

RUSSIAN COURT SAYS PARALLEL IMPORTATION IS LEGAL

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On December 13, 2017, the Arbitration Court of Moscow declared that a warning notice issued by the Federal Anti-Monopoly Service (FAS) against KYB Corporation (KYB) was justifiable and would not be struck down. According to information published on its own webpage in July 2017, the FAS had issued a warning to Renault, KYB, YD-Diagnostics and one other. The warning suggested that these organizations were in breach of Russian anti-monopoly laws because they had unreasonably refused, when asked on a case by case basis, to consent to parallel importation of goods ([see article](#)).

KYB chose to attack the warning notice in the Arbitration (Commercial) Court of Moscow. KYB's attack was a logical move because Russia is regarded as being a national (regional) exhaustion of rights country. Under Part IV of the Civil Code there is trademark infringement by anyone who introduces goods into commerce in Russia, without consent of the owner of the registered trademark. Until now, it was always thought that only the brand owner and its licensees could legally import gray goods into Russia.

In deciding that the FAS warning letter would not be struck down, the Court acknowledged the provisions in question in the Civil Code. However the Court went to great lengths to exclude parallel importation from the ambit of the provisions.

In its detailed judgment, the Court began by acknowledging the traditional approach that has been applied to the interpretation of the legislation:

This provision of the Civil Code..., implies that when foreign-made goods are acquired in the territory of other states directly from the manufacturer or his representatives, it is necessary to have permission of the right holder (execution of a license contract) in order to obtain the right for importing and marketing such goods to/in the territory of the Russian Federation.

...[KYB] points out that his actions constitute the [proper] exercise of the trademark

owner's rights, provided for by the RF Civil Code.

The Court then pointed out that, in its view, the real object of these provisions was to prohibit acts that were likely to cause confusion:

...according to Article 1484.2 and Article 1477.1 of the Code, a trademark right is exercised for the individualization of goods of legal entities...in order to distinguish goods and services of one manufacturer from goods and services of another manufacturer.

Thus, Article 1484.3 of the RF Civil Code defines an infringement of the trademark right as use of the designations similar to said trademark without permission of the right holder in respect of goods for the individualization of which the trademark is registered, or homogeneous goods, if as a result of such use a likelihood of confusion may arise....

The Court then distinguished parallel importation and said that it was not actionable because no confusion or damage to the brand owner is caused:

Under these circumstances, importation of such goods to the Russian Federation does not cause any confusion of the original right holder's goods and goods imported by an independent business entity ("parallel importer"), and does not comprise objective features of a threat to public interests, since these are goods of the same manufacturer (right holder), which are imported and offered for sale, without providing misrepresentations about the manufacturer or the right holder of the individualization means these goods are labeled by...

The provisions of Article 1515 of the RF Civil Code are meant to prevent importation of illegally acquired or manufactured goods labeled by the manufacturer's trademark, since they qualify as counterfeit those goods, labels, packaging of goods that are illegally labeled by the trademark or by confusingly similar designations.

However, as obvious from the submitted materials, the intent was to import the original goods of the right holder, legally acquired from one of the official dealers; therefore, it is reasonable to assume that the manufacturer's rights to receive monetary compensation for the goods are respected, and there is no threat to the brand reputation as a result of the actions for altering (decreasing the quality of goods).

In view of the foregoing, the actions of KYB Corporation for limiting importation by other parties of the goods legally acquired outside the territory of Russia from the

right holder's dealers, of legally manufactured automotive spare parts and components, legally labeled by the trademarks of foreign right holders, have the purpose to increase its profits by limiting the earnings of potential competitors and crowding them out from the market.

Acts that are intended to curb parallel importation, the Court said, are therefore a form of unfair competition:

These actions conflict with the principles of integrity, reasonableness and fairness and, generally, are contrary to individual, collective and public rights and legitimate interests of the civil circulation participants; and therefore, comprise the elements of unfair competition.

Although the Court's analysis seems logical, the analysis omitted to compare Articles 1484.2 and 1484.3 and the purpose of each. Article 1484.3, which formed the basis of the Court's opinion, deals only with a trademark that is not identical to a registered trademark, but still may be found to be confusing. However Article 1484.3 and the question of confusion under that Article should not apply when it is the identical mark that is in question; Article 1484.2 applies.

Article 1484.2 deals with the exclusive right of the trademark owner to use the identical trademark; it provides to the trademark owner the exclusive right to deal with those goods. That includes the right to introduce such goods in to civil commerce in Russia. Confusion is not at the heart of Article 1484.2.

The refusal to strike out the warning letter was likely the correct one. However the reasons given for the refusal were likely the incorrect reasons.

KYB has filed an appeal on January 12, 2018.

Coincidentally, the Constitutional Court of Russia also recently heard argument on the same issue from a constitutional perspective and a decision is expected soon.

Parallel importation has been a hot topic in Russia and in the Eurasian Economic Union for some time. Legislators indicated in 2017 that there was a move afoot to introduce industry exceptions for parallel importation in sectors such as automotive, pharmaceutical and medical devices. But legislative change takes time and the best estimate was that it might take at least another 18 months, possibly two years or even longer to implement the industry exceptions approach.

If the KYB decision is upheld and if the Constitutional Court decision is aligned with it,

parallel importation may become entirely legal in Russia.

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