

Russian Intellectual Property Laws Meet Essential WTO Standards

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Substantive amendments and criminal penalties enacted over the last two years have brought the intellectual property (IP) laws of the Russian Federation into substantial compliance with the standards of the World Trade Organization. Although enforcement continues to be a problem and there is a continued need for the protection of pharmaceutical data, Russia's WTO accession is currently stalled because of trade issues unrelated to IP enforcement, including export tariffs on lumber, agricultural subsidies, food certification requirements, and the preoccupation of WTO members with an early conclusion to the Doha Round.

Obstacles to Russia's WTO accession have been compounded over the past six months by a groundswell of public sentiment in Russia against free trade resulting from the global economic crisis, along with political estrangement in the wake of disputes with Georgia and Ukraine and disaffection with American military plans in Eastern Europe. Forecasts calling for WTO accession in 2009 have been extended to 2010 and beyond.

Nonetheless, the United States continues to support Russia's accession to the WTO, perhaps now more strongly than ever. While shortfalls persist, amendments to the country's IP legislation over the past

two years and related developments outlined below could constitute grounds for the United States and European countries to declare a qualified victory on the intellectual property front and concentrate their efforts on more immediate impediments to Russia's integration into the global trading system.

IP Protection as Condition to WTO Accession

Compliance with the 1995 Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) as a condition of WTO accession has been a driving force in the development of Russian IP legislation. In 2006, the United States and Russia concluded a bilateral agreement calling for certain measures to facilitate Russia's WTO accession, including:

- amendments to Russian IP legislation;
- criminal penalties for IP piracy and counterfeiting;
- strengthening of border enforcement; and
- protection of pharmaceutical test data submitted during the marketing authorization process.

Of these objectives, the first two have been attained, progress has been made toward the third, and the fourth involves an

industry in which manufacturers may possess sufficient leverage to protect their interests in light of Russia's plan to provide low-cost universal health care by 2020.

Recent IP Amendments

Effective January 1, 2008, the IP laws of the Russian Federation were overhauled in the form of a new Part IV to the Russian Civil Code.

Copyright Law

Part IV of the Civil Code includes a 2004 amendment increasing the term of copyright from 50 to 70 years after the author's death and a 2006 amendment guaranteeing the exclusive right to transmit works in a digital format. While compensatory damages were already available, punitive damages were introduced as well as statutory damages ranging from 10,000 rubles to 5 million rubles (roughly \$350 to \$180,000), or twice the value of the goods in the case of a counterfeit seizure. The new law also clarifies the procedure for the seizure of counterfeit art and recordings.

On February 5, 2009, Russia's accession to the 1996 World Intellectual Property Organization (WIPO) Copyright Treaty entered into effect. The treaty enhances the protection of digital works by ensuring

protection for computer programs as well as the arrangement and selection of material in databases, and providing that authors retain control over rental and distribution of their works. The treaty also prohibits circumvention of technological measures for the protection of works and the unauthorized modification of rights management information contained in works.

While these developments signify Russian compliance with substantive WTO copyright standards, the Russian marketplace is plagued by a conspicuous lack of enforcement, marked primarily by the absence of surprise inspections at premises where pirated goods are produced. This problem was addressed in the Special 301 Report issued by the U.S. Trade Representative on April 25, 2008, which maintained Russia on the Priority Watch List. The USTR found that Russia had made “some progress,” for example, by moving optical disc factories off government-controlled sites and raiding unlicensed factories, but that “rampant counterfeiting and piracy problems” persist, and that large-scale production and distribution of counterfeit optical media and Internet piracy continue to be major problems.

Notwithstanding, progress with copyright and other IP enforcement is resulting from actions by Russian plaintiffs in Russian courts. For example, in October 2008, Russia’s state media conglomerate “VGTRK” filed lawsuits against www.mail.ru (one of Russia’s largest internet portals) and the social networking site “Vkontakte” (Russia’s version of Facebook). Intellectual property has become a priority in the Russian judiciary; as of this writing a so-called “Ruling Overview” is expected from a plenary joint session of the Russian Supreme Court and the Russian Supreme Court of Arbitration.

Trademark Law

Part IV of the Civil Code strengthens the rights of trademark owners. Punitive damages are now available in an amount of up to twice the value of goods sold under an infringing mark. While the law appears to meet WTO standards, it has

generated controversy over a number of issues, including:

- the enactment of individual standards of infringement for different kinds of marks;
- the absence of a “fair use” defense;
- overly broad protection of domain names, commercial designations, company names and geographic indications;
- insufficient protection of well-known marks;
- lack of a pre-registration opposition procedure at the Russian patent and trademark office (“Rosspatent”);
- failure to provide for greater transparency in the trademark application process; and
- the categorical imposition of joint and several liability on trademark licensors in connection with goods and services of their licensees.

The trademark law has been zealously administered over the last two years. In April 2008, the Federal Customs Service reported a three-fold increase in the seizure of counterfeit and infringing merchandise over the previous twelve-month period. In fact, the aggressive seizure of merchandise at the border was itself a source of controversy in 2008, with some commentators arguing that Russian law provides too much protection for trademark owners.

Russian courts are ruling in favor of trademark holders in the majority of infringement instances. In a recent case involving the trademark “AKAI” for household appliances, the Supreme Court of Arbitration invalidated the trademark registration of the Russian company, ruling that the company had “squatted” on the trademark and that the mark legitimately belonged to the Chinese company Grande Holdings. The case is viewed as an innovative application of unfair competition law to prevent the abuse of a trademark registered by the owner in bad faith.

Trademark plaintiffs have been successful in court even where the asserted rights are debatable. In August 2008, the Moscow Arbitration Court affirmed a ruling

enjoining the defendant against producing a candy called “Waferatto” that allegedly infringed the trade dress of a competing product named “Rafaello,” although the common elements of the parties’ trade dress may have been in the public domain.

Patent Law

While the substance of the patent law remains unchanged, the term of protection for utility models is now from 8 to 13 years and industrial designs from 15 to 20 years. The extension of the patent term for utility models is significant because these “hybrid” patents, which are issued without any substantive examination, form the basis for a rapidly increasing docket of infringement actions in the Russian courts.

The courts have been instructed to accord priority to patent infringement cases and adhere to rules of procedure that require decisions to be issued within three to five months from filing, followed by an expedited appeal process that lasts only two to three months, all with limited hearings and no opportunity for discovery. Moreover, patent invalidity cannot be raised as a defense in an infringement action but must instead be adjudicated by the Chamber for Patent Disputes, an adjudicative body within the Russian patent office. The court procedures for infringement claims are therefore relatively inexpensive and subject to abuse.

The opportunity for abusive prosecution of patent infringement claims has been seized by a growing number of patent “trolls” who fish through the records of the Russian patent office in search of utility models and patents to assert against large enterprises as a means to extort royalties. The ability to exert such pressure is enhanced by the possibility of a six-year prison sentence for large-scale infringement. The problem is exacerbated by uncertainty over the doctrine of equivalence, which is not defined in Russian patent legislation and has yet to be explicated by any Russian court. The latest and most sensational example of vexatious patent infringement allegations in Russia is a \$3 billion demand served on Google in



Moscow Arbitration Court

early November 2008 by a Russian company named Era Vodoleya, claiming that Google’s contextual advertising infringes a Russian patent.

On balance, however, the court system is working well, especially in the Moscow City Court, where a special “Senate” of judges with expertise in patent law has been designated to manage the increasing influx of infringement claims. For example, a Moscow appellate court in April 2008 affirmed a decision by the patent office in favor of JSC “Motordeal” that invalidated a patent for “checking the authenticity of goods,” which had been asserted against the company by a patent troll.

Criminal Penalties

On April 12, 2007, Articles 146 and 180 of the Russian Criminal Code took effect, providing for up to six years imprisonment and doubling the monetary fines for copyright and trademark piracy, respectively. The media has reported multiple instances of criminal prosecution for intentional copyright and trademark infringement. Presumably, Russia has met the requirements for WTO accession in this regard.

Border Enforcement

Enforcement of IP rights at the Russian border is weak. Counterfeit optical discs

in particular find easy passage through customs to export markets.

At the same time, a controversy over seizures of trademarked goods at the border has arisen in part from the absence of an “exhaustion” doctrine in Russian law that would expressly allow for the parallel import of “gray goods,” i.e., the importation of genuine branded items without the authorization of the trademark owner. On September 10, 2008, the Moscow Arbitration Court rejected a demand by the licensee of the Honda and Nissan brands for confiscation of branded components imported without authorization. Two months later, the Supreme Court of Arbitration announced that it would review the case of Porsche Russland, exclusive licensee of the Porsche and Cayenne brands in the Russian Federation. The lower courts fined the importer of the automobile and authorized the customs service to confiscate the car, ruling that importation without the consent of the exclusive licensee constituted trademark piracy. A final decision is expected as of this writing.

Pharmaceutical Data

Russian law currently lacks any provision for the protection of pharmaceutical data submitted in the course of government approval and clinical trials. This leaves pharmaceutical companies vulnerable to copying by generic drug providers.

In its 2006 bilateral agreement with the United States, Russia undertook to amend its law on medicines to protect such data. A draft law was passed in June 2007 providing for a six-year period of protection, but has yet to be enacted. Whether Russia’s failure to enact that law to date should constitute an impediment to WTO accession is a matter of debate. While protection of pharmaceutical data is warranted, such protection is arguably embraced by a recently enacted law on the protection of commercial secrets as well as an amendment to the Code of Administrative Offenses providing that unfair competition includes the misuse of intellectual property. Moreover, it has been suggested that pharmaceutical companies have the leverage to persuade Russian lawmakers to enact the necessary protections by reason of Russia’s announced intent to provide low-cost universal health care by 2020.

Summary

Amendments to Russian legislation over the last two years have substantially met the requirements for WTO accession. Although border enforcement remains weak and a law protecting pharmaceutical data has yet to be enacted, progress in these areas appears more likely to result from the demands of Russian intellectual property owners and the need for cooperation from pharmaceutical manufacturers than from Russia’s flagging aspirations to WTO accession. With questions arising about which side needs the other more, the amendments to Russia’s IP legislation and improving judicial climate discussed above could constitute a ground to move beyond concerns about intellectual property as a continuing impediment to Russia’s WTO accession. ■

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