

## COMMENTS ON THE INTELLECTUAL PROPERTY RIGHTS PRACTICES OF THE RUSSIAN FEDERATION

**TO:** Jennifer Choe Groves, Director for Intellectual Property and Innovation and  
Chair of the Special 301 Committee, USTR

**FR:** Tom Thomson, Executive Director  
Olga Barannikova, CIPR Russia Representative

**RE:** Special 301 Review

**DATE:** February 11, 2008

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This statement is filed on behalf of the Coalition for Intellectual Property Rights (CIPR) in response to a request by the Office of the U.S. Trade Representative (USTR) for comment as required by Section 182 of the Trade Act of 1974. CIPR's comments focus on the Russian Federation.

### THE COALITION FOR INTELLECTUAL PROPERTY RIGHTS

The Coalition for Intellectual Property Rights (CIPR) is a private-public partnership dedicated solely to advancing intellectual property rights (IPR) protection and reform in Russia, Ukraine and in other countries of the former Soviet Union. Through research, education, legislative initiatives, coalition building and legal, judicial and regulatory reforms, CIPR assists governments and businesses in the region to establish transparent and non-discriminatory IPR regimes and to adhere to international IPR standards.

CIPR represents a select group of major U.S. multi-national companies as well as business and professional associations concerned with the protection and enforcement of industrial property protection. CIPR monitors the IP regimes in Russia and in other countries in the region through our on-the-ground representatives in those countries and maintains ongoing relationships with relevant government decision-makers and representatives of the business community.

For additional information on CIPR, please visit <http://www.cipr.org>.

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## SUMMARY OF PROGRESS AND CONCERNS

### *Part IV of the Civil Code*

In the August 2007 Russia Out of Cycle filing, CIPR reported that the Russian Federation had taken significant steps towards addressing outstanding IP issues as set forth in the US-Russia Bilateral Agreement. In particular, we cited the activities of the RF IP Experts Council to develop trademark protection amendments for Part IV of the Civil Code that would be in compliance with TRIPS and other international treaty obligations. The RF IP Experts Council, which was comprised of IP experts from the public and private sectors (including CIPR), provided an excellent opportunity for rights holders to participate in the Part IV of the Civil Code legislative amendment process. The final package of trademark protection amendments submitted to the RF IP Experts Council was prepared by CIPR and other organizations.

Prior to the fall 2007 legislative session, the RF Experts Council was to submit the trademark protection amendments prepared in this public-private sector process for comment by the RF Ministry of Economic Development and Trade and Rospatent, on behalf of the Ministry of Education and Science, as well as the Research Center for Private Law. The next stage of the process was for the RF IP Experts Council and key State Duma Deputies to review the draft trademark protection amendments and comments from the government and non-government bodies (CIPR's summary of recommendations on the Part IV of the Civil Code trademark protection amendments are attached as an appendix).

Unfortunately, the legislative amendments to Part IV of the Civil Code were not introduced in the State Duma in 2007. The legislative session was abbreviated to allow lawmakers to campaign for parliamentary elections on December 2, 2007, which was followed by a legislative recess until December 24, 2007. Moreover, the October 2007 resignation of the Fradkov government and the appointment of the Zubkov government was another major unexpected interruption. The combination of a new government and a compressed timeframe for lawmakers to address several major legislative priorities reduced the windows of opportunity for the State Duma to focus on the Part IV amendments. Another contributing factor had been differing views on IP issues under negotiation between the Russian government and the US government, and other WTO member states in the WTO accession talks.

As of January 1, 2008, Part IV of the Civil Code is now in force. CIPR is deeply concerned about possible negative impacts of the current version of Part IV of the Civil Code on the regulation and enforcement of IP law in Russia, as well as serious potential gaps in IP protections for rights holders. One of the most urgent issues is to secure legislative approval for the draft administrative regulations for Part IV of the Civil Code that were prepared by the RF Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) in 2007. Government regulators and enforcement officials are without guidance on how to interpret and address IP legal issues. Rospatent officials, quoted in Russian media, state that they will be unable to regulate patents and trademarks until the State Duma approves the Part IV administrative regulations. In the courts, Russian judges will be required to interpret IP issues

brought to the bench using a legal code that is not in compliance with TRIPS and international treaties that Russia has ratified. The potential is now higher for damages to rights holders through misinterpretations of the law, as well as gaps in legal protections that can be taken advantage of by trademark infringers and counterfeiters. We urge the US government to encourage the Russian government to approve the draft Part IV administrative regulations as soon as possible.

A major step towards providing Russian IP stakeholders with a framework of IP legal protections based on international law and practices is to complete the Part IV legislative amendment process. CIPR again urges the US government to establish a timeframe with the Russian government for introducing the Part IV of the Civil Code legislative amendments to the State Duma.

***Product Labeling Law - “On Measures Against the Sale of Certain Categories of Goods Manufactured in Contravention to Laws of the Russian Federation”***

In fall 2007, a group of State Duma Deputies, including Speaker Gryzlov, introduced a draft law that would require products from several consumer and industry sectors to have barcode labels to help distinguish legitimate products from counterfeits. The barcodes would contain special identifiers, and be placed on products with equipment paid for by the manufacturers. Domestic manufacturers would be responsible for affixing the barcodes to their products. Russian customs would be responsible for all applicable foreign goods entering the country.

A coalition of consumer groups, affected industry sectors, business and IP organizations raised concerns about the draft law in letters to Prime Minister Zubkov and State Duma Speaker Gryzlov. The coalition cited a similar attempt to label alcohol beverage products that resulted in lower sales and higher consumer costs, and no measurable reduction in the traffic of fake alcohol beverage goods in the marketplace. Shortly thereafter, Speaker Gryzlov and other key legislators dropped their support for the draft law. However, despite this, the draft bill was still carried over to the current legislative session.

The draft bill is currently under review by the Russian government. The Ministries of Economic Development and Trade and the Ministry of Finance have issued negative opinions on the draft bill, but the Ministry of Justice gave it a positive review. A first reading of the draft bill has yet to be scheduled, but could be anytime. CIPR believes this legislation was proposed with good intentions, but would have little impact on the trade in fake goods. We urge the US government to encourage the Russian government to abandon this flawed approach and to address the problem of counterfeit goods in favor bringing its IP laws into compliance with international laws and practices and improving existing enforcement practices.

***Product Counterfeiting and Piracy***

Since the August 2007 filing, the Russian government has been more aggressive in taking actions against product counterfeiters and pirates. CIPR welcomes this trend and hopes to see more concerted efforts to address this still massive problem that impacts all Russian IP stakeholders, especially consumers and rights holders. We urge the US government to

encourage the Russian government to increase its enforcement efforts against illegal producers of product counterfeits and pirated goods, and to work closely with domestic and international industry to institutionalize the public-private effort to combat this insidious problem.

In other positive steps, in 2007, the Russian government passed amendments to the Criminal Code to strengthen penalties for trademark and copyright violations. CIPR very much supported this legislative initiative by the Russian government, but remains concerned that the Criminal Code and the Civil Code still do not distinguish between routine infringement and counterfeiting, which potentially gives trademark pirates opportunities to inappropriately use the court system to victimize legal trademark owners. Such a legislative clarification would enhance the effectiveness of this well intended effort by the Russian government to provide deterrents to engaging in IP crime and to protect legitimate IP owners from being preyed upon by trademark pirates.

While acknowledging progress, CIPR requests that the US government urges the Russian government to demonstrate a higher level of commitment to addressing the problem of fake goods through increased enforcement actions to seize fake goods, their means of production and to arrest the criminals involved. We note that the mutually agreed upon commitments in the IPR Side Letter to the US-Russia Bilateral Agreement include enacting ex-officio authority for customs officers and to increase law enforcement activities against producers and distributors of product counterfeits and pirated goods. We urge the US government to encourage the Russian government to reintroduce the ex-officio amendment to the Customs Code and enact it as soon as possible.

## **CONCLUSION**

We thank you for the opportunity to comment on the intellectual property rights practices of the Russian Federation. CIPR has been a strong proponent of WTO accession for the Russian Federation. We appreciate the efforts of the US government and the Russian government to establish an IPR protection framework in Russia that will benefit Russian and American IP stakeholders. Please contact me at (202) 466-6210 or CIPR's Russian Federation Representative, Olga Barannikova, at (+7495) 775-0077, if you have any question or need additional information.

## APPENDIX #1

### CIPR's Positions on Key Trademark Protection Amendments in Part IV of the Civil Code of the Russian Federation

- Lack of a Uniform Infringement Standard: Early drafts of the law appeared to impose different confusion standards, and thus different infringement standards, for different types of “means of individualization” (e.g., trademarks, company names, domain names, etc.). This feature, combined with other provisions in Part IV (see below), resulted in too broad a scope of protection for domain names and company names, and too narrow a scope of protection for trademarks. The version of the law that has been passed makes an attempt to remedy this problem by adding a provision imposing a uniform likelihood of confusion standard – a major improvement. However, the individual confusion standards for each type of mark or name have not been removed, thus creating possible internal inconsistency in the legislation and ambiguity as to which standard applies in any given case and in any given legal proceeding (e.g., examination, invalidation, infringement action, etc.). Removing the individual infringement standards for each type of means of individualization would remedy this problem so that the drafters’ intent for a single infringement standard is implemented by the courts.
- Overbroad Protection of Domain Names: Part IV effectively grants rights in gross to owners of domain names. It provides that the owner of a domain name may block the use and registration of an identical trademark with no showing that the domain name qualifies for trademark protection. Protection for domain names should be removed entirely from Part IV, consistent with international norms – no other country grants such broad rights in domain names. In light of the concerns raised by amendments to Article 180 of the Russian Criminal Code, eliminating IP rights in domain names takes on an extra measure of urgency. Pirates can register domain names and use this simple domain name registration to prey on legitimate brand owners and threaten the legitimate owner and user of a mark with potential criminal sanctions.
- Overbroad Protection of Commercial Designations and Company Names: Part IV provides for rights in unregistered “commercial designations” without limiting protection to the territory in which the designation is known. Further, for purposes of trademark registration refusal, these same rights arise not only in commercial designations and company names, but also in “parts” of commercial designations and company names, and potentially can resurrect, as obstacles, any names that have obtained protection as either company names or commercial designations in Russia prior to the trademark’s priority date, whether “known” or not.
- Insufficient Protection for Well-Known Marks: As required by TRIPs and other treaties, Part IV provides for a broader scope of protection for well-known marks, correctly imposing an “association” standard rather than a confusion standard, such that a violation should be found regardless of the goods for which the junior mark is used. However, Part IV does not prohibit the *registration* of marks that violate these broader rights of well-known marks

(perpetuating a problem that exists in current law), which leads to the extremely inefficient result that such marks will be registered by Rospatent (as they are today) even though such marks violate the rights of the well-known mark owner and even though the registrations will then have to be invalidated by means of an administrative or court action. This will make the Russian trademark register less reliable and less reflective of legitimate rights. It will also raise costs for trademark owners and for Rospatent and the Russian court system.

- Overprotection of Geographic Indications: Part IV maintains absolute priority of “appellations of origin” over trademarks, which is directly contrary to TRIPS and the 2005 WTO Panel decision regarding the relative rights of GIs and trademarks.
- Register Pirates: Part IV does not provide a basis for rejection of, or contesting, registrations made in bad faith. Thus, it has been difficult, at best, for legitimate trademark owners to cleanse the registry of piratical registrations by parties whose purpose is to make a living by seeking compensation for such activity from legitimate trademark owners. Accordingly, we would urge inclusion of a provision to the effect that a trademark shall not be registered or, if registered, may be invalidated, if the applicant applied for registration in bad faith.
- Lack of Opposition Procedures: Perpetuating an existing problem at Rospatent, the legislation fails to provide for third-party opposition to trademark and GI applications prior to registration. Given that Rospatent has proven extremely reluctant to overturn a registration once granted, this is a significant problem for trademark owners. It is also contrary to international norms - well over 80% of jurisdictions worldwide provide for third-party opposition prior to registration. Providing for opposition procedures would have many benefits – it would lead to (i) a more reliable trademark register that is more fully reflective of legitimate rights, (ii) a substantial reduction in the number of invalidation proceedings, and (iii) a substantial reduction in the number of court challenges to existing registrations, all of which would save valuable Rospatent and court resources.
- Lack of Transparency at Rospatent: Perpetuating another current problem at Rospatent, the legislation fails to provide for official publication of pending trademark applications prior to registration and fails to provide public access to the full examination file either before or after registration. Official publication of pending trademark applications, and public availability (at the requestor’s expense) of the full examination and registration file would (i) support the invalidation (and opposition) processes, making them more effective, and (ii) improve public confidence in Rospatent and the trademark protection system.
- Trademark Licensing and Franchising: Part IV contains several very problematic provisions for trademark licensors, namely:
  - Taking the concept of quality control far beyond international norms, the legislation imposes joint and several liability on trademark licensors for the goods and services of the licensee for which the mark is licensed. To the best of our knowledge, no other country in the world imposes joint and several liability on the licensor, regardless of the circumstances.

- Perpetuating current Russian practice, the legislation provides for mandatory recordal of all trademark licenses against the registration of the licensed mark, an extremely burdensome and costly requirement that serves no legitimate purpose and has been abandoned by all but a handful of countries around the world. Failure to record results in the invalidity of a license agreement. Moreover, if the licensed mark is not yet registered in Russia (e.g., the application is still pending), the license cannot be recorded and is therefore invalid. In other words, a trademark owner cannot enter a valid and enforceable trademark license until the licensed mark has been registered.
- The legislation changed the law of franchising in a number of ways and in particular imposes a new requirement that the bundle of rights that make up a franchise must in all cases include registered marks – unregistered marks may not be licensed as part of a franchise.

Each of these provisions is contrary to international norms and goes further than necessary to prevent trafficking in trademarks and maintain public confidence in licensed brands. Moreover, the costs and burdens are so great for trademark licensors that many licensors will choose not to license marks in Russia, to the detriment of Russia's economy.

- Fair Use: Part IV contains no provision for the fair use of trademarks, arguably making a simple descriptive or nominative use an infringing act.

### **Criminalization of All Infringement**

Russian law does not distinguish between infringement and counterfeiting/piracy, neither in Part IV nor in the Criminal Code. As such, all infringements are potentially subject to criminal sanctions. Enforcement authorities and the courts could potentially treat cases of routine infringement as criminal matters when they should be addressed under civil law. As the law stands now, a routine trademark dispute between two legitimate companies over similar marks for similar goods (such as the well-publicized dispute between Apple Records and Apple Computer) could subject the junior user to criminal sanctions, including jail time for executives, even though the junior user has no intent to deceive or to pass off his goods as those of another.

In addition, the failure to define counterfeiting and piracy will exacerbate the already serious problem of “register piracy” in Russia (when famous brands are registered in bad faith by unauthorized third parties). Under the amended Article 180, in a bizarre twist of justice, such bad faith owners of pirated marks could seek criminal sanctions against legitimate trademark owners using their own marks. The threat posed to legitimate trademark owners under the present scenario alone is clear, since law enforcement officials and courts would be bound to accept, prima facie, ownership of the registered (albeit pirated) mark. A similar scenario could play out in the case of bad faith domain name registrants who, pursuant to Part IV, have absolute domain name rights that trump legitimate trademark rights.

To fix these problems, language in both Part IV and in the Criminal Code requires amendment. Trademark infringement must be decriminalized in Part IV and trademark counterfeiting and

piracy defined as a criminal act that is covered under the Criminal Code. We recommend the following:

- Amend Part IV to remove all provisions that state that any goods marked with a sign that is found to be infringing a registered trademark are counterfeit;
- Add definitions of counterfeiting and piracy to the Criminal Code and remove all references to illegal or unauthorized use of trademarks. These definitions should be narrow and focused on conduct that is intended to deceive and to pass off goods or services as those of the brand owner or, in the case of piracy, to gain rights illegitimately.

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