



IN SUMMARY

- The introduction of Part IV of the Civil Code at the end of 2006 may dramatically change Russia's IP laws resulting in major implications for IP protection afforded to Russian and international rights holders
- If enacted, Part IV would nullify and replace all existing IPR laws on trademarks, patents and copyrights and all mechanisms related to the use and legal protection of IP and enforcement procedures.

AUTHORS

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Tom Thomson, Executive Director, CIPR, **Anne Gundelfinger**, Chair, CIPR and **Eugene Arievich**, Partner, Baker & McKenzie urge all IPR stakeholders to become involved in changing the Russian Government views on Civil Code (Part IV) before it is too late

By the end of 2006, Russia's IP laws may be dramatically changed with major implications for IP protection afforded to Russian and international rights holders. The vehicle for this change is Part IV of the Civil Code (Part IV). If enacted, Part IV would nullify and replace all existing IPR laws on trademarks, patents and copyrights and all mechanisms related to the use and legal protection of intellectual property and enforcement procedures. In its current form, Part IV would place Russia out of compliance with international IPR treaties and out of step with international IPR norms. In essence, the elements of a reasonably well-functioning IPR protection system would be thrown out and have to be recreated.

The vast scale of this proposed revision moved Eric Schwartz of the International Intellectual Property Alliance (IIPA) to say *"Part IV of the Civil Code would undo fifteen years of work to bring Russia's IPR laws into international treaty compliance."*

The legislative process to enact Part IV is well underway and moving quickly. On 20 July 2006, the Russian Presidential Administration submitted Part IV to the State Duma, the lower house of the Russian parliament. On 20 September 2006, First Deputy Prime Minister Dmitry Medvedev, a possible successor to Vladimir Putin, introduced Part IV in a speech to the State Duma. Mr. Medvedev said Part IV would consolidate Russia's IPR laws and provide greater protections to IP rights holders, as

well as meet international standards. Mr. Medvedev's public role on Part IV represents the very high level of commitment the Russian Presidential Administration has placed on passage of Part IV.

The first of three legislative readings of Part IV received unanimous approval on 20 September 2006 and it is now in the amendment process, which could conclude in November or December. As Part IV is debated in the legislature, the US – Russia WTO negotiations continued in October to attempt to reach agreement on outstanding issues in agriculture and in IPR. If resolution to outstanding issues is reached by the end of October 2006, Russia could enter the WTO in 2007.

Part IV Advocates flawed approach

The steps leading to Part IV becoming proposed legislation demonstrates one of its most obvious flaws: a lack of input from rights holders and legal practitioners. The draft Part IV was prepared by a handpicked group of academic experts in civil law that were appointed by the Russian Federation Presidential Administration. Input from rights holders was neither solicited nor formally accepted even after the Part IV project became known in early 2006. In response, the Coalition for Intellectual Property Rights (CIPR) and other IPR and business organizations held public forums to attempt to engage the Part IV authors and the government to address the draft law's flaws. Even after a draft was released to the public, and rights holders raised major

concerns, the Part IV drafters and supporters in the government were reluctant to engage the private sector on Part IV and generally dismissed most criticisms from both within and outside the government as being without foundation.

The Russian government's rationale for introducing Part IV is another reason for its weakness as the new standard for IP law. Citing the need to modernize the Russian Civil Code, which is a sovereign right, and to consolidate all IP laws and to resolve all outstanding IPR concerns of the international community, the Russian government presented Part IV as a practical step towards resolving IPR protection obstacles to Russia's long sought membership in the WTO. However, even in the face of severe criticism by domestic and international rights holders, IPR experts, and WTO member states, the Russian government is still maintaining that Part IV is the right course, taking the position that it is an improvement over current law and is compliant with WTO requirements.

Many observers view the Russian government's apparent confidence in their position on Part IV as a bargaining strategy to receive concessions on other WTO issues. Others say Russia's introduction of Part IV is another statement of its growing nationalism and determination to find Russian solutions to its IPR problems, which is in keeping with Russia's increasingly assertive and independent foreign policy. While opinions vary, few today are saying that Russia is not serious about enacting Part IV into law.

But will the final version of Part IV meet the needs of rights holders? Will it be consistent with international norms for IP protection? Will it even be TRIPS compliant? The version of Part IV submitted to the Russian State Duma has added some new language, but has largely remained loyal to an earlier draft released in March. The amendment process will be critical to bringing Part IV into compliance with international treaties and TRIPS, and to adding clarity and removing contradictory concepts and language that will confuse judges, regulators and law enforcement authorities.

Russian lawmakers consider amendments to Part IV <ok to cut 2nd sentence??>

The State Duma Committee on Civil, Criminal, Arbitration and Government is managing the amendment process. The Committee has appointed a legislative working group that is comprised of the authors of Part IV and representatives of law firms and IP rights groups. The legislative working group is responsible for reviewing all amendments submitted by the State Duma, Government and the Presidential Administration and

recommending whether to accept or reject them. All final decisions on which amendments to accept and incorporate into Part IV for the second reading are made by the Duma Deputies in the Committee.

Our organization, the Coalition for Intellectual Property Rights (CIPR), along with other international IPR organizations, such as INTA, and other legal experts, have submitted comments and proposed amendments to State Duma Deputies to address Part IV's deficiencies, and are actively lobbying for their inclusion in the version of Part IV that is presented at the second reading, which, if approved, will be the version that becomes law.¹ The divide between those who support Part IV in its current form and those who want to amend it is quite wide. Winning over the members of the State Duma Committee on Civil, Criminal, Arbitration and Government for substantive amendments will be the key. In the backdrop of these deliberations, the high level political support for Part IV from the

"likelihood of confusion as to source" standard, taking into account of the degree of similarity of the marks/names, the degree of similarity of the goods/services, channels of trade, and all other relevant market factors. Further, to ensure consistency, the first-in-time-first-in-right principle should be established in Part IV.

Another major problem is that Part IV would grant intellectual property rights in domain names, completely contrary to international norms, and would enable pirates to trump legitimate trademark owners through the mere registration of a domain name, regardless of whether the domain name meets the requirements for trademark protection and regardless of any potential for confusion. No other country in the world grants inherent intellectual property rights in domain names.

Similarly, the draft law provides for basic rights in unregistered commercial designations (e.g., company names or other enterprise designations), but without



Kremlin will be an important factor in this process and when the amended draft reaches the full legislature for consideration.

Implications for trademark owners

Part IV has a number of fundamental problems for trademark owners. First, the proposed legislation lacks a uniform likelihood of confusion standard consistent with international norms. The draft law does not add any clarity to the current vague definition(s) for the confusion standard required to prove trademark infringement. In fact, the legislation appears to impose different confusion standards, and thus infringement standards, for different types of marks and names (e.g., registered marks, company names, unregistered names, domain names, etc.). This would result in a lack of uniformity in determining infringement. As the legislation is currently drafted, it would also result in a broader scope of protection for domain names and company names than for registered trademarks, an extremely unusual result inconsistent with international norms.

To correct this, a uniform standard for all types of protectable marks and names should be adopted throughout Part IV. And the standard that should be adopted, consistent with international norms, is the

limiting the scope of protection to specific goods or services and without requiring that the designation be known. This could result in far broader rights than is appropriate for an unregistered designation. Such rights should be limited to the goods and services for which the designation is used and has gained notoriety, and to the territory in which the designation is used and has gained notoriety.

Happily, the draft law does provide for a broader scope of protection for well-known marks, correctly imposing an "association" standard rather than a confusion standard, meaning that a violation will be found regardless of the goods for which the junior user is using the mark, so long as the junior mark creates a likelihood of association with the well-known mark. However, the draft does not prohibit the registration of marks that violate these broader rights of well-known marks. This will lead to the inefficient and indeed ridiculous result that such marks will be registered by the Federal Agency (Rospatent) even though such marks violate the rights of well-known marks, and even though the registrations will then have to be invalidated in further contentious actions.

The draft law also fails to meet transparency requirements for trademark registrations. It fails to provide for publication of pending applications prior to registration. Moreover, the law fails to provide public access to the full examination file, either before or after registration. Further, the draft law fails to include a procedure allowing interested third parties to oppose a trademark application before it matures to registration. This is a large gap and is contrary to international norms. Well over 80% of jurisdictions worldwide provide for an opposition procedure prior to registration.



The draft law contains no provision for the fair use of trademarks, arguably making it an infringing act to make simple reference to a product or service by its associated mark.

And the law's trademark licensing provisions are so fundamentally out of step with international norms as to be archaic. In particular:

Part IV imposes joint and several liability on both the licensee and the licensor of a trademark for the goods/services of the licensee. This takes the concept of "quality control" far

beyond international norms and would cause licensors to refrain from licensing marks in the Russian Federation.

Part IV requires state registration (also known as "recordal") for all trademark licenses. This is a very burdensome, time consuming, and potentially expensive process for both trademark licensees and trademark licensors. Such a mandatory "recordal" requirement would be prohibitively burdensome and expensive in the case of large licensing programs. Moreover, such a requirement serves no real purpose and is utterly inconsistent with international norms. In the past 15-20 years, the few countries that had maintained mandatory license recordal requirements have modified their laws to entirely remove recordal requirements, or to make them fully optional.

The draft maintains an absolute priority of appellations of origin over trademarks, which is contrary to TRIPs under the 2005 WTO Panel decision on geographical indications. The law should state that legal protection for appellations of origin cannot be granted to a sign identical or confusingly similar to a prior trademark that is protected in the Russian Federation.

Finally, the draft law contains a range of additional substantive problems, technical errors, and vaguenesses and inconsistencies in its language that need to be cleaned up in order to avoid misinterpretations of the law.

If passed, Part IV would go into force in January 2008. In the meantime, clarifications and procedures for interpreting and implementing Part IV would be needed to be prepared for the courts, prosecutors and regulators. Should major problems surface, the State Duma will not be able to amend Part IV during this period. All IPR legislation, including draft bills that address both industrial and copyright laws, ex-officio power for customs, etc., which were placed on hold when Part IV was introduced, will remain in limbo until 2008.

Russian and International rights holders must get engaged

<Russian and international rights holders continue to lobby for amendments to bring Part IV in line with international norms and TRIPs. Letters are arriving from international and Russian IPR and business organizations to the State Duma urging Russian lawmakers to amend Part IV to meet international treaty obligations and TRIPs. Foreign governments, in addition to the United States, are also

pressing Russia. But more needs to be done.

We encourage all IPR stakeholders in government and the private sector to begin or continue communicating their concerns and to engage the Russian government on this matter, even after Part IV is enacted into law. Ask the IP and business organizations your company or clients are associated with to become involved by writing letters to the Russian State Duma, educating their members about Part IV, and asking their national governments to raise the issue on an official level with the Russian government. Please contact us at the e-mail coordinates listed at the front of article. If you have questions and want to become involved in this important issue.

At stake are your company's rights in its brands, and your company's ability to invest in and grow its business over the long term in Russia, one of the most important countries and fastest-growing markets in the world. In the big picture, Russia's integration into the international community, including WTO membership, will play an important role. What cannot be lost along the way are the necessary sound foundations of a robust IPR legal and enforcement regime in Russia. Without it, Russia will never truly realize the full benefits of a viable developed economy. ☼

Notes

- 1 The purpose of the third legislative reading is generally only to reconfirm the vote taken at the second reading.

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