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Russia
Unfair competition and parallel imports

Issues relating to trademark rights during the import of goods into Russia are crucial for companies seeking to enter the Russian market.

The Russian courts used to define ‘imports’ as a separate type of trademark use and did what they could to prevent goods from being imported without the rights holder’s permission or by an unauthorised importer, even if such goods were lawfully trademarked. This is because civil law treats intellectual property and means of individualisation as exclusive rights (Article 1229 of the Civil Code). These constitute a so-called ‘statutory monopoly’, meaning that the rights holder can itself decide how to use its intellectual property, including whether to prohibit or permit other persons to use it. Yet the absence of a prohibition does not mean that such use is permitted. The transfer of title to an item does not mean that a right to the intellectual property has been assigned or granted.

Thus, in settling civil law disputes associated with the import of goods into Russia when this is unsanctioned by the rights holder, the courts are primarily guided by whether the rights holder consented to the goods being placed on the Russian market – for example, by entering into a relevant licence agreement. If goods are imported for sale through official distributors, such imports are deemed to be legitimate even if there is no licence agreement between the distributor and the rights holder.

If goods are imported by someone other than the rights holder or someone who has not been licensed by it or without its consent, such imports are classified as illegal, no matter whether the holder’s rights have been infringed during the production or distribution of such goods outside Russia. This follows directly from Article 1484 of the Civil Code.

Thus, from the civil law perspective, unless the rights holder consents to the import of goods this constitutes an infringement of its exclusive rights, even when such goods have been legally marked and released onto the market outside Russia.

Exhaustion of rights

Exclusive trademark rights that cover a specific territory allow rights holders the opportunity to put their trademark-bearing goods on the market. However, for the sake of economic expediency, this monopoly should be limited and rights holders should not be given powers to control further promotion of goods on the market.

Russian law balances the interests of rights holders and others by means of the principle of exhaustion of exclusive trademark rights (Article 1487 of the Civil Code). According to this, the legal rights holder may not prohibit the use of its trademark by others if it has put the goods on the market itself or consented to this.

International doctrine and court practice set out two basic principles of rights exhaustion: national and international. Under the principle of national rights exhaustion, a trademark holder’s exclusive rights are deemed to be exhausted once the goods in question are placed on the domestic market. If such exhaustion is recognised in isolation from its territorial component – in other words, irrespective of the national market on which the goods have been placed – then the principle at issue is one of international rights exhaustion. In Russia, the national approach is applied.

In order for rights exhaustion to apply, the trademark-bearing goods must have been placed on the market by the rights holder itself or with its express consent. This condition also ensues from the above-mentioned territorial nature of exclusive trademark rights.

Meanwhile, the inherent contradiction between limited territorial rights and the globalisation of the world economy, which implies free movement of goods, has given ground to parallel imports.

The concept of parallel imports refers to lawfully manufactured goods, including ones lawfully placed on the market either in the country of origin or in another state, that are subsequently imported into other countries, normally through channels that exist alongside the official distribution network.

Rights holders face the issue of whether parallel imports are always legitimate and whether unauthorised imports of goods can be prevented by prohibiting a trademark's use by third parties, including imports of trademark-bearing goods into a country.

Parallel importers are known as 'grey importers' for good reason: not only because they defy the normal and transparent rules for conducting business, thus infringing on IP rights, but also because they deliberately break the law or abuse gaps in the law.

In the motor industry, for instance, parallel importers bring in vehicles without a so-called 'approval of vehicle type' for use on public roads. Not only do vehicle manufacturers suffer because of grey importers, but their licensees and official dealers are also affected. Such parties often invest much in market research, advertising, development of dealership and service networks – creating an infrastructure that the unofficial importers take advantage of.

The Customs Register

The Customs Register records trademarks, authorised importers and those permitted by the rights holder to place its goods on a specific market (Articles 393 to 400 of the Customs Code). If importers that are not listed on the register try to import trademarked products into Russia, Customs recognises these goods as counterfeit and seizes them. The Customs Register is an effective way of preventing the import of counterfeit products into Russia, since the Authorised Importer List on the Customs IP Register testifies as to whether imports of goods are sanctioned.

Trademarked goods imported by individuals or delivered by international mail in small quantities for personal, family, household or any other non-business purposes are not affected by this. Administrative law allows Customs to suspend imports and apply penalties, including the confiscation of illegally trademarked items (Article 14.10 of the Code of Administrative Offences). A court decision to hold an infringer liable is based on a lawsuit filed by the relevant customs officials.

Case law

Until recently, this administrative procedure appeared to be effective in preventing parallel imports, among other things, owing to a prompt response by Customs to communications from rights holders and its willingness to seize unsanctioned imports at the border. In considering customs lawsuits, the courts have been guided by the rule that the import of goods into Russia is a separate use of a trademark. Thus, should goods be imported without the rights holder's permission or by an unauthorised importer, they will be subject to seizure, even if the trademark was placed on the goods lawfully during manufacture.

However, on February 3 2009 the Presidium of the Supreme *Arbitrazh* Court examined (No 10458/08), by way of supervision, the unsanctioned import into Russia of a Porsche Cayenne S car in an unroadworthy condition by the company Genesis, which is not an official Porsche Cayenne S dealer. This case set a judicial precedent that has changed the approach taken by the courts to imposing the administrative liability contemplated in Article 14.10 of the Code of Administrative Offences when considering the customs cases.

LLC Porsche Cayenne Russland, which was licensed to use the PORSCHE and CAYENNE marks in Russia, reported the infringement in question to Central Excise Customs. This office in turn applied to the Moscow *Arbitrazh* Court, which ruled against Genesis, imposed a fine and ordered the vehicle to be confiscated on charges of administrative violation. Subsequently, Genesis filed a complaint with the Supreme *Arbitrazh* Court, which overturned the rulings of the lower instance courts and held that the confiscation was illegal on the grounds that the vehicle was not counterfeit. The court held that as the Porsche Cayenne S car had been manufactured by the holder of the relevant trademark and bore no signs of illegitimate trademark reproduction, there were no legal grounds for holding Genesis liable for importing the vehicle into Russia under Article 14.10 of the Code of Administrative Offences.

Another case, this time regarding the import of vehicle spare parts bearing the HONDA and NISSAN marks, had a similar result. The Vyborg Customs Office filed suit against a Russian company for confiscating vehicle spare parts imported into Russia by an unauthorised importer. However, on September 10 2008 the Moscow *Arbitrazh* Court dismissed the claim (Case A40-34264/08-94-320). Customs and the Japanese manufacturers' official Russian distributors claimed that the Russian company was making illegal use of the trademarks on the goods they imported. In March 2008 Customs seized the goods and applied to court for the Russian company to be held liable (under Article 14.10 of the Code of Administrative Offences).

It was proved in court that the imported spare parts were genuine Japanese-produced goods. The court ruled that:

- only counterfeit goods could be confiscated (Article 1515 of the Civil Code defines 'illegitimate trademark use' as attributable to counterfeit goods only); and
- the imported spare parts were genuine, so the trademark had not been infringed.

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This position was upheld by higher courts (award of the Ninth *Arbitrazh* Court of Appeal No 09 P-14817/200-AK of February 24 2009 and award of the Moscow Region *Arbitrazh* Court No KA-A40/4185-09 of May 21 2009).

In particular, the court of appeal cited the above-described approach by the Supreme *Arbitrazh* Court to resolving issues underpinned by the balance of private and public interest principle, which implies the restricted application of public law liability, including administrative, to civil law torts covering the infringement of trademark rights. The application of this principle implies the imposition of administrative liability only for deeds that pose a threat to the public interest, insofar as the objective aspect of the *corpus delicti* (the principle that a crime must be proved to have occurred before anyone can be convicted of it) as contemplated in Article 14.10 of the Administrative Offence Code, involves infringing a trademark right only with respect to the distribution of counterfeit goods, labels, goods packaging or objective signs of a threat to public interests.

Court practice

The courts have thus assumed a position that the liability envisaged in Article 14.10 of the Code of Administrative Offences does not apply to the import of goods that are not counterfeit within the meaning of Article 1515 of the Civil Code. Specifically, it does not apply to goods on which the trademark has been placed legitimately by the rights holder itself, even if the import of such goods was not authorised by the rights holder.

In spite of these judicial precedents, a rights holder can independently seek judicial protection of its exclusive rights in civil court proceedings claiming the unsanctioned import of goods into Russia. Although civil proceedings take much longer than administrative proceedings, the civil law procedure might prove to be quite an effective instrument for preventing parallel imports. Exclusive remedies allow the rights holder to combat unauthorised goods imports by third parties, including by banning the use of trademarks during the import into Russia of goods bearing such trademarks.

These judicial precedents have made parallel imports the subject of much discussion in business circles and there is controversy over the potential legislative solutions.

A decision on legislative amendments (in particular, over the switch from national to international rights exhaustion) should probably be taken, in light of both Russia’s existing obligations and the development prospects for international relations.

Russia has assumed certain obligations under the EU-Russia Partnership and Cooperation Treaty (June 24 1994). This sets up a partnership between the Russian Federation on the one hand, and the European Union and its member states on the other, to make better use of IP rights enforcement mechanisms to raise IP protection to the level found within the European Union.

Russia ought not only to recognise and protect IP rights, but also to ensure a certain level of such protection (as within the European Union).

Yet international IP protection treaties, such as the Paris Industrial Property Protection Convention and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), provide few ways to apply the principle of exhaustion of rights, including trademark rights. Article 6 of TRIPS makes the national legislature responsible for this.

Establishing a national exclusive trademark rights exhaustion principle would in no way contravene the Constitution or any international law or treaty (Constitutional Court Ruling No 171-O, April 22 2004).

The principle of exhaustion of rights on a territorial (regional) basis is crucial to EU integration. The European Union applies the regional rights exhaustion principle (ie, an exclusive trademark right is exhausted once the goods are put on the national market of any EU member state by the trademark holder or any other person it permits to do so). This principle, which applies throughout the EU common economic and customs territory, is similar to the national principle used in Russia.

The customs union of Russia, Belarus and Kazakhstan

The customs union between Russia, Belarus and Kazakhstan, which became effective on July 1 2010, will affect the state of affairs with regard to the exhaustion of rights principle. Given that no effective customs union is possible without harmonising the laws of its members in various areas, a number of international agreements between the union members are being drafted. One such agreement would cover intellectual property. While no draft agreement has been published so far, it is anticipated that one of the key provisions will be a new principle of IP rights exhaustion to be applied for all three states.

The new IP agreement will adopt a regional exhaustion principle, like that used in the European Union (ie, exhaustion will apply once the goods are placed on the market anywhere in the customs union – ie, Russia, Belarus or Kazakhstan). It remains to be seen how soon the new principle of IP rights exhaustion will be introduced in Russia and other countries of the customs union.

Conclusion

Russia appears to have developed an acceptable regulatory framework for parallel imports, making such imports an infringement under both civil and anti-monopoly law.

Court practice is, to a certain extent, shaped by the market, so it is still too early to forecast whether the courts' position will remain unchanged. Each case must be decided depending on the specific circumstances and the available proof.

To summarise, it is unsurprising that market players are scrutinising how Part IV of the Civil Code is applied. Many of the law's provisions are far from perfect and require modification, including at the legislative level. An official concept has now been developed for improving these provisions by using court practice to identify aspects of this section of the Civil Code in need of amendment and improvement.

Court enforcement practice is economically important for rights holders: if the courts interpret and apply the law uniformly, the outcome of potential disputes becomes easier to predict. The courts' approaches to settling exclusive right protection issues would help to address effectively the scope of the initial protection needed for exclusive rights and this, in turn, would facilitate IP portfolio management.

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Ekaterina Tilling heads Baker Bott's Moscow IP practice and has significant experience in complex investment projects involving different IP assets, as well as in negotiating and advising on various IP/IT transactions (eg, software development, franchising, IP assignment and licensing). She is also highly skilled in solving IP disputes in Russian courts of all levels. Ms Tilling is qualified as a mediator in international and community conflicts by the Conflict Resolution, Research and Resource Institute, Inc.