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## Q245

### Taking unfair advantage of trademarks: parasitism and free riding

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#### I. Current law and practice

1) Do the laws of your jurisdiction provide for protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines (see paragraphs 26) and 27) above); and/or

yes

Please comment:

Several provisions in the chapter on Trademark in Republic Act No. 8293, otherwise known as the Intellectual Property Code (IP Code, for brevity), provide for protection against unfair advantage of trademarks.

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

yes

Please comment:

Yes, the IP Code affords protection to well-known marks against dilution, which paragraph 28 of the Working Guidelines specifically excludes from the scope of this Working Question.

For the questions below, if b. applies either separately or in addition to a., please make that clear in any relevant answer.

2) What is this protection called, and is this a definition developed in case law or found in a statutory

provision? If such protection is characterised as a form of protection against dilution, please state this and provide any explanation as to the basis for such characterisation.

The IP Code does not specifically define “taking unfair advantage of trademarks”. The protection against free-riding is generally discussed in the context of protection of well-known marks, thus, can be characterized as a form of protection against dilution.

In the case of *Philips Export B.V., v. Court of Appeals*,<sup>[21]</sup> the Philippine Supreme Court took account of the earlier registration of petitioner’s mark and its status as internationally well-known and held that the use thereof by another entity cannot be allowed. The Court ruled that “the subsequent appropriator of the name or one confusingly similar thereto usually seeks an unfair advantage, a free ride of another’s goodwill.”

The Court arrived at the same conclusion in the case of *McDonald’s Corporation v. L.C. Big Mak Burger, Inc.*,<sup>[22]</sup> and noted that respondent’s use of a mark similar to that of petitioner’s more established mark amounts to “riding on the coattails” of the latter. The Court, citing U.S. cases,<sup>[23]</sup> went on to state that this conduct saves respondents much of the expense in advertising to create market recognition of their mark and products.

The following provisions of the IP Code can be used to protect a mark from free-riding:

“Sec. 147. Rights Conferred

147.1. The owner of a registered mark shall have the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed.

147.2. The exclusive right of the owner of a well-known mark defined in Subsection 123.1(e) which is registered in the Philippines, shall extend to goods and services which are not similar to those in respect of which the mark is registered: Provided, That use of that mark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered mark: Provided further, That the interests of the owner of the registered mark are likely to be damaged by such use.

SEC. 168. Unfair Competition, Rights, Regulation and Remedies

168.1. A person who has identified in the mind of the public the goods he manufactures or deals in, his business or services from those of others, whether or not a registered mark is employed, has a property right in the goodwill of the said goods, business or services so identified, which will be protected in the same manner as other property rights.

168.2. Any person who shall employ deception or any other means contrary to good faith by which he shall pass off the goods manufactured by him or in which he deals, or his business, or services for those of the one having established such goodwill, or who shall commit any acts calculated to produce said result, shall be guilty of unfair competition, and shall be subject to an action therefor.”

#### Footnotes

1. [^](#) *G.R. No. 96161, 21 February 21 1992.*
2. [^](#) *G.R. No. 143993, 18 August 2004.*
3. [^](#) *Hanson v. Triangle Publications, 163 F.2d 74 (1947) and Fisons Horticulture, Inc. v. Vigoro Industries, Inc., 30 F.3d 466 (1994).*

3) If such protection is available, what is the basis for the protection, e.g. trademark law (distinguishing between unregistered and registered trademarks where relevant), unfair competition, consumer protection law, common law? If multiple causes of action are available, is there an interaction between them, and if so, what?

Taking of unfair advantage is actionable both under trademark and unfair competition laws.

Infringement of trademark and unfair competition are distinguished as follows:

- a. Infringement of trademark is the unauthorized use of a trademark, whereas unfair competition is the passing off of one's goods as those of another.
- b. In infringement of trademark fraudulent intent is unnecessary whereas in unfair competition fraudulent intent is essential.
- c. In infringement of trademark the prior registration of the trademark is a prerequisite to the action, whereas in unfair competition registration is not necessary.

In the Philippines, the IP Code covers both trademark infringement and unfair competition, as shown by the provisions quoted in our answer to Question 2.

Upon examining the provisions of law, it will be found that the same remedies are conceded substantially to the injured party whether the wrong done is trademark infringement or unfair competition. Thus, both actions consist of an award of damages or double damages, and a perpetual injunction against the continuance of the injury.<sup>[1]</sup>

#### Footnotes

1. [^](#) *Sec.168.4 provides that the remedies provided by Sections 156, 157 and 161 (under infringement) shall apply mutatis mutandis.*

4) What are the elements of any available cause of action, e.g. the requirement for the trademark to be registered, reputation in the trademark, establishment of a link or association with the trademark, bad faith, change in the economic behaviour of consumers, actual advantage, potential future advantage?

How are they proven?

The elements of trademark infringement, defined under Section 155 of the IP Code, are:

- a. validity of a plaintiff's registered mark;
- b. plaintiff's ownership of the said mark; and
- c. use of the mark or imitation thereof by a third person which results in likelihood of confusion.

The elements of unfair competition are:

- a. confusing similarity in the appearance of the goods involved; and
- b. intent to deceive the public

Jurisprudence regarding establishment of a link or association between two marks is usually discussed in connection with confusing similarity. In the case of *Ang v. Teodoro*<sup>1</sup>, the Supreme Court held that the use of the same mark on non-competing goods would cause the whittling away of the identity of the mark upon the public mind. In the case of *McDonald's* (discussed in Question 2), the Supreme Court held that similarities in the dominant features of the marks increase the likelihood that consumer will mistakenly associate the products and business of the petitioner with those of respondent. Meanwhile, change in the economic behavior of consumers is not required to prove that unfair advantage is taken of a mark.

The existence of the elements enumerated above is a question of fact which must be proven by relevant evidence.

**Footnotes**

1. <sup>1</sup> *G.R. No. 48226, 14 December 1942.*

5) Further to question 4):

a) what degree of reputation, if any, in the trademark is required?

Generally, marks are afforded protection against infringement even without proof of reputation. As long as the elements cited above are present, trademark infringement may be established. However, degree of reputation comes into play when the mark claiming protection is famous or well-known.

b) who bears the burden of proof regarding the requirements?

The burden of proof to substantiate the charge of infringement rests on the party alleging the same.

c) must the use at issue cause confusion?

yes

If so, what degree of confusion is required, e.g. actual confusion, a likelihood of confusion and/or

initial interest confusion (i.e. initial confusion which has been resolved at the time of purchase)?:

Yes, mere likelihood of confusion is required. In one case, the Supreme Court held that petitioners' failure to present proof of actual confusion does not negate their claim of trademark infringement because the law requires the less stringent standard of "likelihood of confusion" only. While proof of actual confusion is the best evidence of infringement, its absence is inconsequential.<sup>[1]</sup>

#### Footnotes

1. <sup>[1]</sup> *Supra*, note 2.

d) can the protection be invoked in case of both similar and dissimilar goods/services?

no

Please comment:

An owner of a mark, not classified as well-known, may invoke the protection only with respect to similar goods. The IP Code provides for a wider protection to well-known marks registered in the Philippines, such that if the well-known mark is registered in the Philippines, the protection extends even to dissimilar goods or services, provided that such goods or services using the later mark would indicate a connection between those goods or services and the owner of the registered well-known mark. The protection extends to market areas that are the "normal" expansion of registrant's business. However, if the well-known mark is not registered in the Philippines, the protection only extends to identical or similar goods or services.

e) are there any other factors, even if not a separate requirement, that may be relevant, and if so, what are they?

6) Are there any defences against and/or limitations to the protection?

yes

If so, what are they, and what are the elements of such defences/limitations?:

Section 159.1 of the IP Code states that a registered mark shall have no effect against a person who in good faith, before the filing date or priority date of the registered mark, was using the mark for the purpose of his business or enterprise.

The other limitations and defences referred to in paragraph 31 of the Working Guidelines (i.e., fair use, descriptive use, comparative advertising, use with due cause and/or parody) are not yet established in Philippine law or jurisprudence.

Fair use, however, may be embraced within Section 148 of the IP Code, which provides:

"Sec. 148. Use of Indications by Third Parties for Purposes Other than those for which the Mark is Used.

Registration of the mark shall not confer on the registered owner the right to preclude third parties from using bona fide their names, addresses, pseudonyms, a geographical name, or exact indications

concerning the kind, quality, quantity, destination, value, place of origin, or time of production or of supply, of their goods or services: Provided, That such use is confined to the purposes of mere identification or information and cannot mislead the public as to the source of the goods or services.”

7) Who bears the burden of proof in relation to any defences and/or limitations? In this context, please also consider the relationship with the element of "unfairness". For example, is it a defence that the use is with "due cause" (see paragraph 31 of the introduction) above and footnote 2) of the introduction? If so, can such use ever be "unfair"? Or is this just a matter of a shifted burden of proof?

Sec 147 of the IP Code provides that the owner of a registered mark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. It is thus incumbent upon the third party claiming the defence to show proof that the use of the said mark falls within the ambit of the defence claimed.

As mentioned in our answer to Question 6, "due cause" use has yet to be established in this jurisdiction, particularly cases where freedom of speech or expression is invoked.

8) If a defence exists or only limited protection is available, what rights does that give the free rider? For example, may the free rider simply use the trademark or may the third party obtain a separate trademark registration in respect of the goods and/or services in respect of which the free rider is using the trademark?

The free rider may still use the similar mark as long as such use is not in the course of trade and such would not result in a likelihood of confusion, thereby negating the rights conferred on the trademark owner under Section 147.1. A third person may be able to register a mark on entirely different class of goods as long as he can establish that such use would NOT result in a likelihood of confusion.

9) Can the protection be invoked in:

a) court in civil proceedings;

yes

Please comment:

Sec. 156 of the IP Code provides for the remedies that an owner of a registered mark may recover damages from any person who infringes his rights. In cases of fraud or actual intent to mislead the public, the damages may be doubled. On application of the complainant, the court may also impound during the pendency of the action, sales invoices and other documents evidencing sales. The complainant, upon proper showing, may also be granted injunction.

b) court in other proceedings;

yes

if so what other proceedings (e.g. criminal proceedings):

Under the IP Code, a criminal penalty of imprisonment from two (2) years to five (5) years and a fine ranging from Fifty thousand pesos (P50,000) to Two hundred thousand pesos (P200,000), shall be

imposed on any person who is found guilty of committing infringement, unfair competition, and false designation of origin, false or misleading description of fact, or false or misleading representation of fact. This shall be independent of the civil and administrative sanctions imposed by law.<sup>[1]</sup>

**Footnotes**

1. [^ Section 170.](#)

c) opposition proceedings;

yes

Please comment:

Sec. 134 of the IP Code provides that opposition proceedings may be initiated by any person who believes that he would be damaged by the registration of a mark. The opposition shall be in writing and verified by the oppositor or by any person on his behalf who knows the facts, and shall specify the grounds on which it is based and include a statement of the facts relied upon.

d) any other?

yes

if so what, proceedings?:

Aside from the proceedings mentioned above, the protection can also be invoked by way of an administrative proceeding with the Philippine Intellectual Property Office. Under Section 10.2 of the IP Code, the owner of a registered mark may file an administrative case for trademark infringement before the Bureau of Legal Affairs (BLA) of the Intellectual Property Office (IPO) where the total amount of damages claimed is Two Hundred Thousand Pesos (Php 200,000) or more. The BLA may grant provisional remedies, such as injunction in proper cases, in accordance with the Rules of Court.

10) If the protection can be invoked in multiple proceedings, are there different requirements for different proceedings? If so, please state the requirements.

Yes, there are different requirements for different proceedings. The Rules of Procedure for Intellectual Property Rights Cases provide the requirements for these proceedings.<sup>[1]</sup>

In civil proceedings filed in court, the normal requirements are the verified complaint containing a concise statement of the ultimate facts constituting the complainant's cause or causes of action. It shall specify the relief sought, but it may add a general prayer for such further or other relief(s) as may be deemed just or equitable.<sup>[2]</sup>

Criminal proceedings are commenced by information after a prior verified complaint is filed under Rule 12 on Preliminary Investigation. When the information is filed, the verified complaint and the affidavits of witnesses together with other evidence, in such number of copies as there are accused plus two (2) copies for the court's files, shall be attached thereto.<sup>[3]</sup>

In opposition or cancellation proceedings filed with the BLA, a verified complaint for damages and

injunction accompanied by an affidavit must be filed.

**Footnotes**

1. [^ A.M. No. 10-3-10-SC, issued by the Supreme Court in 2011.](#)
2. [^ Id, Rule 3, Sec.3.](#)
3. [^ Rule 11, Sec. 1.](#)

**II Policy considerations and proposals for improvements of the current law**

11) Should there be protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes  
Why?:

Although both taking of unfair advantage of trademarks as defined in these Working Guidelines, as well as use that is similar but outside the scope of the definition, are adequately covered by the IP Code, there should always be uniformity in the protection of IP rights. Care should however be exercised in extending the protection as this will unduly limit competitive behavior and encourage monopoly, thus becoming more detrimental to the public in the long run.

b) use that is similar but outside the scope of the definition in these Working Guidelines?

yes  
Why?:

Yes, for the same reason indicated in our answer to Question 11 (a) above.

12) Is the basis for protection or the cause of action relevant?

yes  
Why?:

The basis for protection is highly relevant. To enforce an action or complaint, the legal basis should be clear and valid.

13) Should it be possible to invoke the protection in all types of proceedings mentioned above under 9) above?

yes  
Why?:

Yes, it should be possible to invoke protection in all of the types of proceedings.

14) How can your current law as it applies to the taking of unfair advantage of trademarks and/or the interpretation thereof (in particular, in case law) be improved?

Specific provisions against taking of unfair advantage of trademarks and/or use must be included the IP Code. Specific violations, meaning of unfair advantage and unfair use should be clearly provided for.

### III Proposals for harmonisation

15)	Is harmonisation in this area desirable?
	yes Please comment:  Yes, harmonisation is desirable.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

16)	If your answer to question 11) is no in respect of a. and/or b., is it your view that no such protection should be available anywhere?
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17)	Should there be harmonisation of the definition of:
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a)	the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or
	yes If so, please provide any definition you consider to be appropriate.:  Yes. We submit that there should be harmonisation with respect to the definition of taking unfair advantage of trademarks and similar uses. Harmonisation would afford reasonable approximation among trademark laws of different jurisdictions and prevent conflicting laws from inhibiting the growth of trade and commerce in an increasingly connected world.  <i>If so, please provide any definition you consider to be appropriate.</i>  We recommend the following definition:  "Taking of unfair advantage' means any unauthorized use in the course of commerce of a registered trademark with a reputation, whether such use is for similar or dissimilar goods or services, and where the intention is to capitalize on the goodwill of such reputed trademark."  This definition establishes the elements of the offense as follows:  1) plaintiff's registered mark which is sufficiently well-known; 2) defendant's unauthorized use of plaintiff's mark on similar or dissimilar goods; 3) such unauthorized use is in the course of trade; 4) defendant must have intent to capitalize on the goodwill of plaintiff's mark.

Moreover, it emphasizes that the protection is against the unauthorized user who benefits or is likely to benefit from the reputation of a trademark regardless of the injury that the owner may suffer. This will differentiate free-riding from trademark infringement or dilution.

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

yes

If so, please provide any definition you consider to be appropriate.:

Yes, for the same reasons stated in our answer to Question 17 (a) above.

18) What should the basis for protection/cause(s) of action be?

The basis for protection should be trademark law and unfair competition, as the issues involved in taking of unfair advantage are intimately related to those factors relevant under trademark and unfair competition laws. Protection should be based on a showing of 1) sufficient notoriety in reputation of the owner's mark; 2) association of the relevant public of the defendant's mark with that of the owner's; 3) benefit that may accrue to the defendant by riding on the reputation of owner's mark; and 4) actual use in commerce of the defendant's mark.

19) What should the requirements for protection be? In your answer, please address at least the following, in addition to any other relevant factors: what level of reputation, if any, in the trademark should be required, and who should bear the burden of proof?

a. *What level of reputation, if any, in the trademark should be required; and*

The level of reputation should be sufficient notoriety in reference to the average consumers of the goods or services for which that mark is registered (or niche market).

a. *Who should bear the burden of proof?*

The party claiming protection should bear the burden of proof. In case of the use of an identical sign for identical goods or services, a likelihood of confusion is presumed and thus, burden of proof shifts.

20) What defences against and/or limitations to the protection should be available? Please state the proposed requirements for any defence/limitation, and the effect of any defence/limitation.

The defence of fair use should be available. Article 17 of the TRIPS Agreement state that Members may provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.

We submit that the factors considered in determining fair use in the context of copyright is a good starting point. Thus, the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; and the effect of the use upon the potential market or "normal" market of the mark should be taken into account.

21) Who should bear the burden of proof in respect of any defences and/or limitations?

As mentioned in our answer to Question 7 above, the party claiming the defence should be the one to show proof that the use of the said mark falls within the ambit of the defence claimed.

22) In what type(s) of proceedings should it be possible to invoke the protection?

It should be possible to invoke the protection in the proceedings available for infringement and unfair competition to achieve uniformity in all matters related to trademark protection.

#### Summary

Philippine trademark law does not categorically define "taking unfair advantage of trademarks." The concept of taking unfair advantage, also referred to as free-riding or parasitism, is generally discussed in the context of unfair competition and trademark infringement. Thus, unlike the broader protection contemplated in these Working Guidelines, the elements of confusion and misrepresentation are taken into account.

In view of the lack of a clear definition of taking unfair advantage under the law, it is proposed that specific provisions dealing with the subject be included in the Philippine Intellectual Property Code. Specific violations, elements of unfair advantage and delineation of what constitutes "unfair" should be clearly provided for.

The following definition is proposed:

"'Taking of unfair advantage' means any unauthorized use in the course of commerce of a registered trademark with a reputation, whether such use is for similar or dissimilar goods or services, and where the intention is to capitalize on the goodwill of such reputed trademark."

While the present trademark law and relevant jurisprudence adequately provide protection against taking of unfair advantage, harmonisation is still desirable as it would afford reasonable approximation among trademark laws of different jurisdictions and prevent conflicting laws from inhibiting the growth of trade and commerce in an increasingly connected world.

Please comment on any additional issues concerning the taking advantage of trademarks in the sense of

parasitism and free riding you consider relevant to this Working Question.

AIPPI