

## SEIZING BLACK AND GRAY COPIES: A PROPOSAL TO INCREASE THE COURTS' POWER IN CIVIL COPYRIGHT INFRINGEMENT ACTIONS\*

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### INTRODUCTION

Copyright piracy is a worldwide phenomenon which directly affects the economic interests of right holders. In the fight against infringers, provisional remedies play a particularly powerful role, however, against a willful infringer may prove ineffectual. Ordering a copyright pirate to discontinue his activities, for example, could be a futile exercise of judicial power.<sup>1</sup> Recognition of the need for specific anti-piracy remedies has led to the enactment of a new provisional measure in R.A. 8293: seizure for impoundment of any article which may serve as evidence. The measure co-exists with the old remedy of ordering the defendant to deliver the infringing articles for impoundment. In terms of compliance with particular international obligations assumed by the Philippines, both remedies are inadequate.

The TRIPS Agreement, to which the Philippines is a signatory, provides that courts must have the authority to order prompt and effective provisional measures to preserve relevant evidence in regard to the alleged infringement, and that the order should issue *inaudita altera parte*<sup>2</sup> where there is a demonstrable risk that the evidence will be destroyed. The common interpretation is that the remedy meant by TRIPS is a civil *ex parte* search order.<sup>3</sup>

This thesis will explore two avenues that would secure conformity with TRIPS: a new remedy of search and seizure order available prior to the institution of a main action for infringement or the amendment of the seizure order in R.A. 8293 by including the power to search and its *ex parte* issuance. The beneficial

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<sup>1</sup> See *Paramount Pictures Corp. v. Doe*, 821 F. Supp. 82, 89-90 (E.D.N.Y. 1994); Paul S. Owens, *Impoundment Procedures under the Copyright Act: The Constitutional Infirmities*, 14 HOFSTRA L. REV. 211, 253 (1985) [hereinafter Owens].

<sup>2</sup> Without notice and hearing.

<sup>3</sup> Unites States Trade Representative (USTR), *Report on Special 301 Annual Review (May 1, 1998)* (accessed 20 August 1999) <<http://usinfo.org/USIA/www.usia.gov/topical/econ/wto/wtxt051b.html>>. International Intellectual Property Alliance (IIPA); *Country Report: the Philippines* (1999) (accessed 12 September 1999) <[http://iipa.com/html/rbc\\_Philippines.html](http://iipa.com/html/rbc_Philippines.html)>; IIPA, *Priority Practices* (accessed 6 September 1999) <[http://www.iipa.com/html/rbi\\_trips\\_priority\\_practice\\_97.html](http://www.iipa.com/html/rbi_trips_priority_practice_97.html)> [hereinafter IIPA, The Philippines].

effects of introducing such a remedy could be rendered nugatory if the constitutional rights of the defendant are not taken into account. It is thus essential that adequate safeguards be likewise conceived and set forth.

The adequacy of the remedies in R.A. 8293 also has another dimension. With respect to the subject matter of judicial impoundment, the ambiguity is whether it is limited to infringing copies, which by implication refer to unlawfully-made articles, or whether lawfully-made goods are likewise included. By this arbitrary distinction, the object of impoundment varies according to the manner of obtaining custody: if through delivery, only *infringing* articles may be seized; if through seizure, "any article which may serve as evidence." Does "any" article include gray market goods?<sup>4</sup> The answer depends on whether R.A. 8293 recognizes, by implication, the copyright owner's right to prevent unauthorized importations. If an implied right of importation does currently exist, then courts can exercise the prerogative to seize these articles once an action for infringement of such right is instituted. However, courts cannot order their delivery. This thesis proposes an amendment of the provision on impoundment through delivery, by redefining the concept of infringing copy in the context of importation.

The issues involved are just as gray as the goods, and the uncertainty is compounded by the fact that R.A. 8293 simultaneously seems to grant customs officers the authority to seize and condemn the lawfully-made articles, prohibited importation, even after completion of the importation stage. In such case, the Bureau of Customs' assumption of jurisdiction would exclude regular courts even if an action for infringement was subsequently instituted. No justification exists for the continued exercise of jurisdiction once release of the goods from Customs has already taken place. Moreover, given Customs' power under the Tariff and Customs Code to search and seize without a warrant, violation of the constitutional right against unreasonable searches and seizures is made possible.

This study will show that the power to search and seize parallel imports pending an action for infringement of the right of distribution or importation should belong exclusively to the courts.

#### *Significance of the Study*

January 1, 2000, was a deadline for the Philippines. On this date, the implementation of its TRIPS commitments was evaluated. One such responsibility is the incorporation of a provision for an *ex parte* civil search order. Failure to accomplish this carries international repercussions. In the past, the United States Trade Representative (USTR) initiated two World Trade Organization (WTO) dispute settlement

<sup>4</sup> Gray market goods, otherwise known as parallel imports, are genuine products protected by copyright that are imported without the authority of the copyright owner in the country of importation. See, e.g., James L. Bikoff & David Wilson, *U.S. Intellectual Property Protection under NAFTA and TRIPS and the Future of U.S. Bilateral Intellectual Property Initiatives, Part I*, 44 *COPYRIGHT WORLD* 27, 29 (Oct. 1994).

proceedings against Denmark and Sweden due to their non-compliance with this requirement, and Sweden was compelled to amend its law in conformity with TRIPS.<sup>5</sup>

It is thus necessary to analyze whether, as claimed by the USTR<sup>6</sup> and the International Intellectual Property Alliance (IIPA),<sup>7</sup> there is a need to include the TRIPS remedy in Philippines' legislation. Even after January 1, 2000, it is not too late to make the necessary adjustments in order to obviate the serious consequences flowing from non-compliance.<sup>8</sup>

The power of the Bureau of Customs and courts to seize parallel imports is another issue of transcending importance, currently dividing nations. If an importation right is in fact recognized by R.A. 8293, the consequences are far-reaching: the importers of parallel goods will have to stop their operations unless they take the risk of having the products seized and forfeited by the Bureau of Customs, even if the importation is already over. This study endeavors to shed light on these highly controversial issues and to propose a solution which will do justice to all the parties involved.

## COPYRIGHT INFRINGEMENT AND REMEDIES

### *A. Background*

#### 1. THE CONCEPT OF COPYRIGHT

The term "copyright" is a misnomer.<sup>9</sup> The expression seems to refer to a right of copying, when in fact it is not so confined. It extends farther afield, granting authors not only the exclusive privilege to copy or reproduce, but also to distribute, perform, or display their creative works. The goal of copyright law is to encourage authors to invest effort in creating new works of art and literature. It also provides the legal foundation for protecting the work of many major industries, including book publishing, motion-picture production, music

<sup>5</sup> USTR Report on Special 301 Annual Review (April 30, 1999) (accessed 22 May 1999) <<http://www.ustr.gov/releases/1999/04/99-41.html>>; USTR Press Release: USTR Announces Resolution of WTO Dispute with Sweden (accessed 23 May 1999) <<http://www.ustr.gov/releases/1998/12/98.pdf>> [hereinafter USTR, 1999 Report].

<sup>6</sup> USTR, 1999 Report *supra* note 5.

<sup>7</sup> IIPA, *supra* note 3.

<sup>8</sup> Cf. USTR, Report on Special 301 Annual Review 1997 (accessed 15 April 1999) <<http://www.usia.gov/topical/econ/wto/wtotxt32.htm>> (noting that in 1997 there were countries in an advance stage of development that did not qualify for the transition, so that they should have been in compliance by then, but without mentioning any proceedings taken against them) [hereinafter USTR, 1997 Report].

<sup>9</sup> PETER GROVES, *COPYRIGHT AND DESIGNS LAW: A QUESTION OF BALANCE* 3 (1991).

recording, and computer-software development. These industries account for considerable economic activity, making copyright law a field of enormous economic importance.<sup>10</sup>

The subject matter of copyright protection however, is not as broad as it seems. Not every product of the human imagination is eligible for copyright. To qualify for copyright protection, a work must be both fixed and original. The law considers a work to be fixed if it is recorded in some permanent format.<sup>11</sup> To be original, the work must not be copied from previously existing material and must display at least a reasonable amount of creativity. Furthermore, copyright only protects the words, notes, or images that the creator has used. It does not protect any ideas or concepts revealed by the work. In other words, it is the expression of ideas that is protected rather than the ideas themselves.

## 2. HISTORY OF COPYRIGHT LAWS

Before the invention of the printing press in Europe in the 15<sup>th</sup> century, copyright law did not exist. The origins of copyright are closely related to the development of printing, which enabled rapid reproduction of books at a relatively low cost. It was the royal government of England which granted a publishing monopoly to a group of publishers members of a guild. Whenever one member of the guild obtained the rights to publish a book, all other members agreed to refrain from competition. This private arrangement was an early form of copyright. It was replaced in 1710 when the British Parliament passed the first real copyright law, the Statute of Anne.<sup>12</sup>

Insofar as the Philippines is concerned, the first known copyright law was the Spanish Law on Intellectual Property of January 10, 1879, which was extended to the Philippines by the Royal Decree of May 5, 1887. The United States Copyright Law substituted it when Spain ceded the Philippines to the United States of America under the Treaty of Paris of December 10, 1898. On March 6, 1924, the Philippine Legislature enacted Act No. 1314, entitled "An Act to Protect Intellectual Property", which was rooted mainly in the American Copyright Law of 1909.<sup>13</sup> Republic Act No. 136, "The Civil Code of the Philippines", which took effect on August 30, 1950, provided for the modes of acquiring ownership of intellectual creations.<sup>14</sup> Presidential Decree No. 49,

<sup>10</sup> Roger E. Schechter, *Copyright*, Microsoft Encarta Encyclopedia 1999.

<sup>11</sup> *Id.* (acceptable ways of fixing a work include writing it down, storing it on a computer floppy disk, recording it on videotape, or sculpting it in marble).

<sup>12</sup> E.P. SKONE JAMES & J.F. MUMMERY, *COPINGER AND SKONE JAMES ON COPYRIGHT* 3-4 (13th ed. 1991) [hereinafter *COPINGER*].

<sup>13</sup> IGNACIO S. SAPALO, *BACKGROUND READING MATERIAL ON THE INTELLECTUAL PROPERTY SYSTEM OF THE PHILIPPINES* 133 (1994).

<sup>14</sup> R. A. 386, Civil Code of the Philippines, Art. 721 to 723 (1950).

otherwise known as the "Decree on Intellectual Property," took effect on December 15, 1972. It is significant that even the 1987 Philippine Constitution recognizes the importance of intellectual property.<sup>15</sup>

The latest law on copyright protection is Republic Act No. 8293, otherwise known as the Intellectual Property Code of the Philippines (R.A. 8293), which took effect on January 1, 1998.

## 3. TREATIES: TRIPS

It is a well-established principle that copyright is territorial in nature; protection under a given copyright law is available only in the country where that law applies. Thus, for works to be protected outside the country of origin, it is necessary for the country to conclude bilateral agreements with countries where the works are used.<sup>16</sup> Treaties are the connecting factor of international copyright.<sup>17</sup> As a result of the need for a uniform system of protection, the first international agreement for protection of the rights of authors was concluded and adopted on September 9, 1886, in Berne, Switzerland: the Berne Convention for the Protection of Literary and Artistic Works. On August 1, 1951, the Philippines acceded to the Berne Convention as revised in Brussels in 1948.

Another significant treaty is the International Convention for the Protection of Performers and Producers of Phonograms and Broadcasting Organizations, otherwise known as the Rome Convention. It was adopted at Rome on October 26, 1961 and was acceded to by the Philippines on September 25, 1984.

Thirty years later, on December 15, 1993, the negotiations under the Uruguay Round in the framework of the General Agreement on Tariffs and Trade (GATT) were concluded. One of the many areas of discussions was intellectual property rights (IPRs) which were not covered under the GATT regime.<sup>18</sup> The result of the negotiations is contained in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Agreement was formally signed at Marrakech in Morocco on April 15, 1994, as an annex to the Agreement establishing the World Trade Organization, and entered into force on January 1, 1996. The Philippines acceded to TRIPS on December 14, 1994.

<sup>15</sup> 1987 PHILIPPINE CONSTITUTION, Art. XIV, § 13 provides: "The State shall protect and secure the exclusive rights of scientists, inventors, artists, and other gifted citizens to their intellectual property and creations, particularly when beneficial to the people, for such period as may be provided by law."

<sup>16</sup> THE INTERNATIONAL BUREAU OF WIPO, *110 Years of the International Protection of Copyright and Neighboring Rights: Berne 1886 – Geneva 1996*, at 2 (Dec. 9-12, 1997) (WIPO Regional Symposium on Copyright and Neighboring Rights for Asian and Pacific Countries, Manila) [hereinafter *WIPO Regional Symposium*].

<sup>17</sup> (WIPO Regional Symposium, *supra* note 18). Maria P. Trinidad Villareal, *The Philippines: the Protection of Copyright and Neighboring Rights under the Present Copyright Decree and the New Intellectual Property Code* 1.

<sup>18</sup> The International Bureau of WIPO, *supra* note 18, at 2.

TRIPS was conceived because of the perceived toothlessness of the Paris and Berne Convention in the face of the significant growth of a global trade in pirated and counterfeit products, together with the failure of WIPO to achieve significant amendment of the Paris Convention.<sup>19</sup> TRIPS is probably the most significant development in international intellectual property law this century.<sup>21</sup> Its importance rests in its enforcement provisions rather than its mention of rights.<sup>22</sup> The Agreement stands unique among international copyright compacts in the sophistication of its enforcement mechanisms.<sup>24</sup>

The TRIPS Agreement provides for the administrative and judicial enforcement of intellectual property rights and includes provisions for border control of the trade in infringements. The immediate impact of the TRIPS Agreement can be seen in the explosion of legislation bringing national statutes into line with TRIPS norms.<sup>25</sup>

#### B. Copyright Infringement: The Economic Rights

Sections 216.1, 217.1, and 217.3 of R.A. 8293 provide the civil and criminal liability that any person "infringing" a right protected by copyright will incur. The law does not set forth any express definition of infringement; however, it can safely be stated that it is the violation of the exclusive rights<sup>24</sup> of the copyright owner, subject to various limitations, exceptions and exclusions.<sup>25</sup> The violation consists of the unauthorized use of works protected by copyright, when authorization for such use is required by law.<sup>26</sup> Therefore, anyone who trespasses into the copyright owner's exclusive domain by using or authorizing the use of the copyrighted work in one of the seven ways set forth in the statute is an

<sup>19</sup> MICHAEL BLAKENEY, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A CONCISE GUIDE TO THE TRIPS AGREEMENT, preface (1996)

<sup>20</sup> *Id.*

<sup>21</sup> The TRIPS Agreement adopts portions of the Berne, Rome and Paris Conventions in providing for copyright rights.

<sup>22</sup> MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT 18-67 (1999)[hereinafter NIMMER ON COPYRIGHT]. (Other treaties which incorporate enforcement provisions are the North American Free Trade Agreement (NAFTA) (Dec. 17, 1992), the WIPO Copyright Treaty (WCT) (1996) and the WIPO Performances and Phonograms Treaty (WPPT) (1996). NAFTA's chapter on intellectual property is for the most part identical in substance to TRIPS.)

<sup>23</sup> WIPO Regional Symposium, *supra* note 18, at 2.

<sup>24</sup> R.A. 8293, §§ 177, 193, 203, 204, 208, 211 (1998).

<sup>25</sup> *Id.* § 217.3. According to the Intellectual Property Office (IPO) Rules, "infringement of copyright and related rights" means any violation of the rights provided under Part IV of the IP Code, including the act of any person who...has in his possession an article which he knows or ought to know to be an infringing copy of the work, for the purpose of selling or trade offering

<sup>26</sup> WIPO, INTRODUCTION, *supra* note 9, at 6.

infringer of the copyright. When there is no contractual relation between the parties, copyright infringement is considered a tort.<sup>27</sup>

Since infringement can be committed only by violating one or some of the rights expressly provided by the law on copyright, a brief enumeration of these statutory grants is necessary. R.A. 8293 specifies the seven exclusive rights that attach to works protected by copyright: the right to *reproduce*, to *prepare derivative works*, to *distribute*, to *rent*, to *display*, to *perform*, and in other ways to *communicate* to the public. Taken together, these rights encompass virtually all economically significant uses of works protected by copyright.<sup>28</sup> For purposes of this thesis, only the right of reproduction and distribution will be discussed, as these are the most important for anti-piracy purposes.<sup>29</sup>

Significantly, one right not mentioned among the seven basic economic rights is the right of importation. While R.A. 8293 does not expressly recognize said right, it can be inferred by a reading of Section 190.1, cross-referenced with Sections 177.3 and 184.2 of R.A. 8293.<sup>30</sup> There are, however, serious doubts as to whether a right of importation is impliedly recognized by R.A. 8293.<sup>31</sup> A thorough discussion of this right is reserved for the next chapter.

The right of reproduction is the right of the owner of copyright to exclude others from making copies of his protected work. Not only copyright owners have these rights but also holders of neighboring rights; performers and producers of sound recordings and broadcasting organizations.<sup>32</sup> The definition in Section

<sup>27</sup> IPAP Committee on the Workshop on Intellectual Property Protection, *The Emerging Practice in Intellectual Property Law in the Philippines*, JIBP JOURNAL 73 (1985).

<sup>28</sup> VICENTE B. AMADOR, COPYRIGHT UNDER THE INTELLECTUAL PROPERTY CODE 619 (1st ed. 1998). For example, if the work protected by copyright is a novel, the reproduction right will prohibit the unauthorized production of copies of the novel; the right to prepare derivative works will prohibit the novel's unauthorized translation or its adaptation into a motion picture; the distribution right will prohibit the unauthorized sale or other transfer of copies of the novel to the public; the performance right will prohibit the unauthorized public recital of excerpts from the novel; the display right will prohibit the unauthorized projection of pages from the novel.. The right to communicate the novel in other ways to the public will prohibit its being posted on the Internet or e-mailed.

<sup>29</sup> WIPO Regional Symposium, *supra* note 18. Giouws Jui Chian, *The Impact of Piracy and the Ways and Means to Fight it: an Industry Perspective* (doc. WIPO/CNR/MNL/97/9) 5.

<sup>30</sup> It is submitted that the cross-references in the law to §§ 177.6 and 185.2 are an oversight. See AMADOR, *supra* note 30, at 557.

<sup>31</sup> IIPA, The Philippines, *supra* note 3.

<sup>32</sup> R.A. 8293, § 203.2 (1998). Performers have the right of authorizing the direct or indirect reproduction of their performances fixed in sound recordings. § 208. Producers of sound recordings have the right to authorize the direct or indirect reproduction of their sound recordings. (§ 211). Broadcasters have the exclusive right to carry out, authorize or prevent the recording in any manner of their broadcasts for the purpose of television broadcasts of the same.

211 of the Code incorporates this related rights by defining "reproduction" as the making of one or more copies of a work or a sound recording in any manner or form.

The "right of distribution" has two exceptions. The first is the exclusive right of the copyright owner to carry out, authorize or prevent the first public distribution of the original and each authorized copy of the work by sale or other forms of transfer of ownership.<sup>33</sup> The second is the exclusive right to prevent distribution of unauthorized copies, unlimited by the right of first public distribution. Unlike the other rights of copyright, the distribution right is infringed by mere transfer of copies of the work, whether lawfully or not.<sup>34</sup> One reason for the grant of the distribution right is the desire to give a copyright infringement claim against a wholesale or retail seller of infringing copies where the actual manufacturer, who is infringing the right of reproduction, is difficult to find. For example, a cartoonist has a copyright infringement claim against a retail store selling t-shirts imprinted with an infringing picture of the cartoonist's character protected by copyright. Without such distribution right, the cartoonist would be left without an effective claim, for the retail store would allege to be ignorant of where this particular item came from, and the shirts may have been printed by a pirate manufacturer impossible to locate.<sup>35</sup>

The right to control distribution is exhausted after the first sale of the original and copies, provided it was an authorized sale, which means that the first buyer must have lawfully acquired the original or copies of the work. In such case the copyright owner who has sold the article has parted with the right to control its further sale. The owner of the lawfully-acquired original or copies of the work may then dispose of the original or copies in any manner by sale, donation or even destruction, without liability to the copyright proprietor.<sup>36</sup>

But while the purchaser of a book sold by authority of the owner of the copyright may resell it, he cannot publish a new edition or he would be infringing the right of reproduction. Neither can he create a derivative work from it. It must be stressed that the first sale doctrine exhausts only the right of distribution. The act that exhausts the copyright owner's distribution right is the first transfer of ownership, not a mere transfer of possession as rental for example.<sup>37</sup>

<sup>33</sup> R.A. 8293, § 177.3 (1998).

<sup>34</sup> AMADOR, *supra* note 30, at 298.

<sup>35</sup> MACCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 104 (1991 ed.), *cited in* AMADOR, *supra* note 30, at 298.

<sup>36</sup> ROBERT A. GORMAN, FEDERAL JUDICIAL CENTER, COPYRIGHT LAW 80 (1991), *cited in* Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1186, 1194 n.46 (1994). Without this provision, the exclusive distribution right would prohibit the unimpeded disposition of copyrighted products in the stream of commerce and would go so far as to prevent the sale of used books at garage sales or second-hand bookstores.

<sup>37</sup> R.A. 8293, §§ 203.3 and 208.2 (1998). But performers and producers of sound recordings have the right of authorizing the first public distribution of the original and copies of their performance and sound recordings, respectively, also through rental.

### C. Remedies

A comprehensive system for granting rights is pointless if their enforcement is not satisfactory. Intellectual property systems need to be underpinned by a strong judicial system, indispensable to which are appropriate provisional measures.<sup>38</sup>

#### 1. REMEDIES UNDER PHILIPPINE LAW

Under Philippine law, an act of infringement gives rise to civil, criminal or administrative liability. Judicial civil remedies can be classified into final and provisional. The following are the final remedies: final injunction permanently restraining the infringement;<sup>39</sup> payment of actual damages, legal costs, other expenses, profits;<sup>40</sup> delivery by the infringer for destruction without any compensation, of all infringing copies or devices, as well as all plates, molds, or other means for making such infringing copies;<sup>41</sup> destruction, without any compensation, of the same.<sup>42</sup>

The provisional remedies are delivery by the infringer for impounding of all sale invoices and other documents evidencing sales, all articles and their packaging alleged to infringe a copyright and implements for making them;<sup>43</sup> seizure of evidence;<sup>44</sup> also the measures in the Rules of Court that are appropriate in the infringement context such as: preliminary injunction;<sup>45</sup> preliminary attachment;<sup>46</sup> discovery procedures;<sup>47</sup> and subpoena.<sup>48</sup>

Of these provisional measures, this thesis will focus on delivery for impoundment and seizure for impoundment. The pertinent provisions of R.A. 8293 read:

<sup>38</sup> See WIPO, INTRODUCTION, *supra* note 9, at 319, 329.

<sup>39</sup> R.A. 8293 § 216.1(a)(1998).

<sup>40</sup> *Id.* § 216.1(b).

<sup>41</sup> *Id.* §216.1(d).

<sup>42</sup> *Id.* §216.1(e).

<sup>43</sup> *Id.* §216.1(c).

<sup>44</sup> *Id.* § 216.2.

<sup>45</sup> 1997 Revised Rules of Court, Rule 59.

<sup>46</sup> *Id.* Rule 57.

<sup>47</sup> *Id.* Rule 27.

<sup>48</sup> *Id.* Rule 21.

Section 216.1. Any person infringing a right protected under this law shall be liable:

...

c) Deliver under oath, for impounding during the pendency of the action, upon such terms and conditions as the court may prescribe, sales invoices and other documents evidencing sales, all articles and their packaging alleged to infringe a copyright and implements for making them.

Section 216.2. In an infringement action, the court shall also have the power to order the seizure and impounding of any article which may serve as evidence in the court proceedings.

In addition, this study will analyze the following administrative measure, provided in Section 190.1:

[T]he Commissioner of Customs is hereby empowered to make rules and regulations for preventing the importation of articles the importation of which is prohibited under this Section and under treaties and conventions to which the Philippines may be a party and for seizing and condemning and disposing of the same in case they are discovered after they have been imported.

This provision will be examined in connection with Section 216.1(a), which provides:

The court may also order..., among others, to prevent the entry into the channels of commerce of imported goods that involve an infringement immediately after customs clearance.

## 2. REMEDIES UNDER TRIPS

### a) Overview

A brief overview of the enforcement structure of TRIPS reveals its novelty. Part III of the TRIPS Agreement obliges Members to establish a comprehensive enforcement regime:

- Section 1<sup>49</sup> enunciates the general obligations that all enforcement procedures must meet. These are aimed at ensuring effectiveness and at ensuring that certain basic principles of due process are met.

<sup>49</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, art. 41 [hereinafter TRIPS].

- Section 2<sup>50</sup> requires that civil judicial procedures must be available in respect of any activity infringing intellectual property rights covered by the Agreement. These provisions detail basic features which such procedures must contain. For example, to ensure fair and equitable proceedings and that, under certain conditions, there must be a means for the opposing party to be ordered to produce relevant evidence. Available remedies must include injunctions, damages, and, in certain situations, the forfeiture and destruction or disposal of infringing goods and the materials and instruments used to produce them.
- Section 3<sup>51</sup> deals with provisional measures. Each country must ensure that its judicial authorities have the power to order prompt and effective provisional measures both to prevent infringing activity from occurring and to preserve relevant evidence. The judicial authorities must, where appropriate, be able to adopt provisional measures without a prior hearing of the party that might be subject to them.
- Section 4<sup>52</sup> refers to border measures. Border action acts as a safety net in the event that enforcement at source has not taken place, at least in respect of pirated goods, which is the most blatant type of infringing activity. The provisions require each member to provide a means by which right holders can obtain the cooperation of customs authorities to suspend the release into free circulation of infringing goods. The remedies available to the competent authorities must include the destruction or disposal of such goods.
- Section 5<sup>53</sup> concerns criminal procedures. Members must make provisions for these procedures to be applied, at least in cases of copyright piracy on a commercial scale. Sanctions must be sufficient to provide a deterrent. Criminal remedies in appropriate cases must also provide for the seizure, forfeiture and destruction of the infringing goods and of materials and instruments used to produce them.

### b) Provisional remedies

These measures can be imposed to prevent infringement in advance, to prevent infringing goods from entering the stream of commerce, and to preserve relevant evidence.

<sup>50</sup> *Id.* art. 42-49.

<sup>51</sup> *Id.* art. 50.

<sup>52</sup> *Id.* art. 51-60.

<sup>53</sup> *Id.* art. 61.

Article 50.1 is the central provision around which this thesis revolves. It provides:

The judicial authorities shall have the authority to order prompt and effective provisional measures:

- (a) to prevent an infringement of any intellectual property right from occurring...;
- (b) to preserve relevant evidence in regard to the alleged infringement.

To grasp its complete meaning, the provision must be read in conjunction with Article 50.2, to wit:

The judicial authorities shall have the authority to adopt provisional measures *inaudita altera parte* where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed.

TRIPS also provides the degree of evidence that needs to be adduced before the courts will issue the provisional remedies: "reasonably available evidence" in order to satisfy the courts "with a sufficient degree of evidence that the applicant is the right holder and that the applicant's right is being infringed or that such infringement is imminent."<sup>54</sup>

The Agreement does not require *ex parte* remedies without providing safeguards for the defendant's rights. A security or equivalent assurance must be furnished by the applicant,<sup>55</sup> the party affected shall be notified at the latest after the execution of the measure, and shall be entitled to a review, which includes the right to be heard.<sup>56</sup> Appropriate compensation for the injury caused to him by an unjustified measure will have to be paid.<sup>57</sup>

#### c) Border Measures and other Remedies Preventing Distribution of Imported Goods

Piracy is by no means an exclusive national activity, it is very much an international operation. Border measures are intended to prevent infringing copies, or *lawful copies in violation of the right of importation*, from being brought

<sup>54</sup> TRIPS *supra* note 51, Art 50.3.

<sup>55</sup> *Id.*

<sup>56</sup> *Id.* art. 50.4

<sup>57</sup> *Id.* art.50.7

into the country concerned.<sup>58</sup> Customs, and not the judicial authorities, are usually encharged with carrying out these measures.<sup>59</sup>

Article 51 of TRIPS, entitled *Suspension of Release by Customs Authorities* provides:

Members shall... adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of ...pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods.

Note 14(a):

"pirated copyright goods" shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

TRIPS does not, therefore, cover gray market goods.<sup>60</sup>

The provision which refers to the stage after release by Customs of the goods is Article 50.1(a):

The judicial authorities shall have the authority to order prompt and effective provisional measures:  
... in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance.<sup>61</sup>

<sup>58</sup> WIPO, INTRODUCTION, *supra* note 9, at 330. They constitute an effective way to counter acts of infringement, because it is frequently easier to prevent the distribution of infringing copies at the border than after the copies have already been brought into the country and put into circulation.

<sup>59</sup> *Id.*

<sup>60</sup> See *supra* note 4 and accompanying text (for definition); see also Charles E. Buffon and Ronald G. Dove, Jr., *A Not-So-Gray-Area: The Use of Copyright to Combat Parallel Imports into the United States* <<http://www.ipmag.com/buffon2.html>> (accessed 10 May 1999).

<sup>61</sup> TRIPS, *supra* note 51, art. 50.8. Such measures can also be ordered as a result of administrative procedures, provided they conform to the principles enunciated for judicial authorities. TRIPS, Article 50.8.

## CHAPTER III

## THE NEED TO PROVIDE FOR INCREASED JUDICIAL POWER

Courts are the proper forum copyright owners should turn to for redress; however, very few copyright owners decide to enforce their rights in court.<sup>62</sup> There are several reasons for such reluctance: long proceedings, high litigation expenses, and the fear that after going through the whole ordeal, they will not obtain the redress hoped for. Furthermore, the provisional remedies are not truly effective in protecting the copyright owner's interests pending determination of his claims, particularly in civil copyright infringement actions. The need for adequate measures is even more evident in the case of copyright piracy. One such essential provisional remedy is seizure for impoundment of the articles involved in the litigation, in order to prevent the destruction of the articles and further infringements by continued sales.

As will be shown, the power of impoundment of the courts is deficient in two respects: to infringing goods, and to parallel imports.

*A. Seizure for Impoundment of Infringing Goods:  
Non-Compliance with the TRIPS Requirement*

Under the TRIPS there is an obligation for member states to empower courts with the authority to order prompt and effective provisional measures to prevent an infringement from occurring and to preserve evidence of the infringement.

## 1. THE TRIPS REQUIREMENT: CIVIL EX PARTE SEARCH ORDER

Article 50.1(b) provides that "the judicial authorities shall have the authority to order prompt and effective provisional measures ...to preserve relevant evidence in regard to the alleged infringement." The Article must be read jointly with Article 50.2, which provides that judicial authorities must have the authority to adopt provisional measures *inaudita altera parte* where appropriate, in particular where there is a demonstrable risk of evidence being destroyed.

USTR Charlene Barshefsky explains what is it meant by the TRIPS provision:

Courts must be granted the ability to order unannounced raids to determine whether infringement is taking place and to *either*

<sup>62</sup> (WIPO Regional Symposium, *supra* note 18) Inocencio P. Ferrer, Jr., *Copyright Piracy: the Philippine Experience* 3-7 (noting that copyright piracy proliferates because even copyright owners seem disinclined to enforce their rights against infringers) In the Philippines, the different industries which remain plagued with the problem of piracy are software, video, music and publication. *Id.*, at 7, 19.

seize allegedly infringing products as evidence *or* to order that allegedly infringing activities be stopped pending the outcome of a civil infringement suit.<sup>63</sup>[italics supplied]

Therefore, it is considered that the TRIPS requirement will be satisfied either by a search and seizure order or by a search and injunction order in any of the two cases without giving advance notice to the infringer. Either order is commonly referred to as a civil *inaudita altera parte* search order. Its availability in the context of civil proceedings is thought to be of particular importance to the software industry, as well as to other industries dependent upon intellectual property protection.<sup>64</sup>

The first question to be determined is when the order should be made available to copyright owners. Such determination involves an analysis of the TRIPS concept of "provisional measures."

a) A different concept: provisional civil remedy prior to the main action

There are two concepts of provisional remedies; those available during the pendency of an action meant to preserve certain rights and interests of the litigant for purposes of the ultimate effects of a final judgement and those without having any main action. Those writs and processes available in the Philippines belong to the first category. Second are also known as ancillary or auxiliary remedies. They are temporary and are mere incidents in and dependent upon the result of the main action.<sup>65</sup>

However, this is true only of judicial provisional remedies. There is one "provisional, contingent" remedy, issuable prior to a main action, but not by the courts: the sequestration order of the Presidential Commission on Good Government (PCGG).<sup>66</sup>

Moreover, in other jurisdictions the concept of judicial provisional remedies itself is different. Provisional measures can be applied for and granted without having any main action instituted.<sup>67</sup>

Given the two opposite concepts of judicial provisional measures, it is necessary to establish which of them is contemplated by TRIPS, and in this regard it is submitted that TRIPS contemplates the second concept for the following reasons:

First, Article 50.6 of TRIPS provides that provisional measures "shall, upon request by the defendant, be revoked or otherwise cease to have effect, if

<sup>63</sup> USTR, 1997 Report, *supra* note 8.

<sup>64</sup> USTR, 1999 Report, *supra* note 5.

<sup>65</sup> FLORENZ D. REGALADO, REMEDIAL LAW COMPENDIUM 606 (6th ed., 1997).

<sup>66</sup> See *infra* notes 231-242 and accompanying text.

<sup>67</sup> This is the case in United Kingdom (U.K.).

proceedings leading to a decision on the merits are not *initiated* within a reasonable period,...." (italics supplied)

Second, from an analysis of the conceptual framework of TRIPS, it becomes apparent that the drafters of TRIPS had in mind the second concept of provisional measures. Their separate setting in Section 3, instead of an integration within the civil and administrative procedures (Section 2), or within the criminal procedures (Section 5) shows that they are seen as independent remedies.<sup>68</sup> As explained by Professor Karnell "provisional measures are *preparatory* ones. They shall be provided irrespective of categorization of possible ensuing legal proceedings as civil, administrative or criminal."<sup>69</sup>

Third, these measures were established to aid in the fulfillment of the general obligation of members to ensure that enforcement procedures under their law permit effective action against any act of infringement of intellectual property rights, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements (Article 41.1). In fact, the obligation under Article 41.1 was established due to the fact that piracy is a top priority for many categories of right holders. It is a recognition in the context of piracy often carried out as an organized activity,<sup>70</sup> that the effectiveness of final remedies to be adjudicated in the main action, without independent provisional remedies, may be jeopardized for a number of reasons.

In the first place, the "pirate" organizer of the making and distributions may be using a network of sales outlets of an impermanent nature. The copyright owner may be confronted with a situation where it is possible to locate only a small proportion of these outlets, without being able to prove any linkage between them, or any common source of supply. A remedy should then be made available to the copyright owner to assist him in determining whether in fact infringing activity is being carried out in a suspected location, before the initiation of the action.

Second, the service of a writ commencing an action for infringement, by giving notice to the pirate or to those distributing the works which he has illegally reproduced may precipitate the destruction of vital evidence required to indicate the source of supply and the extent of sales which have taken place. This is why

<sup>68</sup> Gunnar W.G. Karnell, *First Step Protection - the Internationalisation of Systems for Civil Inaudita Altera Parte Search Procedures*, 71 COPYRIGHT WORLD 34, 35 (June/July 1997) [hereinafter Karnell].

<sup>69</sup> *Id.*

<sup>70</sup> To the consumer, only the end of the distribution network will be visible, in the form of one sales outlet selling a pirated product. However, behind one such outlet lies a systematically organized illicit enterprise, which illegally reproduces the work and distributes it to the public via a number of such sales outlets. WIPO, INTRODUCTION, *supra* note 9, at 166.

once a pirate has been located (which is not always easy), immediate action must be taken to seize infringing goods and implements, to avoid the displacement of such equipment and the opening of a new factory a few kilometers away.

Finally, since piracy involves an international dimension, there is a risk that the financial resources and other assets of a pirate may be removed from the jurisdiction in which legal proceedings are commenced against him, thereby depriving the copyright owner of the possibility of recovering damages.<sup>71</sup>

These reasons accentuate the need for preliminary remedies in the sense used by TRIPS which may be obtained speedily, and which will assist in the collection of evidence against the pirate, prevent the destruction of evidence and the removal of financial resources against which damages may be claimed.<sup>72</sup>

In the Philippine setting, the only judicial recourse available without prior institution of an action, issuable without notice and hearing and which satisfies the manifested purpose of preserving the evidence would be the search warrant.<sup>73</sup> There seems to be no controversy as to the availability of search warrants in copyright cases since infringement of copyright is a crime under R.A. 8293.<sup>74</sup>

However, one common concern expressed by the USTR, the WTO Council on TRIPS, IIPA, and the International Chambers of Commerce (ICC), among others, is that Article 50.2 cannot be satisfied simply by the criminal remedy of a search warrant.<sup>75</sup> The opinion was expressed that being forced to depend on governmental authorities for redress is inefficient and often renders justice unobtainable because of other demands upon the criminal justice system.<sup>76</sup>

<sup>71</sup> Also, another strategy of pirates is trying to avoid legal action and delaying any such action until they can set up shop elsewhere.

<sup>72</sup> *Id.* at 169.

<sup>73</sup> 1997 Revised Rules of Court, Rule 126, § 1.

<sup>74</sup> R.A.8293, §§ 217.1 and 271.2 (1998).

<sup>75</sup> USTR, 1998 Report, *supra* note 3; IIPA, *The Philippines*, *supra* note 3; IIPA, *Priority Practices*, *supra* note 3; ICC, *Report on Implementation of TRIPS enforcement provisions* (16 June 1997) (accessed 3 August 1999) <[http://www.iccwbo.org/home/intellectual\\_property/tripse.asp](http://www.iccwbo.org/home/intellectual_property/tripse.asp)> [hereinafter ICC.Report].

<sup>76</sup> Richard E. Neff, *Mexican Copyright Protection: Proposals for Better Legislation and Enforcement* (accessed 24 July 1999) <<http://natlaw.com/pubs/usmxmlaw/usmjnm27.htm>>. In *Australia, the majority of enforcement actions are handled through civil proceedings, one of the reasons being the lower level of evidence required*. Susan Farquhar, *Provisional and Border Measures* (Taipei, 19 July 1997) (accessed 20 April 1999) <[http://www.ipaustralia.gov.au/about/speeches/sf\\_spch.html](http://www.ipaustralia.gov.au/about/speeches/sf_spch.html)> [hereinafter Neff].

Corollarily, it would appear that the Philippine provisions on search warrants are inadequate.<sup>77</sup>

What is required is a civil protective remedy not predicated on the subsequent institution of criminal complaint. Such a remedy is called a civil *inaudita altera parte* search order.<sup>78</sup> This order provides better security, since the notice that is dispensed with is not just the notice of the search<sup>79</sup> but any previous notice of proceedings instituted in court against a defendant,<sup>80</sup> as there will be no main action necessitating the service of summons.

The reasons for this view have already been explained above. However, the conceptual framework aspect of TRIPS should be referred to again, since it lends additional support. In this regard, a connection can be made between the civil *inaudita altera parte* search order under the heading "Provisional Remedies" in Section 3 of Part III and another remedy dealing with evidence, namely, Article 43, which is situated in Section 2. These two sections are complimentary and interlinked, since they intend to provide both final and provisional remedies to right-holders in civil infringement proceedings.<sup>81</sup> Article 43 requires that civil courts have the power to order an opposing party to produce evidence within its control if relevant to the substantiation of an infringement claim. The remedy is available after the institution of a main action. In an ideal world, this delivery could satisfactorily be obtained in the usual course of discovery. However, often times a plaintiff has grounds for believing that a defendant, if given notice of the application, would not be scrupulous in ensuring the preservation of the status quo and may dump the infringing products and destroy all records and documentation.<sup>82</sup> And since the power of the courts to order the delivery of evidence can be exercised only after an action is commenced,

<sup>77</sup> See generally SRI INTERNATIONAL-WASHINGTON STUDY, IMPROVING ADJUDICATION PROCEDURES FOR THE RESOLUTION OF INTELLECTUAL PROPERTY RIGHTS CASES IN THE PHILIPPINES: THE MAIN REPORT 42-46 (1994), for an exposition of the difficulties encountered in obtaining and enforcing a search warrant. Also, for a discussion of the bottlenecks in the investigation and prosecution of intellectual property cases.

<sup>78</sup> IIPA, *The Philippines*, *supra* note 3.

<sup>79</sup> *But see* Neff, *supra* note 78 (emphasizing merely that the infringer should not be informed of the search).

<sup>80</sup> Professor Karnell goes further than Neff and argues that right holders need "efficient first step protection, i.e. measures that can be activated *before ordinary civil or criminal law procedures are instituted*". [italics supplied] Karnell, *supra* note 70, at 34.

<sup>81</sup> IIPA, *The Philippines*, *supra* note 3.

<sup>82</sup> C. Mary Still, COPYRIGHT LITIGATION, IN SYMPOSIUM LAW AND PRACTICE 106,111 (Copyright Society of Australia Inc. and Australian Copyright Council Ltd., 1-2 Sept. 1983). Once a professional infringer is notified of the proceedings initiated against him, most likely he will waste no time in destroying, or removing and hiding the infringing goods and implements for their fabrication.

the defendant must necessarily be notified of its institution, according to basic procedural requirements contained in the TRIPS itself.<sup>83</sup> In most cases, in the intellectual property context, evidence of infringement can be destroyed upon a moment's notice. What has been found to happen in practice is that as soon as a writ is served on the alleged infringer, the stock of infringing copies disappears, together with the equipment used for making them.<sup>84</sup> For example, if a pirating syndicate uses videocassette copying devices to make numerous copies of a movie hit, advance notice to the offending party of an impending search will lead to the disappearance of both the copyright devices and the infringing videocassettes.<sup>85</sup> The situation is even more delicate in the case of the illegal duplication of computer software.<sup>86</sup> Characteristic of digital illegality is, its easy concealment. Software programs are cheaply and easily copied and typically speedily erased, once the infringer becomes suspicious of possible legal action against him.<sup>87</sup> The party that had suffered harm would be unable to prove injury and might even face a countersuit.<sup>88</sup> The prevalence of piracy has led to recognition by the courts that the normal procedure whereby a copyright owner can seize infringing copies and equipment for making them *only after proceedings have begun* does not adequately protect his interests.<sup>89</sup>

Therefore, a remedy should exist to preserve that evidence until the time when the power under Article 43 can be exercised in cases where there is a demonstrable risk that the opposing party may destroy it, i.e., a professional infringer. Hence, the civil *inaudita altera parte* search remedy of Article 50(1)(b) is a logical and necessary corollary to the civil power of Article 43(1).<sup>90</sup> This remedy is also considered to be included in the general concept of effective action against infringement under Article 41.1, since it prevents the destruction of evidence necessary to establish a case of illegal copying.<sup>91</sup>

<sup>83</sup> TRIPS, *supra* note 51, art. 42.

<sup>84</sup> JEREMY PHILLIPS ET. AL., WHALE ON COPYRIGHT 89 (4th ed., 1993)[hereinafter WHALE ON COPYRIGHT].

<sup>85</sup> Neff, *supra* note 78.

<sup>86</sup> A surprising amount of illegal copying is undertaken by otherwise legitimate and law abiding enterprises, universities and other users, that have bought or otherwise legitimately come to possess licensed programs, but use them for unauthorized duplication within an organization. End-user piracy cases are by no means exceptional. In addition, many illegal software copies stem from dealers within or without economic crime environments. Karnell, *supra* note 70, at 34.

<sup>87</sup> *Id.*

<sup>88</sup> Neff, *supra* note 78.

<sup>89</sup> WHALE ON COPYRIGHT, *supra* note 86. *But see infra* Chapter V.A the solution proposed by the writer.

<sup>90</sup> IIPA, *Priority Practices*, *supra* note 3.

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

## b) Search and seizure rather than search with injunction

Reiterating the USTR view, the TRIPS requirement can be fulfilled either by a search and seizure order or a search order coupled with injunction.<sup>92</sup>

It is submitted that the most effective search order will be the first one for the following reasons:

1. The evidence that will be presented in court using the second order will consist only of testimonies of persons present during the search, therefore, only if the activities are patently infringing will the search effectively enable a determination of whether infringement is taking place. The case that the copyright owner will be able to build would be weaker than if the first remedy is used, wherein it is possible to present the infringing objects themselves. In the second case it is possible that these items will not be available for inspection by the court at all, since they remain in the possession of the alleged infringer and he can still destroy them after the search is conducted.

2. The purpose of the TRIPS order is not so much to *obtain* evidence of the infringement, which is what the search with injunction will do, but to preserve the relevant evidence in regard to the alleged infringement, that is, the infringing goods themselves, and this is achieved by seizing the goods, thus effectively preventing a willful infringer from destroying them.

Moreover, practice shows that the injunction issued against a copyright pirate will prove futile since the illegal activities will merely continue<sup>93</sup> and the infringing goods which are not seized may still be sold, and thus, the copyright owner's right of distribution infringed.

To summarize, the interpretation of the requirements in TRIPS for remedies is:

- The order must allow the seizure of *all*<sup>94</sup> infringing copies and implements in plain view;

<sup>92</sup> See *supra* note 65 and accompanying text.

<sup>93</sup> Cf. *Paramount Pictures Corp. v. Doe*, 821 F. Supp. 82, 89-90 (1994) (implying that "savvy film pirates" are likely to disregard an order from the court preventing them from disposing of or destroying any videocassettes on their business premises); Owens, *supra* note 1, at 253 (suggesting that impoundment may be necessary where defendants are primarily engaged in infringing conduct).

<sup>94</sup> Not just for evidentiary purposes.

- In addition it would also allow search of other infringing copies not in plain view;
- Such order must be issuable ex-parte.

Since it is submitted that the search and seizure order is the better alternative, the analysis will be centered on this remedy.<sup>95</sup>

Non-compliance with the above-mentioned TRIPS requirement may result in far-reaching consequences. For example, the USTR initiated two WTO Dispute Settlement cases against Denmark<sup>96</sup> and Sweden<sup>97</sup> for non-implementation of the "TRIPS obligation to provide provisional relief in civil enforcement proceedings,"<sup>98</sup> and Sweden ended up by amending its legislation to conform to the TRIPS requirement.<sup>99</sup> Parenthetically, it should be noted that the "special 301" provisions of the U.S. Trade Act of 1974, as amended, require the USTR to determine whether the acts, policies and practices of foreign countries deny adequate protection of IPRs to U.S. rightholders.<sup>100</sup>

<sup>95</sup> See *infra* Chapter IV.A.1

<sup>96</sup> The Danish government has informed the Business Software Alliance (BSA) that it does not view TRIPS, Article 50 as a requirement to implement an *inaudita altera parte* in its civil procedure. BSA and IIPA disagree with Denmark's construction of this portion of the TRIPS Agreement. IIPA, *Priority Practices*, *supra* note 3. The procedure for evidence preservation orders either requires advance notice to the defendant, or allows the defendant to refuse access to its property. *Id.* Also, the ICC considers that the existing provisions in Danish law for *inaudita altera parte* search orders to preserve evidence of copyright infringement are ineffective. ICC, *Report supra* note 77.

<sup>97</sup> As in Denmark, Swedish law did not use to provide for civil *inaudita altera parte* orders. Therefore private parties depended on criminal proceedings for the safeguard of their copyrights. Karnell, *supra* note 70, at 38. The Swedish Government, in its bill to Parliament, Prop 1994/95:35, considered that adherence to TRIPS would not necessitate any legislative changes.

<sup>98</sup> USTR, 1997 Report, *supra* note 8.

<sup>99</sup> USTR, 1999 Report, *supra* note 5, at *Developments in Intellectual Property Rights*. In November 1998, Sweden enacted legislative changes to provide for *ex parte* relief for copyright owners, allowing a successful conclusion of WTO dispute settlement consultations. USTR Press Release, *supra* note 5.

<sup>100</sup> USTR, 1997 Report, *supra* note 8. This pool of countries is divided into three categories: "priority foreign countries" (with the most egregious policies and practices), "priority watch list", and "watch list." *Id.* In 1993, USTR moved the Philippines from priority watch list to watch list, where it has been situated up to the present.

## 2. THE PHILIPPINE COPYRIGHT REMEDIES

## a) Seizure for Impoundment: Points of non-compliance

(1) *Not ex parte*

It has been shown that TRIPS contemplates a remedy available *prior* to the institution of a main action, in order to avoid any premature disclosure or notice to the infringer. However, the order in Section 216.2 of R.A. 8293 is a provisional remedy available only during the pendency of an action in court. As such, the assumption is that the infringer had been notified that there is a case against him.

Not only is the order contemplated under Section 216.2 unavailable prior to the institution of any action; even its issuance does not appear to be *ex parte*, since the law is silent on this point, and therefore the presumption is that the requirements of notice and hearing apply.<sup>101</sup>

(2) *Not a search order*

Section 216.2 of R.A. 8293 authorizes only a "seizure" of the infringing articles. No mention is made of any "search." Seizure without search refers only to infringing articles that are in public view, similar to the concept of evidence "in plain view." It cannot be assumed that a mention of seizure already includes the authority to search for hidden evidence, since the privacy implications are different.<sup>102</sup> The conflict with the TRIPS requirement for a search order is thus at once noticeable.

## b) Delivery for Impoundment: Not an adequate substitute

Section 216.1(c) provides that any person infringing a right protected by the law on copyright shall be liable to deliver for impounding during the

<sup>101</sup> See IIPA, *The Philippines*, *supra* note 3 (maintaining that the Philippines must attend to its unfinished legislative business by providing for *ex parte* search orders); see also *National Trade Estimate Report on Foreign Trade Barriers 1999* (accessed 22 May 1999) <<http://www.ustr.gov/reports/nte/1999/philippi.pdf>> 347, 348 (pointing out the lack of clear provisions for *ex-parte* relief).

<sup>102</sup> A seizure does not involve an intrusion into the privacy of the person from whom the goods are seized, unlike in the case of a search, whether or not followed by seizure.

pendency of the action, upon such terms and conditions as the court may prescribe, all articles alleged to infringe a copyright.<sup>103</sup>

(1) *Not ex parte*

The discussion with respect to the order in Section 216.2 is likewise applicable here, with only one qualification. If this remedy were to be amended into an *ex parte* order, there would be an additional justification for such legislative action: the precedent in Rule 21, since a *subpoena duces tecum*, which has a similar nature, may be issued *ex parte*.<sup>104</sup> Arguably, the same is true with respect to the order for delivery in Rule 27, since in the Revised Rules of Court the provision requiring notice to the adverse party has been removed.<sup>105</sup>

(2) *Not a meaningful search order: the privilege against self-incrimination*

To determine compliance with above mentioned standards set forth above it is necessary to ascertain whether this order to impound amounts to a search and seizure or otherwise at least results into a seizure of the infringing materials.

<sup>103</sup> A similar provision existed in the U.S. 1909 Copyright Act, 17 U.S.C. § 101(c), which provided that if any person shall infringe a copyright....such person shall be liable: ... (c) to deliver up on oath to be impounded during the pendency of the action, upon such terms and conditions as the court may prescribe, all articles alleged to infringe a copyright." The current section in the 1976 Copyright Act (17 U.S.C. § 503) provides that "at any time while an action is pending, the court may order the impounding, on such terms as it may deem reasonable, of all copies...made or used in violation of the copyright owner's exclusive rights." While the implication might appear to be that now the defendant is no longer required to deliver the copies, this is not in fact so. Even during the 1909 Copyright Act, the implementing Rules promulgated by the U.S. Supreme Court provided that the Marshall shall "seize said articles...using such force as may be reasonable necessary in the premises." United States Supreme Court Copyright Practice Rules (1909), Rule 5 although the exact provision of the act was that the order would require the defendant to *deliver* the articles. The reverse is true now also: while the Copyright Act does not mention delivery, the typical application by the copyright owner to the court is for an order requiring the defendant to *deliver* to the Clerk of Court to be impounded all infringing copies. Cf. 6 NIMMER ON COPYRIGHT, *supra* note 24, Forms 32-1 and 32-2. However, all of the U.S. cases were decided on the premise that impoundment is accomplished through a seizure by an officer of the court, therefore U.S. jurisprudence on impoundment will be discussed only on the part of the thesis dealing with Section 216.2.

<sup>104</sup> VINCENT S. ALBANO, REMEDIAL LAW REVIEWER 297 (2nd1998).

<sup>105</sup> Compare with the old Rules of Court of July 1, 1940. ("Upon motion of any party,...and upon notice to all other parties....").

Under the provision there is *no actual seizure*, since "seizure" is said to exist when the articles are taken from the possession of the defendant against his will; in this case, it is the defendant himself who delivers them. However, it is natural that consequences adverse to the defendant would result if he refuses to deliver,<sup>106</sup> otherwise a defendant would not comply with the order; these adverse inferences constitute a compulsion which makes<sup>107</sup> the delivery an involuntary act. In fact it is considered to be a form of seizure.

Then, if it can be shown that the remedy likewise amounts to a *constructive search*, it might be considered a kind of search and seizure order, and the only deficiency to be corrected in R.A. 8293 would be with respect to its *ex parte* issuance. It is significant to observe that *all* of the allegedly infringing goods can be impounded, and not just one or a few articles for evidentiary purposes.

(a) *When equivalent to a search and seizure order*

The basis for the proposition that the order in Section 216.2 can amount to a search and seizure is found in the jurisprudence dealing with discovery procedures<sup>108</sup> and *subpoena duces tecum*,<sup>109</sup> parts of which can be applied by analogy to a copyright infringement action. The similar feature in all three remedies which makes the comparison appropriate is that the defendant is required to produce goods to build his opponent's case.

In the Philippines, the authorities on the issue are conflicting. In the case of *Material Distributors (Phil), Inc., v. Natividad*,<sup>110</sup> Supreme Court seemed to accept the hypothesis that a discovery order might amount to a search warrant. However, in *BASECO v. PCGG*,<sup>111</sup> the plaintiff's claim that the order to produce corporate records under pain of contempt of the PCGG constituted an unreasonable search and seizure, was dismissed by the Supreme Court bluntly holding that there had been no search, and no seizure.

<sup>106</sup> By analogy with the consequences provided in Rule 29 of the Revised Rules of Court if the defendant does not comply with a discovery order. Some of them are the following: a) an order that the character of the thing, or any other designated fact shall be taken as established in accordance with the claim of the party obtaining the order; b) an order refusing to allow the disobedient party to support or oppose designated claims or defenses; c) an order striking out pleadings, or rendering a judgment by default; d) an order directing the arrest of the disobedient party.

<sup>107</sup> See *Boyd v. US*, 116 U.S. 616, 6 S.Ct. 524, 29 L.Ed. 746 (1886).

<sup>108</sup> 1997 Revised Rules of Court, Rule 27.

<sup>109</sup> *Id.* Rule 21.

<sup>110</sup> 84 Phil 127, 135 (1949).

<sup>111</sup> 150 SCRA 181 (1987).

Nevertheless, the submission of a prominent authority in constitutional law, Joaquin G. Bernas, is that the phrase in the Constitution effectively extends the search and seizure clause to the penumbral area of the *subpoena duces tecum* under the Rules of Court.<sup>112</sup>

It is then, necessary to turn to the origins of the proposition that a discovery order amounts to a search and seizure. These are found in a landmark American case, *Boyd v. United States*.<sup>113</sup> The consequence of a failure to produce the document required was that the allegation of the prosecution as to what the document stated was "taken as confessed."<sup>114</sup> This was tantamount to compelling their production, and since the purpose of the compulsion was to forfeit the defendant's property,<sup>115</sup> the U.S. Supreme Court held that it is equivalent to a search and seizure within the scope of the Fourth Amendment to the Constitution.<sup>116</sup>

The *Boyd* decision was not unanimous, Justice Miller, whose dissent was concurred with by the Chief Justice, disagreed with the assumption of the court that requiring a party to produce certain papers as evidence on trial authorizes a search and seizure of the house, papers, or effects of that party:

There is in fact no search and seizure authorized by the statute. No order can be made by the court under it which requires or permits anything more than service of notice on a party to the suit.... Nor is there any seizure, because the party is not required at any time to part with the custody of papers. They are to be produced in court, and, when produced, the United States attorney is permitted, under the direction of the court, to make examination in presence of the claimant. The statute in this case uses language carefully framed to forbid any seizure under it.

The same is true in the Philippines. Rule 27 does not authorize the opposing party, the clerk of court, or other functionaries of the court to distrain

<sup>112</sup> JOAQUIN G. BERNAS, S.J., *THE 1987 PHILIPPINE CONSTITUTION: A REVIEWER-PRIMER* 51 (3rd ed. 1997).

<sup>113</sup> 116 U.S. 616, 6 S.Ct. 524, 29 L.Ed. 746 (1886)

<sup>114</sup> This is one of the possible sanctions under Rule 29, *see supra* note 107.

<sup>115</sup> The statement of the court should not be interpreted to mean that the Constitution's provision on search and seizure does not apply to purely civil proceedings. *See infra* notes 223-24 and accompanying text. At any rate, in a civil copyright infringement action, the final remedy is destruction, which must be necessarily be preceded by a *forfeiture* of the infringing goods. Therefore, the court's statement is directly applicable to a civil infringement action.

<sup>116</sup> The view was expressed that while certain aggravating circumstances of actual search and seizure, such as forcible entry into a man's house and searching among his papers are wanting, the statute accomplishes the substantial object of those acts in forcing from a party evidence against himself.

the articles or deprive the person who produced the same of their possession, even temporarily.<sup>117</sup>

A distinction should be made depending on whether the evidence produced consists of documents or goods. As to documents, once they are produced, the effect is the same as that of a seizure. The fact that these documents remain in the defendant's possession is inconsequential. These goods can still inflict harm on the copyright owner through further infringements of his right of distribution. A constructive search, on the other hand, would always take place, since a discovery order is applied for precisely to unveil what is hidden.

The situation is different in the case of the order in Section 216.1(c). Seizure will always be present, in view of the impoundment. So, while Justice Miller would have had an even stronger point as to a discovery of infringing goods - that a *subpoena duces tecum* or an order under Rule 27 does not amount to seizure because the defendant is not deprived of possession over the articles, an impoundment order under Section 216.1(c), even based on his view, amounts to a seizure order, which may or may not be preceded by a "search." There may not be a constructive search, depending on the public display of the evidence. The order can be applied for even with respect to goods that are publicly exposed - in which case there will be no search to talk of, since the purpose is not just discovery, but to ensure that all the infringing goods will be in the possession of the courts, and not of the defendant.

In conclusion, there are two situations in Section 216.1(c): seizure without constructive search and seizure preceded by constructive search. It is the second situation that must be examined, in order to determine the viability of the constructive "search and seizure" order.

*(b) When defeated by the privilege against self-incrimination*

This aspect must be examined in order to determine whether the enforcement of the order in Section 216.1(c) could be thwarted by a defendant who invokes his right against self-incrimination.

Article III, section 17 of the Constitution provides: "No person shall be compelled to be a witness against himself." The privilege could be raised if failure to deliver the goods prompts the courts to consider them to be infringing as alleged by the plaintiff or even if just a holding in contempt would follow, since as it has been shown, these consequences bring about compulsion. This conclusion is arrived at by extrapolating the rulings on discovery proceedings, where it is established that the privilege can be raised. For example, Justice Puno, in his concurring opinion in *People v. Webb*,<sup>118</sup> opined that one factor which

<sup>117</sup> *Tanda v. Aldaya*, 89 Phil 497, 501-502. (1951).

<sup>118</sup> *People v. Webb*, G.R. No. 132577 (Aug. 17, 1999 ).

distinguishes civil discovery from criminal discovery is that the criminal defendant's privilege against civil incrimination would not permit the fully reciprocated discovery found in civil practice.<sup>119</sup>

While the right may be asserted in any judicial or administrative proceeding, there are differences between civil and criminal or quasi-criminal proceedings, as well as distinctions on the kind of evidence involved.<sup>120</sup> The difference in treatment between testimonial evidence and documentary evidence is due the privilege against self-incrimination, as developed in the United States, initially applied only to testimonial evidence. Later on, it was extended to documentary evidence, based on two theories which will be discussed below. The situation of the defendant in a civil case as to documentary evidence is the same as that of the accused in a criminal case with the additional qualification that, just like in the case of testimonial evidence, the document or the testimonial evidence which its production involved must be incriminating in a criminal way.<sup>121</sup> The only time when the defendant will not have to show that this evidence will subject him to the threat of criminal prosecution is when the civil case partakes of the nature of a criminal proceeding.

Before determining whether the civil action for copyright infringement is in the nature of a criminal action, it must be ascertained whether delivery of the infringing goods is within the scope of the privilege against self-incrimination.

In the Philippines, the case of *Beltran v. Samson*<sup>122</sup> held:

It is a well-established doctrine in this jurisdiction that the constitutional inhibition against self-incrimination is directed not merely to giving of oral testimony but embraces as well the furnishing of evidence by other means than by word of mouth, the divulging in short, of any fact which the accused has a right to hold secret.

<sup>119</sup> W. LAFAYE AND J. ISRAEL, CRIMINAL PROCEDURE 726

<sup>120</sup> With respect to testimonial evidence a person who is the accused in a criminal case may assert the right from the moment he is asked to testify; he has an absolute right to be silent because it is considered that the purpose of asking him to take the witness stand is to incriminate him. On the other hand, the defendant in a civil case must wait until the incriminating question is asked before he can invoke the right. The defendant can claim that the question will incriminate him in the civil case which is being tried if answering the question would subject him to the threat of a criminal prosecution. With respect to documentary evidence, there seems to be no difference between a criminal and a civil case. The accused in a criminal case can be asked to produce documents. Unlike as to testimonial evidence, he does not have an absolute right to refuse to deliver all documents required of him.

<sup>121</sup> This is not the same as in a civil case in which he is the defendant.

<sup>122</sup> *Beltran v. Samson*, 53 Phil.570, 574 (1929).

In fact, Professor Wigmore wrote:

2264. *Production or Inspection of Documents and Chattels*.-1. It follows that the production of documents or chattels by a person (whether ordinary witness or party-witness) in response to a subpoena, or to a motion to order production, may be refused under the protection of the privilege; and this is universally conceded.<sup>123</sup>

This statement as to chattels is directly applicable to a copyright infringement action where the court will ask the defendant to deliver the allegedly infringing goods. The alleged infringer can invoke his privilege against self-incrimination not only with respect to the documents but also with respect to the goods.

There is also authority to the contrary. In *People v. Malimit*<sup>124</sup> the Supreme Court, speaking through Justice Francisco, held that the right against self-incrimination "does not apply... where the evidence sought to be excluded is not an incriminating statement but an object evidence." The basis for the statement was a quotation from Wigmore that the kernel of the privilege is not merely compulsion but testimonial compulsion. Wigmore, however, expressly included production of "chattels" within the privilege.

Apart from these cases there is a dearth of jurisprudence on the issue. Conclusions can only be arrived at by analogy with the rulings on incriminating documents. Those rulings provide two theories justifying the availability of the right.

The first foundation for the privilege is the right of privacy.<sup>125</sup> *Couch v. United States*<sup>126</sup> expressly held that the Fifth Amendment protected an individual against compelled production of evidence only if the individual resisting production had a reasonable expectation of privacy with respect to the evidence.

<sup>123</sup> 4 WIGMORE ON EVIDENCE 864-865, quoted in *Beltran supra* note 124, at 577 and also cited in RICARDO J. FRANCISCO, EVIDENCE: RULES OF COURT IN THE PHILIPPINES: RULES 128-134, at 200-204 (3rd ed. 1996).

<sup>124</sup> *People v. Malimit*, 264 SCRA 167, 176 (1996).

<sup>125</sup> *United States Constitution: Fourth Amendment: Annotations* (accessed 5 September 1999) <<http://caselaw.findlaw.com/data/Constitution/amendment04/01.html#1>>. There is no constitutional right of privacy, as such. In a line of decisions, however, going back as far as *Union Pacific R. Co. v. Botsford*, 141 U.S. 250, 251 (1991), the U.S. Supreme Court has recognized that a right of privacy does exist under the Constitution. The roots of the right are found in the First Amendment (*Stanley v. Georgia*, 394 U.S. 557, 564 (1969)), in the Fourth and Fifth Amendments (*Terry v. Ohio*, 392 U.S. 1, 8-9), in the penumbras of the Bill of Rights (*Griswold v. Connecticut*, 381 U.S. 484-85), in the Ninth Amendment (*Id.* at 486), or in the concept of liberty guaranteed by the first section of the Fourteenth Amendment (*Meyer v. Nebraska*, 262 U.S. 390, 399 (1923)).

<sup>126</sup> *Couch v. United States*, 409 U.S. 322 (1973).

The case of *Shapiro v. United States*<sup>127</sup> also recognized the privilege against self-incrimination with respect to private papers, while denying it as to the records which are required by law to be kept.

*Fisher v. United States*<sup>128</sup> laid the second opposite foundation. It was held that the basis of the right is not the incriminating nature of the document but the testimonial communication involved by its production. This is because compliance with the subpoena tacitly concedes the existence of the papers demanded and their possession or control by the defendant. In *United States v. Doe*,<sup>129</sup> the U.S. Supreme Court held that a self-incrimination claim could be based only on the act of production, not the contents of the subpoenaed documents. This statement of the court implies that distinctions between documents based on the criterion of privacy are not valid. The Supreme Court held that the degree of privacy of a document which necessarily depends on its content is immaterial.

If a Philippine court adopts the first view, right of privacy, no serious claim of privacy could be made with respect to goods. Therefore, the defendant would have to deliver them.

If the second view, testimonial implications, was accepted, the issuance of the order would depend on an additional factor. The Supreme Court in *Doe* held that there is testimonial self-incrimination only if the applicant does not know that the subpoenaed documents exist and is attempting to compensate for its lack of knowledge by requiring the appellant to become in effect the primary informant against himself.<sup>130</sup> If there is such a claim, the applicant can rebut it by producing evidence to the effect that possession, existence, and authentication were already established. Therefore, if the copyright owner does not know that there are infringing goods in the possession or control of the defendant, but merely suspects it, then the defendant can successfully claim the right against self-incrimination. The plaintiff cannot be fishing for evidence.

The Philippine courts, if confronted with such a claim, could rule in either of the following ways, as to both documents and goods:

- Take the view in *Shapiro*: order their delivery, not private
- Take the view in *Doe*: the order will depend on whether

<sup>127</sup> *Shapiro v. United States*, 335 U.S. 1 (1948).

<sup>128</sup> *Fisher v. United States*, 425 U.S. 391, 96 S.Ct. 1569, 48 L.Ed.2d 39 (1976).

<sup>129</sup> *United States v. Doe*, 465 U.S. 605 (1984).

<sup>130</sup> The same view was expressed in *United States v. Schlansky*, 709 F.2d 1079, 1084 (6th Cir 1983). The very act of production must supply a necessary link in the evidentiary chain before the privilege may be claimed, in the sense that it would confirm that which was previously unknown to the plaintiff, e.g., the existence or location of the materials, or it would supply assurance of authenticity not available from persons other than the defendant.

plaintiff knows about their existence and possession or control by the defendant<sup>131</sup>

- Combine *Shapiro and Doe*: not private, but since privacy is not the criterion, the order will depend on the same qualifications as in the second alternative.

Furthermore, one needs to determine whether the civil copyright infringement action is civil or quasi-criminal in nature. The determination is important because if the case is quasi-criminal, the defendant can refuse to deliver incriminating evidence by invoking his privilege against self-incrimination with respect to that action, and not as to a subsequent possible prosecution. The issuance of the constructive search order would then be in vain.

The final remedy in a civil action for infringement of copyright is destruction. Before there can be destruction, the two preceding steps are seizure and forfeiture, so it can be considered that a civil copyright infringement action is a forfeiture proceeding. It is not *in rem*, but *in personam*, although the fact that despite acquittal of the defendant, the infringing goods are to be forfeited and destroyed is one of the features of an *in rem* proceeding.<sup>132</sup>

In *Cabal v. Kapunan*<sup>133</sup> the Supreme Court held that proceedings for forfeiture of property are deemed criminal or penal, citing *Boyd* as authority for the proposition that the proceeding to declare a forfeiture of property, "though technically a civil proceeding, is in substance and effect a criminal one."<sup>134</sup> The court in *Boyd* concluded:

As suits for penalties and forfeitures incurred by the commission of offenses against the law are of this quasi-criminal nature, we think that they are within the reason of criminal proceedings for

<sup>131</sup> This qualification would not make §216.1(c) inoperative, because, unlike in discovery, the purpose is not necessarily to unveil hidden evidence, but to impound it.

<sup>132</sup> Richard A. Van Camp, *Civil Forfeiture: A Legal Superstition*, (accessed 18 October 1999) <<http://www.detnews.com/1213/REBUT.html>>. Under an "*in rem*" proceeding the property itself is the defendant and the guilt or innocence of the owner is irrelevant. The prosecution only has to prove that the property was involved in the criminal act. In fact, civil forfeiture law is based on the concept that inanimate property itself can be a perpetrator of a criminal act. *Id.* The concept is frequently applied in customs forfeitures.

<sup>133</sup> *Cabal v. Kapunan*, 6 SCRA 1059 (1962).

<sup>134</sup> *But note that* *People v. CFI of Rizal*, 101 SCRA 86 (1980), the Philippine Supreme Court likewise held that seizure and forfeiture proceedings under the Tariff and Customs Code are not criminal in nature, as they do not result in the conviction of the offender. "Seizure proceedings are purely civil and administrative in nature." *In Commissioner of Customs v. Ramon Makasiar*, G.R. No. 79307 (August 29, 1989), seizure proceedings are also directed against the res or imported articles. *See also Transglobe Int'l Inc. v. CA*, G.R. No. 126634 (Jan. 25, 1999), *citing Commissioner of Customs v. Pascual*, G.R. No. L-25018, 138 SCRA 581 (1985).

all the purposes ... of the portion of the Fifth Amendment which declares that no person shall be compelled in any criminal case to be a witness against himself; and we are further of opinion that a compulsory production of the private books and papers of the owner of the goods sought to be forfeited in such a suit is compelling him to be a witness against himself, within the meaning of the Fifth Amendment of the Constitution ...<sup>135</sup>

The *Cabal* decision also explicitly said that forfeiture is in the nature of a penalty and that the exemption of defendants in criminal cases from the obligation to be witnesses against themselves and produce books and papers is applicable. In *Pascual, Jr. v. Board of Medical Examiners*<sup>136</sup> the Supreme Court likewise considered that the constitutional guarantee against self-incrimination extends to administrative proceedings which possess a criminal or penal aspect. Based on the two cases above, it can be maintained that the civil action for infringement partakes of the nature of a criminal action.

There is, however, also another view that can be adopted. It was seen in the case of *Cabal* that what makes a proceeding for forfeiture criminal in nature is that forfeiture is considered to be a "punishment". Even if no judgment of fine or imprisonment are generally considered to be civil and in the nature of proceedings *in rem*, "such proceedings are criminal in nature to the extent that where the person using the res illegally is the owner or rightful possessor of it, the forfeiture is in the nature of a punishment."<sup>137</sup> On the other hand, if it can be shown that it is not a punishment, but "purely remedial,"<sup>138</sup> the proceeding could still be considered civil.<sup>139</sup> The important non-punitive goal in destroying copyright infringing goods is to ensure that further infringement of the right of distribution

<sup>135</sup> The court's holding was based on its previous holding that the compelled production constitutes an unreasonable search and seizure. The court stated that there is an intimate relation between the Fourth and Fifth Amendment, for the "unreasonable searches and seizures" condemned in the Fourth Amendment are almost always made for the purpose of compelling a man to give evidence against himself.

<sup>136</sup> *Pascual, Jr. v. Board of Medical Examiners*, 28 SCRA 344 (1969).

<sup>137</sup> *Cabal v. Kapunan* 6 SCRA 1059 at 1066 (1962).

<sup>138</sup> *Id.* at 1067, *citing* 29 L.R.A. 8. The constitutional right against self-incrimination applies only if the proceeding is not "purely remedial", or "intended" as a redress for a private grievance", but primarily to punish "a violation of duty or a private wrong and to deter others from offending in a like manner".

<sup>139</sup> In *U.S. v. Ursery*, 116 S. Ct. 2135 (1996) the main question was whether civil forfeiture qualifies as punishment. The Supreme Court ruled that the proceedings for the forfeiture of drugs were civil, therefore remedial in nature, and were not so punitive as to qualify as punishment under the Double Jeopardy Clause. The Chief Justice said that forfeiture statutes in drug cases, "while perhaps having certain punitive aspects, serve important nonpunitive goals," specifically ensuring "that property...[will] not be used for illegal activities" and "that person[s] do not profit from their illegal acts". The same can be said with respect to infringing goods, which, just like drugs, are considered contraband.

will not occur. This treatment of forfeiture not as a punishment is seen in R.A. 8293 by the fact that acquittal in a criminal case does not bar the forfeiture and destruction of the infringing goods. The only reason for ignoring acquittal is the position that the goal of forfeiture is not punishment, but remediation of a public nuisance.<sup>140</sup> The infringing goods are considered to be a public nuisance.<sup>141</sup>

Therefore, there are two valid interpretations that can be applied to the civil infringement proceedings, depending on how forfeiture proceedings of infringing goods are viewed. However, even if the proceedings are considered to be civil, the defendant can still invoke the privilege based on the fact that the evidence he is being asked to produce would subject him to a threat of criminal prosecution for copyright infringement. If a defendant invoked this privilege with respect to a subsequent criminal proceeding, the courts should grant it.<sup>142</sup> Parenthetically, it should be noted that the privilege was successfully claimed in

<sup>140</sup> But see John McLaughrey et. al *Private Property Protection, Regulatory Takings, Forfeiture* (accessed 16 October 1999) <<http://www.i2i.org/suptDocs/issuPprs/baproper.htm>> which criticizes this claim by saying that to the person whose property has been confiscated by the government, it is a distinction without a difference. In other words, it is a punishment. Also, in *Cabal* the distinction between *in personam* and *in rem* proceedings was erased, by holding that the privilege against self-incrimination may be invoked also in an *in rem* proceeding. In 15 AMJUR § 104, at 368, the Supreme Court quoted, "The proceeding is one against the owner, as well as against the goods; for it is his breach of the laws which has to be proved to establish the forfeiture and his property is sought to be forfeited".

<sup>141</sup> The nature thereof is different from the property in *Cabal*, since the property involved in said case was not unlawful *per se*.

<sup>142</sup> Recognition of this proposition in the Philippines led to the enactment of immunities statutes in forfeiture proceedings. Forfeiture of Illegally Obtained Wealth, Republic Act No. 1379, § 8, grants transactional immunity to the respondent and any other person called to testify and produce books, papers, etc., such that the individual can not be prosecuted criminally for anything concerning which he is compelled, after having claimed his privilege against self-incrimination, to testify or produce evidence, documentary or otherwise. The *Cabal* case upheld that self-incrimination claim is based on the criminal nature of the proceeding. Therefore, the purpose of the immunity grant cannot be achieved with respect to a respondent. However, the presence of the immunity grant means that if it were a purely civil case, without the immunity, a respondent could invoke the privilege against self-incrimination, due to the possibility of a subsequent criminal prosecution. It can also be invoked by a defendant in a civil infringement suit. Therefore, the enactment of an immunity statute would be appropriate. While it would be ineffective with respect to the defendant, if the Supreme Court treats the civil case as a criminal one, it would still have effect as to ordinary witnesses. See also K.Jay A. Rosenberg, Note, *Constitutional Rights and Civil Forfeiture Actions*, 88 COLUM. L. REV. 390 (1988), maintaining that civil forfeiture defendants should be given use immunity where subsequent criminal proceedings are likely; F. Lawrence A. Kasten, Note, *Extending Constitutional Protection to Civil Forfeitures that Exceed Rough Remedial Compensation*, 60 GEO. WASH. L. REV. 194 (1991), arguing to apply all of the constitutional protections to civil forfeiture actions which exceed rough remedial compensation.

the United Kingdom in connection with the Anton Piller Order,<sup>143</sup> which is a combination of a search order with a discovery procedure, in that it requires the defendant to hand over any of the articles which are under his control and to provide information to the plaintiff's solicitors.<sup>144</sup> In order to overcome the effects of this decision, the United Kingdom passed legislation<sup>145</sup> revoking the privilege against self-incrimination as a basis for refusing to comply with an Anton Piller order.

In conclusion, a defendant in a civil copyright infringement action can invoke the privilege against self-incrimination, at least when the applicant is just fishing for evidence. In many cases, the remedy would then amount just to a plain seizure order, such that it would not fulfill the TRIPS requirement.

#### B. Seizure of Gray Market Goods: Customs or Courts

Gray market products, otherwise known as parallel imports, are lawfully made goods not intended for distribution in the country to which they have been exported.<sup>146</sup> Their importation is usually in conflict with the trading possibilities of someone who has the exclusive right to import and trade in those goods in the country of importation.<sup>147</sup>

Under Section 216.1(c) there is no judicial remedy of impoundment through delivery of parallel imports, since, as it will be explained below, infringing copies, as contemplated by R.A. 8293, do not include lawfully made articles. Although no express authority to seize and impound is found under Section 216.2, courts have jurisdiction over these goods, because the phrase "any article which may serve as evidence" is used. The perceived weakness is only in Section 216.1(c) because there is an implied right of importation recognition of which demands that courts' authority to order delivery of the articles imported in violation of such right be provided.

<sup>143</sup> Rank Film Distributors Ltd. v. Video Information Center, 2 All E.R.76 (1981). See *infra* Chapter IV.A.1.

<sup>144</sup> WTO Council for Trade-Related Aspects of Intellectual Property Rights, *Review of Legislation on Enforcement: Replies from the United Kingdom*, doc. IP/Q4/GBR1, Annex 2 (7 August 1998) (accessed 22 August 1999) <<http://www.wto.org/ddf/ep/c3/c311e.doc>>.

<sup>145</sup> ROBER M. MERKIN & JACK BLACK, COPYRIGHT AND DESIGNS LAW 9/13 (1993). The Supreme Court Act of 1981 of the United Kingdom abolished the privilege when it is claimed in civil proceedings for infringement of IPRs or to obtain disclosure relating thereto that the person will be exposed to prosecution for a "related offense." However, the effect of the provision in the Supreme Court Act, coupled with the Rank decision, is that the privilege against self-incrimination operates only where there is a serious risk of prosecution for conspiracy.

<sup>146</sup> See *supra* notes 4, 62 and accompanying text.

<sup>147</sup> Owen Dean, *Infringement of Copyright by Dealing in Parallel Imports: Application of the Principle in Recent South African, Australian and Singapore Cases*, 41 COPYRIGHT WORLD 19 (June 1994).

The difficulty becomes apparent when Section 216.2 is related to Section 190.3, under which the Bureau of Customs officers have the authority to seize the parallel imports even after release from their custody, thus creating a conflict of jurisdiction with the courts. It will be shown that the Bureau of Customs' action in seizing lawfully-made goods is violative of the right against unreasonable searches and seizures.

### 1. IMPOUNDABLE ARTICLES

An ambiguity exists in Section 216.1(c) with respect to impoundment, as to the kind of goods which the court can impound. These are "all articles...alleged to infringe a copyright." Notably, there is no statutory definition in R.A. 8293 of what are infringing articles or copies, therefore, the concept could only be determined by implication based on this and other provisions.

The assumption is that infringing articles are those that infringe any of the rights protected by copyright, namely, the right of reproduction, of distribution, of public performance, of rental, etc. The question, however, is how can an article by itself infringe the right of distribution. As previously explained, this right is infringed by the distribution of both lawfully made and unlawfully made articles. Can a lawfully-made article, which is first sold without the consent of the copyright owner, be considered an article which infringes the right of first distribution? The answer is no, because the right of first distribution is never infringed by an article as such, but by the way it is used.

The same is true with all the other rights listed in Section 177 of R.A. 8293, except the right of reproduction. A copy made in violation of this right is considered an unlawfully made article. It is an *intrinsically infringing* article, since by itself it infringes the right of reproduction, regardless of any subsequent uses.

Premises considered, an "infringing article" is in effect an "unlawfully made" article. This conclusion is supported by the fact that the implements that are also subject to seizure are the implements "for making" the articles alleged to infringe. These implements include plates, molds or other means subject to destruction. The intimation is that the infringing implements were used in making the infringing articles, because the implements could not possibly be considered infringing if they were used to make lawful copies. If the implements were used in making infringing copies, the conclusion is that an "infringing article" is identical with an "unlawfully made article."<sup>148</sup>

<sup>148</sup> The United Kingdom copyright law, C.D.P.A., 1988, §23, does define "infringing copy" as an article the making of which constituted an infringement of the copyright in the work in question. The Copyright Law of Singapore, § 7, cited in Murgiana Haq, *Singapore - Court Examines Issue of Constructive Knowledge in Parallel Importation*, 49 COPYRIGHT WORLD 16, 17 n.1 (Apr. 1995), also defines "infringing copy" as "being an article the making of which constituted an infringement of the copyright in the work, recording, film, broadcast, programme, or edition...." The reference is explicit to the act of "making."

Concluding that an "infringing article" is identical with an "unlawfully made article" would mean that the remedy of impoundment through delivery is not available in an infringement of the right of first distribution. It may be recalled that the right of first distribution refers only to lawfully made articles and not to infringing articles (unlawfully-made articles). The right of distribution applies to both kinds of articles. But, before the remedy of impoundment can issue, the infringement of the right of distribution must have been preceded by a previous infringement of the right of reproduction, such that the goods were not only distributed without the consent of the copyright owner but were also manufactured without his consent.

In contrast, the U.S. copyright law provides that the articles subject to seizure are those made or used in violation of the copyright owner's exclusive rights.<sup>149</sup> This provision vests the courts with power to seize lawfully made goods which are used in an unlawful way. One situation where this occurs in the distribution context is when lawfully made goods are first publicly distributed without the consent of the copyright owner. Since the goods are no longer in the defendant's possession, the only way to seize them is to order the defendant to have them recalled. The order issued pending action amounts to a mandatory preliminary injunction. Courts would probably be reluctant to order this of the defendant, absent a very strong reason.<sup>150</sup> It is submitted that the fact that R.A. 8293 does not include goods unlawfully used in violation of the right of first distribution cannot be considered a serious flaw. However, this is true only when we refer to distribution in the sense of sale or other forms of transfer of ownership within the Philippines. But, as will be shown below, distribution also comprises importation. Non-recognition of the courts' power to order delivery for impoundment of goods unlawfully imported is unjustified.

#### a) Infringing articles

Assume Mr. X is the Filipino copyright owner of a book. Mr. Y, without being authorized by Mr. X, made copies of the book abroad and imported them in the Philippines, where he is now selling them. Mr. X does not seek to recall the books already sold. He, however, wants to have the remaining books in the possession of Mr. Y impounded. If he institutes an action for infringement against Mr. Y, he cannot allege that the latter infringed his right of reproduction, since the act was committed abroad. There are two causes of action that he can avail of: either for infringement of his right of distribution or for violation of Section 217.3. The former is not limited to first public distribution since the goods were unlawfully-made. The latter criminalizes possession of infringing copies for

<sup>149</sup> 17 U.S.C. § 503(a). "At any time while an action under this title is pending, the court may order the impounding... of all copies or phonorecords claimed to have been made or used in violation of the copyright's owner's exclusive rights...."

<sup>150</sup> See, e.g., 1 REGALADO, *supra* note 67 (stating the stringent requirements that must be present before a mandatory preliminary injunction will issue).

purposes of sale, provided there is knowledge of their infringing nature.<sup>151</sup> Mr. X could have instituted a civil action under Section 217.3 even prior to any distribution in the Philippines.

The case falls squarely under Sections 216.1(c) and 216.2 of R.A. 8293, since the books in the possession of Mr. Y are infringing copies. Therefore, the copies of the book can be impounded.

A connection can be made with Section 216.1(a) of R.A. 8293, which provides that the court may order the defendant to desist from an infringement. This involves preventing the entry into the channels of commerce of imported goods that involve an infringement immediately after they have been cleared through customs.<sup>152</sup>

Preventing entry refers to a preliminary injunction issued against the defendant ordering him not to distribute the copies. This order is most effective when coupled with their seizure. Thus, there is a total assurance that an infringement of the right of distribution of the copyright owner will not occur.

This interpretation is justified by the more explicit provision of TRIPS, namely Article 50.1(a). It provides that the judicial authorities must, in particular, have the authority to order prompt and effective judicial measures to prevent the entry into the channels of commerce in their jurisdiction of imported goods, immediately after customs clearance. The measure is taken "to prevent an infringement of any intellectual property right from occurring." This means that even if a right of importation is not recognized, the importation of infringing goods must be prevented, so that an infringement of the right of distribution will not occur thereafter.

Mr. X also has a third cause of action, if importation is to be considered to be a distribution in the sense used in Section 177.3. Said section provides that the owner of the copyright has the exclusive right to carry out, authorize, or prevent the first public distribution of the original and each copy of the work by sale or other forms of transfer of ownership.

It has been argued that importation *per se* does not take the form of a sale or of a transfer of ownership. Therefore, it cannot be considered a "distribution." This argument was raised in the United States, in the case of *Quality King Distrib.*

<sup>151</sup> See *supra* note 27 (violation of § 216.3 considered to be an infringement).

<sup>152</sup> This Section does not implement the provision of TRIPS on provisional injunction, but the one on permanent injunction, which is found in art. 44. It reads: "the judicial authorities shall have authority to order a party to desist from an infringement, *inter alia* to prevent entry into the channels of commerce of imported goods that involve an infringement of an intellectual property right, immediately after customs clearance of such goods". However, Section 216.1 should again be interpreted not to bar the application of the preliminary injunction under the Revised Rules of Court, Rule 58, for the same act as described in Section 216.1.

*Inc. v. L'Anza Research Int'l*<sup>153</sup> by the Solicitor General, who construed importation as not involving a sale such that the right of first public distribution will not be implicated. The U.S. Supreme Court rejected this argument.<sup>154</sup>

The same answer to the issue is already found in Section 190.1 of the Intellectual Property Code. It is provided that notwithstanding the provision of section 177.6, the importation of a copy of the work by an individual for his personal purposes shall be permitted without the authorization of the author or owner of copyright in the work. Section 177.6 provides that the copyright owner has the exclusive right to carry out, authorize or prevent the public performance of the work. The common submission is that the correct cross-reference is to Section 177.3,<sup>155</sup> in view of the apparent lack of connection with the provisions mentioned in the law. The fact that importation for personal purposes is made an exception to the provision of Section 177.3 shows that the legislators considered importation as a form of distribution.<sup>156</sup>

At this point, it is not necessary to determine the application of the doctrine of first public distribution. Since the goods were unlawfully-made, the doctrine has no application.

#### b) Parallel imports

Imagine the following scenarios:

- 1) Mr. X, the Filipino copyright owner of the book, authorized Mr. Y to make copies of the book abroad and to sell them there. Mr. Y, without the consent of Mr. X, imported copies of the book in the Philippines, where he sold some of them. Mr. X wants the court to impound the remaining copies in the possession of Mr. Y. He sues Mr. Y for infringement of his right of first public distribution in the Philippines, the distribution consisting in the sale of the books. Can the courts order the delivery or seizure for impoundment of the books in the possession of Mr. Y?

<sup>153</sup> *Quality King Distrib. Inc. v. L'Anza Research Int'l*, 523 U.S. 135 (1998).

<sup>154</sup> The Supreme Court chose to give a broad interpretation to the concept of sale. At the same time, it held that although, an importer could carry merchandise from one country to another without surrendering custody of it, in a typical commercial transaction, the shipper transfers possession, custody, control and title to the products.

<sup>155</sup> AMADOR, *supra* note 30, at 557; Christopher Lim, *Border Control Issues under the TRIPS Agreement 6*, THE PHILIPPINE PUBLISHING INDUSTRY AND THE TRIPS AGREEMENT: PROBLEMS AND PERSPECTIVES, 3 September 1999.

<sup>156</sup> PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES: CASES AND MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY 936 (3d ed. 1990). In the United States the provision prohibiting importation § 602(a)-also includes pirated goods and makes their unauthorized importation an infringement of section 106(3)'s distribution right.

These books are considered "parallel imports", or "gray market products." They can be seized under Section 216.2, since the reference is to "any article." But their delivery under Section 216.1(c) cannot be ordered. At this point, it is, then, worth analyzing whether the definition of "infringing copy" could be expanded in the context of importation, in order to enable the impoundment through delivery.

The definition of "infringing copy" arrived at was: an infringing copy is an unlawfully-made one, by a person other than the owner of the copyright and without his consent. Evidently in traditional construction, the books were not made without the consent of Mr. Y. Due to the limitation imposed by this construction, several jurisdictions expanded the concept of "infringing copy" when it refers to an imported one. The U.K. Copyright Act considers that an imported copy is infringing if its making in the United Kingdom would have infringed copyright or breached an exclusive licensing agreement.<sup>157</sup> Applying this definition, the copies would be considered infringing copies, since if those copies had been made in the Philippines they would have infringed Mr. X's exclusive right of reproduction. Therefore, the courts can impound them.

On the other hand, if the courts choose to follow the traditional interpretation of infringing copy, the books cannot be impounded though delivery, but only through seizure.

- 2) Assuming that Mr. Y has just had the copies released from Customs and has not yet sold any of them, can the courts impound the copies?

First, Mr. X must institute an action for copyright infringement. He can no longer allege that his right of distribution was infringed by the sale of the copies in the Philippines. Neither could he institute a civil action for violation of Section 217.3, since said section deals with infringing copies. His only cause of action would be to allege that the importation itself infringed his right of first public distribution. Therefore, before establishing whether the courts can impound the books in question, it must be determined whether Mr. X can sue, since impoundment can be ordered only during the pendency of an action before the courts.

## 2. THE RIGHT OF IMPORTATION

The right of importation can be defined as the right of the copyright owner to carry out, authorize or prevent the importation of lawfully-made goods in a particular country. This country either can be the country of which the copyright owner is a national or a country where this right of his is recognized.

<sup>157</sup> CDPA, § 27(3) (1988).

It is important to clarify that the right of the copyright owner to prevent the importation of infringing goods is not considered as also falling within the "right of importation." The copyright owner can prevent the importation of such infringing goods by virtue of his right of distribution, which includes both legitimate and infringing goods. The right of importation itself is an outgrowth of the distribution right of the copyright owner. On the basis of the right of distribution, the copyright owner is able to exercise the right to import the article to which the right attaches in a particular jurisdiction.<sup>158</sup> The right of importation is in fact the right to prevent parallel importation or gray market imports.

The discussion is necessarily linked to the concept of exhaustion of IPRs, which is the process where a product once marketed is free from the control of the right-holder.<sup>159</sup> Article 6 of TRIPS states that nothing in the TRIPS Agreement addresses the issue of the exhaustion of intellectual property rights. It is optional for the country members to provide for such a right.<sup>160</sup> Did the Philippines go beyond what the TRIPS requires?

### a) Implied Recognition of the Right by Philippine Law

The right of importation was not expressly included among the exclusive economic rights of the copyright owner under P.D. 49, or under R.A. 8293. However importation is mentioned under other provisions, although not as a right. Under P.D. 49, Section 30, importation in the Philippines of pirated copies without the authorization of the copyright owner was prohibited, with the same exceptions as under the present law. The reference to an authorization by the copyright owner<sup>161</sup> seems unrealistic since no copyright owner would ever

<sup>158</sup> SAPALO, *supra* note 15, at 146.

<sup>159</sup> Clive Thorne, EC: *Green Paper on Copyright and Related Rights in the Information Society*, 5 COPYRIGHT WORLD 51 (Oct. 1995).

<sup>160</sup> Abdulqawi A. Yusuf, *TRIPS: Background, Principles and General Provisions*, in CARLOS M. CORREA & ABDULQAWI A. YUSUF, *INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE* 18 (1998). The exhaustion of IPRs is one of the issues that have traditionally divided the developed and developing countries. Keon, *The TRIPS Agreement*, in CORREA, at 161. The former usually prefer a territorial exhaustion of IPRs, while the latter subscribe to an international one. reason for Article 6 is that no consensus was reached on this matter. Henry Olsson, *New Trends in the Protection of Copyright and Neighboring Rights: the WIPO Copyright Treaty (1996) and the WIPO Performances and Phonograms Treaty (1996)*, 4 WIPO Regional Symposium *supra* note 18, Nov. 18, 1997 available in WIPO/CNR/MNL/97/14; Jamie Wodetzki, *What About the Copyright User? Implications of the New WIPO Treaties* (accessed 18 April 1999) <http://138.77.20.51/impart/wod.htm>. The same is true with the WIPO Copyright Treaty (WCT) (1996) and the WIPO Performances and Phonograms Treaty (WPPT) (1996). For the first time in an international treaty, the right of distribution is recognized, but the issue of exhaustion is left unresolved, for being politically sensitive.

<sup>161</sup> § 30. "Unless authorized by the copyright proprietor concerned, importation into the Philippines of any piratical copies or likeness of any work in which Philippine copyright subsists is prohibited, except when imported under the following circumstances ...."

authorize such importation. The conclusion is that P.D. 49 did not give a right of importation to the copyright owner, or, which is the same, allowed parallel importation.

Section 190 of R.A. No. 8293 deals with "importation," the title of the section being "importation for personal purposes." Notwithstanding the provision of Subsection 177.6, but subject to the limitation under the Subsection 185.2,<sup>162</sup> the importation of a copy of a work by an individual for his personal purposes shall be permitted without the authorization of the owner of the copyright under the following circumstances: 1) copies of the work are not available in the Philippines and a) only one copy is imported, for strictly individual use, or b) by authority and for the use of the Philippine Government, or c) a maximum of three copies, not for sale, but for religious, charitable, educational purposes; or 2) part of library and personal baggage, not for sale.

There is no express recognition of the right of importation in Section 190.<sup>163</sup> But is there implied recognition? It is submitted that there is.

A striking difference with P.D. 49 is apparent. While the P.D. prohibited only importation of pirated copies, the R.A. makes no mention of pirated copies, only of the lack of authorization by the copyright owner. To appreciate the full impact of Section 190.1 it must be connected with Section 177.3. Notwithstanding the exclusive right of the copyright owner to carry out, authorize, or prevent the first public distribution of the original and other copies of his work, the importation of copies for personal purposes without the authorization of the copyright owner is permitted. This section, in effect, establishes an exception to what would otherwise be the rule: the importation of copies for personal purposes without the authorization of the copyright owner is not permitted because of the right of first distribution of the copyright owner. Logically, the same is true as to importation of copies for all purposes, not just personal ones. The meaning of Section 190.1 as related to Section 177.3 is that an unauthorized importation is considered to be an infringement of the right of first distribution of the copyright owner.

<sup>162</sup> The correct reference should have been to Subsection 184.2. AMADOR, *supra* note 30, at 558. The section referred to in the law has no relation to importation.

<sup>163</sup> In the United States, there is no inclusion of the right of importation as one of the exclusive economic rights of the Copyright Owner. However § 602 (a) of the 1976 Copyright Act provides that "importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." § 106 provides for the right of distribution of the copyright owner. Section 501 defines infringement.

The recognition of a right of importation by Philippine law is not without controversy.<sup>164</sup> There are three arguments raised by Philippine commentators that § 191.1 should not be considered an implied recognition of the right of importation.<sup>165</sup>

The first argument posits that:

While the situation contemplated by Section 190.1 covers an importation, it should be clarified that the situation is not exactly an exception to the right of first public distribution, and therefore, not an implied recognition of the right of importation.... Since Section 190.1 speaks of importation for "private use", the importation cannot in any event be considered an infringement of the right of first "public distribution."<sup>166</sup>

If the importation in Section 190.1 is an exception to the right of first public distribution, Section 190.1 impliedly recognizes the right of importation. The only question is whether distribution for private purposes can qualify as "public" distribution. Obviously not. If the legislators thought importation for private purposes is a public distribution, there is no doubt that they also considered importation for non-private purposes to be a public distribution. Such a public importation must necessarily be considered an infringement of the right of first public distribution.

The second argument is that TRIPS does not require Member countries to provide for the right of importation.<sup>167</sup> That it was not required does not mean the Philippines could not have chosen to extend additional protection to the copyright owner.<sup>168</sup> R.A. 8293 also criminalizes every infringement, even if criminal intent is absent, while all that TRIPS requires is that copyright piracy be made a crime.

The third argument is that an implied right of importation will defeat the principal purpose of copyright protection: to disseminate information. It effectively confers upon the author the right to determine when the copyright users in

<sup>164</sup> IIPA, *The Philippines*, *supra* note 3. It must be noticed that IIPA would want the Philippines to insert an express provision of the right of importation in the law. The inference is that IIPA considers that an implied right of importation already exists.

<sup>165</sup> AMADOR, *supra* note 30, at 558.

<sup>166</sup> *Id.*

<sup>167</sup> *Id.*

<sup>168</sup> Lim, *supra* note 157, at 7. In relation to the TRIPS Agreement,... the Philippines has decided to adopt a higher standard of copyright protection with regard to the treatment of parallel importation....The establishment of a higher standard of intellectual property protection is clearly allowed under TRIPS. See also AMADOR, *supra* note 30, at 558.

countries other than that of first publication should have access to his work. Moreover,

[T]here is no sense in conferring such a right upon the author since even in case of unauthorized importation of lawfully-published copies, he will get his due reward in the form of royalties.<sup>169</sup>

Such royalties only represent the price at which his copies are being sold in the country of publication. The copies will be sold at a higher price in the country of unauthorized importation, since the importer would not engage in such activity if no profit would result. The copyright owner is then deprived of the higher returns which he might have obtained from his importation and sale proceeds and from royalties obtained by licensing this right.

The argument, also, fails to consider the situation in which the copyright owner had separate domestic and international charge for its product. The unauthorized importation could undermine copyright owner's ability to charge as much as he could, in case the copies imported without authorization are being sold at a lesser price than those sold through authorized channels. In other words, unauthorized imports cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold through authorized channels.<sup>170</sup> The U.S. court's opinion is that Congress sought to prevent this evil by granting to the copyright owner the right of importation.<sup>171</sup>

#### b) First Public Distribution in the Context of Exhaustion

It has already been established that importation is treated by the IP Code as distribution. However, in the first scenario<sup>172</sup>, the doctrine of first distribution did not come into play since the goods were unlawfully made. In the second scenario<sup>173</sup>, the doctrine may or may not be involved, depending on how the courts choose to treat the goods. If the U.K. or Australian definition is adopted, the doctrine of first distribution will not be entailed. Mr. X can still sue based on an infringement of his right of distribution, and the books can be impounded through delivery. But, if the courts choose to follow the traditional concept of infringing goods, then the importation of lawfully made goods will trigger the application of the first distribution doctrine. Whether or not Mr. X can sue depends on the interpretation given by R.A. 8293. This must be determined before discussing the seizure of the goods.

<sup>169</sup> AMADOR, *supra* note 30, at 559.

<sup>170</sup> Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc. 98 F.3d 1109 (9th Cir. 1996), *reversed on other grounds* 118 S. Ct. 1125, 523 U.S. 135 (1998).

<sup>171</sup> *See Id.*

<sup>172</sup> *See* p. 59 of the thesis for the first scenario.

<sup>173</sup> *See* p. 61 of the thesis for the second scenario.

Some confusion arises when an attempt is made to substitute words in Section 177.3 with "importation". Should importation replace "first public distribution," or just "distribution," or "sale or other transfer of ownership," in each case leaving the rest intact? If importation replaced "first public distribution", the provision would read: the copyright owner has the exclusive right to carry out, authorize, or prevent the importation of the original and each copy of the work by sale or other forms of transfer of ownership. The result of this substitution is confusion.

This confusion is created by the fact that Section 177.3 applies to both importation and distribution in the form of sale. The doctrine of first sale was adopted from the U.S. Copyright Act but the express right of importation existent in said act, which is expressly limited by the doctrine of first distribution, was not incorporated in R.A. 8293.

To arrive at the proper conclusion, the nature of the right of importation must be kept in mind. The importation right itself is an outgrowth of the distribution right of the copyright owner, not of the right of *first* public distribution which traditionally means "sale". Therefore, importation is to be assimilated in the concept of "sale" as mentioned in Section 177.3. Importation cannot always amount to "first public distribution." Such an interpretation would result in an absolute right of importation, unlimited by the first distribution doctrine. Thus, the proper substitution is that the copyright owner has the exclusive right to carry out, authorize, or prevent the first public distribution of the original and each copy of the work by importation.<sup>174</sup>

The "first public distribution" concept that will limit or exhaust the right of importation can come in either of the following ways:

1. Distribution in the traditional concept, that is, the first sale or other transfer of ownership of the original and copies, which sale/transfer must be authorized in order to exhaust the right of importation; or
2. Distribution in the derived concept, that is the first importation of the original and copies, which importation must be authorized in order to exhaust the right of reimportation.

Any of the two forms of first public distribution, that is, first sale or first importation will exhaust the right of distribution through sale or other transfer

<sup>174</sup> Maureen M. Cyr, *Determining the Scope of a Copyright Owner's Right to Bar Imports: L'Anza Research International, Inc. v. Quality King Distributors*, 73 (nr.1) WASHINGTON L. REV. 81,85 (Jan, 1998). In the United States it has been written that since the right to bar imports is an extension that is part of the distribution right, it should be subject by implication to the same limitations as the distribution right. The first sale doctrine is the primary limitation on the distribution right.

of ownership. Therefore, incorporating two rights in one provision, distribution and importation, both subject to exhaustion through first public distribution in either of the two ways, first sale or first importation has the effect of exhausting the right of distribution after a first authorized importation.<sup>175</sup> Furthermore, the right of importation itself is subjected to exhaustion.

Exhaustion of the right through a first sale must be further analyzed. Does the place where the first sale occurred matter? Whether it does depends on whether the exhaustion adopted by the country of importation is national or international. The former means that first distribution in a certain country exhausts the copyright owner's distribution rights in that particular country, while the latter means that the first distribution in that country exhausts the copyright owner's distribution rights worldwide.

The following scenario illustrates the two theories: Mr. X authorized Mr. Y to manufacture and sell copies of his book abroad. Mr. X manufactured copies and sold most of them to Mr. Z. This was the first sale of the books, and it was an authorized one. Mr. Y's right of distribution abroad insofar as those books are concerned is clearly exhausted.

Can Mr. Z import the copies he bought in the Philippines? If the Philippines adopts the principle of national exhaustion, Mr. Z cannot import. If, on the other hand, the Philippines adopts the principle of international exhaustion, Mr. Z can import.<sup>176</sup>

The submission of this thesis is that the Philippines adopted the concept of national exhaustion. In all the exceptions listed in Section 190.1(a) and (b), there was a first sale abroad (or other transfer of ownership equivalent to sale) otherwise the importer could not have become the lawful owner of those copies. The only exception is when the importer was the licensee abroad. When a copyright owner grants the importer the license to manufacture books, the importer then, acquires ownership over the copies without buying them. However this is not the situation generally depicted by the exceptions. If the international exhaustion were applied, then importation of these copies, and even of copies for purposes other than personal, without the consent of the copyright owner, would have been lawful since there was already a first sale abroad. There was no need to create an exception under Section 190. Therefore, the fact that such

<sup>175</sup> After importation, the importer no longer have the exclusive right to sell the goods.

<sup>176</sup> Wodetzki, *supra* note 162. From a user's perspective, parallel importation restrictions are seen as bad, since under the principle of national exhaustion, users can only buy things made available through the authorized local distributor, at whatever prices that distributor sets.

exception does exist can only mean that the Philippines adopted the national exhaustion alternative.<sup>177</sup>

In the United States, a lot of controversy was generated by the fact that the first sale doctrine applies only to goods "lawfully made under this Title."<sup>178</sup> The case of *Columbia Broadcasting Systems, Inc. v. Scorpio Music Distributors*<sup>179</sup> involved a Japanese affiliate of Columbia, which authorized a Philippine corporation to manufacture and sell certain phonorecords exclusively in the Philippines. The importance of the manufacturing having taken place in the Philippines rather than in the United States was crucial.<sup>180</sup> The importation into the United States of the phonorecords was allowed by the court, despite the fact that there had been a first sale in the Philippines. The ruling excluded the application of the first-sale defense to imports manufactured abroad. The emphasis on the place of manufacture is due to the qualification under the first sale doctrine, that such copies must be manufactured in the United States for the first-sale doctrine to be applicable. This is not applicable in the Philippines because there is no such qualification under section 177.3 that the copies must be manufactured in the Philippines for the first sale doctrine to come into play. The place of manufacture is not the criterion in the Philippines. As this study showed above, the only criterion is the place of first sale, which must be the Philippines.

That Philippine law has no reference to the place of manufacture is a good point because this qualification in the U.S. law caused confusion and contradictory court rulings. The good part of the qualification is that the first-sale doctrine is never applicable to goods manufactured abroad, such that unauthorized importation can never be justified by the fact that there was an exhaustion of the right of distribution due to a first sale. The bad part is that it can easily be interpreted to mean that even in a case of authorized importation of goods manufactured abroad, the first distribution doctrine will never come into play. Therefore, the rights of distribution of the copyright owner will never be exhausted. Fortunately, this situation cannot arise in the Philippines.

<sup>177</sup> Australia also adopted the concept of national exhaustion. In *Interstate Parcel Express Co (Pty) Ltd v. Time-Life International BV*, 138 CLR 534 (1977), (the court held that no license to import and resell the goods in Australia could be inferred from their unrestricted sale by the copyright owner in the United States. There are arguments against the adoption of territorial exhaustion, in view of the ideals of free trade underpinning the GATT.) See, e.g., CORREA, *supra* note 162, at 18.

<sup>178</sup> The U.S. Copyright Act § 109(a) provides: "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord...."

<sup>179</sup> *Columbia Broadcasting Systems, Inc. v. Scorpio Music Distributors*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 424 (3d Cir. 1984).

<sup>180</sup> 2 NIMMER ON COPYRIGHT, *supra* note 24, at 8-465 n.98.

With respect to the place of first sale, the ruling in *Scorpio* held that "lawfully made under this Title" under the first-sale doctrine of the U.S. Copyright Act means that the copies or phono records must have been both "legally manufactured and sold within the United States." This means that only a first sale in the United States will trigger the first-sale doctrine. The alternative of national exhaustion is, then, also the one adopted in the United States.<sup>181</sup>

The latest case that dealt with gray market products in the United States is *Quality King Distrib., Inc. v. L'Anza Reserch Int'l, Inc.*,<sup>182</sup> decided in 1998 by the U.S. Supreme Court. It was supposed to clarify the interplay of the importation right and the first-sale defense, at least in the context of reimportation. According to Nimmer, however, "notwithstanding the pronouncement of a unanimous Supreme Court, the issue is still clouded."<sup>183</sup> The Supreme Court's analysis seems to both accept and reject *Scorpio's* interpretation. Nimmer thinks that *Scorpio* continues to be the governing ruling.

### 1. CUSTOMS' POWER TO SEIZE PARALLEL IMPORTS

The Philippines recognizes a right of importation, therefore Mr. X can sue Mr. Y for infringing his right. Returning to the issue that prompted the preceding discussion: can the courts order the impoundment through delivery of the lawfully made copies which were unlawfully imported?

Based on the traditional interpretation<sup>184</sup> of the concept of infringing copy, the answer is no. Impoundment of the articles by the courts can be achieved only by availing of Section 216.2.

<sup>181</sup> *Parfum Givenchi, Inc v. CC Beauty Sales, Inc*, 832 F.Supp. 1378, 29 U.S.P.Q. 2d 1026 (C.D.Cal. 1993), (citing *BMG Music v. Perez*, 952 F.2d 318 (9th Cir.), cert. denied, 112 S. Ct. 2997 (1992)). Many Amarije parfums were legitimately sold and purchased in France, and thereafter imported into the U.S. for resale. The copyright owner, Parfums Givenchi, asserted the exclusive right to distribution in the United States under 17 U.S.C. § 602(a). But the importer defended on the ground that a first sale under 17 U.S.C. § 109(a) had taken place in France, and that it was, therefore, entitled to sell, transfer, or otherwise deal with the products free of interference by the copyright owner. In other words, the copyright owner had been compensated by such sale and was entitled to no more exclusive rights pertaining to the products sold in France. The dispute was decided against the interpretation of the first sale having precedence over the right to distribution in the United States.

<sup>182</sup> *Quality King Distributors., Inc.*, 523 U.S. 135 (1998).

<sup>183</sup> 2 NIMMER ON COPYRIGHT, *supra* note 24, at 8-177.

<sup>184</sup> As previously stated, this analysis presupposes that the courts do not adopt the U.K. interpretation of infringing copy. Otherwise, the existence of a right of importation would not be relevant, since the right of distribution would be sufficient, considering that it is not limited by the first distribution doctrine based on the fact that the doctrine applies only to lawfully-made goods.

Surprisingly, courts are not the only authority to whom the power of impoundment was given. The Bureau of Customs also has the same prerogative. Section 190.3 provides:

Subject to the approval of the Secretary of Finance, the Commissioner of Customs is hereby empowered to make rules and regulations for preventing the importation of articles the importation of which is prohibited under this Section and under treaties and conventions to which the Philippines may be a party and for seizing, condemning and disposing of the same in case they are discovered after they have been imported.

By implication since Section 190.1 prohibits the importation of parallel goods, Customs can prevent their importation,<sup>185</sup> just as they can prevent entry of infringing copies. Furthermore, the Bureau of Customs can seize, condemn, and dispose of both types of goods even after their importation is completed, that is, even after release from the Bureau of Customs' custody.<sup>186</sup>

It should be noted that Article 51 of TRIPS only requires that the Bureau of Customs should be empowered to *suspend the release of pirated* copyright goods.<sup>187</sup>

Pirated copyright goods mean any goods which are copies made without the consent of the right holder or persons duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of

<sup>185</sup> Lim, *supra* note 157, at 7. "[P]arallel importation of copyrighted goods is...prohibited in the Philippine jurisdiction. As a result, border controls may be legally authorized to seize and detain copies of articles that are imported into the Philippines without the consent of the copyright owner, whether or not the said articles were legal copies in the country of production."

<sup>186</sup> Jamie Barnes Tranter, *The Boundaries of Infringement: U.S. Customs may assist enforcement of intellectual property rights, but owners must first wake up to the magnitude of their losses* (accessed June 5 1999) <<http://www.ipmag.com/trante.html>>. Although protection for intellectual property is provided at the border, a border is much more than a place where blue uniforms stand below an "international" sign at a harbor, airport or checkpoint. Border definitions make Customs assistance ubiquitous, taking Customs officials to work at freight forwarders warehouses, in rail yards and offices, at manufacturing sites, and in cars, planes, and high-speed boats. Customs enforcement happens at the actual border, the "functional equivalent of the border" and the "extended border." Customs authority reaches wherever a Customs officer is reasonably certain of a border nexus. Sometimes, Customs authority is permitted when circumstances include merchandise that leaves the border or the border equivalent and enters mainstream, domestic activity.

<sup>187</sup> TRIPS *supra* note 5 art. 51: A right holder who has valid grounds for "suspecting" that the importation of pirated copyright goods may take place must be able to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods.

that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

Therefore, gray market or parallel imports need not be suspended from release by Customs.

Article 51 of TRIPS also provides that "members may enable such application (for suspension of release) to be made in respect of goods which involve other infringements of intellectual property rights." This was done in the Philippines. TRIPS does not prohibit that the power for suspension of release be given to Bureau of Customs after the importation is over. While Article 50.1 provides that after customs clearance, it is the courts that have jurisdiction over the goods, Article 50.8 provides that if the provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to principles equivalent in substance to those set forth for courts. It will be shown that the Customs procedures do not adequately safeguard the defendant's constitutional rights and that only courts can ensure the required protection.

The fact that the importation is prohibited by R.A. 8293 makes the articles "prohibited importation" within the meaning of the Tariff and Customs Code (TCC). Section 101 of the TCC includes among prohibited importations "all articles the importation of which is prohibited by the law...." Section 2530 of the TCC provides that any article of prohibited importation is subject to forfeiture. The forfeiture proceedings are initiated by seizure. Section 2211 of the TCC, entitled "Right to Search Vehicles, Beasts and Persons," gives a Bureau of Customs official the authority to

open and examine any box, trunk, envelope or other container, wherever found, when he has reasonable cause to suspect the presence therein of ...prohibited article, and likewise to stop, search and examine any vehicle, beast or person reasonably suspected of holding or conveying such article as aforesaid.

Even if not expressly mentioned in Section 190.3, the power to search, when taken in conjunction with Section 101 of the TCC, makes parallel imports "prohibited importation." This is subject to the Bureau of Customs' comprehensive power of search under Section 2211. The power to search is comprehensive because it is not limited to the period of time when the goods are still in customs. The Bureau of Customs can search for the goods wherever these are found thereafter.

It is submitted however that while the power of the Bureau of Customs to seize parallel imports while in their custody should be retained in R.A. 8293 and the corresponding implementing rules and regulations issued, this authority should nevertheless be limited to a certain period.

First, Customs Administrative Order 7-93, issued under P.D. 49 sets forth the procedure for detaining and seizing infringing goods, upon written request

of the copyright owner. Similar administrative orders could be issued to implement the provision in R.A. 8293 with respect to parallel imports.

Second, the constitutional invalidity of the power to search and seize parallel imports after release from customs becomes apparent when it is considered that Customs officers do not need a search warrant, except with respect to a dwelling house.<sup>188</sup> This has been the traditional exception to the constitutional requirement for a search warrant.<sup>189</sup> This exception must be narrowly construed, bearing in mind the purpose behind it. In this sense, a fundamental distinction exists between infringing goods and parallel imports. If the enumeration of "prohibited importation" in Section 101 is examined, it will be noticed that the nature of the articles is always illegal<sup>190</sup> and that their importation is allowed only if certain conditions are met.<sup>191</sup> The lawfully made articles are obviously not in the same category. Therefore, it seems unjust to treat them as contraband after their release from Customs.

Third, if the parallel imports are seized by the Bureau of Customs after release without any search when they are in plain view; a violation of, Article III, Section 2 of the Constitution will still occur. This violation results not because a search warrant is absent,<sup>192</sup> but because probable cause, which is still required for the seizure,<sup>193</sup> is absent. The Bureau of Customs officials are not qualified to determine that the right of importation of the copyright owner has been violated by merely looking at the lawfully-made goods which are displayed. Moreover, when foreign articles are openly offered for sale, customs officials can only demand evidence of payment of duties and taxes.<sup>194</sup> They cannot ask that the authorization of the copyright owner be shown. Therefore, they will be unable to determine whether there is probable cause that an infringement has occurred.

<sup>188</sup> TCC, § 2208: "Except in the case of the search of a dwelling house, persons exercising police authority under the customs law may effect search and seizure without a search warrant in the enforcement of customs laws." See also *People v. CFI of Rizal*, 101 SCRA 86 (Nov. 17, 1980).

<sup>189</sup> See Francis H. Ampil, *A Critique of the Authority of the Bureau of Customs to Conduct Warrantless Searches and Seizures*, (1999) (unpublished J.D. thesis, Ateneo de Manila School of Law) (on file with the Ateneo de Manila School of Law Library).

<sup>190</sup> TCC, Section 101. For example, dynamite, ammunitions, obscene articles, roulette wheels, gambling outfit, adulterated or misbranded food articles, marijuana, opium, other narcotics.

<sup>191</sup> TCC, Section 101. For example, when the importation of dynamite is authorized by law; when the importation lottery tickets are authorized by the Government; when the drugs are imported by the Government or by the Dangerous Drugs Board.

<sup>192</sup> A search warrant is not required to seize evidence in plain view.

<sup>193</sup> BERNAS, *supra* note 114, at 62. (citing *Chambers v. Maroney*, 399 U.S. 42 (1970)).

<sup>194</sup> TCC, § 2536.

An additional concern is the fact that once Customs has seized the goods to initiate the forfeiture proceedings, they acquire exclusive jurisdiction.<sup>195</sup> Regular courts are powerless to enjoin the continuance of the forfeiture proceedings.<sup>196</sup> Even if an action for infringement is instituted in court, and it is finally decided that there was no violation, the parallel imports may still be forfeited by the Bureau of Customs based on their opposite independent determination.<sup>197</sup>

By comparison, it should be pointed out that in the United States, Customs officials do not have the authority to seize and forfeit the parallel imports after the importation and cannot even prevent their importation. The U.S. Customs Service has authority to prevent the importation only of unlawfully-made copies or phono records. Only these are considered to be "prohibited importation".

It can now be concluded that R.A. 8293 vests Bureau of Customs with a power which should properly belong to the courts.

<sup>195</sup> See, e.g., Republic v. CFI of Manila, G.R. No. 43747 (Sept. 2, 1992) (holding that the Collector of Customs when sitting in forfeiture proceedings constitutes a tribunal and that a Court of First Instance is precluded from assuming cognizance over the subject matter).

<sup>196</sup> See, e.g., Commissioner of Customs v. Makasiar, G.R. No. 19307 (Aug. 29, 1989) (deciding that courts cannot issue writs of preliminary injunction to stop the forfeiture proceedings).

<sup>197</sup> TCC, § 2535. It must be remembered that in Customs forfeiture proceedings, it is the importer who will have the burden of proving that the goods are not parallel imports.

## CHAPTER IV

### PROPOSALS FOR AMENDING THE LAW AND SETTING STANDARDS

#### A. Alternatives for TRIPS Compliance with the *Inaudita Altera Parte Civil Search Order*

The alternatives available to satisfy the TRIPS requirement for an *inaudita altera parte* search order are either to introduce a new remedy prior to the institution of a main action, or to amend the existing provision on seizure, Section 216.2.

#### 1. SEARCH AND SEIZURE ORDER PRIOR TO A MAIN ACTION: CONSTITUTIONAL CONSIDERATIONS

The typical international remedy which serves as a guideline is the Anton Piller order, which originated in the United Kingdom.<sup>198</sup> A copyright owner who believes his works are being substantially infringed may apply *ex parte* to the court for an Anton Piller order directed to the person who *will be* the defendant *even before he begins proceedings*.<sup>200</sup> It is an order of the court, made without hearing the defendant and instructing him to allow the plaintiff or his lawyer to enter and inspect his premises on which it is believed some activity is being carried on which infringes the copyright of the plaintiff thus permitting private search and to take away the articles specified in the order.<sup>201</sup>

<sup>198</sup> The Anton Piller jurisdiction has its modern origin in *EMI Ltd v. Pandit* 1 All ER 418 (1975), in which it was held that in exceptional circumstances the court may make an order on an *ex parte* application authorizing the plaintiff to search the defendant's premises and to seize evidence of infringement including infringing copies. The order was named after the subsequent case in which the English Court of Appeals sanctioned its use, *Anton Pillar K.G. v. Manufacturing Processes Ltd.*, RPC 719 (1976). The Court of Appeals confirmed the availability of this power, but sought to confine its exercise within narrow limits, in order to give maximum reasonable protection to defendants from this extraordinary remedy.

<sup>199</sup> PHILIPS, *supra* note 86, at 89.

<sup>200</sup> The fact that the defendant is not allowed to warn anyone that "proceedings have been or may be brought against him by the plaintiff" shows that it is available both prior to, and after the institution of a main action See *WTO Council*, *supra* note 146.

<sup>201</sup> Not an officer of the court.

<sup>202</sup> *Remedies against Infringement and Counterfeiting of Trademarks: International Trends, including enforcement provisions of the TRIPS Agreement*; WIPO-ASEAN ORIENTATION AND STUDY PROGRAM ON THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS FOR SENIOR-LEVEL CUSTOMS OFFICERS (WIPO Geneva June 2 to 4 1997) WTO Council, *supra* note 146, 225 Annex 2; the other features of the order are its injunction, discovery and disclosure of information characteristics. WIPO, *supra* note 9, at 225.

A plaintiff who seeks a search and seizure order must satisfy the following conditions:

1. a strong *prima facie* case of infringement must be shown;
2. there must be a real and serious possibility of damage to the plaintiff from the defendant's alleged activities;
3. there must be clear evidence that the defendants have incriminating goods in their possession;<sup>203</sup>
4. there must be clear evidence of a real possibility that the defendant would have destroyed or otherwise disposed of evidence of infringement had the plaintiff sought inspection following an order in *inter partes* proceedings; and
5. the plaintiff must give a bond.<sup>204</sup>

A subsequent case<sup>205</sup> added that plaintiff must adduce evidence as to the exceptional nature of the case. Although the Anton Piller order is said to be a search warrant,<sup>206</sup> U.K. commentators maintain it is not, because the order only authorizes entry and inspection by permission of the defendant. Entry without his permission would be a trespass.<sup>207</sup> The defendant is, however, ordered to give his permission with the result that if he does not do so, he is in contempt of court<sup>208</sup> and extremely adverse influences are drawn against him.<sup>209</sup> But, the plaintiff is still not entitled to enter in the absence of permission.

The Order does not allow a "fishing expedition" either. Some commentators have the mistaken impression that an Anton Piller order "will give the right to search for items and seize material which has not been listed in the application, hence allowing a true 'fishing expedition.'"<sup>210</sup> In reality the plaintiff is, on the contrary, allowed to search and seize only the items listed in the order.<sup>211</sup>

<sup>203</sup> Neff, *supra* note 78.

<sup>204</sup> MERKIN, *supra* note 147, at 9-10.

<sup>205</sup> Columbia Pictures Inc. v Robinson, 3 All ER 338 (1986).

<sup>206</sup> Joachim Bornkamm, *An Overview of the Actions and Remedies for Dealing with Infringement of Intellectual Property Rights* WIPO ASEAN REGIONAL COLLOQUIUM ON INTELLECTUAL PROPERTY FOR THE JUDICIARY, BANGKOK, THAILAND, NOV 21-23, 1995, 21 (1995).

<sup>207</sup> COPINGER, *supra* note 14, at 332; (in the case of Anton Piller, Lord Denning distinguished an Anton Piller order from a search warrant) GROVES, *supra* note 11, at 147.

<sup>208</sup> The defendant will be guilty of contempt of court and may be sent to prison (except in the case of a corporate defendant) or fined or his assets seized. WTO Council, *supra* note 146.

<sup>209</sup> WIPO, *supra* note 9, at 225.

<sup>210</sup> Bornkamm, *supra* note 206.

<sup>211</sup> WTO COUNCIL, *supra* note 146.

The Anton Piller order is considered a civil *inaudita altera parte* search order.<sup>212</sup> Therefore, it is necessary to determine whether such an order could be adopted in the Philippines in order to ensure compliance with the TRIPS requirement, by analyzing the constitutional considerations.

a) *The right against unreasonable searches and seizures*

It is important to determine whether search and seizure in a civil case is also governed by Article III, section 2 of the Constitution. In the United States, early cases held that the Fourth Amendment was applicable only when a search was undertaken for criminal investigatory purposes.<sup>213</sup> However, the rule now is that the Constitutional provision applies to both criminal and civil searches.<sup>214</sup> "It is surely anomalous to say that the individual and his private property are fully protected by the Fourth Amendment only when the individual is suspected of criminal behaviour."<sup>215</sup>

Does the Philippine Constitution prohibit search and seizure without a search warrant? No. There is no prohibition against a seizure without a warrant but only against *unreasonable* searches and seizures. However, except in a carefully defined class of cases, a search of private property is "unreasonable" unless it has been authorized by a valid search warrant.<sup>216</sup> Although the Anton Piller order is not strictly a search warrant, it cannot be negated that it resembles it, since there is search and seizure. In *Republic v. Sandiganbayan*<sup>217</sup> the Supreme Court said, in the context of sequestration, that a search and seizure order is in fact a search warrant. Even if search authorized by a civil search and seizure order is considered a warrantless one, considering that even warrantless searches may be considered reasonable in certain circumstances,<sup>218</sup> with more reason can a civil search and seizure order attain this quality if the appropriate safeguards are present, since it is issued by a court.

<sup>212</sup> BLAKENEY, *supra* note 21, at 126: "The Anton Piller order is adopted in the scheme which is provided in Article 50 of the TRIPs Agreement for the making of "provisional measures by the judicial authorities. Article 50.1 provides that the judicial authorities shall have the authority" to order prompt and effective provisional measures. . . (b) to preserve relevant evidence in regard to the alleged infringement."

<sup>213</sup> In re Strousse, 23 Fed. Cas. 261 (No. 13, 548)(D. Nev. 1871); In re Meador, 16 Fed. Cas. 1294, 1299 (No. 9375)(N.D. Ga 1869)

<sup>214</sup> Marshall v. Barlow's Inc, 436 U.S. 307, 311-313 (1978). Business premises and papers of corporation "are protected by Fourth Amendment regardless of whether search and seizure arise in a civil or criminal context."

<sup>215</sup> Camara v. Municipal Court, 387 U.S. 523, 18 L.ed.2d 930 (1967)

<sup>216</sup> *Id.*

<sup>217</sup> 255 SCRA 438, 481 (1996).

<sup>218</sup> BERNAS, *supra* note 114, at 61, 62. Search of moving vehicle, of evidence in plain view, waiver, Customs.

The reasonableness of a search does not depend on the presence of a search warrant, although as a general rule, a search warrant ensures this. What is "reasonable" in terms of a search and seizure derives content and meaning through reference to the warrant clause.<sup>219</sup> The measure of reasonableness is the presence of the required degree of evidence: probable cause.<sup>220</sup> Should this standard be also required in a civil case? The Supreme Court in *Republic v. Sandiganbayan*<sup>221</sup> so held, that the search and seizure order must pass "the acid test for validity under the Constitution," and it went on to enumerate the conditions that make a search warrant valid, as enunciated in *Lim v. Ponce de Leon*.<sup>222</sup>

U.S. rules on administrative searches provide some instruction. Some cases hold a warrant unnecessary in certain situations. With respect to copyright infringement, however, the writer does not adopt this view. Examining these cases is useful only to determine the degree of proof required.

In the United States, the Supreme Court, until recently, employed a reasonableness test for such searches without requiring either a warrant or probable cause.<sup>223</sup> But in 1967, the Court held in two cases that administrative inspections to detect building code violations must be undertaken pursuant to a search warrant if the occupant objects.<sup>224</sup>

The Supreme Court said in *Camara*:

We may agree that a routine inspection of the physical condition of private property is a less hostile intrusion than the typical policeman's search for the fruits and instrumentalities of

<sup>219</sup> Coolidge v. New Hampshire, 403 U.S. 443 (1971).

<sup>220</sup> BERNAS, *supra* note 114, at 52. Probable cause is defined as an apparent state of facts found to exist upon reasonable inquiry, which would lead a reasonably discreet and prudent man to believe that an offense has been committed and that the objects sought in connection with the offense are in the place sought to be searched.

<sup>221</sup> 255 SCRA 438, 481 (1996).

<sup>222</sup> 66 SCRA 299, 305 (1971). "It must be issued upon probable cause; the probable cause must be determined by the judge himself, who must examine, under oath, or affirmation, the complainant and such witnesses as the latter may produce; and the warrant itself must particularly describe the place to be searched and the persons or things to be seized."

<sup>223</sup> Abel v. United States (1960); Frank v. Maryland (1959); Oklahoma Press Pub. Co. v. Walling (1946), construed in *United States Constitution: Fourth Amendment: Annotations*, (visited September 5, 1999) <[http://caselaw.findlaw.com/data/constitution/amendment\\_04/01.html#1](http://caselaw.findlaw.com/data/constitution/amendment_04/01.html#1)>.

<sup>224</sup> *Camara v. Municipal Court*, 387 U.S. 523 (1967) (home); See *v. City of Seattle*, 387 U.S. 541 (1967) (commercial warehouse).

crime...but we cannot agree that the fourth amendment interests at stake in these inspection cases are merely "peripheral."<sup>225</sup>

In *Marshall v. Barlow's, Inc.*<sup>226</sup> it was held that administrative warrants issued on the basis of less than probable cause would suffice. Even without a necessity of probable cause, the requirement would assure the interposition of a neutral officer to establish that the inspection was reasonable. In *Donovan v. Dewey*,<sup>227</sup> however, *Barlow* was substantially limited and a new standard emerged permitting extensive governmental inspection of commercial property, absent a warrant. The Court proclaimed that the government had a greater latitude to conduct warrantless inspections of commercial property than of homes, because "of the fact that the expectation of privacy<sup>228</sup> that the owner of commercial property enjoys in such property differs significantly from the sanctity accorded an individual's home." It should be pointed out that the reason behind the Constitutional prohibition is the right to privacy. Such a distinction could also be made in the context of copyright infringement, but only in terms of the degree of proof; an order from the court should still be necessary.

Arguably, if the requirements are less stringent, the copyright owner could decide to file a criminal complaint later. *Dewey* was applied in *New York v. Burger*<sup>229</sup> to inspection of automobile junkyards and vehicle dismantling operations, a situation where there is considerable overlap between administrative and penal objectives. The Court rejected the suggestion that the warrantless inspection provisions were designed as an expedient means of enforcing the penal laws, and instead saw narrower, valid regulatory purposes to be served. "A State can address a major social problem both by way of an administrative scheme and through penal sanctions," the Court declared in such circumstances, warrantless administrative searches are permissible in spite of the fact that evidence of criminal activity may well be uncovered in the process. It must be noticed that in this sense part of the *Camara* ruling was reversed. In *Camara* the additional reason for the decision that a warrant is required was that, like most regulatory laws, housing codes are enforced by criminal processes.

The same situation exists as to copyright infringement, since the same act gives rise to a civil cause of action and to criminal liability; furthermore, there are no additional elements to be proved in the criminal action, such as intent. The writer would combine the two rulings above: warrantless civil searches should be permissible in the sense that a civil search order from the court would be sufficient, and the evidence uncovered through the civil search should not be

<sup>225</sup> *Camara v. Municipal Court*, 387 U.S. 523 (1967).

<sup>226</sup> 436 U.S. 307, 311-313 (1978).

<sup>227</sup> 452 U.S. 594 (1981).

<sup>228</sup> See *supra* note 127.

<sup>229</sup> 482 U.S. 691 (1987).

made available for use in a criminal case instituted thereafter. Otherwise, the copyright owner could employ the simpler expedient of a civil search order and then file a criminal complaint instead.

The insistence of some cases on a requirement of "reasonableness" instead of "probable cause" is not justified. "Probable cause" is in fact synonymous with "reasonable cause."<sup>230</sup> Furthermore, the term does not solely refer to criminal cases: in a civil case, it means "an apparent state of facts found to exist upon reasonable inquiry which would induce a reasonable intelligent and prudent man to believe that a cause of action is existent."<sup>231</sup> In *Camara*, the Court said that probable cause in the issuance of warrants varies,<sup>232</sup> and that reasonableness is still the ultimate standard. Reasonable in effect means "suitable under the circumstances."

There is a noticeable difference between probable cause for a search warrant in a criminal case and probable cause for a search and seizure order in a civil case. In the former, the proof is with respect to an offense, in the latter it is only with respect to a cause of action. However, in the copyright infringement context, the meaning is the same. There are no additional elements to be proved in the criminal case.

An interesting independent provisional remedy is sequestration, provided in the 1987 Constitution itself.<sup>233</sup> The PCGG and not an officer of the court,<sup>234</sup> has the power to take in its possession "ill-gotten" property, for the purpose of preventing its destruction, concealment or dissipation,<sup>235</sup> until it can be determined, through judicial proceedings, whether the property was in fact ill-gotten.<sup>236</sup> The order issues upon a *prima facie* case and is deemed automatically lifted if judicial proceedings are not initiated within six months from its issuance.<sup>237</sup> The question that naturally follows is whether the order is equivalent to a search warrant. The Supreme Court impliedly held it is not, by considering it instead akin to the provisional remedies of attachment, replevin and receivership,<sup>238</sup> and by saying that attachment and receivership

<sup>230</sup> BLACK'S LAW DICTIONARY at 1265.

<sup>231</sup> *Cook v. Singer Sewing Mach. Co.*, 138 Cal. App. 418, 32 P.2d 430, 431, quoted in *Id.*, citing *Cook v. Singer Sewing Machine Co.*, 138 Cal. App. 418, 32 p.2d 430, 431.

<sup>232</sup> It varies with the program being enforced, or the condition of the entire area, or the passage of time, or the nature of the building.

<sup>233</sup> 1987 Phil. Const. XVIII, § 26.

<sup>234</sup> *BASECO v. PCGG*, 150 SCRA 181 (1987). The Supreme Court held: "that writs of sequestration are not issued by a court is of no moment. The writ of distraint and levy is issued by the Commissioner of Internal Revenue" ..

<sup>235</sup> Just like the purpose sought to be accomplished in the case of copyright infringement

<sup>236</sup> *BASECO*, 150 SCRA 181, 202 (1987).

<sup>237</sup> 1987 Phil. Const. XVIII, § 26.

<sup>238</sup> *Rep. v Sandiganbayan*, 255 SCRA 438, 480 (1996). See also *BASECO, v. PCGG*, 150 SCRA 181, 213 (1987).

are legal processes conservatory in character, not involving an active and drastic intrusion into and confiscation of properties as what a search warrant (or search and seizure order) necessarily entails."<sup>239</sup> The fact is that no confiscation is involved in a search warrant. Also, it cannot be said that the order more resembles the remedies under the Rules of Court, that the search warrant considers that the former an issue only when a main action is pending. In fact, Bernas considers that there are only two features of the sequestration order which distinguish it from the search warrant:

- (1) a warrant may be issued only by a judge, whereas a sequestration order is issued by an administrative authority;
- (2) a warrant issues only upon probable cause, whereas a sequestration order issues only upon showing of a *prima facie* case, a degree of proof higher than probable cause.<sup>240</sup>

It is noteworthy also, that unlike in the case of a search warrant, which can only be for purposes of instituting a criminal action, the action that follows the sequestration order may be civil.<sup>241</sup> It would thus appear that the sequestration order may be in the nature of a civil *inaudita altera parte* search order within the contemplation of TRIPS. However, the Supreme Court does not view the order in this way, but instead,<sup>242</sup> as it was shown, considers it akin to preliminary attachment and receivership.

The Supreme Court considered that the *prima facie* standard should govern, even if not expressly imposed, because "in this jurisdiction ... the Rule of Law prevails." However, not all orders issue upon a *prima facie* showing, and one such example is the search warrant. The submission of the writer is that the true reason behind the *prima facie* standard is, as Bernas put it, to compensate for the dispensation from the requirement of a judicial order.<sup>243</sup> By analogy the same can be said as to the Anton Piller order, which, while issued by a court, is carried out by the plaintiff and his lawyer.

Therefore, if a similar order were to be adopted in the Philippines, but issued by a court, and carried out by an officer of the court, the probable cause standard would be sufficient. More specifically, when there is a probable cause that a cause of action exists, such as, the applicant is the owner of the copyright allegedly infringed, and that the person to whom the order will be addressed is

<sup>239</sup> In fact, in this case, the Supreme Court even invalidated a search and seizure order issued purportedly under the authority of Art. 18, section 26 of the 1987 Constitution.

<sup>240</sup> BERNAS, *supra* note 114, at 431-432.

<sup>241</sup> *Republic v. Sandiganbayan*, 240 SCRA 376, 464 (1995). Here, the Supreme Court held that there is no particular description or specification of the kind and character of the judicial action or proceeding contemplated.

<sup>242</sup> *BASECO v. PCGG*, 150 SCRA 181 (1987).

<sup>243</sup> BERNAS, *supra* note 114, at 432.

infringing such right. If the premises are commercial establishments, the courts should be more lenient in granting the request than if the premises sought to be searched were a dwelling, because of privacy implications. The applicant or any of his witnesses should have personal knowledge of the fact of infringement. He must describe the goods to be searched for and seized with sufficient particularity to enable the sheriff/other law enforcing officer to identify them.

*b) The right to due process*

Article III, § 2 of the 1987 Constitution provides that "no person shall be deprived of life, liberty, and property without due process of the law." What is generally contemplated in terms of procedural due process is notice and hearing. If the order issues *ex parte*, there must be additional safeguards to protect defendant's due process right.<sup>244</sup>

It has been shown that the Anton Piller order requires a *prima facie* case, the applicant must also establish that if he were to institute an action first he would suffer irreparable damage, and that there is a demonstrable risk that notice to the defendant following the institution of a main action would result in the destruction of the infringing goods. In addition, he must post a bond.

All these requirements are more than it is needed to make the search and seizure "reasonable" in terms of compliance with Article III, § 2 of the Constitution. The extra protection is meant to meet the due process requirements.

Additional due process safeguards are more difficult to discern in the requirements for the issuance of a search warrant, since compliance with § 2 is considered sufficient. The explanation could be that § 2 already incorporates the due process considerations.

Comparing the requirements for the issuance of an Anton Piller order with those for the issuance of a search warrant, they are higher in the case of the former. The reason is that the State has no intervention in the process. It is not the prosecutor applying for a search and seizure order from the courts, but a private person whose allegations stand unverified by any officer of the court.

Therefore, all the safeguards for the issuance of an Anton Piller order would be needed. The *prima facie* requirement of "probable cause" is however debatable. The former standard is more appropriate for orders issued pending an action in court, when the applicant is supposed to have more evidence in his possession than when he applies for an order prior to the action.

<sup>244</sup> Raoul Anthony Renaud, *Pretrial Remedies in Infringement Actions: The Copyright Holder's Impound of Flesh?* 17 SANTA CLARA LAW REVIEW 885, 905 (1977) "Arguing that since impound involves the seizure of property, it is arguable that due process demands must be met before impoundment."

The submission of this thesis is that the Philippines would be considered compliant with TRIPS even in the absence of a search order remedy available before the institution of a civil action. The same situation exists in the United States. Rule 64 of the Federal Rules of Civil Procedure provides: "At the commencement of and during the course of an action, all remedies providing for seizure of person or property for the purpose of securing satisfaction of the judgment ultimately to be entered in the action are available." However, under the state procedure, the remedy may be either ancillary to an action or may be obtained by an independent action: "The remedies thus available include arrest, attachment, garnishment, replevin, sequestration, and other corresponding or equivalent remedies, however designated and regardless of whether by state procedure the remedy is ancillary to an action or must be obtained by an independent action." The fact that it is up to the various states shows that this as a rule, is not available. Also, under the United States Supreme Court Copyright Practice Rules (1909), Rule 3 provides: "Upon the institution of any action, suit or proceeding, or at any time thereafter, and before the entry of final judgment, the plaintiff or complainant may file ....". The reference to "institution of action" and to "final judgment" clearly show that there must be a main action.

An additional reason for the writer's submission can be obtained by referring to Article 41.5 which provides that a country signatory to the TRIPS is under no obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general.<sup>245</sup> Some Philippine commentators have argued that Article 41.5 can be used as an excuse for non-compliance with the TRIPS obligations, emphasizing that the enforcement obligations do not affect "the capacity of Members to enforce their law in general."<sup>246</sup> The argument is that a state cannot be expected to divert its resources from more immediate law enforcement concerns, such as the maintenance of peace and order and other core concerns of organized society, into IPR enforcement and that a perceived breach of an obligation under the TRIPS will have to be judged in relation to the total enforcement capability of the government concerned.<sup>247</sup>

<sup>245</sup> One of the principal stumbling blocks during the TRIPS discussion was the need to take account of the many developing countries' availability of resources. Those countries wanted to avoid having to establish a special judicial or other system to enforce intellectual property rights. Daniel Gervais, *The Trips Agreement: Drafting History And Analysis* 197 (1998). "argues that Article 41.5 addresses that concern raised in the TRIPS discussion that the lack of resources in many developing countries is one of the reason for the non-establishment of a special judicial or other system to enforce intellectual property rights."

<sup>246</sup> Raphael Perpetuo M. Lotilla, *Notes on the Trade-Related Aspects of Intellectual Property Rights*, THE WORLD BULLETIN 76 (Jan-June 1996). (The author mentioned that Article 41(5) can be explored insofar as it relates to the obligations assumed by a developing state like the Philippines.)

<sup>247</sup> *Id.*

This argument is correct if the only reason for the breach of obligation is the lack of resources, since TRIPS does not allow the maintenance of any system or tradition other than when the availability of resources is at play.<sup>248</sup>

It has been stated that an example of such an obligation that does not require the allocation of additional resources is the one of providing for an *ex parte* search order in civil proceedings.<sup>249</sup> However, this is correct only if the country has already a system in which measures independent of a trial are allowed. This is not the situation in the Philippines, with the exceptions of procedures independent of a main action, such as administrative investigations,<sup>250</sup> or the sequestration orders issued by the PCGG. These are however, non-judicial processes; therefore, the Philippines could invoke Article 41(5), since making available this remedy without a trial will definitely entail additional expenses.

The conclusion is not that a civil *inaudita altera parte* need not be provided for at all, but only that it need not be provided independently of an action. The fact that notice of the initiation of the action must be given for the court to acquire jurisdiction over the defendant and the property presents problems. A solution will be proposed in the next part of the analysis, which focuses on search and seizure *during* a main action.

#### 6. SEARCH AND SEIZURE ORDER PENDING ACTION: AMENDING SECTION 216.2

It has been seen that the primary concern of TRIPS commentators, as well as of the USTR and the IIPA, is the danger that the copyright pirate will destroy the infringing goods if notified. This notice includes summons that must be served on him upon the institution of the main action. This concern motivated the requirement that the order be available prior to the institution of a main action. However, there is a way of ensuring that the infringer will not be notified in any way even if an action is instituted first. The solution proposed by the writer will remove this problem, which in turn eliminates the need to have an independent remedy.

To obtain a truly *ex parte* order, the application for impoundment must be filed together with the complaint for copyright infringement. By analogy with

<sup>248</sup> GERVAIS, *supra* note 243, at 199. It is not difficult to find arguments within the very wording of TRIPS against resorting to Article 41.5 as an excuse for doing nothing. The preamble to TRIPS, stating the "need to promote effective and adequate protection ..." underscores the affirmative obligation in Article 41.1 to either have or introduce effective procedures. Karnell, *supra* note 70, at 26. Professor Karnell says Article 41.5 is a "poor excuse for doing nothing." *Id.* This is but logical, otherwise all that a country wanting to avoid its obligations would have to do is to invoke Article 41.5.

<sup>249</sup> Karnell, *supra* note 70, at 26.

<sup>250</sup> See, for e.g., Evangelista v. Jarencio, 68 SCRA 99 (1995).

the writ of attachment,<sup>251</sup> it can be said that the grant of the remedy of impoundment will involve three stages: first, the court will issue the order granting the application; second, the writ of impoundment will issue pursuant to the order granting the writ; and third, the writ will be implemented. For the initial two stages, it is not necessary that jurisdiction over the person of the defendant should first be obtained.<sup>252</sup> Only when the implementation commences will it be required that the court must have acquired jurisdiction over the defendant. More specifically,<sup>253</sup> *the writ of impoundment can be served simultaneously with the service of summons.*<sup>254</sup>

In the United States, there is a similar procedure that achieves the same purpose. The applicant will ask the court to seal the case files until after the writ is implemented.<sup>254</sup>

If the Supreme Court decides to issue implementing rules providing for issuance of the order without notice and hearing, or even if R.A. 8293 is amended to provide for an *ex parte* order without the appropriate safeguards, the criticism that the *ex parte* proceeding deprives the defendant of his property without due process could be raised. The additional proposal of this thesis is that Section 216.2 should be also amended to include search, in order to obviate the need for the search and seizure order prior to a main action. Therefore, the succeeding discussion will be oriented towards identifying the standards needed to ensure the constitutionality of such a search and seizure, both with respect to Section 2 and with Section 1 of Article III of the Philippine Constitution.

#### a) *The right against unreasonable searches and seizures*

It has already been stated that the prohibition against unreasonable searches and seizures in Article III section 2 of the Constitution is applicable not just to criminal but also to civil actions.<sup>255</sup>

The issues raised in the United States with respect to their seizure for impoundment provision are worth analyzing, in order to determine the constitutionally sound standards.

<sup>251</sup> See *Onate v. Abrogar*, G.R. No. 107303, Feb. 23, 1995.

<sup>252</sup> *Id.*

<sup>253</sup> *Id.*, as to preliminary attachment.

<sup>254</sup> See, e.g., *WPOW Inc. v. MRLJ Enterprises*, D.C.D.C. 1984, 584 F.Supp. 132, 222 U.S.P.Q. 502; *First Technology Safety Systems, Inc. v. Depinet* C.A. 6 (Ohio) 1993, 11 F.3d 641, 29 U.S.P.Q. 2d 1269.

<sup>255</sup> *Time Warner Entertainment Co., v. Does Nos. 1-2*, 876 F. Supp. 407, 412 (E.D.N.Y. 1994) Though Fourth Amendment principles "do not apply with the same force in civil proceedings, they inform and restrict the statute's interpretation."

The criticism was that the Supreme Court Rules Implementing the Provision on Impoundment under the Copyright Act<sup>256</sup> authorized an unreasonable search and seizure within the meaning of the constitutional prohibition.<sup>257</sup> This was a shift from the initial tendency of upholding the impounding procedures against a Fourth Amendment challenge on the ground that the affidavit filed by plaintiff had been "examined and the bond approved by a neutral magistrate."<sup>258</sup> Based on the discussion of Section 216.1(c), Rules 21 and 27 with respect to unreasonable searches and seizure,<sup>259</sup> which is applicable here too, it can be said that said standard was a constitutionally defective one.

The insufficiency of the requirement was in fact, exposed for the first time by the case of *Paramount Pictures Corp. v. Doe*.<sup>260</sup> The pretrial impoundment of pirated videocassettes of motion pictures and equipment for making such cassettes was denied on the ground that the plaintiffs offered insufficient proof of the premises to be searched, and of ways to distinguish between authorized and unauthorized cassettes.

This is a very interesting pronouncement because these are the same requirements needed for the issuance of a search warrant: Article III § 2 of the Constitution provides that a search warrant must particularly describe the place to be searched and the persons or things to be seized. The court in the *Paramount* case confirmed this impression by explicitly holding that Fourth Amendment principles guide the court in the issuance of the seizure order directing the United States Marshall to impound allegedly infringing articles under the Copyright Act.<sup>261</sup>

<sup>256</sup> The Rules were formulated under the 1909 Act, but they continued in effect under the 1976 present Copyright Act (4 NIMMER ON COPYRIGHT, *supra* note 24, at 14-127). However it was also said that general departure from the *ex parte* norms of the 1909 Rules of Act raises doubt as to whether those Rules enjoy continuing viability at present. *Paramount Pictures Corp v. Doe*, 821 F. Supp., 82, 87 (E.D.N.Y. 1993). The 1976 Act "arguably supersedes and renders null and void the Copyright Rules."

<sup>257</sup> *Time Warner*, 876 F.Supp., at 412.

<sup>258</sup> *Dealer Advertising Dev., Inc. v. Barbara Allan Fin. Advertising, Inc* 197 U.S.P.Q. 611 (W.D. Mich.1977).

<sup>259</sup> See *supra* discussion on Chapter 3.A (b) (2).

<sup>260</sup> 821 F.Supp 82.

<sup>261</sup> In *Time Warner*, 876 F Supp. 407, the plaintiffs sought to have a private investigator conduct seizure and impoundment, but failed to provide sufficient particularity for premises to be searched and it included private residence as site to be searched; it also did not sufficiently describe the infringing articles to be seized. It was held that the seizure of the allegedly infringing products would violate the Fourth Amendment. In *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, N.D. Cal. 1995, 923 F.Supp. 1231 the writ of seizure of "articles and things" appearing to be copyrighted religious work was also considered to be unconstitutionally overbroad, since the writ described a category of works which could not be identified by any easy to apply criteria.

Therefore, the rulings of the Supreme Court in criminal copyright cases<sup>262</sup> with respect to the search warrant and the master tapes could be applied to seizures where search is necessary, and so could the whole jurisprudence on particularity of description in the search warrant.

However, impoundment was not always considered to involve a search. In *Warner Bros., Inc v. Dae Rim Trading, Inc.*,<sup>263</sup> the court distinguished the impoundment from searches. It held that copyright statutory law does not authorize any search of any premises, business or otherwise, but only authorizes impounding of claimed infringing articles in custody of court for eventual destruction if they are found to infringe after trial. This case seems to follow either the rule in 216.1(c) that it is the defendant who is supposed to deliver the articles and not the court ordering that they be seized, or the assumption that the articles will always be in plain view, such that there is no need for a search. The first theory was already examined and so was the distinction between search and seizure. The implication of the *Warner Bros.* ruling is that a lesser standard must be met only when seizure is involved, and the same view could be applied by Philippine courts in issuing an impoundment order which involves only seizure.

If in order to carry out the writ a search is indispensable, the submission of the writer is that the standard must be higher than for an order under Section 216.1(c). Even if it can be said that the compulsory production of the incriminating goods for impoundment amounts to a search when the goods are not publicly exposed, it cannot be negated that there is no breaking in into the premises of the defendant, with the ensuing impact on his right to privacy. However, the standards arrived to in the end will be higher than those dictated by the protection of the right against unreasonable searches and/or seizures, since in addition to these considerations, the defendant's right to due process must be taken into account.

#### b) *The right to due process*

Article 50.1(2) of TRIPS requires that provisional measures be issued without giving the defendant an opportunity to be heard when there is a demonstrable risk that the evidence would be otherwise destroyed.

<sup>262</sup> *20th Century Fox Film Corp. v. Court of Appeals*, G.R. Nos. L-76649-51, Aug. 19, 1988; *Columbia Pictures, Inc. v. Flores*, G.R. No. 78631, June 29, 1993; *Columbia Pictures, Inc. v. CA*, G.R. Nos. 96597-99, Oct. 6, 1994; G.R. No. 111267, Sept. 20, 1996. *Columbia Pictures Industries Inc. v. Jasso* (N.D.III 1996, 927 F. Supp. 1075, 39 U.S.P.Q.2d 1316) held that the impoundment of the allegedly infringing videocassettes of a video store, which allegedly contained illegal copies of copyrighted motion pictures was warranted. The copyright owners provided the court with copies of copyright registration certificates (in the Philippines there are no registration requirements) showing that they owned copyrights and/or exclusive distribution rights to motion pictures and the investigator stated in his affidavit that he had rented what he believed to be bootlegged copies of motion pictures from the store.

<sup>263</sup> *NEFF*, *supra* note 90.

It has been previously shown that the notice that must be given to the defendant when an infringement action is initiated destroys the objective which TRIPS aims at, namely, the preservation of the evidence,<sup>264</sup> even if the order itself issues *ex parte*, but that there is a way of ensuring that an *ex parte* order under Section 216.2, although issued during the pendency of the main action, will preserve said evidence.<sup>265</sup>

(1) Statutory construction-amendment of the law

As a matter of statutory construction, R.A. 8293 requires an adversarial hearing as a condition to impounding.<sup>266</sup> Therefore, if the Supreme Court were to issue implementing rules providing for an *ex parte* procedure, the rules could be assailed by arguing that Section 216.2 is already a remedy for the substantive rights provided in R.A. 8293. It is different in the case of the substantive rights for which the Rules of Court provide the remedies. A U.S. case went even further by holding that the right to impoundment is a substantive right and not simply a matter of procedure, therefore the standard set forth by statutory law governs.<sup>267</sup> And the standard, according to statutory construction, is that notice and hearing are required; it would be necessary that the rule itself provide otherwise for an *ex parte* order to be valid. That is why the rules of court for attachment expressly provide that it may issue *ex parte*, while for replevin, it is stated that only an affidavit and bond are required.

This cannot be done in the case of impoundment because Supreme Court rules cannot abridge, enlarge or modify substantive rights.<sup>268</sup> Therefore, if an *ex parte* order is desired, there is need for an amendment of R.A. 8293. The standards to be developed must be in compliance with the constitutional requirement of due process: Article III, section 1 of the Constitution provides that no person shall be deprived of property without due process of law.

Such a provision would not be a unique case in the Philippines. Two other remedies in the Rules of Court provide for seizure as a provisional remedy. These

<sup>264</sup> See *supra* discussion on p. 30.

<sup>265</sup> See *supra* discussion on pp. 81, 82.

<sup>266</sup> This argument was raised already in the U.S., in *WPOW v. MRLJ*, 584 F.Supp. 132, 134 (1984).

<sup>267</sup> *Paramount v. Doe*, 821 F. Supp. 82 (1994).

<sup>268</sup> Again, it is different with respect to the remedies of attachment and replevin, which can issue without notice and hearing, according to the Rules of Court, because there are no laws governing the manner of their issuance.

are attachment<sup>269</sup> and replevin<sup>270</sup> (in receivership, there is instead delivery to the receiver). It is interesting to know the reason given by the Supreme Court in the case of *Mindanao Savings & Loans Assn. Inc. v. CA*<sup>271</sup> as to why hearing is not normally conducted before attachment may issue: the reason is based on the fact that if the adverse party is notified or is heard before attachment may issue, it would defeat the purpose of attachment, for the adverse party may be able to abscond or dispose of his properties even before the writ of attachment may be issued.<sup>272</sup> This reasoning can also justify a writ of seizure for impoundment without notice and hearing.

It is useful to see what the criticisms were in the U.S. with respect to attachment and replevin.

Beginning with *Sniadach v. Family Finance Corp.*,<sup>273</sup> pre-judgment attachments have been successfully challenged as violating the constitutional due process rights of the defendant since no hearing or notice is provided prior to the seizure of the property. A number of cases have held that *ex parte* seizures violate due process also with respect to replevin. *Fuentes v. Shevin*<sup>274</sup> and *Boddie v. Connecticut*<sup>275</sup> held that due process is violated even if there is provision for a prompt post-taking hearing.<sup>276</sup>

<sup>269</sup> Rule 57, § 2 provides that an order of attachment may be issued either *ex parte* or upon motion with notice and hearing. It will only issue under the circumstances enumerated in Section 1, all of which refer to a defendant who defrauded or intends to defraud the plaintiff, or is not found in the Philippines.

<sup>270</sup> In replevin, there are no such circumstances as in attachment which must be present. The main requirement is that the affidavit of the plaintiff must allege that he is entitled to the possession of the movable and that it is being wrongfully detained by the adverse party. The possibility of its abuse is there, since the defendant can prevent delivery of the property to the plaintiff only by posting a bond in double the value of the property. The justification for dispensing with the usual notice and hearing due process requirement could be the fact that only possession is disputed.

<sup>271</sup> 172 SCRA 480 (1989).

<sup>272</sup> *Joseph Tay Chun Suy v. CA*, G.R. No. 91004-05, Aug. 20, 1992. It was also said that the reason why there can be *ex parte* issuance of a writ of attachment is that if the defendant would be notified before the attachment is served, then, he would be able to hide his properties and that would allow him to defraud his creditors. However, in *Onate v. Abrogar*, G.R. No. 107303, Feb. 23, 1995. The Supreme Court held that it is not notice to the defendant that is sought to be avoided but the time which such hearing would take, because of the possibility that the defendant might delay the hearing to be able to dispose of his properties. But this means the same in the end: it is not delay that is sought to be avoided, but the possibility that the defendant would destroy the evidence.

<sup>273</sup> 395 U.S. 337 (1969). The case was for garnishment of wages.

<sup>274</sup> 407 U.S. 67 (1972). The case was for replevin of stove and stereo.

<sup>275</sup> 401 U.S. 371 (1971).

<sup>276</sup> As in Rules 9 and 10 of the U.S. Supreme Court Rules on impoundment.

As to attachment, the Supreme Court later on evolved a balancing test which takes into account the public interest that would justify postponing the opportunity to be heard for example, if attachment depends upon a showing that immediate action is necessary because the defendant is likely to transfer or hide the property. Also, the debtor must be provided an opportunity to dissolve the writ immediately, with the burden placed on the plaintiff to show why the attachment was justified.<sup>277</sup>

In *Mitchell v. W.T. Grant Co.*<sup>278</sup> the court upheld a sequestration statute permitting *ex parte* prejudgment seizure, and it outlined the minimum requirements of due process:

1. Plaintiff must establish that the property to be seized is of a type that can be readily concealed, disposed of, or destroyed;
2. He must also allege specific facts based on actual knowledge, supporting the underlying action and his right to seize the property;
3. The defendant has a right to a prompt post-seizure hearing;
4. The defendant must be able to recover damages from the plaintiff if the taking was wrongful, and to regain possession.

The opinion of commentators is that these requirements have implications specifically extending to pre-judgment seizures of property for purposes other than security.<sup>279</sup> Such is the case of a seizure for impoundment.

At this point a brief statement of the contents of the U.S. Supreme Court Rules will be provided, as an example of a procedure that the Philippines should not adopt in view of the constitutional deficiencies. Said rules provide for a summary seizure and impounding. (Read literally, the Rules allow a party to deal solely with the court clerk and not appear before the judge, even *ex parte*<sup>280</sup>). There is no opportunity given to the person from whom such articles are seized for a pre-seizure hearing. The plaintiff must file with the clerk a bond executed by at least two sureties and approved by a court or a commissioner thereof. Apparently, the approval of the court need only be as to the adequacy of the bond. After seizure has occurred, the defendant may make application to the court for a return to him of the articles seized, upon filing an affidavit stating all material facts tending to show that the articles seized are not infringing copies. The court may then, in its discretion, and after such hearing as it may direct, order the return of the seized articles, subject to such bond as the court may determine. A writ of seizure may also be vacated upon a showing that the plaintiff made knowingly false statements in his application therefor. The court may hold the defendant in contempt for failure to comply with an impounding order.

<sup>277</sup> *Mitchell v. Grant*, 416 U.S. 600 (1974)

<sup>278</sup> *Id.*

<sup>279</sup> KEVIN M. CLERMONT, *CIVIL PROCEDURE* 167 (Black Letter Series, 1982).

<sup>280</sup> *Paramount v. Doe*, 821 F.Supp., 82, 88 (E.D.N.Y. 1993).

At the beginning, courts have upheld these copyright impounding procedures against a Fifth Amendment challenge on the ground that what process is due depends on the circumstances of each case, and that the Supreme Court Rules contain "constitutionally sufficient provisions whereby relief from the seizure may be obtained."<sup>281</sup>

This view later changed to the point of considering Copyright Rules inapplicable for constitutional deficiency. Following the reasoning in *Mitchell*, it seems that the requirements for attachment also need to be incorporated for the seizure. But the standards generally used by the U.S. courts are not those in attachment but those applicable to the granting of preliminary injunctive relief, either those for the issuance of a preliminary injunction, or those for the issuance of a temporary restraining order (TRO), or both.

In *WPOW, Inc. v. MRLJ*<sup>282</sup> the court stated that while an impoundment order is not technically an injunction, this does not exclude the possibility that a similar showing should be required as a prerequisite to its issuance with respect to relief that is injunctive in character,<sup>283</sup> because there is no reason why a defendant against whom impoundment relief is sought should be entitled to less protection than one who may be subject to an injunction. Therefore a plaintiff seeking an impoundment must meet the requirements for permanent or preliminary injunctive relief. Since the plaintiff applied for the order *ex parte*, it can be assumed that the court referred to the requirements that must be met for an *ex parte* order, although a preliminary injunction issues only after notice and hearing, just as in the Philippines. In *First Technology v. Depinet*,<sup>284</sup> the court ruled that there must be compliance with the requirements for the issuance of a TRO, while in *Paramount* the court held that an *ex parte* order will issue if plaintiff complies with the requirements for a TRO and the general principles governing preliminary injunctive relief. The quantum of evidence that needs to be adduced will be determined by referring to the TRIPS and Philippine rules on preliminary injunctions and TROs, as well as to U.S. jurisprudence.

<sup>281</sup> *Jondora Music Publishing Co. v. Melody Recordings, Inc* 362 F. Supp. 494 (D. N.J. 1973), *vacated on other grounds*, 506 F.2d 392 (3d Cir. 1975) *Dealer Advertising Dev., Inc. v. Barbara Allan Fin. Advertising, Inc* 197 U.S.P.Q. 611 (W.D. Mich.1977). The impounding procedures were also upheld against a due process challenge in an early copyright case, *Universal Mfg. Co. v. Copperman*, 206 Fed 69 (S.D.N.Y. 1913)

<sup>282</sup> 584 F.Supp. 132 (1994).

<sup>283</sup> In *Warner Bros v. Dae Rim Trading*, 677 F.Supp. 740, *appeal denied* 877 F.2d 1120, it was said that absent the Copyright Rules, the procedure would be governed by the standards set forth in "general rules governing preliminary injunctive relief."

<sup>284</sup> 11 F.3d 641(1993).

(2) Preliminary injunction<sup>285</sup>

This remedy is provided by TRIPS in the same Article as the one referring to the search order,<sup>286</sup> and also, just as in the case of the latter, courts must issue it *ex parte* under certain circumstances,<sup>287</sup> the degree of evidence needed for its issuance then being "reasonably available evidence."<sup>288</sup>

Article 50.1 provides that

The judicial authorities shall have the authority to order prompt and effective provisional measures: (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods,<sup>289</sup> including imported goods immediately after customs clearance.

Section 216.1(a) of R.A. No. 8293 provides that a person infringing a right protected by copyright law is liable to an injunction restraining such infringement. This refers to a final injunction only; however the Rules of Court provisions on preliminary injunctions can be applied. Section 1 of Rule 58 defines a preliminary prohibitory injunction as an order granted at any stage of an action prior to judgment, requiring a party ... or a person to refrain from a particular act(s). A preliminary mandatory injunction requires the performance of a particular act(s). In copyright infringement, very rarely will a mandatory preliminary injunction be requested since what the copyright holder usually wants is just to stop the infringement. Therefore, the discussion will refer only to a prohibitory injunction.

A preliminary injunction may be granted when it is established:

1. That the applicant is entitled to the relief demanded,<sup>290</sup> that is, the final relief, the whole or part of which should consist in restraining the commission/continuance of the act(s) complained of;

<sup>285</sup> The interlocutory or interim injunction is still considered the most useful and used preliminary remedy. WIPO INTRODUCTION, *supra* note 9, at 347. For as long as piracy continues, the copyright owner will be deprived of a portion of his potential market, and thus of the capacity to recover the economic reward for his creativity or investment. The aim of the interlocutory injunction is to meet this need by granting speedy and temporary relief during the period before a full trial of an infringement takes place, thus preventing irreparable damage from occurring to the plaintiff's rights *Id.* at 171.

<sup>286</sup> art. 50.1.

<sup>287</sup> art. 50.2 *See* discussion on TRO.

<sup>288</sup> art. 50.3.

<sup>289</sup> Although the formulation of the article is quite ambiguous, it is commonly understood to refer to a preliminary injunction.

<sup>290</sup> 1997 Revised Rules of Court, Rule 58, Section 3 (a).

2. That the commission, continuance or non-performance of the act(s) complained of would probably work injustice to the applicant during the litigation<sup>291</sup> or that a party,... person is doing, threatening, or attempting to do some act(s) probably in violation of the rights of the applicant respecting the subject of the action, which acts must in addition tend to render the judgment ineffectual.<sup>292</sup>

If section 3(a) is translated into the copyright realm, it will mean that the copyright owner must establish that he is entitled to damages/permanent injunction/destruction of the infringing goods, since these are usually the final reliefs sought in a copyright infringement action. To establish this, he must prove that he is a copyright owner and that the defendant infringed his right.

Both paragraphs (b) and (c) refer to the consequences of denying the preliminary injunction to an eventually successful copyright holder. They basically mean the same in the context of copyright infringement. A successful copyright holder who was denied a preliminary injunction would usually have incurred serious losses and damage to his goodwill. This naturally is unjust to him and would also render the final judgment ineffectual, since goodwill cannot be compensated through damages.<sup>293</sup> The difference between the two paragraphs would then be only that under paragraph (c) the copyright holder must prove that defendant's acts are probably infringing his copyright, while under paragraph (b) he is not so required. But in fact, there is likewise no distinction here, because the plaintiff cannot obtain a preliminary injunction just by invoking an ensuing injustice: there must be compliance with paragraph (a), which for all intents and purposes has the same meaning as the first part of paragraph (c).

The conclusion is that in a copyright infringement action the plaintiff must comply either with paragraphs a) and b), or with paragraph c) alone. Even if it appears that paragraph a) is a must requirement in addition to either paragraph b) or c), this is not the case in copyright infringement actions because paragraph a) is in fact incorporated in paragraph c).

Additionally, the balance of hardships must lean towards the applicant. This can be inferred from section 6 of Rule 58, which provides that the preliminary injunction can be dissolved where the damage to the defendant would outweigh plaintiff's.

<sup>291</sup> *Id.*, Section 3(b).

<sup>292</sup> *Id.*, Section 3(c).

<sup>293</sup> Paragraph (c) means damage that cannot be fully compensated at the end, since the judgment would be ineffectual. Paragraph (b), even if phrased differently, means almost the same, since it cannot be said that the denial of the preliminary injunction worked injustice to the plaintiff pending litigation if at the end he was fully compensated for such damages.

Summarizing, the plaintiff must establish:

1. That he owns the copyright in question (existence of his rights);
2. That the acts of the defendant are infringing his copyright, by violating any of his exclusive rights (element 1 plus element 2 equal "success on the merits");
3. That the consequences of denying him the injunction applied for, pending litigation, would be unjust, such that a favorable judgment will not fully compensate him for the damages suffered (irreparable harm);
5. That the balance of hardships is in his favor.

A point of controversy with respect to requirements 1 and 2 is the degree of proof needed. When is the case considered substantial and the likelihood that the plaintiff will prevail? In civil cases, the party having the burden of proof must establish his case by preponderance of evidence.<sup>294</sup> A higher standard must be applied in granting a provisional remedy, considering the serious consequences flowing therefrom, without having a full-blown hearing on the merits. According to Philippine jurisprudence on non-copyright cases there must be a showing of the "existence of a clear right of the plaintiff," as to element 1.<sup>295</sup> As to element 2, no degree of proof was set, only that "the acts are in violation of said rights" established by element 1.<sup>296</sup> A similar opinion was expressed in a trademark case, *Philips Morris, Inc. v. C.A.*<sup>297</sup>

In the United States, the cases flip flop between requiring either a showing of a "likelihood of success"<sup>298</sup> or of a *prima facie* case.<sup>299</sup> In the Philippines, the requirement to show a "clear right" would seem to point to a *prima facie* standard.

<sup>294</sup> 1997 Revised Rules of Court, Rule 133, § 1.

<sup>295</sup> *Searth Commodities Corp. v. CA*, G.R. No. 64220 (March 31, 1992).

<sup>296</sup> *Id.*

<sup>297</sup> G.R. No 91332 (July 16, 1993).

<sup>298</sup> *Paramount Pictures Corp. v Doe*, 821 F. Supp. 82, 89 (1993). In *WPOW v MRLJ*, 584 F.Supp. 132 it was held that the plaintiff must show that he is "likely to prevail on the merits" of the case at trial. In *RTC v. Netcom*, 923 F.Supp. 1231 (N.D.Cal. 1995), the standard was held to be "probable success on the merits."

<sup>299</sup> 42 AM JUR 2D., INJUNCTIONS. This high evidentiary requirement has been reassessed in some jurisdictions, in order to overcome the delays and the length of proceedings which it entailed. A plaintiff need establish only that there is a "serious question" to be tried, and the merits of the case are considered just to the point where the court is satisfied that the plaintiff's claim for infringement is not frivolous. Thereafter, the decision as to whether an injunction should be granted is taken based on whether each party could be adequately compensated in damages for the temporary impairment of his right were he to be unsuccessful at the interlocutory stage, and later prove to be successful at the trial. See WIPO INTRODUCTION, *supra* note 9, at 229

The relation between the elements listed above is an interesting one. For example, in the United States, the weaker element is 2 while the stronger element 3 must be present in order for a preliminary injunction be granted.<sup>300</sup> Also, in cases of copyright infringement, a showing of likelihood of elements 1 plus 2 (success on the merits) raises a presumption of the existence of element 3 (irreparable harm), such that there is no need for a detailed showing of the harm.<sup>301</sup> This is recognition that the financial impact of copyright infringement is hard to measure and often involves intangible qualities such as customer goodwill.<sup>302</sup> At its turn, the presumption of irreparable harm will be relevant to establish element 4 (balance of injuries).<sup>303</sup>

If this presumption were adopted in the Philippines for copyright cases, only a showing of elements 1 and 2 would be required. The plaintiff's burden for obtaining a preliminary injunction would collapse to showing likelihood of success on the merits/*prima facie* case, without a detailed showing of danger of irreparable harm.

### (3) Temporary Restraining Order

While the *WPOW* case referred to a preliminary injunction, more cases held that a court will issue an impoundment order only if the requirements for granting a TRO are complied with.

A TRO is a form of preliminary injunction issued without notice and hearing, and intended to preserve the status quo until the hearing of the motion for preliminary injunction. The purpose of any TRO is to prevent immediate and irreparable harm to the movant during the period required to prepare for and conduct a hearing to determine whether a preliminary injunction should issue. The court is concerned primarily with preserving the status quo rather than reaching a decision on the merits.<sup>304</sup>

The TRIPS itself requires such an order. By relating Article 50.1(a) with Article 50.2, the inference is that the judicial authorities must have the authority to issue an *inaudita altera parte* injunction when appropriate, in particular where any delay is likely to cause irreparable damage.

<sup>300</sup> *Midway Mfg. Co. v. Bandai-Am., Inc.*, 546 F. Supp. 125 (D.N.J. 1982): "strength of a showing of irreparable injury required of plaintiff varies inversely with the strength of his showing of a likelihood of success on the merits" See also *RTC v. Netcom*, 923 F.Supp., at 1257: "the greater the relative hardship to the moving party, the less probability of success need be shown."

<sup>301</sup> *WPOW*, 584 F.Supp., at 138.

<sup>302</sup> *Country Kids'N City Slicks v. Sheen*, 10th Cir. (1996).

<sup>303</sup> *WPOW*, 584 F.Supp., at 138.

<sup>304</sup> *AMADOR*, *supra* note 30, at 701.

Under the Philippine Rules of Court, there are two separate instances when a TRO will issue:

1. If great or irreparable injury will issue to the applicant before the matter can be heard on notice. The TRO will last for 20 days from service;
2. If irreparable injury and grave injustice will result and the matter is also of extreme urgency. The TRO will last for 72 hours from issuance.

Thus, the standard for the issuance of a TRO is irreparable injury that the plaintiff will suffer if the infringement is not enjoined.<sup>305</sup> There are U.S. cases holding that just as in the case of a preliminary injunction, the irreparable damage will be deduced from a showing of likelihood of success on the merits/prima facie<sup>306</sup> - such showing is in fact indispensable also in the case of a TRO, although it is not specifically mentioned in the Rules. However, courts have also chosen to determine whether or not the damage is irreparable independently of the presumption,<sup>307</sup> or by combining both the presumption and an independent assessment of the damage.<sup>308</sup>

Therefore, one view is that for an *ex parte* impoundment order to issue there must only be a showing of likelihood of success on the merits, from which the presumption of irreparable damage will automatically arise.<sup>309</sup> A second view is that in addition there must be an additional showing of irreparable injury and balance of injury in plaintiff's favor if the seizure order were not granted.<sup>310</sup> A third view is that aside from a separate showing of these two elements there must also be a showing of the reasons why the notice should not be required.

The third view is the latest one: in *Time Warner v. Does* it was held that an *ex parte* seizure order will issue if the applicant is likely to succeed in showing that the defendant is infringing his right; that immediate and irreparable injury will occur if such seizure is not ordered; that the harm to the defendant outweighs the

<sup>305</sup> In the United States there must be a showing of "immediate irreparable injury". Rule 65(b) of the Federal Rules of Civil Procedure.

<sup>306</sup> In *Century Home v. Laser Beat*, 859 F. Supp. 636 (1994) it was held that a *prima facie* showing is required.

<sup>307</sup> See *Columbia v. Jasso*, 927 F.Supp. 1075 (1996). The irreparable damage was due to the fact that defendant's illegal copies were of inferior quality to genuine cassettes, so that the plaintiffs would be likely to suffer damage to their reputation and goodwill.

<sup>308</sup> *RTC v. Netcom*, 932 F.Supp. 1231. Further imminent infringements would cause economic damage. This, combined with a reasonable likelihood of success on the copyright infringement claim, allowed the court to presume irreparable injury. The decision also cited *WPOW v. MRLJ*, 584 F.Supp., at 138 for the pronouncement that the presumption of irreparable injury is allowable in the context of impoundment

<sup>309</sup> *WPOW v. MRLJ*, 584 F.Supp. 132 (1984).

<sup>310</sup> *RTC v. Netcom*, 932 F.Supp. 1231 (1995).

harm to the legitimate interests of the defendant; that the defendant would destroy, move, hide, or otherwise make such matter inaccessible to the court if the applicant were to proceed on notice to such person.<sup>311</sup>

The last requirement will always be present when it comes to a willful infringer,<sup>312</sup> however, it is not enough to allege this,<sup>313</sup> as discerned from the holding in *Paramount Pictures Corp. v. Doe*. The *ex parte* order of impoundment sought was denied on the ground that there was nothing to explain why a temporary restraining order would not suffice, despite the fact that plaintiffs made the required showing of a likelihood of prevailing on the merits.<sup>314</sup> The U.S. Supreme Court considered plaintiff's allegation that film pirates conceal or destroy the offending videocassettes when they are apprised of a pending infringement action to be a conclusory one, not backed up by any specifics. Nothing in the application suggested that defendants were engaged primarily in illegitimate and infringing activities and were thus likely to disregard an order from the court preventing them from disposing of or destroying any videocassette in their business premises.<sup>315</sup>

<sup>311</sup> These requirements are provided in the Lanham Act, which deals with trademarks, but the court held that similar concerns are involved in seizures under the Copyright Act. *First Technology v. Depinet*, 11 F.3d 641 (1993) also ruled that the applicant must show that notice to the defendant would render fruitless further prosecution of the action. Similarly, in *Columbia v. Jasso*, 927 F.Supp. 1075 (1996) the most important factor, aside from a showing of likelihood of prevailing and of irreparable injury was that in the absence of an *ex parte* seizure order, there was a strong possibility that defendants would attempt to destroy, remove or hide the infringing goods. There must be a danger of destruction or hiding of the evidence to grant *ex parte* orders of seizure *Century Home Entertainment, Inc v. Laser Beat, Inc.*, 859 F. Supp. 636, 638 (E.D.N.Y. 1994)

<sup>312</sup> The leading case for this proposition is *In re Vuitton et Fils, S.A.* 606 F.2d 1(2nd Cir. 1979). in which it was held that proceedings against those who deliberately traffic in infringing merchandise are often rendered useless if notice is given to the infringers before temporary injunctive and impoundment relief is granted. This case referred to counterfeit goods, however, the principle was held to apply also to infringing goods.

<sup>313</sup> The applicant must do more than assert that the adverse party would dispose of evidence if given notice. In plaintiff's eyes, all defendants are, after all, suspect. *Id.* at 650 and 651.

<sup>314</sup> The copyright holders did not establish that seizure was essential to the protection of their interests, even though they stated in what the court labeled as "conclusory fashion" that seizure order was necessary to provide meaningful relief in any "film action", that the the videocassettes in question were small, lightweight, and easily hidden or destroyed, and that those who deal in counterfeit video cassettes are aware of the illegal nature of their acts because warning labels describing criminal and civil penalties for unauthorized copying appear on genuine cassettes.

<sup>315</sup> The same ruling was made in *RTC v. Netcom*, 932 F.Supp. 1231, which case cited *Paramount* as authority.

The need for dispensing with notice can also be demonstrated by showing that the adverse party has a history of disposing of evidence<sup>316</sup> or violating court orders.<sup>317</sup> For example, in *In re Vuitton*, the applicant's efforts in previous actions had failed because the infringers, after receiving notice of the pending action, simply transferred the inventories to other members of a closely-knit group of infringers.

Interestingly, it might be sufficient to allege that persons similar to the adverse party have such a history. In *Century Home Entertainment v. Laser Beat*,<sup>318</sup> plaintiff alleged that under similar circumstances, when notified of proceedings to restrain infringement and impound illegal videocassettes, "persons such as defendants will attempt to destroy, remove or hide the infringing tapes." Citing *In re Vuitton* and *First Technology*, the court ruled that plaintiffs need not show that a particular defendant would not adhere to a TRO,<sup>319</sup> but rather only that someone like the defendant would be likely to hide or destroy the evidence of his infringing activity.

Considering such an allegation sufficient would destroy the court's pronouncement in *Paramount* that specific averments are needed. While *Paramount* was not entirely rejected, because a danger of destruction was still required,<sup>320</sup> the requirement seemed to be only nominal, considering that plaintiffs made no specific allegations showing such danger.

Summarizing, exceptions to the notice requirement should be limited to instances in which the defendant is primarily engaged in infringing activities, or he has a history of secreting evidence or ignoring court orders.<sup>321</sup> The additional exception of alleging that persons similar to him have such a history is not recommended by the writer, for the reason stated above. It is also submitted that

<sup>316</sup> *Id.*

<sup>317</sup> *First Technology Safety v. Depinet* 11F.3d 641 (1993).

<sup>318</sup> The issue, like in *Paramount*, was whether a temporary restraining order would have been sufficient; it was held that the order for immediate seizure from defendant of video cassettes infringing plaintiff's copyrights was not improper. The court found that plaintiff made a prima facie case of copyright infringement and there was good cause to be concerned that tapes might be destroyed or moved and that copying would continue.

<sup>319</sup> The defendants claimed that a TRO would have been sufficient because they would have abided by its terms and ceased copying.

<sup>320</sup> Defendants invoked the *Paramount* ruling for the proposition that a seizure order would be too drastic where a TRO would be sufficient, but the court refused to adopt it: "Paramount notwithstanding, it is the norm in this district that where a danger of destruction or hiding of the evidence exists to grant ex parte orders of seizure."

<sup>321</sup> The other possible showing of why notice should not be required is if the notice to the adverse party is impossible as when he is unknown or impossible to be found. *First Technology Safety Sys., Inc. v. Depinet*, 11 F.3d 641, 650 (6th Cir. 1993).

the kind of goods involved should be taken into account, namely, whether their nature and location make them easily susceptible to removal or destruction. This "disappearing" evidence would include video cassettes which can be erased, video games which can be unprogrammed, t-shirts frequently sold at rock concerts, as well as other products sold by vendors which are difficult to locate after the event.<sup>322</sup>

In the United States, there are also cases when the court will not choose between an order of seizure and a TRO, but will issue both. The circumstances under which this will be ordered do not differ, however, from those when a seizure order is issued.<sup>323</sup>

In the end, it seems the standards are highly flexible, meant to accommodate the particular interests of each case. In effect, the purpose accomplished by such a combined order is also that of a civil search order within the meaning of TRIPS,<sup>324</sup> if search is necessary to carry out the writ.

It should be pointed out that the Anton Piller order is also often accompanied by an interim injunction restraining the defendant from altering or removing in any way articles or documents referred to in the order for inspection.<sup>325</sup> Insofar as it amounts to an injunction made *ex parte*, such an order could not be adopted in the Philippines, for violating Rule 58 of the Rules of Court which provides that an injunction can only be issued with notice and hearing. Instead, it could be coupled with a TRO, much the same way as it is in the United States. In fact it is being said that while the Anton Piller Order does not exist in the United States, the moving party in Federal Court can obtain the same result.<sup>326</sup>

But the Anton Piller order is not always is coupled with an injunction. Commentators say that an Anton Pillar order may be a necessary step *before* an

<sup>322</sup> 18 AMJUR 2d COPYRIGHT AND LITERARY PROPERTY 570, n. 84.

<sup>323</sup> Where a court is convinced that irreparable harm will be done if no immediate action is taken, it will issue a temporary restraining order *and* a writ of seizure. *Id.*, at 569. It is also appropriate in situations in which there is great danger of the evidence disappearing if defendant becomes aware of the proceedings. *Id.*, at 570.

<sup>324</sup> See *supra* discussion, pp. 26-29.

<sup>325</sup> *Review UK*, *supra* note 146, Annex 2 "The novel feature of an Anton Piller order is that it is an interlocutory injunction made ex parte". WIPO-ASEAN, *supra* note 202, at 4.

<sup>326</sup> Through filing an Emergency Motion for *ex parte* Temporary Restraining Order and Writ of Seizure, pursuant to Federal Rules of Civil Procedure 65(b), the All Writs Act, 28 U.S.C. § 1651 (1988), the United States Supreme Court Copyright Rules and § 503 of the Copyright Act, 17 U.S.C. §§ 101 to 914 (1988). DAVID NIMMER, *cited by* NEFF, *supra* note 78, n. 33.

interlocutory injunction can be obtained.<sup>327</sup> This statement presupposes that a higher standard is required for the issuance of an injunction than for the issuance of the search and seizure order. However, as it has been pointed out, in the United States, an impoundment order must fulfill more than the requisites for a preliminary injunction, and even more than those for the issuance of a TRO.

There are certain cases where there is no need for hearing, and no need for the safeguards of attachment. In continuing a preliminary injunction, a court could impound all materials that infringe plaintiff's copyrights and that are under the control of, or which can be reasonably obtained by the defendants.<sup>328</sup> This could be applied in the Philippines, considering that there is a non-copyright case where this has been permitted.<sup>329</sup>

If the danger of destruction is not shown, still there is no need for a hearing before the court can issue another interlocutory order. A TRO can be granted, to be served on the defendant with notice of the future hearing during which the propriety of a seizure order will be determined. After the hearing the court may also decide to issue a preliminary injunction only, if the danger of destruction is still not shown, but all the requisites for a preliminary injunction are present.

But if the issue of irreparable injury is in question, the court may not issue an order prior to the holding of a hearing.<sup>330</sup> And if the court decides to conduct a hearing prior to the issuance of the writ of impoundment, it should issue summons and the same should be served first on the defendant.<sup>331</sup>

#### *B. Impoundment of Parallel Imports: Empowering the Courts*

It has been shown that currently, the Bureau of Customs has the power to seize parallel imports, in addition to infringing articles, even after the importation

<sup>327</sup> I.F. Shepperd, *Preliminary Remedies in Intellectual Property Law*, 15 *Intellectual Property in Asia and the Pacific* 42-43, (1986), cited in WIPO INTRODUCTION, *supra* note 9, at 358.

<sup>328</sup> *Cassidy v. Bowlin*, 540 F Supp 901.

<sup>329</sup> *Onquit v. Binamira-Parcia*, A.M. No. MTJ-96-1085 (Oct. 8, 1998): a writ of preliminary injunction was issued against the defendants, which was defied by the defendants. A seizure order issued ex parte followed. The judge justified the ex parte issuance on the urgency of the matters, keeping in mind that there was an injunction bond for the benefit of the defendants. The Supreme Court held there was no impropriety on the part of the judge when she issued the seizure order, since the status quo had to be preserved. (So the seizure order can have the same effect as an injunction).

<sup>330</sup> If notice is present, there is no need for showing irreparable injury. This is the deduction from the Paramount case, 821 F.Supp. 82: just prior to the enactment of the 1976 Act, the advisory committee observed that the Copyright Rules are objectionable for their failure to require notice or a showing of irreparable injury to the same extent as is customarily required for threshold injunctive relief.

<sup>331</sup> By analogy with the rule on attachment. See ALBANO, *supra* note 106, at 520.

stage is over. Courts, on the other hand, while having the power to seize parallel imports, are not authorized to order the delivery of such goods for impoundment.

The need to empower the courts in this respect can be satisfied in two ways:

#### 1. CHANGING THE CONCEPT OF IMPOUNDABLE COPY

##### *a) A new definition of "infringing copy" in the context of importation*

There are two alternatives, the United Kingdom definition or the Australian one. The United Kingdom copyright law considers that an article is an infringing copy if it has been or is proposed to be imported into the United Kingdom, and its making in the United Kingdom would have constituted an infringement of the copyright in the work in question, or a breach of an exclusive license agreement relating to that work.<sup>332</sup> This is legal fiction, since it is considered that the making took place in the United Kingdom.

In Australia, the fiction is not single, like in the United Kingdom, but double: the imported article is considered to be an infringing copy if the making of the article in Australia, by the importer, would have constituted an infringement. Providing for a double fiction takes care of the concern that motivated the United Kingdom to introduce the second part in its definition, namely, the breach of an exclusive licensing agreement. The intention was to protect an exclusive licensee, when the maker is the worldwide copyright owner and the importer is a third party; in such a case, before the amendment, there was no cause of action against the importer, because the actual maker would have had the right to make copies in the United Kingdom.<sup>333</sup> But if the double fiction were adopted, this objective is already achieved, because the maker is considered to be the importer, and not the actual maker (that is, the copyright owner). Also, if the importer is the worldwide copyright owner, the exclusive licensee can go straight against him, for breach of the exclusive licensing agreement.

It must be noted that in the scenarios given in Chapter 3, the situation was intentionally simplified, such that Mr. Y is both the maker and the importer, but the same answers would result if the importer were a different person, provided the double fiction is adopted.

The writer submits that the Australian definition is preferable, for the reasons stated above, and because the copyright owner needs only to establish the identity of the importer, and not also of the actual maker.

<sup>332</sup> CDPA, sec. 27(3).

<sup>333</sup> MERKIN, *supra* note 147, at 7.6-7.7.

b) Including unlawful use as basis for impoundment

In the United States, the Copyright Act provides that "at any time while an action is pending, the court may order the impounding, on such terms as it may deem reasonable, of all copies...made or used in violation of the copyright owner's exclusive rights."<sup>334</sup>

The qualification that the unlawful use of the article alone makes it impoundable means that the article can be a lawfully made copy.

## 2. REMOVING THE POWER FROM CUSTOMS

In the United States, only infringing articles are considered to be "prohibited importation". The submission of this thesis is that adopting such a view would deprive Customs even of the authority to seize the parallel imports before the importation is over. But at that point in time, when the goods are within their territory customs officials are the most suited to seize the goods, therefore, the better view is that only at the time when the goods have already been released from Customs, should the latter's power to seize the articles cease.

Like in the United States, the copyright owner should nonetheless be able to proceed civilly against such gray market importers for violation of the distribution or importation rights in the copyright, and then the courts should be empowered to order the delivery of the gray market products for impoundment since these are alleged to have been "used" in violation of the exclusive right of the copyright owner. This competence would be in addition to the seizure power, which courts already possess.

## CHAPTER V

### CONCLUSION AND RECOMMENDATIONS

#### A. New Ex Parte Search and Seizure Remedy

It is recommended that Section 216.2 of R.A. 8293 be amended to read:

"In an infringement action, the court shall also have the power to order the search, seizure and impounding of any article which may serve as evidence. The order shall issue either ex parte or upon motion with notice and hearing."

Then the Supreme Court should issue implementing rules to specify the conditions for the ex parte issuance of the order:

<sup>334</sup> 1976 U.S. Copyright Act, 17 U.S.C. § 503.

"The search, seizure and impounding order in Section 216.2 shall issue ex parte if the applicant shows *prima facie*, by his affidavit or that of some person who personally knows all of the following facts:

- a) That the applicant is the owner of the copyright alleged to be infringed by the defendant;
- b) That the infringement has caused or is causing irreparable damage to the applicant, and
- c) That there is serious danger that the defendant would destroy or remove the allegedly infringing articles if notified.

The applicant must also give a bond, executed to the defendant in such amount as the court shall fix. If the application is filed together with the complaint for copyright infringement, summons shall be served on the defendant simultaneously with the writ of impoundment."

#### B. Importation

##### 1. CORRECTION OF SECTION 190.1

Section 190.1 should read: "Notwithstanding the provision of Subsection 177.3 but subject to the limitation under Subsection 184.2, the importation of a copy of a work by an individual for his personal purposes...."

##### 2. EXPRESS RIGHT OF IMPORTATION

The purpose of such a provision would be merely clarificatory, in order to obviate possible debates over its existence. Section 177.3 should read: "Subject to the provisions of Chapter VIII, copyright or economic rights shall consist of the exclusive right to carry out, authorize or prevent the following acts: ... The first public distribution of the original and copies of the work by sale, other forms of transfer of ownership, or importation."

##### 3. DEFINITION OF IMPOUNDABLE COPY

There are two ways of amending the law to empower courts to order the delivery of lawfully made goods violating the importation right of the Philippine copyright owner. First, by adopting the following definition: "An infringing copy is one made or used in violation of the copyright owner's rights."

Second, by adopting a new concept of what constitutes an infringing copy in the context of importation. The definition of infringing copy will still be based on infringement of the right of reproduction, as it is the implication in the current law, and not of the right of importation, but with an additional qualification. The provision could read: "For purposes of importation, an infringing copy is one the making of which would have constituted an infringement if made in the Philippines by the importer."

The second definition is considered preferable by the writer, since the first one is too broad in scope.

#### 4. REMOVAL OF CUSTOMS' SEIZURE POWER OVER PARALLEL IMPORTS

Section 190.3 should be amended to read: "Subject to the approval of the Secretary of Finance, the Commissioner of Customs is hereby empowered to make rules and regulations for preventing the importation of articles which is prohibited under this Section and under treaties and conventions to which the Philippines may be a party and for seizing and condemning and disposing of pirated copyright goods in case they are discovered after they have been imported."

There are profound benefits that the Philippines would derive from increased judicial power in copyright infringement actions. The adoption of these proposals would ensure a higher degree of protection for the Filipino and foreign copyright owners in terms of remedies. The net results will be an additional motivation to further create an attractive environment for foreign investment and the avoidance of possible conflicts with major trading partners.