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# The principle of exhaustion in Russia in the light of the recent Sony v PAG Constitutional Court Judgement

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Introduction. The RF Constitutional Court provided a new interpretation of the principle of exhaustion of trademark rights and parallel importations in its Judgement dated February 13, 2018 following a complaint filed by the Russian entity OOO “PAG”. The latter contested the constitutionality of the RF Civil Code provisions which establish the principle of national exhaustion of trademark rights and civil liability for parallel importers along with other legal consequences. The Judgement now allows the Courts to deny the application of the consequences of parallel importation in cases where the unfair behavior of the trademark holder may threaten the public interest. Moreover, the Judgement prohibits the imposition of civil sanctions for parallel importations of unlawfully imitated goods. We provide below a general overview of the case, the Russian exhaustion principle and the Judgement.

The Sony v PAG case. OOO “PAG” purchased for the State hospital in the Kaliningrad Region sixty thermal paper rolls for medical ultrasound devices produced by Sony Corporation from a Polish entity and imported these products into Russia. The Commercial Court of the Kaliningrad Region granted a claim for protection of the right to trademark “SONY” by Sony Corporation and on February 24, 2015 prohibited OOO “PAG” from importing, offering for sale, selling or otherwise commercializing goods affixed with the trademark “SONY” in Russia without the permission of the plaintiff. The goods were withdrawn from circulation and destroyed at the defendant’s expense, who was obliged to pay compensation for infringing the plaintiff’s trademark rights. The Court applied the trademark exhaustion principle according to which the introduction of goods into Russian territory by a third party without the permission of the trademark holder constitutes an infringement, regardless of the fact that such goods were earlier lawfully introduced in the territory of another country. The Courts of higher instance – the Thirteenth Commercial Court of Appeal and the IP Court (cassation) – upheld the ruling of the Court of the first instance, while the RF Supreme Court rejected an appeal for cassation by OOO “PAG”.

OOO “PAG” then filed a complaint with the RF Constitutional Court. According to OOO “PAG”, the RF Civil Code’s provisions on exhaustion and the legal consequences of parallel importations contradict the constitutional principles of legal certainty and fairness inasmuch as such provisions, as interpreted by the Ordinary Courts, allow the characterization as counterfeit of goods lawfully affixed with a trademark and sold by the trademark holder or with its consent outside of Russia, as well as the imposition of civil sanctions and legal consequences with respect to unlawfully imitated as well as original goods.

National and regional exhaustion of trademark rights in Russia. The Russian legislation combines the national and regional principles of exhaustion of trademark rights. National exhaustion is foreseen by the main civil legislative act, the RF Civil Code, under Art. 1487, which states that *“the use of a trademark by other persons with respect to goods that were introduced in civil circulation in the territory of the Russian Federation by a right holder or with its consent shall not constitute an infringement of the exclusive right to trademark”*.

Russia is a party to the Eurasian Economic Union, along with Belarus, Kazakhstan, Armenia, and Kyrgyzstan. The Treaty on the Eurasian Economic Union establishes the principle of regional exhaustion with respect to goods lawfully introduced in the territory of any member State by the right holder or with its consent.

The Constitutional Court expressly held in its Judgement, amongst others, that the national exhaustion principle as defined by Russian federal legislation shall be applied in conjunction with the exhaustion principle foreseen by international agreements of which Russia is a party, including the Treaty on the Eurasian Economic Union.

Civil law provisions contested by OOO “PAG”. OOO “PAG” contested the constitutionality of the national exhaustion principle established by Art. 1487 of the RF Civil Code, as above summarized.

PAG also contested the rule contained in Art. 1252, para. 4, of the RF Civil Code stating that in cases when the manufacture, distribution or other use, as well as the importation, transportation or storage of tangible objects affixed with means of individualization (e.g. trademark) lead to the infringement of the exclusive right to such means of individualization, such material objects shall be deemed *“counterfeit”* and, following a court decision, shall be *“removed from civil circulation”* and *“destroyed”* with no compensation, unless otherwise provided by the Code. In other words, goods brought into Russia as a result of parallel importations are deemed counterfeit in the same way as any unlawfully imitated goods, and entail the same legal consequences as concerns the removal and destruction of such goods.

As a result, a right holder is entitled to claim *“compensation”* instead of damages from the infringer under Art. 1515 of the RF Civil Code establishing a general liability for the illegal use of the trademark, which was also contested in the PAG case. It is recalled that compensation is a form of civil liability established by Russian law for IPRs infringement, which is alternative to damages and can prove more attractive for the right holder as it does not require proving actual damages.

The holdings of the Judgement. The Constitutional Court found that the exhaustion principle does not contradict the RF Constitution. However, that principle cannot be applied unconditionally, as was the case before the Judgement.

The Constitutional Court, in conclusion held that:

- 1) the Court seized is entitled to deny the application of the consequences of importation into Russian territory without the consent of the right holder of specified goods or batches of goods affixed with the trademark by the right holder itself or with its consent and legally introduced into the market outside of Russia, if, as a result of the “*unfair conduct*” of the right holder, the application of such consequences upon its request may create “*a threat for life and health of citizens or other public interests*” (for instance, in relation to parallel imports of medicines or medical equipment and devices);
- 2) the fact that the right holder should be bound by a regime of sanctions against Russia or its economic entities, established by any State out of the scope of international legal treaties or in contradiction with multilateral international agreements which Russia is a party to, may in itself be deemed unfair conduct;
- 3) the Court seized shall not apply civil law sanctions with respect to goods imported into Russia without the permission of the right holder in the same way as those applicable to the importation of unlawfully imitated goods, unless, according to the circumstances of the case, this does not entail the causation of damages comparable to those from commercialization of unlawfully imitated goods for the right holder;
- 4) the goods concerned may be withdrawn and destroyed only in case of their bad quality and/or for securing safety, protection of life and health of people, nature and cultural heritage.

All in all, the Judgement of the Constitutional Court introduces significant limits to the application of the national and regional exhaustion principle provided by ordinary law, attributing superior strength to constitutional and public interest values, as well as to extraordinary circumstances that may follow from the application of international sanctions regimes, whose legality is opposed by Russia.