

Navigating the Russian legislative maze

Despite announcing that it will again pursue an independent application for WTO membership, fundamental issues of trademark enforcement and IP protection in Russia still have not been addressed

Russia's bid for World Trade Organization (WTO) membership was recently thrown into doubt when Prime Minister Vladimir Putin said that the country would join only as part of a trade bloc with Kazakhstan and Belarus. Under the proposal, Kazakhstan, Russia and Belarus would seek to join the WTO at the same time and on equal terms, as members of a customs union. In late September 2009 the Russian government performed a U-turn and announced it would again pursue an independent application for membership, while continuing negotiations with Belarus and Kazakhstan to form a customs union. It is fair to say that the evolution of Russia's WTO accession has been characterized by such fits and starts for some 15 years.

The principal sticking point in discussions has been Russia's failure to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), the international agreement administered by the WTO which establishes minimum standards for IP protection and enforcement. At issue are certain shortcomings in Part IV of the Russian Federation Civil Code, which came into force on January 1 2008, and of the Russian Federation Customs Code (effective May 28 2003).

With Part IV in force, several important trademark-related issues remain, including inadequate provision to combat registry piracy, overprotection of domain names, insufficient protection of well-known marks, failure to honour prior trademark rights over subsequent appellations of origin, mandatory licence recordal, lack of opposition procedures, enforcement deficiencies and lack of *ex officio* powers for Customs.

Issues with Part IV

Part IV governs all forms of intellectual property, including trademarks, patents, copyrights and allied rights, trade secrets, company names and commercial designations. The legislation also establishes certain unified general principles and mechanisms for all forms of IP protection, including conflict resolution, enforcement and contractual relations.

Before the introduction of Part IV, substantial amendments had

been made to existing Russian IP laws and by late 2005 IP legislation had approached TRIPs compliance. Russia had also made significant progress towards joining other international treaties required for WTO accession, such as the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty. In early 2006, however, the Russian government introduced a draft of Part IV, characterizing it as a legislative initiative to consolidate Russia's IP laws and provide greater protection for rights holders. Responses from WTO member states, as well as Russian and international rights holder organizations such as the Coalition for Intellectual Property Rights (CIPR), were overwhelmingly negative.

Many felt that the proposed legislation would undo nearly 15 years of effort to bring Russia's IP laws into compliance with TRIPs and other international treaties. Despite domestic and international criticism, the Russian *Duma* passed Part IV in November 2006, just before the US-Russia bilateral summit between Presidents Putin and Bush. During the summit, a new US-Russia bilateral agreement was signed that included a side letter on IP commitments, requiring Russia to amend Part IV to bring it into TRIPs compliance and to enact several other legislative and enforcement measures before it would be admitted into the WTO.

Part IV necessitated an entirely new review of existing law by interested groups such as the Coalition for Intellectual Property Rights (CIPR) and several Russian domestic and international rights holder groups, as well as business, trade and consumer organizations. Rights holders legitimately complained that venues for public input into IP legislation and policy did not exist. In a positive move, the *Duma* constituted an IP Experts Council, consisting of private sector IP experts and practitioners, government officials and legislators, to review existing and proposed legislation. This group became a key conduit for public input on Part IV and other IP legislation. Late in 2008 the Russian government submitted amendments to Part IV and the Customs Code designed to bring this legislation into TRIPs compliance and provide *ex officio* authority to customs officials at border checkpoints (which was lacking in the existing Customs Code). The second readings of these bills were held in January and February 2009, respectively. As of late 2009, however, the third (and final) readings had not occurred.

But the picture is complicated by more than just trademark-related matters; political issues have also likely played a role in the accession process. Perhaps the most recent example was Russia's announcement that it had withdrawn its independent application for membership and

Trademark enforcement deficiencies

Some recent developments in court practice have raised concerns over trademark enforcement in Russia. While Part IV was intended to track the previous Law on Trademarks, it produced some disturbing new developments in terms of court practice.

One notable example is the position that courts have taken with respect to parallel (grey) imports. At the beginning of the 2000s, trademark owners could seek redress against grey goods in the courts within the principles of national exhaustion of trademark rights. Grey goods were generally equated with counterfeits, which allowed the application of all legal measures to parallel importers and distributors of grey goods.

However, some recent judgments of higher-level courts, favourable to parallel importers, have dramatically changed the enforcement climate. For example, in 2008 the Higher *Arbitrazh* Court overturned lower court decisions in favour of the trademark owner in the landmark *Porsche Cayenne* decision (Case 10458/08). In August 2009 the Moscow *Arbitrazh* Court ruled in favour of a parallel importer of trademarked auto parts in a suit filed by the Japanese trademark owner, Kayaba, Inc; the decision was upheld on appeal in September 2009. However, in July 2009, the St Petersburg *Arbitrazh* Court granted relief to German company Uvex against a parallel importer which was importing Uvex's products into Russia without authorization; again, this decision was upheld on appeal.

Given these inconsistent results, many trademark owners now face difficulties enforcing their rights not only against unauthorized shipments of branded goods, but often even against straightforward counterfeiting or trademark infringements. In the wake of *Porsche Cayenne*, some local courts have concluded that the unauthorized importation of branded goods into Russia should not be recognized as a separate type of trademark infringement. This has caused some courts to take a far more restrictive view of trademark violations.

It is not just brand owners that are unhappy with the courts' increasingly permissive attitude towards parallel imports – Russian

Customs has also publicly opposed any deviation from the national exhaustion standard, citing concerns about possible increases in the volume of counterfeit goods entering the marketplace. These developments also run counter to the remedies envisaged by Part III, Section 4 of TRIPs (border measures).

Customs measures are considered the most effective tool against the importation of counterfeits into Russia; but as elsewhere, Customs simply cannot physically examine imports at over 900 posts across the country. In Russia, the names of authorized importers are registered with Customs, along with pertinent information about each trademark. This system enables customs authorities to identify and suspend shipments from unauthorized importers. Many rights holders and experts believe that if these import authorization criteria were diluted by implementing an international standard of exhaustion, Customs' ability to trace counterfeit goods would be greatly impaired. As of the date of writing, a draft law is pending in the *Duma* designed to do exactly that.

As to criminal enforcement, while penalties for infringement have been strengthened in recent years, very few criminal cases reach court sentences. This is likely because of the high gross damage threshold (approximately \$8,500) required under the Russian Criminal Code for a trademark offence to become criminal. This threshold will probably need to be revised to comply with Article 61 of TRIPs, which requires member countries to provide access to criminal enforcement against trademark counterfeiters dealing in fakes on a commercial scale, without a showing of actual damage or sales reaching a particular threshold.

The rationale of Article 61 is based on the largely self-evident premise that proving sales of counterfeit goods is inherently difficult for government officials as well as IP owners. In practice, requiring such thresholds has created loopholes for counterfeiters, as well as unnecessary bureaucracy and costs for enforcers and IP owners.

intended to accede to the WTO via the customs union with Belarus and Kazakhstan. The response from the WTO and key member states such as the United States and the European Union was disbelief. This puzzling development (given certain bones of contention between Russia and Belarus concerning dairy imports and energy export prices, among others) now appears to have been shelved, with the Russian government subsequently announcing it would again pursue an independent application to the WTO while still negotiating with Belarus and Kazakhstan to form a customs union. Russian government officials have repeatedly underscored that WTO discussions on tariffs would need to be coordinated with Belarus and Kazakhstan, as tariffs are a central issue in the formation of the proposed customs union.

Since Part IV came into force, Russia's patent and trademark office, Rospatent, has promulgated most of the necessary bylaws and regulations. On March 26 2009 a joint plenary session of the Higher *Arbitrazh* Court and the Supreme Court (the two supreme judicial authorities) issued Resolution 5/29 on Issues Related to the Coming into Force of Part IV of the Civil Code. This set out guidelines for lower-level courts on the application and interpretation of Part IV. Despite serious lobbying on the part of rights holders and IP organizations, however, the following deficiencies of Part IV remain of concern.

Insufficient tools to combat registry piracy

Many IP owners have experienced increased problems with bad-

faith registrations by piratical third parties. Pirates typically file for an internationally famous mark which may not have been registered for certain goods or services in Russia, and then offer to sell the mark back to the legitimate owner – sometimes for exorbitant sums. Other tactics include attacking famous mark registrations for non-use in an effort to pave the way for their own infringing applications or trying to register the famous brand by adding a non-distinctive word. Legitimate brand owners which have not yet secured a ruling by Rospatent that their marks are well known (often a long, arduous and expensive process) are left without remedy to cancel these piratical registrations.

Globally famous brands that may not yet have obtained sufficient notoriety in Russia, or not yet have been registered or used for certain goods or services by the legitimate brand owner in Russia, are attractive targets for such trademark hijacking; as are newly created brands that have not yet been introduced into the Russian market, but are the subject of advance publicity.

Another consequence of registry piracy is that some trademark pirates seek to enforce their bad-faith registrations against the legitimate brand owner. While in many cases there may be grounds to challenge such registrations through cancellation actions before the Rospatent Chamber of Patent Disputes, these proceedings can take many months (or even years), and it is generally impossible to stay an infringement action pending a decision in a cancellation

action. While a recent revision to Part IV requiring “standing” to bring non-use actions may reduce such attacks going forward, it remains to be seen how effective this new requirement will be in practice. Part IV does not set out the criteria for standing and current regulations are somewhat sketchy and unclear. This revision affects not only infringers, but also good-faith users of the cancellation mechanism that may not wish to disclose their interest in a new brand due to confidentiality concerns. That said, Rospatent has made some progress in blocking piratical registrations of famous brands for goods or services that are dissimilar to the famous brand owners’ principal goods or services, based on the brands’ reputation and potential consumer confusion. As it now stands, however, Part IV does not provide sufficient tools for Rospatent to grant effective relief in such cases.

Too much or too little?

The overprotection of domain names continues to pose challenges for trademark owners. Part IV prohibits the registration of trademarks that are identical to previously registered domain names. Rejection of a trademark application on this ground is clearly inconsistent with current IP practice norms, which is why such a provision is absent from the IP laws of other countries. At present, anyone can register another rights holder’s mark as a domain name without examination for prior rights, and with little recourse in jurisdictions where the brand owner may not yet have secured registration. It is unclear how this internationally unprecedented provision came about, but it appears unique among the some 200 trademark jurisdictions in the world and must be remedied.

In contrast, there is insufficient protection of well-known trademarks. As required by Article 16 of TRIPs, Article 6*bis* of the Paris Convention and the WIPO Joint Recommendations Concerning Provisions of the Protection of Well-Known Marks, Part IV provides some protection for well-known marks, correctly imposing an ‘association’ standard such that a violation will be found regardless of the goods for which the junior mark is used. However, while Part IV protects against unauthorized use of a well-known mark, it does not prohibit the actual registration of marks that violate these broader rights when applications are filed for dissimilar goods and/or services, thus perpetuating a problem that existed under the previous Russian trademark law.

The inconsistent result is that such marks may be registered by Rospatent in violation of the well-known mark owner’s rights, only to be invalidated through an administrative or court action.

Article 16.3 of TRIPs provides that Article 6*bis* of the Paris

Convention shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect of which a trademark is registered where use of that trademark in relation to those goods or services would indicate a connection with the owner of the registered trademark, and the interests of the owner of the registered trademark are likely to be damaged by such use.

Article 6*bis* also provides for the refusal or cancellation of registration, and a prohibition on use, of a trademark that is confusingly similar to a mark that is considered by the competent authority of the country of registration or use to be well known in that country as the mark of a person entitled to the benefits of the convention and that is used for identical or similar goods. Article 16.3 of TRIPs provides that both the refusal or cancellation of registration and prohibition on use requirements of Article 6*bis* extend to dissimilar goods and services.

Part IV’s failure to extend protection of well-known trademarks to dissimilar goods and services at the registration stage is thus inconsistent with Article 16.3 of TRIPs.

Overprotection extends to appellations of origin

Further, while Part IV of the Civil Code generally applies the ‘first in time, first in right’ principle to trademarks, this does not protect prior trademarks from later-filed appellations of origin. A recently proposed amendment to bring Part IV of the Civil Code into compliance with the March 2005 WTO Panel Decision on geographical indications (which provides for equal treatment of appellations of origin and trademarks) was ultimately not introduced for consideration by the *Duma* and the situation thus remains. Articles 16.1 and 17 of TRIPs provide for the co-existence of trademarks and geographical indications in certain circumstances. That Part IV places appellations of origin in a stronger position than prior trademarks is inconsistent with TRIPs, as it fails to balance the interests of the relevant parties.

Issues also remain with regard to mandatory licence recordals. Under previous Russian trademark law, recordal was mandatory in order for a licence to be valid and for use by the licensee to inure to the licensor/trademark owner. The licence also had to include language to the effect that the quality of the licensee’s goods would not be lower than that of the licensor’s goods.

Part IV has introduced improvements in some respects: the ‘quality’ language is no longer required and under Article 1486, use of a mark may consist of use by the trademark owner or by a licensee or other party under the control of the trademark owner, without recordal. However, Article 1235(2) provides that without recordal, a licence agreement will not be deemed valid. Thus, for example, a trademark applicant that wishes to undertake business in Russia through licensed use of its mark cannot conclude a valid licence agreement with a business partner until registration is issued, since a licence cannot be recorded against a pending application. Moreover, for companies that do business under many different licences, recording each licence is not only burdensome, but sometimes impossible.

Given the substantial increase in global licensing activity in recent decades, virtually all commercially significant countries that previously required trademark licence recordal have either abandoned this requirement entirely or made it optional.

Moreover, Article 1489(2) establishes joint liability between the licensor and licensee. No other jurisdiction in the world provides for such liability, at least in trademark legislation. Licence recordal provisions are currently the subject of active discussion and proposed amendment, and it is hoped that Russia will join the rest of the international commercial community and abandon, or at least substantially modify, these requirements.

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Lack of opposition

Registration gives rise to very substantial rights, not least of which are the exclusive right to use a registered mark and the ability to prevent others from doing so. The absence of opposition procedures thus provides fertile ground for those seeking to register marks in bad faith before the legitimate owner has done so, and to reserve terms that are generic or highly descriptive in an embryonic technological field. It can take years to cancel such registrations, and in the meantime legitimate owners or users are precluded from using them while their validity is challenged. Examiners simply cannot have the market knowledge or technological know-how to identify such blocking terms on their own. Nor can they be aware of certain unregistered rights, such as trade names, copyrights or other commercial designations, which could constitute legitimate grounds for objecting to registration of a mark. Opposition procedures permit such rights to be asserted and considered prior to registration, which promotes the early, cost-effective resolution of potential conflicts, a more reliable trademark register, and fair and effective competition in the marketplace.

Even when infringements occur, enforcement is hampered by Customs' lack of *ex officio* powers. Amendments to bring Russian legislation into compliance with Article 58 of TRIPs, which provides for *ex officio* action by customs authorities, are still pending with the *Duma*. *Ex officio* powers allow Customs to act on its own initiative and suspend the release of goods where it has acquired *prima facie* evidence that an IP right is being infringed – even if this right has not been recorded with Customs. The third legislative

reading on these amendments has yet to be scheduled and the timing for adoption of the final wording is far from clear. What is clear is that such *ex officio* power would give customs officials the tools they need to enforce IP laws at the borders, thus stemming the influx of counterfeit goods; and that the current lack of such powers is directly inconsistent with TRIPs.

In sum, there are important substantive issues to be resolved before Russia accedes to the WTO, regardless of how the proposed customs union with Belarus and Kazakhstan develops. In addition to the above deficiencies in trademark protection and enforcement, a number of problems remain concerning patent and copyright legislation and data exclusivity, among other things. Naturally, if WTO accession is again on the table, all these questions are still to be resolved. Russia is well positioned to become TRIPs compliant and will achieve this if it adopts a proactive, thoughtful and effective approach to these outstanding issues. Don't be surprised, however, if there are some more fits and starts along the way. [WTR](#)

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