization.

Infringement Reconsidered

The argument posed against the radical view which condones the infringement of unregistered trademarks by a small or developing country "in order to catch up," is that since the fundamental object of the Trademark Law is "everywhere the protection of the business and goodwill of the trademark owner, and the interest of the public against deception and fraud," consequently, there is "no difference in the regulation and administration of the trademark law between national and foreign marks, between agricultural and industrial countries, between large and small states."[95]

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[92] JURADO, *Transnational Corporations and National Development*. Lecture delivered before Economics Class 1980, February 1, 1978.

[93] *Id.* at 6.

[94] *Ibid.*

[95] LADAS, *supra*, note 10, at 587.

As discussed previously, the basic premises are that the

a. owner is indispensible to economic progress;

b. the market will not survive long if traders are allowed to prey on each other; and

c. the public must everywhere be protected.

If seriously considered, however, these premises are tenuous and may not in all probability withstand the glare of factual light in the open.

A. As to the trademark owner, to attribute to him the character of indispensibility is not realisic at all. For one thing, it is not his investment of creative ideas but ultimately, "consumer demand" that plays a role in the "dynamic" aspects of economic development.[96] For another, the stimulus for creative ideas can never be stifled. Again, as studies would show, the ever present "stimulus is the recognition of a potentially profitable opportunity to be seized."[97] In short, consumer demand.

Again, the claim that the trademark has a unique advantage is belied by the finding that "production of invention, and such other technological knowledge, whether routinized or not, when considered from the standpoint of both the objective and the motive which compel one to produce, is in most instances *as much an economic activity as is production of bread*" (underscoring mine).[98] By analogy, inventor's position is no different from that of a trademark owner. Indeed, as J.S. Mill would have it, the production of inventions, and trademarks for that matter, "was undergone, no less than theirs, in the prospect of a remuneration from the produce."[99] If this is so, why give, as has been given, special advantage to a trademark owner in his position of profitability, when as rightly pointed out, their economic role is a much as economic activity as that of the production of bread? The question is even more sharp when non-registration is added to the picture.

B. As to the possible harm to the public, a study shows that "a passive role can be assigned to consumers where such wants as food, clothing, and shelter are concerned. These are generic wants and are a stable attribute of human nature. There is no demand for specific product."[100] No harm therefore arises if a consumer buys a local limitation of a Lacoste shirt. He is not duped, since the need for clothing is generic; he will buy anything.

The main indictment levelled against imitation is the one expressed by Justice Gutierrez in the *Lacoste* case:

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[96] SCHMOOKLER, INVENTION AND ECONOMIC GROWTH 213 (1966).
[97] *Id.* at 199.
[98] *Id.* at 208.
[99] J. S. MILL, PRINCIPLES OF POLITICAL ECONOMY 68 (1890).
[100] SCHMOOKLER, *supra*, note 96, at 180.

> We buy a kitchen appliance, a household tool, perfume, face powder, other toilet articles, watches, brandy or whisky, and items of clothing like jeans, T-shirts, neckties, etc.—the list is quite lengthy—and pay good money relying on the brand name as guarantee of its quality and genuine nature only to explode in bitter frustration and helpless anger because the purchase item turns out to be a shoddy imitation, albeit a clever looking counterfeit, of the quality product.[101]

The statement, however, is more of a personal opinion without the benefit of actual studies. But that is the privilege of a *ponente,* to lace a decision with the trappings of his own consciousness. What could be granted the Honorable Justice is that he may have spoken for the moneyed consumer. But the psychology of a consumer with a shoe string budget may be something else. Again, this is to delve into opinions. But then again, a personal opinion was expressed, and this must be deemed a license to express a contrary personal assessment.

The fact, however, is that imitation thrives because the products are cheap. And the consumer knows this from the very beginning. The genuine product is expensive, but the same status symbol could be obtained for a lesser price by buying the imitation. Also, there is doubt as to whether quality is, as suggested by the *ponente,* the main attraction of a trademark.

Callman,[102] wrote that "the uniqueness of or singularity of the trademark will sometimes be more important to the success of an advertising campaign than the quality of the product with which it is connected. The selling power of the mark is realistically dependent upon its distinctiveness."[103]

Granting that there is widespread deception as to quality, this aspect of economic activity is however subject to the natural force of the market. Indeed, shoddy goods have a short lifespan in the market. And this is a particularly crucial consideration for a businessman. Furthermore, the problem of quality can be compartmentalized as a distinct issue, and can be remedied by internal regulatory measures. But in any event, the best regulation therefor is the word-of-mouth mechanism among consumers.

C. The third premise is also of doubtful validity. While indeed there is a danger that competitors in a market will not survive long if they are allowed to prey on each other's trademarks, that danger is non-existent where the copied trademark owner is not a part of the market, as where his trademark is not registered, and where he does not invest in the local market or does not conduct a business there.

D. More than the inherent invalidity of the premises is the sinister source of the economic philosophy granting protection to trademark owners.

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[101] *La Chemise Lacoste,* 129 SCRA at 403.
[102] CALLMAN, UNFAIR COMPETITION AND TRADEMARKS (2d ed. 1950).
[103] *Id.* at 1643.

In its early stage, capitalistic venture was immobilized inside the state of its incorporation. As stated by Chief Justice Taney in *Bank of Augusta v. Earle,*[104] "it is very true that a corporation can have no legal existence out of the boundaries of the sovereignty by which it is created... It must dwell in the place of its creation, and cannot migrate to another sovereignty."[104a] Soon after, this doctrine was discarded. "The tremendous growth of capitalistic ventures and the opening of vast areas to systematic exploitation inspired the development of the international theory, under which foreign corporations are immediately recognized without further formality."[105]

Parallel to the evolution of the international theory is the growth of the consent doctrine, which is a corollary to the former if there is to be an expansion of economic exploitation. And this consent doctrine is the one followed by the Philippines in allowing foreign corporations to sue in domestic courts.[106] And then again, it is a revealing commentary that legal protection of trademarks is of recent origin, and the basic premises known today are largely unknown then. And in the first reported case involving trademarks in 1742, the English court rejected the plaintiff's claim of injury as a result of trademark infringement, saying: "An objection has been made, that the defendant, in using this mark, prejudices the plaintiff by taking away his customers. But there is no more weight in this, than there would be in an objection to one innkeeper, setting up the same sign with another."[107] It was only forty-one years later that the doctrine was reversed in the case of *Singleton v. Bolton,* where Lord Mansfield held that "if the defendant had held a medicine of his own under the plaintiff's name or mark, that would be fraud for which an action would lie."[108]

But the last question is why should we allow our economic policy to be dictated by these premises? We grant their validity, yet that is not reason for their adoption.

For one, a number of countries have adopted a registration system that allows no special treatment for foreign trademarks. As in Austria, Hungary, Germany, the Netherlands, Spain, Chile, Argentina and Uruguay, registration amounts to ownership. And a producer or merchant who adopted and used a trademark is these countries, but did not register it, could not prevail against another who registered it later.[109] For another,

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[104] 38 U.S. (13 Peters) 519, 10 L. Ed. 274, (1839).

[104a] *Id.* at 308.

[105] SALONGA, *supra,* note 49, at 358.

[106] *Id.* at 344.

[107] Blanchard v. Hill, 2 Atk 595, 26 Eng. Rep. 692, cited in DEWEY, MONOPOLY IN ECONOMICS AND LAW 187 (1959).

[108] Singleton v. Bolton, 3 Dougl. 293, 99 Eng. Rep. 661 (K. B. 1783), also cited in DEWEY, *ibid.*

[109] LADAS, *supra,* note 10 at 34.

the "imitative" technology in Japan and Italy has been good business for these countries.[110]

CONCLUSION

There is enough justification to discard the present legal posture of granting special treatment to unregistered foreign trademark owners. Furthermore, there is enough justification for condoning the infringement of their trademarks. Under the law, there is already an adequate system of protection, but the initiative must come from the owners themselves. That is, register first like any other national. If injured, then sec. 21-A of the Trademark Law or art. 189 of the Revised Penal Code will come to their rescue. But that is all.

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[110] Arghin, *Foreign Investment and Inequality of Development*, THIRD WORLD STUDIES, DEPENDENCY SERIES No, 17, p. 14.