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IP and E-Commerce: how to protect rights and not to infringe rights of third parties



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Presently, idea of expanding business through e-commerce (hereinafter - E-commerce) can be a key to the main and additional sales both for the operating company and for start-up entrepreneurs. The number of internet transactions related to sale of goods and services is growing, which allows us to conclude that customers' habits became more flexible towards online purchases. New software that facilitates payments (virtual cards and QR-codes) contributed to increase of credibility of online payments in online stores. Easy-to-use interfaces for selecting the goods and convenient logistics tools also had positive impact on improving e-commerce market. Being at home or in any other place and with Internet access, a customer may browse a store's goods assortment, may compare products and prices of other sellers, as well as may order delivery, which significantly saves time. Sellers offering goods and services online can reduce their cost connected to renting premises and paying staff. In addition, one of the advantages of E-commerce is the option to check statistics of visits to a web page, to find out customer preferences by the number of views of a product.

The Article 1.65 of the Code of the Republic of Kazakhstan On Taxes and Other Mandatory Payments to the Budget provides the following definition of E-commerce; it is an entrepreneurial activity on the sale of goods to individuals implemented by means of information technologies through an online store and (or) Internet website with concurrent observance of the

following conditions:

- registration of transactions for the sale of goods is implemented in electronic form;
- payment for goods is made by wire transfer;
- availability of own delivery service of goods to a customer (recipient), or agreements with persons engaged in delivery of goods, courier and (or) postal services.

This list and definition itself are not limiting and given primarily for tax purposes. If all the conditions specified above are satisfied, entrepreneurs engaged in E-commerce can expect deduction of a corporate income tax to extent of 100%. This preference is introduced to support and enhance entrepreneurship in E-commerce. However, we would like to specify as to the above definition of E-commerce: legislation does not prohibit sale of goods to both individuals and legal entities.

Connection between objects of intellectual property (hereinafter - IP) and E-commerce

E-commerce is connected with sale of goods and services based on IP and its licensing. For example, consider the following options as to what may contain IP object within the framework of E-commerce - music, clothing, various household goods, online courses, design services, illustrating, selling photos, paintings, software licenses and much more. Each of the listed objects can be the result of the creative work of a person and the IP of its authors and/or owners of property rights. Also, it is worth noting that IP is a component of the whole value of a product, and the total value of a product often depends on how IP is estimated. In some cases, value of IP assets exceeds the value of a company^[1] and final evaluation of business in E-commerce shall depend on the fact whether you protected your IP or not. The law provides for protection of IP objects through patents, copyright and trademarks, by protecting against unfair competition. Protection of copyright and industrial property objects encourages authors to create new works and products and get remuneration for them; investors see opportunities in investing in the development of various industries having in mind that investment objects (in this case IP objects) are protected.

How not to infringe third parties rights by using copyright objects?

Copyright means the author's property and personal non-property rights to works of science, literature and art, which are the result of creative activity, regardless of their purpose, content and dignity, as well as the way and form of their expression. The author's rights are subject to protection by virtue of their creation. Registration of such rights is additional and important confirmation[2]. To notify about their exclusive property rights, the author and (or) the right owner have the right to use the copyright protection notices, which are placed on each copy of the work and necessarily consist of the following three elements:

- 1) Latin letter "C" in a circle;
- 2) the name of the owner of exclusive copyright;
- 3) the year of the first publication of the work.

It should be underlined that only an individual can be an author, and both an individual and a legal entity can be the copyright owner.

When an online store owner fills the content of his website with objects protected by copyright without the owner's consent, such actions carry great risks: use of copyright objects for commercial purposes, including images, photos, music and software can entail claims from the right owners for damages, including loss of profits and even criminal liability pursuant to the Article 198 of the Criminal Code of the Republic of Kazakhstan.

In order to avoid infringement to third parties copyright, we recommend undertaking following:

1. Obtain permission from a copyright owner in writing, by sending an e-mail request and in case of absence of an e-mail address to forward a letter-request to the location address;
2. Give a link to get access to initial source of information;
3. Pay attention to the existing symbols which are included in a copyright object - perhaps it is already in public domain and you can use it. For example, it may be abbreviation of the license Creative Commons[3]; However, we cannot recommend using sources where authors' works are in free access, since such objects can be unsecure;
4. Use objects of copyright and related rights by entering into an agreement with a property rights manager on a collective basis. The list of accredited organizations is contained on the official website of

the Ministry of Justice of the Republic of Kazakhstan^[4]. Basically, this applies to such objects as: images, photographs, musical works, the rights of performers and phonogram producers;

5. Address the copyright owner with a proposal to enter into a license agreement.

Following is the example of obtaining the copyright owner's consent through the supply agreement:

A buyer purchased goods for commercial use and in a process of delivery, decided to advertise them while they are being delivered. The advertisement is supposed to use the description of goods and/or images from the supplier's/producer's website, since it is not possible to make his own photographs (as his goods in the process of delivery). Please keep in mind that the subject of purchase agreement was a product itself, and not its images that a buyer intends to use. In this case, one of the ways to eliminate a risk is a relevant term in the purchase agreement clarifying a buyer's right to use images, a description of the goods that are on the supplier's website and link to the website. Thus, the owner of the online store shall be able to use the images, having obtained the necessary consent and shall not violate copyright owner's rights.

We would like to draw your attention to the fact that there are other risks in the framework of copyright protection: for example, before launching your own online store, often creation of a website is ordered to outsourced developers. It is also important to provide for transfer of rights to the result of work and to limit the developer in the use of your developments and design in his future work.

Recommendations: before you start working on the development of a website for an online store, do not forget to draft a non-disclosure agreement to protect yourself against losses due to information leakage.

In addition to copyright, industrial property objects also require special attention. Industrial property objects include: patents for inventions, utility models, industrial designs, trademarks and service marks (hereinafter - Trademarks), brand names, appellations of origin, prevention of unfair competition.

The above objects directly connected to E-commerce and can also be leased under a license agreement or assigned under an agreement. It is worth to

underline that IP objects can be transferred on their own, without principal products or services. For example, company's Trademarks are under such actions.

How to obtain permission to use a trademark (hereinafter – a Trademark)?

Let's clarify what is a Trademark and what is its use:

“A Trademark is a designation registered in accordance with the Law or protected without registration by virtue of international agreements to which the Republic of Kazakhstan is a member. Trademark serves to distinguish goods (services) of certain legal entities or individuals from similar goods (services) of other legal entities or individuals.”

As for the term “use of a trademark” it means a fairly wide range of actions with a Trademark, which are prohibited to be undertaken without permission of a right owner. Consequently, use of a Trademark primarily means application of a Trademark when providing of services and applying a Trademark on the packaging of goods. All actions related to production, import, storage, offer for sale, sale of goods bearing a Trademark mean use of a Trademark. The above list also includes actions as use of a Trademark on signboards, advertising, printed materials or other business documentation, on the Internet, transfer of a Trademark rights and any other introduction into business[5].

Import of goods bearing a Trademark of a right owner without the consent of a latter (parallel import[6]) may be prohibited by a Trademark owner. This issue concerns the principle of regional “exhaustion of rights” when goods circulate freely within one region (Eurasian Economic Union, European Union and etc.) and after purchasing a product, a buyer has the right to dispose of it, including reselling, leasing, but within a certain territory [in which the product was purchased]. As a confirmation, a buyer has documents on the purchase of goods from a person who has rights to a Trademark. However if the goods are exported to another country, then it is required to obtain permission from a Trademark owners in this exact territory to use goods for commercial purposes and introduction into business. Responsibility for “parallel imports” includes civil, administrative or criminal responsibility, removal of goods from civil circulation and their destruction, as well as claims for damages or compensation in the frame of

civil liability.

Recommendations: before concluding a supply agreement with purpose of further resale of goods, it is necessary to check availability of registration of a Trademark^[7] in Kazakhstan. If a Trademark is registered, it is necessary to address a Trademark owner in order to obtain permission to use a Trademark. Otherwise, there is a risk that goods shall be suspended at customs until a response is received from a Trademark owner.

At this point I would like to sum up the first part of our article and suggest that you take an inventory of existing and potential intangible assets, your IP rights, before starting operations related to E-commerce:

Copyright - Review the content that is assumed or already used on the website of your online store or on the Internet site. Are there permissions for photos, music, website design, schemes and other objects of copyright?

Trademarks - Specify which trademarks or designations are used by you on the website. Analyze agreements with suppliers of goods and services for permission to use a Trademark. Request suppliers about their rights to a Trademark. In addition list down other designations you use on a website.

Commercial secret- Identify information that has commercial value for you and that is not intended to be used on a website.

Other agreements - List any agreements that you consider may influence the IP assets you listed (for example, a consultation agreement with a design firm that developed your website, a development agreement with an institute/engineering company; non-disclosure agreements, agreements with employees).

Recommendations: After entering data into a table, review the list or show it to an IP professional. After analyzing a list it shall be clear what needs to be strengthened and what should be corrected in the future. May be it shall be required to enter into an agreement to develop or to amend a website; check availability of permissions from the authors to use relevant content (photo, images, music and etc.), address the organizations that manage property rights on a collective basis in order to acquire rights to use objects of copyright and related rights. Ensure that your Trademark is registered and that you have permission to display a Trademark and other

designations belonging to other companies that you refer to on your website.

The above list is not exhaustive to protect your business in E-commerce. In the next article, we propose to consider the possibility of obtaining patents and their advantages, to review issues related to domain registration and their relationship with brand names and trademarks. Please ask questions and we shall be happy to cover them in the next article.

Alexandra Samsonova- July, 2019

[1] See: Information-network economy: structure, dynamics, regulation/pages 131-132, J.Tobin ratio/monograph S. Dyatlov, T.Selishcheva and V.Maryanenko/, Saint-Petersburgh, Asterion Publishing house, 2008. [2] The author for evidencing personal non-property rights to an unpublished work at any time during the term of copyright protection is entitled to enter the necessary information in the State Registry of Rights to objects protected by copyright. [3] <http://creativecommons.ru/> [4] <http://www.adilet.gov.kz/ru/articles/spisok-organizaciy-upravlyayushchih-imushchestvennymi-pravami-na-kollektivnoy-osnove> [5] <https://ru.bolotovip.com/company-news/publication/o-zashite-tovarnyh-znakov/> [6] <http://ru.bolotovip.com/uslugi/parallelnii-import/> [7] <https://gosreestr.kazpatent.kz/>