

COMMERCIAL LAW

**ZUNECA PHARMACEUTICAL, AKRAM ARAIN AND/OR VENUS
ARAIN, M.D., AND STYLE OF ZUNECA PHARMACEUTICAL *v.*
NATRAPHARM, INC.
G.R. No. 211850, 08 September 2020, EN BANC (Caguioa, J.)**

DOCTRINE OF THE CASE

While Natrapharm is the owner of the “ZYNAPSE” mark, this does not, however, automatically mean that its complaint against Zuneca should be granted. This is because Sec. 159.1 of the IP Code clearly contemplates that a prior user in good faith may continue to use its mark even after the registration of the mark by the first-to-file registrant in good faith, subject to the condition that any transfer or assignment of the mark by the prior user in good faith should be made together with the enterprise or business or with that part of his enterprise or business in which the mark is used. The mark cannot be transferred independently of the enterprise and business using it.

From the provision itself, it can be gleaned that while the law recognizes the right of the prior user in good faith to the continuous use of its mark for its enterprise or business, it also respects the rights of the registered owner of the mark by preventing any future use by the transferee or assignee that is not in conformity with Section 159.1 of the IP Code.

FACTS

Natrapharm, Inc. (Natrapharm) filed with the Regional Trial Court (RTC) a Complaint against Zuneca Pharmaceutical, Akram Arain and/or Venus Arain, M.D., and Style of Zuneca Pharmaceutical (Zuneca) for Injunction, Trademark Infringement, Damages, and Destruction, alleging that Zuneca's "ZYNAPS" is confusingly similar to its registered trademark "ZYNAPSE" and the resulting likelihood of confusion is dangerous because the marks cover medical drugs intended for different types of illnesses.

In its Answer, Zuneca claims that as the prior user, it had already owned the “ZYNAPS” mark prior to Natrapharm’s registration of its confusingly similar mark, thus, its rights prevail over the rights of Natrapharm.

The RTC ruled that the first filer in good faith defeats a first user in good faith who did not file any application for registration. Hence, Natrapharm, as the first registrant, had trademark rights over "ZYNAPSE" and it may prevent others,

including Zuneca, from registering an identical or confusingly similar mark. Moreover, the RTC ruled that there was insufficient evidence that Natrapharm had registered the mark "ZYNAPSE" in bad faith. Further, following the use of the dominance test, the RTC likewise observed that "ZYNAPS" was confusingly similar to "ZYNAPSE." To protect the public from the disastrous effects of erroneous prescription and mistaken dispensation, the confusion between the two drugs must be eliminated.

On appeal, the Court of Appeals (CA) affirmed the Decision of the RTC. Hence, the instant petition for review on *Certiorari*.

ISSUES

- (1) How is ownership over a trademark acquired?
- (2) Assuming that both parties owned their respective marks, do the rights of the first-to-file registrant Natrapharm defeat the rights of the prior user Zuneca?
- (3) If so, should Zuneca be held liable for trademark infringement?

RULING

(1) Upon the effectivity of the IP Code on 01 January 1998, the manner of acquiring ownership of trademarks is acquired through registration, as expressed in Section 122 of the IP Code. To clarify, while it is the fact of registration which confers ownership of the mark and enables the owner thereof to exercise the rights expressed in Section 147 of the IP Code, the first-to-file rule nevertheless prioritizes the first filer of the trademark application and operates to prevent any subsequent applicants from registering marks described under Section 123.1 (d) of the IP Code.

Reading together Sections 122 and 123.1 (d) of the IP Code, a registered mark or a mark with an earlier filing or priority date generally bars the future registration of — and the future acquisition of rights in — an identical or a confusingly similar mark, in respect of the same or closely-related goods or services, if the resemblance will likely deceive or cause confusion.

At present, prior use no longer determines the acquisition of ownership of a mark. To emphasize, for marks that are first used and/or registered after the effectivity of the IP Code, ownership is no longer dependent on the fact of prior

use in light of the adoption of the first-to-file rule and the rule that ownership is acquired through registration.

(2) **NO.** The presence of bad faith alone renders void the trademark registrations. Accordingly, it follows as a matter of consequence that a mark registered in bad faith shall be cancelled by the IPO or the courts, as the case may be, after the appropriate proceedings.

This concept of bad faith, however, does not only exist in registrations. To the mind of the Court, the definition of bad faith as knowledge of prior creation, use, and/or registration by another of an identical or similar trademark is also applicable in the use of trademarks without the benefit of registration. Accordingly, such bad faith use is also appropriately punished in the IP Code as can be seen in its unfair competition provisions. It is apparent, therefore, that the law intends to deter registrations and use of trademarks in bad faith.

Concurrent with these aims, the law also protects prior registration and prior use of trademarks in good faith. Being the first-to-file registrant in good faith allows the registrant to acquire all the rights in a mark. This can be seen in Section 122 vis-à-vis the cancellation provision in Section 155.1 of the IP Code. Reading these two provisions together, it is clear that when there are no grounds for cancellation — especially the registration being obtained in bad faith or contrary to the provisions of the IP Code, which render the registration void — the first-to-file registrant acquires all the rights in a mark. In the same vein, prior users in good faith are also protected in the sense that they will not be made liable for trademark infringement even if they are using a mark that was subsequently registered by another person. This is expressed in Section 159.1 of the IP Code.

At this point, it is important to highlight that the following facts were no longer questioned by both parties:

- (a) Natrapharm is the registrant of the "ZYNAPSE" mark which was registered with the IPO on September 24, 2007;
- (b) Zuneca has been using the "ZYNAPS" brand as early as 2004; and
- (c) "ZYNAPSE" and "ZYNAPS" are confusingly similar and both are used for medicines.

In light of these settled facts, it is clear that Natrapharm is the first-to-file registrant of "ZYNAPSE." Zuneca, on the other hand, is a prior user in good faith of a confusingly similar mark, "ZYNAPS." What remains contentious is Natrapharm's good or bad faith as Zuneca contends that the mark was registered in bad faith by Natrapharm.

The rule is that when the registration was not obtained in bad faith or contrary to the provisions of the IP Code, the first-to-file registrant in good faith acquires all the rights in a mark. Here, Natrapharm was not shown to have been in bad faith. Thus, it is considered to have acquired all the rights of a trademark owner under the IP Code upon the registration of the "ZYNAPSE" mark.

(3) **NO.** While Natrapharm is the owner of the "ZYNAPSE" mark, this does not, however, automatically mean that its complaint against Zuneca should be granted. This is because Sec. 159.1 of the IP Code clearly contemplates that a prior user in good faith may continue to use its mark even after the registration of the mark by the first-to-file registrant in good faith, subject to the condition that any transfer or assignment of the mark by the prior user in good faith should be made together with the enterprise or business or with that part of his enterprise or business in which the mark is used. The mark cannot be transferred independently of the enterprise and business using it.

In any event, the application of Section 159.1 of the IP Code necessarily results in at least two entities — the unregistered prior user in good faith or their assignee or transferee, on one hand; and the first-to-file registrant in good faith on the other — concurrently using identical or confusingly similar marks in the market, even if there is likelihood of confusion. While this situation may not be ideal, the Court is constrained to apply Section 159.1 of the IP Code as written.

To further reduce therefore, if not totally eliminate, the likelihood of switching in this case, the Court hereby orders the parties to prominently state on the packaging of their respective products, in plain language understandable by people with no medical background or training, the medical conditions that their respective drugs are supposed to treat or alleviate and a warning indicating what "ZYNAPS" is not supposed to treat and what "ZYNAPSE" is not supposed to treat, given the likelihood of confusion between the two.