

## THIRD DIVISION

[ G.R. No. 202900, February 17, 2021 ]

### SAO PAULO ALPARGATAS S.A., PETITIONER, VS. KENTEX MANUFACTURING CORPORATION AND ONG KING GUAN, RESPONDENTS.

#### D E C I S I O N

##### **HERNANDO, J.:**

This Petition for Review on *Certiorari*<sup>[1]</sup> challenges the February 10, 2012<sup>[2]</sup> Decision of the Court of Appeals (CA) in CA-G.R. SP No. 119379 which reversed and set aside the December 16, 2010<sup>[3]</sup> and February 28, 2011<sup>[4]</sup> Orders of the Regional Trial Court (RTC) of Manila, Branch 7, which denied the Motion to Quash Search Warrant Nos. 10-16378 to 81 and to Return the Seized Goods and Effects to the Owners filed by the respondents. The assailed July 10, 2012 Resolution<sup>[5]</sup> denied petitioner's Motion for Reconsideration.

##### **The Antecedents:**

Petitioner Sao Paulo Alpargatas S.A. (SPASA) is the owner and manufacturer of the footwear brand "Havaianas" and distributed by Terry S.A. Inc. in the Philippines. SPASA is also the registered owner of different marks, devises and logos of the brand "Havaianas" in the country.<sup>[6]</sup> Meanwhile, respondents Kentex Manufacturing Corporation (Kentex) and its president, Ong King Guan (Ong) own and manufacture the slippers or footwear with the brand name "Havana". Kentex's warehouses are located in the cities of Caloocan and Valenzuela.<sup>[7]</sup>

On August 12, 2010, the Director of the National Bureau of Investigation (NBI) received a letter-complaint from Hechanova Bugay & Vilchez Law Office, SPASA's legal representative, requesting for the NBI's assistance in the investigation and prosecution of entities which are engaged in the sale and distribution of fake "Havaianas" products bearing the same mark and designs.<sup>[8]</sup>

Pursuant to the letter-complaint, NBI Agent Terrence Agustin (Agent Agustin), along with Intellectual Property Manila market researchers, Lea Carmona and Winda San Andres Legaspi (investigation team), conducted an inquiry. According to their sworn affidavits, the investigation team went to several establishments and found footwear with markings "Havana" or "Havaianas" which closely resembled SPASA's "Havaianas" sandals/slippers and also bore SPASA's "Havaianas Rice Pattern Logo" and "Havaianas Greek Pattern Logo" marks. The investigation team discovered that Kentex manufactures the said products based on the team's observation of delivery trucks which were loading and unloading the said "Havana" and "Havaianas" products at Kentex's warehouse in Caloocan City.<sup>[9]</sup>

On September 6, 2010, Agent Agustin filed applications for search warrants against the respondents for violating Republic Act No. 8293 (RA 8293) on trademark infringement and unfair competition. During the ex-parte hearing, Agent Agustin submitted various samples of: 1) "Havana" slippers manufactured and distributed by the respondents; and 2) "Havaianas" slippers manufactured and distributed by SPASA. In addition, he presented the sworn affidavits of the members of the investigation team. In view of this, the RTC issued Search Warrant Nos. 10-16378 to 81<sup>[10]</sup> which covered Kentex's premises in the cities of Valenzuela and Caloocan.<sup>[11]</sup>

The implementation of the search warrants caused the seizure of respondents' products. Thus, respondents filed a Motion to Quash Search Warrant Nos. 10-16378 to 81 and to Return the Seized Goods and Effects to the Owners (Motion to Quash).<sup>[12]</sup> In support of their motion, the respondents submitted a Certificate of Copyright Registration<sup>[13]</sup> dated June 16, 1995 with the National Library for "Havana Footwear," which was registered on June 1, 1995. They also submitted their Trademark Application<sup>[14]</sup> for "Havana Sandals (Stylized)" filed on October 9, 2009, Application for Industrial Design No. 3-2009-000657<sup>[15]</sup> (for Slippers) filed on October 9, 2009, and Application for Industrial Design No. 3-2009-000658<sup>[16]</sup> (for Sole) filed on October 19, 2009 with the Intellectual Property Office of the Philippines (IPO).

SPASA filed its Comment<sup>[17]</sup> to the respondents' Motion to Quash and attached the following documents: 1) Certificate of Registration<sup>[18]</sup> of the mark "Havaianas" filed on December 2, 2002 (for a period of 10 years from November 20, 2005); 2) Certificate of Registration<sup>[19]</sup> of the mark "Havaianas" filed on June 19, 2007 (for a period of 10 years from January 21, 2008); 3) Certificate of Registration<sup>[20]</sup> of the mark "Havaianas" filed on December 5, 2008 (for a period of 10 years from May 4, 2009); 4) Certificate of Registration of the "Rice Pattern Logo"<sup>[21]</sup> filed on April 2, 2009 (for a period of 10 years from November 26, 2009); and 5) Certificate of Registration of the "Greek Pattern Logo"<sup>[22]</sup> filed on April 2, 2009 (for a period of 10 years from January 21, 2010).

SPASA also filed a Petition for Cancellation of the respondents' Certificate of Registration No. 3-2009-000657 for the industrial design entitled "Slipper"<sup>[23]</sup> as well as Certificate of Registration No. 3-2009-000658 for the industrial design entitled "Sole"<sup>[24]</sup> before the IPO as these were allegedly not new or original. Likewise, SPASA filed a Complaint<sup>[25]</sup> for Trademark Infringement, Unfair Competition, False Designation of Origin/False Representation and Damages with Prayer for Preliminary Injunction before the IPO against the respondents.

In its Order<sup>[26]</sup> dated June 1, 2012, the IPO granted SPASA's prayer for the issuance of a Writ of Preliminary Injunction. It ruled that SPASA established its clear and unmistakable right which needs to be protected. To allow the respondents' continuous operation using its copyright registration as a trademark would bestow undue benefit to the respondents and cause grave irreparable injury to SPASA in terms of profit and goodwill, as SPASA's "Havaianas" mark is duly registered with the IPO.

## **Ruling of the**

## **Regional Trial Court (RTC):**

In its December 16, 2010 Order,<sup>[27]</sup> the RTC denied the respondents' Motion to Quash. It noted that the preliminary investigation conducted by the city prosecutors against the respondents has no direct bearing in the determination of the merits of the application. The trial court found probable cause for the issuance of the search warrants, which was based on the finding that the products manufactured by the respondents bore a confusing similarity with SPASA's trademark registrations "Havaianas Rice Pattern Logo" and "Havaianas Greek Pattern Logo." Likewise, the font and style used in "Havana" bore a colorable imitation to SPASA's trademark, "Havaianas." The trial court further ruled that the assertion about the target consumers (low-end or high-end) strays from the point since the issue is whether the use of the mark would *likely* cause confusion to the buying public.<sup>[28]</sup> The dispositive portion of the trial court's assailed Order reads:

WHEREFORE, the *Motion to Quash Search Warrants Nos. 10-16378-81 and to Return the Seized Goods and Effects to the Owners* filed by respondents Kentex Manufacturing Corporation and Ong King Guan is **DENIED** for lack of merit.

SO ORDERED.<sup>[29]</sup>

The respondents asked for reconsideration<sup>[30]</sup> which the trial court denied in an Order<sup>[31]</sup> dated February 28, 2011. The respondents then filed a Petition for *Certiorari*<sup>[32]</sup> before the CA.

## **Ruling of the Court of Appeals:**

In its February 10, 2012 Decision,<sup>[33]</sup> the CA clarified that the RTC's Orders did not pertain to the orders for the issuance of the search warrants but to the denial of the respondents' Motion to Quash. When the respondents filed the Motion to Quash with the trial court, there was a need to reevaluate the facts to assess whether there was probable cause to uphold the search and seizure order. The appellate court found that the RTC ignored the respondents' position that they are engaged in a legitimate business and had every right to manufacture and/or distribute the confiscated "Havana" slippers.<sup>[34]</sup>

The CA held in the main that the respondents are the registered owners of the industrial design for their "Havana" products as shown by the industrial design registrations issued by the Director of Patents of the IPO.<sup>[35]</sup> The registration's cover pages showed that the registered owner has the exclusive right to make, use, sell or import the industrial design.<sup>[36]</sup> The CA ruled that to argue that a quashal is not proper because at the time of the issuance of the search warrants everything seemed to be in order would set a dangerous precedent.<sup>[37]</sup> Hence, pending all the *inter partes* proceedings, the property seized should not stay in a perpetual state of *custodia legis* and both parties should be given the right in the meantime to lawfully exercise their businesses until the issue of exclusive ownership has been resolved.<sup>[38]</sup> Finally, the appellate court held that a search warrant cannot be utilized for the

confiscation of an apparent legitimate right to pursue a livelihood.<sup>[39]</sup> The dispositive portion of the CA's assailed Decision reads:

**WHEREFORE**, premises considered, the instant petition for *certiorari* is **GRANTED** such that the assailed orders dated 16 December 2010 and 28 February 2011 issued by the Regional Trial Court of the City of Manila, Branch 7 are hereby **REVERSED** and **SET ASIDE** and the same court is hereby **ORDERED** to return to petitioners Kentex Manufacturing Corporation and Ong King Guan the properties seized under Search Warrant Nos. 10-16378 to 81 all dated 07 September 2010 with immediate dispatch.

**SO ORDERED.**<sup>[40]</sup>

Aggrieved, SPASA filed a motion for reconsideration<sup>[41]</sup> which the CA denied in a Resolution<sup>[42]</sup> dated July 10, 2012. Discontented, SPASA elevated the case before the Court via a Petition for Review on *Certiorari*<sup>[43]</sup> and raised the following issues:

I. The Honorable Court is respectfully called upon to review this case given the fact that the Court of Appeals has made pronouncements not in accord with the law, treaty obligations of which the Philippines is a signatory, and applicable decisions of this Honorable Court, and in order to prevent a manifest injustice.

II. The Court of Appeals decided contrary to the evidence on record when it refused to review and/or take into consideration the findings of fact of the lower court (RTC Manila Branch 7) in issuing the search warrants against the Respondents.

III. The Court of Appeals decided contrary to the IP Code and applicable decisions of the Supreme Court when it *completely* disregarded Petitioner SPASA's right as the *prior user and registrant* of the HAVAIANAS word marks, HAVAIANAS GREEK PATTERN LOGO, and HAVAIANAS RICE PATTERN LOGO, to enforce its rights to said registered trademarks issued by the [IPO];

IV. The Court of Appeals decided contrary to the IP Code and applicable decisions of the Supreme Court when it failed to apply the well-established doctrines in the field of intellectual property law such as "First-to-File" Rule, the tests of confusion which, are all incorporated in R.A. 8293, otherwise known as "The Intellectual Property Code;"

V. The Court of Appeals erred in ruling that Respondents' industrial design registration nos. 3-2009-000657 and 3-2009-0006 are still presumed to be valid pending the resolution of the cancellation proceedings (IPC Nos. 14-2010-002233 and 14-2010-002234) by the Bureau of Legal Affairs of the [IPO];

VI. The Court of Appeals decided contrary to law and applicable cases of the Supreme Court when it ruled that pending the resolution of the *inter partes proceedings* (petition for cancellation, IPC Nos. 14-2010-002233 and 14-2010-002234) of the industrial designs of Respondent Ong King

Guan, Petitioner SPASA's applications for search warrant are premature;

VII. The Court of Appeals decided contrary to law and jurisprudence when it ruled that the existence of probable cause can be negated by a defense of good faith or reliance [on] a seemingly valid certificate of design registration.<sup>[44]</sup>

The main issue is whether or not the Issuance of the subject search warrants is valid.

### **The Petition:**

SPASA argues that the appellate court's pronouncements are not in accord with the records of the case, the applicable law, and jurisprudence on intellectual property law.<sup>[45]</sup> It avers that its Motion to Quash should have prompted the CA to review the validity of the issuance of the search warrants, however, the appellate court refused to rule on the undeniable similarity of the marks of the opposing parties, and focused instead on the respondents' alleged valid industrial design registrations.<sup>[46]</sup> It asserts that the appellate court's decision is contrary to the Intellectual Property (IP) Code and jurisprudence when it disregarded SPASA's right as the prior user and registrant of the "Havaianas" word mark, the "Havaianas Greek Pattern Logo" and "Havaianas Rice Pattern Logo" to enforce its rights to said registered trademarks issued by the IPO.<sup>[47]</sup>

SPASA avers that Section 147 of the IP Code gives it the exclusive right to prevent all third parties who have not secured its consent from using signs and containers for goods which are identical or similar to its registered trademarks, where such use would likely result in confusion.<sup>[48]</sup> It adds that the CA should have applied the "First-to-File" Rule and the Dominancy Test.<sup>[49]</sup> SPASA's "Havaianas" trademarks were used and registered earlier than the respondents' industrial designs and that only SPASA is the holder of a duly issued trademark registration.<sup>[50]</sup> Further, respondents cannot claim that they have acquired "trademark rights" for their "Havana" mark pursuant to Copyright Registration No. O-95-571 which was registered with the National Library.

Moreover, SPASA argues that trademarks, copyrights, and patents are completely distinct and separate from one another and the protection afforded for one cannot be used interchangeably to cover items or works that exclusively pertain to others.<sup>[51]</sup> The "Havana" label which was secured by Ong's copyright registration for shoes and not for slippers, is not the same as the "Havana" mark which is the subject of the search warrants.<sup>[52]</sup> Also, a Certificate of Registration is not a proof of actual use.<sup>[53]</sup>

SPASA posits that Ong's industrial design registrations for the "Slipper" and "Sole" designs have no bearing in the determination of probable cause for the issuance of the subject search warrants.<sup>[54]</sup> Even if these industrial design registrations could be considered as proper grounds to quash the search warrants, SPASA's trademark registrations must still prevail because the industrial design registrations lack novelty and originality, which are requirements for registrability.<sup>[55]</sup> SPASA avers that its trademarks ("Havaianas" slippers) have been publicly known years prior to