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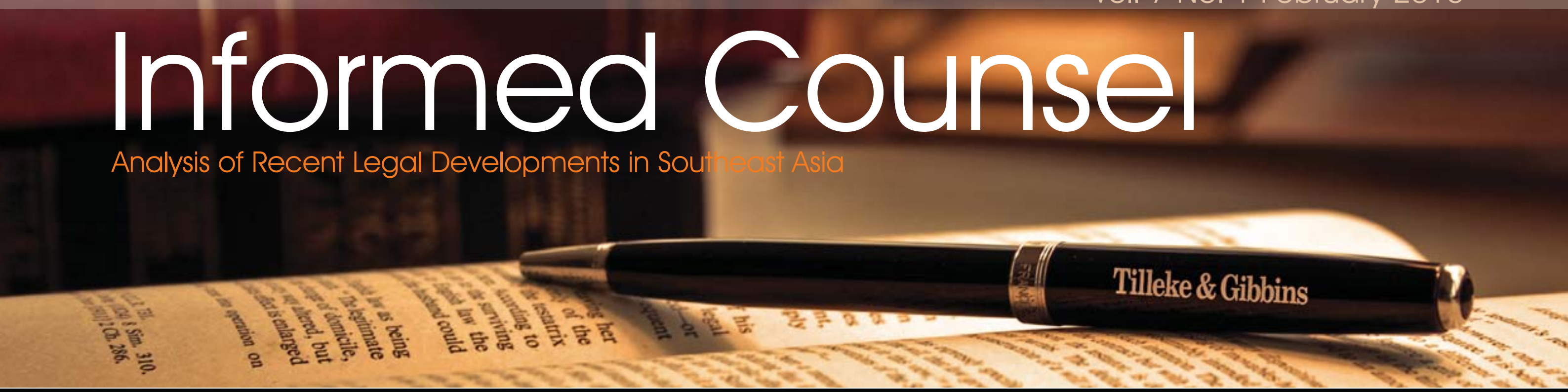

Informed Counsel

Analysis of Recent Legal Developments in Southeast Asia

c o n t e n t s

Investment Protections in Vietnam under the TPP

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On February 4, 2016, Vietnam and 11 other countries signed the Trans-Pacific Partnership (TPP). The TPP includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, the United States, Vietnam, and Singapore. According to the World Bank, the TPP represents 36 percent of global GDP and more than 25 percent of world trade. Assuming that the treaty is ratified by its various participants, it will significantly impact business in Asia.

Vietnam's economy is expected to benefit greatly from the TPP, which lowers tariffs and nontariff trade barriers. The World Bank predicts that the TPP could add 8 percent to Vietnam's GDP over the next 20 years. Lower tariffs will translate into higher exports for Vietnam. This will lead to higher inflows of foreign investment. And importantly, three of Vietnam's key economic partners—Japan, Singapore, and the United States—are TPP members.

The TPP encourages investment through its investment protections. The protections aim to give investors confidence that they and their investments will be treated fairly by a host state. The TPP also contains an Investor-State Dispute Settlement (ISDS) section that allows investors to bring arbitration claims against TPP member states. The ISDS is especially important for Vietnam, where it is generally difficult to sue the government.

Investment Protections

Almost all forms of foreign investments are covered by the TPP. Investments are defined as everything from enterprises to contracts to intellectual property rights. For a party to be eligible for the TPP's investment protections in Vietnam, the investor must be from another TPP member state that is attempting to make, is making, or has made an investment in Vietnam (TPP Investor). Investments covered by the TPP (Covered Investments) mean an investment in Vietnam that already exists when the TPP becomes effective, or is set up, acquired, or expanded after the TPP enters into force.

National treatment and most-favored nation treatment. The TPP requires Vietnam to treat TPP Investors in the same way as it would treat domestic investors in similar circumstances. In other words, Vietnam is required to give "national treatment" to TPP investors. In addition, Vietnam must treat Covered Investments in the same way as it would locally-owned projects. The TPP also requires Vietnam not to discriminate against any foreign investor.

Exceptions exist to these national treatment and most-favored nation obligations. Vietnam and other member states have negotiated various "non-conforming measures." The measures consist of sectors where national treatment obligations do not apply. In other words, Vietnam can restrict foreign investment in these areas without violating the TPP.

The restricted sectors are divided into two annexes. Annex I measures cannot be amended by Vietnam to become more restrictive, though they can be made more open. These measures generally cover services (e.g., education and transportation) and nationally sensitive areas such as electricity production. The Annex II measures fall out of the TPP's scope altogether. Examples of Vietnam's Annex II measures include prohibitions on investment in land, agriculture, and the media.

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Trans-Pacific Partnership (from page 1)

Expropriation. The TPP prohibits member states from expropriating investments. However, expropriation is allowed if it is for a "public purpose." Under the TPP, Vietnam can expropriate land if it is for a purpose sanctioned by domestic law. Vietnam must promptly provide compensation to the investor equivalent to market value. The TPP further mandates that any expropriation is done without discrimination.

Minimum standard of treatment. Covered Investments must be granted a minimum standard of treatment under the TPP. Vietnam must therefore ensure that all Covered Investments receive equitable treatment and full protection. Equitable treatment means that Vietnam cannot deny a TPP Investor due process in criminal, civil, or administrative proceedings, among other things. The protection requirement obliges Vietnam to provide the necessary level of police protection under international law.

Transfers. Transferring money across borders is a key requirement for foreign investors. Under the TPP, Vietnam must allow investors to freely make all such transfers related to a Covered Investment. Most transfers are included in this provision. Examples include capital contributions; profits and dividends; interest; various types of fees; royalties; sale proceeds (from the sale of an investment project); payments under a contract; and payments resulting from a dispute.

Investor-State Dispute Settlement

Scope. A TPP Investor can bring a claim against Vietnam under the ISDS when: (1) the government has breached an investment obligation in the TPP, an investment authorization, or an investment agreement; and (2) the investor has incurred damage from the breach. An investment authorization is the permission given by the regulatory authority in relation to a Covered Investment. The TPP defines an investment agreement as a contract between an authority at the central level of government and a Covered Investment or TPP Investor.

Initially, the parties must attempt to resolve the dispute through negotiations. If the dispute is not resolved within six months, the investor can submit an arbitration claim. An investor cannot bring a claim if the matter is already being heard in a Vietnamese court or administrative tribunal. Time limitations apply to filing a claim. Claims must be submitted within three years and six months from when the claimant knew of the breach and that damages were incurred.

Arbitration. The TPP allows for arbitration under the World Bank's ICSID, ICSID Additional Facility Rules, UNCITRAL Arbitration Rules, and any other arbitral institution or rules agreed by the parties. However, because Vietnam is not a party to the ICSID, only the UNCITRAL rules or other agreed arbitral institutions or rules can be used. Arbitral proceedings can therefore take place anywhere on agreement by the parties.

Arbitral tribunals consist of three arbitrators, unless otherwise agreed by the parties. Each party can choose one arbitrator, and the third is appointed by agreement. Arbitrators are bound by a special Code of Conduct under the TPP. The arbitrators must follow this code of ethics, as well as the applicable arbitral rules.

The governing law of the arbitration is the TPP itself and applicable international law. For claims arising from an investment authorization or investment agreement, the law cited in the agreement or governing the authorization would apply. In most cases, this would be Vietnamese law. The parties can also agree on the governing law.

Awards. An arbitration award can be monetary damages and interest, or restitution of property (or monetary damages in lieu of restitution), or both. Costs and attorney's fees can also be awarded. If the arbitration tribunal determines that a claim is frivolous, a respondent can be awarded reasonable costs and attorney's fees. Punitive damages are not permitted in the ISDS.

The TPP also contains enforcement provisions. A losing party must promptly abide by the award. The TPP also requires that Vietnam provide for the enforcement of an award in its territory. The claimant can enforce the award under the New York Convention for the Enforcement of Foreign Arbitral Awards, of which Vietnam is a member. However, enforcement of foreign arbitral awards in Vietnam is challenging.

The TPP has an interesting mechanism to handle situations where a member state does not comply with an arbitral award. If a state fails to comply, the investor's home country can ask a special panel to issue a determination that the losing state has breached its TPP obligations. The panel can also recommend that the losing state comply with the award. In other words, a failure by Vietnam to abide by an award can result in an official rebuke by the TPP's special panel.

Thailand and the TPP

Thailand is not a member of the TPP but may join in the future. Thai government officials have indicated some interest. According to news reports, a high-ranking official told an audience in Japan that Thailand is interested to join.

Like Vietnam, Thailand has an export-driven economy, so it would likely benefit from the reduced tariffs that the TPP will bring. Moreover, Thailand has strong economic links to TPP member states, including Japan and the United States. And not joining may cause Thailand to lose out on investment opportunities.

There are challenges to Thailand joining the TPP. Domestic markets would have to be opened up. And the investor-state dispute mechanism, which allows foreign investors to haul governments before an independent arbitration tribunal, may be viewed as a challenge to sovereignty.

Thailand has currently adopted a "wait-and-see" approach. Investors should expect more news later this year.

Outlook

The TPP is expected to create new business opportunities in Vietnam. The investment protections will reduce risk and increase confidence, which will add to investment inflows. Perhaps most importantly, the TPP's investment protections, and especially the ISDS, can help the development of Vietnam's own legal infrastructure. Regulatory authorities will have to be mindful of the TPP when making investment-related decisions. And by making the state accountable, the ISDS can help ensure that the TPP's investment protections and benefits are complied with. This has the potential to help further develop the rule of law, which will have economic benefits to both investors and Vietnam.

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Myanmar Embraces International Commercial Arbitration

Myanmar is entering a new chapter in its commercial arbitration history—on January 5, 2016, the country enacted a new Arbitration Law (Pyihtaungsu Hluttaw Law No. 5, 2016), reforming its domestic legislation to meet its obligations under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention). The Arbitration Law of 2016 supersedes Myanmar's Arbitration Act of 1944, which failed to garner support from the international community and struggled to establish reciprocal arbitration arrangements with other countries. In this article, we discuss whether Myanmar's new Arbitration Law addresses these insufficiencies.

The Arbitration Law of 2016

The new Arbitration Law intends to fulfill Myanmar's obligations under the New York Convention. In large part, it is based on the UNCITRAL Model Law on International Commercial Arbitration of 1985. The Arbitration Law of 2016 provides foreign investors with the option to resolve commercial disputes before a domestic or foreign independent tribunal of the parties' contracted choice. It also requires Myanmar courts to enforce and recognize foreign arbitral awards which are generally supported by due process and not in opposition to the national interests or policies of Myanmar.

If a timely application is made, the Myanmar courts now have an obligation to refer matters to arbitration where parties to an action before the court are parties to an arbitration agreement, unless the agreement is legally unenforceable. In addition, the courts have the power to act in support of arbitration by issuing interim orders and taking and preserving evidence. This authority is restricted when the authorized parties to a dispute or the arbitral tribunal/institution have no authority or are not otherwise able to handle these interim duties effectively. The parties to a dispute, with the approval of the arbitral tribunal, may apply for court assistance in matters such as the taking of evidence. The domestic courts have the power to enforce interim orders issued by the arbitral tribunal.

While parties to international arbitration are free to agree on the choice of law and venue, as well as the procedural rules of the underlying arbitration, parties to domestic arbitration are restricted as to the application of law. Specifically, if the place of arbitration is in Myanmar, and the arbitration does not fall within the definition of international commercial arbitration, the tribunal would decide the dispute in accordance with Myanmar law. This essentially excludes domestic arbitrations from resolution under foreign laws. This may be a missed opportunity to guarantee equally independent arbitral proceedings for all parties in legal disputes, not just those involving foreign arbitration.

Although a domestic or foreign arbitral tribunal has the right to make rulings on challenges to its jurisdiction, a party who is not content with the ruling may nonetheless appeal to the Myanmar courts on issues of jurisdiction. The Arbitration Law of 2016 allows any party to make a request to a Myanmar court within a certain time to decide on the jurisdiction of the tribunal, provided that a preliminary determination on jurisdiction has already been made by the tribunal. In this case, the arbitral tribunal may continue the proceedings and subsequently make an award during this period pending decision of the court. There are similar rights to seek court review of the arbitral tribunal's other interim orders.

The Arbitration Law of 2016 also provides a party with the right to petition the Myanmar court to set aside arbitral awards. To do this, the party has to prove that a court did not take into consideration certain procedural matters; the subject matter of the dispute is not capable of settlement by arbitration; or the arbitral award is in conflict with public policy. If a court is satisfied with the enforceability of the arbitral award, the award is deemed to be a decree issued by the court and fully enforceable.

The Role of the Draft Myanmar Investment Law

An important issue that is not addressed in the Arbitration Law of 2016 is what rights foreign parties have against a counterparty that is either the Myanmar state or a state-owned enterprise. Myanmar currently has no domestic legislation that determines whether a state-owned company is entitled to assert state or sovereign immunity. It is important for investors to recognize that an arbitration clause in a contract between an investor and the Myanmar state or a state-owned company is not necessarily a waiver of sovereign immunity for the purposes of execution.

The Myanmar parliament has also published a draft of the new Myanmar Investment Law (MIL). This law intends to consolidate the existing Foreign Investment Law of 2012 and the Myanmar Citizens Investment Law of 2013. The MIL aims to provide both domestic and foreign investors with a transparent, equitable, and nondiscriminatory legal framework to ensure environmentally and socially sustainable economic growth.

In the context of the Arbitration Law of 2016, Section 21 of the draft MIL is particularly significant. Section 21 explicitly states that in the event of any dispute between the Union Government or any government entity and an investor, the investor will have access to a dispute settlement mechanism. It also provides that awards by a foreign arbitral tribunal will be recognized and enforceable in Myanmar according to international law, including the New York Convention.

With its focus on recognizing arbitration in disputes with state entities, the MIL will be a valuable addition to Myanmar's arbitration regime, eliminating the use of sovereign immunity defenses to avoid enforcement of arbitral awards. This will provide foreign investors with additional assurance of access to arbitration in disputes with state entities.

Prospects

Despite retaining some authoritative rights for arbitrations, the role of the local courts has substantially changed. The Arbitration Law of 2016 provides the courts with significantly less power than under the previous Arbitration Act of 1944. The new role of the domestic courts is better characterized as a supporting role rather than an intervening one. This should greatly improve the impartiality and credibility of arbitration in Myanmar as an independent dispute resolution option, and provide assurance that foreign arbitral awards will be enforced.

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The Business Collateral Act: Creating a Robust Framework for Credit Markets

Muhammad Yunus, the founder of Grameen Bank and a Nobel Peace Prize laureate, once observed that "credit markets were originally created to serve human needs; to provide businesses and individuals with capital to start or expand businesses or expand other financial needs." In other words, without access to credit, many businesses that could prosper and make significant economic and social contributions would not flourish.

As anyone who has applied for a credit card or mortgage knows, banks generally go to great lengths to assess the overall creditworthiness of potential clients. Borrowers who are able to use their assets as collateral tend to improve their creditworthiness, and therefore provide the borrowers with greater access to capital.

In Thailand, however, the traditional methods of providing collateral have been limited. Notably, the requirement to deliver movable collateral to the security holder has prevented borrowers from using inventory, machinery, and vehicles used in the course of business, or raw materials to secure their debts.

In recognizing the need to have a robust legal framework for credit markets, Thailand enacted the Business Collateral Act B.E. 2558 (BCA) in 2015, with the majority of its provisions coming into force on July 1, 2016.

Overview of the BCA

The BCA establishes a new category of nominate contract called the "business collateral agreement," in which a "security provider" places property with a "security receiver" as security against debt repayment, with no requirement to deliver the property to the security receiver. A security provider may be either a natural or juristic person, whereas a security receiver must be a financial institution or other class of persons prescribed by ministerial regulation. The security receiver will have the preferential right to receive repayment of a debt from the collateral before other creditors.

> as the majority of the BCA's provisions have not yet come into effect, a number of unresolved issues will need to be addressed in practice

The business collateral agreement must be made in writing and registered at the Business Security Registration Office of the Department of Business Development (DBD). To register a business collateral agreement, the parties must provide certain information, such as details on the debt being secured, a description of the collateral, the maximum amount being secured by the collateral, and causes for enforcement under the business collateral agreement, among a number of other requirements.

Collateral under a business collateral agreement can derive from:

1. a business;
2. a right of claim;
3. movable property used by the security provider in business operations, such as machinery, inventory, or raw materials used in the manufacture of goods;
4. immovable property, in case the security provider directly operates an immovable property business; or
5. intellectual property.

The Ministry of Commerce has the authority to prescribe further categories of property through promulgating regulations.

Practical Considerations – Using a Business as Collateral

As the majority of the BCA's provisions have not yet come into effect, a number of unresolved issues will need to be addressed in practice. For instance, if a business is used as collateral, the security provider and security receiver must agree to the selection of one or several experts who will act as the "security enforcer." The name and address of the security enforcer, as well as the rates it will charge for its services, must be registered at the DBD.

Acting as a security enforcer is a new service that requires a license, issued by the DBD for an initial period of three years. The security enforcer must proceed with enforcement over a business, which includes conducting a fact-finding inquiry, issuing a decision on whether cause exists to enforce the security, and assuming control of the business in a manner similar to a court-appointed receiver.

Since the role of security enforcer is a new licensed activity, using a business as collateral will not be possible until there are licensed security enforcers appointed by the parties. It is currently unclear how many license applications will be submitted to or approved by the DBD.

An additional point that will need to be clarified in practice concerns the interaction between the security enforcer and the courts. In principle, when a business is used as collateral, the enforcement procedures are designed to take place entirely outside of court. The BCA specifically states that objections to the security enforcer's determinations on cause and enforcement under the business collateral agreement may not be made to the court, unless the fact-finding inquiry was not in line with prescribed bases and procedures, or the decision contains a material flaw on the facts or the legal points. Court decisions which overrule the findings and determinations of the security enforcer are something to watch for as the BCA develops in practice.

A further point of uncertainty is how the new legal regime of out-of-court security enforcement will coincide with existing laws, such as Thailand's Bankruptcy Act. If the security receiver attempts to initiate security enforcement over the business of a security provider while bankruptcy proceedings of the security provider are concurrently being initiated at the Thai courts, it is unclear whether the security enforcer is required to be deferential to the bankruptcy proceedings.

A Major Shift?

While the BCA represents a major shift in the legal framework of secured transactions in Thailand, there are still a number of issues which need to be clarified in practice. Ultimately, whether the BCA proves to be helpful to Thai borrowers will depend on the extent to which it is relied upon by parties seeking to extend and obtain credit.

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Reorganization: Business Survival During Crisis

Thailand is no stranger to tumultuous events—be it unrest in the deep south, widespread flooding, economic slowdowns in trading partners, domestic protests, exchange rate instability, global economic crises, or flailing tourism.

Inevitably, businesses and often entire sectors in Thailand are directly impacted by these events. Businesses do not exist in isolation, and so one or more companies facing cash-flow problems can begin a chain reaction of accounts receivable and accounts payable rippling outward. With short-term credit being increasingly difficult to come by, companies become trapped in a vicious circle, losing the ability to invest in developing new sources of income and using any cash generated to repay old debts.

One possible way to address this problem is reorganization—a process that sounds the death knell for some, but to debtors, a potential solution. This process, authorized under Thailand's Bankruptcy Act, provides a means for a company to protect itself from creditors while being allowed to operate.

Under the reorganization process, once the Bankruptcy Court accepts a company's petition—the company being the debtor—all of its outstanding debts are frozen, a status which is referred to as being "automatically stayed." This automatic stay ensures that the debtor will be protected under the Bankruptcy Law from the debt collection efforts of creditors.

During an automatic stay, the debtor may continue to operate its business, subject to certain restrictions. For example, the debtor is obligated not to dispose of, distribute, transfer, pay debt, create debt, or act in any way which may encumber its assets, except as necessary in the ordinary course of business or as otherwise permitted by the court.

Creditors also receive a measure of protection—debtors are not allowed to treat any creditors preferentially by paying off specific debts to one creditor and leaving fewer assets for the remaining creditors. The reorganization process also allows creditors or government agencies to submit a reorganization petition on behalf of a debtor in order to obtain this protection.

A summary of the qualifying criteria that a company seeking protection during reorganization needs to meet, as well as an outline of the process, is included below.

Persons Entitled to Submit Reorganization Petitions

The following persons are entitled to submit reorganization petitions:

- A single creditor or group of creditors owed not less than THB 10 million; and
- Government agencies, such as the Bank of Thailand, Department of Insurance, Office of the Securities and Exchange Commission, and so on.

Principles of Reorganization Petitions

The following criteria need to be met in order to make a reorganization petition:

- The debtor is insolvent and indebted to one or more creditors for an amount not less than THB 10 million, whether such debt is already due or not;
- There are sufficient grounds to believe that the debtor's business can be successfully reorganized; and
- The petitioner is honest in submitting the petition.

Court Hearing

Once the Bankruptcy Court determines that the petition meets the basic legal requirements for filing, it will schedule a hearing and take evidence to determine whether it will allow the debtor to enter reorganization. If the court does not accept the petition, it will dismiss the case and the company will not be granted protection from its creditors.

Appointing the Planner

Once the Court approves a business to enter into reorganization, it will appoint a planner charged with the duty to prepare and submit a business reorganization plan. In addition, after the planner is appointed, the official receiver will publish the Court's reorganization order in the *Government Gazette* and in two widely circulated daily newspapers. All creditors must submit a debt repayment application to the official receiver, and the official receiver will evaluate the matter and render an order as to voting rights in approving the reorganization plan.

Planner's Duty and Rights

The planner has a duty to draft the reorganization plan and is empowered to refinance, restructure, and reduce debts as the planner deems necessary. The planner must submit the plan to the official receiver.

Creditors' Meeting

After receiving the reorganization plan, the official receiver will hold a creditors' meeting to discuss and approve the plan by a special resolution. The official receiver will report the outcome of the creditors' meeting to the Court. If a resolution accepting the plan is passed and the Court agrees and finds that the resolution is not illegal, it will issue an order approving the plan.

Plan Approval

Once the Court approves the plan, the rights and duties of the planner will immediately transfer to the plan administrator, who has the right to manage the debtor's business under the plan.

Successful Plan Administration

If the plan is successful in rehabilitating the debtor, the Court may order a cancellation of the business reorganization order, at which point the debtor, its directors, and shareholders will regain control over the business. A successful reorganization benefits all stakeholders, which is the aim of Thailand's Bankruptcy Act.

Reorganization can be a lifeline for a business struggling due to factors beyond its control, providing it with protection and most importantly time to get back on its feet. But reorganization is not always the right solution, as it may have wide-reaching effects beyond the immediate protection. Each business facing difficulties must carefully evaluate its options on an ad hoc basis.

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Thailand's DIP Revives Proposed Amendments to the Patent Act

Five years ago, Thailand's Department of Intellectual Property (DIP) was in the process of considering proposed amendments to the Patent Act. These discussions were put on hold, and the process has remained suspended until now.

On January 27, 2016, the DIP announced that it will be revisiting the proposed amendments with a focus on the following objectives:

- Reduce the long periods of pendency for patent registration and improve the patentability and enforceability of petty patents.
- Accept the Protocol Amending the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) regarding Thailand's public health.
- Facilitate Thailand's accession to the Hague Agreement regarding design protection.

This article will discuss these amendments.

Patents

The patent amendments aim to address the long periods of pendency for patent registration, and to ensure that the time to grant a patent complies with the time frame set by the Licensing Facilitation Act, which is 55 months. The following amendments have been proposed.

Reduction of time to request substantive examination. The time period to request substantive examination will be reduced from five years to three years from the publication date.

Post-grant opposition and specialized Board of Revocation/Invalidation. Patent applications will be published twice. The first publication will be made after the formality examination is completed, following usual practice. The second publication will be made after the substantive examination is completed and the patent has been granted, and it will be open to patent invalidation. Therefore, the opposition period after the first publication will be eliminated and replaced by the invalidation action, which must be filed within a stipulated period of time (to be determined) from the granting date.

In addition, a specialized Board of Revocation/Invalidation will be established to consider patent invalidation. This board will be composed of at least three members but not more than five members. It must consist of the Examiner and a person qualified in law, and the other persons must be qualified persons in other fields. This should improve the examination process and hasten the granting of patents.

Petty Patents

In order to qualify as a petty patent, an additional criterion of patentability must be fulfilled. An applicant must demonstrate that the applied-for petty patent provides a solution to a technical problem.

Other proposed amendments include the application of post-grant opposition and invalidation to petty patents, and substantive examination will be conducted for petty patents before the petty patent holder exercises its patent right against a third party, including taking legal action against an infringer.

Protocol Amending the TRIPS Agreement

The TRIPS Agreement established minimum standards for many IP regulations. The Protocol Amending the TRIPS Agreement allows WTO member states to use compulsory licenses to export patented medicines to countries which do not have manufacturing capacity in pharmaceuticals, in the interest of public health. Thailand's Cabinet recently approved certain aspects of the Protocol based on proposals made by the Ministry of Commerce. In particular, Thailand's Patent Act would be amended to:

- Accept the Protocol amending the Agreement on TRIPS with regard to Thailand's public health, and submit this decision to the National Legislative Assembly for approval; and
- Authorize the Ministry of Foreign Affairs to issue an Instrument of Acceptance after approval is obtained from the Cabinet and the National Legislative Assembly. The Ministry of Commerce will notify the World Trade Organization (WTO) of the acceptance.

Thus far, four categories of compulsory licenses have been proposed in Thailand, as follows:

- License to a third party to import pharmaceutical products under drug patents into Thailand;
- License to a third party to manufacture and export pharmaceutical products under drug patents to foreign countries;
- License to government ministries, bureaus, and departments to import pharmaceutical products under drug patents into Thailand; and
- License to government ministries, bureaus, and departments to manufacture and export pharmaceutical products to foreign countries.

More categories of compulsory licenses for drug patents and drug process patents will be proposed and discussed. In addition, Thailand's Patent Office recently stated that the Patent Act should be amended to accommodate the Doha Declaration on the TRIPS Agreement and Public Health, which reaffirms the flexibility of TRIPS member states to provide more access to essential medicines by circumventing patent rights.

Thailand's Accession to the Hague Agreement

As part of Thailand's accession to the Hague Agreement, the DIP commissioned an independent study on managing design applications under the Hague Agreement. The DIP identified a number of challenges in Thailand's current design system, and it continues to make improvements. For example, an e-filing system has been implemented and will be refined in the near future, and there are plans to increase the number of examiners this year.

As the amendments progress, we will update readers on important developments in future issues of *Informed Counsel*.

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Large Seizures of Counterfeit Goods by Thai Customs

Consumer spending peaks in the last quarter of every year—a time that coincides with the holiday season and end-of-year bonus payouts. It is also during this time that the greatest number of counterfeit goods are imported into Thailand for sale to consumers, and it is a busy time of year for Customs officials, who are responsible for preventing these illegal activities.

In November 2015, two trucks departed from a warehouse in Chachoengsao, a province in eastern Thailand, heading for Bangkok. En route, the trucks were stopped by a Customs officer, who found that they contained more than 100,000 suspected counterfeit items valued at over THB 100 million. The Customs officer, who worked for Suppression and Prevention Bureau II, then seized the trucks, along with their allegedly illicit content.

At the time of the seizure, Customs did not know whether the goods were genuine or counterfeit, and the owner of the seized goods could not demonstrate that taxes had been paid on the goods. Customs therefore filed a legal charge against the owner under Sections 16, 17, and 27 *bis* of the Customs Act.

It was then found that the owner of the seized goods did not directly import the goods, but only purchased the goods from an importer who had failed to pay the requisite taxes.

Customs regulations hold that if an individual commits an offense relating to the purchase of goods while knowing that taxes have not been paid on the goods, and the offender agrees to settle the case by surrendering the seized goods to the state, Customs has the authority to close the case and confiscate the goods. This would usually result in the goods being placed at auction.

In this case, however, as the goods included a myriad of different brands and each brand owner or their representative confirmed that the goods were in fact counterfeit in nature, the seized goods were instead destroyed.

The November 2015 seizure is representative of a broader trend for Thai Customs officials: Seizures of fake goods are becoming more frequent, and they are involving larger quantities of high-value products. Thai government statistics, which run on a fiscal year (FY) of October 1 through September 30, support this analysis.

In FY 2014, Customs conducted 770 seizures. This figure increased to 847 in FY 2015, representing a 10 percent year-on-year increase in the number of seizures. The rise in the monetary value of the seized goods was even more dramatic. The total value of the seized goods in FY 2014 was THB 74.7 million, but this figure increased to THB 170.8 million in FY 2015—a remarkable increase of 129 percent.

Customs Seizures at the Border

In this large case in November 2015, Customs made its seizure while the goods were being shipped within Thailand, rather than at the border. If the seizure had instead been made at the border, a different legal scenario would have been applicable.

When a seizure is made at the border, the importer is considered to be the offender. If each brand owner or their representative confirms that the seized goods are counterfeit, Customs will proceed according to Section 27 of the Customs Act and Sections 110(1) and 108 of the Trademark Act.

Under Section 27, Customs has the authority to fine an importer up to four times the value of the seized goods. If the infringer agrees to pay the fines, the seized goods will be stored and later destroyed. At this point, the criminal action would be deemed final and the trademark owner cannot file a complaint with the police for this offense.

But if the importer does not comply with the Customs order, the case will be referred to the police for prosecution. The police will take approximately six months to investigate the case. The responsible case officer will then forward the case to the public prosecutor, along with his or her opinion on whether the infringer should be prosecuted. If the public prosecutor finds that the case has merit, he or she will file a complaint with the Intellectual Property and International Trade Court.

These figures demonstrate that Customs is effectively cooperating with IP owners and monitoring for infringement to prevent the importation of counterfeit goods into Thailand, as well as their exportation to other countries. As the suppression of counterfeit goods is a core policy of the Thai government and the Royal Thai Customs Department, this growth trend is likely to continue in the year ahead.

To ensure that these successes do indeed continue, brand owners should cooperate with Customs to assist in the verification of seized goods. Without cooperation, Customs cases will become protracted and genuine goods that are seized will not be properly returned to legitimate importers.

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Thailand's Trade Secret Act: Understanding the Law and Prevailing in Disputes

In a competitive market, business owners strive to reduce production costs and increase sales volumes in order to gain an economic advantage. To achieve this, large amounts of investment are made in research and development to improve designs, techniques, and processes, among other aspects. These methods and forms, known as trade secrets if the right requirements are met, are therefore valuable intangible assets that should be closely guarded.

A dispute over a trade secret usually arises when a trade secret owner makes a claim against its employee, ex-employee, or business partner for trade secrets infringement. Despite the value of trade secrets, disputes over trade secrets are infrequent in Thailand. Based on statistics from the Central Intellectual Property and International Trade Court (IP&IT Court), only 66 trade secret cases were brought to the IP&IT Court from 2004 to 2014. And unfortunately, the majority of the Supreme Court's decisions on trade secret disputes do not paint an optimistic picture for trade secret owners. These unsuccessful outcomes, however, may be caused by the trade secret owners themselves, who can fall victim to misunderstanding Thailand's Trade Secret Act.

Misunderstandings of the Trade Secret Act have led to erroneous petitions in several Supreme Court cases. For example, a plaintiff mistakenly accused a defendant under Section 35 of the Trade Secret Act which is meant to punish officials for disclosure or use of another's trade secret, instead of correctly pursuing an action under Section 33 which applies to a person who discloses another's trade secret with malicious intent to cause damage to the trade secret controller's business. This misunderstanding indicates that the trade secret owners' counsel may lack knowledge in trade secret laws.

Apart from common misunderstandings, an absence of appropriate measures to maintain trade secrets is another reason for the court to dismiss a plaintiff's claim. In a trade secret case, the most important issue for the owner is to prove the existence of a trade secret by demonstrating that the information is protected with the appropriate measures to maintain its secrecy.

Normally, an employer will require its employee to enter into a nondisclosure or noncompete agreement. But an agreement, on its own, is not considered a sufficient measure to protect a trade secret. For example, in Supreme Court Judgment 10217/2553, the plaintiff claimed that its employee had revealed information about its customers and the origin of its goods. The plaintiff claimed that there was a nondisclosure clause in the employment agreement, but it was unable to demonstrate that the documents with the list of customers and the information containing the origin of goods were protected by the appropriate measures to prevent access by an employee who is not normally connected to this information. The Court determined that the nondisclosure clause was not an appropriate measure to maintain the secrecy of the trade information, and it consequently dismissed the plaintiff's claim. There are several other Supreme Court decisions in which plaintiffs' claims have been dismissed for a similar reason.

On the other hand, if a trade secret owner is able to demonstrate that appropriate measures were taken to maintain secrecy over a trade secret, the IP&IT Court is more likely to render a decision in its favor. In one such case, our firm represented a world leader in bonded neo powder production and melt spinning of specialty alloys as the plaintiff. We helped our client demonstrate to the IP&IT Court that there were strong confidentiality provisions in its employment agreements and sufficient measures to protect its trade secrets, such as processes in which accessibility to the information was limited, records in hard copy form stored in a safe environment, and a stringent company policy applicable to employees who needed to access the documents containing the trade secret information. On this basis, the IP&IT Court held that our client had indeed taken the necessary measures to protect its trade secret and had incurred damage from the disclosure of the trade secret. The Court then ordered the party who infringed the trade secret to pay damages of USD 1.4 million—the highest amount ever awarded by the IP&IT Court.

In order to gain a competitive advantage in the market and ensure that resources dedicated to research and development are not squandered by leakages, business owners should ensure that they maintain an appropriate level of secrecy over their trade secrets. It is essential for businesses to familiarize themselves with the Trade Secret Act, and the time to do so is not when a dispute arises—by then, it is likely already too late. Instead, businesses need to proactively seek to understand the intricacies of the Trade Secrets Act so as to best position themselves to protect and defend their valuable assets.

Trade Secret Act B.E. 2545 (2002)

Trade secrets mean trade information not yet publicly known or not yet accessible by persons who are normally connected with the information, the commercial values of which derive from its secrecy and that the controller of the trade secrets has taken appropriate measures to maintain the secrecy.

Trade information means any medium that conveys the meaning of a statement, facts, or other information irrespective of its method and forms. It shall also include formulas, patterns, compilations or assembled works, programs, methods, techniques, or processes.

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Registration of Three-Letter Trademarks in Thailand

The distinctiveness of trademarks can be hotly debated, with the trademark authorities in different countries adopting a wide range of approaches to determine what types of marks can be registrable. The Trademark Office in Thailand has a reputation, among some international practitioners, as being relatively conservative, often challenging marks on various grounds relating to distinctiveness. The Thai Trademark Act has a clear requirement for marks to be distinctive in order to be registrable, but the Trademark Office is left to determine, on a subjective basis, whether or not any given trademark is distinctive.

One instance where the question of distinctiveness is often raised is the registrability of trademarks consisting of three non-stylized letters. Brand owners frequently like to use simple marks consisting of only three letters, as they are easy to remember and can be effective in building market awareness. But it can be difficult to successfully register these types of marks in Thailand. Many trademarks consisting of three non-stylized letters have been filed with the Trademark Office. Yet few of these applications have been accepted, with most being rejected because they are insufficiently distinctive.

In one notable case, a brand owner sought registration of a mark consisting of three non-stylized letters (TCL) in International Classes 7, 9, and 11. Under the authority of the Trademark Office, both the Registrar (at the initial stage) and the Board of Trademarks (on appeal) rejected the application for the TCL mark on the grounds it was not distinctive. Although the trademark owner had submitted evidence of use to support the application, the officials stated that this evidence was insufficient to prove the mark's distinctiveness.

> "the Trademark Office's practice is to examine each trademark application on a case-by-case basis"

Dissatisfied with this decision, the brand owner appealed the Board's decision, first to the Intellectual Property and International Trade Court (IP&IT Court), and then to the Supreme Court. Ultimately, in Red Court Case 94/2551, the Supreme Court ruled in favor of the brand owner, judging that the TCL mark was inherently distinctive and registrable because the mark was a combination of letters which were represented in a special manner and the mark did not have any meaning in any dictionary.

Although this represented a victory for the brand owner in regard to the initial TCL trademark for goods in International Classes 7, 9, and 11, unfortunately the brand owner has continued to struggle with subsequent conservative decisions of the Trademark Office. When considering the brand owner's later applications for the same TCL mark (TCL) in International Classes 4 and 37, the mark was again rejected.

This decision was made even after the Supreme Court had ruled the mark to be registrable. In issuing its rejection of the mark, the Board of Trademarks reasoned that the previous Supreme Court case involved a different set of facts, and the applicant provided insufficient grounds and evidence to support the registration in Classes 4 and 37.

While this was a frustrating situation for the brand owner, it is important to understand that the Trademark Office's practice is to examine each trademark application on a case-by-case basis. A decision involving a prior application cannot always be applied to later-filed applications for the same trademark. Instead, the decision will be considered along with all other supporting evidence, and the Board can exercise subjective discretion with respect to accepting new applications. As a result, trademark owners should be aware that even if their trademark has been registered and they file a new application for the same mark in a different class, the mark may not be accepted for registration.

> "Thailand is a civil law country, and so Supreme Court decisions do not necessarily have a binding effect on the outcomes of later cases"

It is also important to understand that Thailand is a civil law country, and so Supreme Court decisions do not necessarily have a binding effect on the outcomes of later cases. They do, however, hold strong influence over the decisions of lower courts. In the case described above, the Trademark Office seems not to have been influenced by the distinctiveness ruling of the Supreme Court. But if the brand owner chose to once again appeal that decision to the IP&IT Court and the Supreme Court, this decision might be overturned. The challenge, of course, is that these types of civil suits to obtain registration are costly and time consuming, and some brand owners may simply decide that the effort is not worthwhile.

Fundamentally, this case demonstrates the need for cooperation and understanding between Thailand's authorities, such as the Board of Trademarks and the Supreme Court, to determine how to define trademark distinctiveness, particularly for marks consisting of a combination of letters. Until we see more consistency among the various levels of authorities in the process, brand owners may continue to face frustrations in protecting their intellectual property when distinctiveness is called into question.

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Taking Action Against Trademark Infringement in Indonesia

Indonesia uses a “first-to-file” system, under which trademark owners must register their trademarks before they are able to take action against infringers for trademark infringement. The earlier your trademarks are registered and the wider their scope of protection, the better chance you have to exercise your rights and protect your intellectual property (IP).

As a trademark owner facing infringement of your IP rights in Indonesia, there are a number of important considerations to be aware of, and you have various means of recourse available to you.

Due Diligence

Before taking legal action against infringers for trademark infringement, you should conduct due diligence on your own IP rights to ensure that infringers are unable to make a counterclaim or revoke registrations of your IP.

To conduct due diligence on your own IP rights, you should ensure that the following factors have been adequately addressed:

- Ensure that your IP rights are valid
- Verify the ownership over your IP rights
- Investigate the actual use of your IP in the market and secure all relevant documents
- Review local compliance requirements (e.g., all agreements in Indonesia must be accompanied by a translation into Bahasa Indonesia; otherwise, the agreement may be unenforceable)
- Determine whether there are any third-party rights attached to your IP (e.g., licenses or franchises)
- Ascertain whether there are any existing or upcoming rules or legislation that could impair your IP rights (e.g., unfair competition law, consumer protection law, etc.)
- Seek the advice of local counsel to conduct your IP due diligence

Preliminary Measures

In practice, it is often preferable to reach a settlement with an infringer instead of pursuing a legal action, which can be both costly and time-consuming. Settlements generally involve the destruction of the counterfeit goods, an undertaking, and the issuance of a public apology by the infringer.

To successfully reach a settlement with an infringer, you should conduct an investigation to obtain as much information as possible about the infringer and its use of the infringed trademark(s). The investigation can be conducted through investigators at the Directorate General of Intellectual Property (DGIP), but you may consider using private investigators to ensure that the results of the investigation are reported quickly and kept confidential. If the infringed products relate to food or drugs, you should also conduct a search at the Badan Pengawas Obat dan Makanan, the Indonesian national agency of drug and food control.

Based on the information obtained from the investigation, a warning letter should be drafted and sent to the infringer, stipulating that the infringer should cease the infringing activities. The letter should be written in the Indonesian language, as English is not widely spoken in Indonesia. After the warning letter is sent, it is common to send follow-up letters and hold negotiations with the infringer.

Legal Actions Against Infringers

Criminal prosecution. If you want to pursue a criminal action against an infringer, you must file a formal complaint either with the police or the Directorate General of the DGIP. After the complaint is received, investigators at the DGIP are authorized in the same way as police to conduct an investigation into IP infringement.

Typically, an investigation will lead to a raid. However, due to a backlog of complaints and an inadequate number of investigators, it can take several months before an actual raid takes place.

Civil enforcement. Trademark owners or licensees of a registered trademark can file a civil lawsuit in the Commercial Court against trademark infringers in the form of a claim of compensation and/or a demand to cease all acts related to the unauthorized use of a registered trademark. Licensees, however, must appropriately record their license agreement at the DGIP.

The Commercial Court may order the infringer to surrender the infringing goods and/or order the infringing goods to be valued. This will only happen after the decision of the Court becomes final and legally binding. The decision of the Commercial Court can be appealed to the Supreme Court.

Border measures. Although Indonesia’s Customs Law does not provide customs recordation or temporary suspension orders/injunctions of suspected IP rights infringement for imported or exported goods, recourse may be available under the Supreme Court Rules 2012 on Injunctions and Provisional Measures. Under these rules, you, as the IP owner, may request a warrant from the Commercial Court to temporarily suspend the release of suspected infringing goods.

The period of suspension is ten working days, extendable for another ten working days if an additional warrant is obtained from the Commercial Court. During this time, you must notify the customs official of any legal action taken in order to maintain your rights—otherwise, the customs official may terminate the suspension of goods.

Despite these rules, in practice, it is a challenge to exercise these procedures. Often, there is an insufficient amount of information and supporting evidence on the consigned goods, making it difficult to determine whether the goods are counterfeit products.

Conclusion

There are a variety of options available to IP owners to take action against infringers. But there are always risks involved. You should therefore conduct thorough due diligence on your IP rights before proceeding with legal action against an infringer.

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Parallel Imports in Cambodia

Parallel imports—that is, genuine, noncounterfeit products imported into a country without permission of the intellectual property owner—are a systemic problem in Cambodia. Imported from neighboring countries without the authorization of legitimate manufacturers, parallel imports are sold on the "grey market" at prices which can be much lower than products imported through official channels. This causes significant difficulties for local affiliates and legitimate business owners, who struggle to compete with the lower prices. In addition, brand owners are unable to control how parallel imports are marketed and supported with after-sale services, which can tarnish their reputation.

In Cambodia, protection against parallel imports is available through trademark registration. Business owners who are in competition with merchants that deal with parallel imports should therefore familiarize themselves with Cambodia's Trademark Law. This article provides an overview of how protection against parallel imports can be achieved under Cambodia's Trademark Law.

Article 11 (a) of Cambodia's Trademark Law confers a right on registered trademark owners to the exclusive use of their trademarks in relation to goods their marks are registered for, and they can consent to others using their marks.

Unlike most ASEAN countries, Cambodia abides by a national exhaustion doctrine and therefore prohibits parallel imports. Under the national exhaustion doctrine, a trademark owner's rights are not exhausted until the first legitimate sale within the domestic market. For example, a product that was sold with the trademark owner's consent in Country A could not be imported and resold in Country B without the trademark owner's consent to that resale. This grants the registered trademark owner more control over the distribution of its products in markets that adhere to the national doctrine.

This doctrine is based on the idea that a registered trademark owner should be able to benefit from promoting its product in each separate market. The doctrine is especially welcomed by local distributors and affiliates, who obtain a license from the trademark owner and invest in promotions, warranties, and other services to build a legitimate domestic business. The reward is their first sale, and afterward, their rights are exhausted.

The national exhaustion doctrine is reflected in Article 11 (c) of Cambodia's Trademark Law, which states the following:

> "The rights conferred by registration of a mark shall not extend to acts in respect of articles which have been put on the market *in the Kingdom of Cambodia* by the registered owner or with his or her consent." [Emphasis added]

The language in Article 11 (c) clearly implies that a foreign sale does not exhaust the trademark owner's rights, because foreign sales do not take place "in the Kingdom of Cambodia." Therefore, the unauthorized use of a trademark through parallel imports in Cambodia is an infringement of a registered trademark owner's intellectual property rights.

Although there is an implied prohibition of parallel imports, uncertainties remain about actual enforcement against parallel imports under Cambodia's Trademark Law. While Article 11 (b) of the Trademark Law allows a trademark owner to institute court proceedings against an infringer, the chapter on penalties for infringement only addresses imitation and counterfeit goods; it does not provide penalties for noncounterfeit parallel imports. Therefore, as part of the enforcement process, the Economic Police can seize imitation and counterfeit goods but it is unclear whether noncounterfeit parallel imports can be seized.

To further obfuscate matters, in Cambodia, judicial decisions are rarely published and therefore case law on trademark infringement is scarce. However, there is one publicized case in September 2010 involving the seizure of parallel imported beer from Vietnam. In that case, an internationally renowned beer company cooperated with its local distributor, which had an exclusive contract to import the company's beer into Cambodia, and convinced the Cambodian authorities to seize the parallel imported beer. It is unclear if damages or any other remedies were awarded.

To obtain protection against parallel imports, brand owners should register their trademark. They should also submit an affidavit of use to the Department of Intellectual Property (DIP) in Cambodia five years after the initial registration and renew registration after ten years to maintain protection over their trademark.

In licensing trademark rights to a local distributor, brand owners are strongly advised to register their licensing agreement with the DIP. Article 52 of the Trademark Law states that a reference to the licensed distributor will be published, allowing the distributor to uphold its licensed rights against third parties. Although the Trademark Law clearly stipulates that a trademark registration is public and any use of a trademark requires a trademark owner's consent, a public record of a distributorship strengthens a case against infringement or unauthorized use. If a trademark covered by a registered license agreement is infringed, the local distributor will have standing to defend its trademark rights. However, if an agreement has not been registered, only the actual trademark owner is able to enforce its rights. For overseas trademark owners, this can be a costly and an uncertain exercise.

DIP officials have indicated that they are willing to cooperate with border authorities to stop parallel imports only when a distributorship agreement is both exclusive and registered. This practice may change in the future, but for now, a trademark owner should register its distributorship agreement (whether exclusive or not) with the DIP to protect against parallel imports and strengthen its enforcement capabilities if the need arises.

The DIP has a proven track record of readily addressing most incidents of intellectual property rights infringement, and we have reason to believe that the same proactive approach may be taken to parallel imports. In the meantime, local distributors and affiliates should seek the advice of local counsel to navigate Cambodia's Trademark Law and obtain protection against parallel imports to the fullest extent possible.

Tilleke & Gibbins Promotes New Partners in Insurance and IP

Tilleke & Gibbins is delighted to announce the promotion of Aaron Le Marquer and Suebsiri Taweepon to the firm's partnership, effective January 2016.

Aaron Le Marquer
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As the leader of Tilleke & Gibbins' regional insurance practice, Aaron advises insurers and reinsurers in complex coverage matters and has particular expertise in multijurisdictional reinsurance disputes. He also has significant experience advising on the defense and coverage of claims across all lines of business, including property, energy, construction, product liability, directors' and officers' liability, and casualty.

Suebsiri is an intellectual property lawyer whose practice focuses on litigation, licensing, and registration of IP rights. He advises multinational corporate clients across a range of industries, including technology, food and beverage, automotive, and fast-moving consumer goods.

Aaron and Suebsiri are both based in the firm's Bangkok office but serve clients across Southeast Asia.

Chambers Asia-Pacific 2016 Rankings

Renowned industry publication *Chambers Asia-Pacific* has released its latest annual rankings, and in a move that solidifies our position as a leading law firm, Tilleke & Gibbins was recognized for our strength in 17 practice areas, while 15 of our lawyers were lauded for their exceptional legal knowledge, experience, ability, and client service.

We received Band 1 rankings in the following practice areas:

- Intellectual Property (Thailand and Vietnam)
- Tax (Thailand)
- Technology, Media, and Telecommunications (Thailand)

Tilleke & Gibbins also received recognition for our growing practices in Cambodia, Laos, and Myanmar.

Managing IP Trademark Survey 2016

Managing Intellectual Property has awarded top trademark and IP rankings to Tilleke & Gibbins across all of the jurisdictions in which we operate.

The rankings are as follows:

- **Thailand:** Tier 1 – Trademark Prosecution and Trademark Contentious/Copyright
- **Vietnam:** Tier 1 – Trademark Prosecution and Trademark Contentious/Copyright
- **Indonesia:** Tier 3 – Trademark Prosecution and Trademark Contentious/Copyright
- **Laos, Myanmar, and Cambodia:** Recommended – Intellectual Property

The rankings were based on extensive research carried out over six months. *Managing IP's* researchers obtained feedback on firms' workloads, quality of work, and the strength of firms' IP teams.

In addition to these rankings, Tilleke & Gibbins was also nominated for Firm of the Year awards in both Thailand and Vietnam at the Managing IP Global Awards 2016, which will be held on March 10 in London.

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