

PART II

TRADEMARK PROTECTION IN THE NEW CUSTOMS UNION BETWEEN RUSSIA, KAZAKHSTAN AND BELARUS

REGULATORY FRAMEWORK

MAY 2010

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Trademark Protection in Russia, Kazakhstan and Belarus

Baker & McKenzie

1.1. Trademark Protection at a National Level - Historical Background and Current Conditions

1.1.1. Russia

Until recently, there was a simple and effective mechanism in Russia to protect against parallel imports which was based upon the law and confirmed by the Supreme Courts and the Constitutional Court. However, in 2009 the Russian state commercial court - the Supreme Arbitrazh Court - fractured this practice.

1.1.1.1. General Provisions

Russian legislation on the protection of intellectual property is a detailed and well-developed set of rules. The fundamentals of the modern copyright protection had already been laid out in the Soviet Union; the system for the protection of industrial property in its current form (based on the exclusive nature of the rights) began to emerge in the 1990's, with the transition from the planned economy to the market economy.

The following may be protected:

- i) industrial property rights: inventions, utility models, industrial designs, trade secrets (know-how), trade names, trademarks and service marks, appellations of origin, commercial designations;
- ii) copyrights and neighboring rights;
- iii) other intellectual property (selection attainments, integrated circuit topographies etc...).

In Russia, intellectual property rights have been codified: the major legislation in the area of intellectual property is the Civil Code of the Russian Federation ("RF"). The fourth part of the Civil Code (in force since January 1, 2008) is devoted to regulating relations related to the results of intellectual

activity and the means of individualization which have been equated with them. In connection with this, separate laws regulating various institutions of intellectual property lost their effect.

Rules governing individual aspects of intellectual property are also contained in the following regulatory acts:

- The Customs Code of the RF of May 28, 2003 (Chapter 38 is devoted to measures to protect intellectual property when goods cross the customs border);
- The Code of the RF on Administrative Offenses of December 30, 2001 (infringements in the area of intellectual property are treated in Articles 7.12 and 14.10);
- The Criminal Code of the RF of June 13, 1996 (infringements in the area of intellectual property are treated in Articles 146, 147 and 180);
- Federal Law No. 135-FZ of July 26, 2006 "On Protecting Competition."

The exclusive right to the majority of industrial property objects, including trademarks, is provided on the basis of their registration.

The copyright pertaining to a work of science, literature and art arise from the fact of its creation. The origination and exercise of a copyright in Russia does not require registration of the work or compliance with any other formalities.

As a general rule, there is a ban on the use of results of intellectual activity or means of individualization without the consent of the rights holder⁽¹⁾. Violation of this rule entails civil, administrative and criminal liability.

The main government agency regulating the area of intellectual property rights (including the registration of intellectual property), is the Federal Service for Intellectual Property, Patents and Trademarks (*Rospatent*).

The principle of the supremacy of international obligations over domestic law is in effect in Russia, and this applies to the protection of intellectual property: if an international treaty contains provisions other than those set out in domestic legislation, the provisions of the international treaty prevail. The international treaties of the Russian Federation related to IP protection appear in *Exhibit 1*.

1.1.1.2. Trademark Protection - National Aspects

■ Historical Background and General Overview

In the Soviet era, trademarks existed and were used for marking goods and services on the basis of the Resolution of the Council of Ministers of the USSR of May 15, 1962 "On Trademarks" and the "Trademark Regulations" of June 23, 1962 approved by the Committee for Inventions and Discoveries of the USSR Council of Ministers. The exclusive right to use the trademark in its modern form was introduced into national legislation by the Fundamentals of Civil Legislation of the USSR and the Republics of May 31, 1991 and the Law of the USSR of 3 July 1991 "On Trademarks and Service Marks." The Law did not exist for long, it was replaced by the Law of the RF of September 23, 1992

⁽¹⁾ Art. 1229 of the Civil Code.

"On Trademarks, Service Marks and Appellations of Origin" (the "*Trademark Law*"), which, in turn, lost its force on January 1, 2008 with the entry into force of the fourth part of the Civil Code.

Legal protection is granted to a trademark on the basis of its registration (with *Rospatent*), as well as by international treaty (for marks that have undergone international registration with the International Bureau for the Protection of Intellectual Property under the Madrid Treaty).

A certificate for a registered mark is issued, which certifies the priority of the trademark and the exclusive right to the trademark in respect of goods specified in the certificate⁽²⁾.

The trademark owner has the exclusive right to use a trademark; no one may use the trademark for the goods which are protected without the permission of the trademark owner⁽³⁾. The code understands "usage" to mean the individualization of goods and services through a trademark which has been registered for these goods and services, in particular through placing the trademark on goods, including on the labels and packaging which is produced, offered for sale, selling, demonstrating at exhibits and fairs or is otherwise introducing into civil circulation on the territory of the Russian Federation or storage or transport for this purpose, or is importing into the Russian Federation; when performing work or providing services; and in documentation related to introducing the goods into civil circulation; and when offering goods (works, services) for sale, as well as in announcements, on signage and in advertising; on the Internet, including domain names and other means for addressing⁽⁴⁾. Moreover, the general rules of the Code (i.e., those related to any object of exclusive rights) also prohibit the following types of use, in particular: *the manufacture, distribution or other use, as well as the import, transport or storage of the material media in which the result of intellectual activity or means of individualization are expressed*⁽⁵⁾.

The trademark owner may provide another person / entity with the right to use the trademark within certain limits under a licensing agreement⁽⁶⁾, or transfer its rights completely to another person under a contract for the alienation of the trademark⁽⁷⁾. Such contracts must be registered with *Rospatent*, and they are invalid without registration.

■ Remedies for Trademark Infringements

As indicated above, in Russia, the infringements of the exclusive rights to a trademark entails civil, administrative and criminal liability.

Civil Law Measures

The basic rules on civil law liability for the infringement of exclusive trademark rights are established in Art. 1515 of the Civil Code of the RF. Based on the standards of this article, as well as the general provisions of the Code on the means for protecting the exclusive rights and civil law rights in general⁽⁸⁾, the trademark owner may make the following claims against an infringer:

- i) On the recognition of the exclusive rights;
- ii) On the suppression of actions which infringe the exclusive rights or which threaten to infringe upon them, in particular:

⁽⁸⁾ Art. 12, clause 1 of Art. 1252 of the Civil Code.

- the withdrawal from circulation and destruction at the expense of the infringer of counterfeit goods, labels, packaging products, on which the illegally used trademark or designation which is similar to the point of confusion has been placed; and/or
 - the removal of the trademark or designation which is similar to the point of confusion from the materials that accompany the performance of works or services, including documentation, advertising, and signage;
- iii) For compensation for losses;
- iv) By choice of the trademark owner - the payment of compensation instead of the compensation for losses:
- in an amount from 10,000 to 5,000,000 rubles (approximately from USD 350 to USD 170,000), determined at the discretion of the court based upon the nature of infringement; or
 - equivalent to twice the value of the goods on which the trademark has been unlawfully placed, or twice the value of the use of the trademark, determined based upon the price which is usually charged under comparable circumstances for the lawful use of the trademark.
- v) On the publication of the court decision on the infringement which has been committed with an indication of the actual trademark owner.

The General Part of the Civil Code also provides for the following special protection methods:

- The equipment, devices and materials used to commit an infringement or intended for such use may be seized and destroyed by court decision⁽⁹⁾;
- In the case of a repeated or gross infringement of exclusive rights, the court may render a decision regarding the liquidation of the legal person or the termination of a citizen's right to conduct business as sole proprietor⁽¹⁰⁾.

Administrative Liability

In Russia, the unlawful use of a trademark or designation similar to it for similar goods may entail administrative liability for the infringer under Article 14.10 of the Code on Administrative Offenses, in the form of:

- an administrative fine: for individuals in the amount of 1,500 to 2,200 rubles (approximately from USD 50 to USD 75), for officials of an organization - from 10,000 to 20,000 rubles (approximately from USD 350 to USD 700), for legal entities - from 30,000 to 40,000 rubles (approximately from USD 1050 to USD 1,400), and
- confiscation of the objects containing the unlawful reproduction of the trademark.

The Presidium of the Supreme Arbitrazh [*state commercial*] Court of Russia has explained⁽¹¹⁾ that liability also occurs for legal entities when they use another's trademark without checking whether it has

⁽⁹⁾ Clause 5 of Art. 1252 of the Civil Code.

⁽¹⁰⁾ Art. 1235 of the Civil Code.

⁽¹¹⁾ Clause 15 of informational letter No. 122 of December 13, 2007 "A review of the practice of arbitrazh [*state commercial*] courts in cases involving the application of intellectual property legislation"

been granted legal protection in the Russian Federation. In other words, the presumption of guilt of the offender in the form of negligence has essentially been established.

Criminal Liability

Criminal liability has been established⁽¹²⁾ for:

- The illegal use of another's trademark or designation similar to it for similar goods, if this action has been committed repeatedly or if it caused major damage - in the form of a fine of up to 200,000 rubles (USD 7,000) or in the amount of the income of the convicted person for a period of up to 18 months, or by compulsory work for a period from 180 to 240 hours, or by correctional labor for up to two years.
- The illegal use of a warning label for a trademark which has not been registered in the Russian Federation, if committed repeatedly or if it caused major damage - in the form of a fine of up to 120,000 rubles (USD 4,000) or in the amount of the income of the convicted person for a period of up to 1 year, or by compulsory work for a period from 120 to 180 hours, or correctional labor for up to 1 year.
- When the aforementioned acts are committed by a group of persons by prior conspiracy or an organized group - in the form of imprisonment for up to 6 years with a fine up to 500,000 rubles (USD 17,000) or in the amount of the income of the convicted for a period of up to 3 years or without such.

In Russia, only natural persons are subject to criminal liability, it is not applicable to legal entities.

1.1.1.3. Trademark Protection at Customs

An effective system of control over goods containing objects of intellectual property crossing the customs border appeared in Russia not long ago - in 2004 with the introduction of the new Customs Code. This was done, in particular, to harmonize the domestic legislation on the protection of intellectual property in accordance with international standards for Russia's entry into the WTO. The Customs Registry of intellectual property was established at that time. As of October 30, 2009, the registry included 1530 trademarks, more than half of which belong to Russian trademark owners. The trademarks included in the registry are effective mainly for the following types of goods: alcoholic beverages, cosmetics, confectionery, clothing and footwear.

The IP Customs monitoring procedure is prescribed by Chapter 38 of the Russian Federation Customs Code⁽¹³⁾. Russian IP customs monitoring works as follows: once a trademark is entered into the Customs

⁽¹²⁾ Art. 180 of the Criminal Code

⁽¹³⁾ The details of this procedure are regulated by the following sub-legislative acts:

- The Regulation on the Protection of Intellectual Property Rights by Customs Authorities, approved by order of the State Customs Committee of Russia No. 1199 of October 27, 2003;
- The Methodological Recommendations for the Qualification and Investigation of Administrative Offenses provided for by Part 1 of Article 7.12 and Article 14.10 of the Code on Administrative Offenses (infringement of intellectual property), sent by letter of the Federal Customs Service on No. 01-06/24387 of June 29, 2007;
- The Administrative Regulation of the Federal Customs Service for the execution of state functions in considering applications for the customs authorities to take measures related to the suspension of the release of goods, and for maintaining the Customs Registry of Intellectual Property (Exhibit to the Order of the Federal Customs Service of June 8, 2007 No. 714).

Register, information on authorized importers and the relevant protected trademarks is sent out to local customs posts; any shipment imported into Russia with a certain trademark by an importer other than those listed in the Customs Register is supposed to be detained. For trademarks in the Customs Register of Intellectual Property, it is standard operating procedure for the trademark owner to be notified of a suspicious shipment and for administrative proceedings to be initiated subsequently. Following administrative proceedings, customs transfers the administrative case regarding the unauthorized shipment to the appropriate local court. The customs unit involved acts as the plaintiff in the court proceedings, and the importer is the defendant, with the trademark owner usually involved as a third party.

From a practical standpoint, customs officers are able to detain shipments solely on the fact that the name of the importer does not appear in the Customs Register of Intellectual Property in connection with the relevant trademark, which appears on the imported products. This procedure is supposed to work both against gray (parallel) and counterfeit goods.

If the fact of the importation of counterfeit goods and / or parallel imports of goods is confirmed in court, then they are subject to confiscation using the procedure of administrative sanctions provided for by Art. 14.10 of the Code of Administrative Procedures.

Until recently, the customs authorities actively used this procedure against both the import of counterfeit products and against parallel imports. This practice and sanctions were very effective measures to protect the rights of trademark owners, because it made it possible for customs itself to investigate each case and, if necessary, to initiate an administrative case with the subsequent transfer of documents to court within the shortest possible time frame (no more than 20 days). At the same time, the trademark owner's representatives were often involved in this procedure as interested (third) persons. However, in 2009, the effect of this simple, well-functioning and efficient mechanism for parallel imports was effectively terminated as a result of decision of the Supreme Arbitrazh Court of RF in the so-called "Porsche case." See the details of the case and its impact on the practice of the customs protection of trademarks below.

Currently, Customs is not authorized to act ex-officio (in the understanding of the TRIPs Agreement⁽¹⁴⁾). The rule, which allows customs authorities to exercise authority ex-officio regarding goods suspected of infringing intellectual property without an application from trademark owners, will come into effect with the entry into force of the Customs Code of the Customs Union.

At the same time, the power of customs authorities to initiate cases on administrative offenses, to compile protocols regarding them and to send the documents to the court, do not depend directly on the inclusion of the trademark rights which have been infringed upon in the Customs Register. Even without an explicitly formulated principle of ex-officio powers in the legislation, the customs authorities actually have the opportunity to take action at their own initiative against goods imported into the Russian Federation which infringe upon trademark rights. However, due to the changing judicial

⁽¹⁴⁾ Article 58 of the Agreement on Trade-Related Aspects of Intellectual Property of January 1, 1995 is one of the fundamental documents of the WTO and establishes the minimum standards for the recognition and protection of the basic types of intellectual property of WTO member countries, and it provides that if Members require competent authorities to act on their own initiative and to suspend the release into free circulation of goods in respect of which they possess prima facie evidence that an intellectual property right is being infringed, then:

(a) the competent authorities may at any time seek from the trademark owner any information that may assist them in exercising these powers;

(b) the importer and the trademark owner shall be promptly notified of the suspension of the release of the goods into free circulation. In those cases where the importer has lodged an objection to the competent authorities against the suspension of the release of goods into free circulation, such suspension shall be carried out mutatis mutandis on the conditions set forth in Article 55 of the TRIPs Agreement;

(c) members shall release the state authorities and their employees from liability for appropriate judicial remedies only if they have acted or intended to act in good faith.

practice, these law enforcement powers are implemented by customs authorities de facto only for counterfeit goods, and not for parallel imports.

1.1.1.4. Rights Exhaustion System

■ The situation until 2002 - the national system in court practice

Up until 2002, the Trademark Law contained the rights exhaustion system⁽¹⁵⁾, but it *did not define* it as national or international exhaustion.

Nevertheless, since approximately the early 2000's, judicial practice proceeded to recognize a *national* exhaustion system and the *prohibition of parallel imports*, as infringing the exclusive rights effective in Russia. This system was clearly formulated by the Supreme Court of Russia when it considered the claim of the production cooperative "Lavash" to recognize as invalid the prescriptions of customs legislation, pursuant to which when purchasing excise stamps, an importer must confirm to the customs authorities the right to use a trademark (by presenting a certificate or license agreement). The RF Supreme Court did not find a breach of law in this requirement and left it in force. In support of this decision (supported by the Cassation Collegium), the Supreme Court stated the following⁽¹⁶⁾:

- For the purposes of the Trademark Law, a trademark owner is not entitled to prohibit the use of a trademark by other persons in relation to goods which have been introduced into commercial circulation directly by the owner of a trademark registered in the Russian Federation, or with its consent, *namely on the territory of the Russian Federation*;
- The norms of the laws of the Russian Federation being reviewed do not contradict the norms of the international treaties of the Russian Federation and oblige Russia to preserve and protect the exclusive rights of trademark owners;
- Ownership of goods purchased abroad marked with a trademark cannot be used with an infringement of the essentially primary exclusive rights of trademark owner;
- Thus, the direct introduction of goods into commercial circulation on the territory of other countries by a trademark owner (or with its consent) *cannot* be considered to be the introduction into commercial circulation on the territory of Russia (unless otherwise provided by an international treaty of the Russian Federation) and, consequently, in such cases, the owner of a trademark registered on the territory of Russian Federation, is *not deprived of the right to prohibit its use by others*.

■ Establishment of the national system in the law in 2002 and its development by the courts

In 2002, this gap in the law was eliminated; Art. 23 of the Trademark Law was amended to clearly articulate a national exhaustion system:

"Registering a trademark does not give its owner the right to prohibit the use of the trademark by others for goods that have been introduced into circulation on the territory of the Russian Federation directly by the trademark owner or with its consent."

⁽¹⁵⁾ Art. 23 of the Law of September 23, 1992 "On Trademarks, Service Marks and Appellations of Origin"

⁽¹⁶⁾ Decision of the Supreme Court of Russia No. Éàèà01-1671 of December 14, 2001, Ruling of the Cassation Collegium of the Supreme Court of Russia No. äÄä 02-100 of March 14, 2002

After this, Russian judicial practice has continued to assert a national exhaustion system and the ban on parallel imports, now relying on the norm set forth in law.

Thus in 2004, the Russian Constitutional Court (the highest authority for interpreting the law and resolving conflicts of laws) refused to examine the appeal of K-2 Ltd and the entrepreneur Buzulutskaya who deemed that the norms of the Law on Trademarks violate constitutional rights and freedoms. The reason for the appeal was the fact that administrative liability was imposed upon K-2 Ltd and the entrepreneur Buzulutskaya under Art. 14.10 Code of Administrative Offenses (see above *Administrative Liability* in item 0) for importing original (non counterfeit) cosmetic products into Russia marked with the trademark Nivea without the consent of the Russian Beiersdorf Ltd, to which the trademark owner (the German company Beiersdorf Aktiengesellschaft) had granted the license to use the trademark in Russia. In other words, the appeal was actually that the ban on parallel imports violated the constitutional rights and freedoms of citizens. The Constitutional Court found no infringement of the plaintiffs' constitutional rights and did not accept the appeal for review, indicating that⁽¹⁷⁾:

- The legal protection of a trademark in Russia is provided on the basis of its registration or through international treaties; the right to a trademark is protected by law; the trademark owner has the right to use the trademark and to prohibit the use of the trademark by others; no one can use a trademark which is protected in Russia without the permission of the owner; the trademark owner may grant the right to use the trademark to another person under a licensing agreement;
- A trademark owner's prohibition on the use of a trademark by others limits the rights of others to the extent necessary according to the Constitution to protect the health, rights and lawful interests of others (Ruling of the Constitutional Court of the Russian Federation No. 287-O of December 20, 2001);
- Besides which, the prohibition of such a means of using the trademark of the trademark owner as the importation of products marked with this mark into Russia is aimed at compliance with Russia's international obligations in the field of intellectual property and does not contradict the Constitution.

The Constitutional Court also pointed out that the circumstances of the case required review (which is outside its jurisdiction), in particular, of the existence of clear and unambiguous terms regarding their importation into the territory of Russia in the supply contracts, and, consequently, the fact of the consent of the trademark owner to the introduction of these products into circulation in this territory. The Constitutional Court thereby indirectly confirmed that the consent of the trademark owner to the import of goods to Russia is material to the determination of the legality of such imports.

Summing up the reasoning of the Supreme Court and the Constitutional Court of Russia in these cases, it can be concluded that the courts proceeded from the fact that:

- 1) The exclusive right to a trademark has a territorial nature; and
- 2) There are no grounds for the application of the international exhaustion of the exclusive right.

⁽¹⁷⁾ Ruling of the Constitutional Court No. 171-O of April 22, 2004 "On the dismissal of the appeal of limited liability company K-2 and citizen Victoria Buzulutskaya regarding the infringement of constitutional rights and freedoms by clause 2 of Article 4 of the Law of the Russian Federation "On Trademarks, Service Marks and Appellations of Origin"

Besides this decision of the Constitutional Court, there are a number of decisions of courts of various levels and regions which confirm the illegitimacy of parallel imports based on the reasoning given above⁽¹⁸⁾. The customs authorities had extensive practice in imposing liability upon parallel importers of original products under Art. 14.10 of the Code of Administrative Offenses.

Since January 1, 2008, the rule of the national exhaustion of rights has been in effect as per the wording of Art. 1487 of the Civil Code:

"The use of the trademark by others regarding goods that have been introduced into circulation on the territory of the Russian Federation directly by the trademark owner or with its consent is not an infringement of the exclusive rights to the use of the trademark."

With a certain difference in wording, the question of the exhaustion of rights is, in principle, resolved identically by the current provisions of the Civil Code and the old provisions of the Law on Trademarks. That is, at the current time, the Russian regulation of the exhaustion of rights (underlying the ban on parallel imports) has not undergone any changes at the legislative level. We note that when developing the fourth part of the RF Civil Code, discussions were held concerning what system – territorial or national – should be accepted regarding exhaustion of rights. The decision was made in favor of the national system, in particular, with the support of then Prime Minister Dmitry Medvedev. Now under discussion is the *Concept of Perfecting Section VII of the Russian Federation Civil Code, "Rights to the Results of Intellectual Activity and Means of Individualization,"* which was worked out in fulfillment of a commission from the RF President⁽¹⁹⁾, by the leading Russian specialists in the intellectual property field⁽²⁰⁾, likewise does not specify rejection of national exhaustion of rights in favor of international (although both versions were discussed). One of the goals of the Concept is *"to bring the provisions of the Civil Code of the Russian Federation closer to the regulation of the relevant relations in the law of the European Union"*⁽²¹⁾, and preserving the national system in Russian legislation (active in the EU as a regional one) is lawful *inter alia* because of that.

■ Turnaround in practice in favor of parallel imports in 2009 (after the "Porsche case")

Nevertheless, there was a shift in favor of parallel importers in Russian judicial practice in 2009. This shift originated with the Porsche case, which broke the practice of confiscating goods from parallel importers and received wide public attention. The circumstances of the case are as follows: Russian Customs authorities suspended customs clearance of a Porsche Cayenne that was purchased in Europe and was declared for customs clearance by an unauthorized Porsche distributor. The customs unit involved informed Porsche's representatives, and Porsche requested the initiation of administrative proceedings, since the car was imported into Russia without consent of the trademark owner. All three levels of Russian courts supported the position of the trademark owner and the customs authorities, ruling to fine the importer and confiscate the car. After losing the case, the importer filed a request for supervisory review with the Supreme Arbitrazh Court.

⁽¹⁸⁾ See e.g., Resolution No.F08-3390/05 dd. 03.08.2005 of the Federal Arbitrazh [State Commercial] Court of Severo-Kavkazsky Circuit (Hennessy trademark), Resolution No.KA-A40/13731-07 dd. 27.12.2007 of the Federal Arbitrazh [State Commercial] Court of Moscow Circuit (Schwarzkopf, Taft, Palette trademarks), Resolution No.A49-6220/2007 dd. 27.05.2008 of the Federal Arbitrazh [State Commercial] Court of Povolzhsky Circuit (Michelin trademark).

⁽¹⁹⁾ Decree of the RF President of 18 July 2008 No. 1108 "On Perfecting the Civil Code of the Russian Federation."

⁽²⁰⁾ Text of the Concept recommended for publication and discussion by the Council of the Russian President for codification and perfection of civil legislation by decision of 13 May 2009. The text can be found at http://www.privatlaw.ru/concep_intel.rtf.

⁽²¹⁾ Clause 1, Decree of the RF President of 18 July 2008 No. 1108 "On Perfecting the Civil Code of the Russian Federation."

On February 3, 2009 the Supreme Arbitrazh Court granted the interlocutory appeal of the unauthorized Porsche distributor and ruled that parallel imports are not to be equated with counterfeits (which was the previous approach of court practice favorable to trademark owners) and are not actionable by customs authorities.

The Supreme Arbitrazh Court of Russia substantiated its position in the Porsche case with the following arguments⁽²²⁾:

- The Court based its conclusion upon the wording of the sanctions in Article 14.10 "*the confiscation of objects that contain the illegal reproduction of the trademark.*" The court decided that since the PORSCHE CAYENNE S automobile was an original product, manufactured by the trademark owner of the identical trademarks, it does not contain any indications of "the unlawful reproduction of trademarks," and thus a person/entity cannot be held to liability under Article 14.10 of the Administrative Code for its import into the Russian Federation;
- Nevertheless, the court recognized that liability for the infringement of a trademark⁽²³⁾ is also possible when the infringement concerns *items that are not counterfeit.*"
- However, the court found that the measures of civil law liability (see above *Civil Law Measures* in item 0) are autonomous and sufficient remedies for the trademark owner in this situation. However, the application of measures of public liability (among which is administrative liability) for such an infringement is not justified, because public liability primarily protects public order, in particular, it is aimed at preventing trafficking in counterfeit goods.
- Based on the principles of respect for the balance between private and public interests and establishing administrative liability only for acts that threaten the public interest, the court ruled that an offense under Article 14.10 of the Code of Administrative Offenses covers only the trafficking of counterfeit goods, labels, and packaging, but not the original goods.

Despite the fact that judicial precedent is not formally regarded to be a source of law in Russia, the lower courts are guided by the practice of higher courts, and the Porsche case has undoubtedly influenced attitudes towards parallel imports. Moreover, practice shows that the courts go further, also denying protection of the rights of trademark owners in civil (arbitrazh) proceedings. A number of judicial acts have already been adopted by arbitrazh courts which deny trademark owners the protection of their rights. Thus, the Japanese manufacturer of automotive shock absorbers Kayaba Kogyo Kabushiki Kaisha was unable to obtain a court ban on parallel imports of their products marked with the registered trademarks Kayaba and KYB⁽²⁴⁾. The German company, which manufactures protective clothing under the UVEX trademark, was more successful in protecting its rights. It managed to ban parallel imports of its products⁽²⁵⁾, however, the imposition of administrative liability upon the importer under Art. 14.10 of the Administrative Code was denied⁽²⁶⁾.

In this situation, the customs authorities are abandoning the practice which had been developed earlier for imposing liability upon parallel importers (this practice is described in detail above in item 0). The only thing left to trademark owners is the ability to thwart an infringement of trademark rights

⁽²²⁾ Ruling No. 10458/08 of October 31, 2008 to transfer the case to the Presidium of the Supreme Arbitrazh Court of Russia, Decree of the Presidium of the Supreme Arbitrazh Court of Russia No. 10458/08 of February 3, 2009

⁽²³⁾ Art. 1515 of the Civil Code.

⁽²⁴⁾ Resolution of the Ninth Arbitrazh Court of Appeal No. A40-2255/09-51-27 of September 28, 2009.

⁽²⁵⁾ Resolution of the Federal Arbitrazh Court of the Northwest District No. F07-152/2010 of February 12, 2010 in case No. A56-20519/2009

⁽²⁶⁾ Decision of the Arbitrazh Court of St. Petersburg and the Leningrad Region of May 22, 2009 in case No. A56-10961/2009

at their own initiative by bringing civil law claims, and even then they are faced with difficulties and refusals (as indicated by the aforementioned case of Kayaba Kogyo Kabushiki Kaisha).

This trend is not absolute. Administrative liability was imposed upon the parallel importer of the Belgian house wares and kitchen appliances brand BergHOFF under a claim from the customs authorities; the original imported goods were confiscated and the importer was fined⁽²⁷⁾. This decision was appealed to the Supreme Arbitrazh Court (after the Porsche case), but the court found no grounds to review the case or to lift the sanctions imposed⁽²⁸⁾.

Such legal uncertainty and instability significantly worsened the position of trademark owners compared to the previous situation, where a position directed against parallel imports had existed and was in effect, both in legislation and in law enforcement practice (which was in full compliance with the legislation and supported by the Supreme Courts and the Constitutional Court).

The situation was to have been resolved by a joint clarification of the Supreme Court and the Supreme Arbitrazh Court of Russia, adopted in connection with the introduction of the fourth part of the Civil Code. Such clarifications are issued by the Supreme Courts within their areas of competency and are binding on courts. The draft was aimed at returning to the previous long-standing practice of a ban on parallel imports and contained the following clause:

"63. When reviewing cases on the infringement of the exclusive right to a trademark, the courts should bear in mind that: the import of goods marked with a trademark to the territory of the Russian Federation is an autonomous way to use this trademark (the autonomous authority of the trademark owner). At the same time, taking into account the provisions of Article 1487 of the Civil Code, unless the goods are imported for personal, family, household and other needs of individuals not related to the performance of business activity or for in-house use by a legal entity or individual entrepreneur, and the consent of the trademark owner whose trademark is protected on the territory of the Russian Federation to use the trademark in this way has not been received, such actions shall constitute an autonomous infringement of the exclusive rights to the trademark. A person who carries out the import of goods marked with a trademark to the territory of the Russian Federation for purposes other than those specified, but who did not receive the consent of the trademark owner to use the trademark in this manner is an infringer also when it did not itself put the relevant mark on the goods, and also when it acquired goods which had been put into circulation on the territory of a foreign state.

The imports of goods by an individual for personal, family, household or other needs unrelated to business activity with a trademark placed upon it does not fall under this rule.

Likewise, the import of goods marked with a trademark by a legal entity or individual entrepreneur for its own use and not for purposes of subsequent alienation does not fall under this rule."

As can be seen, if the ruling includes this text, it would not only resolve the issue of parallel imports, but would be fill a substantial gap in the legislation relating to the lack of regulation of the goods imported for personal use (which should still be resolved by supplementing the law).

Nevertheless, inexplicably, this item was not included in the final version of the clarification⁽²⁹⁾. It is known that representatives of the Federal Anti-Monopoly Service and the State Duma (parliament) as well as several judges testified against this clarification at the hearings of the Plenary Sessions of the

⁽²⁷⁾ Resolution of the Federal Arbitrazh Court of the Northwest District No. F07-152/2010 of August 22, 2008 in case N A56-20519/2007

⁽²⁸⁾ Ruling of the Supreme Arbitrazh Court of the RF No. 16420-08 of September 14, 2004

⁽²⁹⁾ Resolution of the Plenary Session of the Supreme Court and the Plenary Session of the Supreme Arbitrazh Court of Russia No. 5 / 29 of March 26, 2009 "On some issues arising in connection with the introduction of Part IV of Civil Code of the Russian Federation"

two Supreme Courts. It would seem that such a rule is needed for the effective protection of the rights of trademark owners in accordance with the legislatively established the national exhaustion system.

1.1.2. Kazakhstan

Kazakhstan currently seems to have the weakest level of trademark protection among the three members of the new Custom Union.

1.1.2.1. General Provisions

Kazakhstan began to introduce a national system for intellectual property protection in 1992-1993. The rights to intellectual property objects in Kazakhstan include:

- i) industrial property rights (including inventions, industrial designs, utility models, trademarks, service marks, appellations of origin, etc.), as well as
- ii) copyrights and neighboring rights.

The foundation of the entire legislative system in the field of intellectual property protection is the Republic of Kazakhstan Civil Code (hereinafter - the "Civil Code"). The general part of the Civil Code was adopted on December 27, 1994 and it did not contain detailed regulation of intellectual property issues. The Special Part of the Civil Code containing a special section dedicated to intellectual property was adopted on July 1, 1999.

In addition to the Civil Code, intellectual property issues are regulated by special laws. In particular these are the:

- 1) Law of the Republic of Kazakhstan "On Trademarks, Service Marks and Appellations of Origin" of July 26, 1999 (hereafter - the "Trademark Law");
- 2) Law of the Republic of Kazakhstan "On Copyright and Neighboring Rights" of June 10, 1996;
- 3) The Patent Law of the Republic of Kazakhstan of July 16, 1999;
- 4) Law of the Republic of Kazakhstan "On the Protection of Selective Breeding Results" of July 13, 1999;
- 5) Law of the Republic of Kazakhstan "On the Protection of Integrated Circuit Topographies" of November 22, 2001;
- 6) Code Republic of Kazakhstan "On Administrative Offenses" of January 30, 2001;
- 7) The Criminal Code of the Republic of Kazakhstan of July 16, 1997.

The main government agency regulating the area of intellectual property rights (including the registration of intellectual property), is the Committee on Intellectual Property Rights of the Ministry of Justice of the Republic of Kazakhstan (hereinafter - the "Committee on Intellectual Property").

Kazakhstan is a "first registration" jurisdiction (not a "first use" jurisdiction). This means that the exclusive right to industrial property rights such as trademarks is provided on the basis of their registration in the Republic of Kazakhstan, not on the basis of their use.

The copyright on a work of science, literature and art arises from the fact of its creation. The origination and exercise of copyright does not require the registration of a work, other special documentation or compliance with any formalities.

From the moment that exclusive rights are provided for an intellectual property object, any use of such object without the permission of the owner is prohibited and entails administrative, civil and criminal liability.

The supremacy principle of international obligations over domestic law is in force in Kazakhstan, and this also applies to the protection of intellectual property: if an international treaty contains provisions other than those set out in domestic legislation, the provisions of the international treaty prevail. Kazakhstan's international treaties related to IP protection are given in *Exhibit 1*.

1.1.2.2. Trademark Protection - National Aspects

■ Background and General Provisions

Legal protection of trademarks was first introduced into national legislation by the Fundamentals of Civil Legislation of the USSR and the Republics of May 31, 1991. This act, however, did not adequately regulate trademark protection. In particular, it contained only one article devoted to this issue, which established the general rule that only a trademark owner may use a registered trademark in Kazakhstan.

The Law "On Trademarks, Service Marks and Appellations of Origin" (hereinafter - the "Trademark Law of 1993") was adopted in Kazakhstan on January 18, 1993. This Law resolved various aspects of the legal protection of trademarks for the first time at the legislative level.

The Fundamentals of Civil Legislation and the Trademark Law of 1993 lost force in Kazakhstan in 1999 with the adoption of the Civil Code and the current Trademark Law. These acts define the legal regime for trademarks today.

The Civil Code and the Trademark Law contain rather detailed regulation of trademark protection issues. In accordance with these acts⁽³⁰⁾, a trademark owner has the exclusive right to use and dispose of its mark. Trademark usage refers to any introduction into circulation thereof: the manufacture, importation, possession, offering for sale, sale of a trademark or product designated by this mark, its use in signage, advertising, printed materials or other business documents.⁽³¹⁾

The right to use a trademark may be granted by a trademark owner under a license agreement⁽³²⁾. Also, the trademark owner can fully transfer its rights to another person/entity pursuant to a sales agreement concerning the trademark⁽³³⁾. Such contracts are to be registered with the Committee on Intellectual Property, and they are invalid without such registration.

It should be noted that the legal protection of trademarks in Kazakhstan is provided on the basis of its registration or without any registration on the basis of international treaties to which the Republic of Kazakhstan is a party⁽³⁴⁾. Registration takes place with the Committee on Intellectual Property or International Bureau for the Protection of Intellectual Property under the Madrid Agreement. A certificate is issued for a registered mark which certifies the priority of the trademark and the exclusive right to the trademark for the goods specified in the certificate.

⁽³⁰⁾ Clause 1 Art. 1025 of the Civil Code.

⁽³¹⁾ An identical definition is provided in clause 6) of Art. 1 of the Trademark Law.

⁽³²⁾ Clause 2 of Art. 1030 of the Civil Code.

⁽³³⁾ Art. 1029 of the Civil Code.

⁽³⁴⁾ Clause 1 of Art. 1024 of the Civil Code.

■ Remedies for Trademark Infringement

The unauthorized introduction of a trademark into civil circulation is an infringement of the trademark owner's rights⁽³⁵⁾ and is considered to be unfair competition⁽³⁶⁾. Moreover, Kazakh legislation provides various types of legal liability for such introduction of a trademark into circulation.

■ Civil Law Measures

The basic rules on civil law liability for the infringement of exclusive trademark rights are established in the Civil Code.

First, the Civil Code provides the general rule under which a person/entity who/which unlawfully uses a trademark is obliged to discontinue its use and to compensate the trademark owner for the losses related to the unlawful use⁽³⁷⁾. These losses consist of the following:

- i) expenses that are incurred or which would be incurred by the person/entity whose right has been infringed, and the losses of or damage to its property (real damage);
- ii) income not received which would have been received under normal conditions of circulation, had there been no infringement (lost profits)⁽³⁸⁾.

Second, the copyright owner can make a claim for the destruction of unlawful reproductions of the trademark, as well as the removal of the unlawfully used trademark from a product or its packaging. If these requirements cannot be met, the goods concerned must be destroyed⁽³⁹⁾.

Third, trademark rights may be protected in other ways, including recognition of the exclusive rights to a trademark, publication of information on infringement of trademark rights, and removing the concerned goods from circulation, etc...

■ Administrative Liability

The unlawful use of a trademark entails the imposition of administrative liability in the form of a fine for individuals up to an amount of approximately USD 470, as well as fines for legal entities up to an amount of approximately USD 940⁽⁴⁰⁾.

As noted below, Kazakhstan lacks full clarity as to whether importing goods without the trademark owner's consent constitutes the illegal use of a trademark. However, even if the answer to this question is affirmative, as mentioned above, administrative liability for such importation will be limited to nominal fines, which can hardly serve as an effective deterrent to "parallel imports."

Confiscation of the relevant goods could comprise a more effective mechanism. However, Kazakh legislation prescribes administrative liability in the form of confiscation of goods only for those goods which contain an unauthorized representation of the trademark, i.e. the goods upon which the trade-

⁽³⁵⁾ Art. 43 of the Trademark Law.

⁽³⁶⁾ Sub-clause 1 of Art. 2, Art. 16, and Art. 17 of the Law of the Republic of Kazakhstan "On Competition" of December 25, 2008.

⁽³⁷⁾ Part 1 of Art. 1032 of the Civil Code.

⁽³⁸⁾ Art. 9 of the Civil Code.

⁽³⁹⁾ Parts 2, 3 of Art. 1032 of the Civil Code.

⁽⁴⁰⁾ Art. 145 of the Code of the Republic of Kazakhstan "On Administrative Offenses," of January 30, 2001

mark is depicted illegitimately (with subsequent destruction of these goods)⁽⁴¹⁾. Confiscation does not apply to "parallel imports".

■ Criminal Liability

If the unlawful use of the trademark is committed repeatedly or if large-scale damages are inflicted upon the copyright owner (i.e. around USD 4700 or more), then the infringer or its officials may be subject to criminal liability in the form of a fine from approximately 1900 to 4700 USD or in the amount of wages or other income for a period of from two to five months, or through the imposition of community service work for a period of 182 to 240 hours, or through arrest for a period of up to six months, or through correctional labor for a period of up to two years⁽⁴²⁾.

Additionally, criminal liability is imposed for the unlawful use of a warning label on goods with a trademark or appellation of origin which has not been registered in the Republic of Kazakhstan if this action is committed repeatedly or if large-scale damage has been inflicted upon the trademark owner (i.e. around USD 4700 US or more). Liability for such actions has been established in the form of a fine in the amount of from approximately USD 950 to approximately USD 1,900 or in the amount of wages or other income for a period of up to two months, or imposition of community service work for 120 to 180 hours, or imprisonment for a up to three months, or correctional labor for up to one year.

It should be noted that criminal liability in Kazakhstan applies only to individuals and is not applicable to legal entities. In addition, criminal penalties for trademark infringement preclude administrative liability for such an infringement (including the confiscation of the goods involved).

1.1.2.3. Trademark Protection at Customs

■ History

The Law on Customs

Provisions for the intellectual property protection by customs authorities appeared in Kazakh legislation only in 1999⁽⁴³⁾. At that time, the Law "On Customs in the Republic of Kazakhstan" of July 20, 1995 was in effect (hereafter - the "Customs Law").

Pursuant to the Customs Law, the central customs authority must establish and publish an intellectual property register⁽⁴⁴⁾. The products were included in the register at the request of trademark owners. Despite the fact that the registration period was not defined in the Customs Law, it was assumed that registration remained in effect for the duration of the trademark rights.

The customs authorities were obliged to suspend the release of goods containing objects of intellectual property included in the register for up to 10 business days (with a possible extension for another 10 days) if there were indications that these products infringe upon the intellectual property of the trademark owner⁽⁴⁵⁾. Moreover the determination that there had been an infringement was entirely at the discretion of the customs authority.

⁽⁴¹⁾ As an alternative to destruction, the goods can be transferred to the trademark owner at its request.

⁽⁴²⁾ Art. 199 of the Criminal Code of the Republic of Kazakhstan of July 16, 1997.

⁽⁴³⁾ The Law of the Republic of Kazakhstan ? 426 - I of July 16, 1999 "On Amendments and Additions to the Decree of the President of the Republic of Kazakhstan, having the force of law, 'On Customs in the Republic of Kazakhstan.'"

⁽⁴⁴⁾ Art. 218-2 of the Customs Law.

The customs authorities were obliged to notify the trademark owner and the importer of the suspension of imports. Moreover, within three business days after receiving notice of the suspension, the trademark owner was obliged to ensure payment of an amount sufficient to compensate the losses of the importer in connection with the suspension of the release of goods⁽⁴⁶⁾.

After this period, and after preliminary notification of the trademark owner, the customs authorities of the Republic of Kazakhstan were to remove the restrictions on the release of the goods if the trademark owner did not present evidence that court proceedings had been initiated for the intellectual property infringement associated with the import⁽⁴⁷⁾.

The law on customs did not include provisions for the independent right of customs authorities to suspend the import of goods not included in the register of intellectual property.

Customs Code (until December 8, 2009.)

The Customs Law lost force due to the adoption Customs Code of April 5, 2003 in Kazakhstan, which entered into force on May 1, 2003 (hereafter - the "Customs Code").

Similar to the provisions of the Customs Law, the Customs Code provided that the central customs authorities create and publish a register of goods containing intellectual property objects⁽⁴⁸⁾. The goods were to be included in the register at the request of a trademark owner for a period not exceeding two years (with possibility of extension for a period not exceeding the duration of the trademark rights). Moreover, when submitting an application to include goods in the register, the trademark owner was required to provide the customs authorities with a bond to compensate the importer's harm, as well as the costs of customs authorities which may arise in connection with suspending the release of goods, in cases where it is established that goods were imported into Kazakhstan without infringing upon intellectual property rights.

The Customs Code provided for the right of customs authorities to suspend the release of goods for a period not exceeding 10 business days (this period may be extended at the request of the trademark owner, but not by more than 10 business days) if the customs authorities have reason to believe that the goods crossing the Republic of Kazakhstan customs border infringe the trademark owner rights⁽⁴⁹⁾. The decision regarding the presence of an infringement was at the discretion of customs officials.

No later than one business day after the decision on the release of goods, the customs authorities were required to notify the trademark owner and the importer of the suspension and its causes, as well as to inform the importer of the name and address of the claimant, and to inform the trademark owner of the name and address of the importer. The time periods for the suspension of imports could be extended beyond this period only when presenting evidence regarding the initiation of a lawsuit on the infringement of intellectual property. Otherwise, the decision on suspension lost its effect at the end of the specified period⁽⁵⁰⁾.

The Customs Code did not include provisions on the right of customs authorities to suspend the import of goods not included in the register of intellectual property.

⁽⁴⁵⁾ Part 1 of Art. 218-3 of the Customs Law.

⁽⁴⁶⁾ Part 3 of Art. 218-3 of the Customs Law.

⁽⁴⁷⁾ Part 3 of Art. 218-4 of the Customs Law.

⁽⁴⁸⁾ Article 412 of the Customs Code.

⁽⁴⁹⁾ Article 416 of the Customs Code.

⁽⁵⁰⁾ Article 416 of the Customs Code.

In general, the provisions of the Customs Code reproduced the provisions of the Customs Law and did not contain any significant innovations.

■ Current Legislation

The Customs Code adopted in 2003 is currently in effect in Kazakhstan.

On December 8, 2009, amendments were made to the Customs Code which inter alia substantially limited the possibilities for acting against parallel imports. Thus, pursuant to the amendments introduced, only goods entered into the register which have crossed the customs border of Kazakhstan and contain questionable trademarks on goods similar to authentic goods are subject to detention⁽⁵¹⁾. Unfortunately, the legislation of Kazakhstan does not contain a definition of "questionable" trademarks. However, the implication of the law is that the customs authorities are obliged to suspend the importation of only counterfeit products, and they cannot stop the import of goods which are authentic (not counterfeit), but which have been imported into Kazakhstan without the trademark owner's permission.

The reasons for adopting these amendments were not widely discussed in Kazakhstan and did not attract public attention. According to the official information, these amendments were developed due to the necessity of bringing Kazakhstan's national legislation into compliance with the basic provisions of the Agreement on Applying Art. VII of the General Agreement on Trade and Tariffs of 1994 on the Trade Related Aspects of Intellectual Property Rights (TRIPS) in order for the Republic of Kazakhstan to join the World Trade Organization (WTO). More specifically, the purpose of these amendments was formulated as the implementation of international standards in the activity of customs authorities, as well as the harmonization of the customs legislation of Kazakhstan with the legislation of the member states of the WTO.

However, according to unofficial information, the customs authorities assisted in the adoption of these amendments and the Customs Code, and have repeatedly (orally) declared their adherence to an international exhaustion system. In particular, the customs authorities frequently expressed the opinion that the detention of "parallel imports" at customs infringes the rights of the consumers of these goods and that such detention must be rescinded legislatively.

Thus, at the current time there is no system in Kazakhstan for the customs authorities to act against parallel imports.

A progressive item contained in the amendments is the fact that, for the first time, the customs authorities were given the right to suspend imports of goods ex-officio, i.e. to suspend goods not listed in the register if indications that intellectual property rights have been infringed are detected. However, the significance of this innovation is very limited because it applies only to the importation of counterfeit goods, but not to the importation of authentic goods without the consent of the trademark owner.

■ Customs and Judicial Practice

Before December 8, 2009, customs authorities regularly suspended the import of goods imported without the consent of the trademark holder. After December 8, 2009, customs authorities have

⁽⁵¹⁾ Article 410 of the Customs Code.

ceased doing so in connection with the adoption of the amendments to the Customs described above. Currently, "parallel imports" are neither prohibited nor controlled by the customs authorities.

As for judicial practice, there is no proper system of access to judicial decisions in Kazakhstan. We managed to find only one judicial decision on the suspension of "parallel imports" by customs authorities⁽⁵²⁾. In this court decision, the Supreme Court of Kazakhstan rejected the importer's claim against the customs authorities to lift the suspension of "parallel imports" of "Martini" and "Hennessy" brand products (which means that the trademark owner won the dispute). The Court considered that in suspending the import of the goods, the customs authorities acted properly. However, the significance of this decision is currently very limited, as it was passed before the adoption of the Customs Code amendments, pursuant to which the customs authorities are not obliged to assist in countering "parallel imports".

1.1.2.4. Rights Exhaustion System

The conditions for trademark rights exhaustion were not provided for in the Fundamentals of Civil Law 1991. Nor was it established whether the importation of goods into Kazakhstan constitutes trademark usage, and accordingly, whether the national or international exhaustion system was in effect in Kazakhstan.

At the same time, despite the absence of direct regulation of the conditions for the exhaustion of trademark rights, the Trademark Law of 1993 established a rule pursuant to which the import of goods designated by a trademark is an autonomous form of the use of such trademark, which, in turn, requires the consent of the trademark owner. This rule does not, however, clearly establish a national exhaustion system. At the same time, we believe that the purpose of this rule is precisely to establish a national exhaustion system.

As indicated above, the current Civil Code and Trademark Law contain a rule that is identical to the rule established in the Trademark Law of 1993. That is, the import of goods designated by a trademark is an autonomous form of use of the trademark and requires the trademark owner's consent. We consider this provision to be more characteristic of a national exhaustion system.

However, it should be noted that Kazakh law (unlike, for example, Russian law) does not contain a clear rule, under which the introduction of goods for circulation in Kazakhstan can only be carried out only by the trademark owner or with its consent. This fact has led to the frequent assertion that an international exhaustion system has been established in Kazakhstan⁽⁵³⁾.

Unfortunately, as noted above, in Kazakhstan there is no proper system of access to judicial decisions on this or other cases (in particular, only the decisions of the Supreme Court are regularly published, the decisions of lower courts are virtually inaccessible to the public). For this reason, it is difficult to analyze the judicial practice which has developed in Kazakhstan on the exhaustion principle.

Additionally, the number of court cases involving trademark protection in Kazakhstan is insignificant. Thus, according to the Supreme Court of Kazakhstan, in 2007-2008, courts ruled on a mere 10 cases concerning trademark rights, and only two were in some way related to the issue of "parallel imports."

⁽⁵²⁾ Resolution No. 3a-148/12008 of January 8, 2004 of the Collegium for Civil Cases of the Supreme Court of Kazakhstan

⁽⁵³⁾ See, for example, <http://gazetakapital.kz/trends/3564-problemy-kazaxstanskogo-parallelnogo-importa.html>.

At the same time, we managed to find the two court decisions on this issue. In the first court decision (issued in 2005)⁽⁵⁴⁾ the court upheld the claim of the Hyundai Motor Company against Almaty-Taxi to ban imports of Hyundai automobiles without the consent of the trademark owner. The Hyundai Motor Company's claims were based on the fact that the imported cars were damaged during transport. The court prohibited the import of the automobiles into Kazakhstan without the authorization of the trademark owner. This decision was made by the Almaty City Court and as far as we know, it should be deemed applicable. It was not appealed to the superior courts.

In the second decision, issued in 2009⁽⁵⁵⁾, the Supervisory Collegium of the Supreme Court of Kazakhstan (which is the final resort in court proceedings) dismissed a lawsuit to terminate parallel imports. The case concerned a ban on the importation of alcoholic beverages designated with the trademark "Hennessy." The Supreme Court based this decision on the fact that, firstly, the plaintiff had no standing to sue. Secondly (and more importantly), the Supreme Court took the position that only the "import of a trademark as a designation," and not the import of goods containing another's trademark can be an infringement of intellectual property rights.

As seen above, these two decisions contradict one another, indicating that the judicial practice with respect to rights exhaustion is ambiguous.

Court decisions have no precedential value in Kazakhstan. Therefore, a court is not bound by judicial decisions made previously in similar cases. However, as a rule, lower courts decisions apply conclusions stated in Supreme Court decisions. In connection with this, it is likely that the cited Supreme Court decision will form the basis for court decisions on similar cases in the future.

Moreover, according to unofficial information, recent judicial practice in Kazakhstan has developed very unfavorably for trademark owners. In particular, based on unofficial information we have received regarding several court cases (the details of which we do not know), in a number of cases, the courts of Kazakhstan have dismissed the lawsuits of trademark owners against imports which had not been authorized by the trademark owners. In the absence of published court decisions, it is difficult to judge the reasoning of the court. It is possible that lately the courts have been adhering to the position that an international exhaustion system is in effect in Kazakhstan (it is also possible that the courts are applying the logic of the aforementioned decision of the Supreme Court).

Thus, we can conclude that the judicial practice in Kazakhstan in recent years has not developed in favor of a national exhaustion system.

1.1.3. Belarus

Belarusian legislation makes it possible to counteract parallel imports and in practice the Authorities act against them. At the same time, the number of cases is small and the problem has not been discussed as intensely as in Russia, and during the creation of the Customs Union, there is a great probability that the judges and customs authorities of Belarus will accept the practice of Russia and Kazakhstan.

⁽⁵⁴⁾ Decision of the Almaty City Court of May 3, 2005.

⁽⁵⁵⁾ Resolution of the Supervisory Collegium of the Supreme Court of the Republic of Kazakhstan No. 4,Ô-194-09 of July 1, 2009.

1.1.3.1. General Provisions

Legal regulation of intellectual property in Belarus is, in principle, similar to Russian regulation: intellectual property objects and the emergence and exercise of exclusive rights are regulated in similar fashion.

Intellectual property matters are basically regulated by the following legislative acts:

- 1) Civil Code of the Republic of Belarus dated December 7, 1998 (hereinafter the "Civil Code");
- 2) Republic of Belarus Law "On Trademarks and Service Marks" dated 5 February 1993 (hereinafter the "Trademark Law");
- 3) Republic of Belarus Law "On Author's Right and Neighboring Rights" dated May 16, 1996;
- 4) Republic of Belarus Law "On Patents to Inventions, Utility Models, and Industrial Samples" dated December 16, 2002;
- 5) Republic of Belarus Law "On Legal Protection of Integrated Circuit Topographies" dated December 7, 1998;
- 6) Republic of Belarus Law "On Patents to Types of Plants" dated April 13, 1995;
- 7) Republic of Belarus Code "On Administrative Offences" dated April 21, 2003;
- 8) Republic of Belarus Criminal Code dated July 9, 1999.

The principal state authority engaged in the regulation of intellectual property (including registration of intellectual property objects) is the National Center for Intellectual Property of the Republic of Belarus (hereinafter the "NCIP"⁽⁵⁶⁾).

The international treaties of Belarus related to IP protection appear in *Exhibit 1*.

1.1.3.2. Trademark Protection – National Aspects

■ General Provisions

Legal relations connected to trademarks in the Republic of Belarus are mainly regulated by the provisions of the Trademark Law and the Civil Code.

Legal protection of trademarks in Belarus is provided on the basis of its registration or without registration on the basis of an international treaty⁽⁵⁷⁾. Within the Republic of Belarus, trademark registration is performed by the NCIP.

■ Measures of Legal Protection when Trademark Rights are Violated

Civil Law Measures

A party using a trademark illegally must cease the use thereof and reimburse the trademark's owner for the losses incurred thereby⁽⁵⁸⁾.

⁽⁵⁶⁾ <http://www.belgospatent.org.by/>

⁽⁵⁷⁾ Cl.1 of Art. 1018 of the Civil Code.

⁽⁵⁸⁾ Cl.2 of Art. 29 of the Trademark Law, art. 364 of the Civil Code.

Protection of rights can also be achieved in the following ways:⁽⁵⁹⁾

- a. by removing from the product or its packaging the illegally used trademark, or designation confusingly similar thereto, and/or destroying the produced images of the trademark or confusingly similar designation;
- b. detention or destruction of the goods upon which the trademark was illegally used;
- c. levying a fine in favor of the injured party for the same value of the product for which the trademark was illegally used.

Administrative Liability

In the Republic of Belarus, administrative liability may be imposed upon individuals and legal entities.

For illegal use of a trademark, administrative liability is specified in the form of a fine levied upon the infringer (individual or legal entity) in an amount approximately equal to from USD 240 up to USD 600 or by loss of the right to engage in certain types of activity⁽⁶⁰⁾.

Criminal Liability

If a trademark is repeatedly used illegally during the course of a year after administrative sanction has been levied, the infringer (whether an individual or an officer of a legal entity which is the infringer) can be held criminally liable in the form of a fine in an amount approximately from USD 240 up to USD 12,000, or deprived of the right to hold certain posts or engage in certain activities, or correctional work for up to two years, or imprisonment for up to three months, or restriction of liberty for up to two years⁽⁶¹⁾.

That is, criminal liability is imposed in the case of repeated infringement - before imposing criminal liability, administrative liability must have been imposed upon the infringer for an earlier violation. Similar to the situation in Russia and Kazakhstan, in Belarus criminal liability may be imposed only upon individuals.

1.1.3.3. Trademark Protection at Customs

■ Customs Code of January 6, 1998

The 1998 Customs Code, for the first time, envisaged the possibility of a prohibition on goods imported into the Republic of Belarus in the event that such importation breached trademark owners' exclusive rights.

Subsequently, the 1998 Customs Code was supplemented with special chapter 28-1 "*Peculiarities of customs control on products containing intellectual property objects*," which specified general provisions for the procedure for protecting intellectual property objects. The state customs committee passed a range of normative documents regulating, in detail, the technical aspects of the procedure for protecting intellectual property objects. At that same time, a customs register of intellectual property objects was created.

⁽⁵⁹⁾ Cl.1 of Art. 1018 of the Civil Code.

⁽⁶⁰⁾ Art. 11.26 of the Republic of Belarus Code "On Administrative Legal Violations" dated 21 July 2003.

⁽⁶¹⁾ Art. 248 of the Republic of Belarus Criminal Code.

■ Current Legislation: Customs Code of January 4, 2007

Similar to the provisions of the 1998 Customs Code, the 2007 Customs Code envisaged the necessity for the State Customs Committee to form a customs register of intellectual property objects⁽⁶²⁾ (hereinafter the “OIP Customs Register”)⁽⁶³⁾. Goods shall be listed in the OIP Customs Register upon the application of a trademark owner.

The 2007 Customs Code stipulates the right of the customs authorities to suspend release of goods for not more than 10 working days (at the request of the trademark owner, this period can be extended, but not more than by 10 working days) should the customs authorities have grounds to suspect that the goods are being brought through the Republic of Belarus customs border in violation of the trademark owner’s rights⁽⁶⁴⁾. A decision can be made on whether there are signs of violation of rights to intellectual property objects at the discretion of the customs authorities.

No later than one working day after making the decision to suspend release of goods, the customs authorities must notify the owner of the trademark and the importer of the suspension and the reasons therefore, and also give the importer the name and address of the applicant, and give the trademark owner the name and address of the importer. If a decision to remove the goods or to detain, or confiscate them, has not been received before the expiration of the term for suspending customs finalization of the goods from the authority empowered to do so in compliance with legislation, customs finalization of such goods shall start anew⁽⁶⁵⁾.

The 2007 Customs Code does not specify the provisions on the rights of the customs authorities to suspend importation of goods not listed in the register of intellectual property objects. Additionally, according to the clarification of the State Customs Committee, published on its website⁽⁶⁶⁾, the customs authorities may consider any unsanctioned use of the trademark, irrespective of whether the mark is listed in the OIP Customs Register or not.

Customs and Court Practice

Unfortunately, the Republic of Belarus lacks an adequate system of access to customs statistics. Due to this, it is difficult to make a judgment about the number of cases connected with protection of intellectual property objects by the customs authorities and existing trends in this practice. Also, we call your attention to the two cases described by us below in Court Practice.

1.1.3.4. Rights Exhaustion System

■ Legislative Regulation

Art. 3 of the Trademark Law provides that the following are recognized trademark infringements: Art. 3 of the Trademark Law provides that the following are recognized trademark infringements: unauthorized manufacture, use, importation, offering for sale, sale and any other form of marketing, or the

⁽⁶²⁾ At present there are 44 intellectual property objects registered in the OIP Customs Register. The OIP Customs Register can be found at: <http://gtk.gov.by/ru/regulation/VED/1725743475>

⁽⁶³⁾ Art. 94 of 2007 Customs Code.

⁽⁶⁴⁾ Art. 95 of 2007 Customs Code.

⁽⁶⁵⁾ Art. 95 of 2007 Customs Code.

⁽⁶⁶⁾ (http://gtk.gov.by/ru/consult/faqs/p-alignjustifystrongkakim-obrazom-mozhno-oznakomitsja-s-tamozhennym-reestrom-objektov-intellektualnoj-sobstvennosti-gde-razmeschen-tamozhennyj-reestr-objektov-intellektualnoj-sobstvennostistrongp_i_2690.html)

holding for that purpose, of a trademark or of a product designated by a trademark or of a sign misleadingly similar to a trademark. In accordance with article 20.5 of the Trademark Law, registration of the trademark does not give its owner the right to forbid other parties to use the trademark for goods which were put into civil turnover in the Republic of Belarus directly by the owner of the trademark or with his consent.

Proceeding from the definition given in the Trademark Law, we believe that the importation of goods into the Republic of Belarus constitutes an independent variety of use of a trademark, and the importation of goods into Belarus may be carried out only by the trademark owner or with its consent.

■ Court Practice

The Republic of Belarus lacks an adequate system of access to court decisions in these and other cases (in particular, only certain decisions of the Supreme Court are published on a regular basis; the decisions of lower-ranking courts are practically inaccessible). Due to this, it is difficult to make a judgment about existing court practice in the Republic of Belarus on the issue of “parallel import.”

Along with this, we did manage to find two court decisions that are directly related to parallel import.

In the first court decision⁽⁶⁷⁾, the court prohibited the sale of alcoholic beverages under the trademark *Martini*, imported into the Republic of Belarus under a contract with a third party which was not the owner of the trademark. The following arguments were made in support of the court’s decision:

- the *Martini* trademark was registered in the Republic of Belarus for alcoholic beverages and was subject to legal protection;
- the owner of the trademark had not given his consent to the importer to import and sell alcoholic beverages under the *Martini* trademark within Belarus;
- the court believed that the defendant (importer) had brought into Belarus goods identical to those onto which the *Martini* trademark extended without obtaining the consent of the trademark owner. In this manner, the defendant violated the trademark owner’s exclusive rights.

In the second court case⁽⁶⁸⁾, the court upheld the trademark owner’s demand on prohibition and storage for the purpose of sale of goods marked with the trademark *BORK*. Just as in the case involving the court decision on *Martini*, the court held that this product was imported and subsequently sold within the Republic of Belarus without the consent of the trademark owner, which constituted a gross violation of his rights.

Both decisions entered into legal force.

Taking into account the fact that all disputes on intellectual property matters in the Republic of Belarus are subject to the sole jurisdiction of the judicial panel of the Supreme Court on matters of intellectual property, one can speak of a traceable positive practice of allowing such disputes in favor of the trademark owners. In addition, since cases of this type are, at least for now, fairly limited, it is difficult to say that such practice is established.

⁽⁶⁷⁾ Decisions of the Judicial Panel on intellectual property matters by the Republic of Belarus Supreme Court dated 31 May 2007 and 1 June 2007.

⁽⁶⁸⁾ Judicial Panel on intellectual property matters by the Republic of Belarus Supreme Court dated 21 November 2008.

1.2. Customs Union of Russia, Kazakhstan and Belarus

Questions regarding uniform protection of intellectual property have not yet been addressed in the Customs Union. There is a risk that by using the differences in legal regulation between the participant countries, an uncontrolled flow of counterfeit goods and "gray" goods will pass through Kazakhstan as the country with the weakest level of protection, in particular from China, Turkey and India.

1.2.1. General provisions

On October 6, 2007, the Russian Federation, the Republic of Kazakhstan, and the Republic of Belarus signed the agreement "On Creation of a Unified Customs Territory and Formation of a Customs Union." In 2009, work on forming the customs union was activated. On November 27, 2009, the Unified Customs Tariff (effective January 1, 2010) was passed and the Customs Code for the customs union was passed, which takes effect on July 1, 2010 (hereinafter the "Union Code"). The Union Code will supersede the provisions of the internal customs legislation of the participating countries in the event of contradiction.

Since goods coming from third parties will be freely transferred within the customs union, it is necessary to have uniform regulation in each county on matters concerning the protection of intellectual property. Otherwise, goods imported across an external border of the customs union in a country with a weak level of protection will be distributed further to the other countries within the customs union, violating the rules on intellectual property in those countries.

1.2.2. Trademark Protection in the Customs Union

1.2.2.1. Union Code

In accordance with the Union Code⁽⁶⁹⁾, the customs authorities of each country shall take measures to protect rights to intellectual property objects listed in:

- 1) its internal customs register of intellectual property objects; as well as
- 2) the unified customs register of intellectual property objects of states belonging to the customs union.

The conditions for inclusion of intellectual property objects in the unified customs register of intellectual property objects of participating states of the customs union should be determined by an international treaty of the participating states of the customs union. Currently, this treaty is in the developmental and working group stage; a draft thereof has not yet been officially published.

Goods are subject to inclusion in the relevant registers upon the application of the trademark owner for a period of not more than two years (with possibility of extending it by a period not exceeding the term of validity of the rights in the trademark)⁽⁷¹⁾.

⁽⁷⁰⁾ Subclause 4, clause 4, Art. 328 of the Union Code.

⁽⁷¹⁾ Art. 329 of the Union Code.

The procedure for protecting trademarks at customs stipulated by the Union Code coincides in principle with the procedures currently valid in all three countries:

- If when carrying out customs operations with goods included in the above-named registers a customs authority uncovers signs pointing to violation of intellectual property rights, the release of such goods must be suspended for a period of 10 working days (with the possibility of extension, at the trademark owner's application, for another 10 days). Deciding whether a violation has occurred or is absent shall be left to the discretion of the customs authority⁽⁷²⁾;
- The customs authority shall, no later than one working day following the day on which the decision was made to suspend the release of goods, notify the importer and trademark owner, or the party representing their respective interests, of such suspension, the reasons and the terms of the suspension, and also give these parties the contact details of each other. Upon the expiration of the term of suspension, the release of such goods shall take place again, if the customs authority is not presented with documents confirming the removal of the goods, or detaining, or confiscating them⁽⁷³⁾.

The Union Code stipulates suspending imports of a product should signs of an intellectual property right violation be discovered. That said, suspension must be applied not solely to counterfeit goods, but also in case of any intellectual property right violation during importation of goods.

The Union Code likewise specifies the possibility of suspending release of goods ex-officio⁽⁷⁴⁾. In other words, the customs authorities are entitled to suspend release of goods containing intellectual property objects not included in the registers mentioned above without the application of the trademark owner in the procedure defined by internal legislation.

1.2.2.2. National regulation of the participant countries

On the basis of these general descriptions of the Union Code, each of the three countries must pass its own internal, comprehensive regulations. The respective changes are already contemplated by the legislative drafts made public in Russia and Kazakhstan; the legislative amendments in Belarus have yet to become available.

■ Russia - the draft Federal Law "On Customs Regulation in the Russian Federation"

It is expected that starting from July 1, 2010 the currently effective Russian Customs Code will be replaced with the Federal Law "On Customs Regulation in the Russian Federation".

Importantly, the published draft of the Federal Law "On Customs Regulation in the Russian Federation" (the "Draft Law") does not set forth exhaustive regulations for the protection of intellectual property rights by the Russian customs authorities and does not duplicate the intellectual property provisions of the Union Code. Rather, it supplements the Union Code and governs the issues not covered at the level of the Union Code. The draft law proposes regulating the following aspects of intellectual property protection:

1. Procedure for the trademark owner's request for measures aimed at intellectual property rights protection (this procedure is almost identical to the currently effective rules set forth by the Russian Customs Code);

⁽⁷²⁾ Art. 331 of the Union Code.

⁽⁷³⁾ Art. 331 of the Union Code.

⁽⁷⁴⁾ Art. 331.3 of the Union Code.

2. Procedure for the inclusion of intellectual property objects into the Russian Customs Register of Intellectual Property. This procedure is also very similar to the existing rules, with few substantive changes⁽⁷⁴⁾.
3. Procedure regarding the *ex-officio* actions performed by the Russian customs authorities. This is the most important statutory innovation becoming effective with the launching of the Customs Union.

In accordance with the Draft Law, the Russian customs authorities may take measures aimed at intellectual property rights protection *ex-officio* – *i.e.*, without a request of the trademark owner and with respect to goods that are not included either in the Unified Customs Register of Intellectual Property or in the Russian Customs Register of Intellectual Property – when the following two conditions are met: (i) there are grounds to believe that an infringement of intellectual property rights is being committed, and (ii) the customs authorities know the trademark owner and/or its representative in the territory of Russia.

Under the *ex-officio* actions procedure, the release of the imported products may be suspended for up to 7 working days. During this term,

- the trademark owner may request the customs authorities to release the goods if it does not find its rights infringed, or
- the trademark owner may apply to the competent authorities for the protection measures and request an additional suspension period (up to 10 more working days), or
- either the trademark owner or the importer of record may request the customs authorities place the imported goods under the customs procedure for the destruction thereof.

If none of these measures is taken, the goods must be released upon the expiration of the suspension term.

■ Kazakhstan - Draft of the Customs Code

It is expected that Kazakhstan will be adopt and enact a new Customs Code by July 1, 2010.

The provisions of the draft provide for the suspension of imported goods if indications of an infringement of intellectual property rights are detected. Moreover, the suspension shall apply if the customs authorities discover infringements of intellectual property rights when importing goods which have been entered in the register (and not only the importation of counterfeit goods). Similar to the previously effective and current legislation, the determination of whether an infringement has been committed is carried out by customs authorities at its discretion.

In general, the provisions of the draft reproduce the provisions of the existing Customs Code. The only significant innovation is that the suspension of the release of goods will apply in any instance of infringement of intellectual property rights during import (and not only to the importation of counterfeit goods).

⁽⁷⁵⁾ First, the Draft Law reduces the amount of the insurance coverage / security of reimbursement of potential damage to the importer from RUR 500,000 (approximately USD 17,000) to RUR 300,000 (approximately USD 10,000). Second, the Draft Law introduces the procedure for amending the data contained in the Customs Register of Intellectual Property.

■ Belarus - Draft of Customs Code

At present, the question of whether the new Customs Code will be accepted or not in the Republic of Belarus by July 1, 2010, or whether the 2007 Customs Code will be brought into compliance with the Union Code, has not been finally decided. As far as we are aware, the draft Customs Code is under development, but has not yet been made publicly available.

Due to this, we cannot perform an analysis of the standards contained in the draft regarding the implementation of customs protection of rights in intellectual property objects. We believe that the standards for customs protection of intellectual property objects will be similar to those contained in the Union Code.

1.2.3. Protection from Parallel Imports in the Customs Union

The current mechanism for customs control in the area of trademark protection has not undergone any substantial changes. This mechanism can effectively protect trademark owners, which, confirms Russia's positive experience in the "Porsche case." But for that, two conditions are necessary:

- 1) Fixation of a regional exhaustion system, i.e. one acting as a national one in the framework of the customs union; and
- 2) Effective administrative sanctions against infringers, including confiscation of goods.

These conditions at present are not being observed. First, the exhaustion systems differ in Russia / Belarus and in Kazakhstan. It would seem that a national system corresponds more closely to the interests of the participant countries, but up to now it is unclear what the overarching system will be for the entire Customs Union. Such uncertainty provokes reasonable fears among trademark owners present in the markets of the three countries (especially taking into account the unceasing efforts on the part of parallel importers to lobby for an international exhaustion system). There is information that by autumn, there may appear, as part of the Customs Union, an international agreement on this topic; but its content and the proposed periods for passing it remain unclear. Second, the Customs Union's legislation does not regulate administrative sanctions, and in the participating states of the union, the application of these sanctions to parallel imports has, in fact, ceased.

2

Trademark Protection in the European Union

Jean-Jo Evrard⁽⁷⁶⁾

2.1. Introduction

The European Union (“EU”) is a customs union. It is based on the sheer conviction that the free circulation of goods – whether produced in the EU or outside – is a driver for economic growth and prosperity. Since 1957, the EU institutions have invested countless efforts to liberate economic exchanges among its Member States, and to dismantle technical and non technical barriers to trade.

With this in mind, it comes as no surprise that the current debate surrounding the implementation of a customs union between Russia, Belarus and Kazakhstan shares glaring similarities with the legal challenges which have arisen in the EU over the past fifty years.

This is particularly true of the issue whether the new trade block between Russia, Belarus and Kazakhstan should embrace the *international* exhaustion rule. As will be seen below, over the past fifty years, the question whether Europe should move towards an international exhaustion system has been one of the most persistent issues on the policy agenda of the EU institutions. Remarkably, however, this is certainly one of the areas of European law which exhibits the firmest stability. Since the 1980s, all attempts to introduce an *international* exhaustion system have been utterly rebuffed by the EU institutions. The invariable commitment of the EU institutions to the “*national-regional*” exhaustion rule is thus a defining feature of the EU customs union. It is based on sound and robust economics, and in particular on the consideration that an *international* exhaustion system generates little – if any – economic benefits and, on the contrary, it may significantly harm consumer welfare. In light of this, the EU law experience could act as a positive guide for the ongoing debates on the challenges faced by Russian, Belarusian and Kazakh policy-makers.

2.2. Firm EU Commitment to a National – Regional Exhaustion System

2.2.1. The EU Law-Makers have chosen a National - Regional Exhaustion System

One of the key objectives of the EU is to establish an internal market where goods and services circulate freely. IPR, which are purely national in scope, may however, hinder the achievement of this objec-

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tive. IPR holders may indeed rely on their rights in each and every Member State to prevent the circulation of their goods and services across national markets. Hence, over the past decades, the selection of an appropriate *exhaustion* system has been one of the major areas of concern of the European institutions. In this context, the EU institutions have carefully sought to strike an optimal balance between the necessity to remove obstacles to parallel trade within the EU and the necessary protection of IPR holders from parallel trade originating outside its territory. To this end, the EU institutions have endorsed a common system of EU-wide *national-regional* exhaustion, and in turn repudiated an international exhaustion system.

2.2.1.1. The Early Proposals of the European Commission

The EU institutions' early attempts to harmonize the exhaustion regimes applicable in the Member States – which are the subject matter of this report – have a convoluted legal history. In the national laws of the Member States, the exhaustion issue was subject to significant discrepancies. Certain countries, such as France, applied the national exhaustion rule whereas others, such as the Benelux countries (the Netherlands, Belgium and Luxembourg), applied the international exhaustion rule.

To eradicate, among other things, these discrepancies, the Commission proposed on November 19, 1980, the adoption (i) of a Directive intended to harmonize the laws of the Member States relating to trademarks; as well as (ii) the adoption of a Regulation establishing a Community trademark (OJ 1980, C 351, p.1, COM (80) 635 final). Both proposals provided for the *international* exhaustion rule. Under Article 6(1) of the proposed Directive and Article 11(1) of the proposed Regulation, the Commission stated that:

“The (community) Trademark shall not entitle the proprietor thereof to prohibit its use in relation to goods which have been put on the market under that Trademark by the proprietor or with his consent”.

The reasons for this choice were clarified in the explanatory memorandum of the draft regulation on the Community trademark (to which the explanatory memorandum of the draft directive refers):

“The rule under which the right to a Trademark is exhausted with the first use of the mark effectuated or authorized by the proprietor is a direct consequence of its function as an indicator of origin. The place where the marked product is put on the market is not important in that respect. The principle laid down in Article 11 thus applies regardless of whether the products bearing the Community Trademark was put on the market inside or outside the Community.

Moreover, the application of the principle of the exhaustion of the right to the Trademark ties in with the attaining of two tasks which are entrusted to the Community by the Treaty: the removal, as between member States, of obstacles to freedom of movement for goods and services and the institution of a system ensuring that competition in the common market is not distorted.

The latter obligation could clearly not be observed if the Commission were to propose rules laying down the principle that the proprietor of a Community Trademark had the right to use it in order to compartmentalize the world market. There is a real danger that undertakings whose principal place of business could well be in a non-member country would prevent their products to be imported into the Community at more favorable prices, which would be detrimental to Community consumers”.

2.2.1.2. *The Adoption of the National-regional Exhaustion Rule in the Trademark Directive and the Regulation on the Community Trade Mark*

The Commission quickly ceased supporting an international exhaustion system following observations of the Parliament. In an opinion issued in late 1980 (see OJ 351 of December 31, 1980, p. 1), the Parliament indeed took distance with the Commission's proposals. It suggested that the Directive and the Regulation on the Community Trademark should provide that exhaustion would only occur if the goods were put into the Community market. The Commission subsequently modified its initial proposal to bring it into line with the wishes of the Parliament. The following legislative acts were eventually adopted:

- The First Council Directive 89/104/EEC of December 21, 1988 to Harmonize the Laws of the Member States Relating to Trade Marks which was codified and replaced by Directive 2008/95/EC of the European Parliament and of the Council of October 22, 2008 to Harmonize the Laws of the Member States Relating to Trade Marks (hereinafter referred to as the "Trademark Directive").
- The Council Regulation (EC) No 40/94 of December 20, 1993 on the Community Trademark which was codified by Council Regulation (EC) No 207/2009 of February 26, 2009 on the Community Trademark (hereinafter referred to as the "CTMR").

Those two texts clearly endorse a *national-regional* (or Community) exhaustion system. Article 7(1) of the Trademark Directive entitled "*Exhaustion of the rights conferred by a trade mark*" for instance provides that:

"A Community Trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that Trademark by the proprietor or with his consent"

Article 13(1) of the CTMR entitled "*Exhaustion of the rights conferred by a Community trade mark*" similarly provides that:

"A Community Trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that Trademark by the proprietor or with his consent."

2.2.1.3. *Beyond the EU – Exporting National-Regional Exhaustion to the European Economic Area*

The EU institutions' firm commitment for a *national-regional* exhaustion system is further illustrated by the conclusion, in 1992, of the Agreement creating the European Economic Area (EEA), which gathered the 27 EU Member States and the three EEA EFTA States (Iceland, Liechtenstein and Norway) in an Internal Market governed by common basic rules. In this agreement the EU institutions exported the *national-regional* exhaustion system to a number of third party countries which previously applied an *international* exhaustion rule.

Pursuant to Article 65(2) EEA and Annex XVII to the EEA Agreement, Article 7(1) of the Trademark Directive was, in the EEA context, been replaced by the following:

"The trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in a Contracting Party under that Trademark by the proprietor or with his consent."

This provision implicitly dismisses an *international* exhaustion system. The rights of a trademark holder in the EU are indeed only exhausted if the goods have been put on the market by the trademark holder or with his consent within the EEA territory.

2.2.1.4. A Stable System

On a number of occasions, Member States, parallel traders, as well as other stakeholders sought to challenge the EU's firm stance in favor of a *national-regional* exhaustion system.

Towards the end of the 1990s, several Member States and professional associations (acting on behalf of parallel importers) which supported an *international* exhaustion system asked the Commission to abandon the *national-regional* exhaustion rule and adopt that of *international* exhaustion. They argued that the *national-regional* exhaustion system hindered trade and disadvantaged consumers because of the excessive prices that trademark holders could charge in Europe.

With a view to obtaining a clearer picture of the economic effects of the various exhaustion systems, the Commission commissioned a study on the possible economic consequences of a change in the Community exhaustion regime. This study was carried out by the NERA Institute in London and was presented to the Commission in February 1999.

The study concluded that the exhaustion issue was very complex. Of course, parallel trade has a potential impact on prices, but also on product quality, product availability, post-sale services, employment, distribution agreements, segmentation, etc. Yet, according to the study, the impact of a change of the existing *national-regional* exhaustion regime could be minimal in certain sectors (like alcoholic drinks and confectionery), whereas it could have more significant consequences in others (such as consumer electronics, domestic appliances and footwear).

Later, in the spring of 1999, the Commission convened two meetings in relation to exhaustion – one with representatives of the Member States and one with interested parties. None of those initiatives led to any concrete proposal to change the applicable national-regional exhaustion regime.

Later, on January 24, 2001 (JO C 123 of 25 April 2001, p.28), the Economic and Social Committee issued a reasoned opinion on the "*Exhaustion of registered trademarks*". This opinion supported the Commission's decision of May 2000 in which it was decided to leave the current national-regional exhaustion regime for trademarks unaltered, owing in part to the need to protect European goods and services embodying trademarks.

This opinion was, however, followed by the Resolution of the Parliament (A5-0311/2001) of October 3, 2001, which called on the Commission to examine various aspects relating to the exhaustion of trademarks within the EU. In particular, it requested the Commission:

"to present a report on any abuses of Trademark rights notified to the Commission, to explain how such cases of abuse have been addressed, including with regard to competition rules, and to identify possible deficiencies that may exist in current legal provision."

The Commission answered the Parliament in a report of May 21, 2003 (SEC (2003) 575). Its conclusions are crystal-clear:

"The Commission, as a result of the investigations carried out in the preparation of this report, has not found any deficiencies in current legal provision relating to possible abuses of trademarks within the EU."

The negotiations which preceded the enlargement of the European Union to 12 new Member States in May 2004 could have provided fertile ground for a further challenge to the *national-regional* exhaustion system. Yet again, even those new Member States that applied an *international* exhaustion system accepted to harmonize their domestic legislation to the EU exhaustion system.

2.2.2. The EU Court of Justice has repeatedly upheld the National - Regional Exhaustion Rule

In parallel to the legislative debates over the selection of an adequate EU system of exhaustion, the EU Court of Justice has, on several occasions, been called upon to clarify the law on this issue. Faced with a rule adverse to their economic interests, parallel traders have indeed tried to challenge the national-regional exhaustion system through litigation. In a series of legal proceedings, parallel importers who imported genuine goods into the EU from outside the territory of the EEA, asked the Court – in the context of preliminary references – to invalidate the rule, or limit the scope of national-regional exhaustion. As will be seen below, all the arguments put forward by the parallel importers were rejected by the Court of Justice (2.1). Moreover, the case-law of the Court of Justice has systematically protected the interests of trademark holders over parallel importers (2.2).

2.2.2.1. The National Law of the Member States cannot provide for International Exhaustion

Case C-355/96 of 16 July 1998, Silhouette International Schmied GmbH & Co. KG and Hartlauer Handelsgesellschaft mbH.

■ Case-law of the EU Court of Justice

Despite the adoption of the trademark Directive – which requested that Member States apply the *national-regional* exhaustion rule in their domestic legal systems by January 31, 1992 – several countries such as Austria did not modified their laws and maintained an international exhaustion system.

In the context of legal proceedings in Austria, a parallel importer argued that Austrian legislation could maintain the *international* exhaustion rule. According to the parallel trader, Article 7(1) of the Directive did not impose an obligation on Member States to provide for the national-regional exhaustion rule but merely gave them the possibility of doing so.

The Court bluntly dismissed this argument stating:

“The Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a Trademark in respect of products put on the market in non-member countries (para 26). This is the only interpretation which is fully capable of ensuring that the purpose of the Directive is achieved, namely to safeguard the functioning of the internal market. A situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services” (para. 27).

■ Case-law of the EFTA Court

The EFTA Court confirmed this solution in a subsequent case involving Norway. The facts of this case are as follows: The Norwegian Trademark Act contained no rules dealing explicitly with the exhaus-

tion of trademarks. Traditionally, however, it had been considered that Norwegian law provided for *international* exhaustion. Before the judgment of the Court of Justice in *Silhouette* (see above, point 2.1.1.), the EFTA Court had indeed issued an advisory opinion on December 3, 1997 stressing the advantages of a system of international exhaustion:

“The principle of international exhaustion is in the interest of free trade and competition and thus in the interest of consumers. Parallel imports from countries outside the European Economic Area lead to a greater supply of goods bearing a Trademark on the market. As a result of this situation, price levels of products will be lower than in a market where only importers authorized by the Trademark holder distribute their products” (para. 19). It went on to state “that it is for the EFTA States, i.e. their legislators or courts, to decide whether they wish to introduce or to maintain the principle of international exhaustion of rights conferred by a Trademark with regard to goods originating from outside the EEA” (para. 28).

As a result of this decision, Norway retained its *international* exhaustion system.

In a later dispute in Norway between L'Oréal and several parallel importers, the question arose again whether Norway could maintain an *international* exhaustion system. In a judgment of July 8, 2008 (L'Oréal Norge AS and L'Oréal SA / Per Aarskog AS, Nille AS and Smart Club AS, E-9/07 – E-10/07), the EFTA Court reversed its case-law and followed the ruling of the Court of Justice in *Silhouette* (despite opposition from the governments of Norway, Iceland and Liechtenstein). The EFTA Court held:

“that the differences between the EEA Agreement and the EC Treaty with regard to trade relations with third countries do not constitute compelling grounds for divergent interpretations of Article 7(1) of the Trademark Directive in EEA law and EC law” (para. 37).

It went on to conclude that:

“Article 7(1) of the Trademark Directive is to be interpreted to the effect that it precludes the unilateral introduction or maintenance of international exhaustion of rights conferred by a Trademark regardless of the origin of the goods in question” (para. 38).

2.2.2.2. The Case-Law of the Court of Justice has systematically protected the Interests of Trademark Holders over Parallel Traders

■ The Trademark holder's consent must relate to each individual item of the product in respect to which exhaustion is pleaded

Case C-173/98 of July 1, 1999, Sebago Inc. and Ancienne Maison Dubois and Fils SA/G-B Unic SA).

In Belgium – a country which also applied an *international* exhaustion system prior to the adoption of the Directive – a parallel importer had claimed that the consent of the trademark holder had been given, in general terms, as soon as he had consented to placing products identical or similar to those marketed by the parallel importer on the EEA market. The Court rejected this argument and reiterated that:

“in adopting Article 7 of the Directive, which limits exhaustion of the right conferred by the Trademark to cases where the goods bearing the mark have been put on the market in the Community (in the EEA since the EEA Agreement entered into force), the Community legislature has made it clear that putting such goods on the market outside that territory does not exhaust the proprietor's right to oppose the importation of those goods without his consent and thereby to control the initial marketing in the Community (in the EEA since the EEA Agreement entered

into force) of goods bearing the mark. That protection would be devoid of substance if, for there to be exhaustion within the meaning of Article 7, it were sufficient for the trade-mark proprietor to have consented to the putting on the market in that territory of goods which were identical or similar to those in respect of which exhaustion is claimed” (point 21).

It further declared that:

“for there to be consent within the meaning of Article 7(1) of that directive, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded” (point 22).

■ The consent of the holder must be unambiguous

Implicit consent shall only be accepted under very strict conditions (Cases C-414/99 – C 416/99 of 20 November 2001, Zino Davidoff / Levi Strauss and Tesco / Levi Strauss).

In this case, several parallel importers claimed, before the British courts, that the concept of consent should be interpreted in a flexible manner. The parallel traders further argued that the implicit consent of the trademark holder could be inferred from the fact that there was no indication, on the trademarked goods (or in sales contracts), that imports into the EU were forbidden. In this case too, the Court disagreed with the parallel importers. The Court stressed that:

“in view of its serious effect in extinguishing the exclusive rights of the proprietors of the trade marks (rights which enable them to control the initial marketing in the EEA), consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated” (para. 45). It stated that ‘Such intention will normally be gathered from an express statement of consent’, but that ‘it is conceivable that consent may, in some cases, be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his rights” (para. 46).

Even more clearly, the Court held that implied consent could not be inferred:

*“- from the fact that the proprietor of the Trademark has not communicated to all subsequent purchasers of the goods placed on the market outside the European Economic Area his opposition to marketing within the European Economic Area;
- from the fact that the goods carry no warning of a prohibition of their being placed on the market within the European Economic Area;
- from the fact that the Trademark proprietor has transferred the ownership of the products bearing the Trademark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the European Economic Area.”*

It added, finally, that it is irrelevant:

“- that the importer of goods bearing the Trademark is not aware that the proprietor objects to their being placed on the market in the European Economic Area or sold there by traders other than authorized retailers, or

- that the authorized retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even though they have been informed of it by the Trademark proprietor.”

In the above cases, the goods had been placed by the trademark holder outside the EEA and subsequently imported by a third party into the EU. In a judgment rendered on October 15, 2009 (Case C-324/08, *Zelfbedieningsgroothandel CV, Metro Cash & Carry BV, Remo Zaandam BV / Diesel SpA*), the Court confirmed that the same principles applied in situations where the goods had been first placed on the market directly by the third party in the EU.

■ The burden of proof of consent lies with the parallel importer

(*Judgment of November 20, 2001, Zino Davidoff / Levi Strauss and Tesco/ Levi Strauss, C-414/99 - 416/99*). It is only under special circumstances that the judge may deem that the burden of proof of consent lies with the trademark proprietor (judgment of April 8, 2003, *Van Doren + Q. GmbH / Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Ort, C-244/00*)

The Court dealt another blow to parallel traders in considering that, in cases of disputes between a parallel trader and a trademark holder:

“It is for the trader alleging consent to prove it and not for the Trademark proprietor to demonstrate its absence” (judgment of November 20, 2001, para. 54).

The only exception to this rule occurs:

“where a third party against whom proceedings have been brought succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears the burden of proving that the goods were placed on the market in the EEA by the proprietor of the Trademark or with his consent, it is for the proprietor of the Trademark to establish that the products were initially placed on the market outside the EEA by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the Trademark proprietor to subsequent marketing of the products in the EEA” (judgment of April 8, 2003, para. 41).

2.2.3. Enforcement of the National-Regional Exhaustion System

In order to consolidate the effectiveness of its *national-regional* exhaustion system, the EU has adopted two texts which seek to provide effective sanctions for infringements of IPR:

- Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the Enforcement of Intellectual Property Rights (3.1)
- Council Regulation (EC) No 1383/2003 of July 22, 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights (3.2)

2.2.3.1. Directive 2004/48/EC on the Enforcement of Intellectual Property Rights

The adoption of this Directive stems respectively from a legal and an economic observation. First, as stated in recital 7 of the Directive, the sanctions faced by IPR infringers differed greatly among EU Member States:

“For instance, the arrangements for applying provisional measures, which are used in particular to preserve evidence, the calculation of damages, or the arrangements for applying injunctions, vary

widely from one Member State to another. In some Member States, there are no measures, procedures and remedies such as the right of information and the recall, at the infringer's expense, of the infringing goods placed on the market."

Secondly, this situation is likely to:

"lea[d] to a weakening of the substantive law on intellectual property and to a fragmentation of the Internal Market in this field. This causes a loss of confidence in the Internal Market in business circles, with a consequent reduction in investment in innovation and creation. Infringements of intellectual property rights appear to be increasingly linked to organised crime. Increasing use of the Internet enables pirated products to be distributed instantly around the globe. Effective enforcement of the substantive law on intellectual property should be ensured by specific action at Community level. Approximation of the legislation of the Member States in this field is therefore an essential prerequisite for the proper functioning of the Internal Market."

Against this background, the Directive seeks to oblige the Member States to provide for measures guaranteeing effective IPR protection in their national laws. To this end, the drafters of the Directive have scrutinized the sanctions applied the EU Member States and identified a range of punitive mechanisms which are essential in deterring IPR infringements. Those mechanisms have been rendered compulsory by the Directive in all the EU Member States.

In practice, the Directive ensures that IPR holders – and, in particular, trademark holders – benefit from effective protection across the EU territory. As regards trademarks more specifically, the Directive does not draw a distinction between counterfeit goods and genuine goods, which are the subject of parallel imports originating from outside the EEA. Under EU trademark law, the importation and sale of such goods thus constitutes an infringement. The trademark holder may thus benefit from all the sanctions provided for in the Directive.

2.2.3.2. Council Regulation (EC) No 1383/2003 of July 22, 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights

This Regulation prescribes a procedure of border seizure of counterfeit goods originating from outside the EU. It sets out the conditions under which the customs authorities may intervene if goods are suspected of infringing IPR. It also provides the steps to be taken by the customs authorities when goods are found to be illegal.

In short, the Regulation provides that where the customs authorities have sufficient grounds for suspecting that goods infringe an intellectual property right, they may suspend the release of the goods or detain them for a period of three working days from the moment of receipt of the notification by the right-holder and by the claimant or holder of the goods, if the latter is known, in order to enable the right-holder to submit an application for action (see article 4 (1)).

This being said, under the current wording of the Regulation, the customs authorities are not able to intervene if genuine goods are the subject of parallel imports. Article 3(1) states that:

"1. This Regulation shall not apply to goods bearing a trademark with the consent of the holder of that trademark or to goods bearing a protected designation of origin or a protected geographical indication or which are protected by a patent or a supplementary protection certificate, by a copyright or related right or by a design right or a plant variety right and which have been man-

ufactured with the consent of the right-holder but are placed in one of the situations referred to in Article 1(1) without the latter's consent. It shall similarly not apply to goods referred to in the first sub paragraph and which have been manufactured or are protected by another intellectual property right referred to in Article 2(1) under conditions other than those agreed with the right-holder.”

This situation is not entirely satisfactory. Aware of this issue, the Commission, in close collaboration with the Member States, is currently reviewing this Regulation. To ensure that all stakeholders can express their views and provide input on the revision of the Regulation, the Commission has opened a public, internet-based consultation. Among the questions subject to public consultation, the Commission seeks to determine whether: *“the derogation concerning parallel trade [should] be kept or should [...] be withdrawn?”*

A large majority of the EU industries consider that this question should be answered positively.

At this stage, it is too early to tell whether the Commission will do away with the derogation concerning parallel trade. The consultation process is open until May 25, 2010⁽⁷⁷⁾. If deemed appropriate and following completion of the public consultation, the European Commission shall prepare a proposal for a Regulation of the Council and of the European Parliament, concerning Customs Enforcement of Intellectual Property Rights (IPR). The proposal would replace the Council Regulation (EC) No 1383/2003.

⁽⁷⁷⁾ See http://ec.europa.eu/taxation_customs/common/consultations/customs/ipr_2010_03_en.htm

