

Balancing Trade Liberalization and Protectionism: A Legal Assessment of Parallel Importation in the Philippines in Light of ‘Free Flow of Goods’ in the ASEAN Economic Community

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* '17 J.D., Ateneo de Manila University School of Law. This Note is an abridged version of the Author's Juris Doctor thesis (on file with the Professional Schools Library, Ateneo de Manila University).

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I. INTRODUCTION

A. *Parallel Importation in the Philippines*

In 2016, National Bookstore, a leading bookstore chain in the Philippines, made headlines when it threatened to take legal action against its competitor, Fully Booked, for the latter's sale of "unauthorized" copies of J.K. Rowling's *Harry Potter and the Cursed Child*.¹ Scholastic Asia, the publishing company of the book's United States (US) edition, also announced that it was investigating the matter, and issued a statement that National Bookstore had the sole and exclusive distribution rights over the books in the Philippines.² While labeled as "unauthorized," however, the books sold by Fully Booked were actually legal copies printed by Little Brown, the United Kingdom (UK)-based publishing company that was licensed to print the UK edition.³ According to reports, the UK edition was sourced at a lower cost

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1. Janvic Mateo, *National Bookstore mulls lawsuit over Harry Potter*, PHIL. STAR., Aug. 3, 2016, available at <http://www.philstar.com/headlines/2016/08/03/1609589/national-bookstore-mulls-lawsuit-over-harry-potter> (last accessed May 4, 2018).
 2. Rappler.com, *National Book Store claims exclusive distribution rights to 'Harry Potter and the Cursed Child'*, available at <http://www.rappler.com/life-and-style/arts-and-culture/141654-national-book-store-exclusive-distribution-harry-potter-cursed-child-scholastic> (last accessed May 4, 2018).
 3. Mateo, *supra* note 1.

than the US edition due to the devaluation of the British Pound at the time.⁴ To its advantage, Fully Booked was able to retail the UK edition of the *Harry Potter* books at ₱999.00, while National Bookstore sold its version at the higher price of ₱1,417.50.⁵

In another occasion, ₱2.65 million worth of software products was seized by government authorities from DataBlitz, a gaming and software outlet in the Philippines, after the aggrieved exclusive local distributor of some brands sold by the store lodged a complaint.⁶ According to the Philippine National Police, the products seized were “neither counterfeit [goods] nor pirated, but were just sold without proper authorization from the local distributor.”⁷ Despite the affirmation that the products were genuine, DataBlitz was still sued for unfair competition in violation of the Intellectual Property Code of the Philippines (IP Code).⁸

Intellectual property rights (IPR) issues and distribution disputes similar to the above are commonplace in the market. The products marketed by enterprises like Fully Booked and DataBlitz were legally produced, but allegedly illegally sold. The items were genuine but destined for sale somewhere else and, perhaps, only for that place. These products came to shore as parallel imports and, depending on where one is and what laws one applies, the sale of these goods may be permissible or outlawed. Hence, businesses like Fully Booked and DataBlitz are being held legally accountable simply because of how Philippine law currently views parallel importation.

4. CNN Philippines Staff, National Book Store claims sole distribution rights over ‘Harry Potter and the Cursed Child’, *available at* <http://cnnphilippines.com/lifestyle/2016/08/02/national-book-store-fully-booked-scholastic-asia-harry-potter-cursed-child.html> (last accessed May 4, 2018).

5. Rappler.com, *supra* note 2.

6. JM Tuazon, ₱2.65-M worth of unauthorized gaming software seized from DataBlitz stores, *available at* <http://www.interaksyon.com/article/47337/p2-65-m-worth-of-unauthorized-gaming-software-seized-from-datablitz-stores> (last accessed July 1, 2016).

7. *Id.*

8. *Id.* & An Act Prescribing the Intellectual Property Code and Establishing the Intellectual Property Office, Providing for its Powers and Functions, and for Other Purposes [INTELL. PROP. CODE], Republic Act No. 8293 (1998) (as amended).

B. Parallel Importation in Light of Regional Economic Integration

Parallel imports refer to genuine goods legally produced, or sold, or both into one domestic territory, and then brought into another territory without the authorization of the IPR owner or its exclusive distributor.⁹

The issue of whether parallel imports sourced abroad at favorable arrangements and sold domestically without proper authorization should be legal or not is still debated and, as of date, the treatment of parallel imports differs in many jurisdictions.¹⁰

In the legal and economic arena, the issue of parallel importation has been a source of discussion among advocates of IPR protection, on the one hand, and advocates of free trade, on the other.¹¹ The matter becomes even more pressing in light of the growing movement towards regional economic integration, an agenda which the Philippines is part of by virtue of membership in the Association of Southeast Asian Nations (ASEAN).

Openness to parallel importation stems from the concept of free trade or open markets.¹² This has been exercised by many developed countries as well as by regionally-integrated areas like the European Union (EU).¹³ In this regard, the ASEAN is similar to the EU in its goal of regional economic integration.¹⁴ With that said, this Note will utilize the similarities between the ASEAN and the EU's regional integration frameworks to analyze the relationship between the framework on "free flow of goods" and its effect on parallel importation.

The recent years leading up to 2016 have shown the Philippines' drive to boost its economic growth, increase consumption, improve consumer

9. Pelin Bicen, *Parallel Imports Debate: Resource Advantage Theory Perspective*, 8 J. MKT. DEV. & COMPETITIVENESS 25, 26 (2014).

10. *Id.* at 28.

11. *Id.* at 26-27.

12. Chung-Lun Shen, *Intellectual Property Rights and International Free Trade: New Jurisprudence of International Exhaustion Doctrine under Traditional Legal System*, 7 J. INT'L COM. L. & TECH. 176, 179 (2012).

13. See generally James Whymark, Policing parallel imports around the world (Paper by Baker & McKenzie for the World Trademark Review), available at <http://www.worldtrademarkreview.com/Intelligence/Anti-Counterfeiting/2014/Industry-insight/Policing-parallel-imports-around-the-world> (last accessed May 4, 2018).

14. See ASEAN, ASEAN Economic Community, available at <http://asean.org/asean-economic-community> (last accessed May 4, 2018).

welfare, and strengthen its competition policy.¹⁵ Looking forward to 2025, there is now a resounding call for the Philippines to proceed, in consonance with its regional obligations in the ASEAN.¹⁶ The Philippines is now faced with the question of whether parallel importation should be allowed in light of the establishment of the ASEAN Economic Community and its objective towards a *single market*, which allows free flow of goods.

II. TRADE LIBERALIZATION AND TRADE PROTECTIONISM

A. Trade Liberalization

Trade liberalization, a general term used to describe the integration of the world economy, has been used as an effective means for countries to promote economic development and raise living standards.¹⁷ In this sense, mechanisms that open up trade with the rest of the world are necessary for sustained economic growth.¹⁸ Free trade agreements (FTAs) are among those that are considered most effective and instrumental in achieving this end.

FTAs are bilateral, regional, or multilateral agreements consisting of policy declarations or comprehensive framework with regulatory measures and dispute settlement mechanisms.¹⁹ FTAs commonly include the lowering or eliminating trade barriers, as it is the common view that these approaches boost trade.²⁰ Tariff or customs duties, import bans, quotas, and other quantitative restrictions are common examples of trade barriers.²¹

15. Paolo Benigno A. Aquino, IV, Towards fair competition, healthier economy, *available at* <https://www.rappler.com/thought-leaders/93566-fair-competition-economy> (last accessed May 4, 2018).

16. See ASSOCIATION OF SOUTHEAST ASIAN NATIONS, ASEAN ECONOMIC BLUEPRINT 2025 (2015).

17. International Monetary Fund, Global Trade Liberalization and the Developing Countries, *available at* <https://www.imf.org/external/np/exr/ib/2001/110801.htm> (last accessed May 4, 2018).

18. *Id.*

19. CHRISTOPHER STOTHERS, PARALLEL TRADE IN EUROPE: INTELLECTUAL PROPERTY, COMPETITION AND REGULATORY LAW 17 (2007).

20. World Trade Organization, Understanding the WTO, *available at* https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm#i (last accessed May 4, 2018).

21. *Id.*

Further liberalization of trade as an eventuality of eliminating trade barriers, however, also affects many stakeholders. For instance, the existence of barriers to parallel trade has been referred to as “trade protectionism,” for its overreaching protection of IPR at the expense of free trade.²²

Free trade, however, is not that easy to achieve. In order to achieve it, States are obliged to change and are prevented from putting up national trade regulations that hinder free trade.²³ Naturally, rights that ought to be protected by these protectionist regulations are affected. One of the most well-known rights that can clash with trade liberalization is IPR.²⁴

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement),²⁵ which took effect on 1 January 1995, provides for the minimum standard in the field of IPR protection.²⁶ However, due to a lack of a definite stance under the TRIPS Agreement in relation to protecting IPR from the implications of trade liberalization, States were left to determine the extent by which IPR are to be protected.²⁷ This, ultimately, reflects how free goods move within the market.²⁸ The determination of the extent of IPR protection and the degree of adherence to the global free trade policy by one State affects a particular class of imported goods called parallel imports.²⁹

B. Defining Parallel Imports: Weighing the Pros and Cons

Parallel imports or gray market goods refer to the

22. STOTHERS, *supra* note 19, at 17.

23. *Id.*

24. *Id.* at 27–28.

25. Agreement on Trade-Related Aspects of Intellectual Property Rights, *opened for signature* Apr. 15, 1994, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

26. World Trade Organization, Legal texts: the WTO agreements, *available at* https://www.wto.org/english/docs_e/legal_e/ursum_e.htm#nAgreement (last accessed May 4, 2018).

27. Enrico Bonadio, *Parallel Imports in a Global Market: Should a Generalised International Exhaustion be the Next Step?*, 33 EUR. INTEL. PROP. REV. 153, 159 (2011).

28. Abdulqawi A. Yusuf & Andrés Moncayo von Hase, *Intellectual Property Protection and International Trade: Exhaustion of Rights Revisited*, 16 WORLD COMPETITION 115, 116 (1992).

29. WORLD INTELLECTUAL PROPERTY ORGANIZATION, THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS: A CASE BOOK 386–87 (3d ed. 2012).

importation, offer for sale, and sale of goods that are genuine and that have been legally put on the market for the first time by a trader [who] does not belong to the (exclusive or selective) distribution system authorized by the manufacturer (parallel importer).³⁰

These genuine products are produced under the protection of IPR, sold legally in one market, and then brought into another market for resale but without the consent of the IPR owner, and in parallel or in competition with the same genuine products that were properly authorized.³¹

There are four identified common approaches to parallel importation. In the first scenario, there are products which are, under the authorization of the IPR owner, manufactured and destined for sale in different territories.³² Products designed and configured in and for one country may end up getting imported in another country without the consent of the IPR owner or its authorized counterpart in the importing country.³³

The second method involves a singular source or manufacturer of a product, where the IPR owner authorizes exclusive importers or distributors in certain territories.³⁴ In some cases, the importing entity may have been granted the authority to become the local IPR owner in relation to the imported authorized goods.³⁵ Parallel importation can occur when a third party purchases goods from an authorized entity in one territory and, subsequently, without the IPR owner's consent, imports it to another territory where there is a separate authorized channel.³⁶

The third case of parallel importation is known as re-importation. In this set up, goods covered by IPR are exported from the country of origin for sale in a foreign market and later gets imported back to the home country.³⁷ Re-importing is usually resorted to when the strategy of the IPR owner is to

30. LAZAROS G. GRIGORIADIS, *TRADE MARKS AND FREE TRADE: A GLOBAL ANALYSIS* 3 (2014).

31. Bicen, *supra* note 9.

32. Hazbo Skoko, *Theory and Practice of Parallel Imports* (Paper Published Online and Submitted to Charles Sturt University) at 5, *available at* <http://athene.riv.csu.edu.au/~hskoko/parallel%2oimports/pimptheory.pdf> (last accessed May 4, 2018).

33. *Id.*

34. *Id.* at 6.

35. *Id.*

36. *Id.*

37. *Id.* at 7.

sell into the foreign market at a substantially-lower price than in the market of origin due to factors such as market demographic variances, exchange rate differences, and negligible transport costs.³⁸

The fourth mode involves the use of unauthorized mail channels where consumers can directly purchase products, usually online, from catalogues of retailers in other territories.³⁹ For the purposes of this Note, parallel imports will be referred to in general and, unless otherwise specified, shall include the four classes mentioned above.

Due to the low cost of acquisition, parallel imports are usually sold in the country of import at cheaper rates than those imposed by the authorized distributors in the same market.⁴⁰ Many favor parallel importation for its benefits, particularly for consumers, as imports of goods from a country with lower prices force sellers in the country of destination to reduce prices.⁴¹

The free trade principle is often applied as basis for allowing parallel imports from the coverage of the distribution rights under intellectual property (IP) laws.⁴² Parallel imports also subsist because IPR owners practice price discrimination among countries and parallel importers and sellers arbitrage these price differences.⁴³ Those who favor parallel imports also argue that price discrimination restricts competition to the disadvantage of consumers in countries having higher prices, while parallel imports foster competition and efficiency and, hence, benefit consumers in importing countries.⁴⁴

On the other hand, IPR owners slam parallel importation for free riding, which is the practice of selling the same or identical goods as those marketed by authorized entities without incurring the costs for advertising, marketing, and after-sales services.⁴⁵

38. Skoko, *supra* note 32, at 7.

39. *Id.* at 8.

40. Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, 20 MICH. TELECOMM. & TECH. L. REV. 45, 46 (2013).

41. Robert Neruda, et al., *Parallel Imports in EU Law*, available at <http://www.lexology.com/library/detail.aspx?g=71bc5df8-766d-483d-96fo-ba8be5c60dc1> (last accessed May 4, 2018).

42. Shen, *supra* note 12, at 179.

43. Skoko, *supra* note 32, at 4.

44. *Id.*

45. *Id.*

Proponents of IPR protection also invoke public interest and safety.⁴⁶ It is argued that products produced for use in one country may not necessarily be suitable for use in other countries.⁴⁷ In one case, motor oil products imported from Canada to the UK were contended to be unsuitable for UK consumption because products destined for the former have different viscosity grades due to varying climate conditions.⁴⁸ It was argued that confusion might arise among UK consumers in thinking that the Canadian products are viable for use in their country.⁴⁹

Problems may also arise in the context of after-sales services because authorized licensees and distributors in a certain jurisdiction may refuse to provide services to parallel imported products.⁵⁰ Usually, only authorized dealers can issue manufacturers' guarantee cards. Parallel importers, however, can make it appear that they are authorized to issue the same.⁵¹ Another problem is when parallel importers offer after-sales services despite not being competent to do so.⁵²

Qualitative differences in products made for use in different countries also pose an issue.⁵³ In another case, toothpaste products from Brazil were imported into the UK, which apparently contained lower prophylactic and cosmetic qualities than those made for use in the UK.⁵⁴ Even though the differences do not affect public safety directly, it was held that the public may be deceived as to the quality of the products they have purchased.⁵⁵

C. Intellectual Property Rights Exhaustion: Its Effect on Parallel Imports

Clearly, there is an ongoing debate on whether parallel importation should be restricted or not. The differences in treatment are also influenced by the

46. George Wei Sze Shun, *Parallel Imports and the Intellectual Property Rights in Singapore*, 2 SING. ACAD. L.J. 286, 291 (1990).

47. *Id.*

48. *See* Castrol Ltd. v. Automotive Oil Supplies Ltd., (1983) R.P.C. 315 (1983) (U.K.).

49. *Id.*

50. Sze Shun, *supra* note 46, at 291.

51. *Id.*

52. *Id.* at 292.

53. *Id.*

54. *See* Colgate Palmolive Ltd. v. Markwell Finance Ltd., (1989) R.P.C. 497 (1989) (U.K.).

55. *Id.*

degree of protection granted to IPR holders in a given jurisdiction.⁵⁶ IPR typically signify the exclusive rights granted to the registered or lawful owners but, similar to other rights, these are not absolute as they can be extinguished by the authorized sale or distribution of the covered goods.⁵⁷ The extinguishment of these exclusive rights is referred to as the exhaustion of rights doctrine in the EU or the first sale doctrine in the US.⁵⁸

The issue of parallel importation involves goods covered by IP laws.⁵⁹ This is where the doctrine of exhaustion comes into play. The choice of exhaustion doctrine, however, is widely accepted as dependent on the political and economic policy of a State.⁶⁰ Some States may exert partiality over IPR protection while others espouse openness to free trade. There are three main regimes, namely: national or domestic exhaustion, regional or community-wide exhaustion, and international exhaustion.⁶¹

1. National or Domestic Exhaustion

In the doctrine of national or domestic exhaustion, IPR owners are not allowed to further regulate or exploit goods already placed in the domestic market by the owner or with his or her consent.⁶² However, in this regime, IPR owners can block parallel imports because the sale of the goods abroad does not result to the exhaustion of the owners' IPR in the domestic territory.⁶³

56. WORLD INTELLECTUAL PROPERTY ORGANIZATION, *supra* note 29, at 20.

57. Christopher J. Clugston, *International Exhaustion, Parallel Imports, and the Conflict between the Patent and Copyright Laws of the United States*, 4 BEIJING L. REV. 95, 95 (2013).

58. *Id.* at 95 & 97.

59. *See* Sze Shun, *supra* note 46, at 288-92.

60. *See generally* Clugston, *supra* note 57 & Sze Shun, *supra* note 46, at 288-89.

61. Ramses Trogh, *The International Exhaustion of Trade Mark Rights after Silhouette: the End of Parallel Imports?*, at 12 (Sep. 2002) (unpublished Master Thesis, University of Lund) (on file with Lund University Libraries).

62. World Intellectual Property Organization, *International Exhaustion and Parallel Importation*, available at http://www.wipo.int/sme/en/ip_business/export/international_exhaustion.htm (last accessed May 4, 2018).

63. John A. Rothchild, *Exhaustion of intellectual property rights and the principle of territoriality in The United States*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS 226 (Irene Calboli & Edward Lee eds., 2016).

2. Regional Exhaustion

In the case of regional exhaustion, the first sale or distribution of goods by the IPR owner or with his or her consent within an economic region exhausts the rights over these products in that particular region and, hence, goods imported from an area of that region may no longer be blocked by other members of that region.⁶⁴ In regional exhaustion, parallel importation is generally permitted within the region but entry of parallel imports from non-member countries may still be blocked.⁶⁵

In the EU, due to its regional economic integration, a compromise known as the regional or community-wide exhaustion has been adopted.⁶⁶ Under this doctrine, IPR are exhausted throughout the territory of the EU once a product has been put on the market in any Member State, hence allowing parallel importation within the region.⁶⁷ The adoption of the regional exhaustion doctrine in the EU was adopted primarily because of the principle of “free movement of goods” under its single market framework.⁶⁸

3. International Exhaustion

In the doctrine of international exhaustion, “[IPR] are exhausted once [a] product has been sold by the [IP] owner or with his [or her] consent in any part of the world.”⁶⁹ Under this regime, the IPR owner exhausts his or her exclusive rights upon the first sale or distribution of his or her goods anywhere in the world by himself or herself or with his or her consent, and, therefore, admitting the entry of parallel imports from anywhere in the world.⁷⁰ Countries such as Japan, Hong Kong, Australia, and New Zealand, as well as ASEAN countries like Thailand and Singapore, have adopted this regime.⁷¹

64. See WORLD INTELLECTUAL PROPERTY ORGANIZATION, *supra* note 29, at 374.

65. *Id.* at 386.

66. Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTELL. PROP. L. REV. 47, 49 (2002).

67. *Id.*

68. Trogh, *supra* note 61, at 13.

69. World Intellectual Property Organization, *supra* note 62.

70. Sarah R. Wasserman Rajec, *Free Trade in Patented Goods: International Exhaustion for Patents*, 29 BERKELEY TECH. L.J. 317, 330 (2014).

71. See Krithpaka Boonfueng, *A Non-Harmonized Perspective on Parallel Imports: The Protection of Intellectual Property Rights and the Free Movement of*

D. Freedom to Establish Exhaustion Regime

There is currently no international treaty in the field of IP that provides a standard for the exhaustion of IPR.⁷² The TRIPS Agreement leaves World Trade Organization (WTO) member countries free to adopt national, regional, or international exhaustion regimes.⁷³ Article 6 of the TRIPS Agreement states that, “[f]or the purposes of dispute settlement under this Agreement[,] ... nothing in this Agreement shall be used to address the issue of the exhaustion of [IPR].”⁷⁴ Because of Article 6 of the TRIPS Agreement, “each Member State [is] free to establish its own regime for [] exhaustion [of IPR] without challenge, subject to the [most-favored-nation] [(MFN)] and national treatment provisions.”⁷⁵

III. THE EXHAUSTION REGIME IN AN ECONOMIC COMMUNITY: FREE MOVEMENT OF GOODS IN THE EUROPEAN UNION

The EU, an economic and political union composed of 28 European Member States, was founded after the Second World War to foster economic cooperation.⁷⁶ Initially called the European Economic Community (EEC) in 1958, the union was later referred to as the EU in 1993.⁷⁷

The EU acknowledges IPR and its protection, but limits the effects of such rights.⁷⁸ Through the European Court of Justice (ECJ), the EU has

Goods in International Trade, at 19 (July 2003) (unpublished S.J.D. dissertation, Washington College of Law of the American University) (on file with Author).

72. International Trademark Association, Exhaustion of Trademark Rights and Parallel Importation, *available at* <http://www.inta.org/Advocacy/Pages/ExhaustionofTrademarkRightsandParallelImportation.aspx> (last accessed May 4, 2018).

73. TRIPS Agreement, *supra* note 25, art. 6.

74. *Id.*

75. World Trade Organization, Declaration on the TRIPS Agreement and Public Health, WT/MIN(01)/DEC/2 (2001).

76. European Union, The EU in Brief, *available at* https://europa.eu/european-union/about-eu/eu-in-brief_en (last accessed May 4, 2018).

77. *Id.*

78. See Commission of the European Communities, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, *available at* http://ec.europa.eu/internal_market/indprop/docs/rights/communication_en.pdf (last accessed May 4, 2018).

declared that the economic right of putting the goods on the market is exhausted when the IP owner or holder sells or distributes such goods in any Member State of the EU.⁷⁹

One of the main policies of the EU is the establishment of an *internal market*, also interchangeably referred to as the *single market*, as embodied in the Treaty Establishing the European Community (TEC),⁸⁰ which is now called the Treaty on the Functioning of the Union (TFEU).⁸¹ Under Article 26 of the TFEU (Article 14 of the TEC), the goal is to “adopt measures with the aim of establishing or ensuring the functioning of the internal market, in accordance with the relevant provisions of the Treaties.”⁸²

The single market envisioned by the EU is one that ensures, “without internal frontiers, the free movement of goods, persons, services[,] and capital[.]”⁸³ To establish the EU single market, “hundreds of technical, legal[,] and bureaucratic barriers to free trade and free movement” between EU Member States have been eradicated.⁸⁴ The EU recognizes that internal trade within the region is essential for the growth of enterprises and inward investment.⁸⁵ To attain further growth, the EU ensures the free movement of goods within the market and aims to set high safety standards for consumers and the protection of the environment.⁸⁶

Originally, free movement of goods was seen as part of a customs union between the Member States, which involves “the abolition of customs duties, quantitative restrictions on trade and equivalent measures, and the

79. Carri Ginter, *Free Movement of Goods and Parallel Imports in the Internal Market of the EU*, 7 EUR. J.L. REFORM 505, 508 (2006).

80. Consolidated Version of the Treaty Establishing the European Community, Dec. 29, 2006, 2006 O.J. (C 321) 37 [hereinafter TEC].

81. Consolidated Version of the Treaty on the Functioning of the European Union, May 9, 2008, 2008 O.J. (C 115) 47 [hereinafter TFEU].

82. *Id.* art. 26, ¶ 1. See TEC, *supra* note 80, art. 14, ¶ 1.

83. TFEU, *supra* note 81, art. 26, ¶ 2. See TEC, *supra* note 80, art. 14, ¶ 2.

84. European Union, One market without borders, available at https://europa.eu/european-union/topics/single-market_en (last accessed May 4, 2018).

85. *Id.*

86. European Commission, Single Market for Goods, available at https://europa.eu/growth/single-market/goods_en (last accessed May 4, 2018).

establishment of a common external tariff for the Community.”⁸⁷ Today, the focus is on “eliminating all remaining obstacles to *free movement of goods* with a view to creating the *internal market* ... [where] goods could move as freely as on a national market.”⁸⁸

IV. FREE FLOW OF GOODS IN THE ASEAN ECONOMIC COMMUNITY

A. *The Association of Southeast Asian Nations*

The ASEAN was established on 8 August 1967 with the signing of the ASEAN Declaration, also known as the Bangkok Declaration, by the first five Member States, namely, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.⁸⁹ Brunei then joined on 7 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the 10 Member States of ASEAN.⁹⁰

To achieve its goals, the ASEAN launched the roadmap for the ASEAN Community, which is composed of the ASEAN Political-Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community.⁹¹ These three pillars are the most crucial areas deemed necessary for the progress of the ASEAN.⁹²

B. *The ASEAN Economic Community*

The onset of 2016 marked the start of integral changes and a more progressive outlook for the ASEAN, brought about by the official launching

87. European Parliament, Free Movement of Goods, *available at* http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_2.1.2.html (last accessed May 4, 2018).

88. *Id.* (emphases supplied).

89. Association of Southeast Asian Nations, Overview, *available at* <http://asean.org/asean/about-asean/overview> (last accessed May 4, 2018).

90. *Id.*

91. ASSOCIATION OF SOUTHEAST ASIAN NATIONS, ASEAN 2025: FORGING AHEAD TOGETHER 9 (2015) [hereinafter ASEAN 2025].

92. Chiam Heng Keng, The Three Pillars of the ASEAN Community: Commitment to the Human Rights Process (Paper Presented at the 5th Roundtable Discussion on Human Rights in ASEAN-Towards an ASEAN Human Rights System: Role of Institutions and Related Activities, Bangkok, 15-16 December 2009) at 2, *available at* <http://www.suhakam.org.my/wp-content/uploads/2013/11/the-three-pillar.pdf> (last accessed May 4, 2018).

of the ASEAN Economic Community (AEC) on 31 December 2015.⁹³ The idea of formally founding the AEC first came about in 2003 through the Declaration of ASEAN Concord II, also known as the Bali Concord II.⁹⁴ The pillars of the ASEAN Community are closely linked and not mutually exclusive in safeguarding integration within the ASEAN region.⁹⁵ To meet the ASEAN's goals, a Blueprint was prepared and agreed upon for each of the three pillars, laying down the strategies and framework towards the realization of the ASEAN Community.⁹⁶

Through the AEC, the goal is to turn the ASEAN region into a *single market and production base* where regional multiplicity will be converted to commercial opportunities and turn the ASEAN into a fiercer and more active segment in the arena of international trade.⁹⁷ The initial target was to achieve a regionally-integrated ASEAN economy by 2020 where there is “free flow of goods, services, [and] investment and a freer flow of capital, equitable economic development[,] and reduced poverty and socio-economic disparities.”⁹⁸

C. The ASEAN Charter

Building on what Bali Concord II envisioned, the ASEAN reaffirmed its commitment in the ASEAN Charter to intensify “community building through enhanced regional cooperation and integration” through the establishment of the ASEAN Community.⁹⁹ The ASEAN Charter also declared that one of the justifications for the ASEAN's existence is to transform the region into a *single market and production base*.¹⁰⁰ Based on the

93. Association of Southeast Asian Nations, Factsheet on ASEAN Economic Community 2015, available at <http://asean.org/storage/2012/05/7.-Fact-Sheet-on-ASEAN-Community.pdf> (last accessed May 4, 2018).

94. Association of Southeast Asian Nations: Declaration of ASEAN Concord II part B, ¶ 1, signed Oct. 7, 2003, 43 I.L.M. 18 [hereinafter Bali Concord II].

95. Julio Amador, III & Joyce A. Teodoro, A united region: The ASEAN Community 2015, available at <http://www.rappler.com/world/specials/southeast-asia/asean-journey/47239-asean-community-2015-overview> (last accessed May 4, 2018).

96. *Id.*

97. Bali Concord II, *supra* note 94, part B, ¶ 3.

98. *Id.* part B, ¶ 1.

99. Charter of the Association of Southeast Asian Nations pmb., adopted Nov. 20, 2007, 2624 U.N.T.S 223 [hereinafter ASEAN Charter].

100. *Id.* art. 1, ¶ 5.

ASEAN Charter, a *single market and production base* entails “free flow of goods, services, and investment; facilitated movement of business persons, professionals, talents[,] and [labor]; and[,] freer flow of capital[.]”¹⁰¹

The ASEAN Charter serves as a prime instrument to achieve the ASEAN Community by providing a legal status and institutional framework for the ASEAN, codifying ASEAN norms, rules, and values, and setting clear targets for the ASEAN.¹⁰² One of the ASEAN’s principles is “to adhere to the fundamental principles contained in the declarations, agreements, conventions, concords, treaties[,] and other instruments of the ASEAN.”¹⁰³ The Philippines deposited its instrument of ratification of the ASEAN Charter on 3 November 2008 after obtaining Senate approval on 7 October of the same year.¹⁰⁴ The ASEAN Charter finally entered into force on 15 December 2008.¹⁰⁵

D. The AEC Blueprint 2015

The AEC Blueprint 2015 offered a more comprehensive glimpse of what the *single market and production base* is all about by dividing it into five elements: first, free flow of goods; second, free flow of services; third, free flow of investment; fourth, freer flow of capital; and, lastly, free flow of skilled labor.¹⁰⁶

“Free flow of goods” is considered as the primary approach for turning the ASEAN into a *single market and production base* and this framework entails, among others, the eradication of tariffs, the elimination or reduction of non-tariff barriers, and strengthened trade facilitation.¹⁰⁷

101. *Id.*

102. Association of Southeast Asian Nations, ASEAN Charter, *available at* <http://asean.org/asean/asean-charter/> (last accessed May 4, 2018).

103. ASEAN Charter, *supra* note 99, art. 2, ¶ 1.

104. Association of Southeast Asian Nations, Philippines Deposits Instrument of Ratification of the ASEAN Charter ASEAN Secretariat, *available at* <http://asean.org/philippines-deposits-instrument-of-ratification-of-the-asean-charter-asean-secretariat/> (last accessed May 4, 2018).

105. Association of Southeast Asian Nations, *supra* note 102.

106. ASSOCIATION OF SOUTHEAST ASIAN NATIONS, ASEAN ECONOMIC COMMUNITY BLUEPRINT 6 (2008).

107. *Id.*

Tariff elimination had already begun as early as 1992 through the ASEAN Free Trade Area's Common Effective Preferential Tariffs Scheme (CEPT-AFTA).¹⁰⁸

E. The ASEAN Trade in Goods Agreement

To realize the AEC's free flow of goods in its entirety, the ASEAN enhanced its existing agreements related to regional trade — one of them resulting to the ASEAN Trade in Goods Agreement (ATIGA).¹⁰⁹ Replacing the CEPT-AFTA Agreement, the ATIGA came into force with the prime objective of achieving free flow of goods in the region in connection with the establishment of a *single market and production base*.¹¹⁰

The ATIGA is currently the ASEAN's primary agreement concerning trade barrier reduction or elimination.¹¹¹ The ATIGA was adopted on 26 February 2009 in Cha-am, Thailand and later on came into force on 17 May 2010.¹¹² The Philippines, on its part, ratified the ATIGA on 11 August 2009.¹¹³

The objective of the ATIGA is to achieve free flow of goods in the ASEAN as one of the principal means to establish a *single market and production base* for deeper economic integration of the region.¹¹⁴ This objective is in recognition of the role of regional trade arrangements as a

108. See Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA), *available at* <http://agreement.asean.org/media/download/20140119155006.pdf> (last accessed May 4, 2018).

109. ASEAN Trade in Goods Agreement at 5, *available at* <http://www.asean.org/storage/images/2013/economic/afta/atiga%20interactive%20rev4.pdf> (last accessed May 4, 2018) [hereinafter ATIGA].

110. *Id.*

111. ASEAN Briefing, The ASEAN Trade in Goods Agreement (ATIGA): Local Content Requirements, *available at* <http://www.aseanbriefing.com/news/2016/03/07/asean-trade-in-goods-agreement-atiga-local-content-requirements.html> (last accessed May 4, 2018).

112. ATIGA, *supra* note 109, at 78.

113. Association of Southeast Asian Nations, Table of ASEAN Treaties/Agreements and Ratification as of October 2012 at 30, *available at* <http://asean.org/wp-content/uploads/images/2012/resources/TABLE%20OF%20AGREEMENT%20%20RATIFICATION-SORT%20BY%20DATE-Web-October2012.pdf> (last accessed May 4, 2018).

114. ATIGA, *supra* note 109, at 1.

“catalyst in accelerating regional and global trade [liberalization]” and as “building blocks ... [of] the multilateral trading system[.]”¹¹⁵

In adopting the ATIGA, the ASEAN also acknowledged the importance of augmenting “trade and investment among Member States[.]”¹¹⁶ In order to enable free flow of goods within the ASEAN, the ATIGA is divided into several elements, which include “tariff [liberalization], removal of non-tariff barriers, rules of origin, trade facilitation, customs, standards and conformance, and sanitary and phytosanitary measures.”¹¹⁷

As discussed, one of the key aspects of trade liberalization is the elimination of trade barriers. The ATIGA seeks to meet this goal through the reduction and elimination of tariffs and through the elimination of non-tariff measures.¹¹⁸ Under the ATIGA, ASEAN Member States (AMS) have committed to “reduce and/or eliminate import duties on originating goods of the other Member States[.]” specifically providing that “import duties on all products are equal to or less than [5%.]”¹¹⁹

On the other hand, the provisions on Non-Tariff Measures provide that

[e]ach Member-State shall not adopt or maintain any non-tariff measure on the importation of any good of any other Member State or on the exportation of any good destined for the territory of any other Member State, except in accordance with its WTO rights and obligations or in accordance with this Agreement.¹²⁰

To this end, the ASEAN undertakes to identify non-tariff measures and quantitative restrictions that need to be eliminated.¹²¹

In the ASEAN Integration Report 2015, it was conveyed that there were several initiatives to address non-tariff measures, including the reclassification exercise of aligning ASEAN non-tariff measures with the United Nations Conference on Trade and Development (UNCTAD) non-tariff measures classification system.¹²² Based on the UNCTAD International

115. *Id.* at 5.

116. *Id.* at 4.

117. *Id.* at 1.

118. See ATIGA, *supra* note 109, at 1-2.

119. ATIGA, *supra* note 109, at 18.

120. *Id.* at 41.

121. *Id.*

122. ASSOCIATION OF SOUTHEAST ASIAN NATIONS, ASEAN INTEGRATION REPORT 2015-16 (2015).

Classification of Non-tariff Measures, measures related to IPR in trade are considered as behind-the-border policies.¹²³ These measures include “[IP] legislation cover[ing] patents, trademarks, industrial designs, [and] layout designs[.]”¹²⁴

The question now, however, is to what extent AMS are obligated to eliminate trade barriers within the context of free flow of goods. Even more pressing is the notion that most trade barriers are not commonly identified and declared unlike technical, regulatory, and procedural non-tariff barriers (NTBs).¹²⁵ Understanding the principle of free flow of goods as applied outside the ASEAN framework could provide light on this predicament. After all, the single market framework is not unique to the ASEAN.

F. The AEC Blueprint 2025

The deadline of the AEC Blueprint 2015 had been reached and the AEC was already formally established. Still, much work remains. Succeeding the AEC Blueprint 2015 is the AEC Blueprint 2025, which, specifically, seeks to reinforce the commitments under the ATIGA. In particular, it targets the further elimination of trade barriers in order to ensure free flow of goods.¹²⁶

The AEC Blueprint 2025 was adopted during the 27th ASEAN Summit on 22 November 2015 in Malaysia as a strategy roadmap for the AEC, starting year 2016 up to 2025.¹²⁷ While the AEC Blueprint 2015 focused on tariff elimination and trade facilitation as contributing factors to greater free flow of goods, the latest Blueprint of the AEC aims to “continue to reduce or eliminate border and behind-the-border regulatory barriers that impede trade, so as to achieve competitive, efficient, and seamless movement of goods within the region.”¹²⁸

123. UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, INTERNATIONAL CLASSIFICATION OF NON-TARIFF MEASURES: 2012 VERSION 3 & 5 (2015).

124. *Id.* at 43.

125. Patrick Love & Ralph Lattimore, *Protectionism? Tariffs and Other Barriers to Trade*, in INTERNATIONAL TRADE: FREE, FAIR AND OPEN? 62-63 (2009).

126. ASEAN 2025, *supra* note 91, at 61-62.

127. Association of Southeast Asian Nations, ASEAN Economic Community, available at <http://asean.org/asean-economic-community> (last accessed May 4, 2018).

128. ASEAN 2025, *supra* note 91, at 61.

G. Intellectual Property Rights in the ASEAN

The subject of IPR and protection is not all lost in the ASEAN agenda. The ASEAN Framework Agreement on Intellectual Property Cooperation was signed on 15 December 1995 in Bangkok, Thailand by then Member States — Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.¹²⁹ Under the Framework Agreement, the significant role of IPR in the field of investment and trade was recognized.¹³⁰ It acknowledged that cooperation within the ASEAN with regard to IPR can lead to economic development and can help in further achieving the objectives of the ASEAN Free Trade Area.¹³¹ This Framework Agreement, however, did not touch upon the issue of IPR exhaustion within the ASEAN despite the recognized intersection of IPR protection with the ASEAN single market framework.

H. Parallel Importation in the ASEAN

Today, the treatment of parallel importation differs among AMS. A comprehensive review of the laws and jurisprudence of the Philippines relating to parallel importation will be discussed in the succeeding Part. Meanwhile, an overview of the legal frameworks on parallel importation of the other AMS is deemed relevant. The discussion below reflects a current lack of a dominant choice for the exhaustion principle that is being adopted in AMS.

I. Indonesia

Indonesia enacted laws regarding patents in 2001,¹³² regarding marks in that same year,¹³³ and, more recently, regarding copyright in 2014.¹³⁴ These

129. Association of Southeast Asian Nations: Framework Agreement on Intellectual Property Cooperation at 1077, signed Dec. 15, 1995, 35 I.L.M. 1072. See also ASEAN Intellectual Property Portal, About, available at <https://www.aseanip.org/About> (last accessed May 4, 2018).

130. ASEAN Framework Agreement on Intellectual Property Cooperation, *supra* note 129, pmb., para. 2.

131. *Id.* pmb., para. 3.

132. Undang-Undang Republik Indonesia Tentang Paten, Law No. 14/2001, art. 16 (1) (2001) (Indon.) (based on the unofficial English translation). The quoted portions of Indonesian laws hereafter are based on unofficial English translations of the laws. See generally World Intellectual Property Organization, Indonesia, available at <http://www.wipo.int/wipolex/en/profile.jsp?code=ID> (last accessed May 4, 2018).

laws, however, do not expressly state the position of Indonesian IP laws on the issue of parallel importation.¹³⁵

The law regarding marks, under Article 3, states that “[t]he right to a [m]ark is the exclusive right granted by the State to the owner of a [m]ark which is registered ... for a certain period of time, to himself [or herself] use said [m]ark or to grant permission to another party to use it” but does not expressly address when such exclusive right is exhausted.¹³⁶ The law regarding copyright also contains no provision relating to exhaustion and parallel importation. As for Indonesia’s law on patents, Article 16 (1) provides that “[a] [p]atent holder shall have the exclusive right to exploit his [or her] [p]atent and prohibit any other party who without his [or her] consent [—] in the case of product-[p]atent [—] makes, uses, imports, rents out, delivers, or makes available for sale or rental or delivery of the [p]atented product[.]”¹³⁷

Moreover, the same Article provides an exemption from the applicability of the exclusive rights “if the use of said [p]atent is for the sake of education, research, experiment, or analysis, as long as it does not harm the normal interest of the [p]atent holder.”¹³⁸ The aforementioned exemption appears to highlight that the general rule sides with the right of patent holders to prevent unauthorized importation. This is bolstered by another exemption clause under Article 135, which states that “the importation of a pharmaceutical product protected by a patent in Indonesia[,]” which “has been marketed in a country by the right [p]atent [h]older[,]” is exempted from the criminal provision of the Indonesian law regarding patents, “provided that the product is imported in accordance with the prevailing rules and regulations[.]”¹³⁹ Hence, it appears that under Indonesian law, parallel importation is generally prohibited, but such is qualified when it comes to the importation of medicines and products for non-commercial research and education purposes.

133. Undang-Undang Republik Indonesia Nomor 15 Tahun 2001 Tentang Merek, Law No. 15/2001, art. 3 (2001) (Indon.).

134. Undang-Undang Republik Indonesia Nomor 28 Tahun 2014 Tentang Hak Cipta, Law No. 28/2014 (2014) (Indon.).

135. See Law No. 14/2001; Law No. 15/2001; & Law No. 28/2014.

136. Law No. 15/2001, art. 3.

137. Law No. 14/2001, art. 16 (1) (a).

138. *Id.* art. 16 (3).

139. *Id.* art. 135 (a).

2. Malaysia

The Malaysian Trade Marks Act 1976¹⁴⁰ specifies the exhaustion of IPR.¹⁴¹ Explicitly, Section 35 of the said law indicates that the “registration of a person as registered proprietor of a trade mark ... in respect of any goods or services shall, if valid, give or be deemed to have given to that person the exclusive right to the use of the trade mark in relation to those goods or services[.]”¹⁴²

In connection with Section 35, the Kuala Lumpur High Court held in the case of *Tien Ying Hong Enterprise Sdn Bhd v. Beenion Sdn Bhd*¹⁴³ that “the parallel importation of goods without the consent of the registered proprietor amounted to trademark infringement.”¹⁴⁴

In the field of patents, Malaysia’s Patents Act 1983¹⁴⁵ was amended in 2000 to formally adopt the doctrine of international exhaustion.¹⁴⁶ Section 58A of the said Act states that “it shall not be an infringement to import, offer for sale, sell[,] or use [] any patented product[.]”¹⁴⁷ A “patent’ includes a patent granted in any country outside Malaysia in respect of the same or essentially the same invention as that for which a patent is granted under this Act.”¹⁴⁸

140. Trade Marks Act 1976, Act No. 175 (1976) (as amended) (Malay.). See also International Association for the Protection of Intellectual Property, Malaysia Report Q205, available at <https://aippi.org/download/committees/205/GR205malaysia.pdf> (last accessed May 4, 2018).

141. *Id.*

142. Trade Marks Act 1976, § 35.

143. *Tien Ying Hong Enterprise Sdn Bhd v. Beenion Sdn Bhd*, (2010) 8 MLJ 550 (2010) (Malay.).

144. Bird & Bird LLP, Trade mark infringement and the grey market, available at <https://www.lexology.com/library/detail.aspx?g=b6f79b76-odb4-4c64-9295-d233c9c4f390> (last accessed May 4, 2018).

145. Patents Act 1983, Act No. 291 (1983) (as amended) (Malay.).

146. Irene Calboli, *Trademark exhaustion and free movement of goods: a comparative analysis of the EU/EEA, NAFTA and ASEAN*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS, *supra* note 63, at 383 (citing John Chong, *Chapter 11: Exhaustion and Parallel Imports in Malaysia*, in PARALLEL IMPORTS IN ASIA 127 (Christopher Heath ed., 2004)).

147. Patents Act 1983, § 58A (1) (a).

148. *Id.* § 58A, (2).

Malaysia's Copyright Act 1987,¹⁴⁹ on the other hand, reflects the adoption of the national exhaustion doctrine. Under Section 13 (1) (e) of the Copyright Act 1987, "copyright in a literary, musical[,] or artistic work, a film, a sound recording[,] or a derivative work shall be the exclusive right to control in Malaysia ... the distribution of copies to the public by sale or other transfer of ownership."¹⁵⁰

3. Singapore

Singapore adopts the international exhaustion doctrine. Singapore laws do not discriminate against parallel imports as embodied in Singapore's Trade Marks Act,¹⁵¹ Patents Act,¹⁵² and Copyright Act.¹⁵³

Singapore's Trade Marks Act explicitly conforms to the doctrine of international exhaustion.¹⁵⁴ Section 29 of the Trade Marks Act, under the exhaustion of rights clause, stipulates that

a registered trade mark is not infringed by the use of the trademark in relation to goods which have been put on the market, whether in Singapore or outside Singapore, under that trade mark by the proprietor of the registered trade mark or with his [or her] express or implied consent (conditional or otherwise).¹⁵⁵

This rule, however, is qualified by the non-impairment of the condition of the goods "after they have been put on the market" and by the "dilution

149. Copyright Act 1987, Act No. 332 (2006) (as amended) (Malay.).

150. *Id.* § 13 (1) (e).

151. An Act to Establish a New Law for Trade Marks, to Enable Singapore to Give Effect to Certain International Conventions on Intellectual Property and for Matters Connected Therewith [Trade Marks Act], Act No. 46 of 1998 (1998) (as amended) (Sing.).

152. An Act to Establish a New Law of Patents, to Enable Singapore to Give Effect to Certain International Conventions on Patents, and for Matters Connected Therewith [Patents Act], Act No. 21 of 1994 (1994) (as amended) (Sing.).

153. An Act Relating to Copyright and Matters Related Thereto [Copyright Act], Act No. 2 of 1987 (1987) (Sing.). *See also* Gladys Mirandah, Singapore: IP Exploitation — Singapore's Attitude Towards Parallel Imports, *available at* <http://www.inta.org/INTABulletin/Pages/SINGAPOREIPExploitationSingapore%E2%80%99sAttitudeTowardsParallelImports.aspx> (last accessed May 4, 2018).

154. *See* Trade Marks Act (Sing.).

155. Trade Marks Act, § 29 (1).

in an unfair manner of the distinctive character of the registered trade mark.”¹⁵⁶

Under Section 66 (2) (g) of the Patents Act of Singapore, there is no patent infringement in the

import, use[,] or disposal of, or the offer to dispose of, any patented product ... which is produced by or with the consent (conditional or otherwise) of the proprietor of the patent or any person licensed by him [or her], and for this purpose [—] ‘patent’ includes a patent granted in any country outside Singapore in respect of the same or substantially the same invention as that for which a patent is granted under this Act[.]¹⁵⁷

Specific to the importation of copyrighted articles, Section 32 of Singapore’s Copyright Act provides that there is infringement where a person, “without the [license] of the owner of the copyright, imports an article into Singapore for the purpose of [] selling ... or ... distributing the article[.]”¹⁵⁸ Section 40A then clarifies that Section 32 does not apply to genuine parallel imports in stating that

[t]he copyright in a work embodied in an accessory to an article is not infringed by a person who, without the [license] of the owner of the copyright, imports the article into Singapore for a purpose mentioned in [S]ection 32 (a), (b)[,] or (c) unless the article is an infringing copy.¹⁵⁹

Several cases have also been decided in Singapore in support of the international exhaustion doctrine. In *Hawley & Hazel Chemical Co. (S) Pte. Ltd. v. Szu Ming Trading Pte. Ltd.*,¹⁶⁰ a distributor of Darkie toothpaste products in Singapore brought an action against the Singaporean manufacturer of the toothpaste in Singapore, for losses incurred from the competition arising from the parallel importation of genuine but cheaper Darkie toothpaste products.¹⁶¹ In this case, it was decided that the manufacturer was under no obligation to stop parallel imports of the products into Singapore.¹⁶²

156. *Id.* § 29 (2).

157. Patents Act, § 66 (2) (g).

158. Copyright Act, § 32.

159. *Id.* § 40A (1).

160. *Hawley & Hazel Chemical Co. (S) Pte. Ltd. v. Szu Ming Trading Pte. Ltd.*, (2008) SGHC 13 (2008) (Sing.).

161. *Id.* ¶¶ 10–19.

162. *Id.* ¶ 28 (b).

4. Thailand

The principle of exhaustion is not codified in either the Thai Trade Mark Act 1991¹⁶³ or the Thai Copyright Act 1994.¹⁶⁴ The Thai Copyright Act 1994 merely states that an act against a copyright work of another person not conflicting with the normal exploitation of the work of the copyright owner and not putting in prejudice the legitimate right of the copyright owner is not deemed as copyright infringement.¹⁶⁵

On the other hand, Section 36 (7) of the Thai Patent Act states that the exclusive rights granted to a patent right holder shall not apply to “the use, sale, having in possession for sale, offering for sale[,] or importation of a patented product when it has been produced or sold with the authorization or consent of the patentee.”¹⁶⁶

Despite the silence of Thailand’s legislation on trademark and copyright on the matter of exhaustion, the State has allowed a specialized court called the Central Intellectual Property and International Trade Court (CIPITC) to provide for judicial interpretation, which also gained affirmation from the Thai Supreme Court.¹⁶⁷ Before the creation of the CIPITC, the courts of Thailand rendered flip-flopping decisions on the issue of exhaustion and the legal nature of parallel imports. As early as 1965, the Thai Supreme Court ruled on the exclusive right of the trademark owner to prohibit parallel imports.¹⁶⁸ This, however, was overturned in a case in 1999 where the CIPITC and the Thai Supreme Court applied the principle of international exhaustion and ruled in favor of parallel importation.¹⁶⁹ The Thai Supreme Court ruled that, once the trademark owner has sold its goods under the mark, such trademark owner’s exclusive right is exhausted by the sale.¹⁷⁰ It

163. Trademark Act B.E. 2534 (1991) (as amended) (Thai.).

164. Copyright Act B.E. 2537 (1994) (as amended) (Thai.).

165. *Id.* § 32.

166. Patent Act B.E. 2522, § 36 (7) (1979) (as amended) (Thai.).

167. See Vichai Ariyanuntaka, Intellectual Property And International Trade Court: A New Dimension For IP Rights Enforcement In Thailand at *1, available at <http://www.wipo.int/edocs/lexdocs/laws/en/th/tho27en.pdf> (last accessed May 4, 2018).

168. Boonfueng, *supra* note 71, at 179.

169. *Id.* at 180-84.

170. International Association for the Protection of Intellectual Property, Thailand Report Q203 at 2, available at <https://aippi.org/download/committees/203/GR203thailand.pdf> (last accessed May 4, 2018).

should be noted, however, that under the legal system of Thailand, Supreme Court decisions are not considered as common law; rather, these decisions are merely persuasive.¹⁷¹

5. Brunei

The primary law on IP protection in Brunei is laid down in Chapter 98 — Trade Marks.¹⁷² The said law does not indicate a specific statutory provision on IPR exhaustion.¹⁷³ However, Section 12 of the cited law states that “[t]he proprietor of a registered trade mark has exclusive rights in the trade mark which are infringed by use of the trade mark in Brunei [] without his [or her] consent.”¹⁷⁴ It can be gleaned from Section 12 that Brunei adheres to the national exhaustion doctrine. The provision on trademark infringement seems to affirm this stance, as it provides that the use of a sign in an infringing manner includes the importation and exportation of goods under that sign.¹⁷⁵

Moving on to patents, Brunei’s Executive Branch issued the Patents Order in 2011, which states that patent infringement occurs when a person imports a product “in Brunei [] in relation to the invention without the consent of the proprietor of the patent[.]”¹⁷⁶ The same Section enumerates several exemptions from the right to prevent unauthorized importation conditioned on pharmaceutical products and other non-commercial purposes.¹⁷⁷ Similar to trademarks, the adoption of national exhaustion can

171. Punjaporn Kosolkitiwong, *The Legal and Practical Measures to Prevent Parallel Imports* (Special topic report to the Anti-Counterfeiting Committee of the Asian Patent Attorneys Association) at *3, available at <http://www.apaaonline.org/pdf/2012/AntiCounterfeitingCommitteeReports2012/3SpecialTopic2012ReportofThailandAntiCounterfeitingCommittee.pdf> (last accessed May 4, 2018).

172. An Act to Make New Provision for Registered Trade Marks; and for Connected Purposes [Trade Marks Act], B.L.R.O 2/2000, Laws of Brunei Darussalam Ch. No. 98 (2000) (as amended) (Brunei).

173. Calboli, *supra* note 146, at 380.

174. Trade Marks Act, § 12 (1) (Brunei).

175. *Id.* § 13 (4) (c).

176. An Order to Make Provision for Patents for Inventions, to Give Effect to Certain International Conventions on Patents and to Repeal the Inventions Act (Chapter 72) and the Emergency (Patents) Order, 1999 (S 42/1999) and for Matters Connected Therewith [Patents Order, 2011], S 57/2011, § 64 (1) (2011) (as amended) (Brunei).

177. *Id.* § 64.

be gathered from the mentioned provision. As for copyright, Brunei has not enacted any legislation or issued an executive order on the matter to date.

6. Vietnam

With regard to the protection of patent, trademark, and industrial design rights, Vietnam adheres to the international exhaustion doctrine, as seen in the Law on Intellectual Property of Vietnam.¹⁷⁸ Specifically, Article 125 (2) (b) thereof states that IP owners may not prevent others from “[c]irculating, importing, [and] exploiting utilities of products [] lawfully put on the market, including overseas markets, except for products put on the overseas market not by the mark owners or their licensees.”¹⁷⁹ As for copyright protection, Vietnam’s IP law remains silent as to how exercise of copyright abroad impacts copyrighted work in Vietnam.¹⁸⁰

7. Laos

Laos adopts the national exhaustion doctrine for trademarks. The main statute governing IP in Laos is Law No. 01/NA of December 20, 2011 on Intellectual Property, as amended.¹⁸¹ The pertinent provision, under Article 57, in part states that “[n]o individual or organization [other] than the trademark owner shall undertake any of the acts described in [P]aragraph 1 in [Laos] without authorization by the trademark owner, and except as otherwise provided in this Law, any such acts without authorization shall be considered to be an act of infringement.”¹⁸²

The provision shows that the unauthorized commission of acts exclusively granted to trademark owners, specifically within Laos, constitutes infringement. Consequently, it implies that trademark owners can prevent the entry of parallel imports in Laos on the ground of infringement.

On the other hand, while the copyright provision under the Intellectual Property law of Laos entitles copyright owners “the exclusive right to carry out or authorize the importation or exportation of the original or any copy of the work,” such is qualified by the proviso that the said “right shall not

178. Law on Intellectual Property, Law No. 50/2005/QH11 (2005) (as amended) (Viet.).

179. *Id.* art. 125 (2) (b).

180. Pham Duy Nghia, *Exhaustion and Parallel Imports in Vietnam*, in *PARALLEL IMPORTS IN ASIA* 90 (Christopher Heath ed., 2004).

181. Law on Intellectual Property, Law No. 1/NA (2011) (as amended) (Laos).

182. *Id.* art. 57, para. 3 (1).

extend to prevent[ing] the subsequent importation or exportation of an original or copy that was legally acquired with the authorization of the owner of copyright or related rights.”¹⁸³ It appears that insofar as copyright is concerned, Laos adopts the doctrine of international exhaustion.

Under the provision on patents, the law provides that a patent owner has

the right to prevent others, without the owner’s authorization, from making, importing, offering for sale, selling, or using the patented products[] ... [and] ... [to] authorize [an] individual, legal entity[,], or organization other than the patent owner to undertake any of the acts described in items 1 and 2 of this Article in [Laos.]¹⁸⁴

Hence, it can be concluded that, in Laos, national exhaustion applies to patented products.

8. Myanmar

Currently, Myanmar does not have a law on trademarks, and, thus, it has not expressly adopted any provision on exhaustion.¹⁸⁵ However, a trademark law draft has been approved by the Myanmar Attorney General’s Office and has been under review in the Parliament of Myanmar since 2014.¹⁸⁶ The International Trademark Association has reported that through Section 41 of the Myanmar Draft Trademark Law, Myanmar adopts the principle of international exhaustion.¹⁸⁷ Article 42 of the said Draft, however, allows the prevention of importation of goods that have been altered after the initial sale.¹⁸⁸

Myanmar’s Copyright Act of 1911¹⁸⁹ appears to be more instructive on the issue of exhaustion. Section 2 provides that there shall be copyright infringement when a person “imports for sale or hire ... any work which to

183. *Id.* art. 98, para. 7.

184. *Id.* art. 55, para. 1 (1.1) & (3).

185. *See* Calboli, *supra* note 146, at 380.

186. *Id.*

187. International Trademark Association, Comments by the International Trademark Association on the Myanmar Draft Trademark Law at 7, *available at* <http://www.inta.org/Advocacy/Documents/January82013Comments.pdf> (last accessed May 4, 2018).

188. *Id.*

189. The Burma Copyright Act [Copyright Act, 1911], India Act III, 1914 (1914) (Myan.).

his [or her] knowledge infringes copyright or would infringe copyright if it had been made within the Union of Burma in or into which the sale hiring, exposure, offering for sale or hire, distribution, exhibition, or importation took place.”¹⁹⁰ This reflects that Myanmar adopts national exhaustion for copyrighted works.

9. Cambodia

Cambodia has adopted the national exhaustion doctrine although its laws do not specify the prohibition of parallel importation.¹⁹¹ Article 11 (a) of Cambodia’s Law concerning Marks, Trade Names and Acts of Unfair Competition provides that a registered trademark owner has the exclusive right to use trademarks in relation to goods registered for, including the right to consent others to use such marks.¹⁹² Article 11 (c) of the same law then states that “[t]he rights conferred by registration of a mark shall not extend to acts in respect of articles which have been put on the market *in the Kingdom of Cambodia* by the registered owner or with his [or her] consent.”¹⁹³

There is an implication based on Article 11 (c) that the sale abroad of the goods does not result in the exhaustion of the trademark owner’s rights.¹⁹⁴ This is because the provision expressly states that only those goods put on the Cambodian market are not covered by the rights conferred by registration.¹⁹⁵ Trademark owners, hence, can claim that the unauthorized use of a trademark through parallel importation in Cambodia is an infringement of its IPR.¹⁹⁶

Under Cambodia’s Patent Law, patent owners are conferred with the right to require the patent owner’s consent for “[t]he exploitation of the patented invention in the Kingdom of Cambodia by persons other than the

190. *Id.* § 2 (2) (d).

191. Calboli, *supra* note 146, at 380.

192. Law Concerning Marks, Trade Names and Acts of Unfair Competition of the Kingdom of Cambodia, Royal Decree No. NS/RKM/0202/006 (2002) (Cambodia).

193. *Id.* art. 11 (c) (emphasis supplied).

194. David Mol & Sokmean Chea, Parallel Imports in Cambodia (Paper Published by Tilleke & Gibbins International Ltd.), *available at* http://www.tilleke.com/sites/default/files/2016_Feb_Parallel_Imports_Cambodia.pdf (last accessed May 4, 2018).

195. *Id.*

196. *Id.*

owner of the patent.”¹⁹⁷ Specifically, exploitation refers to “making, importing, offering for sale, selling[,] and using the product.”¹⁹⁸ There is, however, a limitation to the right against exploitation of patent rights. Article 44 states that “[t]he rights under the patent shall not extend [] to acts in respect of articles which have been put on the market in the Kingdom of Cambodia or outside the Kingdom of Cambodia by the owner of the patent or with his [or her] consent[.]”¹⁹⁹ Based on Article 44, patent rights are deemed exhausted after a patented product has been put on the market anywhere in the world. This suggests that parallel imports are legal in Cambodia by virtue of their adoption of the doctrine of international exhaustion.

The Copyright Law of Cambodia mirrors the exhaustion regime for trademarks, which is national exhaustion. Article 21 entitles a copyright owner to the “exclusive right to act by him[self or]herself or authorize someone ... [to do the] [i]mportation into the country[] [and] the reproduction [of] copies of his[or]her works.”²⁰⁰ The general rule on prohibiting unauthorized importation is further supported by the array of limitations against the right to prevent importation as enumerated under Articles 23 to 29 of the law.²⁰¹ Among others, the copyright owner’s right to block imports shall be restricted when the imported article is for personal, educational, and other non-commercial use.²⁰²

IV. THE PHILIPPINE LEGAL FRAMEWORK ON PARALLEL IMPORTATION

The laws of the Philippines do not expressly stipulate restrictions or tolerance of parallel importation, but IPR owners use the IP Code and both local jurisprudence and that of the US (from which the provisions of the country’s IP Code are derived) as basis for legal actions.

Republic Act No. 8293 or the IP Code took effect on 1 January 1998, and has been amended by Republic Act No. 9150 in 2001, Republic Act

197. Law on the Patents, Utility Model Certificates and Industrial Designs, Royal Decree No. NS/RKM/0103/005, art. 41 (2003) (Cambodia).

198. *Id.* art. 42 (i) (a).

199. *Id.* art. 44 (i).

200. Law on Copyright and Related Rights, art. 21, para. 2 (e) (2003) (Cambodia).

201. *Id.* arts. 23–29.

202. *Id.*

No. 9502 in 2008, and Republic Act No. 10372 in 2013.²⁰³ Because relatively few IP cases are elevated to the Supreme Court, the IP law practice in the Philippines relies on cases decided in the US, considering that the IP Code is patterned after the US statutes.²⁰⁴ It is not surprising, then, that there is a dearth of Philippine jurisprudence tackling the issue of parallel importation. Another challenge is the fact that the IP Code is also unclear on the legality of parallel importation.

A. Trademark Law

In the Philippines, trademark “means any visible sign capable of distinguishing the goods (trademark) or services (service mark) of an enterprise and shall include a stamped or marked container of goods.”²⁰⁵ Prior to the current IP Code, the Court had the occasion to address the issue of parallel importation in the case of *Yu v. Court of Appeals*.²⁰⁶ In *Yu*, the petitioner was granted exclusive distributorship rights for wallcovering products by House of Mayfair from England, for sale in the Philippines.²⁰⁷ Arguing that private respondent is liable for unfair competition under the New Civil Code,²⁰⁸ a case was filed against private respondent when it purchased the merchandise through a trader in West Germany and subsequently sold the same in the Philippines, even if the goods were

203. INTELL. PROP. CODE, § 242 (as amended); An Act Providing for the Protection of Layout-Designs (Topographies) of Integrated Circuits, Amending for the Purpose Certain Sections of Republic Act No. 8293, Otherwise Known as the Intellectual Property Code of the Philippines and for Other Purposes, Republic Act No. 9150 (2001); An Act Providing for Cheaper and Quality Medicines, Amending for the Purpose Republic Act No. 8293 or the Intellectual Property Code, Republic Act No. 6675 or the Generics Act of 1988, and Republic Act No. 5921 or the Pharmacy Law, and for Other Purposes [Universally Accessible Cheaper and Quality Medicines Act of 2008], Republic Act No. 9502 (2008); & An Act Amending Certain Provisions of Republic Act No. 8293, Otherwise Known as the “Intellectual Property Code of the Philippines”, and for Other Purposes, Republic Act No. 10372 (2013).

204. See Christopher L. Lim, *The Development of Philippine Copyright Law*, 46 ATENEO L.J. 368 (2001).

205. INTELL. PROP. CODE, § 121.1 (as amended).

206. *Yu v. Court of Appeals*, 217 SCRA 328, 329 (1993).

207. *Id.*

208. An Act to Ordain and Institute the Civil Code of the Philippines [CIVIL CODE], Republic Act No. 386 (1950).

supposed to be imported to Nigeria.²⁰⁹ The New Civil Code states that “unfair competition in agricultural, commercial[,] or industrial enterprises[,] or in labor through the use of force, intimidation, deceit, machination[,] or any other unjust, oppressive[,] or highhanded method shall give rise to a right of action by the person who thereby suffers damage.”²¹⁰

The Supreme Court ruled that

the right to perform an exclusive distributorship agreement and to reap the profits resulting from such performance are proprietary rights which a party may protect ... which may otherwise not be diminished, nay, rendered illusory by the expedient act of utilizing or interposing a person or firm to obtain goods from the supplier to defeat the very purpose for which the exclusive distributorship was conceptualized, at the expense of the sole authorized distributor.²¹¹

Although the Philippines’ trademark law grants a wide coverage of rights and remedies for trademark infringement, parallel importation is not expressly dealt with. Sections 155 to 169 on trademark infringement and unfair competition have been used as basis against banning the sale of parallel imports.

To date, the Supreme Court has not ruled on the application of the IP Code provisions on parallel imports. It is worthy to note, however, that the trademark provisions on infringement and unfair competition under the IP Code follow almost identical wording with the Lanham Act of the US.²¹² In the US, the provisions under the Lanham Act have been applied by US courts in ruling against parallel importation.

In *Societe Des Produits Nestle, S.A., et al. v. Casa Helvetia, Inc., et al.*,²¹³ parallel imports were defined as “trademarked goods manufactured abroad under a valid license but brought into this country in derogation of arrangements lawfully made by the trademark holder to ensure territorial

209. *Yu*, 217 SCRA at 329.

210. CIVIL CODE, art. 28.

211. *Yu*, 217 SCRA at 332.

212. Compare INTELL. PROP. CODE, §§ 155-169 (as amended) with An Act to Provide for the Registration and Protection of Trademarks Used in Commerce, to Carry out the Provisions of Certain International Conventions, and for Other Purposes [Trademark Act of 1946], 15 U.S.C. ch. 22 (2016) (as amended) (U.S.) (also known as the Lanham Act).

213. *Societe Des Produits Nestle, S.A., et al. v. Casa Helvetia, Inc., et al.*, 982 F.2d 633 (1st Cir. 1992) (U.S.).

exclusivity.”²¹⁴ Societe Des Produits Nestle (Nestle S.P.N.) was the owner of the Perugina trademark and, for many years, Casa Helvetia was the authorized distributor of Italian-made chocolates bearing the Perugina trademark in Puerto Rico.²¹⁵ Eventually, Nestle S.P.N. abandoned Casa Helvetia and instead authorized Nestle Puerto Rico (Nestle P.R.) to distribute exclusively the Perugina chocolates in Puerto Rico.²¹⁶ Previously, Nestle S.P.N. had also licensed Alimentos, a Venezuelan company, to produce and market chocolates containing the Perugina mark but these Venezuelan chocolates differ from its Italian counterpart in terms of presentation, variety, composition, and price.²¹⁷ Thereafter, Casa Helvetia began to purchase Venezuelan-made Perugina chocolates and distribute them in Puerto Rico, absent the permission of Nestle S.P.N.²¹⁸ This prompted Nestle S.P.N. to file a case for infringement and for violation of the right of exclusive distributorship under the Lanham Act, claiming that Casa Helvetia’s usage of the mark was “likely to confuse consumers into the mistaken belief that the chocolates are the same chocolates that are authorized by Nestle for sale in Puerto Rico.”²¹⁹

In the aforementioned case, Nestle S.P.N. invoked Section 32 (1) (a), Section 42, and Section 43 (a) (1) of the Lanham Act.²²⁰ Section 32 of the Lanham Act provides that it is considered trademark infringement for

any person who shall, without the consent of the registrant, use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.²²¹

²¹⁴ *Id.* at 635.

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ *Societe Des Produits Nestle, S.A., et al.*, 982 F.2d at 635.

²²⁰ *Id.*

²²¹ An Act to Provide for the Registration and Protection of Trademarks Used in Commerce, to Carry out the Provisions of Certain International Conventions, and for Other Purposes [Trademark Act of 1946], 15 U.S.C. ch. 22 (2016) (as amended) (U.S.) (also known as the Lanham Act).

In relation to Section 32 of the Lanham Act, the IP Code contains a similar provision in Section 155.²²²

Section 42 of the Lanham Act, which states that no imported goods shall copy or simulate a domestic or foreign manufacture of a registered mark or, at least, bear a mark that tends to induce consumers to believe that the imported goods are manufactured in a particular territory when the truth is otherwise, has the same wording as Section 166 of the IP Code.²²³ The Lanham Act, under Section 43 (a) (1) provides that “false designations of origin, ... false ... description[s,]” and dilution are prohibited.²²⁴ The IP Code adopted the same provision under Section 169.²²⁵

According to US jurisprudence, “although it has been said that ‘trademark law generally does not reach the sale of genuine goods bearing a true mark even though such sale is without the owner’s consent,’”²²⁶ this principle is not applicable when “genuine but unauthorized imported products differ materially from authentic goods authorized for sale in the domestic market.”²²⁷ Hence, importing and selling of goods, without appropriate authority, containing material difference with the authorized goods violate the law because “a difference in the products bearing the same name confuses the consumers and impinges on the local trademark holder’s goodwill.”²²⁸ This case also declared that when dealing with the importation of parallel imports, the subtle differences are a matter of concern “for it is by subtle differences that consumers are most easily confused.”²²⁹

In addressing the argument that the affiliation between the foreign and domestic trademark holders automatically defines the foreign goods as genuine, making it impossible for any of the trademark holders to infringe its own mark, it was decided in *Lever Bros. Co. v. United States*²³⁰ that, when identical trademarks have acquired different meanings in different countries, the one who imports the foreign version to sell it under that trademark will,

222. See INTELL. PROP. CODE, § 155 (as amended).

223. Trademark Act of 1946, § 1125 (also known as the Lanham Act).

224. *Id.* § 1125.

225. INTELL. PROP. CODE, § 169 (as amended).

226. *Societe Des Produits Nestle, S.A., et al.*, 982 F.2d at 638 (citing NEC Electronics v. CAL Circuit ABCO, 810 F.2d 1506, 1509 (9th Cir. 1987) (U.S.)).

227. *Societe Des Produits Nestle, S.A., et al.*, 982 F.2d at 638.

228. *Id.*

229. *Id.*

230. *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989) (U.S.).

in the absence of some specially differentiating feature, cause confusion among consumers.²³¹ Lever UK and Lever US were affiliate companies that used the brand “Shield and Sunlight” as trademarks for products that differ materially in the two countries due to adjustments to cater to the country’s differing tastes and conditions.²³² Lever US filed a case for injunction against Lever UK, alleging that there is a likelihood of confusion as between the products of the two companies, after receiving complaints from consumers expressing disappointment with what they believed, at the time of the purchase, to be a discounted version of the similar US product.²³³ In ruling in favor of Lever US, the Court held that the fact of affiliation between the producers did not reduce the probability of confusion and did not imply constructive consent to the importation in a jurisdiction other than what was authorized.²³⁴

B. Copyright Law

Under the IP Code, copyright or economic rights include “the first public distribution of the original and each copy of the work by sale or other forms of transfer of ownership[.]”²³⁵ The law also provides that “a copyright may be assigned in whole or in part” and “[w]ithin the scope of the assignment ..., the assignee ... is entitled to all the rights and remedies which the assignor had with respect to the copyright.”²³⁶

Section 177.3 appears to embody the exhaustion doctrine in copyright law in granting the copyright owner the exclusive right “to carry out, authorize[,] or prevent the first public distribution of the original and each copy of the work by sale or other forms of transfer of ownership.”²³⁷

231. *Id.* at 111.

232. *Id.* at 102.

233. *Id.* at 103.

234. *Id.* at 111.

235. INTELL. PROP. CODE, § 177.3 (as amended).

236. *Id.* § 180.1.

237. Rodolfo B. Gilbang, Developments in Competition Policy/Law: The Philippine Scenario (Paper Presented During the APEC Training Program on Competition Policy for APEC Member Economies, 5-7 August 2003, Melai Hotel, Hanoi, Vietnam) at 19, *available at* <http://www.jftc.go.jp/eacpf/05/APECTrainingProgram2003/RodolfoB.pdf> (last accessed May 4, 2018) (citing INTELL. PROP. CODE, § 177.3 (as amended)).

Moreover, Section 216 of the IP Code provides for a remedy against imported goods deemed as infringing.²³⁸ The provision states that a person infringing a right protected under the provisions on copyright shall be liable “[t]o an injunction restraining such infringement” and that “[t]he court may also order the defendant to desist from an infringement, among others, to prevent the entry into the channels of commerce of imported goods that involve an infringement, immediately after customs clearance of such goods.”²³⁹

In 2013, Sections 190.1 and 190.2 of the IP Code, relating to the importation of copyrighted works, were removed through the passage of Republic Act No. 10372.²⁴⁰ Prior to the amendment, the said law contained a provision on the importation of goods that can be applied in dealing with parallel imports. Initially, the IP Code allowed copyrighted works not available in the Philippines to be imported, provided it was for personal, religious, charitable, or educational purposes and subject to the quantitative limitation of one copy for personal use and not more than three copies for religious, charitable, or educational use.²⁴¹ The now-deleted provisions, however, were silent on the parallel importation of copyrighted materials for commercial purposes.

In explaining the deletion, the Intellectual Property Office of the Philippines (IPOP HL) reasoned that Sections 190.1 and 190.2 “contradict the principle of exhaustion of rights reflected in Section 177.3 of the IP Code[,] which refers to the *first public distribution* by granting a right of importation to the copyright owner.”²⁴² The language of Section 177.3 indicates that the legislators intended that the IPR would be exhausted after the first sale without qualification as to where the sale is consummated.²⁴³ With this, the IPOP HL suggested that international exhaustion would be

238. INTELL. PROP. CODE, § 216.1 (as amended).

239. *Id.* § 216.1 (a).

240. *See* Republic Act No. 10372, § 14.

241. INTELL. PROP. CODE, § 190.1 (repealed 2013). *See* Republic Act No. 10372, § 14.

242. Committee on Trade and Commerce Joint with the Committees on Constitutional Amendments, Revision of Codes and Laws; Justice and Human Rights; Finance; and Science and Technology (Technical Working Group), Proposed Senate Bills Regarding Intellectual Property Rights 37, 15th Cong., 1st Reg. Sess. (2011) (emphasis supplied).

243. *Id.*

beneficial to the country as it allows for better access to copyrighted works without causing prejudice to the right of the copyright holder.²⁴⁴

Due to the recent amendment, some IP law experts and practitioners have opined that the vagueness of the rule on parallel importation creates gaps in the Philippine IP system.²⁴⁵ Atty. Jose Jesus M. Disini, Jr., a technology expert from the University of the Philippines College of Law, was quick to point out that deleting Section 190.1 could, in fact, discourage parallel importation.²⁴⁶ Disini, Jr. opined that the removal of the provision could prevent importation of otherwise authentic copyrighted material due to the vagueness of the law on what may be considered as infringing on IPR of copyright owners or assignees.²⁴⁷

C. Patent Law

Unlike in the trademark and copyright provisions, the IP Code sheds more light on the issue of parallel importation of patented products. A patentable invention refers to “any technical solution of a problem in any field of human activity which is new, involves an inventive step[,] and is industrially applicable ... [.] [It] may be ... a product, [] process[,] or [] improvement[.]”²⁴⁸

Under Section 71 of the IP Code, where the subject of the patent is a product, the patentee has “the right to restrain, prohibit[,] and prevent any unauthorized person from making, using, offering for sale, selling[,] or importing of the patented product.”²⁴⁹ In case of a patented process, the patentee is also conferred the right “to restrain, prevent[,] or prohibit any unauthorized person or entity from using the process, and from

244. *Id.* at 38.

245. See Ignacio Sapalo, Philippines: Parallel Problem, *available at* <http://sapalovelez.com/v2/philippines-parallel-problem> (last accessed May 4, 2018).

246. Timothy James M. Dimacali, New IP law allows warrantless searches, ‘erases’ right to personal use, *available at* <http://www.gmanetwork.com/news/story/294998/scitech/technology/new-ip-law-allows-warrantless-searches-erases-right-to-personal-use> (last accessed May 4, 2018).

247. *Id.*

248. INTELL. PROP. CODE, § 21 (as amended).

249. *Id.* § 71.1 (a).

manufacturing, dealing in, using, selling[,] or offering for sale, or importing any product obtained directly or indirectly from such process.”²⁵⁰

As regards the limitations on patent rights, Section 72 of the IP Code appears to adopt the principle of domestic exhaustion as it provides that a patent owner has

no right to prevent third parties from performing acts referred to in Section 71, without his [or her] authorization ... [when the] patented product [] *has been put on the market in the Philippines* by the owner of the product, or with his [or her] express consent, insofar as such use is performed after that product has been so put on the said market[.]²⁵¹

The provisions express that patent rights are exhausted after the first sale or distribution in the Philippine market and, hence, the patent right owner has the power to block parallel imports as the entry of these products sourced from a foreign market would infringe the first sale or distribution right of the patent right owner in the Philippines.

Section 72 of the IP Code has been supplemented by Republic Act No. 9502, also known as the Universally Accessible Cheaper and Quality Medicines Act of 2008.²⁵² The law made the domestic exhaustion doctrine inapplicable to medicines and, hence, expressly allowed the parallel importation of covered drugs.²⁵³ The provision now states that, “with regard to drugs and medicines, the limitation on patent rights shall apply after a drug or medicine has been introduced *in the Philippines or anywhere else in the world* by the patent owner, or by any party authorized to use the invention[.]”²⁵⁴

The IP Code amendment was specifically tackled in the case of *Roma Drug v. Regional Trial Court of Guagua, Pampanga*.²⁵⁵ The National Bureau of Investigation (NBI) conducted a raid in the premises of Roma Drug and sequestered its stocks pursuant to a complaint lodged by SmithKline

250. *Id.* § 71.1 (b).

251. *Id.* § 72.1 (emphasis supplied).

252. Universally Accessible Cheaper and Quality Medicines Act of 2008, §§ 1 & 7.

253. *Id.* § 7.

254. *Id.* (emphasis supplied).

255. *Roma Drug v. Regional Trial Court of Guagua, Pampanga*, 585 SCRA 140 (2009).

Philippines, the authorized distributor in the Philippines of the patented medicines.²⁵⁶

The medicines confiscated from Roma Drug, while genuinely manufactured by the parent company, SmithKline London, were purchased by Roma Drug from a supplier abroad, and not acquired through SmithKline Philippines.²⁵⁷ It was found that, admittedly, Roma Drug's medicines were "identical in content with their Philippine-registered counterparts," and there was "no claim that they were adulterated in any way or mislabeled at least."²⁵⁸ The medicines were labeled as counterfeit "based solely on the fact that they were imported from abroad and not purchased from the Philippine-registered owner of the patent or trademark of the drugs."²⁵⁹

In its ruling, the Supreme Court expressed that the question on the legality of the importation is already moot because of the promulgation of the Universally Accessible Cheaper and Quality Medicines Act of 2008.²⁶⁰ The amendment introduced by the said law revealed that the IP Code adheres to the domestic exhaustion regime and generally prohibits parallel importation, with the exception of medicines.

Another aspect of the patent law provisions under the IP Code that can be used against parallel importers are the rules covering voluntary licensing. Section 85 of the IP Code states that, "[t]o encourage the transfer and dissemination of technology, [and to] prevent or control practices and conditions that may in particular cases constitute an abuse of [IPR] having an adverse effect on competition and trade, all technology transfer arrangements shall comply with the provisions of this Chapter[,]" specifically on the rules on voluntary license contract.²⁶¹ The law prohibits the inclusion of clauses in a voluntary license contract that are deemed to have an adverse effect on competition and trade. Among these prohibited clauses are "[t]hose that prohibit the licensee to export the licensed product unless justified for the protection of the legitimate interest of the licensor[,]" such as exports to countries where exclusive licenses to manufacture and/or distribute the

256. *Id.* at 142.

257. *Id.* at 143.

258. *Id.*

259. *Id.*

260. *Id.* at 145.

261. INTELL. PROP. CODE, § 85 (as amended).

licensed product(s) have already been granted[.]”²⁶² The provision shows that existing exclusive distributorship agreements in other markets serve as justification for patent right owners to prohibit the exportation of their products sold or distributed at a specific market.

V. ANALYZING THE EFFECT OF THE FREE FLOW OF GOODS IN A SINGLE MARKET FRAMEWORK TO THE TREATMENT OF PARALLEL IMPORTS

A. *The EU’s Approach: Intellectual Property Rights v. Free Movement of Goods*

To guarantee compensation and benefits for the efforts of creation and innovation, IP protection, on the one hand, allows the prevention of others from using or selling the products, subject to the owner’s consent or fulfillment of certain conditions.²⁶³ The EU single market, on the other hand, targets the removal of limitations to the free movement of goods.²⁶⁴ Both goals are legitimate yet conflicting, and, thus, it is hard to strike a balance between the two.²⁶⁵

Recognizing the risk that IPR protection can be abused to prevent the movement of goods within the EU, the ECJ settled on an approach that led to the two dimensions of IPR.²⁶⁶ These two aspects are: (1) the existence of an IP and (2) the use of IPR, which also refers to the limitation of such use.²⁶⁷

In balancing the principle of the free movement of goods and IPR, the ECJ affirmed that the EU Treaty “does not affect the existence of rights recognized by the legislation of a Member State in matters of industrial and commercial property[.]”²⁶⁸ The free movement of goods does not prohibit a Member State from registering as a national trademark a sign but, rather, simply restricts the exercise of those rights.²⁶⁹

262. *Id.* § 87.8.

263. Ginter, *supra* note 79, at 506.

264. *Id.*

265. *Id.*

266. *Id.* at 507.

267. *Id.*

268. *Matratzen Concord AG v. Hukla Germany SA*, Case C-421/04, 2006 E.C.R. I-02303, ¶ 28.

269. *Id.*

EU law and jurisprudence collectively protect and support parallel imports as a tool for achieving and maintaining a single market. Of the long line of cases dealing with the effect of the TEC on exclusive distributorship agreements involving EU Member States, the case of *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community*²⁷⁰ was the first one adjudicated by the ECJ.²⁷¹ In 1966, it was ruled in that said case that “an agreement between producer and distributor which might tend to restore the national divisions in trade between Member States might be such as to frustrate the most fundamental objectives of the Community.”²⁷²

Grundig, a manufacturing company of radios, tape recorders, dictating machines, and television sets, entered into an agreement with *Établissements Consten*, making the latter its exclusive distributor in France.²⁷³ Grundig ensured that it would not sell, directly or indirectly, to entities that would compete with the market covered by Consten.²⁷⁴ Grundig also prohibited all its exclusive distributors from exporting its products outside the covered area of distribution. Consten, on its part, was allowed by Grundig to register in France Grundig’s Grundig International trademark to increase protection over Grundig’s products.²⁷⁵ Despite the export ban, an unauthorized French importer, UNEF, managed to import Grundig products from Germany and sell said products in France at cheaper prices, in competition with Consten.²⁷⁶ Thereafter, Consten filed a case against UNEF for unfair competition and trademark infringement under French law.²⁷⁷

270. *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community*, Joined Cases C-56/64 & C-58/64, 1966 E.C.R. 299.

271. Lawrence F. Ebb, *The Grundig-Consten Case Revisited: Judicial Harmonization of National Law and Treaty Law in the Common Market*, 115 U. PA. L. REV. 855, 855 (1967).

272. *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH*, 1966 E.C.R. 299 at 340.

273. *Id.* at 341.

274. *Id.*

275. *Id.*

276. *Id.*

277. *Id.*

Consten and Grundig's complaint was concerned with the applicability of Article 85 (1) of the TEC to sole distributorship contracts.²⁷⁸ The ECJ explained that the provisions against anti-competitive acts are designed exactly to pursue the objectives of the TFEU, and the TFEU, which "aim[s] at abolishing the barriers between States, and which in several provisions gives evidence of a stern attitude with regard to their reappearance, could not allow undertakings to reconstruct such barriers."²⁷⁹ In ruling against Consten, it was pronounced that prohibiting the use of rights under national trademark laws in order to set an obstacle in the way of parallel imports does not affect the grant of those rights, but, rather, simply limits the exercise of such rights to the extent needed to ensure freedom of competition.²⁸⁰

Specifically addressing the interpretation of the TEC's provision on the free movement of goods, the ECJ clarified in *Centrafarm BV and Adriaan de Peijper v. Sterling Drug Inc.*²⁸¹ that "the exercise of patent rights aiming at stopping parallel imports within Community borders amounted to a segregation of the European market and therefore violated the principle of free circulation of goods[.]"²⁸² Centrafarm imported to the Netherlands from Great Britain and Germany medicinal preparations patented by Sterling Drug, and sold them at significantly lower prices than the prices that Sterling Drug had marketed the drugs for in the Netherlands.²⁸³ Sterling Drug, thereafter, filed a suit for injunction against the alleged patent infringement committed by Centrafarm.²⁸⁴

The primary issue faced in *Centrafarm BV and Adriaan de Peijper* was whether the use of patent rights to prevent parallel imports sourced from other Member States was an exception under Article 36 of the TFEU (former Article 30 of the TEC); and, if not, whether the exercise of such patent right contradicted the principle of free movement of goods in the

278. *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH*, 1966 E.C.R. 299 at 341.

279. *Id.* at 340 (citing TFEU, *supra* note 81, art. 101, ¶ 1).

280. *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH*, 1966 E.C.R. 299 at 340.

281. *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc.*, Case C-15/74, 1974 E.C.R. 1147.

282. Bonadio, *supra* note 27, at 159 (citing *Centrafarm BV and Adriaan de Peijper*, 1974 E.C.R. 1147 at 1168).

283. *Centrafarm BV and Adriaan de Peijper*, 1974 E.C.R. 1147 at 1149.

284. *Id.*

EU.²⁸⁵ The ECJ explained that exemptions from the free movement of goods principle would only be permitted “where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject matter of this property.”²⁸⁶ The ECJ stressed that derogation from the principle of the free movement of goods is not justified when the product has been put on the market legally by the patentee or with his or her consent, in the Member State from which it has been imported, such as in the case of parallel imports.²⁸⁷

Ultimately, it was ruled in *Centrafarm BV and Adriaan de Peijper* that the exercise of the patentee’s right under the national law of an EU Member State to prohibit the sale of a product protected by the patent, which has been marketed in another Member State by the patentee or with his or her consent, is incompatible with the rules of the EEC treaty concerning the free movement of goods within the Common Market.²⁸⁸

In *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG*,²⁸⁹ the ECJ applied the same principle in copyright, and ruled against Germany’s national copyright regulation that allowed, as part of the exclusive distribution rights of a copyright owner, the right to prevent the importation and sale of products in that State, even though such products had been legally sold by the same owner or with his or her consent in another Member State.²⁹⁰ Deutsche Grammophon is a manufacturer of sound recordings in Germany that has marketed its products in both Germany and France, through an affiliate.²⁹¹ Metro, on the other hand, purchased products from France and re-imported them back to Germany.²⁹² Aggrieved, Deutsche Grammophon invoked the German Law of 9 September 1965 on Copyright and Related Rights²⁹³ and relied on its exclusive right to distribute the products in Germany to block the parallel

285. *Id.* at 1150.

286. *Id.* at 1162, ¶ 8.

287. *Id.* at 1162-63, ¶ 11.

288. *Id.* at 1163, ¶ 15.

289. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG*, Case C-78/70, 1971 ECR 487.

290. *Id.* at 500, ¶ 13.

291. *Id.* at 489-90.

292. *Id.* at 490.

293. *Id.* at 490-91 (citing Urheberrechtsgesetz [UrhG][Copyright Act], Sep. 9, 1965, BGBl. I at 1273(as amended) (Ger.)).

imports from France.²⁹⁴ According to the ECJ, allowing such a prohibition would “legitimize the isolation of national markets” and would be “repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market.”²⁹⁵ Moreover, the ECJ expressed that unity of domestic markets to form a single market would not be achieved if the legal framework of the Member States allows their nationals to segment the market and discriminate against the free movement of goods through disguised restraints on trade among Member States.²⁹⁶

In line with the cases decided by the ECJ, the laws on trademark in the EU were harmonized through the issuance of the First Council Directive 89/104/EEC (Trademark Directive).²⁹⁷ In the EU, a Directive is “binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods.”²⁹⁸

Article 7 (1) of the Trademark Directive states that “[t]he trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his [or her] consent.”²⁹⁹ The said provision means that the IPR are exhausted the moment the IPR owner sells the goods anywhere in the EU. This provision has been reiterated in Article 15 (1) of the latest Trademark Directive of the EU.³⁰⁰

In the case of *Bristol-Myers Squibb v. Paranova A/S*,³⁰¹ the question of whether the repackaging and reaffixing of a trademark in parallel imports

294. *Deutsche Grammophon Gesellschaft mbH*, 1971 E.C.R. 487 at 490-91.

295. *Id.* at 500, ¶ 12.

296. *Id.*

297. First Council Directive 89/104, of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, 1989 O.J. (L 40) 1 (EEC) [hereinafter Trademark Directive].

298. TFEU, *supra* note 81, art. 288, para. 3.

299. Trademark Directive, *supra* note 297, at 5, art. 7 (1).

300. Directive 2015/2436, of the European Parliament and of the Council of 16 December 2015 to Approximate the Laws of the Member States Relating to Trade Marks, art. 15 (1), 2015 O.J. (L 336) 1, 13 (EU).

301. *Bristol-Myers Squibb v. Paranova A/S* (C-427/93) and *C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S* (C-429/93) and *Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S*, Joined Cases C-427/93, C-429/93, & C-436/93, 1996 ECR I-3514.

constituted as legitimate reasons under the Trademark Directive was raised. The ECJ held that the Trademark Directive “must be interpreted in the light of the Treaty rules on the free movement of goods and in particular Article 36[.]”³⁰² The ECJ reiterated that based on a number of cases decided in relation to Article 36,

the owner’s exclusive right to affix a trade mark to a product must[,] in certain circumstances[,] be regarded as exhausted in order to allow an importer to market under that trade mark products which were put on the market in another Member State by the owner or with his [or her] consent[.]³⁰³

Ultimately, the ECJ ruled that trademark rights owners cannot oppose parallel imports as long as the “repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation.”³⁰⁴

The EU also adopted Directive 2001/29/EC (Copyright Directive),³⁰⁵ which provides that “[t]he first sale in the Community of the original of a work[,] or copies thereof[,] by the right holder or with his [or her] consent exhausts the right to control resale of that object in the Community.”³⁰⁶ Specifically addressing the exhaustion of rights on copyrighted works in the European Union, Article 4 of the Copyright Directive states that “the distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the right holder or with his [or her] consent.”³⁰⁷ Based on the Copyright Directive, distribution rights are exhausted within the EU after the authorized first sale or other transfer of ownership in any EU Member State.³⁰⁸

302. *Id.* at I-3527, ¶ 27.

303. *Id.* at I-3529, ¶ 34.

304. *Id.* at I-3535, ¶ 56.

305. Directive 2001/29, of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L 167) 10 (EC).

306. *Id.* at 12, whereas cl. ¶ 28.

307. *Id.* at 16, art. 4 (2).

308. International Association for the Protection of Intellectual Property, Exhaustion Issues in Copyright Law (Working Guidelines), available at <http://aippi.org/wp-content/uploads/committees/240/WG240English.pdf> (last accessed May 4, 2018).

With respect to patents, while there has been no formal harmonization throughout the EU through a Directive, a comparable position had been undertaken by Member States and the European Patent Office.³⁰⁹

With several ECJ cases decided and the Directives in place, the question on whether Member States can go beyond regional exhaustion and adopt international exhaustion has been raised. This issue was decided in *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*³¹⁰ wherein Hartlauer attempted to conduct parallel imports of Silhouette spectacles into the European Community from Bulgaria, a then non-EU member.³¹¹ In ruling that the regional exhaustion only covers goods within the EU, the ECJ did not accept the argument that the questioned Directive does not exclude the possibility of national rules establishing that exhaustion of rights could take place on goods that have been sold or distributed in non-EU States.³¹² In essence, the *Silhouette International Schmied GmbH & Co. KG* case interpreted the EU Directive as strictly mandating regional or community-wide exhaustion because, otherwise, no complete harmonization will be achieved if other Member States will be allowed to adopt the international exhaustion principle as an internal regulation.³¹³ Fearing that it can hinder the free movement of goods, Member States of the EU are impeded from imposing the international exhaustion doctrine.³¹⁴ This particular ruling is relevant considering that the AMS as of present, differ in the adoption of exhaustion regimes.

Based on the discussions above, the ECJ interpreted the provisions of the EU Treaty on free movement of goods as one that allows parallel importation within the EU. The ECJ has consistently ruled against national regulations or statutes that prevent the proliferation of parallel imports from one Member State to another.

Hence, the question now is whether the ASEAN must take a similar stance in allowing parallel imports within its region. Considering that there are AMS with national regulations adopting either national or international exhaustion, there is a need to assess whether the obligation to achieve free

309. STOTHERS, *supra* note 19, at 31.

310. *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, 1998 E.C.R. I-4799.

311. *Id.* at I-4826, ¶¶ 8-9.

312. *Id.* at I-4832, ¶ 31.

313. *Id.* at I-4831, ¶ 25.

314. *Id.* at I-4831, ¶ 27.

flow of goods and to eliminate non-tariff barriers to trade must be used to compel Member States to abide by the ASEAN single market framework and, therefore, adopt the regional exhaustion doctrine like the EU.

B. Applying the EU's Free Movement of Goods to the AEC's Free Flow of Goods

The next Section seeks to analyze whether the interpretation of the EU's free movement of goods in relation to parallel importation must be applied to the AEC's free flow of goods. Considering that the ASEAN is pushing towards harmonization to achieve its integration targets, it is vital to determine the proper interpretation to be adopted as patterned after a similar framework that has undergone essential experience and success.

1. General Rule of Interpretation of Treaties

Article 2 of the Vienna Convention on the Law of Treaties (VCLT)³¹⁵ defines a treaty as “an international agreement concluded between States in written form and governed by international law, whether embodied in a single instrument or in two or more related instruments and whatever its particular designation[.]”³¹⁶

As a general rule for interpreting treaties, Paragraph 1, Article 31 of the VCLT states that “[a] treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.”³¹⁷ The rule articulates that the interpretation of a treaty shall be based on three elements, namely, the “terms of the treaty,” its “context[.]” and its “object and purpose.”³¹⁸ The International Law Commission (ILC), in its commentary on the Draft Articles on the Law of Treaties, posited that, in reading the terms of a treaty, the “text must be presumed to be the authentic expression of the intentions of the parties” and, hence, “the starting point of interpretation is the elucidation of the meaning of the text, not an investigation *ab initio* into the intentions of the parties.”³¹⁹

315. Vienna Convention on the Law of Treaties, *opened for signature* May 23, 1969, 1155 U.N.T.S 331.

316. *Id.* art. 2.

317. *Id.* art. 31 (1).

318. JAMES CRAWFORD, *BROWNLIE'S PRINCIPLES OF PUBLIC INTERNATIONAL LAW* 381 (8th ed. 2012).

319. International Law Commission, *Report of the International Law Commission on the Work of its Eighteenth Session*, at 220, U.N. Doc. A/6309/Rev.1 (1966).

One of the ASEAN's main objectives — as seen in the ASEAN Charter, the ATIGA, and the AEC Blueprints — is to achieve free flow of goods. The ASEAN instruments, however, do not expressly define what comprises free flow of goods.

Considering the lack of a textual definition of the term “free flow of goods” in the various ASEAN legal instruments, the true meaning of the term has to be interpreted “in light of its object and purpose.” The ILC noted that, in interpreting treaty provisions, the “object and purpose of a treaty” as embodied in a treaty's preamble have been resorted to by international courts.³²⁰ An example would be the *Rights of Nationals of the United States of America in Morocco*³²¹ where the clause on “economic liberty without any inequality[,]” as stated in the Preamble of the “Act of Algeciras” was held to have “a binding character[,]” one that could not be interpreted to “merely [be] an empty phrase.”³²² The ILC's commentary, referring to the *Rights of Nationals of the United States of America in Morocco*, indicates that the “object and purpose of a treaty” are typically expressed in its preamble.³²³

On the other hand, it has been implied that the “treaty's object and purpose is not limited to the treaty itself but can also be derived from extraneous sources.”³²⁴ For instance, in the *Reservations to the Convention on the Prevention and Punishment of the Crime of Genocide*,³²⁵ the International Court of Justice held that in interpreting the provisions on reservations to the Genocide Convention, “[t]he origins and character of that Convention, the objects pursued by the General Assembly and the [Contracting Parties, and] the relations which exist between the provisions of the Convention” are to be considered.³²⁶

320. *Id.* at 221.

321. *Rights of Nationals of the United States of America in Morocco (Fr. v. U.S.)*, 1952 I.C.J. 176 (Aug. 27).

322. *Id.* at 184.

323. Isabelle Buffard & Karl Zemanek, *The “Object and Purpose” of a Treaty: An Enigma?*, 3 AUSTRIA. REV. INT'L & EUR. L. 311, 322 (1998).

324. Jan Klabbbers, *Some Problems Regarding the Object and Purpose of Treaties*, in 7 THE FINNISH YEARBOOK OF INTERNATIONAL LAW 1997, at 142-43 (Matti Koskenniemi & Kari Takamaa eds., 1999).

325. *Reservations to the Convention on the Prevention and Punishment of the Crime of Genocide*, Advisory Opinion, 1951 I.C.J. 15 (May 28).

326. *Id.* at 23.

In this regard, the Preamble to the ASEAN Charter provides for the need to fortify regional cooperation in order to form an “economically-integrated” ASEAN Community.³²⁷ It is, therefore, submitted that part of the object and purpose of the ASEAN Charter is to pursue regional economic integration. Moreover, the ATIGA acknowledges in its Preamble the resolve among Member States to “[realize] the goals of establishing [the] ASEAN as a *single market and production base*”³²⁸ by allowing free flow of goods, as also envisioned in the ASEAN Charter and the AEC Blueprint 2015. It is likewise submitted that the AEC framework on free flow of goods must be interpreted in light of the greater goal of regional economic integration.

It must be considered that regional economic integration frameworks have developed beyond tariff elimination to a more comprehensive but gradual process that involves the adoption or creation of “preferential trading arrangements[,] free trade area[,] customs union[,] common market[,] economic union[,] [and] a common currency[,]” with the experience of the [EU] as one of the “most prominent [examples.]”³²⁹

2. Supplementary Means of Interpretation of Treaties

Assuming that Article 31 is not the suitable legal tool of interpretation, Article 32 of the VCLT may be resorted to. This Article states that “recourse may be had to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of [A]rticle 31.”³³⁰ Moreover, this VCLT provision can be applied “when the interpretation according to [A]rticle 31: (a) leaves the meaning ambiguous or obscure; or (b) leads to a result which is manifestly absurd or unreasonable.”³³¹

As part of the “preparatory work” that led to the ASEAN Charter and the “circumstances of its conclusion,” records show that the High Level Task Force (HLTF) appointed to draft the ASEAN Charter engaged in

327. ASEAN Charter, *supra* note 99, pmbl.

328. ATIGA, *supra* note 109, pmbl. (emphasis supplied).

329. FRANZISKA JEROSCH & ULRICH HÖCKER, SUPPORTING REGIONAL ECONOMIC INTEGRATION AND COOPERATION 4 (2008).

330. Vienna Convention on the Law of Treaties, *supra* note 315, art. 32.

331. *Id.*

working visits to Germany and Belgium in 2007.³³² The accounts and reflections of the members of the HLTF, throughout the 10-month drafting process of the ASEAN Charter, reveal that they considered the EU a “useful reference for regional reconciliation and integration.”³³³ More than just a “reference point,” some contended that the ASEAN was “explicitly [modeled]” after the EU to resemble a similar integrated economic region, precisely to draw international investments.³³⁴ This supports the argument that, in connection with its objective to achieve a regionally-integrated economy, the ASEAN studied and applied aspects of the regional economic integration framework of the EU, which form part of the circumstances that led to the conclusion of the ASEAN Charter.

In conclusion, the Author submits that the similarities between the EU and the ASEAN’s single market and free flow or movement of goods framework make a compelling case for the ASEAN to adopt the EU’s stance on eliminating trade barriers within the region. Applying Article 31 of the VCLT, the meaning of “free flow of goods” under the ASEAN agreements must be interpreted in light of the ASEAN Charter’s object and purpose of regional economic integration. Alternatively, the nature of this regional economic integration objective of the ASEAN is confirmed by using supplementary interpretation, pursuant to Article 32 of the VCLT. Inasmuch as the EU framework was used as basis for the ASEAN Charter, the absence of a clear definition in the ASEAN instruments must be construed by applying the interpretation of the EU. This is also in consideration of the fact that the ASEAN is headed towards the same end as the EU — that is, the establishment of a single market through free flow of goods.

C. International Law v. Domestic Law: ASEAN Agreements and the Intellectual Property Code of the Philippines

Applying the EU’s interpretation of its free movement of goods, it appears that the present regime in the Philippines prohibiting parallel imports contradicts with the ASEAN’s free flow of goods framework. The following Part will delve on this incompatibility and the possibility of harmonization.

Article 26 of the VCLT states that “[e]very treaty in force is binding upon the parties to it and must be performed by them in good faith.”³³⁵

332. TOMMY KOH, ET AL., *THE MAKING OF THE ASEAN CHARTER* 211 (2009).

333. Reuben Wong, *Model power or reference point? The EU and the ASEAN Charter*, 25 *CAMBRIDGE REV. INT’L AFF.* 669, 674 (2012).

334. *Id.* at 677.

335. Vienna Convention on the Law of Treaties, *supra* note 315, art. 26.

Additionally, under Article 46, “[a] party may not invoke the provisions of its internal law as justification for its failure to perform a treaty.”³³⁶ Hence, when parties are legally bound by a treaty, the duties and commitments espoused under the treaty are considered legal obligations that give the parties resultant legal rights to require compliance.³³⁷

Now, the reception of international law into domestic law can become a problem when international law comes into conflict with domestic law. As held in *Exchange of Greek and Turkish Populations*,³³⁸ “a State which has contracted valid international obligations is bound to make in its legislation such modifications as may be necessary to ensure the fulfillment of the obligations undertaken.”³³⁹ An accepted exception to this doctrine is provided by Article 46 of the VCLT, which is when the conflict between the treaty and the Constitution is “manifest and concern[s] a rule of its internal law of fundamental importance.”³⁴⁰

Applying the above principles, the ASEAN Charter conveys that “disputes relating to specific ASEAN instruments shall be settled through the mechanisms and procedures provided for in such instruments.”³⁴¹ In relation thereto, Article 89 of the ATIGA specifically postulates that the ASEAN Protocol on Enhanced Dispute Settlement Mechanism³⁴² shall be applicable “to any dispute arising from or any difference between Member States concerning the interpretation or application” of the ATIGA.³⁴³

When a treaty is incompatible with national legislation, “conflict must be resolved according to the special conflict resolution provided by the

336. *Id.*

337. Kirsten Schmalenbach, *Article 26: Pacta sunt servanda*, in *VIENNA CONVENTION ON THE LAW OF TREATIES: A COMMENTARY* 440-41 (Oliver Dörr & Kirsten Schmalenbach eds., 2012).

338. *Exchange of Greek and Turkish Populations (Greece v. Turk)*, Advisory Opinion, 1925 P.C.I.J. (ser. B) No. 10 (Feb. 21).

339. *Id.* at 20.

340. Vienna Convention on the Law of Treaties, *supra* note 315, art. 46 (1).

341. ASEAN Charter, *supra* note 99, art. 24 (1).

342. ASEAN Protocol on Enhanced Dispute Settlement Mechanism, *available at* <http://agreement.asean.org/media/download/20141217102933.pdf> (last accessed May 4, 2018).

343. ATIGA, *supra* note 109, art. 89.

respective legal order or by means of the general derogation rules[.]”³⁴⁴ One of the general derogation rules is *lex posterior derogat legi priori* (the latter law prevails over the earlier law).³⁴⁵

In relation to the abovementioned principles, the ASEAN Charter was signed on 20 November 2007.³⁴⁶ The ASEAN Charter finally came into force on 15 December 2008.³⁴⁷ Pursuant to Article 96, the ATIGA was finally in force by 17 May 2010.³⁴⁸ The IP Code, on the other hand, where the questionable provisions dealing with parallel importation are expressed, took effect on 1 January 1998.³⁴⁹

From the foregoing, the ASEAN Charter and the ATIGA, as well as other related instruments in the form of the AEC Blueprints, came into force later than the IP Code. Applying *lex posterior derogat legi priori*, the ASEAN agreements incorporating the free flow of goods framework prevail over the IP Code.

However, it is also a well-settled rule in statutory construction that “a statute is not to be deemed repealed, by implication, by a subsequent [a]ct upon the same subject unless the two are manifestly inconsistent with, and repugnant to, each other, or unless a clear intention is disclosed on the face of the later statute to repeal the former one.”³⁵⁰ In this case, the ASEAN agreements neither expressly repeal the incompatible provisions of the IP Code nor are the provisions establishing the free flow of goods framework manifestly inconsistent with the IP Code.

Since the IP Code has not been impliedly or expressly repealed, there appears to be a need to expressly repeal the national laws of Member States

344. Kirsten Schmalenbach, *Article 27: Internal law and observance of treaties*, in VIENNA CONVENTION ON THE LAW OF TREATIES: A COMMENTARY, *supra* note 337, at 469.

345. *Id.*

346. ASEAN Charter, *supra* note 99, at 259.

347. Association of Southeast Asian Nations, ASEAN Foreign Ministers to Celebrate the Entry into Force of the ASEAN Charter at the ASEAN Secretariat, 9 December 2008 (Press Release), *available at* <http://asean.org/press-release-asean-foreign-ministers-to-celebrate-the-entry-into-force-of-the-asean-charter-at-the-asean-secretariat-asean-secretariat-9-december-2008> (last accessed May 4, 2018).

348. ATIGA, *supra* note 109, art. 96.

349. INTELL. PROP. CODE, § 242 (as amended).

350. *Manila Railroad Co. v. Rafferty*, 40 Phil. 224, 229 (1919).

that are inconsistent with the free flow of goods, specifically, with the regional exhaustion doctrine that must be adopted within the ASEAN. Alternatively, should there be no express repeal on the ASEAN level, there is a need to amend the IP Code so that it carves an exception for regional exhaustion within the ASEAN, in order for the Philippines to comply with its obligation to allow free flow of goods.

Notwithstanding the doctrine that a later law prevails over an earlier law, the ASEAN agreements remain as international law and that alone dictates that the Philippines is internationally bound by its treaty obligations. Hence, there is a need for the Philippines to harmonize its legislation to comply with its commitment in the ASEAN. The discord between the Philippines' obligation under the ASEAN and its policy to protect IPR, however, only covers the exhaustion of IPR. As held in the EU, the free flow of goods framework does not affect the power of the State to grant protection over IPR and for the owners or holders thereof to exercise such rights. Rather, the function of the free flow of goods framework is simply to limit the exercise of IPR once the goods have been put in the ASEAN.

VI. CONCLUSION AND RECOMMENDATION

A. Conclusion

Based on the long line of cases decided by the ECJ, the EU allows parallel importation within the EU in relation to its *single market* or *internal market* strategy. As pronounced by the ECJ, national regulations of EU Member States that allow the blocking of parallel imports within the EU are contrary to the principle of *free movement of goods* in the EU single market. In supporting regional or community-wide exhaustion within the EU, the ECJ also conveyed that the exhaustion of IPR once a product is sold or distributed within the EU — resulting to the removal of the right to prevent parallel importation — does not affect the power of Member States to grant and protect IPR within their territory. Rather, the goal of the EU is simply to limit the exercise of such rights to guarantee fair competition and ensure that goods can freely move within the EU market.

The ASEAN's *free flow of goods* is similar to the EU's *free movement of goods*. However, unlike the EU, the ASEAN has not adopted a uniform exhaustion regime in line with the *free flow of goods* framework. Applying the interpretation of the EU that parallel importation is supported by the EU's *free movement of goods* framework, the Author concludes that disallowing parallel imports from one ASEAN Member State to another ASEAN Member State also contradicts with the *free flow of goods* objective of the

ASEAN. Following the position of the EU, national regulations that prevent or plan to prevent the *free flow of goods* must be halted.

In light of the discussions in this Note, the Author concludes that the prohibition against parallel importation as a mode of protecting IPR is incompatible with the obligation under the ASEAN to allow *free flow of goods* and eliminate trade barriers under the ASEAN Charter and the ATIGA.

In the case of the Philippines, the ASEAN agreements, which mandate the *free flow of goods*, were enacted after the IP Code. Hence, as the more recent law, it must be deemed to prevail over the former. The continued adoption of the national exhaustion regime for patents and trademarks, thereby generally prohibiting parallel imports, makes the Philippines in violation of its legal obligation to allow the free flow of goods. Similarly, allowing Member States to freely adopt international exhaustion, such as in the case of the Philippines' copyright provisions under the IP Code, strays from the uniformity sought by the ASEAN single market and free flow of goods framework. It is submitted, therefore, that the Philippines and other AMS must take steps in order to conform with their international treaty obligations.

B. Recommendation

1. Proposed ASEAN Protocol for the Harmonization of Intellectual Property Rights Protection and Free Flow of Goods

Applying the *Silhouette International Schmied GmbH & Co. KG* decision, AMS must adopt the regional exhaustion doctrine and, thus, allow parallel importation within the ASEAN. Unlike the EU, the ASEAN does not have an administrative enforcement mechanism, like the EU's system of issuing Directives, nor a judicial framework like the ECJ. Nevertheless, the Author recommends that a supplement to the previous ASEAN agreements be made in the form of a Protocol to be negotiated and adhered to by AMS.

To reinforce obligations under the ATIGA, the Protocol shall explicitly direct the strict adoption of the regional exhaustion doctrine within the ASEAN. Moreover, through the Protocol, AMS can strengthen its cooperation in regulating IP protection by revisiting and improving the ASEAN Framework Agreement on Intellectual Property Cooperation, in the same way that the EU has comprehensively negotiated and laid down the framework of its regional efforts for IPR protection through its Directives.

The end goal is to agree on a Protocol that strikes a balance between free flow of goods within the ASEAN and the national regulations of AMS involving IP. The proposed Protocol principally should include a provision requiring the exhaustion of IPR upon the first sale of the goods within the ASEAN. The proposed Protocol will cover and require adherence from all AMS and, hence, will ensure the uniform application of the regional exhaustion doctrine within the ASEAN.

2. Proposed Amendment of the Intellectual Property Code of the Philippines

In following the regional exhaustion principle, the Philippines will be in observance of its State obligation to allow the free flow of goods within the ASEAN and, at the same time, still uphold its policy for IPR protection. Under this regime, allowing parallel importation will only be limited to ASEAN trade and, hence, the protection of IPR owners and holders are not completely disregarded. This is also in consonance with the pronouncement of the EU that, while it allows parallel imports regionally, it still respects the existence of IPR in each Member State.

Since the ASEAN agreements, which express the framework on free flow of goods, are subsequent laws that do not expressly or impliedly repeal the IP Code, the Author proposes an amendment of the IP Code to definitively incorporate the adoption of the regional exhaustion doctrine. The amendment shall provide that parallel importation originating from AMS does not constitute infringement of IPR. Given such revision of the IP Code, IPR holders shall not be entitled to the right to prevent parallel imports from AMS to enter the Philippine market.

Truly, 2016 marks a new dawn for the ASEAN. To ensure the success of the AEC by 2025, utmost cooperation within and observance of the obligations are expected. All AMS are, thus, called to move closer towards the ASEAN single market. Each State must do its part, for the only way for free trade to flourish is by freeing it, finally, from trade barriers.