



**Stanford – Vienna  
Transatlantic Technology Law Forum**

*A joint initiative of  
Stanford Law School and the University of Vienna School of Law*



# **TTLF Working Papers**

**No. 25**

**Trademark Exhaustion and Free Movement  
of Goods: A Comparative Analysis of the  
EU/EEA, NAFTA and ASEAN**

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**2016**

# TTLF Working Papers

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## **Suggested Citation**

This TTLF Working Paper should be cited as:  
Irene Calboli, Trademark Exhaustion and Free Movement of Goods: A Comparative Analysis of the EU/EEA, NAFTA and ASEAN, Stanford-Vienna TTLF Working Paper No. 25, <http://tlf.stanford.edu>.

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## **Abstract**

This paper addresses the relationship between the principle of trademark exhaustion and the free movement of goods in the free trade areas by analyzing the different approaches that members choose regarding the national policies on trademark exhaustion and the direct impact on the free movement of goods within the free trade area. In particular, this paper examines the existing approaches to trademark exhaustion and parallel imports in the European Union (EU), the North American Free Trade Area (NAFTA), and the Association of Southeast Asian Nations (ASEAN), respectively. In the EU, as the free movement of goods and the internal single market have historically been recognized as a priority, the EU law explicitly imposes a consistent approach on exhaustion to all EU Members. Opposite to the EU, NAFTA Members never intended to create an internal market, thus, each NAFTA Member follows its own system of choice on trademark exhaustion. However, since all NAFTA Members have adopted the principle of international trademark exhaustion, the de facto free movement of trademarked goods exists. Meanwhile, ASEAN Members generally follow the principles of consensus and non-interference which has been commonly characterized as the “ASEAN way”. The same is true with respect to national exhaustion policies in ASEAN. To date, ASEAN Members follow different approaches on trademark exhaustion, which ultimately jeopardizes the possibility of free movement of trademark goods within ASEAN. After comparing the different experiences of the EU, NAFTA, and ASEAN, it is indicated that the different positions on trademark exhaustion largely depend on specific regional economic, political, and social conditions in the free trade areas. Still, a consistent position of trademark exhaustion—international or at least regional exhaustion— constitutes a crucial component to serve the very purpose of free trade areas to promote free trade, and to eliminate restrictions to legitimate trade.

## TABLE OF CONTENTS

I. Introduction .....	1
II. One Rule for All: Trademark Exhaustion in the European Union/European Economic Area.....	3
III. The Laissez Faire Approach (Then and Now): Trademark Exhaustion in NAFTA .....	10
IV. The Laissez Faire Approach (for Now): Trademark Exhaustion in ASEAN.....	17
V. Comparing the EU/EEA, NAFTA, and ASEAN: What Is the Successful Recipe to Promote Free Movement of Good in Free Trade Areas? Should There Be One?.....	26
VI. Conclusion.....	35

### I. Introduction

In this paper, I address the relationship between the principle of trademark exhaustion and the free movement of goods in free trade areas. In particular, I analyze the existing approaches to trademark exhaustion and parallel imports in the following free trade areas: the European Union (EU, or rather the European Economic Areas, EEA), the North American Free Trade Area

(NAFTA), and the Association of Southeast Asian Nations (ASEAN). The results of this analysis highlight the different approaches that members of a free trade area choose regarding national policies on trademark exhaustion—i.e., national, international, or regional trademark exhaustion as I explain below—and how these policies directly impact the free movement of goods within the free trade area. In particular, it is only when all members of a free trade area consistently adopt a principle of international or regional trademark exhaustion that goods can freely move amongst these countries. Still, as the case of the EU/EEA demonstrates, I note that the approach to trademark exhaustion in free trade areas may evolve within time, particularly when the members seek to achieve a higher level of economic integration, including an effective free movement of goods within the free trade area.

In particular, in Part II, I elaborate on the principle of trademark exhaustion in the EU/EEA. In this Part, I note that market integration has historically been a priority in the EU, thus EU law explicitly imposes a consistent approach on exhaustion to all EU/EEA Members in order to promote free movement of goods and the internal market. In Part III, I analyze the rules on trademark exhaustion in NAFTA. In this Part, I note that, opposite to the EU/EEA, NAFTA Members never intended to create a NAFTA internal market, thus, each NAFTA Member follows its own system of choice on trademark exhaustion. Still, all NAFTA Members have adopted the principle of international trademark exhaustion, which in turn permit the free movement of trademarked goods within NAFTA and in general from any other country. Last, in Part IV, I elaborate on the approach(es) adopted in ASEAN. In this Part, I stress that ASEAN

Members adopt a principle of non-interference with respect to national exhaustion policies (ASEAN Members generally follow the principles of consensus and non-interference, referred to as the “ASEAN way”). To date, however, ASEAN Members follow different approaches on trademark exhaustion. Differently than the EU/EEA and NAFTA, this approach ultimately jeopardizes the possibility of free movement of trademark goods within ASEAN.

In Part V, I conclude the paper and compare the experiences of the EU/EEA, NAFTA, and ASEAN. In particular, I note that members of free trade areas may adopt different positions on trademark exhaustion due to specific regional economic, political, and social conditions. Still, in my conclusion, I argue that the very purpose of free trade areas remains to promote free trade, and to eliminate restrictions to legitimate trade. Accordingly, adopting a consistent position of trademark exhaustion—international or at least regional exhaustion—remains a crucial component in order to reach the purpose for which free trade areas are (at least theoretically) built.

## **II. One Rule for All: Trademark Exhaustion in the European Union/European Economic Area**

Since the signing of the Treaty establishing the European Economic Community (EEC or Community) in 1957, the primary objective of the members of the EEC (now the EU) was the creation of an integrated European market where goods, services, people, and capital could move

without restrictions.<sup>1</sup> Since then, the European Parliament, the European Commission (EC), and Court of Justice of the European Union (CJEU)—or the European Court of Justice (ECJ) as it was then known—have carefully balanced the protection of intellectual property rights among Member States with the primary objective of promoting the free movement of goods in the European market.<sup>2</sup> As I have illustrated in my previous scholarship, this has resulted in the development of a system of region-wide exhaustion where intellectual property rights, including trademark rights, are exhausted with respect to the territory of the EU after the first sale of a product, or a batch of products, in the EU; thereafter, those products can freely circulate within the European market.<sup>3</sup> Still, the harmonization of national laws on trademark exhaustion has been a lengthy process. Before the adoption of and entry into force of the First Council Directive 89/104/EEC, now replaced by Directive 2008/95 (Trademark Directive),<sup>4</sup> EU Member States followed different approaches—international and national exhaustion. And even though the ECJ

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<sup>1</sup> Consolidated Version of the Treaty on the Functioning of the European Union, Mar. 30, 2010, 2010 O.J. (C 83) [hereinafter TFEU] as amended following the entering into force of the Treaty of Lisbon on December 1, 2009. Treaty of Lisbon, Dec. 13, 2007, 2007 O.J. (C 306). A complete list of the various amendments to the original Treaty establishing the European Economic Community (now the European Union) is available at EUR-Lex, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12006E/TXT> (last visited Oct. 13, 2015).

<sup>2</sup> On the historical tension between the protection of intellectual property and the free movement of goods in the EU, see Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 I.I.C. 131 (1990) [hereinafter Beier, *Industrial Property*]; Friedrich-Karl Beier, *The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits*, 10 I.I.C. 20 (1979); Herman Cohen Jehoram, *Harmonising Intellectual Property Law Within the European Community*, 23 I.I.C. 622 (1992).

<sup>3</sup> For a detailed analysis see Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTELL. PROP. L. REV. 47, 53–59 (2002) [hereinafter Calboli, *Trademark Exhaustion in the EU*]; Irene Calboli, *Reviewing the (Shrinking) Principle of Trademark Exhaustion in the European Union (Ten Years Later)*, 16 MARQ. INTELL. PROP. L. REV. 257 (2012) [hereinafter Calboli, *Reviewing Trademark Exhaustion*]. The creation of the European internal market imposed the acceptance of the principle of Community-wide exhaustion with respect to patents and copyrights.

<sup>4</sup> Council Directive 89/104, 1989 O.J. (L 40) 1 (EEC), now replaced by European Parliament and Council Directive 2008/95, 2008 O.J. (L 299) 25 (EC) [hereinafter Trademark Directive].



promoted free movement of goods and the facts overruled national laws providing for national exhaustion, the EU/EEA rule on exhaustion did not reach full harmonization until over three decades after the creation of the EEC.

Originally, the ECJ turned to the competition law provisions of the Treaty on the Functioning of the European Union (TFEU)—then the Treaty Establishing the European Economic Community (EEC Treaty)—to declare “incompatible with the common market” attempts to block the free movement of goods across Member States.<sup>5</sup> Starting in the 1970s, the ECJ relied on the principle of free movement of goods in Articles 34 and 36 of the EEC Treaty to permit the free movement of goods within the EU and to resolve the interpretative tension between the exercise of intellectual property rights (which remained territorially anchored to national trademark laws) and the need to integrate the European market. Article 34 of the EEC Treaty, today Article 34 of the TFEU, prohibits quantitative restrictions on importation between Member States and other measures having an “equivalent effect,”<sup>6</sup> whereas Article 36 states that domestic laws should not provide a means of “arbitrary discrimination or a disguised restriction of trade between Member States.”<sup>7</sup> In a series of leading cases, the ECJ clarified that the primary purpose of trademark protection was to indicate the products’ commercial origin; thus, no reason subsisted to prevent the free circulation across Member States of genuine goods identified by marks controlled by the

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<sup>5</sup> Articles 101 and 102 are the antitrust provisions of the TFEU. *See* TFEU, *supra* note 1, at arts. 101–102. The Court of Justice of the European Union (CJEU), then still the European Court of Justice (ECJ), applied these provisions in Joined Cases 56 & 58/64, *Costen & Grunding v. EC Comm’n*, 1966 E.C.R. 299; Case 24/67, *Parke Davis v. Centrafarm*, 1968 E.C.R. 55; Case 40/70, *Sirena v. Eda*, 1971 E.C.R. 69.

<sup>6</sup> Article 34 of the TFEU states that “[q]uantitative restriction on imports and all measures having equivalent effect shall be prohibited between Member States.” TFEU, *supra* note 1, at art. 34.

<sup>7</sup> *Id.* at art. 36. Article 36 states that European Union (EU) members can prohibit or restrict “imports, exports or goods in transit” based upon “public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property.” *Id.* These prohibitions “shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.” *Id.*

same companies in each Member State.<sup>8</sup> Only when the marks did not share a common origin would it be possible to block the parallel imports of products carrying a similar or identical mark to prevent consumer confusion in the importing Member States.<sup>9</sup>

Still, the ECJ conceded that the imports of products that have been altered without the trademark owners' consent could be prohibited.<sup>10</sup> However, this prohibition related to cases where products had been materially altered by the importers—for example, repackaged or relabeled—and not to cases where the products were genuine (originally manufactured), and the quality was materially different only because of production choices or market differentiation strategies directly originating with trademark owners.<sup>11</sup> Moreover, the ECJ developed the principle of “mutual recognition” to prevent product discrimination and disguised restrictions to trade. Notably, Member States could not “prohibit the sale in [their] territory of a product lawfully produced and marketed in another Member . . . even if the product is produced according to technical or quality

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<sup>8</sup> In Case 78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarket GmbH*, 1971 E.C.R. 487, the ECJ distinguished between the “existence” and the “exercise” of intellectual property rights and stated that the “exercise” should be consistent with the TFEU and protect only the “specific subject matter” of the right. The ECJ clarified the interpretation of “specific subject matter” in Case 16/74, *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. 1183, 1194 and confirmed its view in Case 3/78, *Centrafarm BV v. Am. Home Prods. Corp.*, 1978 E.C.R. 183 and Case 1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, 1981 E.C.R. 2913.

<sup>9</sup> On the principle of “common origin,” compare Case 192/73, *Van Zuylen Freres v. Hag AG*, 1974 E.C.R. 731 (controversially stating that common origin included the case of companies “sharing the same origin” even if the marks were not owned by the same entities), with Case 119/75, *Terrapin Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, 1976 E.C.R. 1039 (stating that the “common origin” doctrine was applied to a special case in *Hag I*), Case C-10/89, *CNL-Sucal v. Hag AG*, 1990 E.C.R. I-3711 (reversing the ECJ’s position in *Hag I*), and Case C-9/93, *IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH* 1994 E.C.R. I-2782 (holding that the principle of “common origin” does not apply when marks have been voluntarily assigned).

<sup>10</sup> See Case 102/77, *Hoffmann-La Roche & Co. v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 1978 E.C.R. 1139, 1164–65.

requirements which differ from those imposed on its domestic products.”<sup>12</sup> Differences in product ingredients, presentation, or even technical standards would thus not qualify as a legitimate reason to prevent parallel imports within the European market except in very limited and specific circumstances.<sup>13</sup> European legislators also harmonized an increasing number of technical standards. In 1985, the European Council adopted the *New Approach to Technical Harmonization and Standards*,<sup>14</sup> according to which EU legislators were responsible for indicating products’ “essential requirements” whereas independent European Standards Organizations would develop the actual technical standards complying with these requirements.<sup>15</sup>

The principle of Community-wide exhaustion of trademark rights was ultimately codified in the First Council Directive 89/104/EEC, now replaced by Directive 2008/95 (Trademark Directive),<sup>16</sup> and repeated verbatim in the Council Regulation EC/40/94, now replaced by

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<sup>11</sup> See Ansgar Only, *Trade Marks and Parallel Importation—Recent Developments in European Law*, 30 I.I.C. 521, 516 (1999) (surveying the cases where genuine products have been repackaged, rebranded, and relabeled).

<sup>12</sup> Commission Communication No. C 256/2, Communication from the Commission concerning the consequences of the judgment given by the Court of Justice on 20 February 1979 in Case 120/78 (‘Cassis de Dijon’), 1980 O.J. (C 256) 2, 2–3 (EC). The ECJ developed the principle of “mutual recognition” in Case 120/78, *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein*, 1979 E.C.R. 649 (*Cassis de Dijon*). In *Cassis de Dijon*, the ECJ stated that there was no valid reason why “provided that [the goods] have been lawfully produced and marketed in one of the Member States, [they] should not be introduced into any other Member State.” *Id.* at para. 14.

<sup>13</sup> In *Cassis de Dijon*, the ECJ limited those instances to the measures “being necessary to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transactions and the defense of the consumer.” *Rewe-Zentral*, 1979 E.C.R. 649.

<sup>14</sup> Council Resolution of 7 May 1985 on a new approach to technical harmonization and standards, 1985 O.J. (C 136) 1 (EC).

<sup>15</sup> On the process of harmonization of technical standards and *The New Approach to Technical Harmonization and Standards*, see EUROPEAN COMMISSION, ENTERPRISE DIRECTORATE GENERAL, VADEMECUM ON EUROPEAN STANDARDISATION (2004), available at <http://ec.europa.eu/DocsRoom/documents/10449/attachments/8/translations/en/renditions/pdf>.

<sup>16</sup> Trademark Directive, *supra* note 4.

Council Regulation 207/2009 (Community Trademark Regulation).<sup>17</sup> The adoption of the Agreement for the European Economic Area of May 2, 1992, extended this principle to the European Free Trade Agreement (EFTA) countries joining the EEA (Norway, Iceland, and Liechtenstein).<sup>18</sup> Notably, Article 7(1) of the Trademark Directive states that trademark rights “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 trade mark by the proprietor or with his consent.”<sup>19</sup> Because Article 7(1) does not explicitly say that Community-wide exhaustion is the *only* principle applicable within the EU (and now within the EEA),<sup>20</sup> several Member States favoring international exhaustion argued that this principle was simply a minimum standard.<sup>21</sup> Against this position, however, the ECJ clarified that EEA-wide exhaustion is the *only* applicable criterion within the European market and that national rules providing different exhaustion regimes needed to be amended.<sup>22</sup> Accordingly, even though Member States adopted a broader

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<sup>17</sup> Council Regulation 40/94, Dec. 20, 1993 on the Community Trade Mark, 1994 O.J. (L 011) 1 (EC), now replaced by Council Regulation 207/2009, 2009 O.J. (L 78) 1 (EC).

<sup>18</sup> Protocol to the Agreement on the European Economic Area, Jan. 3, 1994, 1994 O.J. (L 1) Annex XVII, art. 2(1) extended the effect of Article 7 of the Trademark Directive to the EEA from January 1, 1994.

<sup>19</sup> Trademark Directive, *supra* note 4, at art. 7(1).

<sup>20</sup> See, e.g., Nicholas Shea, *Does the First Trade Marks Directive Allow International Exhaustion of Rights?*, 10 E.I.P.R. 463, 463 (1995).

<sup>21</sup> For a detailed reconstruction of the debates on this issue following the adoption of the Trademark Directive, see Calboli, *Trademark Exhaustion in the EU*, *supra* note 3, at 60–66.

<sup>22</sup> See Case C-335/96, *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, 30 I.I.C. 920 (1998). In *Silhouette*, the ECJ explicitly stated that “[n]ational rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1).” *Id.* at para 31. See C-173/98, *Sebago Inc. & Ancienne Maison Dubois et Fils AS v. GB-Unic SA*, (1999) C.M.L.R. 1317; see also Joined Cases C-414-416/99, *Zino Davidoff SA v. A & G Imports Ltd, Levi Strauss & Co. v. Tesco Stores Ltd., & Levi Strauss & Co. v. Costco Wholesale UK Ltd.*, 2001 E.C.R. I-8691; see also C-324/08, *Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV, Remo Zaandam BV v. Diesel SpA*, 2009 E.C.R. I-10019. *But see* Case C-306/96, *Javico Int’l & Javico AG v. Yves Saint Laurent Parfums SA*, 1998 E.C.R. I-1983 (where the ECJ adopted a different position based upon the antitrust provisions of the TFEU); *but see* Mag

regime (i.e., international exhaustion) before the adoption of the Trademark Directive, Community-wide exhaustion successively became the general rule for all EU Members States.<sup>23</sup>

Finally, Article 7(2) of the Trademark Directive states that trademark rights are not exhausted where “there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”<sup>24</sup> In the years following the adoption of the Trademark Directive, the ECJ, later renamed CJEU, clarified that Article 7(2) does not apply to the imports of genuine goods of materially different quality when these differences are the result of marketing strategies and the importers have not modified the products.<sup>25</sup> However, the unauthorized repackaging and relabeling of genuine products may constitute “legitimate reasons” against parallel trade within the EEA when this may lead to consumer confusion or provoke unfair detriment to the reputation of a mark.<sup>26</sup> The CJEU additionally held that a licensee’s breach of a contract clause prohibiting selling the products in discount stores may be a “legitimate reason” if sales in discount stores could affect the image and reputation of the marks.<sup>27</sup> Despite these exceptions, the CJEU and the EU legislators continue to be fully committed to protect the free movement of goods, which

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Instrument Inc. v. California Trading Co., 29 I.I.C. 316 (EFTA 1998) (where the EFTA court stressed that courts or legislators in EFTA States should decide on the admissibility of products imported from outside the EEA).

<sup>23</sup> See Calboli, *Trademark Exhaustion in the EU*, *supra* note 3, at 60–66.

<sup>24</sup> Trademark Directive, *supra* note 4, at art. 7(2).

<sup>25</sup> In Case C-349/95, *Loendersloot v. Ballantine & Son Ltd.*, 1997 E.C.R. I-6227, the ECJ also said that importers could remove labels when these labels had been placed by trademark owners simply to control distribution and prevent parallel imports. In Case C-337/95, *Parfums Christian Dior SA v. Evora BV*, 1997 E.C.R. I-6013, 1997 E.C.R. I-6013, the ECJ went even further and applied trademark exhaustion to the use of trademarks in advertising. More recently, however, in Case C-59/08, *Copad SA v. Christian Dior Couture SA & Others*, 2009 E.C.R. I-3421, the now CJEU stated that a trademark owner may oppose the unauthorized sale of luxury goods to discount stores by a licensee if the sale could damage the reputation of the mark.

<sup>26</sup> Calboli, *Reviewing Trademark Exhaustion*, *supra* note 3, at 261–62.

<sup>27</sup> See *Copad*, 2009 E.C.R. I-3421; Case C-558/08, *Portakabin Ltd., Portakabin BV v. Primakabin BV*, 2010 E.C.R. I-0000; Case C-127/09, *Coty Prestige Lancaster Group GmbH v. Simex Trading AG*, 2010 E.C.R. I-0000.

include the application of EU/EEA-wide trademark exhaustion. Likewise, Member States continue to be subject to the principle of mutual recognition.<sup>28</sup> Last, but not least, the commitment to free movement of goods is reflected in the fact that a *New Legislative Framework* has replaced the *New Approach to Technical Harmonization*.<sup>29</sup> This requires that EU/EEA members take on an even larger role in increasing compliance with European standards to promote product uniformity within the EU, and thus intra-EU/EEA trade.

### **III. The *Laissez Faire* Approach (Then and Now): Trademark Exhaustion in NAFTA**

The adoption of NAFTA in 1994 marked the creation of a free trade area covering Canada, the United States (U.S.), and Mexico,<sup>30</sup> the purpose of which was, in theory, to eliminate all barriers to trade and facilitate free movement of goods across NAFTA Members.<sup>31</sup> In practice, NAFTA Members had different objectives in mind—the U.S. and Canada looked at Mexico primarily as a lower-costs country for manufacturing their products (to be later reimported at a lower tariff rate), while Mexico joined the agreement particularly because of the foreign direct investment

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<sup>28</sup> See Council Resolution of 28 October 1999 on mutual recognition, 2000 O.J. (C 141) 2 (incorporated into the Agreement on the European Economic Areas, 1994 O.J. (L 001) 3 [hereinafter EEA Agreement]); see Decision of the EEA Joint Committee No. 15/2002 of 1 March 2002 amending Annex II (technical regulations, standards, testing, and certifications) to the EEA Agreement, 2002 O.J. (L 110) 9.

<sup>29</sup> European Parliament and Council Regulation (EC) No. 765/2008 of 9 July 2008, 2008 O.J. (L 218) 30.

<sup>30</sup> North American Free Trade Agreement, U.S.-Can.-Mex., art. 1701(1), Dec. 17, 1992, 32 I.L.M. 289 (1993) [hereinafter NAFTA].

(FDI) that it would receive from U.S. and Canadian firms. Adopted two years prior to the implementation of the Agreement on Trade Related Aspects to Intellectual Property Rights (TRIPS), NAFTA was also the first free trade agreement to impose detailed obligations to protect intellectual property rights.<sup>32</sup> Specifically, Article 1701 of NAFTA requires that NAFTA Member countries provide “adequate and effective protection and enforcement of intellectual property rights” in each Party’s territory,<sup>33</sup> even though these measures should not “become barriers to legitimate trade.”<sup>34</sup> According to Article 1704, NAFTA Members can also specify licensing practices or conditions in their domestic law that may have an adverse effect on market competition and they can also adopt measures to prevent and control these practices or conditions subject to the general principles of the agreement.<sup>35</sup>

Despite this commitment to promote free trade and integrate the markets of NAFTA Members, NAFTA does not address the issue of exhaustion of intellectual property rights, including trademark exhaustion.<sup>36</sup> Instead, similar to TRIPS, NAFTA leaves its Members free to adopt their preferred position with respect to the geographical extent of their national rules on

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<sup>31</sup> *Id.*, at art. 102 (“The objectives of this Agreement . . . are to . . . eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties, . . . promote conditions of fair competition in the free trade area . . .”). *Id.*

<sup>32</sup> *Id.*, at ch. 17. NAFTA was negotiated alongside to the negotiations that led to the creation of the World Trade Organization (WTO) and the adoption of the Agreement on Trade-Related Aspects to Intellectual property Rights (TRIPS). Thus, NAFTA provisions are largely modeled after TRIPS. See Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS—RESULT OF THE URUGUAY ROUNDS Vol. 31, 33 I.L.M. 83 (1994); see also Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 AM. U. J. INT’L L. & POL’Y 769, 791 (1997).

<sup>33</sup> NAFTA, *supra* note 30, at art. 1701(1).

<sup>34</sup> *Id.*; see also, e.g., George Y. Gonzalez, *An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement*, 34 HARV. INT’L L.J. 305, 306 (1993) (discussing NAFTA treatment of intellectual property rights).

<sup>35</sup> NAFTA, *supra* note 30, at art. 1704.

<sup>36</sup> See Gonzalez, *supra* note 34, at 308.

trademark first sale and the importation of gray market goods into their territories.<sup>37</sup> In the absence of any guidance or harmonization in this area, NAFTA Members, thus, continue to adopt their pre-NAFTA national policies. Nevertheless, even without an ad hoc harmonization of national rules, the three NAFTA Members adopt consistent national positions with respect to trademark first sale and the importation of genuine, but materially different, goods into their territories. Notably, NAFTA Members individually practice the principle of international trademark exhaustion within their respective territories and allow, although with some variations, the importation of materially different gray market goods from other NAFTA Members as well as from other foreign jurisdictions.

In particular, international exhaustion of trademark rights has been the general rule in Canada since the late 1880s.<sup>38</sup> Canadian law has long established that once products have entered the stream of trade anywhere in the world, their importation into the national territory is permitted and does not constitute trademark infringement when the same or affiliated owners control the marks both inside and outside Canada (common origin marks).<sup>39</sup> Based upon the general principles of trademark protection, Canadian law only prohibits as trademark infringement the importation of products bearing marks identical or similar to marks already in use in the national

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<sup>37</sup> *Id.*; see also Theodore H. Davis Jr., *Territoriality and Exhaustion of Trademark Rights Under the Laws of the North Atlantic Nations*, 89 TRADEMARK REP. 657 (1999) (describing the approach adopted by Canada and the United States with respect to parallel imports).

<sup>38</sup> *Condy v. Taylor*, [1887] 56 L.T.R. 891 (Can.) (stating that no trademark infringement occurs when the goods are genuine goods manufactured by trademark owners).

<sup>39</sup> See *Wilkinson Sword (Can.) Ltd. v. Juda*, [1966] 51 C.P.R. 55 (Can.); *Wella Canada Inc. v. Pearlton Products Ltd.*, [1984] 4 C.P.R. 3d 287 (Can. Ont. H.C.J.); *Coca-Cola Ltd. v. Pardham*, [1999] 85 C.P.R. 3d 489 (Can. F.C.A.).



territory when these marks are not owned or controlled by the same entity and the imported goods could create consumer confusion.<sup>40</sup> Still, Canadian courts have occasionally objected to the importation of imported goods carrying common origin marks when these goods were materially different from the products authorized in the Canadian market and when these differences could harm consumers or the public good<sup>41</sup>—for example, when the goods had been damaged and the distributor had replaced the original labels placed on the goods;<sup>42</sup> or when the formulation of the imported goods was different than the products sold nationally.<sup>43</sup> Canadian courts have also carefully scrutinized the importation of products that required compliance with technical standards and only allowed their sale if importers disclosed to the public any differences with respect to product standards.<sup>44</sup> Generally, however, Canadian courts have been sympathetic toward unauthorized parallel importers. In particular, it seems that courts rarely prohibit the importation of genuine products when the importers use labels to disclaim the fact

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<sup>40</sup> See *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, [1984] 1 C.P.R. 3d 1, 13–14 (Can. S.C.C.). This decision was codified in the Canadian Trade-marks Act of 1985, SC 1952-53, c. 49, *as amended*, RSC 1985, c. T-10 (Can). Section 7(b) provides that “[n]o person shall . . . direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada . . . between his wares, services or business and the wares, services and business of another.” Canadian Trade-marks Act, R.S.C. 1985, c. T-13, § 7(b). Section 19 states that a national registration “gives to the owner of the trade-mark the exclusive right to the use throughout Canada of the trade-mark in respect of those wares or services.” *Id.* at § 19. Section 20 provides that “[t]he right of the owner of a registered trade-mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade-name . . . .” *Id.* at § 20.

<sup>41</sup> *But see* Davis, *supra* note 37, at 730 (“The significance of material differences in goods sought to be imported to the exhaustion of trademark rights has been the subject of inconsistent decisions under Canadian law.”).

<sup>42</sup> *Dupont of Canada Ltd. v. Nomad Trading Co.*, [1968], 55 C.P.R. 97 (Can. Que. S.C.).

<sup>43</sup> See *H.J. Heinz Co. of Canada Ltd. v. Edan Foods Sales Inc.*, [1991], 35 C.P.R. 3d 213 (Can. F.C.T.D.) (finding potential consumer confusion between the formulation of ketchup in Canada and the United States because of the different tomatoes used in the respective products).

<sup>44</sup> *Consumers Distributing*, 1 C.P.R. 3d 1. *But see* *Sharp Electronic of Canada Ltd. v. Continental Electronic Info. Inc.*, [1988] 23 C.P.R. 3d 330 (Can. B.C.S.C.) (enjoining the further importation of facsimile machines because the goods were “inherently different in quality” from those sold by the plaintiff in Canada).

that the products are imported and may be of different quality in order to prevent consumer confusion as to the products' quality.<sup>45</sup>

Similar to Canada, the U.S. follows a system of international exhaustion,<sup>46</sup> and prohibits parallel imports only for products that carry marks identical or similar to marks already in use in the U.S. by third parties.<sup>47</sup> U.S. law explicitly allows parallel imports when “both the foreign and the U.S. trademark are owned by the same person or business entity” or the owners of these marks are “parent and subsidiary companies or otherwise subjected to common ownership and control.”<sup>48</sup> Nevertheless, again similar to Canada, U.S. courts have prohibited the importation of products when they “differ materially” from the goods authorized for sale in the domestic market even if the marks share a common ownership or control inside and outside the U.S. This rule was

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<sup>45</sup> *Consumers Distributing*, 1 C.P.R. 3d at 24–25 (noting that the notice affixed to the products neutralized the significance of any difference in the products' warranties). See also *Nestle Enterprises Ltd. v. Edan Sales Inc.*, [1991] 37 C.P.R. 3d 480 (Can. F.C.A.) (stating that “[t]he evidence does not satisfy . . . that Mountain Blend is an ‘inferior’ product. It is simply different from the plaintiff’s pure coffee blends and that difference is adequately stated on the label.”).

<sup>46</sup> Originally, United States (U.S.) courts allowed parallel imports based on the principle of “universality” of trademark rights. See *Hunyadi Janos Corp. v. Steger*, 285 F. 861 (2d Cir. 1922); *Fred Gretsck Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916); *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.N.Y. 1886). In *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923), the Supreme Court affirmed that marks have separate existence in separate national territories. See also *American Circuit Breaker Corp. v. Oregon Breakers Inc.*, 406 F.3d 577 (9th Cir. 2005) (noting that in *Katzel* the Supreme Court “marked a dramatic change in trademark law by adopting the principle of ‘territoriality’ of trademarks and moving away from the rule of ‘universality’”).

<sup>47</sup> The U.S. Tariff Act prohibits the importation of a product “that bears a trademark owned by a citizen of . . . the United States and is registered in the U.S. Patent and Trademark Office.” See Tariff Act of 1930 § 526(a), 19 U.S.C.S. § 1526(a) (2006). The U.S. Trademark Act (Lanham Act) bars the importation of goods with a mark that will “copy or simulate” a registered trademark. Lanham Act § 42, 15 U.S.C. § 1124 (2006). The Lanham Act also applies the traditional provisions against infringement to confusingly similar products. Lanham Act §§ 32(a) (registered marks), 43(b) (unregistered marks), 15 U.S.C. §§ 1114(a), 1125(b).

<sup>48</sup> *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 289 (1988) (indicating that the “extraordinary protection” afforded by the Tariff Act § 526 is exclusively for domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer).

adopted in the *Lever Brothers* case and seeks to prevent the product quality-related confusion that could otherwise exist if two seemingly identical products of different quality are sold in the U.S. market under the same marks.<sup>49</sup> As an exception to this rule, however, the U.S. Customs Service Regulations provide that materially different products can be lawfully imported when importers properly label the goods with the notice: “This product is not authorized by the United States trademark owner for importation and is materially different from the authorized products.”<sup>50</sup> In other words, under the U.S. Customs Service Regulations, it seems that proper labeling can guarantee that marks continue to serve the traditional trademark functions—indicating to consumers that the marked products are the same goods, in terms of commercial origin and quality, which were first distributed in the market by trademark owners.

Finally, like Canada and the U.S., Mexico adopted a system of international trademark exhaustion.<sup>51</sup> According to Article 92(II) of the Mexican Industrial Property Law,<sup>52</sup> the registration of a mark cannot be used against “any person who markets, distributes, acquires or

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<sup>49</sup> See *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989) and *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993). The court ruled that when a mark is applied to physically different goods, the mark is not “genuine” for the American consumer and the affiliation between the producers does not reduce the confusion that could result from those differences. *Lever Bros.*, 877 F.2d 101; *Lever Bros.*, 981 F.2d 1330. See also *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992) (stating that “under section 42, as under section 32, the question of whether [defendant] infringed the PERUGINA mark hinges on whether physical or like material differences exist between the Italian-made and Venezuelan-made products”).

<sup>50</sup> 19 C.F.R. § 133.23(b). “Goods determined by the Customs Service to be physically and materially different . . . shall not be detained . . . where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale . . . .” *Id.* “The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.” *Id.* Mark S. Sommers & Louis J. Levy, *US Customs Amends Gray Market Import Rule*, 117 TRADEMARK WORLD 32, 33 (1999).

<sup>51</sup> See generally Gonzalez, *supra* note 34, at 305–06 (analyzing parallel imports under Mexican law); Bill F. Kryzda & Shaun F. Downey, *Overview of Recent Changes in Mexican Industrial Property Law and the Enforcement of Rights by the Relevant Government Authorities*, 21 CAN.-U.S. L.J. 99, 101 (1995) (considering the changes to the Mexican Industrial Property Law in 1994 as a result of Mexico’s signing of NAFTA).

<sup>52</sup> Ley de Fomento y Protección de la Propiedad Industrial [Mexican Industrial Property Law], Diario Oficial de la federación [DO], 4, June 27, 1991, *as amended* Diario Oficial de la federación [DO], Aug. 2, 1994 (Mex.), [hereinafter Mexican Industrial Property Law].

uses the product to which the trademark is applied for after the said product has been lawfully introduced on the market by the owner of the registered mark or his licensee.”<sup>53</sup> Specifically, “[t]his case shall include the import of legitimate products to which the registered mark is applied, carried out by any person for their use, distribution or marketing in Mexico . . . .”<sup>54</sup> Parallel imports are considered “legitimate” under the Mexican Industrial Property Law Regulations based upon two conditions: a) that the products are introduced into the market of the country from which they are imported by the “owner or licensee of the registered mark;” and b) that the owner of the mark inside and outside Mexico are “the same person or members of the same joint economic interest group, or their licensees or sublicensees.”<sup>55</sup> Similar to Canada and the U.S., Mexican law prohibits as trademark infringement the circulation of marked products when their quality has been altered by unauthorized third-party importers,<sup>56</sup> or when the mark has been altered or removed altogether.<sup>57</sup> Still, the Mexican Industrial Property Regulations do

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<sup>53</sup> *Id.* at art. 92(II).

<sup>54</sup> *Id.* This provision is applicable “pursuant to the terms and conditions laid down in the Regulations under this law.” *Id.*

<sup>55</sup> Article 54 of the Mexican Industrial Property Regulations provides that:

it shall be presumed . . . that imported goods are legitimate where they meet the following requirements:

I. the introduction of the goods to the market of the country from which importation takes place must be done by the person who in that country is the owner or licensee of the registered mark;

II. the owners of the mark registered in Mexico and in the foreign country must, on the date on which the importation of the goods takes place, be the same person or members of the same joint economic interest group, or their licensees or sub licensees.

*Id.* at art. 54. Reglamento de la Ley de la Propiedad Industrial [Regulation on the Industrial Property Law], Diario Oficial de la federación [DO], Nov. 18, 1994, art. 54 (Mex.) [hereinafter Mexican Industrial Property Regulations].

<sup>56</sup> Mexican Industrial Property Law, *supra* note 52, art. 213(XX).

<sup>57</sup> *Id.* art. 213(XXI).

not prevent the importation of materially different genuine gray market goods and do not require special labeling for those goods to be admitted and lawfully circulate in the Mexican territory.<sup>58</sup> Moreover, to date, Mexican courts do not seem to have halted or expressed concern as to the importation of materially different parallel imports into Mexico because of potential consumer confusion.<sup>59</sup>

#### **IV. The *Laissez Faire* Approach (for Now): Trademark Exhaustion in ASEAN**

ASEAN was established in 1967 with the signing of the ASEAN Declaration<sup>60</sup> (or the Bangkok Declaration). ASEAN's five founding members were: Indonesia, Malaysia, Philippines, Singapore, and Thailand. Within the next three decades, the number of members doubled to ten and today include: Brunei Darussalam, Viet Nam, Lao People's Democratic Republic (PDR), Myanmar, and Cambodia.<sup>61</sup> All ASEAN Members are currently members of the World Trade Organization (WTO).<sup>62</sup> As declared in the Treaty of Amity and Cooperation in Southeast Asia of 1976, ASEAN Members adopt, as fundamental principles, the principles of consensus and non-

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<sup>58</sup> Mexican Industrial Property Regulations, *supra* note 52, at art. 54. The Mexican Industrial Property Regulations are also silent as to the case of imports concerning repackaged or relabeled goods. *Id.*

<sup>59</sup> Although courts have not considered the repackaging or relabeling of gray market products, these instances could likely fall under the prohibition of Article 213 of the Mexican Industrial Property Law. Mexican Industrial Property Law, *supra* note 52, at art. 213(XX and XXI).

<sup>60</sup> The ASEAN Declaration (Bangkok Declaration), Bangkok, Thailand, ASEAN, Aug. 8, 1967, *available at* <http://www.asean.org/news/item/the-asean-declaration-bangkok-declaration>. The 1967 ASEAN Declaration set forth the aims and purpose of ASEAN, *inter alia*, "to accelerate the economic growth, social progress and cultural development in the region" and to promote "the rule of law in the relationship among countries of the region."

<sup>61</sup> *ASEAN Member States*, ASEAN (2014), <http://www.asean.org/asean/asean-member-states>. *Id.*

<sup>62</sup> The list of WTO Members and Observers is available at *Understanding the WTO: The Organization, Members and Observers*, WTO (2015), [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm).

interference with national policies.<sup>63</sup> This approach is different than the approach adopted by EU Member States, and it has been defined as the “ASEAN Way.” Also different, ASEAN Members did not create regional institutions comparable with the EU institutions. Still, in 2003, the ASEAN Members resolved to establish an ASEAN Community and, in 2007, adopted the ASEAN Charter.<sup>64</sup> One of the pillars of the ASEAN Community was the creation the ASEAN Economic Community (AEC), which has been launched in December 2015.<sup>65</sup> The AEC aims at integrating ASEAN Members’ markets into a single market that comprises the free movement of goods, services, investment, capital, and skilled labor.<sup>66</sup> The foundation of the ASEAN market can also be traced to the Declaration on the ASEAN Economic Community Blueprint.<sup>67</sup> Additionally, ASEAN Members signed an Agreement on the Common Effective Preferential

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<sup>63</sup> Treaty of Amity and Cooperation in Southeast Asia, Indonesia, ASEAN, Feb. 24, 1976, 2012 O.J. (L 154) 6. The 1976 Treaty of Amity and Cooperation contained, *inter alia*, the following fundamental principles: “a. mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations; b. the right of every State to lead its national existence free from external interference, subversion or coercion [*sic*]; c. non-interference in the internal affairs of one another; . . . .” ASEAN has been described as a “weakly formalized inter-governmental regime with limited effectiveness due to the member states’ deeply-felt concern with the preservation of internal and external sovereignty.” Morten F Greve, *ASEAN Down the ‘EU Way’?* 39 COOPERATION & CONFLICT: J. NORDIC INT’L STUD. ASS’N 207, 210 (2004).

<sup>64</sup> Declaration of ASEAN Concord II (Bali Concord II), ASEAN, Oct. 7, 2003, <http://www.asean.org/news/asean-statement-communications/item/declaration-of-asean-concord-ii-bali-concord-ii-3>; The ASEAN Charter, ASEAN, Nov. 20, 2007, <http://www.asean.org/archive/publications/ASEAN-Charter.pdf>.

<sup>65</sup> The ASEAN Members committed to accelerate the establishment of the ASEAN Economic Community in the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015. ASEAN, CEBU DECLARATION ON THE ACCELERATION OF THE ESTABLISHMENT OF AN ASEAN COMMUNITY BY 2015 (Jan. 13 2007), available at <http://www.asean.org/component/zoo/item/about-asean-overview-cebu-declaration-on-the-acceleration-of-the-establishment-of-an-asean-community-by-2015?Itemid=185>. The ASEAN Community consists of three pillars of the ASEAN Security Community, ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community and these form the Roadmap for an ASEAN Community 2009-2015.

<sup>66</sup> ASEAN, DECLARATION ON THE ASEAN ECONOMIC COMMUNITY BLUEPRINT, para. 9 (2008), available at <http://www.asean.org/archive/5187-10.pdf>. For a detailed analysis of the creation of the AEC, see STEFANO INAMA & EDMUND W. SIM, AN INSTITUTIONAL AND LEGAL PROFILE (2015).

<sup>67</sup> *Id.* at paras. 11, 13, & 14.

Tariff Scheme for the ASEAN Free Trade Area<sup>68</sup> (AFTA) in order to foster regional economic integration and eliminate tariff and non-tariff barriers.<sup>69</sup>

With respect to intellectual property, ASEAN Members adopted the ASEAN Framework Agreement on Intellectual Property Cooperation<sup>70</sup> (Framework Agreement) in 1995. The Framework Agreement aims at establishing cooperation among Members in several areas, including copyright and related rights, patents, trademarks, industrial designs, geographical indications, trade secret, and lay-out designs of integrated circuits.<sup>71</sup> Still, to date, the ASEAN cooperation regarding trademarks has focused primarily on administrative matters. In particular, the following initiatives have been established: a) the creation of a trademark online database,<sup>72</sup> which facilitates information on trademark registrations and applications in ASEAN Members; and b) the adoption of Common Guidelines for the Substantive Examination of Trademarks<sup>73</sup> to enhance the transparency and consistency of the decisions in the substantive examination of trademark applications in ASEAN. So far, however, no harmonized substantive trademark rules

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<sup>68</sup> Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA), Jan. 28, 1992, art. 5, WIPO Lex. No. TRT/AFTA/001 [hereinafter CEPT-AFTA].

<sup>69</sup> But Article 8(d) of the ASEAN Trade in Goods Agreement (ATIGA) stipulates that the protection and enforcement of trademark rights (IPRs) may constitute a general exception to the prohibition to non-tariff barriers within ASEAN. ATIGA, Feb. 26, 2009, WIPO Lex. No. TRT/ASEAN/001. ATIGA replaced the earlier CEPT-AFTA scheme signed in 1992.

<sup>70</sup> ASEAN Framework Agreement on Intellectual Property Cooperation, Dec. 15, 1995, WIPO Lex. No. TRT/ASEAN-IP/001.

<sup>71</sup> *Id.* at art. 3 (1).

<sup>72</sup> The ASEAN TMview was developed by the Intellectual Property Offices of the ASEAN member states with the support of the EU-ASEAN Project on the Protection of Intellectual Property Rights (ECAP III Phase II) administered by the EU Office for Harmonization in the Internal Market (OHIM), ASEAN TMVIEW, *available at* <http://www.asean-tmview.org/tmview/welcome.html?language=en> (last visited Oct. 13, 2015).

<sup>73</sup> Common Guidelines for the Substantive Examination of Trademarks were prepared by a group of experts in the ASEAN Intellectual Property Offices concerning the substantive examination of trademark applications with the assistance of ECAP, the program is available at *Guidelines for the Substantive Examination of Trademarks*, ECAP III, <http://www.ecap3.org/activities/guidelines-substantive-examination-trademarks> (last visited Oct. 13, 2015).

have been adopted, including the adoption of a regional common position on trademark exhaustion.<sup>74</sup>

In the absence of any specific guideline, each ASEAN Member thus remains free to decide their preferred system of trademark exhaustion to be adopted domestically. In particular, the exhaustion rules followed by ASEAN Members can be divided into three separate groups: countries without a specific rule on exhaustion; countries following national exhaustion; and countries following international exhaustion. Among the ASEAN Members in the latter group, some countries do not follow international exhaustion when the products at issue are of materially different quality. Furthermore, ASEAN Members do not adopt a principle similar to the EU principle of mutual recognition and so far have not develop a system of integrated standardization for products produced in ASEAN Members similar to the system that has been adopted in the EU.

Notably, Indonesia<sup>75</sup> and Brunei Darussalam<sup>76</sup> have not yet adopted any relevant statutory provision on trademark exhaustion and no judicial decision on the issue can be found so far in

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<sup>74</sup> See Siraprapha Rungpry & Oliver Knox, *The ASEAN Economic Community: Good News for Trademark Owners?*, *World Trademark Review*, 55, 58 (2012), even though all ASEAN Members are members of TRIPS, the Paris Convention for the Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works, and in turn are mandated to harmonized their national standards pursuant to these agreements. Paris Convention for the Protection of Industrial Property, opened for signature Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305 (revised 1967); Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, WIPO Lex. No. TRT/BERNE/001.

<sup>75</sup> Indonesia Law No. 15 of Aug. 1, 2001, regarding Marks, art. 1(13), WIPO Lex. No. ID046 (Indon).



either country. In the absence of any specific provision, it could thus be supported that these countries would admit parallel imports from other ASEAN Members, and in general from foreign jurisdictions. Still, this remains, for the time being, an assumption based on the lack of any rules in this respect. In addition to Indonesia and Brunei, Myanmar also has not adopted any provision on trademark exhaustion to date, as Myanmar does not currently have a law on trademarks. However, a trademark law draft has been approved by the Myanmar's Attorney General Office and has been under review in the Parliament of Myanmar since 2014.<sup>77</sup> As reported by the International Trademark Association (INTA), Article 41 of the Myanmar Draft Trademark Law adopts the principle of international exhaustion while Article 42 "prevents the importation of goods which have been altered after their initial sale."<sup>78</sup>

On the other hand, Cambodia and Lao PDR have adopted national trademark exhaustion, even though neither countries' laws specify that parallel imports are forbidden. In particular, Article 11(c) of the Cambodian Law concerning Marks, Trade Names and

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<sup>76</sup> Trade Marks Act (Chapter 98, Laws of Brunei Darussalam, Revised Edition 2000) (BN008) WIPO Lex. No. BN008 (Brunei).

<sup>77</sup> Nick Redfearn, *The Never Ending Delay In Myanmar's Trademarks Law*, ROSE MAG. (Jan. 13, 2015), <http://www.rouse.com/magazine/articles/ip-komodo-blog/the-never-ending-delay-in-myanmars-trademarks-law>.

<sup>78</sup> INTERNATIONAL TRADEMARK ASSOCIATION, COMMENTS BY THE INTERNATIONAL TRADEMARK ASSOCIATION ON THE MYANMAR DRAFT TRADEMARK LAW §§ 41, 42, *available at* <http://www.inta.org/advocacy/documents/january82013comments.pdf> [hereinafter INTA]. The INTA suggested "national exhaustion in relation to parallel imports" and in case international exhaustion remain unchanged, Article 42 should introduce the rule of "material difference" as

notwithstanding anything contained in Section 41, the owner of the registered mark may, when the goods are materially different from those put on the national market by the owner himself or by a third party with his consent, or when the condition of the goods has been changed or impaired after they have been put on the national or international market, prohibit the sale of the said goods in conformity with the existing law.

Acts of Unfair Competition<sup>79</sup> provides that “the 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 consent.”<sup>80</sup> Similarly, Article 57(3) lit.1 of Lao PDR’s Law on Intellectual Property 2011 states that “no individual or organization . . . [other] than the trademark owner” is entitled to enter into any activity or act as described in paragraph 1 of the law of Lao PDR without the authorization of the the trademark owner, “except as otherwise provided in this Law.” To the contrary, “any such acts without authorization shall be considered to be an act of infringement.”<sup>81</sup>

Based on the language of these provisions, parallel imports seem to be forbidden as the importation of genuine goods is not explicitly allowed as a statutory exception to trademark infringement.

Still, the majority of ASEAN Members follows international trademark exhaustion, either as a statutory provisions or under the rule of leading case law. These countries include Singapore and Vietnam, which have adopted specific provisions establishing the principle of international trademark exhaustion as their respective domestic rule. The Philippines is also included in this majority. In particular, the interpretation of the existing law tilts toward the argument that the

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<sup>79</sup> The Law Concerning Marks, Trade Names and Acts of Unfair Competition of the Kingdom of Cambodia, NS/RKM/0202/006, Feb. 7, 2002, WIPO Lex. No. KH001 (Cambodia).

<sup>80</sup> LAZAROS G. GRIGORIADIS, TRADE MARKS AND FREE TRADE - A GLOBAL ANALYSIS 488 (Springer, 2014).

Philippines follow international trademark exhaustion de facto, even though the Philippines has not included a specific provision in this sense. Finally, the majority also includes Malaysia and Thailand, which have both adopted international exhaustion following national case law rulings in this respect.

Notably, Article 29(1) of the Singapore Trademark Act excludes trademark infringement for products that have been distributed in the market “whether in Singapore or outside Singapore” with the “express or implied consent (conditional or otherwise)” of the trademark owners.<sup>82</sup> The exception to this rule applies when “the condition of the goods has been changed or impaired after they have been put on the market” or “the use of the registered trade mark in relation to those goods has caused dilution in an unfair manner of the distinctive character of the registered trade mark.”<sup>83</sup> Similarly, Article 125 (2)(b) of the Vietnam Intellectual Property Law of 2009<sup>84</sup> introduced the principle of international exhaustion.<sup>85</sup> However, the provision does not address the issue of products or goods of different quality, but states that the following does not constitute infringement: “circulating, importing, exploiting utilities of products having been lawfully put on the market, including overseas markets, except for products put on the overseas markets not by the mark owners or their licensees.”<sup>86</sup> Prior to 2009, Vietnam adopted national

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<sup>81</sup> Law No. 01/NA of Dec. 20, 2011, on Intellectual Property (as amended), Dec. 20, 2011, art. 57(3) lit 1, WIPO Lex. No. LA025 (Lao).

<sup>82</sup> Singapore Trade Marks Act (Chapter 332, 2005 Revised Edition), art. 29(1), WIPO Lex. No. SG035 (Sing.).

<sup>83</sup> *Id.* at § 29. See also Ng-Loy Wee Loon, *Exhaustion of Rights in Trademark Law: the English and Singapore Models Compared*, 22 EIPR 320 (2000).

<sup>84</sup> Law No. 50/2005/QH11, of Nov. 29, 2005, on Intellectual Property Law (promulgated by the Order No. 28/2005/L-CTN of Dec. 12, 2005, of the President of the Socialist Republic of Vietnam), Nov. 29, 2005, WIPO Lex. No. VN003 (Viet.). This law was amended in 2009 by Law No. 36/2009/QH12 on June 19, 2009, amending and supplementing a Number of Articles of the Law on Intellectual Property (promulgated by the Order No. 12/2009/L-CTN on June 29, 2009 of the President of the Socialist Republic of Vietnam), June 19, 2009, WIPO Lex. No. VN047 (Viet.). However, the trademark exhaustion provision, Article 125, remains unchanged.

<sup>85</sup> *Id.* at art. 125(2)(b).

<sup>86</sup> *Id.*

exhaustion without written regulation, although the National Office of Industrial Property of Vietnam “occasionally” permitted the imports of products manufactured by third countries as “an ad hoc policy,” such as the imports of motorbike from China under the trademark licensing agreements.<sup>87</sup>

To the contrary, the Intellectual Property Code of the Philippines of 2013 does not explicitly provide for a provision on exhaustion. Still, Article 166<sup>88</sup> considers as infringing an article that is imported into the Philippines that copies or simulates a mark registered in the Philippines.<sup>89</sup> Since parallel importation involves genuine products—while the provision refers to counterfeits or infringing products<sup>90</sup>—it is, thus, supported that the principle of international exhaustion applies to the importation of genuine goods. In addition, neither the Intellectual Property Code of

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<sup>87</sup> See Pham Duy Nghia, *Exhaustion and Parallel Imports in Vietnam*, in *PARALLEL IMPORTS IN ASIA* 88 (Christopher Heath ed., Kluwer Law International, 2004).

<sup>88</sup> Intellectual Property Code of the Philippines (Republic Act No. 8293), June 6, 1997, WIPO Lex. No. PH001 (Phil.) *as amended* Implementing Rules and Regulations of the Republic Act No. 9502 of 2008, July 4, 2008, WIPO Lex. No. PH048 (Phil.) *as amended* Republic Act No. 10372, entitled ‘An Act Amending Certain Provisions of Republic Act No. 8293, otherwise known as the Intellectual Property Code of the Philippines’, and for other purposes,’ Feb. 28, 2013, WIPO Lex. No. PH100 (Phil.).

<sup>89</sup> *Id.* at art. 166. Article 166 of the Intellectual Property Code of the Philippines 2013 provides:

no article of imported merchandise which shall copy or simulate the name of any domestic product, or manufacturer, or dealer, or which shall copy or simulate a mark registered in accordance with the provisions of this Act, or shall bear a mark or trade name calculated to induce the public to believe that the article is manufactured in the Philippines, or that it is manufactured in any foreign country or locality other than the country or locality where it is in fact manufactured, shall be admitted to entry at any customhouse of the Philippines . . . .

*Id.*

<sup>90</sup> Alex Ferdinand S. Fider, *Exhaustion and Parallel Imports in the Philippines*, in *PARALLEL IMPORTS IN ASIA* 115 (Christopher Heath ed., Kluwer Law International, 2004).

the Philippines nor the Philippine courts have addressed the issues relating to goods of materially different qualities for different market thus far.<sup>91</sup> Here again, the general wisdom on the issue is that, in the absence of an explicit prohibition, these products should be considered as legitimate imports into the Philippines.

Similar to the Philippines, Article 70D of the Malaysia Trademark Act of 1976<sup>92</sup> allows the proprietor of a registered trademark to submit application for border measures to prohibit the importation of “counterfeit trademark goods”<sup>93</sup> into Malaysia. Here again, it remained unclear whether importation of “genuine goods” into Malaysia constitutes trademark infringement. However, the judiciary in Malaysia explicitly embraced the application of the principle of international trademark exhaustion in the *Panadol* case.<sup>94</sup> In this case, the court held that the parallel imports of goods sharing the common origin should be allowed.<sup>95</sup> Still, the *Panadol* case is the only case dealing with the issue of trademark exhaustion in Malaysia<sup>96</sup> to date, and the decision in that case left many questions unanswered. In particular, the court (again) did not address the issue concerning the parallel imports of goods of different origin or with materially different qualities. Finally, similar to Malaysia, Thailand also has no express legislation

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<sup>91</sup> *Id.*

<sup>92</sup> Trademark Act (Act 175 of 1976, as last amended by Act A1138 of 2002), June 21, 1976, WIPO Lex. No. MY044 (Malay).

<sup>93</sup> The definition of “counterfeit trademark goods” is set out in Article 70C of the Trademark Act 1976. *Id.* at art. 70C.

<sup>94</sup> *Winthrop Products Inc. & Anor v. Sun Ocean (M) Sdn Bhd & Anor*, [1988] 2 MLJ 317 [hereinafter the *Panadol* case]. For the case summary and analysis, see John Chong, *Exhaustion and Parallel Imports in Malaysia*, in PARALLEL IMPORTS IN ASIA 127–130 (Christopher Heath ed., Kluwer Law International, 2004).

<sup>95</sup> The *Panadol* case, *supra* note 94. Therefore,

they can be said to have *impliedly consented* to their doing so so that the holder from time to time of the goods acquires the absolute ownership of the goods including the right to *sell* the goods in any part of the world *in the same condition in which they were disposed of*.

*Id.* (emphasis added).

<sup>96</sup> GRIGORIADIS, *supra* note 80, at 483.

regarding the exhaustion of trademark rights.<sup>97</sup> Nevertheless, the Thai Central Intellectual Property and International Trade Court<sup>98</sup> and the Thai Supreme Court<sup>99</sup> have embraced international trademark exhaustion.<sup>100</sup> In particular, in a 1999 decision, the Thai Central Intellectual Property and International Trade Court allowed the parallel import of genuine goods bearing the same mark from Singapore to Thailand stating that trademark rights are internationally exhausted because trademark owners have already fairly received rewards from the first sale of the goods.<sup>101</sup> This decision was affirmed by the Supreme People's Court of Thailand in 2000.<sup>102</sup>

## **V. Comparing the EU/EEA, NAFTA, and ASEAN: What Is the Successful Recipe to Promote Free Movement of Good in Free Trade Areas? Should There Be One?**

As I have stated in my previous scholarship, the principle of trademark exhaustion is based on the premise that trademark rights should not be used to control the distribution of a product, or a batch of products, after their first release into the market. With respect to international trade,

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<sup>97</sup> For an overview of the history of the exhaustion rule in Thailand, see Vichai Ariyanuntaka, *Exhaustion and Parallel Imports in Thailand*, in *PARALLEL IMPORTS IN ASIA* 98–100 (Christopher Heath ed., Kluwer Law International, 2004).

<sup>98</sup> Thailand Central Intellectual Property and International Trade Court Decision No. 16/2542 (1999).

<sup>99</sup> Thailand Supreme Court Decision No. 2817/2543 (2000).

<sup>100</sup> GRIGORIADIS, *supra* note 80, at 495.

<sup>101</sup> Vichai Ariyanuntaka, *supra* note 98, at 99.

<sup>102</sup> Thailand Supreme Court Decision affirmed the *Decision No. 16/2542* (1999) in decision No.2817/2543 (2000).

however, the key inquiry remains whether trademark rights exhaust only with respect to products that have been distributed in the national market or also in foreign markets as long as the products are genuine products. In particular, the adoption of one type of exhaustion versus another—national vs. international or regional exhaustion—translates in accepting parallel imports or, instead, raising national barriers to international legitimate trade carried out by third-parties. Hence, effective free trade in free trade areas can be secured only by limiting, amongst other trade-related barriers, the domestic enforcement of national trademark rights when this enforcement can represent a barrier to legitimate trade.<sup>103</sup>

Still, as the above described approaches adopted by the EU/EEA, NAFTA, and ASEAN Members reflect, not all members of free trade areas desire to achieve a full-scale market integration for several different reasons. For example, not all members of free trade areas may desire a high level of market integration due to national interests, or national politics. Likewise, members of a free trade area may enjoy a different level of economic development, and in turn need to protect their national markets from foreign imports or rather open their markets to these products. Similarly, the national markets of members of a free trade areas are of different size—some may need more competition from foreign goods in their markets than others to provide consumers with accessibly-priced products. For these reasons, choosing a national policy on exhaustion remains a sensitive topic and not all members of free trade area may be interested in reaching the same level of market integration that has been achieved, for example, in the

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<sup>103</sup> See, e.g., Irene Calboli, *Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law*, 51 SANTA CLARA L. REV. 1241 (2011).

EU/EEA.<sup>104</sup>

In particular, the process of market integration in the EU/EEA required that EU/EEA Members abandon their national policies and harmonize national laws on trademark exhaustion, adopt similar standards to remove any disguised barriers to effective intra-EU/EEA trade, and accept the principle of mutual recognition of other member's standards when the standards remain different. Only very serious concerns relating to health, security, or public policy in member countries can supersede free movement of goods in the EU/EEA trade.<sup>105</sup> Several leading cases by the ECJ (and later CJEU) have further proven that the Court is willing to prioritize free movement of goods versus the exercise of trademark rights, including in instances of materially different quality. Moreover, the Court has stated that trademark rights can also be exhausted with respect to products that have been repackaged by the importers as long as the products remain genuine. Nevertheless, this full-force integration of markets does not extend beyond the territory of the EU/EE. Instead, EU/EEA Members are bound to adopt regional exhaustion, and genuine products coming from outside "fortress Europe" can be legally stopped at the will of trademark owners as trademark infringement.<sup>106</sup> Ultimately, as much as the EU/EEA solution certainly constitutes a stronger and more definite approach to facilitate trade among members of a free

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<sup>104</sup> See SUSY FRANKEL, TEST TUBES FOR GLOBAL INTELLECTUAL PROPERTY ISSUES, 159–184 (2015) (analyzing in details the national policies on parallel imports of small market economies, namely Israel, New Zealand, and Singapore).

<sup>105</sup> See discussion *supra* Part II.

<sup>106</sup> See, e.g., Carl Steele, "Fortresse Europe" for Trademark Owners, 1998 TRADEMARK WORLD 14 (Aug. 1998) (summarizing the relevance of the ECJ's decision in *Silhouette* in creating a closed trading block among member countries).



trade area, this solution permits (and safeguards) market partitioning outside the EU/EEA.<sup>107</sup>

Quite differently from the EU/EEA, NAFTA Members never intended to build a NAFTA internal market. Instead, the U.S. and Canada joined NAFTA primarily to produce at lower costs in Mexico (and import back or sell internationally products manufactured at lower costs) while Mexico joined NAFTA primarily as a source of foreign direct investment from the U.S. and Canada. Thus, NAFTA Members harmonize several intellectual property standards, but not their national rules on exhaustion.<sup>108</sup> Still, as a fortuitous coincidence perhaps, all NAFTA Members practice international trademark exhaustion, which permit parallel imports within their respective territories. Yet, NAFTA Members never attempted to discuss the approach to be adopted at the national level with respect to the importation of genuine products of materially different quality.<sup>109</sup> Here again, it thus remains a fortuitous circumstance that each of the three NAFTA Members have developed, via the courts or legislators, specific provisions that permit the importation of genuine products that are of materially different quality.<sup>110</sup> Specifically, appropriate labeling can cure material product differences and allow the importation of qualitatively different gray market goods into Canada and the U.S. In Mexico, the national trademark law does not seem to prevent the admissibility of any products into Mexico, even

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<sup>107</sup> Critically, on this aspect of the principle of the EEA-wide exhaustion, see Calboli, *Trademark Exhaustion in the EU*, *supra* note 3, at 87–90.

<sup>108</sup> See Kenneth W. Abbott & Gregory W. Bowman, *Economic Integration in the Americas: A Work in Progress*, 14 NW. J. INT'L. L. & BUS. 493, 493–96 (1994) (discussing the 1990 initiation of NAFTA negotiations between the United States and Mexico); Richard Bernal, *Regional Trade Arrangements in the Western Hemisphere*, 8 AM. U. J. INT'L L. & POL'Y 683, 697 (1993) (discussing the proposal of NAFTA in the 1990s); Frank J. Garcia, *Protection of Intellectual Property Rights in the North American Free Trade Agreement: A Successful Case of Regional Trade Regulation*, 8 AM. U. J. INT'L L. & POL'Y 817, 821 (1993) (noting Mexico's desire to be a part of the NAFTA).

<sup>109</sup> For a similar conclusion, see Gonzalez, *supra* note 34, at 329 (comparing the NAFTA and EU trading blocks).

<sup>110</sup> See discussion *supra* Part III.

those that are materially different, as long as the importers have not altered the products.<sup>111</sup> Hence, nothing may prevent a change in national policies, which would effectively operate as a barrier to legitimate trade and free movement of goods across NAFTA. Lastly, NAFTA Members do not follow a principle equivalent to the EU principle of mutual recognition<sup>112</sup> nor are they pursuing a full scale harmonization of national standards.<sup>113</sup>

Another difference is that ASEAN Members adopt a position that could be defined as a mid-way between EU/EEA and NAFTA Members. Notably, ASEAN Members aim at integrating their national markets and indeed have already taken important steps toward creating an internal market through AFTA and the ASEAN Blue Print.<sup>114</sup> The latter specifically states that the “[f]ree flow of goods is one of the principal means by which the aims of a single market and production base can be achieved.”<sup>115</sup> Still, the level of economic integration currently achieved, and perhaps

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<sup>111</sup> *Id.*

<sup>112</sup> See NAFTA, *supra* note 30, at art. 714; see also Maureen Irish, *Regulatory Convergence, Security and Global Administrative Law in Canada-United States Trade*, 12 J. INT’L ECON. L. 333, 339–40 (2009). “Both SPS and TBT provisions in NAFTA contain explicit obligations to recognize measures of other NAFTA Parties as equivalent.” *Id.* at 339. For a position in favor of creating a full NAFTA common market, see Wendy Dobson, *Shaping the Future of the North American Economic Space*, 162 C.D. HOWE INST., THE BORDER PAPERS 1 (2002), available at [https://www.cdhowe.org/pdf/commentary\\_162.pdf](https://www.cdhowe.org/pdf/commentary_162.pdf).

<sup>113</sup> See NAFTA, *supra* note 30, at ch. 7B on sanitary and phytosanitary measures (SPS), and Ch. 9 on technical barriers to trade (TBT). See also Irish, *supra* note 112, at 339 (providing a detailed analysis of these and other provisions related to NAFTA SPS and TBT measures).

<sup>114</sup> See discussion *supra* Part IV.

<sup>115</sup> In 2007, a Protocol to provide special consideration for rice and sugar was signed in Makati City, Philippines. PROTOCOL TO PROVIDE SPECIAL CONSIDERATION FOR RICE AND SUGAR, ASEAN, Aug. 23, 2007, available at [http://www.asean.org/images/2012/Economic/AFTA/Common\\_Effective\\_Preferential\\_Tariff/Protocol%20to%20Provide%20Special%20Consideration%20for.pdf](http://www.asean.org/images/2012/Economic/AFTA/Common_Effective_Preferential_Tariff/Protocol%20to%20Provide%20Special%20Consideration%20for.pdf). In 2010, following the signing and entry into force of ATIGA, a revision to the protocol was adopted that provides “the need to amend the Protocol to take into account the entry into force of the ASEAN Trade in Goods Agreement.” See PROTOCOL TO AMEND THE PROTOCOL TO PROVIDE SPECIAL CONSIDERATION FOR RICE AND SUGAR, ASEAN, OCT. 28, 2010, available at

possible at this time, has not yet reached the same level that can be seen in the EU/EEA markets. Instead, even though AFTA has gone a long way to reduce intra-ASEAN tariffs on most products, tariffs still exist on products (especially the most relevant products for national economies, such as rice or sugar) coming from other ASEAN Members.<sup>116</sup> Accordingly, it should not come as a surprise—or be judged against ASEAN Members’ desire to effectively integrate their markets in the long term—that national laws on trademark exhaustion still diverge. Indeed, the law of EU/EEA countries also diverged for several decades after the launch of the EEC in 1957 until the enactment of the Trademark Directive.<sup>117</sup> Still, it remains surprising that two of the least developed countries in ASEAN—Cambodia and Lao PDR—decided to embrace a system of national trademark exhaustion. This system essentially allows trademark owners—including foreign entities with national registrations in these countries and in other ASEAN Members—to (theoretically) block parallel imports of trademarked products (from Coca-Cola beverages, to Apple iPhones, etc.) into Cambodia and Lao PDR. In turn, residents of these countries may not benefit from the possible economic benefits of parallel imported products.<sup>118</sup>

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[http://investasean.asean.org/files/upload/00%20Protocol%20Amendment%20Protocol%20Rice%20and%20Sugar%20\(2010\)\(1\).pdf](http://investasean.asean.org/files/upload/00%20Protocol%20Amendment%20Protocol%20Rice%20and%20Sugar%20(2010)(1).pdf).

<sup>116</sup> *ASEAN Free Trade Area (AFTA Council)*, ASEAN (2014), <http://www.asean.org/communities/asean-economic-community/category/asean-free-trade-area-afta-council>; see also *ASEAN Free Trade Area (AFTA): An Update*, ASEAN (2014), <http://www.asean.org/communities/asean-economic-community/item/asean-free-trade-area-afta-an-update>.

<sup>117</sup> See discussion *supra* Part II.

<sup>118</sup> In practice, however, it is unclear to what extent cross border enforcement or claims of trademark infringement have effectively prevent parallel imports into Cambodia and Lao PDR to date. In the absence of any data or court decision in this respect, this author thinks that the current level of practical enforcement is very low. Moreover, due to the low pro-capita GDP in Cambodia and Lao PDR, it is unlikely that these countries represent today a market suitable for pricing arbitrage. Still parallel importation can be very beneficial for these countries, as parallel importers may make available in these countries products otherwise not available. Thus, it would be important for these countries to move to a system of international exhaustion, so as to avoid possible cross border enforcement in the future and to permit the imports of products not marketed nationally, but for which perhaps a mark has been registered based on intent to use and not actual use, or simply use in advertising or the Internet.

Ultimately, however, from a general standpoint, the comparative analysis of the EU/EEA, NAFTA, and ASEAN, clearly demonstrates that the adoption of uniform rules on either international or regional trademark exhaustion remains a necessary condition for creating a system of effective free movement of products across the territory of the members of a free trade area. In contrast, when some of the members of a free trade area adopt domestic rules in favor of national exhaustion (like is the case currently in Cambodia and Lao PDR) this disparity of national regimes can necessary result in blocking the free movement of goods within the free trade area. The same applies when the members of a free trade area practice a non-uniform regimes of international and regional exhaustion (like was the case in the EU/EEA immediately after the enactment of the Trademark Directive).

Hence, the analysis above also indicates that requiring the adoption of the same rules on trademark exhaustion is not sufficient, per se, to guarantee the effective free movement of goods in free trade areas. In particular, under the current law of several countries practicing international trademark exhaustion, trademark owners can successfully block parallel imports when the products are genuine, yet are of materially different quality. As I have extensively elaborated in my previous scholarship, these differences are strategically used by trademark owners to partition the international market as a means to combat product arbitrage by parallel importers. Accordingly, securing an effective free movement of goods in free trade areas also requires the additional condition of eliminating these additional barriers to otherwise legitimate trade through specific mechanisms. Notably, based on the various experienced analyzed above,

this result could be achieved in there different ways: a) by harmonizing product standards, or by enforcing a principle of mutual recognition of national standards amongst members of free trade areas as it has been done in the EU/EEA; or b) by adopting laws and regulations according to which parallel importers could “cure” the different quality of the paralleled imported products through proper label and disclaimers on the products so consumers would not be confused as to the products’ actual quality or origin as it is currently the case in NAFTA Members and some ASEAN Members.

In this respect, it could be supported that only the adoption of uniform products standards across members of free trade areas would eliminate the possibility of using any qualitative product difference as a reason to prevent parallel trade in the long term.<sup>119</sup> Still, obtaining a full-scale standard harmonization is a close to impossible objective, at least in the short term. Moreover, even where members of a free trade area would be willing to engage in this harmonization, as it has been the case in the EU, this is a lengthy process.<sup>120</sup> And not all product standards may be harmonized, as national difference relates to national tastes, available raw materials and ingredients, and consumer preferences. Thus, some product difference may continue to exist even when technical standards are harmonized and in turn these difference could still be used to segment the regional markets within free trade areas. In light of this, the free movement of goods within free trade area could thus be guaranteed only by adopting a principle of mutual recognition of product standards as in the EU/EEA. More generally, adopting this principle could also be a viable alternative to the harmonization of product standards—per se a lengthy and

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<sup>119</sup> See, e.g., Lori M. Wallach, *Accountable Governance in the Era of Globalization: The WTO, NAFTA, and International Harmonization of Standards*, 50 U. KAN. L. REV. 823, 823-24 (2002) (arguing in this context with respect to NAFTA and the WTO that “decades of popular political movements . . . have struggled to ensure that those who will live with the results are able to control the process and outcomes of important policy decisions”).

<sup>120</sup> See discussion *supra* Part II.

nationally controversial process as I just indicated. Still, adopting the principle of mutual recognition results in discriminating between foreign and national products in national markets, which is also controversial.<sup>121</sup> In addition, some authors have noted that adopting this principle may run against the non-discrimination and most-favored-nation principles that all WTO members are supposed to follow as part of their WTO and TRIPS obligations.<sup>122</sup>

Perhaps less controversial, but equally effective, may be the use of labels and disclaimers by the importer. As noted above, this approach is currently applied in several countries.<sup>123</sup> In particular, unauthorized importers can use labels to disclose the quality of the imported products, and the fact that the product is imported by a third party. Thanks to these disclaimers, consumers can purchase products based on an informed judgment about the product's quality and trademark owners can no longer claim that consumers may be confused by qualitative difference that trademark owners implements often simply in order to control international trade.

In summary, although generally opposed by trademark owners because of the additional

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<sup>121</sup> See generally Irish, *supra* note 112, at 350 (stating that “[f]or [mutual recognition] to work effectively, regulators from the involved countries must trust each other and accept that they have obligations extending beyond responsibilities to their own citizenries”). The tension between mutual recognition and national standards “is especially significant for mutual recognition of conformity assessments in which testing, inspection, verification or monitoring of compliance is done in one country and recognized in others.” *Id.*

<sup>122</sup> Generally, it has been affirmed that the EU principle of mutual recognition is compatible with WTO principles, although some doubts in this respect have been raised during the recent enlargement of the EU. See Lorand Bartels, *The Legality of the EC Mutual Recognition Clause Under WTO Law*, 8 J. INT’L. ECON. L. 691 (2005); Kalypso Nicolaidis, *Non-Discriminatory Mutual Recognition: An Oxymoron in the New WTO Lexicon?*, in REGULATORY BARRIERS AND THE PRINCIPLE OF NON-DISCRIMINATION IN WORLD TRADE LAW 267 (2000).

<sup>123</sup> See discussion *supra* Parts III & IV.

pressure that parallel imports create for their business, the exercise of national trademark law should not entail the creation of barriers to the free movement of legitimate genuine products. Accordingly, when blocks of countries create free trade areas in order to take advantage of the benefits of free trade, they should not permit that the national exercise of trademark rights interfere with the free movement of goods across the free trade area so long as the products at issue are genuine. Likewise, trademark owners should not be allowed to object to the free movement of products by relying on differences in quality, particularly when labels or other notices can properly inform consumers about these product differences. To the contrary, the proper functioning of free trade in free trade areas would be jeopardized and trademark protection would wrongfully exceed its scope to the detriment of competition and consumers.

## **VI. Conclusion**

Different trade areas in the world have adopted different solutions with respect to the application of the principle of trademark first sale, or trademark exhaustion, to promote regional market integration. To a large extent, the remaining differences in approaches depend on several factors, which include: the degree of integration that the members of different free trade areas effectively desire to, and realistically can, achieve; the size of their markets, and their respective level of development of the countries; their historical approaches in this area; and so forth. Moreover, as the development of the EU (from the EEC in 1957 to the creation of the internal market in the late 1980s) has demonstrated, the process of market integration in free trade areas is a lengthy

process and national policies on trademark exhaustion can shift overtime.

Still, from the analysis of the market integration achieved to date by, respectively, the EU/EEA, NAFTA, and ASEAN Members, the following conclusions can be derived. First, regional market integration requires, at a minimum, the adoption of uniform national rules providing for the exhaustion of trademark rights internationally or, at least, within the territory of members of a free trade area. Second, effective integration in free trade areas may be jeopardized when material differences in product quality operate as barriers to trade among members, even if members uniformly practice international or regional trademark exhaustion. Thirds, these barriers could nonetheless be overcome by adopting national laws accepting the importation of materially different products with appropriate labels disclosing these differences. And finally, at a more comprehensive level, these barriers could be overcome by harmonizing, or approximating, national product standards or at least by adoption a principle of mutual recognition.

Ultimately, despite the fact that the members of some free trade areas perhaps never intended to create a full-fledged “free market” for the circulation of trademarked products, invoking trademark protection to segment the market of a free trade area against the parallel trade of genuine goods does undermine the purpose of free trade areas. Free trade areas are created specifically in order to eliminate barriers to legitimate trade. This includes invoking (and strategically engineering) differences in product quality as mean to control product distribution



in separated countries, particularly when consumers would not be confused as to the origin and quality of the products because the products carry ad hoc labels dispelling this confusion.