

## How Russia's Parallel Import Order May Affect Companies' IP

By **Ksenia Andreeva** and **Valentina Semenikhina** (May 11, 2022, 6:02 PM EDT)

In light of trade restrictions and foreign companies discontinuing business in Russia, the Russian government resolved to remove the legal protection of intellectual property rights embedded in certain goods and trademarks attached thereto, thus enabling parallel import of such goods to Russia without authorization of the relevant intellectual property holder or authorized distributor.

The Russian government adopted Decree No. 506 on March 29, authorizing the Ministry of Industry and Trade to identify, by proposals of the federal executive bodies, the types of goods exempted from the protections envisaged by Articles 1359(6) and 1487 of the Russian Civil Code on regional exhaustion of IP rights.

Decree No. 506 came into force upon its official publication on March 30.

The Russian government expects that the new regulation, which effectively legalizes parallel imports of certain goods to Russia, will allow continued satisfaction of consumer demand in Russia and keep prices for the imported goods at reasonable levels.

### International Exhaustion of IP Rights

Decree No. 506 builds on Russia's Federal Law No. 46-FZ, adopted March 8, which entitled the government to exclude certain goods from the application of Civil Code provisions concerning the protection of IP rights.

It is expected that Decree No. 506 will allow the Ministry of Industry and Trade to selectively apply the principle of international exhaustion of IP rights in relation to the affected goods, as opposed to the principle of national — or regional, within the Eurasian Economic Union — exhaustion set forth under the Russian Civil Code.

In particular, the following provisions of the Civil Code will not apply to the affected goods.

- Article 1359(6) — Actions that are Not Infringing the Exclusive Rights to an Invention, Utility Model or Industrial Design — which disallows the import to Russia, use, marketing, sale, commercial transacting with, or storage of a product in which an invention, utility model or industrial design is used without consent by the IP holder.



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- Article 1487 — Exhaustion of the Exclusive Right to a Trademark — which disallows the use of a third-party trademark without the trademark owner's consent.

As such, the decree does not introduce the principle of international exhaustion of the IP rights in Russia generally — which principle has been strongly supported by the Russian Federal Antimonopoly Service, or FAS, for years, but entails amending the Civil Code.

Instead, it provides that foreign IP holders will not be able to rely on the principle of national/regional exhaustion of IP rights in relation to certain types of goods, identified potentially only temporarily, during 2022.

### **Types of Goods Affected**

On April 19, the Ministry of Industry and Trade adopted Order No. 1532 — providing a broad list of goods to be covered by Decree No. 506. Order No. 1532 was officially published on May 6 and came into effect on May 7.

In total, the order covers 55 goods categories, in some cases accompanied by names of particular manufacturers and trademarks, and includes ores, petroleum, mineral fuels, pharmaceuticals and medical products, chemical products, paper, textile fibers and materials (e.g., cotton, wool, silk), clothing and footwear, base metals, plastics, rubber and products thereof, equipment and devices for the nuclear industry, electrical machinery and equipment, land vehicles, ships, furniture, etc.

All of these categories are further subdivided and detailed in order to define certain goods to which parallel import applies. Therefore, it is crucial to assess on a case-by-case basis whether a particular item falls under Order No. 1532.

At this stage, it is unclear what criteria the Ministry of Industry and Trade used to put together the list of goods categories, and particular manufacturers and their trademarks.

While certain types of goods appear to match the criteria of essential, irreplaceable and critical needs goods, which one would expect to be included on the list, there are also some goods and trademarks that refer to luxury goods — e.g., cars, furs, musical instruments, high-end consumer electronics.

It is expected that the list of goods may be amended from time to time and, most likely, will be expanded in the near future.

### **Potential Implications for Foreign Manufacturers**

Order 1532 may have various implications for foreign manufacturers.

### ***Counterfeit Goods***

Prior to Decree No. 506 coming into effect, foreign manufacturers and distributors have relied on a well-developed practice of registering their IP with a customs register maintained by the Federal Customs Service, or FCS.

By registering its trademark with such register, the right holder was able to effectively block any unauthorized import of goods in which such protected right was embedded, whether counterfeit or parallel import, as the FCS reported any suspicious import to the right holder. As of the end of the first quarter of 2022, the number of IP registrations, according to the data published by the FCS, was close to 6,000.

Upon Order No. 1532 coming into effect, the FCS is likely to stop taking any protective measures with respect to the goods and trademarks listed in the order, even in relation to blatant counterfeit. This is perhaps the greatest risk that Order No. 1532 presents for manufacturers of complex goods — for example, electronic equipment.

This is because, in practice, usually only the manufacturer has the special expertise and technical information necessary to determine whether a particular batch of goods is counterfeit or original. If the FCS stops reporting to and cooperating with the right holders, the import of counterfeit goods to Russia will likely grow dramatically.

Consequently, foreign manufacturers may face reputational damage and the increased cost of litigating unreasonable claims from Russian consumers.

To mitigate the risks, foreign manufacturers should either seek exclusion from the list of goods covered by the order — see below on the absence of relevant procedure currently — or implement protective measures against importers of counterfeit goods through their presence in Russia.

### ***Consumer Liability***

The FAS takes the position that the goods imported to Russia without the IP owner's consent should still be subject to the manufacturer's warranty, and the manufacturer liable to consumers for defects and bad quality under the general standard of consumer protection laws in Russia.

This may present a substantial risk for foreign manufacturers, which may face warranty claims and bad quality claims from consumers, even if the particular product was not initially designed for use in Russia. To mitigate the relevant risks, foreign manufacturers should audit their distributorship and logistic chains where possible, to ensure that their products will not be imported to Russia without their express consent.

### ***Regulation Deficiencies***

Order No. 1532 is silent on the implementation mechanism for the FSC. Moreover, there is no clarity on the procedure for amending the list, e.g. by way of excluding foreign manufacturers and certain trademarks from it.

Reportedly, the Ministry of Industry and Trade wishes to decide potential exclusions from the list on a case-by-case basis, at its sole discretion. So, foreign manufacturers wishing to be excluded from the Order No. 1532 list should be ready to provide strong arguments that would be positively considered by the ministry.

Notably, in a recent interview, the head of the Ministry of Industry and Trade reported that since the publication of the list in April none of the manufacturers specifically listed have approached the authorities asking to be removed from the list. The Ministry foresees that the decisions on removals will be made on case-by-case basis upon the relevant manufacturer's decision to continue supplies to, or

operations in, Russia.

### ***Lack of Adequate Remedies***

It seems obvious that foreign manufacturers covered by Order No. 1532 will quickly face competition from parallel importers that will benefit from the market legitimate importers developed, while damaging their revenue prospects and, potentially, their reputations.

Such considerations, together with the selective approach to cancellation of the national/regional exhaustion of IP rights — as opposed to the uniform approach under the Civil Code — raise the question about whether it is possible for foreign manufacturers to seek legal protection in the Russian courts.

Given the overall legal enforcement trends in Russia, there is a risk that foreign manufacturers will not be able to effectively protect their rights in Russia.

While the measures taken by the Russian authorities in adopting Decree No. 509 and Order No. 1532 allow parallel imports, they only do so selectively and at this stage do not follow a more radical proposal by the FAS to apply the principle of the international exhaustion of IP rights to all goods imported to Russia.

This leaves some potential for negotiation between the Ministry of Industry and Trade and affected international manufacturers and business associations that have strongly advocated for keeping the national and regional exhaustion of the IP rights in Russia. It remains to be seen however what kind of arguments would be accepted by the Russian authorities in the current circumstances.

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