

Kazakhstan

Protecting trademark rights

A trademark is a powerful instrument when introducing goods onto the market. As such, trademarks make an attractive target for potential IP rights infringers worldwide.

With the advent of the market economy in Kazakhstan, breaches of trademark rights have become widespread and more sophisticated. The greatest number of infringing goods can be found among consumer goods such as alcoholic and soft drinks, medicines, clothing, household appliances, detergents and cosmetics.

Some of the famous trademarks most often targeted by pirates include COCA-COLA, FANTA, NESTEA and PIERRE CARDIN – a variety of goods infringing on registered trademarks are shown below.

No protection is available for unregistered trademarks; thus, it is vital that a trademark owner registers the trademark correctly in Kazakhstan. After registering a trademark, the trademark owner must guard against cancellation of the trademark on the grounds of non-use for three consecutive years from the date of registration, or three years prior to the filing of an application seeking cancellation of the trademark. A trademark is recognised as being in use when it is used by either the trademark owner or a licensee under a licence agreement.

Kazakhstan legislation sets out the following general remedies to protect IP rights:

- dispute settlement;
- administrative law protection;
- civil law protection; and
- criminal law protection.

Dispute settlement

In some cases a dispute over a trademark rights violation can be settled amicably (ie, without going to court) by sending warning letters to the offender and conducting negotiations.

Sometimes an infringer makes use of another party's trademark or a similar mark without knowing that the trademark is protected or realising that the use of a similar mark constitutes an infringement. In such cases, a warning letter sent to the infringer by the trademark owner is generally received positively and the infringement ceases.

Dispute settlement is an effective method of fighting trademark infringements and typically more than 50 per cent of disputes are settled amicably. This figure varies depending on the type of goods and the cost of dealing with the infringement: for example, around 60 per cent of cases involving soft drinks trademarks settle amicably, while the figure is around 30 per cent in the case of trademark rights relating to petrol stations.

The drafting of warning letters requires expert knowledge and experience in the field of IP rights protection and it is advisable to seek professional assistance in such cases. Past experience has shown that warning letters drafted by lawyers who are not experts in IP matters are often not properly worded in regard to the interpretation of the relevant legal acts, which may have a negative impact on the fight against infringement if an amicable resolution proves impossible.

Administrative law protection

Protection under administrative law can be obtained by filing an application with:



- the specialist administrative courts;
- the Anti-monopoly Committee; or
- the Customs Authority, followed by a dispute settlement in court.

Recently, administrative cases in the trademark law sphere have been assigned to specialist administrative courts; previously, such cases were dealt with by the financial police and law enforcement agencies.

Under the Code of Administrative Offences, the unauthorised use of another party's trademark or a similar mark for homogeneous goods or services is punishable by a fine and seizure of the goods bearing the unauthorised trademark, provided that the infringement has caused significant damage.

In order to prove that a trademark has been infringed, the court will consider:

- evidence provided by the trademark holder;
- the results of an inspection;
- an examination of the similarity of the goods to the infringed trademark; and
- any other relevant information.

According to court records, 1,609 cases of administrative offences were opened in 2007, with 320 of those cases falling under Article 145 of the Code of Administrative Offences, which deals with the unlawful use of another party's trademark. In the same year, 229,979 items and articles illegally bearing trademarks were seized, to a total of \$1.1 million. The fines imposed amounted to approximately \$170,000.

Following the national *kontrafakt* campaign against infringing goods conducted by the law enforcement agencies from October 28 2007 to November 18 2007:

- 407 inspections were conducted;
- 264 cases of administrative offences were opened; and
- 32,027 pieces of infringing goods with a total worth of \$140,000 were seized.

In the case of an imitation trademark which creates a risk of misleading consumers, a trademark owner can protect its right by filing with the Anti-monopoly Committee an application reporting a breach of the anti-monopoly legislation. However, in practice seeking protection from the Anti-monopoly Committee is not as effective as filing an application with the financial police, which are authorised to:

- open criminal cases;
- conduct criminal investigations;

- seize goods; and
- prosecute cases.

In addition, IP rights enjoy customs protection under the Customs Code. Such protection can be granted to goods involving a piece of intellectual property once they have been recorded in the Customs Register of Goods containing IP Items.

The Customs Code defines 'infringing goods' as goods containing intellectual property created or moved across the Kazakhstan border in breach of the owner's rights under national legislation. Accordingly, both pirated and original goods moved across the border without the owner's consent are regarded as infringing goods (also known as parallel imports).

The Customs Code provides that if indicators of piracy are found when goods are moved across the border, the Customs Authority may suspend the release of such goods for 10 days, which may be extended for another 10 days at the request of the rights holder. The Customs Authority will notify the trademark owner of the decision to suspend the release of goods.

In the case of parallel imports, the importation of goods by a person other than the licensee or official distributor may be regarded as a sign of piracy, provided that there is an exclusive licence for the use of the trademark or an exclusive distribution agreement. However, any exclusive licence for the use of a trademark must be registered.

Goods can be recognised as infringing only by court decision and only the court can decide the fate of infringing goods. Therefore, the trademark owner may file suit against the importer of such goods while a decision to suspend the release of the goods is in force. If the trademark owner does not file suit during this period, the goods will be released into circulation and in order to stop the infringement the owner will have to file separate suits against all traders engaged in the illegal distribution of the goods across Kazakhstan.

Following the enactment of the new Customs Code it took over a year to prove that a trademark owner may defend its rights at the border using customs action. Around 1,400 smoke-damaged Hyundai cars, acquired at scrap metal prices, had been illegally imported into Kazakhstan in breach of contractual rights. The illegal delivery was stopped by Hyundai Motor Company by it recording its cars in the Customs Register of Goods Containing IP Items.

Almaty Taxi LLP, the supplier of the damaged cars, contested the customs action and the Almaty City Court upheld the detention of the imported cars at the border.

Despite lengthy Supreme Court hearings, the lower court's decision was upheld and the Customs Authority received a valuable boost in its fight against IP rights infringers and, accordingly, clear-cut guidance for future operations.

To date, over 400 types of goods involving IP rights have been entered into the Customs Register of Goods containing IP Items. These include tobacco products, pharmaceuticals, toothpaste, alcoholic drinks and cars.

Civil law protection

The Civil Code provides that the following steps must be taken when a trademark right is infringed:

- The infringement must be discontinued;
- Economic losses suffered by the trademark owner must be reimbursed; and
- Where possible, the false trademark image must be removed from the goods or packaging. Where this is not possible, the goods are to be destroyed.

In addition, Article 970(1) of the Civil Code provides that IP rights can be enforced through:

- the seizure of physical objects that infringe exclusive rights;
- the mandatory publication of a notice of infringement naming the infringer; and
- any other methods prescribed by law.

Disputes between legal entities are settled by specialist inter-district economic courts, whose decisions may be contested in regional courts. If a court decision is not appealed, it comes into force 15 days after being issued; if a decision is appealed, it comes into force on the same date as the board of appeals issues its resolution in the case.

A supervisory appeal against a consummated decision may be filed with the Supreme Court within one year of the decision.

Considering all possible stages of appeal, a trial may take from six months to two years – the Hyundai trademark proceedings took around 18 months.

In 2006 and 2007 a number of civil cases were opened involving infringement of the rights of SPI Group in trademarks such as MOSKOVSKAYA, STOLICHNAYA and KREMLEVSKAYA. Kazakh distillery Maximus LLP produced vodkas bearing the MOSKOVSKAYA and STOLICHNAYA trademarks despite not being entitled to use those trademarks (as shown below). An application filed with the financial police was ineffective. Therefore, SPI Group lodged an action against Maximus LLP and a

first-instance court ordered that Maximus LLP stop using the trademarks. The ruling was upheld by an appellate court and the decision was enforced. As part of the decision, the pirated goods and labels bearing the MOSKOVSKAYA and STOLICHNAYA trademarks were destroyed. The litigation took around four months.

Unfortunately, despite existing judicial precedents, such cases come before the courts rarely, so to date there is little relevant court practice. However, if similar IP rights cases are heard by the same judge, disputes can be reviewed and settled more efficiently and promptly. For example, the judge who heard the *SPI Group Case* against Maximus LLP also heard a case involving infringement of the rights in the KREMLEVSKAYA trademark. Given the similarity of the two cases, it took the judge just one month to settle the dispute and his decision was not appealed.

Criminal law protection

Criminal law protection for a trademark right can be achieved by filing an application with:

- the financial police; or
- the Internal Affairs Agency.

Under Article 199 of the Criminal Code, the illegal use of another's trademark or a similar mark for homogeneous goods or services is punishable by detention for up to six months or correctional labour for up to two years, provided that the offence was committed repeatedly or caused major economic loss to the rights holder.

The following constitute grounds for initiating a criminal case:

- the illegal use of a trademark or a similar mark;
- the repeated illegal use of a trademark or a mark similar to it; or
- major economic loss suffered by a trademark owner due to the illegal use of the trademark (currently defined as damages of \$5,000).



It is hard to quantify the damage inflicted by an infringer upon a trademark owner. Therefore, when initiating a criminal case involving trademark infringement, the law enforcement agencies generally use a legal provision which prescribes criminal liability for consumer fraud but does not require them to prove the infliction of major economic loss.

Active operations aimed at tackling breaches of IP rights are conducted by the field offices of the financial police. Since early 2007 about 20 criminal cases have been opened in Astana alone.

During the *kontrafakt* campaign in Autumn 2007, counterfeit versions of Hugo Boss products, Head & Shoulders shampoo, Moment glue and Kiwi shoe polish, as well as pirated videotapes and DVDs, were found and seized. The equipment used to make such counterfeit products was also seized. For example, in the course of the inspections 500 boxes of tinned milk bearing a counterfeit Shadrinskoe label were seized – an entrepreneur had used the label of the popular brand for his own products, inflicting major economic loss on the trademark owner. The offender was convicted under Article 199 of the Criminal Code, which deals with the illegal use of trademarks.

A number of criminal cases have been initiated on the grounds of illegal use of trademarks owned by The Coca-Cola Company. For example, applications have

been filed with the financial police seeking to impose criminal liability on infringers which illegally produced soft drinks and sold them in bottles bearing the COCA-COLA, FANTA and SPRITE trademarks. As a result, criminal cases were instituted against the infringers, who were detained in custody. In one case the court sentenced the offender to a six-month prison term, while the other offenders were fined.

In addition, in some cases trademark infringements were stopped and the counterfeit goods destroyed before instituting a criminal case. Such cases were heard in administrative proceedings as at that time the Finance Police were authorised to deal with such cases through both administrative and criminal procedures.

For example, in 2005 many local distilleries produced vodkas bearing the MOSKOVSKAYA and STOLICHNAYA trademarks in breach of SPI Group's trademark rights. In 2005 and 2006 10 applications were filed with the financial police against infringers of the rights to the MOSKOVSKAYA and STOLICHNAYA trademarks. As a result, most of the distilleries ceased production of vodkas bearing these marks while the financial police were reviewing the applications. Some of the distilleries were brought to administrative proceedings and promised that they would no longer infringe the rights to the MOSKOVSKAYA and STOLICHNAYA trademarks.

As a result, counterfeit vodka bearing the MOSKOVSKAYA and STOLICHNAYA trademarks is no longer available on the local market.

This proves the effectiveness of protecting trademark rights through the financial police. However, the power to initiate administrative cases now lies with the specialist administrative courts, while in order to open a criminal case either repeated infringements or the major economic loss must be proven.

By law, the unauthorised use of a trademark on the Internet and other networks accessible to the general public is regarded as a breach of the trademark holder's exclusive rights. However, the relevant legislation is incomplete and there have been problems in resolving such disputes. Currently, trademark owners attempt to settle disputes involving the illegal use of a trademark in a domain name by way of warning letters, which do not always achieve the right results.

In most cases a company takes immediate steps once it finds out that its rights are being infringed. However, fighting infringement is a right rather than an obligation of the trademark owner. Sometimes the trademark holder takes no steps to stop infringement of its rights, fearing that the infringer will respond by invalidating the trademark registration on the grounds of non-use in Kazakhstan.



Failure of the trademark holder to take appropriate steps against the infringer in a timely manner results in the unchecked distribution of infringing goods in Kazakhstan.

State agencies seldom take the initiative in using the provisions of the Trademark Law to fight pirated goods. However, this is beginning to change. In addition, they

are likely to become more active once Kazakhstan accedes to the World Trade Organisation, particularly in the fight against counterfeit medications, foodstuffs and other goods where failure of trademark owners to take the appropriate steps may endanger public health.

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