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The legalization of parallel imports in Russia. A view from Kazakhstan



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In the context of the sanctions policy of Western countries, the Government of the Russian Federation adopted the Resolution No. 506 On Goods (Groups of Goods) in Relation to Which Certain Provisions of the Civil Code of the Russian Federation on Protection of Exclusive Rights to Results of Intellectual Activity Expressed in Such Goods and Means of Individualization cannot be applied.

Such a decision of Russia carries risks for the EAEU member countries since freedom of movement of goods between the EAEU member states is declared as priority and that means that goods which come to Russia in the form of parallel imports may afterwards move freely between the EAEU member countries.

The adopted Resolution consists, in fact, of a single article under which the Government of the Russian Federation decides to establish that the Ministry of Industry and Trade of the Russian Federation, following proposals from federal executive authorities approves a list of goods (groups of goods) in respect of which the provisions of the Article 1359 and Article 1487 of the Civil Code of the Russian Federation do not apply, provided that the said goods (groups of goods) are put into business outside the territory of the Russian Federation by the right owners or in accordance with their consent.

What does it mean?

The Articles 1359 and 1487 of the Russian Civil Code regulate the provisions on the exhaustion of the right of patent and trademark owners to prohibit the third parties from using patented objects (inventions, utility models and industrial designs) or trademarks if the goods/products in which such intellectual property objects are expressed have been put into business in the Russian Federation with the right owner's consent.

In other words, the provisions of the Articles 1359 and 1487 of the Civil Code do not allow the right owner to prevent the use of original goods, if such goods were put into business in the Russian Federation by the right owner or the third parties, however with the right owner's consent.

The opposite also follows from the same provision: if the original goods have not been put into business in the territory of the Russian Federation by the right owner or with his consent, the right owner retains the right to prohibit the import and circulation of such goods by the third parties. However, with the entry into force of the Resolution No. 506, such *right to prohibit* of the right owner, or rather, the rights of only certain patentable objects and trademark have been terminated.

First of all, it should be noted that it is on such provisions on the exhaustion of rights that the prohibition of so-called *parallel imports* is grounded. The International Trademark Association defines parallel imports as the import of goods bearing a trademark into a certain territory and sale of these goods without the consent of the trademark owner in that territory.¹

From such a definition, one may conclude that the import of any goods, including counterfeit goods means parallel import, as counterfeit goods may also bear a trademark that is imported and distributed in a particular territory without the consent of the right owner. However, the International Trademark Association clarifies that goods under *parallel imports* should be produced by or under license of the right owner and thus are not counterfeit, however they may have been produced and packaged for a particular country; however such goods are being imported into another country contrary to the intent of the right owner.

The problem and essence of the artificial limitation of exhaustion of rights, as well as the mysterious phenomenon of parallel imports arising from it, have been considered by many scholars. The purpose of exhaustion of rights has been described in details by Pirogova V.V. in her research: "this restriction is aimed at protecting public interests in the sense of ensuring free competition of economic entities by preventing the creation of artificial obstacles to the movement of goods and services by means of exclusive rights".

Provisions on the exhaustion of exclusive rights are contained in the laws of all EAEU countries and make it possible to achieve legislative harmonization on this issue. In addition, the provision on exhaustion of rights is also provided in the Annex No. 26 to the Treaty on the Eurasian Economic Union, which says that the principle of exhaustion of exclusive right to a

¹ <https://www.inta.org/topics/parallel-imports/>

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trademark or a trademark of the Union applies in the territory of member countries pursuant to which it is not a violation of the exclusive right to a trademark or a trademark of the Union to use this trademark or a trademark of the Union for goods that have been legally introduced into business in any of the member countries directly or indirectly by the right owner or by the third parties pursuant to the right owner's content.

Thus, all the member countries of EAEU in a single international document have established that the import into the territory of a country of original goods with a trademark, which is carried out without the consent of the right owner of such a trademark in the territory of this country is an infringement to the right owner's rights.

Resolution No. 506, in its turn, violates this principle of the international treaty and, in theory, cannot be applied even in Russia by virtue of the Article 15.4 of the Constitution of the Russian Federation, according to which if an international treaty of the Russian Federation establishes other rules than those stipulated by law, then the rules of the international treaty shall be applied.

At the same time, returning to the principle of free movement of goods between EAEU member countries, it is easy to assume that goods imported into Russia through parallel imports, which are now allowed in Russia, can be freely moved into the territory of any EAEU country, including the territory of Kazakhstan. Now it should be noted that Kazakhstan's legislation prohibits such parallel imports, including from Russia, if the goods have not been put into business in Russia with the consent of the right owner (an important condition is that the right owner must be the same entity in Russia and Kazakhstan). Accordingly, the parallel imports of goods permitted in Russia is not a permitted parallel imports in Kazakhstan, although in practice, given the free movement of goods between the countries, separating *white beans from brown beans* shall be extremely difficult.

While customs measures to protect intellectual property rights provided in the Customs Code of the Eurasian Economic Union and national customs laws help prevent parallel imports in the EAEU, such measures do not apply between EAEU members, and there is no way for Kazakhstan to stop mass parallel import, which may start to arrive from Russia.

The increase in parallel imports has the effect of increasing unfair competition in relation to official supply and distribution channels, which reduces the attractiveness of investment, in this case in Kazakhstan. The fact is that in the case of parallel import, those who have obtained the consent of the right owner, and who may have signed an agreement with the right owner under which they pay royalties or other compensation, or who meet additional conditions are in the same position as those who have not obtained any consent from the right owner and who do not incur any additional costs. In other words, the official trading network of the right owner, including in Kazakhstan, is put on unequal terms with unofficial suppliers of goods.

In addition, parallel imports entail the risk of an increase in counterfeit products. Indeed, it is not difficult to imagine a practical situation in which one container or truck carrying a

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consolidated cargo has the original parallel imported goods on the side closer to the door of the container or vehicle, while closer to the middle in the same container are already counterfeit goods.

In addition, a big question arises in practice who exactly will determine whether the goods are original or counterfeit - there are no experts who would understand the authenticity of all goods, and for this reason the authenticity or counterfeit of goods is determined by the right owner himself; in our case, allowing the parallel imports of goods means that all goods imported without the consent of the right owner are initially considered original and subject to free importation, although in fact they can be counterfeit as well.

In addition, special attention should be paid to the fact that the Resolution No. 506 allows the exhaustion of rights provisions not to apply only to certain goods (groups of goods). In other words, the parallel imports of not all of the goods, but only those that will be approved by the Ministry of Industry and Trade of the Russian Federation is allowed. Those goods that are not on the list of the Ministry of Industry and Trade will be forbidden to be imported in parallel with the right owner and its official channel. Thus, the Resolution No. 506 also introduces the practice of legal discrimination against certain rights owners (groups of rights owners). Such discrimination, taking into account the principle of free movement of goods, may extend to Kazakhstan and lead to discrimination against right owners who carry out their activities on the territory of the Republic of Kazakhstan. Moreover, such discrimination will be indirect, as Kazakhstan has not directly allowed parallel imports of certain groups of goods.

Consequently allowing parallel imports in Russia and generally speaking in any other EAEU country, firstly, contradicts the EAEU Treaty provisions, which means that such permission cannot be applied due to similarities (concerning the issue of international treaty prevailing over national law) in the constitutions of all EAEU countries, secondly, it creates grounds for unfair competition in Russia and Kazakhstan (and other EAEU countries as well) which in the conditions of the liberalized political and economic system of Kazakhstan could be negative factor for attracting investments, in third it is a risk for increase of counterfeit goods and in fourth this is a discrimination of right owners of patented objects and trademarks in Russia which then can result in the same discrimination in Kazakhstan.

On the one hand, of course, the reasons for adopting such a Resolution by the Russian Government are quite understandable, because in the current situation, when sanctions imposed by foreign states negatively affect supplies of goods to Russia, the market still needs imported goods, which cannot be legally imported due to provisions on exhaustion of rights. However, on the other hand, the adoption and application in practice of such a resolution partly negates the principle of the rule of law, as it contradicts the superior legal act in the hierarchy that is the Treaty on the EAEU.