

# World Trademark Review

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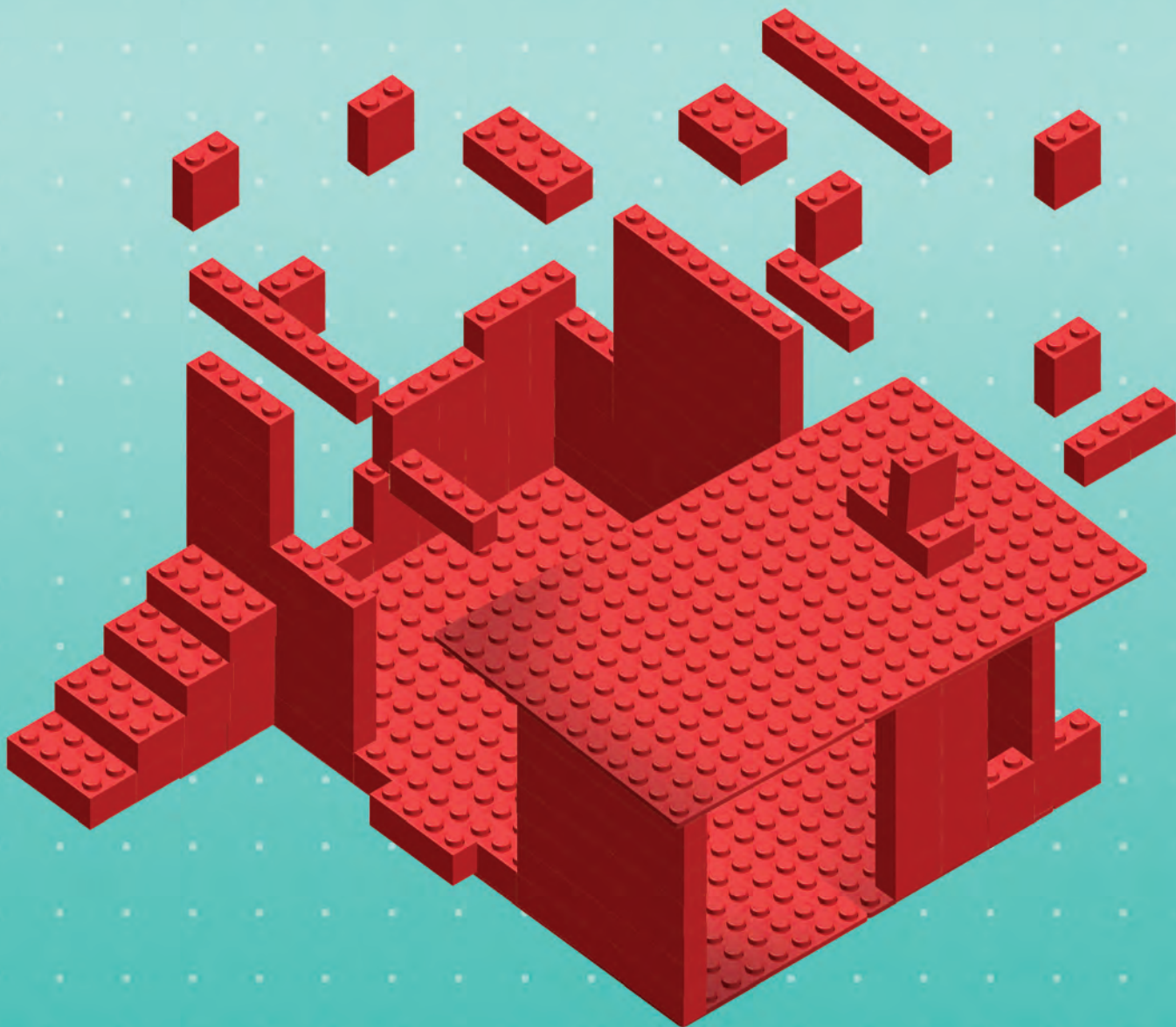
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## Building on solid foundations

*Creating a resilient in-house trademark strategy*

# The ASEAN Economic Community: good news for trademark owners?

**Trademark owners would be well advised to prepare now for 2015's ASEAN Economic Community. While the development creates a number of opportunities for brand owners, there is also a need to ensure that IP protection is in place prior to harmonisation**

Since the founding of the Association of Southeast Asian Nations (ASEAN) on August 8 1967 with the signing of the Bangkok Declaration, ASEAN has rapidly developed into a robust regional alliance, which has led to a formal plan to implement an economic community among its member countries.

ASEAN has expanded from its original five founding member countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) to a current total of 10 members, after Brunei Darussalam joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. It is expected that in the near future membership may also be extended to Timor Leste, whose recent application to join is under consideration.

The region has a total population of around 600 million, and a gross domestic product of more than \$1.8 trillion (in 2010). To exploit and maximise this capacity, one of ASEAN's primary objectives is regional economic integration, and it aims to create the ASEAN Economic Community (AEC) by 2015.

The AEC envisages a region with free movement of goods, services, labour and capital to form a single market and production base. While it shares many aspects of the EU integration model, there are significant differences – not least the fact that there are no plans for a single currency or a Community trademark scheme.

The AEC has also encouraged free trade agreements between ASEAN and other jurisdictions (including the major economies of China and India), and is focused on fully integrating the region into the global economy, through adopting international best practices and standards and improving infrastructure. Thus, the successful implementation of the AEC will further enhance the region's economic lustre and will present significant trade and investment opportunities.

With the coming changes in the ASEAN region, various IP concerns – including trademarks – will need to be addressed to encourage businesses to enter the ASEAN market.

Undoubtedly, the development and effectiveness of the AEC will determine the future outlook for ASEAN. This makes the AEC a work in progress that is worth watching, particularly for brand owners which are

seeking either to enter the ASEAN market or to expand their existing business in the region.

## **ASEAN's development of the AEC**

To prepare for AEC harmonisation by 2015, ASEAN has been implementing procedures in phases to reflect the different stages of development of the member countries. These procedures have created a foundation for the full implementation of the free movement of goods, services, labour and capital under the AEC.

One example of this is the ASEAN Free Trade Area (AFTA) agreement, which was established in 1992 as a comprehensive programme for the facilitation of intra-community trade. The main purpose of the AFTA is similar in effect to Article 34 of the EU Treaty: it seeks to eliminate measures that form barriers to trade, such as tariffs. The AFTA involves a comprehensive programme of tariff reductions in the region, which are implemented through the Common Effective Preferential Tariff scheme. This scheme – which was fully implemented by the ASEAN-6 in January 2010, and is set to be implemented by Cambodia, Laos, Myanmar and Vietnam by January 2015 – prevents members from imposing a tariff of more than 5% on intra-ASEAN imports.

However, the elimination of non-tariff barriers (eg, rules of origin and technical requirements) is proving more of a challenge for member states. At present, the major problem between ASEAN members is a failure to recognise the quality of another state's products, or the validity of its certification or production standards. Mutual recognition is a founding principle of free trade, expediting registration approval processes and enabling market access. So far, ASEAN has made some progress in this area:

- The ASEAN 'single window' is being introduced so that only a single submission of data to Customs is required to gain clearance throughout ASEAN; and
- ASEAN has achieved harmonised technical requirements under the Hanoi Plan of Action in a handful of sectors, including telecommunications equipment, cosmetics and electronic equipment, while discussions are ongoing for pharmaceutical products.

However, synthesis is needed across all sectors (eg, food, agri-business and medical devices) for non-tariff barriers to be eliminated.

In addition, ASEAN has recently entered into dialogue with other jurisdictions to create numerous bilateral and multilateral free trade agreements. Accordingly, partnerships now exist between ASEAN and countries including the United States, China, India, Australia and New



Zealand. These alliances form some of the largest regional agreements in the world, in terms of both economic value and population. For instance, the China-ASEAN FTA (CAFTA) is the third-largest economically, behind the European Union and the North American FTA, while CAFTA and the ASEAN-India FTA are the top two trade areas with regard to population, with each agreement affecting around 2 billion people.

It is reasonable to expect that the forthcoming AEC harmonisation and the effects of the free trade agreements will generate an influx of foreign investment into the ASEAN region. The free movement of goods, services, labour and capital within the region will likely bring tremendous benefits, as well as many challenges for the member states and business operations therein. Even though several implementing procedures are already in place to facilitate the establishment of the AEC by 2015, the member states will need to continue deliberating on the harmonisation plan and consider adopting rules and regulations that are consistent with international best practices, improving transparency and developing an effective regional system for the protection of IP rights.

In particular, from the standpoint of trademarks, companies will need effective brand protection and management for their products and services to safeguard their presence in the region and maximise their commercial potential. The AEC is addressing this issue and has developed a strategy to improve the current state of trademark protection in the region.

#### Existing trademark legislation

There is a huge regional disparity among member states with regard

to trademarks. For example, Myanmar has no trademark act; instead, it has a procedure for the registration of a 'declaration of ownership', which involves a complex authorisation and endorsement procedure before registration can be completed. Once a mark is registered in Myanmar, protection is granted for only three years and, as there is no central database, cautionary notices published in newspapers are the sole tool for spreading awareness of brand ownership.

In contrast, Thailand has a national trademark database and a conclusive Trademark Act that clearly defines the scope of what is registrable, the period of protection (10 years and renewable), the penalties and remedies for infringement, the fees payable and the composition of the trademark board.

Furthermore, Thailand recently conceded that three-dimensional (3D) marks can be registered (if they meet the criteria specified by the Trademark Act). By doing so, Thailand has demonstrated its adoption of the latest developments in international trademark registration consensus, in line with decisions to allow non-conventional marks in developed markets (eg, Japan, South Korea, Taiwan, the United States and the European Union).

However, Thailand's stance differs from that of several other ASEAN member states, such as Laos, Cambodia and Malaysia, which make no provision for the registration of non-conventional marks, although Malaysia is in the process of repealing its Trademark Act (1976) in favour of a new act recognising trademarks including sound, smells and 3D shapes.



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Diversity also exists in regard to enforcement. Traditionally, ASEAN has a unique culture of non-intervention, and thus lacks many enforcement mechanisms. In Vietnam, despite recent amendments to IP law that have imposed stricter administrative penalties for infringements, the courts still deal with a very small number of infringement disputes each year. One reason for this is because there is little opportunity to recoup adequate damages and scepticism about the independence of the judiciary is still rife. Moreover, until recently, cease and desist letters were required to be sent to infringers before commencing legal action, thus providing infringers with an opportunity to destroy evidence.

In contrast, some ASEAN members (eg, Singapore and Thailand) have broken the mould and developed effective enforcement procedures that are regularly utilised. In these jurisdictions, there are closer links between the judiciary, IP enforcement firms, and authorities such as the police, while the court process is streamlined and widely trusted. Furthermore, Thai and Singaporean legislation contains strong penalties, and the countries have motivated and trained customs workforces, both of which act as deterrents for brand infringers.

#### Plans for future harmonisation

The AEC has recognised that an effective IP policy can have a dramatic impact on both the volume and quality of external investment. The IP Rights Action Plan (IPRAP) provides the framework for the establishment of effective policies in this area.

The initial phase of the IPRAP, from 2004 to 2010, was formulated to:

- promote inter-ASEAN IP cooperation;
- increase the speed and extent of registrations;
- promote the commercialisation and protection of IP assets; and
- improve regional policy.

Phase two of the project, the IPRAP 2011-2015, builds on the initial phase and sets out a regional IP strategy that is flexible enough to accommodate developmental disparity in the region, but firm enough to meet the AEC's goals of transforming ASEAN into an innovative and competitive region through the use of intellectual property. The IPRAP 2011-2015 promotes a unique ASEAN IP system and contains five strategic goals in relation to the development of an effective trademark system:

- Registration and enforcement – the IPRAP aims to reduce the turnaround time for the registration of marks without opposition to six months by 2015 and implement a regional action plan on trademark enforcement. This plan entails making enforcement statistics publicly available, clamping down on movements of counterfeit products, encouraging private sector cooperation in anti-piracy and forging closer ties between the governments, judiciary and regulators in each member state.
- Accession to the Madrid Protocol – a major priority is for all ASEAN members to have acceded to the Madrid Protocol by 2015. This involves clearing the backlog and putting cooperative infrastructure in place to aid the accession of less-developed countries, such as Laos. Of the ASEAN countries, currently only Singapore and Vietnam are members of the Madrid Protocol, with Thailand due to join during 2012. Accession should also require Myanmar to enact a viable trademark act.
- Enhanced awareness – IP awareness is fairly poor in the ASEAN region, particularly in Cambodia, Laos, Myanmar and Vietnam. The IPRAP promotes the hosting of IP forums which are focused on trademark registration and the development of an ASEAN IP portal so that member states can upload trademark procedures and information.

- International organisation participation – ASEAN's free trade agreements with other countries will continue to open up the ASEAN markets to more brands and products, and therefore close dialogue is needed to maintain these relationships. Also, the objectives of the IPRAP include the regional development of structured cooperation with the World Intellectual Property Organisation.
- Capacity building – human capacity will also be promoted through training programmes for trademark examiners and practitioners. Institutional capacity will be developed through the modernisation of IP infrastructure, such as by cleaning up databases, digitalising documents and implementing common search systems for trademarks. In this respect, Singapore has already made progress for a common search system by setting up a website that performs a search function of the trademark databases of the ASEAN-5 and Vietnam.

#### No plan for ASEAN-wide trademark

However, it appears that ASEAN's IP goals do not extend to a European-style Community trademark. The Community trademark has largely been a success, working in tandem with national registrations to provide companies with simple, inexpensive and efficient protection of their marks, both within the European Union and (by virtue of the European Union being a member of the Madrid Protocol) internationally.

Why then has ASEAN decided against a similar regional mark? The simple answer is that many member states are not yet sufficiently advanced. For example, if Myanmar cannot implement a competent national system for trademark protection, it is inconceivable that it could ascend to a regional mark system, especially if that system were required to work in tandem with national offices.

ASEAN may also have been dissuaded by problems with the Community trademark – primarily that Community trademark registrations can be defeated by the national registration of a mark anywhere in the European Union. Some businesses in Europe are taking advantage of this principle by using member states with more lax trademark registration rules and more limited databases to secure national registration of their brands. This has led to criticism of the Community trademark, such as the 'genuine use' argument, which questions whether the reputation of a mark in one member state should be sufficient to justify the ability of the brand owner to obtain, or prevent another party from obtaining, exclusive rights under the Community trademark. For instance, tension could arise if a national mark which was registered in a small member state such as Brunei entitled an owner to ASEAN-wide protection or to defeat, on the grounds of similarity, an application by another company for an ASEAN-wide mark.

Furthermore, there may not be demand for an ASEAN-wide trademark at present. ASEAN has only 10 member states (compared to the 27 EU member states), making a single registration less of a necessity. Also, the number of businesses seeking protection for their brands in the region has not yet reached a level which would justify the effort and expense of establishing a centralised trademark system.

These factors suggest that perhaps ASEAN's decision to hold off on an ASEAN-wide mark until the effects of the AEC can be better determined is wise. Given that ASEAN members have a history of putting national agendas ahead of regional coordination, the implementation of the AEC is enough of a challenge right now, and ASEAN may be wise to take things one step at a time.

Nonetheless, if the AEC proves successful in generating investment, facilitating trade and smoothing disparities between members through

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the promotion of national development, it is conceivable that ASEAN may revisit this topic at some stage after 2015.

### Trademark implications of AEC harmonisation

#### Benefits of AEC harmonisation

The AEC will facilitate access to the whole ASEAN region, resulting in larger markets for companies to exploit. The ASEAN single window and the harmonisation measures that have already been adopted, such as the Cosmetics Directive, have accelerated the process of moving products onto the market and have led to the implementation of a set of minimum standards across their respective sectors.

Tariff elimination and foreign free trade agreements have further incentivised trade with ASEAN members, both internally and externally. With established Western markets facing a host of economic problems in the wake of the latest recession, businesses are already looking east to boost growth. ASEAN, especially with the progress made in the development of the AEC, can increasingly be a driver to ignite global economic growth and help to release untapped economic value.

Progress in the IP field is also encouraging for businesses. IP awareness is being raised and is starting to be taken seriously in the region; it will gain more recognition with the continuance of capacity-building exercises.

If the IPRAP proceeds as planned, trademark owners will soon enjoy the benefits of regional accession to the Madrid Protocol and will reap the rewards of greater enforcement procedures for the protection of their marks in this region.

The extension of Singapore's database search facility to include the remaining ASEAN nations will further provide a clear and easy method to navigate and complete the records for both pending and registered marks, further helping to reduce ownership disputes and providing companies with a reassuring record of the status of their trademark protection. It will also provide evidential assistance for coordinated multi-disciplinary (eg, police, law firms and Customs) enforcement measures across the region, which will help to prevent brand dilution and maintain profits and market share.

#### Potential detriments of AEC harmonisation

As a result of the economic disparities within ASEAN, one major problem associated with forming an integrated free trade area is the threat of parallel imports. There is currently little regulation on parallel imports in the region and the single market envisioned by the AEC will most likely adopt the EU approach with regard to the exhaustion of trademark rights. In other words, a trademark will be viewed as a barrier to entry, and as such, the national rights of trademarked products and services will not entitle the trademark owner to oppose the (re)import of its products into another ASEAN country once its trademarked goods have been put on the market with consent.

The European Union has largely mitigated this problem by using a single currency to provide cost stability. However, as yet there are no plans for an AEC single currency or pricing harmony. Therefore, companies must be aware that products which are sold cheaply in a weak economy (eg, Laos or Myanmar) could subsequently be used to

undercut the price charged for the same product in a stronger economy, such as Singapore, thus damaging a business's revenue forecasts.

ASEAN, sandwiched as it is between the manufacturing powerhouses of China and India, already has a reputation for infringement. Thus, there is a risk that enhanced efficiency procedures, such as the ASEAN single window and mutual recognition arrangements, will only exacerbate the problem as a result of fewer customs checks and greater exposure.

The international free trade agreements may also increase the risk of the spread of counterfeit goods, given ASEAN's thriving export market, which is fuelled by cheap manufacturing costs, labour and raw materials.

Counterfeits damage trademark owners' sales and profits. Moreover, defective or low-quality counterfeits can also adversely impact on the reputation and goodwill of a company (if consumers are unaware). Although ASEAN is pledging greater enforcement for IP rights, where demand for counterfeits continues to exist there will always be supply, and thus the streamlining of ASEAN's customs systems could be detrimental in this respect.

#### Advice for trademark owners doing business in the AEC

ASEAN's potential is clear and businesses looking to capitalise on the favourable commercial environment created by the AEC should act promptly to establish a presence in the region.

However, caution must be exercised and a strategic trademark protection and enforcement plan must be put in place in view of AEC harmonisation. The safest options for trademark owners are currently regional hubs such as Singapore and Thailand, from which ASEAN-wide business can be conducted.

If they have not done so already, brand owners should begin registration of their marks across the region. In order to protect against trademark infringement and unauthorised trade activities following the implementation of the AEC, trademark owners should also try to achieve regulatory compliance and watertight business contracts and distribution or franchising agreements, in order to minimise the scope for trademark infringement and unauthorised trade activities.

Undertaking such precautions will improve the success rate of any future enforcement actions. Furthermore, dialogue should also be commenced with Customs to address particular product concerns, before customs officials are overwhelmed after the AEC is fully implemented.

By successfully undertaking these precautionary measures, businesses will be well positioned to take full advantage of the ASEAN single market in 2015 and to maximise the regional status and protection of their brands. WTR

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