PARALLEL IMPORTATION OF PATENTED GOODS

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ABSTRACT

Indonesian patent law contains provisions in relation to the issue of parallel importation. As analysed in section 1 below, the law prohibits the practice and makes it a criminal offence except for the parallel importation of pharmaceutical products. However, the country's position still needs to be examined because some uncertainties remain. It is important, therefore, to explore the approach in other jurisdictions in order to provide possible alternatives to Indonesia's current position.

The position on the parallel importation of patented goods in Hong Kong, Taiwan, Singapore and Malaysia is examined in this paper. The position in Hong Kong and Taiwan differs from that in Singapore and Malaysia. Hong Kong adopts the non-exhaustion principle, while Taiwan applies the "rule of reason" exhaustion principle, whereas Singapore and Malaysia apply the "international" exhaustion principle. It will be apparent from the analysis later in this paper that United States pressure has contributed to these differences. This paper demonstrates that a country might have to take into account complex policy issues such as the interests of consumers, right owners and competition as well as external pressure in determining its final stance on parallel importation.

1. Indonesian Patent Law on Parallel Importation

Article 16(1) of the Patents Act 20011 prohibits parallel importation. Article 16(1) provides:

A Patent holder shall have the exclusive right to prohibit any other person who without his consent: I. in the case of product patent: makes, sells, imports, puts on sale, offers for sale, delivers, uses, makes available for sale, or rents, leases or otherwise disposes of, or exports, sells, imports, puts on sale, offers for sale, delivers, uses, makes available for sale, or rents, leases or otherwise disposes of, the patented product; b. in the case of a process patent: uses the patented production process to make products; c. commits any other activities referred to in (a) or (b). (Emphasis added)

Clearly, Article 16(1) of the Act gives a patent holder the exclusive right to prohibit others from importing its patented products and or products made by using its patented process without its authorization. The effect is that, if a...
patent holder sells its patented products in a foreign country, another person does not have the right to import the products from this foreign country into Indonesia unless he or she obtains a prior authorization from the patent holder. With respect to a process patent, a person must also obtain a patent holder's consent in order that he or she can import into Indonesia products made in Indonesia which have been sold in a foreign country or products made in a foreign country using the patent holder's process patent.

That a patent owner can use Article 16(1) to prevent parallel importation can be explained in the following way. For example, an American Corporation obtains a patent both in the United States and in Indonesia claiming product X. The Corporation then applies B as its exclusive licensee to distribute the products in Indonesia. The Corporation also has a subsidiary in Malaysia which manufactures the same products. Because the price of the products from the subsidiary are much cheaper than the same product from the exclusive distributor in Indonesia, a person without the patent holder's consent imports the products from Malaysia into Indonesia. Based on Article 16(1), the Corporation can prevent the parallel importation.

Indonesian patent law gives a patent owner strong protection against parallel importation. This is because, under the Patents Act 2001, the parallel importation of patented goods also constitutes a criminal offence. This is the effect of Article 130 which provides:

Anyone who intentionally and without being entitled violates the right of the patent holder by committing an act as described in Article 16, will be penalized with a jail term of at the most 4 (four) years and a fine of at the most Rp 500,000,000,000 (five hundred million rupiah).

The term “parallel importation” is not mentioned in Article 130. However, the Article applies to a parallel importer because if the person commits one of the acts mentioned in Article 16 as the exclusive rights of a patent holder, namely, importation, without the authorization of the patent holder.

Additionally, Article 118(1) of the Patents Act 2001 gives a patent holder the right to claim damages against an unauthorized importer. In this regard, the Patents Act 2001 is stricter than the Patents (Amendment) Act 1997. This is so since the new Act no longer includes the “innocent infringement” provision of Article 122(1a) of the Patents (Amendment) Act 1997. Under the former Article 122(1a), a patent holder's claim could be rejected if the defendant was not aware of the infringement or if the defendant had strong evidence for his/her lack of knowledge of the infringement. Under the Patents Act 2001, no such defense for the defendant is available. As a consequence, an innocent parallel importer will be caught by Article 118(1) of the new Act. This demonstrates that the new Act gives a patent holder stronger protection against parallel importation than the Patents (Amendment) Act 1997. So far, there has been no explanation regarding the reason behind this policy. The wisdom of the policy, therefore, questionable.
It is questionable whether the position of the parallel importer under Article 11(3) of the Patents Act 2001 does not exhaust the owner's right to control any further dealing with the products. This reflects that there is only minimal change in respect of the legitimacy of the parallel import of patented goods. Indonesian patent law still maintains its strict approach to parallel importation.

The "partial" legalization is not free from criticism. It has not been welcomed by the Indonesian people. Article 125(a) reflects that the Government did not intend to protect the interest of Indonesian consumers who still need cheap patented products, especially pharmaceutical products. Indonesian patent law previously, through Article 21 of the former Patents Act 1989, allowed parallel importation. The Explanatory Memorandum to the earlier Article 21 mentioned that Indonesian people needed to develop local industries and technological skill used, therefore, Indonesia through the former Article 21 attempted to prevent uncomplicated developments that could have led to a restriction of imports of foreign products. The condition of Indonesian people asserted in the Explanatory Memorandum has not changed. Therefore, it is not reasonable for the Indonesian Consumers' Association to take the view that Article 125(a) is inadequate and suggests that Indonesia should adopt the previous approach set out in Article 21 of the earlier Patents Act 1989 in respect of not only pharmaceutical products but also other patented goods.

^ See note 5.
^ This view was stated by Indah Jukartaningting, the Chief of the Indonesian Consumers' Association, during a seminar with the present writer in February 2002.
^ "This Article provided: "The importation of patented products or products made by using a patented process by a person other than a Patent holder shall constitute an violation of these Patent rights, except for certain Kings permitted by Government Regulation.
^ Sukmawati L., "Abaty Obat-obatan dalam Undang-Undang Paten Indonesia, the Indonesian Consumers' Association, unpublished transcript, Jakarta, 14 April 2000 at 7 and 11. The Indonesian Consumers' Association had proposed that such a provision be included in the Patents Bill: "It shall be excluded from the provision of paragraph (1) and (2) of Article 17: ... to import patented products under circumstances in which the products have been freely marketed in another country's market by the patent owner or an authorized person", ibid. at 11. However, the proposal was not accepted finally by the Indonesian People's Representatives.

MIMBAH RUKUM
II. Hong Kong

1. Legal Position

Section 71 of Hong Kong's Patent Ordinance, 1973, confers on a patent owner the right to prohibit parallel importation. It provides:

A patent shall confer on its proprietor the right to prevent all third parties not having his consent from doing in Hong Kong all or any of the following: (a) making, using or importing the product, (b) where the invention is a process, then in relation to any product obtained directly by means of that process (c) putting on the market, using or importing the product. [Emphasis added]

In essence, s.73 above provides that a patent owner has the right to prevent unauthorised importation of its patented goods or goods made using its patented process. Hong Kong does not subject s.73 to the exhaustion principle. Thus, as far as s.73 is concerned, Hong Kong patent law adopts the non-exhaustion approach. However, it is difficult to rely only on s.73 to determine the legality of parallel importation occurring in the two different situations discussed below. Specifically, the provision in s.73 does not answer the question of whether a Hong Kong patent owner can prevent the parallel importation of patented goods if the first sale of the goods is made by the patent owner itself. These two situations are analysed below.

a. The first sale made by a licensee

Section 71 should be interpreted as applying to parallel importation occurring in a situation where the first sale is made by a licensee of a Hong Kong patent owner in a foreign country. The patent owner can block parallel importation of the goods in this situation. This was held to be the position by Hong Kong's Court of Appeal in Attorney General v. Welcome Foundation Ltd., the Court held that the parallel importation of the drug purchased in Portugal from Welcome

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*This was stated by Budi Opmo Permawan, the Director of the Bureau of Legal Affairs and Human Relations in the Department of Medicine and Food Supervision of the Republic of Indonesia, during a consultation with the present writer in January 2012.


11 1992-1 HCC 158; 1992 HCC LECS 316. Welcome Foundation Ltd (Welcome) sued a patent for a drug called "aciwulf" in the United Kingdom and Hong Kong. Welcome sold the drug in Portugal through its licensee Welcome Portugal, and in Hong Kong through its licensee Welcome Hong Kong. Each licensee was prohibited from exporting the product out of its licensed territory. This
Portugal (the licensee) into Hong Kong infringing the right of Wellcome (the patent owner) in Hong Kong. The Court reasoned that the sale of the drug from Wellcome to Wellcome Portugal “did not pass to Wellcome Portugal... any of the intellectual property rights owned by Wellcome...other than the rights which extended to Portugal” and the parallel importer of the drug purchased from Portugal “could have obtained no greater right, and in particular no right to deal with the goods in Hong Kong, than was held by Wellcome Portugal.”

Wellcome adopted the non-exhaustion approach, that is, the sale by the patent owner’s licensee of the drug in Portugal did not exhaust the owner’s rights in Hong Kong. The question arises as to whether it was the restriction on exporting the drug out of the licensed territory of Wellcome Portugal which led to the decision of the Court. If it was, Wellcome seems to take the “conditional” non-exhaustion position. However, before Wellcome, Beecham Group Ltd v. Shewan Tones (Traders) Ltd (Beecham), which involved the unauthorized importation into Hong Kong of patented goods first sold by Beecham’s licensee for the United States and Canadian markets, had taken a stronger position than that in Wellcome. The Hong Kong Supreme Court in Beecham stated:

When the patentee issues his license he relieves the licensee of the liability to actions for infringement within the same territorial limits as is covered by the patent; and that is all. Consequently, the license, by reference to the patent, carries its own inherent territorial limitation without any express words to that effect, unless it can be extended expressly, or by necessary implication, beyond those territorial limits. (Emphasis added).

In essence, the Court was of the view that the effect of a licence was only immunity in the sense that it entitled the licensee to do something which would otherwise be unlawful. According to the Court, without being expressly stated, a licence is inherently territorial and, without any express or implied extension, it cannot be valid in territories other than those so named. Thus, even though there is no restriction on exportation out of the licensed territories, the licensee has no right to export its goods outside the territories. Since, in Beecham, the territories of the licensee were limited to the United States and Canada, the patent in Hong Kong was “unconditionally” not exhausted by the sale in those two former countries. Thus, it is easier to assume that had the facts in Wellcome not involved any restriction on exportation, the Court in Wellcome would have come to the same decision as that in Beecham.

b. The first sale made by the patent owner. Wellcome left unanswered the question of whether the non-exhaustion approach also applies when the patent owner itself (not its licensee) has made the first sale abroad. Additionally, s.73 of the Patents Ordinance 1997 cannot be relied upon to answer the
question. The answer will depend very much on the decision of the Hong Kong courts. The courts may follow the English case Betts v. Willmott. The effect is that the courts would decide in favour of parallel importers. In Betts, Lord Halsbury held that where the patent owner itself sold its goods abroad, "he transfers with the goods necessarily the licence to use them wherever the purchaser pleases." In other words, the patent owner cannot prevent the parallel importation of the goods since the owner has granted an implied licence to the parallel importer to freely deal with the goods. However, the Hong Kong courts may also disregard the decision in Betts and take the view that the non-exhaustion approach mentioned in s.73 applies to all situations where parallel importation takes place. Thus, the position in Hong Kong remains uncertain in a situation where it is the Hong Kong patent owner which makes the first sale.

2. Underlying Rationale
Section 73 of Hong Kong’s Patents Ordinance 1997 squarely restates Article 28(1).\(^7\)

\(^7\) (1891) 6 Ch App 239.
\(^8\) (1891) 6 Ch App 239.
\(^9\) Article 28(1) provides: "A patentee shall confer on his owner the following exclusive rights: (a) where the subject matter of a patent is a product, to prevent third parties from having the owner’s control of the acts of making, using, offering for sale, selling, or importing for these purposes that product; (b) where the subject matter of a patent is a process, to prevent third parties from having the owner’s control from the act of using the process, and from the acts of offering for sale, selling, or importing for these purposes at least the product obtained directly by that process." (Emphasis added).

\(^{10}\) Article 28(1), the exclusive right to prevent unauthorised importation is subject to Article 6 which leaves the question of exhaustion open to each member’s own discretion. The word "importing" in Article 28(1) refers to a footnote which provides: "This right, like other rights conferred under this Agreement in respect of the use, sale, importation or distribution of goods, is subject to the provisions of Article 6." Article 6 provides: "For the purposes of dispute settlement under this Agreement, nothing in this Agreement shall be construed to affect the issue of the exhaustion of intellectual properties rights." (Emphasis added).


the country was only on the "Vatch List" status. However, they were also concerned with the damage to Hong Kong's reputation as an "international trade centre" caused by the United States' unilateral action. They contended that Hong Kong should continuously take efforts to alleviate United States' pressure which campaigns against the adoption of the exhaustion principle of intellectual property rights. Therefore, Hong Kong was not prepared to take the risk of adopting the exhaustion principle in relation to patents.

However, the position taken by Hong Kong in relation to patents is not consistent with its stance on trade mark law. Hong Kong allows the parallel importation of trade-marked goods. It is therefore questionable whether the current position of Hong Kong's patent law on parallel importation reflects the country's real preference. Hong Kong's Bill Committee on the Trade Marks Bill stated that Hong Kong allowed the parallel importation of trade-marked goods because the country was "an irrevocable supporter of free trade and global trade liberalisation". The Committee also stated that any restriction on parallel importation was "an artificial barrier" to free trade. As far as these general rationales are concerned, Hong Kong transfers parallel importation and, therefore, should have allowed the parallel importation of patented goods.

9 See "Patent on Trade and Industry (Ministry)", 9 May 96, ibid.


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made with his consent has been sold, the article is sold or re-sold. The said act of making and selling shall not be limited to them conducted in this country. The territory of sale referred to in item 3 of this Article shall be determined by the court according to the facts involved." (Emphasis added)

Article 7(6) clearly shows parallel importation. In essence, where a patented good is produced by the patentee or with his consent, the first sale of the good exhausts the proprietor’s rights to prevent any subsequent dealing with the good. Furthermore, paragraph (6) of the Article seems to favour the international exhaustion principle because the first sale which can trigger the exhaustion of the patent right can take place outside Taiwan.

However, owing to pressure from the United States, the 1994 Patents Amendment Act made the exhaustion principle in Article 57(6) subject to the last sentence of the Article stating that the territory of sale which can exhaust patent rights “shall be determined by the court according to the facts involved.” Because there has been no clear indication of what standard the courts will take, Article 57(6) becomes ambiguous on whether the exhaustion principle applies only to goods originally sold in the country (national exhaustion) or also apply to goods first sold outside the country (international exhaustion).

There is an indication that Taiwan’s courts will follow the Supreme Court’s decision in Japan’s Ato Product v. IBS Kraftfahrzeug Technik (the Aluminum Wheel case), which upheld the decision of the Tokyo High Court in the same case, adopting the international exhaustion principle of patents. Without referring to the Japanese case, Taiwan’s courts may follow the decision in the trade mark case Taiwan Muji (Ming-chih) Co. v. San-pang Trading Co., which held that the sale of trade-marked goods in a foreign country exhausts the right of a Taiwan trade mark owner. However, that speculation is debatable taking into account United States’ pressure on Taiwan to adopt the territorially principle of patents.

The stance which Taiwan’s courts might take is to apply the selective international exhaustion principle. Under this type of exhaustion, certain classes of products would be subject to international exhaustion while others would be subject to only national exhaustion. For example, Taiwan’s courts can subject pharmaceutical products to international exhaustion. Thus, a Taiwan patent owner cannot prevent the parallel importation into Taiwan of drugs sold in a foreign country. An important reason for Taiwan to consider this is that the policy is necessary to help consumers who need cheap (i.e. saving drugs).

The question of parallel import first sold by the patent owner or its licensee For the exhaustion principle to apply, Taiwan patent law does not differentiate

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"See Sun, A.Y., note 36 at 87.

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"See Richard J., "Recent Patent Law Developments in Asia" (1977) 7 Fordham J. Corp. L. 559 at 569 stating that several Taiwan commentators have indicated that they believe that Taiwan’s courts will be influenced by the decision of the Tokyo High Court in the Aluminum Wheel case.

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"This case involved the unauthorized importation of the brake-plates ("MUD") manufactured under license in Indonesia. The Taiwan exclusive-licensee argued that it had the exclusive right to use the "MUD" trade mark in Taiwan, which was rejected by the Supreme Court which ruled that the unauthorized importation of genuine products did not infringe the trade mark owner’s rights.” See Winkler, R. et al., “Taiwan Parallel Imports - The Debate Continues,” IP daily, 16 August 1991 at 3.

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"See the discussion in section 3.2 in Kim.
between the first sale made by the patentee and that made by its licensee. Article 57(6) of Taiwan's Patent Act 1944 emphasizes that when a patented good "has been sold," the patent owner loses its right to control any subsequent dealings with the good. Article 57(6) does not specifically indicate who sells the good. This means that both the sale by the patent owner and by its licensee exhaust the patent owner's rights. The sentence "a patented article" made by the patentee or made with its consent has been sold" also implies that conclusion. If a patented article is made by a licensee with the consent of the patent owner, the article can normally be sold by the licensee and the sale by the licensee exhausts the patent owner's rights.

2. Underlying Rationale
Taiwan's policy to give a patent owner the right to prevent unauthorized importation indicates that the country was serious in seeking access to the World Trade Organization (WTO). Taiwan filed a request for formal access to the General Agreement on Tariffs and Trade (GATT) in 1989. In 1994, after the TRIPs Agreement had been agreed on, Taiwan began to overhaul its Patent Act 1944. The Amendment provides a patent owner with the right to prevent unauthorized importation. However, the rights are subject to the exhaustion principle. This is not consistent with the TRIPs Agreement, which does not confer on a patent owner an absolute right to prevent unauthorized importation.

Taiwan has tried not to be inconsistent with the goal of the enactment of its Patent Act. According to Article 1 of the Act, the enactment is to encourage creativity, to protect inventions and "to foster the development of industry". The last term indicates that the enactment of the Act should benefit not only rights owners but also the nation or society. The limitation on the exclusive right to prevent unauthorized importation by the exhaustion principle is consistent with the goal of the Act since a patent owner is prevented from monopolising the market and harming society by increasing prices and reducing output.

External Factors
It is clear that Taiwan's patent legislation is consistent with Article 28(1) of the TRIPs Agreement. The TRIPs Agreement, which on the one hand, gives a patent owner the right to prevent the unauthorized importation of patented articles but, on the other hand, gives its member countries the discretion to limit the right by adopting the exhaustion principle. Taiwan has thus made such an exercise by adopting the exhaustion principle in Article 57(6) of its Patent Act 1944.

However, United States' pressure has played an important role in Taiwan's policy on parallel importation. The United States insisted that Taiwan adopt the territoriality principle of patents which means that patent rights in Taiwan are separate from those in a foreign country. Thus the sale outside Taiwan cannot exhaust the rights in Taiwan. During the negotiations with the United States, Taiwan negotiators disagreed with the United States' stance and stated that parallel importation involves genuine goods and it is "a market phenomenon and cannot or should not be curtailed by political or legal means."
however, United States' pressure prevailed and resulted in the promulgation of the 1994
Patents Amendment Act which amended Article 57(6) of Taiwan's Patents Act 1944. That Article
provider that the territory of sale which can exhaust patent rights "shall be determined by
the court according to the facts involved".
The sentence is a "final compromise" between the United States' insistence on Taiwan
adopting the territoriality principle and the view of many people in Taiwan that the international
exhaustion principle should apply. That provision indicates that the legislature wanted
to dump the controversy on the court. Since there has been no case which explains the
meaning of Article 57(6), it is ambiguous whether Taiwan currently adopts the national
exhaustion or international exhaustion principle.

IV. Singapore

1. Legal Position

Section 66(2)(g) of Singapore's Patents Act 1994 clearly allows parallel importation and
adopts the international exhaustion principle. It provides:

An act which...would constitute an infringe
ments of a patent for an invention shall not do
so if...it consists of the import, use, disposal or offer to dispose of, any patented
product obtained by means of a patented process or to which a patented process has
been applied, which is produced by or with the consent (conditional or otherwise) of
the proprietor of the patents or any person in
censured by him, and for this purpose "patent"
includes a patent granted to any country outside Singapore in respect of the same or
substantially the same invention as that for
which a patent is granted under this Act and
"patented product", "patented process" and
"licensed" shall be construed accordingly.

(Emphasis added)

In essence, according to s.66(2)(g), the parallel importation of patented goods is legitimate
as long as the goods have been made by the patentee or with its consent in the country
of manufacture. Section 66(2)(g) uses the "provisioning" theory as an alternative theory
which determines the exhaustion of rights. For example, X is a patent owner for the product A in
Singapore and Japan. X produces the product in Japan. Later, the product is marketed in
Malaysia. Then, a parallel importer picks up the product in Malaysia and imports it into
Singapore. Since the product has been legally produced by X in Japan, the
parallel importer does not infringe the right of X in
Singapore. Thus, based on s.66(2)(g), provided
they have been made legally by the patent owner
or with its consent, parallel imports are legitimate irrespective of where the first sale of the goods
takes place.

Under s.66(2)(g), provided goods have been legally made in the country of manufacture,
the consent of the Singapore patent owner to the
importation of the goods is not necessary.
This means that the fact that the patent in
Singapore and that in the country of
manufacture are owned by different persons is
not important. For example, the patent owner
X in the above-mentioned example assigns its
patent in Singapore to Y. Y now becomes a
new patent owner in Singapore. Consequently,
the patent in Singapore and that in Japan are
owned by different persons. This fact does not
provide Y with any defence to the application of the s.66(2)(g)-exhaustion principle.

The question of parallel import is first sold to the
patent owner or its licensee

According to s.66(2)(g), the production abroad with the consent of the patent owner is
sufficient to exhaust the Singapore patent owner's rights. This means that s.66(2)(g) makes no
distinction between goods produced by the patent
owner and those produced by a licensee. As a result, the Singapore patent owner cannot block the parallel importation of its patented goods occurring in a situation where the goods have been first sold by the patent owner or by its licensee.

Owning s.662(2)(g), Singapore has departed from its previous approach. Before the promulgation of the Patents Act 1994, the position of Singapore patent law on parallel importation was the same as that of the United Kingdom which differentiated between goods made by the patent owner and those made by a licensee. When the goods were made abroad by the Singapore patent owner, the parallel importation of the goods was legitimate. In the English case Batts v. Willmott (Batts), Lord Hatherley held that where the patent owner itself produced the goods abroad, the patent owner "transfers with the goods necessarily the licence to use them wherever the purchaser pleases." This means that the importer of the goods was given implied consent to deal with the goods. However, if the goods were produced by a licensee, the parallel importation of the goods into Singapore infringed the rights of the Singapore patent owner. This is especially true if the right of the licensee to market the goods was restricted to a certain market. In Sim Darby Singapore Ltd & Anor v. Burcham Group Ltd., the High Court of Singapore held that since the right of the licensee was confined to a certain foreign market, a purchaser of goods produced by the licensee could not bring the goods outside the market because the purchaser had no better right than the licensee. Now, the restriction of the rights of a licensee in a certain market can no longer be used to avoid the application of the exhaustion principle. Under s.662(2)(g), a patent owner's consent "conditional or otherwise" to the production of goods exhausts the owner's right to control any further dealing with the goods. Thus, any restriction of the right of a licensee cannot prevent the exhaustion of the owner's rights.

2. Underlying Rationale

In general, Singapore is of the view that its intellectual property laws should benefit its society and a policy allowing parallel importation is in line with this view. The government of Singapore also asserted that granting intellectual property owners the right to block parallel imports would enable the owners to monopolise the market. If parallel importation were prohibited, competition in Singapore would lessen and, consequently, the owners could set monopoly prices for their goods. The policy allowing the parallel importation of patented goods strikes a balance between ensuring cheaper prices and providing sufficient protection to patent owners. Section 66(1) of

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* (1871) L.R. 6 Ch App 239.

* Rail v. Batten (1871) L.R. 6 Ch App 219 at 245.

* (1963) 2 MLJ 161. See also Breach v. International Products (1968) RPC 129; Societé Anonyme des Fabricants de Glaces v. Tikhman's Patern Sons (India) Company (1883) 25 Ch. D. 1, CA.

* (1968) 2 MLJ 161 at 166.


* Section 66(1) provides: "(A) person imports a patented product... if... without the consent of the proprietor of the patent: (a) the invention is a product; he makes, dispenses, of, offers to dispose of, uses or imports the product or keeps it, whether for disposal or otherwise; (b) where the invention is a process, he uses the process or he offers it for use in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (c) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (d) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (e) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (f) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (g) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (h) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (i) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (j) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (k) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (l) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (m) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (n) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (o) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (p) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (q) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (r) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (s) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (t) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (u) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (v) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (w) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (x) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (y) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent; (z) where the invention is a process, he offers it for disposal in Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use without the consent of the proprietor would be an infringement of the patent."
Singapore's Patents Act 1994 clearly provides several actions that infringe the right of a patent owner. In other words, s. 66(4) confers on a patent owner the right to take action against anyone who has done any of those actions. Section 66(2)(g) which provides the exhaustion principle is only an exception to the provision in s.66(1). The effect is that while the Act protects the plaintiff owner's interest, it also protects the consumer interest by not allowing the owner to prevent the parallel importation of a patented product or a product made using a patented process that has been produced by or with the consent of the owner.

External Factors
Singapore has been the object of external pressure from the United States in relation to Singapore's policy on intellectual property laws. From 1995 until 1999, the USTR placed Singapore on the "Notorious 301" Watch List because of the country's weak intellectual property protection. However, the pressure focused on the problem of rampant piracy of copyright articles. There has been no external pressure which specifically relates to the issue of parallel importation.

That situation has made Singapore free to rely on the neutral position of the TRIPS Agreement and other international conventions on intellectual property rights including patents. Article 28(1) of the TRIPS Agreement clearly gives every member-state the discretion to take any direction in respect of the legality of parallel importation. It is true that Article 28(1) of the TRIPS Agreement deems the right to prevent unauthorised importation an inherent right of a patent owner. However, Article 28(1) itself also gives a member state the discretion to subject the right to prevent unauthorised importation to the exhaustion principle. In line with Article 28(1) of the TRIPS Agreement, s.66(1) of Singapore's Patents Act 1994 clearly provides a patent owner with the right to prevent unauthorised importation of patent articles. However, the right is subject to the exhaustion principle set out in s.66(2)(g) of the Patents Act 1994.

V. Malaysia
1. Legal Position
Malaysia allows the parallel importation of patented goods. This was first ruled in Smith Kline & French Laboratories Ltd v Saleem (Malaysia) Sdn Bhd (Saleem). In this case, VC George J. held:

...When the plaintiffs by themselves or by their associated company sell their patented product in, say, the United Kingdom, without giving effective notice of any restrictions in respect of the re-sale and the product is purchased by a Malaysian merchant by way of import... the law will imply the consent of the plaintiffs and its associated companies to undisturbed and unrestricted use of the patents which has been sold. Such implied...
His Honour stated that the implied consent theory applied in the situation of the case which meant that the defendants had implied consent to import the goods into Malaysia. This was so because, first, the patent owner and their associated companies did not give any effective notice of restrictive conditions against the export of the goods. In other words, their sale of their patented goods was without any limitation on any further dealing with the goods. In this situation, VC George J held that the use of the goods by their purchasers must be "undisturbed" and "unrestricted". However, it would appear that the patent owners would still be able to prevent parallel importation if there was an effective notice of the restrictions. On this issue, the position in Malaysia differs from that in Singapore. As pointed out above, under s56(2)(k) of Singapore's Patents Act 1994, any restriction of the right of a licensee imposed by the patent owner cannot prevent the exhaustion of the owner's rights.

Secondly, the implied consent theory applied because the patent owners or their associated companies had made the first sale of their patented goods. In arriving at this conclusion, his Honour referred to several cases including the United Kingdom Bets case. However, his Honour went beyond what had been strictly decided in the Bets case. In Bets, the implied consent theory applied because the first sale was made by the patent owner itself.

In Salim, "associated companies" were the licensees of the patent owners, which means that the first sale by the licensees also gave rise to implied consent for the defendants to import the goods into Malaysia. This position is sometimes cited in different cases where the defendants are held to have implied consent to import the goods. In the United Kingdom, for example, in Beecham v. International Products (Beecham), it was held that since the right of the licensee was confined to a certain foreign market, a purchaser of goods produced by the licensee could not take the goods outside the market because the purchaser had no better right than the licensee. In other words, no implied consent was inferred for the purchaser to sell the goods outside the market. In Hong Kong, Attorney General v. Welcome Foundation Ltd also stated the position in similar terms to that in Beecham. The Court held that the parallel importation of the drug "acyclovir" purchased by a licensee in Portugal into Hong Kong infringed the right of the patent owner in Hong Kong. The Court reasoned that the grant of a licence to the patent owner from the patent owner to the licensee to use the patent in Portugal passed from the patent owner to the licensee the rights which only extended to Portugal and the parallel importer "could have obtained no greater right, and in particular no right to deal with the goods in Hong Kong." Thus, the position in Salim demonstrates that Malaysia is more open to the parallel importation of patented goods than that of the other common law countries. This conclusion
is supported by s.37(2) of Malaysia’s Patents Act 19837 which provides:


7 Section 37(2) provides: “Where a patent is in force at the priority date of the patent application – (a) in good faith in Malaysia making the product or using the process which is the subject of the invention claimed in the application; (b) has in good faith in Malaysia made serious expenpions towards the making of the product or using the process referred to in paragraph (a), he shall have the right, despite the grant of the patent, to exploit the patented invention as though a patent were not in force in respect of the invention; ...”

7 Section 43(1) provides: “In the absence of any provision to the contrary in the licence contract, the licence shall be granted only any person or firm that is referred to in paragraph (a) of sub-subsection (3), and sub-subsection (3), of section 36 within the whole geographical area specified in the licence contract ...” The acts referred to are: “to exploit the patented invention,” for example, to make, import, sell or use the patented product.

7 Section 48 provides: “For the purpose of this Part— "beneficiary of the compulsory licence" means the person to whom a compulsory licence has been granted in accordance with this Part ...”


7 See note 67 and accompanying text.

7 See note 78 and accompanying text.

7 See note 79 and accompanying text.

7 See the discussion in section 4.1.

7 This section provides: “The making of the article shall be deemed to have been carried out with the consent of the owner referred to in subsection 3. If, after disregarding all conditions as to the use, disclosure of trade secrets in the article after its making, the article may be used with the licence (whether a compulsory licence) of emphasis added).

Thus, it is clear that Malaysia adheres to the international exhaustion principle.

Section 37(2) clearly states that the exhaustion of rights can be caused by the first sale which is made not only by the patent owner or its licensee but also by a prior part and the holder of a compulsory licence. As far as this is concerned, the exhaustion principle in Malaysia is broader than that in Singapore. In Singapore, it is only the production of patented goods by the patent owner or its licensee which can trigger the exhaustion of rights. Section 66(2)(g) of Singapore’s Patents Act 1994 does not say anything about the exhaustion of rights caused by production by a price user. In addition, although s.66(2)(g) does not expressly exclude a compulsory licence from the meaning of the "compulsory of the proprietor, it is difficult to speculate that the courts would go beyond s.28(4) of Singapore’s Copyright Act 1978 which excludes a compulsory licence from the meaning of the "compulsory of the copyright owner."
In relation to the first sale by a prior user, the question arises as to whether the Malaysian patent owner’s right is exhausted when the first sale is made by a foreign prior user in a foreign country. The answer is not clear especially when the patent owner in the foreign country is different from the Malaysian patent owner. However, based on s.37(2), if the patent owner in the foreign country is also the patent owner in Malaysia, the latter’s right is exhausted.

2. Underlying Rationale

The Minister of Domestic Trade and Consumer Affairs of Malaysia stated that the amendment of Malaysia’s Patents Act 1983 to allow parallel importation aimed “to encourage competition and a fair price for the product.” Thus, like Singapore, Malaysia favours a free market and hence allows parallel imports.

In Salim, VC George J. stated that where the first sale of patented goods was without restrictive conditions on the export of the goods, the use of the goods by their purchasers must be “undisturbed” and “unrestricted,” and, therefore, parallel importation of the goods into Malaysia was legitimate. The statement indicates that Salim used the principle of the free movement of goods to allow parallel importation.

In Salim, VC George J. followed the decision in National Photographic Co. of Australia Ltd. v. Monch (Monch). In Monch, “the general doctrine of absolute freedom of disposal of chattels” was applied in order to protect the interest of the buyer of goods that had been lawfully put on the market as well as to give business efficacy. Since the buyer can freely resell the goods at any competitive price, competition in the market will increase and, as a result, consumers will get the benefit in the form of cheaper goods and a wider choice of goods.

External Factors

Like Singapore, Malaysia has relied on Article 6 of the TRIPS Agreement which leaves the question of exhaustion up to each member’s own discretion. Based on Article 6, Malaysia is free to determine its own approach to the issue of parallel importation. Also, Malaysia’s position cannot be challenged based on other international agreements on patents since they are silent on the legality of parallel importation.

Malaysia’s Patents Act 1983 does not neglect the existence of Article 28(1) of the TRIPS Agreement. By complying with that Article, the Patents Act 1983 contains s.39(1) and (2) which confers on a patent owner the right to prevent unauthorised impor-
tion. However, since Article 28 negat states that the right is subject to Article 6. Article 37(2) of Malaysia's Patents Act 1983, which sets out the exhaustion principle, cannot be challenged.

From 1983 until 1991, Malaysia became the object of concern by the United States and was placed on a Special 301 Watch List because of the rampant piracy of copyright articles. Agan, in 2000, owing to Malaysia's failure to solve the problem of optical media piracy and the problem of a substantial backlog of intellectual property cases in the Malaysian courts, Malaysia was placed on the Priority Watch List. However, as in the case of Singapore, Malaysia's open policy on parallel importation has not attracted the attention of the United States. The logic of this is not clear in the light of the fact that the United States has challenged the relaxation of parallel importation in other countries, such as Australia and New Zealand. Since there is no external pressure relating to Malaysia's policy of parallel importation, Malaysia is free to take any direction in respect of the legality of the practice.

VI. How Should Indonesia Approach the Issue of the Parallel Importation of Patented Goods?

As demonstrated in section I, Indonesia's Patents Act 2001 confers on a patent owner the exclusive right of importation. This means that the owner can prevent the parallel importation of its patented goods. Relying on Article 118(1) of the Act, the owner can claim damages against parallel importers. Moreover, based on Article 130 of the Act, parallel importation is a criminal offence. Nevertheless, Article 135(a) of the Act exempts from the penal sanction provision in Article 130 an act of parallel importing of pharmaceutical products. However, the owner can still use Article 118(1) as a basis to claim damages against a parallel importer of pharmaceutical products. However, the questions that must be answered in this section are, first, whether or not Indonesia's general prohibition on the parallel importation of patented goods should be maintained. Second, whether or not the country's current policy in respect of the parallel importation of pharmaceutical products should be changed.

1. Should Indonesian patent law maintain its prohibition on parallel importation in general, parallel importation is preferable for Indonesia as a net importer of intellectual property products. In essence, parallel importation is beneficial to Indonesian consumers because it provides channels for the flow of cheaper genuine imports. In relation to patients, to protect the consumer interest and free competition, the ideal position for Indonesia should be that the country should allow the parallel importation of patented goods. It was reasonable therefore for the Indonesian Consumers' Association to suggest that the country apply its previous position in Article 21 of the former Patents Act 1989 which allowed parallel importation. However, consumer protection and free competition are only two of several factors necessary to be considered in determining a policy on parallel importation. For a net importer of intellectual property products, external pressure also

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* See note 30.
* This section provides: "The right under the patent shall not extend to acts in respect of products which have been put on the market..."
* "2012 Special Report, 10, 000, 000: http://www.state.gov/www/whitepaper/other/10,000,001.html".
* Also, Malaysia's policy on parallel importation has attracted the invasion of 'off-the-shelf' foreign companies in intellectual property products such as the EU and Japan.
* See note 11 and accompanying text.
constitutes an important factor which should be considered. In Indonesia, pressure from the United States has been so intense regarding Indonesia’s policy on the parallel importation of patented goods that it is difficult to overlook in view of Indonesia’s economic dependence on the United States. Therefore, the writer recommends that the Patents Act 2001 should maintain its general prohibition on parallel importation. However, for several reasons argued later, Indonesian patent law should allow the parallel importation of drugs in the sense that only should such importation be exempt from penal sanctions but it should also be provided that the first sale of patented drugs exhausts the patent owner’s right to prevent their parallel importation into Indonesia. Indonesia should maintain the provision in Articles 16(1) and 19 of the Patents Act 2001 which confer on a patent holder the exclusive right of importation. One important reason is that Indonesia’s policy on the parallel importation of patented goods has become an object of external pressure which it is difficult for Indonesia to disregard. Indonesia’s Patents Act 1989 had formerly allowed parallel importation but the Patents (Amendment) Act 1997 then changed the position and gave a patent holder the exclusive right of importation. External pressure from the United States constituted an important factor which contributed to the change of position. One of the reasons for the placement of Indonesia on the Special 301 Priority Watch List was that the former Article 21 of the Patents Act 1989 allowed parallel importation. Owing to the pressure in 1997, Indonesia amended Article 21 to give the patent holder of a patented process the right to take legal action against a parallel importer and amended Article 17 to confer on a patent holder the exclusive right of importation. This position has been retained in Article 16(1) and Article 19 of the new Patents Act 2001.

The situation in Indonesia is very similar to that in Taiwan where external pressure from the United States played an important role in Taiwan’s policy on the parallel importation of patented goods. Previously, Taiwan had adopted the international exhaustion principle. However, the United States insisted that Taiwan adopt the territoriality principle. As a final compromise

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90 So far, there has been no report regarding pressures from other developed countries such as the European Union and Japan on Indonesia’s policy on the parallel importation of patented goods.
91 Article 16(1) provides: “A Patent Holder shall have the exclusive right excepting his patent, and prohibits any other person who without his consent: a. in the case of a product patent: makes, sells, imports, rents, exports, delivers, uses, makes available for sale, or rental or delivery of the patented product b. in the case of process patent: uses the patented production process to make products, and commits other activities referred to in point a.” (Emphasis added).
92 Article 19 provides: “In the case of a product imported into Indonesia and a process by which the product is made has been patented under this Act, the Patent Holder of the said patented process shall have the right to implement an action on the imported product if the said product has been made in Indonesia by using the patented process.”
93 The earlier Article 21 provided: “The importation of patented products or products made by using a patented process by a person other than a Patent Holder shall not constitute a violation of these Patent rights, except for certain things determined by Government Regulation.”
95 See note 101.
96 See note 102.
97 The territoriality principle means that intellectual property rights in every country are separate and independent. Consequently, an intellectual property owner in a particular country always has the right to control the distribution of its products in that country.
between these two countries, the amended Article 576 of Taiwan's Patents Act provides that the territory of sale which can exhaust patent rights "shall be determined by the court according to the facts involved." Apparently, its economic dependence on the United States made it very difficult for Taiwan to ignore United States' pressure. In Taiwan, consideration of internal factors such as the protection of the consumer interest and free competition, which support the international exhaustion principle, cannot be used as a reason to reject United States' pressure, which prefers the territorial principle. Additionally, Taiwan is unable to use the neutral position of Article 6 of the TRIPs Agreement on the issue of parallel importation as a reason to resist pressure from the United States.

Like Taiwan, it is also difficult for Indonesia to disregard external pressure. Reasons such as the free market or consumer protection and Indonesia's view that intellectual property must benefit society cannot be used to reject external pressure that a patent holder should be given the right to prevent unauthorized imitation. Also, Indonesia cannot just rely on the TRIPs Agreement in determining its position on parallel importation without taking into account United States' pressure. This situation is primarily caused by Indonesia's economic dependence on the United States. Since 1980, Indonesia has been granted import privileges by the United States under the "Generalized System of Preferences" (GSP). Furthermore, since 1985, under the GSP, Indonesia can export certain products up to the value of US$23 million into the United States without having to pay import duties. This is very valuable for Indonesia and loss of these privileges would mean the loss of the opportunity to increase exports to the United States. Indonesia's economic dependence can also be seen from the balance of the country's trade in goods with the United States. In 1996, for example, Indonesia's trade surplus earned from the United States was US$1,734.19 million. In 1997, the surplus amounted to US$1,707.23 million. During an economic crisis, Indonesia's trade surplus with the United States increased. In 2000, for example, it was US$5,085.16 million, which constituted the highest value during the period.

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See the discussion in section 3.2 of this paper.


The Exploratory Memorandum to Agenda 21 of the United Nations Earth Summit of 1992 stated that Indonesia perceived the parallel importation of patented goods is under pressure relations on the importation of foreign products which could harm Indonesian consumers.

See Gustawa S. Stackeberg Hak Dok. Intelectual (Bandung: PT Eme, 1970) at 67.


Ministry of Industry and Trade, the Republic of Indonesia, Industrial and Trade Statistics, Jakarta, August 2001, at 37 and 131.

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importation unless the holder has implemented its patented process in Indonesia. 11

Nonetheless, Article 19 should be retained.

It is unfortunate that Article 19 of the
Patents Act 2001 is not explained in the
Explanatory Memorandum to the Act. However,
the Explanatory Memorandum to the amended
Article 21 of the former Patents Act 1989,
which is the same as Article 19 of the Patents
Act 2001, commented on the meaning of the
Article. According to the Memorandum, the
purpose of the amended Article was to avoid
any effort to restrict Indonesian people’s access
to foreign products that were necessary for the
“welfare of society.” The Memorandum stated
that the parallel importation of products made
by using a patented process could still be done
if the process had not been worked in Indonesia.
Thus, since it is very important for Indonesian
consumers, the provision in Article 19 of the
Patents Act 2001, which is the same as the
amended Article 2 of the now repealed Patents
Act 1989, should be maintained.

The United States has stated that the
provision in the amended Article 21, which is
now Article 19 of the Patents Act 2001, provided
weak protection for a patented product held from parallel importation. 12 However, it
is important to note that Indonesia has made
efforts to improve the protection of foreign

10 The significance of Indonesia’s favourable trade balance with the United States during 1998 - 2000 can be seen in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (US$ Thousand)</th>
<th>Import (US$ Thousand)</th>
<th>Balance (US$ Thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>7,203,071.05</td>
<td>3,277,555.56</td>
<td>3,925,515.49</td>
</tr>
<tr>
<td>1999</td>
<td>6,804,529.56</td>
<td>2,095,592.60</td>
<td>4,708,936.96</td>
</tr>
<tr>
<td>2000</td>
<td>4,475,186.20</td>
<td>2,083,001.26</td>
<td>2,392,184.94</td>
</tr>
</tbody>
</table>

See Ministry of Industry and Trade, the Republic of Indonesia, Industrial and Trade Statistics, ibid. at 171

Ministry of Industry and Trade, The Republic of Indonesia, Industrial and Trade Statistics, ibid. at 32 - 34.

12 See note 102.

13 See note 102.

14 The amended Article 21 provided: “In the case of the importation of a product made by using a patented process
under this Act, the Patent holder of the said patented process shall have the rights as provided for in Article 17 paragraph (c) to
implement a legal action in relation to the imported product if the said product was made in
Indonesia by using the patented process.”

15 See the United States Department of Commerce, “Indonesia”, note 117.
patent holders. For example, the *Patents (Amendment) Act 1997* cancelled a provision regarding automatic revocation for non-use of patents. Thus, a foreign patent holder will no longer have to worry about losing its patent because of its non-use. The effect of the amended Article 21 (the new Article 19) is only to accelerate the implementation of the patent and to avoid the patent holder's effort to restrict imports into Indonesian territory. In addition, according to Article 66(1) of Government Regulation No. 19 of 1990 regarding the *Patents Application Procedure*, the implementation of a patented process by the holder in neighboring countries to Indonesia can be deemed an implementation of the patented process in Indonesia because Indonesia and its neighboring countries are treated in a single market. Thus, the amended Article 21 (the new Article 19) does not harm the interest of a patent holder as long as it implements its patented process soon after the date it is granted; the Article is meant to strike a balance between the protection of the interest of the patent holder and that of society. In conclusion, Article 19 should be maintained.

1.2. Defence for innocent parallel importer

The present writer also recommends that Indonesian patent law should provide a defence for an innocent parallel importer. Therefore, the law should adopt the provision in Article 122(1)(e) of the former *Patents (Amendment) Act 1997* which gave a defendant an opportunity to defend itself against a patent infringement proceeding. In essence, an innocent parallel importer should be protected from a patent infringement proceeding.

1. The issue of parallel imports first sold by the patent owner or its licensee

As disclosed above, parallel importation of patented goods usually arises in two different situations. First, it may arise in a situation where the parallel imports are first sold by the patent owner. Secondly, it may occur when the parallel imports are first released by the owner's licensee. The question is whether Article 16(1) of the *Patents Act 2001* prohibits the practice occurring in both of these situations. There is no indication in the Act of how this question is to be answered. Article 16(1) is similar to s.73 of Hong Kong's *Patents Act 1997* which is silent on whether its prohibition on parallel importation applies to both situations. In Hong Kong, having regard to *Attorney General v. Wellcome Foundation Ltd.*, s.73 could be interpreted as prohibiting parallel imports first sold by a licensee. It remains uncertain whether s.73 applies to parallel imports first sold by the patent owner. However, Hong Kong's courts might follow the English case *Batts v. Willmott* which held that the patent owner could not prevent parallel imports

(1) The provision of automatic revocation for non-use was laid down in Article 94 of the former *Patents Act 1989*. According to that Article, the failure of a patent holder to use his patent in Indonesia territory within forty-eight months from the date it was granted would result in the revocation of the patent.

(2) This is so long as the products made to use the patented process are marketed in the territory of Indonesia and its neighboring countries. Additionally, based on Article 66(2) of the Government Regulation, to make use of Article 66(1), the patent holder must obtain an approval from the Ministry of Justice. In order to get the approval, the holder has to file a written application to the Minister. The Minister will issue the letter of approval after examining the application and consulting with other relevant officials.

(3) The former Article 122(1)(a) provided: "The District Court may reject a claim for damages including account of profits which should have been made, if the defendant can prove that he did not know or has strong reasons not to know that he/she/it had obtained a patent owned by someone else which is protected in Indonesia." There is no such provision in the *Patents Act 2001*.

(4) See discussion in section 2.1 of this paper.

(5) 1995-1 IHC 158; 1992 IHC LEXIS 316.

(6) See serius 2.1 number of this paper.

(7) (1977) LR 6 Ch. 339.

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first sold by the owner itself. In Indonesia, the position will depend on the interpretation by the court on a case-by-case basis. The writer is of the view that, like section 75 of Hong Kong’s Patents Act 1987, Article 16(1) of Indonesia’s Patents Act 2001 should also apply to parallel imports first sold by a licensee. In relation to parallel imports first sold by the patent owner, at this stage, owing to the intense pressure from the United States discussed above, it is not practical to adopt the caution in the Butts case. Thus, Article 16(1) should also apply to parallel imports first sold by the patent owner.

2. Indonesia should change its position on the parallel importation of pharmaceutical products.

As discussed above, the Patents Act 2001 exempts the parallel importation of pharmaceutical products only from the patent sanction provisions. The effect is that a patent holder may still Article 18(1) of the Act to claim damages against a parallel importer. Since the Act does not stipulate the basis which the holder can use in claiming damages, the scope of Article 18(1) is so broad that the law provides weak protection to the parallel importer. As a result, the intention of Indonesia to ease the parallel importation of pharmaceutical products, as mentioned in the ‘Applicability’ (Article 135A) of the Patents Act 2001, can be based on the provision in Article 11(3).

The present writer recommends that Indonesia change its current policy on the parallel importation of pharmaceutical products. The country should not just exempt parallel importation from the patent sanction provisions but should make the importation right of a patent holder exhausted after the first sale of its pharmaceutical products. The reason for this is as follows:

a. Consumer Protection: to reduce the price of pharmaceutical products

Indonesia should allow the parallel importation of pharmaceutical products in order to protect the interest of consumers who need cheaper drugs. The ‘Applicability’ (Article 135A) of the Patents Act 2001 itself states the purpose of the exception of the parallel importation of pharmaceutical products from patent sanction is to “guarantee that the prices of pharmaceutical products which are needed for the health of human beings are reasonable.” The reason provided by the Memorandum supports the writer’s view that the parallel importation of pharmaceutical products should be allowed. The price of imported drugs through authorized distributors in Indonesia is very expensive compared to many other countries. For example, an identical amount of the antibiotic amoxicillin, manufactured by SmithKline Beecham, costs US$46 in Indonesia while it is only US$2.68 in Pakistan, US$14.0 in Canada, and US$56 in the United States.17 The high price of drugs in Indonesia has created a situation whereby about 50 – 60% of Indonesia’s population cannot afford to buy them. If other words, about 80 to 90 million people in

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16 See section 2.1 number b of this paper.


18 See note 3.


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Indonesia have difficulty in purchasing necessary drugs to cure their illness.\footnote{This was stated by the Director of the World Health Organization for the Southeast Asia (WHO SEARO), Dr. Umi Mednyu Ratna, in a speech entitled “Demisialisasi Narkoba di Indonesia dalam Era Globalisasi,” at the University of Indonesia, Bandung, Indonesia on 21 July 2004. See “Secara 90 Juta Orang Sudah Terpapar Obat”, Phoenix Rotary, 21 July 2004 (<http://www.pikiran-rakyat.com/sumber/872604/1/230324.html>).}

It is reported that the pharmaceutical products which are parallel imported into Indonesia are purchased from India and are then sold in Indonesia, and this is illegal.\footnote{"Bidan PMI akan Buka Pelayanan Obat HIV", Kompas, 15 May 2001 <http://www.kompas.com/kompas/20010515/15/15594/516/8030/9.html>}

However, there is no report regarding the percentage of the difference between the price of parallel imported and those sold through authorized channels.\footnote{See "Sektor Farmasi Patut Didorong Otor Obat HIV", Indonews Nusantara Jurnal, 17 September 2001 <http://www.iitv.id/rttv-ho/news/100660954,1102,-/default.aspx> Unavailability, there is no report regarding the difference between the price of parallel imported drugs and those sold through authorized channels.}

Indonesia has difficulty in purchasing necessary drugs to cure their illness.\footnote{Susannahandhid, "Pembelajaran Bela Perkakas Otor Obat HIV/AIDS aktif 2004" Pada Perhimpunan 5. Lipang present- ed in a panel discussion held by the Indonesia Consumer's Association, Majelis Center, Jakarta, 25 April 2001.}

The TRIPS Agreement does not prohibit a member country from allowing the parallel importation of pharmaceutical products.\footnote{"Bidan PMI akan Buka Pelayanan Obat HIV," note (13). In 2001, the World Health Organization estimated that 12,000 people in Indonesia were infected with HIV. See ibid.}

It is reported that the parallel importation of pharmaceutical products is illegal.\footnote{""Pembelajaran Bela Perkakas Otor Obat HIV/AIDS aktif 2004" Pada Perhimpunan 5. Lipang present- ed in a panel discussion held by the Indonesia Consumer's Association, Majelis Center, Jakarta, 25 April 2001.}

The TRIPS Agreement does not prohibit a member country from allowing parallel importation. As mentioned above, according to Article 28(1) in conjunction with Article 6, although a potential owner has the right to control the importation of its products, a member country can subject the right to exhaustion principle in the sense that the owner loses the right after it has put its products on the market.\footnote{See note 20 and accompanying text.}

In relation to pharmaceutical products, this interpretation has been confirmed by the Declaration on the TRIPS Agreement and Public Health issued during the Fourth Ministerial Conference of the WTO in Doha, Qatar (9 – 13 November 2001). The Declaration states that the TRIPS Agreement cannot be used to challenge a policy allowing parallel importation especially of necessary drugs.\footnote{Syara A.O., "Public Health and International Law: TRIPS, Pharmaceuticals, Developing Countries, and the Other Solution" (2005) J. Int’L L. 47 at 34. The Declaration in number 6 provides: “The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights must be examined in each case. States should establish in each case regimes for such exhaustion without challenge.” See Syara A.O., ibid.}

Based on these facts, Indonesia could allow the parallel importation of drugs. Indonesia could adopt the principle that the first sale of drugs by a patent owner or with its consent exhausts its right to prevent any further dealing with the
products including their importation into Indonesia.\(^{10}\)

c. Indonesia can resist external pressure in relation to its policy on the parallel importation of pharmaceutical products. Indonesia could resist external pressure especially from the United States. Indonesia could argue reasons a and b mentioned above.

In addition, in the United States, there has been discussion on whether or not the United States should allow the parallel importation of pharmaceutical products.\(^{11}\) In the United States, a group of Congressional Democrats are pursuing the legalization of the parallel importation of medicines in order to reduce the price of medications especially to help the elderly. They propose to allow parallel imports of medicines from other countries such as Canada and Mexico if the price of medicines in those two countries is cheaper than in the United States.\(^{12}\) Furthermore, in the United States, public health and consumer rights advocates authored the U.S.-T.R. of public health consequences of its policy of opposing the efforts of other countries to widen their access to drugs. The advocates especially mentioned the increasing rate of HIV infection and death associated with AIDS in South Africa and suggested that the U.S.T.R. changes its attitude towards South African efforts, including parallel importation, so as to widen the country's access to AIDS drugs.\(^{13}\) There has been recognition that parallel importation may be needed to resolve the problem of the high price of drugs in order to help consumers.

There is a positive effect of that position. There is evidence that the United States is not pressuring other countries in relation to their policy on the parallel importation of pharmaceutical products. The former President Clinton, for example, recognized that intellectual property rights might cause a problem of access to drugs, and passed an Executive Order stating that the United States would not pursue the enforcement of intellectual property rights concerning patented AIDS drugs in South Africa where infringements made the drugs more readily available at lower prices.\(^{14}\) On 25 June, 1999, the former Vice President Al Gore sent a letter to Representative James Clyburn, Chair of the Congressional Black Caucus, supporting compulsory licensing and parallel importation in South Africa. In the fall of 1999, the USTR agreed to stop lobbying against South African legislation on compulsory licensing and parallel importation. President Bush has also made

\(^{10}\) In addition, Indonesia would be protected under Article 30(1) of the TRIPS Agreement which provides: "Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with the proper exploitation of the invention and that they do not unreasonably prejudice the legitimate interests of the patent owner..." This is the key in determining what is mean by "unreasonable conflict," "normal exploitation," "unreasonably prejudicial," and "legitimate interests." Accordingly, the creation of an alternative distribution channel for the dispensation of a life-saving drug that allows the holder to retain most of the rights granted under patent law would meet the standards of Article 10. Clearly, the policy allowing the parallel importation of pharmaceutical products in Indonesia would merely be an exception to the general prohibition on parallel importation under Article 14(1) of the Patents Act 2001 and a patent holder would retain all other rights under the Article.


\(^{12}\) Dolan Inc., note 151 at 137. In 2000, the Decherdnach introduced a number of bills to further reduce the costs of drugs for the elderly. These Congress members introduced bills that would: (1) entirely abandon the same rules that make preferred customers; (2) license drug companies to give up their patents if they charged too much for drugs; and (3) allow for parallel imports for medicines. See Dolan Inc., id.

\(^{13}\) Dolan Inc., note 151 at 142.

statements that support the attempts of South Africa to promote competition in its pharmaceutical market. Additionally, it is reported that the United States supported a proposal that developing countries could parallel import drugs produced under compulsory licensing which were needed to treat HIV/AIDS, malaria, tuberculosis and similar infectious diseases. The implication is that developing countries will be free to allow the parallel importation of certain pharmaceutical products without opposition from the United States. Based on these facts, the present writer is of the view that Indonesia could reject pressure from the United States regarding Indonesia's policy on the parallel importation of necessary pharmaceutical products aimed at addressing urgent public health needs.

3. To what extent should Indonesia allow the parallel importation of pharmaceutical products?

For the reasons stated above, Indonesia should alter the current position of its Patent Act 2001, which exempts the parallel importation of pharmaceutical products only from penal sanction provisions, and should adopt the international exhaustion principle. This means that, in relation to pharmaceutical products, the right of a patent holder of pharmaceutical products to control the movement of the products into Indonesia is exhausted after the products have been put on the market in any country. The patent holder is independent of the patent holder in Indonesia should not bar the application of the international exhaustion principle.

As discussed above, the parallel importation of patented goods can occur in a situation where the first sale of patented goods which are then parallel imported is made by the patent owner. The practice can also occur where the patented parallel imports have been first sold by a licensee. In relation to pharmaceutical products, Indonesia should adopt the following position:

a. The first sale of pharmaceutical products made by a patent holder

In the case of parallel importation of drugs occurring in a situation where the first sale has been made by a patent holder, Indonesia should follow the position in Singapore and Malaysia. In Singapore and Malaysia, in line with the decision in the English case Betts v Wellcome, the parallel importation of patented goods is legitimate if the goods were first sold by the patent owner because the first sale by the owner exhausts its right to control any subsequent dealing with the goods. If Indonesia follows these two countries, the parallel importation into Indonesia of pharmaceutical products first sold by a patent owner in a foreign country will be legal because the first sale in the country exhausts the right of the owner to prevent the importation in Indonesia.

The question arises as to what Indonesia's position should be if the patent owner in a foreign country is different from that which

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1. Gold S., note 140 at 618.
2. The proposal included a draft resolution (16 November 2002) by the TRIPS Council. In relation to pharmaceutical products, the TRIPS Council agreed to waive the requirement to grant patents to pharmaceuticals. The patent holder shall be "preferentially" entitled to the supply of the domestic market. The United States agreed to the principle only in respect of drugs to treat HIV/AIDS, malaria, tuberculosis, and similar diseases. See (France), "Access to Medicines and Pharmaceutical Patents", FindLaw-Lega ProEssayists <http://www.findlaw.com.au/.../patents-17774-0002-01-01-01-17774.html# Patent.
3. It is important to note that, so far, the United States has not committed to Indonesia's policy of exempting the parallel importation of medicines from the patent monopoly provisions in the Patent Act 2001.
4. (1871 LR 5 Ch App 229).
5. See section 4.1 and 5.1 of the paper.
Indonesia. In this case, Indonesia should follow Singapore. In Singapore, the parallel importation of patented goods is legitimate as long as the goods have been made by the patentee or with its consent in the country of manufacture. Following Singapore's position, Indonesia should allow the parallel importation of drugs first sold by an overseas patent owner which is different from the patent owner in Indonesia. In other words, Indonesia should determine that the first sale of drugs by an overseas patent owner exhausts the right of the patent owner in Indonesia although these two owners are in different persons. This means that an assignment of a patent on drugs in Indonesia cannot be used to avoid the application of the international exhaustion principle.

b. The first sale of pharmaceutical products made by a licensee In terms of the parallel importation of drugs first sold by a licensee, the present writer recommends that Indonesia should also follow Singapore and Malaysia which take the position that the first sale of patented goods by a licensee exhausts the right of a patent owner in these latter two countries to control any further movement of the goods. Therefore, it should be determined that the first sale of drugs by a licensee in a foreign country exhausts the right of the patent owner of the drugs in Indonesia so prevent their parallel importation into Indonesia. As mentioned above, Indonesia will parallel import drugs especially from India.

Since Indian patent law does not protect pharmaceutical products, if the products are manufactured within a patent owner's country, the question arises as to whether a parallel importer can be protected under the international exhaustion principle. The present writer is of the view that the parallel importer could not be protected by the principle since the patent holder in Indonesia will not receive any remuneration from the manufactory of the products in India. In Singapore, the position is that if parallel imports have been manufactured in a country where there is no patent owner, the parallel importer will not be protected under s.66(3)(g) of Singapore's Patents Act 1994. Therefore, the present writer recommends that Indonesia's Patent Act 2001 should allow the parallel importation of pharmaceutical products which are manufactured without a patent owner's consent.

The question also arises as to whether the international exhaustion principle will apply if the products are manufactured in India under a compulsory licence. It is important to note that the TRIPS Agreement does not prohibit the parallel importation of patented goods produced under a compulsory licence. It is true that Article 31(f) of the TRIPS Agreement provides that a compulsory licence shall be given "predominantly to the supply of the domestic market of the Member authorising such use". However, the use of the word "predominantly" indicates that the provision in Article 31(f) does not restrict the use of a compulsory licence for the production of goods for domestic use only: the
goods can be parallel imported. On 16 December 2002, the TRIPS Council prepared a draft solution to waive the "requirement" mentioned in Article 31(1). When the draft solution is agreed on, there will be confirmation that a developing country can parallel import drugs produced under a compulsory licence.

Based on these facts, Indonesia's parallel importation of drugs produced in India under a compulsory licence would not create a problem. In this case, Indonesia should follow Malaysia’s Patients Act 1983 which adopts the position that goods manufactured under a compulsory licence in a foreign country can be parallel imported into Malaysia. This is in order to realize the purpose of reducing the price of drugs as mentioned in the Explanatory Memorandum to Article 135(a) of Indonesia’s Patients Act 2001. In this case, Indonesia is not alone. It is important to note that the availability of generic drugs produced under a compulsory licence in India, Thailand, and Brazil has created an almost irresistible temptation for other developing countries to gain access to the generic drugs by parallel importation.

The question of parallel importation of pharmaceutical products involves complex policy issues. It embroils not only the issue of patent protection but also the issue of the efforts of poor countries to supply drugs necessary for their needy people as well as the concern about the human rights to health. Debates on these issues continue. These issues are beyond the scope of this paper and therefore are not dealt with.

VII. Conclusion

In relation to patents, ideally, as a net importer of patented goods, Indonesia should also allow the parallel importation of the goods. Nonetheless, to allow the practice in Indonesia is currently not practical. The present writer recommends that the Patients Act 2001 should maintain its prohibition on parallel importation except for pharmaceutical products. The reason is that Indonesia's policy on the parallel importation of patented goods has become an object of external pressure from the United States. Owing to its economic dependence on the United States, it is difficult for Indonesia to disregard this pressure. Indonesia cannot use such exports as the promotion of a free market or consumer protection. Indonesia's view that intellectual property must benefit its society and the neutral position of the TRIPS Agreement to reject pressure from the United States that prefers the territorial principle of patents. However, Indonesia should amend its Patients Act 2001 to provide an innocent parallel importer with an opportunity to defend itself against a patent infringement proceeding.

In respect of pharmaceutical products, Indonesia should change its current position which exempts the parallel importation of the products only from the penal sanction provisions. Indonesia should determine that the exclusive right of importation of a patent holder is exhausted when the products are put on the market in any country by the patent holder or with its consent. This is in order to assist about

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(1) Article 31(1) of the TRIPS Agreement provides that a compulsory licence shall be given "predominantly for the supply of the domestic market of the Member authorizing such use".

(2) See the discussion in section 3.1 of this paper.


90 million Indonesian people who have difficulty in buying the necessary imported drugs. Indonesia should contend that the TRIPs Agreement in conjunction with the Doha Declaration does not prohibit Indonesia from allowing the parallel importation of life-saving drugs. Using these two reasons, Indonesia should resist possible external pressure from the United States. This position is supported by an indication that the United States appears to be taking a more lenient approach to the efforts of developing countries to widen access to necessary cheap drugs including parallel importation.

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