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Constitutional Court softens country's stance on parallel imports

Russia - A.Zalesov & Partners

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Infringement
Parallel imports
Enforcement
National

- **Court confirmed that principle of national exhaustion of trademark rights is constitutional**
- **However, damages incurred due to parallel imports are not as severe as those due to counterfeiting**
- **Burden of proof imposed on trademark owners in parallel importation cases was increased**

The Constitutional Court of the Russian Federation, in Decision 8-P dated February 13 2018, has imposed new limitations on the scope of claims that trademark owners can bring against parallel importers.

The Constitutional Court considered whether Clause 4 of Article 1252 (right to destroy infringing goods), Article 1487 (principle of national exhaustion of trademark rights) and Clauses 1, 2 and 4 of Article 1515 (right of a trademark owner to demand the destruction of trademark-infringing goods and require compensation) of the Civil Code comply with the Constitution. The Constitutional Court also considered whether these rules of law should be applied equally to counterfeit goods and to parallel-imported goods.

The case was initiated by a local company which had imported a shipment of branded thermosensitive paper for use in medical equipment by a regional hospital. The shipment was stopped by Customs and was subsequently ordered to be destroyed by the Arbitration Court. The decision was confirmed by the appeal and cassation courts, and was not brought for reconsideration by the (Federal) Supreme Court as a second cassation instance.

The question of whether the principle of national exhaustion of trademark rights should be abolished has long been discussed in Russia. The first steps towards abolishing this principle were made in 2009, when the former Supreme Arbitration Court (then the highest federal court for economic disputes) established the principle that parallel importers can be subject to civil liability for trademark infringement, but cannot be subject to administrative and/or criminal liability.

The next step occurred in 2014, when Russia signed the Treaty on Eurasian Economical Union and Attachment 26 thereto, which established the principle of regional exhaustion of trademark rights within the borders of the Eurasian Economical Union.

In its recent ruling, the Constitutional Court confirmed that the principle of national (regional) exhaustion of trademark rights is constitutional and that it is up to the federal legislator to decide whether the principle of national (regional) or international exhaustion should be applied.

At the same time, the Constitutional Court stated that the damages suffered by trademark owners in cases involving parallel-imported goods are not as extensive as those suffered in cases involving counterfeit goods; this should be taken into consideration by the courts when determining the amount of compensation to be paid by parallel importers for trademark infringement.

The Constitutional Court also ruled that the courts are allowed to refuse protection to a trademark owner if the latter's claims against a parallel importer have been made in bad faith or may cause a threat to the life and health of citizens, or other public interests. As an example of such bad-faith behaviour, the Constitutional Court mentioned assortment or price discrimination, where such actions cause a shortage of certain goods on the Russian market, especially where such goods are necessary for the life and health of citizens.

The Constitutional Court further ruled that parallel-imported goods can be destroyed only where they are of substandard quality, or in order to ensure safety, or to protect life and health, the environment and cultural values.

This Constitutional Court ruling is also interesting because the Federal Antimonopoly Service recently found that a trademark owner was liable for unfair competition for seeking to enforce its trademark right to stop parallel imports. The first-instance court subsequently agreed. That decision has been appealed, and consideration of the appeal is scheduled for March 15 2018.

The practical conclusion from the Constitutional Court decision is that the burden of proof imposed on trademark owners in parallel importation cases has been increased: they must now prove their good faith

when challenging parallel imports; prove that they have suffered damages due to the parallel imports; and, when seeking the destruction of goods, they must prove that the parallel-imported goods do not comply with internal market or safety requirements, and thus pose a danger to public health and safety.

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