# Russia Practice

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## Parallel import in Russia

Just imagine: someone buys goods manufactured by your enterprise abroad or possibly even in Germany, brings them into Russia and sells them there, bypassing all the permits, dealer networks and pricing systems that you had initially envisioned. And the most frightening aspect of all: you have no control over the potential parties that will be supplied with your goods and the sale price, and this happens at times when you can be struck down at any moment by the sanctions of the European Union or the USA.

You might say that this couldn't possibly happen and that measures should be taken to prevent this!

In Russia, which has been fighting tooth and nail for goods since the start of the crisis, the issue of whether such parallel imports are permissible has been discussed extensively.

In particular, on 13 February 2018 the Russian Constitutional Court considered the admissibility of such parallel imports into Russia. What the court's judgment would be was proactively debated both in the Russian media and in the legal literature. In this newsletter, we will provide a brief overview of the state of the discussion at present.

### Parallel imports

The term "parallel imports" is closely linked to trademark rights and in particular to the use of trademarks.

In order to delve more deeply into the thorny issue of parallel imports, the following example from Russian law would appear relevant: when goods labelled with a trademark protected in Russia are imported into Russia, this means not only (a) the import of goods from the standpoint of customs legislation, but also (b) the use of the relevant trademark.

As the use of a trademark requires the consent of the trademark owner, if goods labelled with a Russian-protected trademark are imported into Russia, the consent of the trademark owner must be obtained. At the same time, this rule does not apply to instances when the good is imported by the actual trademark owner or by third parties that received its consent to do so. In the latter instance, the exclusive right to the trademark is exhausted. For example, the German parent company sells goods to its subsidiary in Russia. The right to the trademark is exhausted through the sale, and the subsidiary may sell the goods with no strings attached.

Foreign owners of intellectual property use the aforementioned rule of Russian law, leaving only one official sales channel for the goods: the goods are supplied to the Russian subsidiary or several official Russian distributors, which then organise the marketing of goods in Russia. At the same time, any other importers are deemed parallel importers.

### The rights of the trademark owner during parallel imports

As a general rule, parallel imports are not prosecuted by the government. However, IP owners are entitled to enter their trademarks in a special customs register. In this case the Russian customs authorities will detain the parallel imports and notify the rights holder. Parallel imports of goods will be suspended in this case temporarily (for a maximum of 20 days). The IP owner is entitled to file a claim in court against the parallel importer (on the basis of trademark infringement), demanding the destruction of the goods, and also the payment of cash compensation or the reimbursement of losses.

In its Judgment dated 13 February 2018 the Constitutional Court analysed the issue as to whether this course of action is admissible and whether the trademark owner is entitled to court protection.

### Judgment of the Constitutional Court

The Constitutional Court was considering the following issue in the court case: a Russian company purchased special paper for medical equipment in Poland and imported it into Russia. The trademark owner Sony filed a claim in court on this basis against the parallel importer for the destruction of the goods and the recovery of cash compensation.

All the courts satisfied the statements of claim. In connection with this fact, the parallel importer decided to apply for a review of corresponding provisions of Russian trademark law from the perspective of compliance with the Constitution of the Russian Federation, which regulate and prohibit parallel imports.

The Constitutional Court found that all the provisions of legislation that were the subject of the review and which prohibited parallel imports into Russia complied with the Constitution. At the same time, however, certain of the court's statements indicate that law enforcement practice on parallel imports may change.

For example, the Constitutional Court established that under certain conditions it is possible to restrict the exercise of exclusive rights to trademarks. The court stated several of these conditions: the IP owner acts in bad faith or abuses its rights.

The court did not individually describe the types of such bad faith, although based on an analysis of the operative part of the judgment, we can conclude that there are two types of bad faith. The first could be called "unconditional" bad faith, and the second "conditional" bad faith.

The question then arises of how the manufacturer of the original products can act in bad faith in respect of these products. The court linked this with the sanctions imposed on Russia.

The court declared the behaviour of a foreign IP owner to be in bad faith when it complies with sanctions that were imposed on Russia "*outside the appropriate international legal procedure*". Thus, the foreign IP owner finds itself between a rock and a hard place: if it

complies with the Western sanctions, it may be found to be acting in bad faith, which will make it impossible to take measures against parallel importers.

This wording by the Constitutional Court immediately raises numerous questions.

Firstly, from a practical standpoint it is not clear how a parallel importer can prove that the IP owner (claimant) is complying with sanctions. Russian courts may proceed on the assumption that all IP owners registered in a country that has introduced sanctions on Russia can on this basis be considered to be complying with sanctions, since otherwise such company would be violating the laws of the country in which it was incorporated.

In certain cases, this circumstance can easily be demonstrated: certain companies, including German companies, have already published information on their websites that they will comply with the sanctions on Russia. In this case, a parallel importer will have no difficulty in notarising these web pages and submitting them as evidence in court.

However, another question arises in this case: how can the parallel importer prove that the IP owner (the claimant) is complying with sanctions that were imposed on Russia "*outside the appropriate international legal procedure*".

In this regard, it remains unclear what is meant by the phrase "*outside the appropriate international legal procedure*". Should a review be made every time of whether sanctions violate international treaties?

In any case, there are substantial doubts whether the Russian court is competent to analyse such a complex legal matter of international law.

As an interim conclusion, we can proceed on the basis that in practice it will not be easy to prove that the claimant (the owner of the trademark) is complying with sanctions that were imposed outside the appropriate international legal procedure. Secondly, it is also unclear to what extent Russian courts will following the literal wording of the Constitutional Court.

Regarding "conditional bad faith", the Constitutional Court notes the following:

"Conditional" bad faith requires the onset of certain consequences: danger to the life and health of the public or a threat to other publically significant interests. The judgment of the Constitutional Court does not explain in any more detail both types of consequences of bad faith. Nonetheless, it can be assumed that there will always be danger to the life and health of the public when the parallel import of medical products or medicines is restricted. It is highly probable that publically-significant interests will be infringed in cases where goods imported under parallel imports are intended for sale in government procurement[1].

Thus, the Judgment of the Constitutional Court will affect manufacturers first and foremost, and thus trademark owners which operate in pharmaceuticals and the manufacture of medical products, and also IP owners whose products are involved in government procurements. However, only time will tell which path court practice will take. There is legal uncertainty on this issue.

The restrictions of the Constitutional Court also affect good-faith IP owners (claimants). The Constitutional Court noted that liability for parallel import of original products and for the import of counterfeit products should be different. In other words, the monetary compensation that the respondent will be required to pay based on the court decision cannot be the same for both parallel import and for the import of counterfeit products. Compensation for parallel import must in all cases be lower than compensation for the import of counterfeit products.

This can be explained by the following: when importing counterfeit products, the intellectual property owner suffers reputational damage, something that, in the court's opinion, does not happen in case of parallel import.

At the same time, it is unclear how this requirement can be implemented in practice. The monetary compensation can equal a maximum of either (a) RUB 5,000,000 (around EUR 65,000), or (b) twice the cost of the counterfeit products[2]. Does it follow from the position of the Constitutional Court that in case of parallel import the indicated maximum amount of monetary compensation cannot be awarded by the court in this way, since it will correspond to the maximum amount of compensation for the import of counterfeit products? The position of the Constitutional Court appears to be somewhat unclear in this regard. Here we again have legal uncertainty.

The following position of the Constitutional Court, however, is clear: products imported through parallel import cannot be destroyed. The only exception is when the products imported through parallel import pose a threat to the life and health of the general public.

This position will have an unmistakable influence on law enforcement practice, as up to this point the corresponding claims of intellectual property owners (claimants) on the destruction of the products have been satisfied by the courts. Now there have already been court decisions under which the courts, when considering claims on the destruction of products, cite the Judgment of the Constitutional Court and refuse to satisfy the indicated claims of claimants[3].

## Current court practice

Meanwhile, Russian courts are beginning to cite the position of the Constitutional Court in their decisions.

For example, a court of appeals refused to satisfy the claim of the company Philips against a Russian company on the destruction of a product (a medical device) imported into Russia through parallel import and supplied to a hospital[4]. The court overturned the decision of the court of first instance, citing the position of the Constitutional Court.

[1] Ruling of the Supreme Court of the Russian Federation in case No. A40-188599/2014.
[2] Russian legislation stipulates both counterfeit products themselves and goods imported through parallel import as counterfeit products.
[3] Judgment of the Ninth Commercial Court of Appeals dated 19 March 2018 on case No. A40-98047/16.
[4] Judgment of the Ninth Commercial Court of Appeals dated 19 March 2018 on case No. A40-98047/16.

In another court case the court of appeals refused to satisfy the claims on the destruction of a product (motor oil) on the same grounds: pursuant to the position of the Constitutional Court, the product can only be destroyed in exceptional cases, which in this case did not apply [5].

At the same time, as concerns the amount of monetary compensation the court of appeals satisfied the claim of a manufacturer of medical products from the USA, thereby upholding the decision of the court of first instance, even though the respondent cited the corresponding position of the Constitutional Court [6].

## Conclusion

In its Judgment, the Constitutional Court did not find the provisions of Russian law to be unconstitutional. However, the Ruling contains certain provisions that create loopholes for parallel import, which are already being used in court decisions. It is already clear that claims on the destruction of products imported through parallel import will not be satisfied (with certain exceptions). The issue of when the courts will consider the very submission of a claim by a trademark owner as an abuse of rights is still unclear, however.

The amount of compensation must be calculated precisely and substantiated before submitting such a claim against a parallel importer. It is recommended that evidence be provided that the parallel importer did not have resources for the transport, storage and distribution of specialised products (first and foremost, pharmaceutical products). To explain the higher prices for the goods supplied to the market by authorized importers, the pertinent evidence must also be collected and submitted prior to the filing of the claim.

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[5] Judgment of the Fifteenth Commercial Court of Appeals dated 22 February 2018 on case No. A53-15192/2017.
[6] Judgment of the Second Commercial Court of Appeals dated 5 April 2018 on case No. A28-3039/2017.