



RUSSIAN DESK

Fighting counterfeiting effectively: How to work with the customs authorities, the police and the courts

The problem of counterfeit products in Russia in different economic sectors continues to remain relevant year after year. Russian President Vladimir Putin regularly returns to this topic in his speeches, calling the situation with counterfeit products a disaster.¹

In 2019 alone the customs authorities identified over 11 million counterfeit products and prevented damages of RUB 8 billion that might have been caused in connection with the introduction of the counterfeit products into civil commerce.²

Today the state is ready to provide help in fighting counterfeiting. However, practice shows that the effectiveness of such actions is entirely contingent on the proactive response of the actual rights holder.

For example, you have received information – from your managers or customers – that counterfeits of your products are being sold by a certain company. What steps should you take? Pay a visit to this company and demand a ban on the sale of the counterfeit products? Go to the police and leave it to the authorities to deal with the situation? Or limit your response to publishing information on your website that counterfeit products have been discovered and a warning that customers should not buy these products?

Our experience shows that on each occasion when counterfeit products are identified, the actions taken should above all be measured and consistent. For this purpose, one needs to understand what is meant by counterfeit products, what rights are granted to the rights holder, how the police or customs authorities will act if they receive a statement on counterfeit products, etc. In this newsletter you will find a step-by-step guide on how to fight counterfeiting, which we have applied during the resolution of a number of similar cases.

Step 1: Get all the facts

A counterfeit product means both fake products and also original products imported into Russia as a parallel import. The difference between these types of counterfeit products can be summed up as follows:

- If fakes are imported, customs authorities file suit in court on their own, whereas in the case of the parallel import of original products, only the trademark owner whose rights have been infringed may submit a claim to the courts, while the customs authorities merely notify the trademark owner of such imports.
- Fakes may be removed from circulation and destroyed in all instances, whereas original products imported via parallel imports are only subject to these procedures in exceptional instances (poor quality, danger to the life and health of individuals, etc.).
- The court-ordered compensation for the import or sale of fakes is significantly higher than compensation for the import or sale of original products brought in via parallel import.
- A fake product adversely affects the business reputation of the trademark owner (owing to the low quality of the goods) and causes the trademark owner to suffer losses in the form of lost profits from losing the opportunity to sell a specific number of original products on a market that has been saturated with fakes. This is not the case with original products imported via parallel import.

Accordingly, it is necessary to understand first of all which specific products are being sold by the presumed infringing party: fakes or originals imported into the Russian Federation through parallel import.

¹ <https://tass.ru/obschestvo/574535>,
<https://www.gazeta.ru/business/2018/10/01/12004939.shtml?updated>,
<https://lenta.ru/news/2017/08/24/putinkontrafakt/>,
<https://www.vedomosti.ru/business/news/2017/08/24/730870-putin-kontrafaktnim>.
² <http://customs.ru/press/federal/document/229933>.

If the product has been detained by the customs authorities, it is necessary to study the photographs provided by the customs authorities or, if these are not enough to identify the goods, to send a representative to the bonded warehouse to take samples of the detained products.

If the case of counterfeiting involves the sale of products already in the country, a “test purchase” should be made to clarify the issue. The test purchase should be made by a person (individual or legal entity) that has no discernible link with the manufacturer of the original product. When making the test purchase, this person can enter into correspondence with the presumed infringer and request a commercial proposal. It would also be possible to inquire into the maximum number of products that the alleged infringing party is capable of delivering, to ask about imports of products (it is often the case that the counterfeit product is manufactured outside the Russian Federation), the extent to which such imports are regular, and so on.

Special attention should be paid to shipping documents.

Step 2: Prepare a statement for the police or claim to the court

STEPS TO TAKE IF A FAKE HAS BEEN IDENTIFIED

You may discover after verifying the products that they are obvious fakes: the quality of the products, design features, and materials used clearly demonstrate that the products were not manufactured to your standards and not at your plant. At the same time, the products are labelled with your trademark (or something confusingly similar to your trademark),³ but were clearly not manufactured by your company.

At this stage you have a choice: you can either try to carry out your own investigation (even hiring a detective agency) and attempt to identify all the participants involved in the production, import and storage, offer for sale and sale of the fakes, or you can simply decide to go after the specific infringer from whom you purchased the fakes.

In the latter case, you will have to determine whether you want to file a statement of claim with a commercial court or make a statement to the police.

FILING A STATEMENT OF CLAIM IN A COMMERCIAL COURT

The advantage of turning to a commercial court is the opportunity to recover monetary compensation (together with an opportunity to receive a court order prohibiting the infringer from selling the counterfeit products). A shortcoming is the length of the court proceedings (six months) and the fact that the court order only enters into force one month after its preparation is completed, provided that no appeal is filed.

Of course, the law provides an opportunity to file claims on the adoption of injunctive relief measures (for example, prohibiting the respondent from selling counterfeit products). However, commercial courts tend to satisfy these claims very rarely.

FILING A STATEMENT WITH THE POLICE

As an alternative, you have the right to file a statement with the police on opening an investigation into the actions of the infringer. The statement can be filed online and the police have 30 calendar days to take a decision although, in practice, if the statement is well prepared (it contains a legal classification of the infringer's actions and evidence of the violation has been attached to the statement (copies of shipping documents, photographs of the counterfeit products, etc.)) the police may open an investigation within several days or even almost without delay.

As a rule, after reviewing the statement the police will visit the infringer and perform an onsite investigation. Any counterfeit products are confiscated at this time. We recommend that you accompany the police for the investigation, as they are not as familiar with your goods and may not confiscate all of the counterfeit products.

The appearance of law enforcement usually has a sobering effect on the infringer: they often divulge all the information at their disposal and even hand over the warehouses with the counterfeit products.

Depending on the quantity of confiscated products, the police will either instigate a case on an administrative offence under Article 14.10 of the Code of Administrative Offences (the CoAO) or a criminal case under Article 180 of the Criminal Code. In most cases administrative proceedings are launched.

As part of their internal procedures, the police will perform an expert analysis of the goods, sending you (as the trademark owner) a wide range of inquiries, and will prepare a petition for the commercial court. In our experience, the police find cases on trademark violations quite complex and are often unable to proceed without legal support from the trademark owner. For this reason, we recommend that you support the police during the investigation stage by providing the required consultations on the original goods and the damages caused.

After taking the actions outlined above, the police will begin to prepare a court petition. The police usually use standard templates and the quality of these petitions is usually not particularly good. Therefore, we recommend that the trademark owner, who is generally brought in as a third party, send the court the position of the third party in support of the police's position.

It should be noted here that the persons being prosecuted under these cases often ask to be released from administrative liability due to the insignificance of the violation committed. The infringers (commonly small and medium-sized enterprises) are also often first-time offenders and ask to be let off with a warning. Special note should be made of the non-applicability of these conditions in this specific case.

³ In this newsletter we are only looking at the scenario where you fight counterfeiting on trademark grounds (and not as a subject of patent law, and not in connection with unfair competition).

ACTIONS ON THE DISCOVERY OF ORIGINAL GOODS IMPORTED UNDER PARALLEL IMPORT

If you discover during the investigation that the goods are original goods, you will have two options: you can either perform an independent investigation to uncover everyone involved in the import of the original goods or immediately focus on a specific infringer. In the latter case, you will only have one option – to file a claim against the infringer in a commercial court. You will not be able to file a statement with the police.

In court you will only be able to demand the recovery of monetary compensation: The Russian Constitutional Court has prohibited courts from satisfying claims on the seizure and destruction of goods (except in certain cases). True, the Constitutional Court⁴ did not say anything about cease and desist claims, for example claims to prohibit civil transactions with the goods. We know of cases where the courts have satisfied such claims filed well after the indicated Judgment of the Constitutional Court.

The Supreme Court also pointed to the possibility to use other measures aimed at preventing the circulation of the relevant goods.⁵ Other measures may include, among other things, the following: a ban on civil transactions with goods in Russia, a ban on imports, a ban on offering for sale, a ban on sales or other civil transactions in Russia, and a ban on transportation and storage for this purpose.⁶

Step 3: Oversee the destruction of the counterfeit goods

Trademark owners often wonder about the fate of the counterfeit goods after the infringer has been held administratively liable.

Article 14.10 of the CoAO stipulates their confiscation (together with an administrative fine) as an administrative punishment.

The confiscated instruments of crime or subjects of the administrative violation (i.e., the confiscated goods themselves) are transferred into federal ownership or the ownership of the constituent entity of the Russian Federation (Part 1 of Article 3.7 of the CoAO).

Pursuant to Russian Government Resolution No. 1238 dated 23 September 2019, property confiscated by the state must be disposed of in the following ways:

- processing (recycling);
- destruction;
- sale.

Destruction of property confiscated by the state is the only means of disposal in cases established by Russian law, or if there is an explicit instruction to do so in the court order on the confiscation of the property.

According to Part 4 of Article 1252 of the Civil Code, counterfeit goods marked with the trademark of the trademark owner are to be removed from circulation and destroyed without compensation whatsoever.

At the same time, practice shows that Rosimushchestvo (the Federal Agency for State Property Management), which is responsible for the subsequent fate of property confiscated by the state, will sometimes also decide to process (recycle) counterfeit goods.

On request, Rosimushchestvo will provide a certificate of destruction or processing (recycling) that separately indicates the counterfeit goods confiscated, their characteristics, and the date they were transferred for destruction or processing.

In this way, you can always verify that the counterfeit goods will not find their way back into circulation.

Step 4: Work on errors

So, a statement has been made to the police or submitted to the courts. Now there's time to take a break and work on errors. After all, your trademark has not been listed with the Customs Register of Intellectual Property ("TROIS"), has it?

The most effective means of fighting against counterfeiting is at the stage when it is being imported into the country. For this reason, it would be useful to know who is bringing in the goods (fake or parallel imports) with your trademark into the country.

To this end, it is essential to list your trademark with the TROIS. If you do so, customs checkpoints will scrupulously track the customs declarations submitted by importers for any mention of your trademark in them. If the customs checkpoint discovers such a declaration, it will immediately notify you as the trademark owner of the attempt to import goods branded with your trademark into Russia, while simultaneously suspending the import of these goods for 10 business days.

In the notification sent to the trademark owner, the customs authorities include information useful in the fight against trademark infringement:

- the customs checkpoint through which the goods were imported;
- information on the importer that submitted the declaration (the potential infringer);
- information on the goods being imported (name, quantity, weight) with photographs of the goods attached.

Thus, if counterfeits are discovered by the customs authority at the time they are imported into Russian customs territory, the customs authority will provide the trademark owner with all the information needed to defend their rights.

⁴ Judgment No. 8-P of the Constitutional Court dated 13 February 2018.

⁵ Point 75 of the Judgment of the Plenary Session of the Russian Supreme Court dated 23 April 2019 "On the Application of Part Four of the Civil Code of the Russian Federation".

⁶ Judgment No. S01-559/2017 of the Intellectual Property Court dated 27 December 2019 in case No. A35-9146/2016; Ruling No. 308-ES19-15209 of the Russian Supreme Court dated 23 September 2019 in case No. A53-15192/2017.

If you receive notice from the customs authority, it is essential to determine, based on the information and photographs provided, whether the goods being imported are in fact counterfeit.

If the answer to this question is yes, you should notify the customs authorities of this in writing (in response to the notification you have received).

In your response, you should also ask the customs authority to initiate proceedings against the infringer in a case of an administrative offence and to seize the goods being imported pending consideration of this case.

If necessary to determine whether the goods are counterfeit, the trademark owner has the right to inspect the goods on site (at the relevant customs checkpoint) and, if this inspection is insufficient, to take a sample (samples) of these goods to perform the necessary expert review.

In connection with these actions, the trademark owner has the right to ask the customs authority to extend the suspension of release of goods for an additional 10 business days. Thus, the maximum length of time the goods can be held by the customs authorities without initiating administrative proceedings is 20 business days, i.e. approximately one calendar month.

All expert reviews and inspections should be conducted by the trademark owner within this time. On completion, the trademark owner must inform the customs authority of the status of the imported goods.

Once the trademark owner has confirmed that the goods are counterfeit, the customs authority must on its own initiative initiate a case to hold the infringer (importer) administratively liable under Article 14.10 of the CoAO.

Before going to court in this case, the customs authority must collect all evidence of the offence committed, after which it files the corresponding statement of claim with a commercial court.

In theory, the customs authority must collect the evidence on its own; however, in practice it will always readily accept the assistance of the trademark owner.

If, on the other hand, it turns out that the goods being imported are original goods, the customs authority does not have the right to initiate the corresponding case on an administrative offence. Only the trademark owner has the right to file a claim in court against the unauthorised importer for infringement of its trademark. If the court orders the attachment of the goods being imported, then they remain seized and will be held by the customs authority until the resolution of the corresponding court case. Practice shows that this can be sufficient for the importer to be late in delivering the promised goods to its counterparty, and this – especially when this counterparty is a state authority or a state-owned company – is sufficient to ensure that any further business with this importer will be cancelled.

Conclusion: The fight is justified

In conclusion, we should note one thing: the Russian government now provides foreign trademark owners with all the tools needed to fight counterfeiting. The sooner you start this fight, the less you stand to lose from the actions of unscrupulous businesspeople.

However, if you've already encountered cases of your goods being imported by parallel importers, or you've discovered fakes of your goods on the market, there's still no need to despair! Experience has shown that fighting against counterfeiting can be effective at any stage.



Prof. Dr. Andreas Steininger

Engineer | Of Counsel
BEITEN BURKHARDT Moscow
E-mail: Andreas.Steininger@bblaw.com



Taras Derkatsch

Lawyer | Ph.D. | Associate
BEITEN BURKHARDT Moscow
E-mail: Taras.Derkatsch@bblaw.com



Ilya Titov

Lawyer | LL.M. | Associate
BEITEN BURKHARDT Moscow
E-mail: Ilya.Titov@bblaw.com

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EDITOR IN CHARGE

Taras Derkatsch
Ilya Titov

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YOUR CONTACTS

MOSCOW

Turchaninov Per. 6/2 | 119034 Moscow
Falk Tischendorf
Tel.: +7 495 2329635 | Fax: +7 495 2329633
Falk.Tischendorf@bblaw.com

ST. PETERSBURG

Marata Str. 47-49 | Lit. A | Office 402 | 191002 St. Petersburg
Natalia Wilke
Tel.: +7 812 4496000 | Fax: +7 812 4496001
Natalia.Wilke@bblaw.com