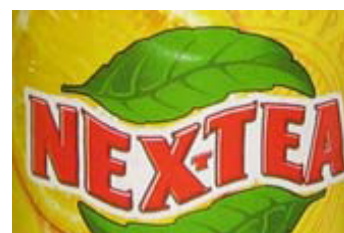


## Kazakhstan: Protecting Trademark Rights

Trademark as intellectual property item is a powerful instrument for the introduction of goods into the market and as such is the most attractive object for potential intellectual property rights offenders both throughout the world and in Kazakhstan.

With the advent of the market economy in Kazakhstan the breaches of trademark rights have become widely spread and more sophisticated. In Kazakhstan the greatest number of infringing goods can be observed in such consumer goods as alcoholic and soft drinks, medications, clothing, household appliances, detergents, cosmetics and others.

The most attractive for pirates are the following famous trademarks: Coca-Cola, Fanta, Nestea, Pierre Cardin and others.



It should be noted that no protection is granted to an unregistered trademark, and above all things its holder needs to properly register the trademark in Kazakhstan.

After having registered a trademark its holder needs to try and avoid the trademark being cancelled on the grounds of its non-usage for three years in a row of the date of registration or three years prior to the filing of an application seeking cancellation of the trademark. A trademark is recognized as being in use by its holder or a licensee under a license agreement.

The current legislation of Kazakhstan provides for the following general remedies to protect intellectual property rights:

1. Dispute Settlement;
2. Administrative Law Protection;
3. Civil Law Protection;
4. Criminal Law Protection.

### Dispute Settlement

In some cases a dispute over a trademark right violation can be settled amicably (without taking it to court) by way of sending warning letters to the offender and subsequent negotiations.

Sometimes the infringer makes use of somebody else's trademark or a mark similar to it without knowing that the trademark is protected or thinking that the use of a similar mark constitutes an infringement. Generally in such cases a warning letter sent to the infringer by the holder of the trademark is accepted in a positive manner and the infringement discontinues.

Our practice has shown that dispute settlement is a very effective method of fighting infringements of trademark rights and we have settled over 50% of disputes amicably. This figure varies depending on the type of goods, the cost of curing infringements and amounts to 60% in the case of soft drinks and to about 30% in the case of filling stations.

The drafting of warning letters requires expert knowledge and experience in the field of protection of intellectual property rights and it is advisable to seek professional assistance in such cases. Past experience has shown that warning letters drafted by lawyers who are not experts in intellectual property matters are often not properly worded in interpreting the relevant legal acts, which may have a negative impact on the fight against infringers, should amicable solution become impossible.

#### Administrative Law Protection

This can be effected by way of filing an application with

- 1) specialized administrative courts;
- 2) The RK Agency for Regulation of Natural Monopolies;
- 3) the Customs followed by a dispute settlement in court.

Cases of administrative offences in the sphere of trademarks have been assigned to specialized administrative courts in the recent past. Before that such cases were dealt with by financial police and law enforcement agencies.

Under the Code of Administrative Offence the unauthorized use of someone else's trademark or marks similar to it for homogeneous goods or services shall be punished by a fine and seizure of goods bearing the trademark without authorization, provided the offence did not cause heavy damage.

Usually the fact of a case infringing on the right to a trademark is revealed based on evidence provided by the trademark holder, the results of an inspection, examination for trademark identity and similarity and other information obtained legally.

According to published information 1,609 cases of administrative offence were opened in 2007 with 320 cases opened and 1,418 legal entities and physical persons made answerable under Article 145 of the Code of Administrative Offences (*Unlawful Use of Someone Else's Trademark...*). At the same time 229,979 pieces of infringing goods and goods illegally bearing trademarks totaling about USD 1,104,000 were seized. The amount of fines was about USD 170,000.

As a result of an all-Kazakhstan campaign against infringing goods conducted by the law enforcement agency from October 28 to November 18, 2007, 407 inspections were conducted, 264 cases of administrative offences were opened and 32,027 pieces of infringing goods totaling about USD 140,000 were seized.

In the case of a trademark imitation, possibility of misleading the consumer, the right to a trademark can be protected by filing with the Antimonopoly Committee an application reporting a breach of the antimonopoly legislation by an infringer. However our practice has shown that seeking protection with the Antimonopoly Committee is not as effective as filing an application with the Financial Police which is authorized to open criminal cases, conduct criminal investigations, seize goods, or taking the case to court.

Also intellectual property rights enjoy what is called customs protection provided for the Customs Code of the Republic of Kazakhstan. Such protection can be granted to goods containing intellectual property once they have been recorded in the Customs Register of Goods Containing Intellectual Property Items.

The Customs Code of the Republic of Kazakhstan defines infringing goods as goods containing intellectual property created or/and moved across the customs frontier of the Republic of Kazakhstan in breach of the owner's rights, protected by the local legislation. Accordingly both

pirated and original goods moved across the border without the owner's consent are regarded as infringing goods ("parallel imports").

Under the Customs Code of the Republic of Kazakhstan if the signs of piracy are found when goods are moved across the customs frontier of the country the customs may suspend the release of such goods for 10 days which term may be extended for another 10 days at the request of the right holder. The owner of the trademark is notified by the customs of a decision to suspend the release of goods.

In the case of parallel imports the fact of importation of goods by a person other than the licensee or distributor can be regarded as the sign of piracy provided there is an exclusive license for the use of the trademark or an exclusive distribution agreement. It should be noted however, that the exclusive license for the use of a trademark should be registered.

Please note that goods can be recognized as infringing by a court decision only, and their fate is also decided by court. Therefore the owner of the trademark may file a suit against the importer of such goods during the validity of a decision to suspend the release of goods. Otherwise the goods will be release into free circulation and one will have to file suits against traders engaged in illegal distribution of goods in various part of Kazakhstan.

After the enactment of the new Customs Code of Kazakhstan it took over a year to prove that the owner of a trademark may defend his rights at the frontier using customs action, and that was the first instance of allying customs action. About 1,400 smoke damaged Hyundai, acquired at the price of metal scrap had been delivered to Kazakhstan in breach of contractual rights and law.

The illegal delivery was stopped by Hyundai Motor Company through recording its cars in the Customs Register of Goods Containing Intellectual Property.

The supplier of damaged cars Almaty Taxi LLP contested the customs action and a decision of the Almaty City Court that sustained the rightfulness of detention of the imported cars at the border. Despite the above after lengthy hearings at the Supreme Court of Kazakhstan a decision rendered by a first instance court over the dispute was sustained, and the customs officers received a valuable support in their fight against infringers of intellectual property rights and, accordingly a clear cut guide for their future operations.

To date over 400 goods containing intellectual property items have been entered into the Customs Register of Goods Containing Intellectual Property Items. These are tobacco products, pharmaceuticals, tooth paste, alcoholic drinks, cars and others.

#### Civil Law Protection

The Civil Code provides for the following requirements to be met where a trademark right is infringed upon:

- 1) discontinuation of a trademark right infringement;
- 2) reimbursement of the loss caused to the trademark holder;
- 3) destruction of images of the trademark, removal of the illegally used trademark or a mark confusingly similar to it from goods or packaging thereof. Where this is impossible the goods concerned are to be destroyed.

Also under Clause 1 of Article 970 of the Civil Code of Kazakhstan the rights can be protected by way of:

- 1) seizure of physical objects that infringe exclusive rights and of physical objects made as a result of such infringement;
- 2) mandatory publication about the infringement stating the holder of the infringed right;
- 3) other methods prescribed by law.

Disputes between legal entities are settled by specialized inter-district economic courts, whose decisions may be contested in regional courts or courts equated thereto. If a court decision is not

appealed it comes into force after 15 days, if it is the decision comes into force on the day ? resolution is passed by a board of appeals that reviewed the case.

A supervisory appeal against a consummated decision may be filed with the Supreme Court of the Republic of Kazakhstan within a year.

Given all possible stages of appeal a trial may take anything from half a year to two years. For example the Hyundai trademark proceedings took about a year and a half.

In 2006-2007 a number of civil cases were opened involving infringement of the right of SPI Group to such trademarks as Moskovskaya, Stolichnaya and Kremlevskaya. Maximus LLP being a Kazakh distillery continued to produce vodkas bearing the Moskovskaya and Stolichnaya trademarks, despite its obligation to stop using the said trademarks. An application filed with the Financial Police produced no anticipated results. Therefore SPI Group lodged an action against Maximus LLP and as a result a first instance court ruled that Maximus LLP stop using the above trademarks. The ruling was sustained by an appellate instance and the decision was enforced, while the pirated goods and labels bearing the Moskovskaya and Stolichnaya trademarks were destroyed. The litigation took about four months, while the preparation for it took a year.

Unfortunately despite the existing judicial precedents, such cases remain a novelty for courts and so far there is no sufficient relevant court practice.

However where a case like this comes to the same judges the dispute is reviewed and settled in a more efficient and prompt manner. For example, the judge examining a claim filed by SPI Group against Maximus LLP was given a case involving infringement of the right to the Kremlevskaya trademark. Given the similarity of cases it took the judge just a month to positively settle the dispute, and his decision was never appealed by the infringer.

#### Criminal Law Protection

This can be effected by filing an application with the following agencies:

- 1) the Finance Police,
- 2) Internal Affairs Agencies.

Under Article 199 of the Criminal Code of the Republic of Kazakhstan the illegal use of someone else's trademark or marks similar thereto for homogeneous goods or service shall be punished by detention for up to six months or correctional labor for up to two years, provided the offence was committed repeatedly or caused heavy damage.

The following are grounds for initiating a criminal case: (i) illegal use of a trademark or a mark similar to it, (ii) repeated illegal use of a trademark or a mark similar to it or (iii) heavy damage inflicted upon a trademark owner due to illegal use of his trademark. Currently heavy damage is defined as damage worth USD 5,000.

It should be noted that it is very hard to determine the amount of damage inflicted by the infringer upon the trademark owner. Therefore when initiating a criminal case involving infringing trademarks law enforcement agencies generally use a law provision prescribing criminal liability for consumer fraud which does not require to prove the infliction of heavy damage.

Active operations aimed at repressing breaches of intellectual property rights are conducted by the field offices of the Financial Police of the Republic of Kazakhstan. Since early 2007 about 20 criminal cases have been opened in Astana alone.

During the Kontrafakt Campaign fake Hugo Boss, Head & Shoulders Shampoo, Moment Glue, Kiwi Shoe Polish, VHS cassettes and DVD were found and seized. The equipment used for making counterfeit products was also seized.

For example, in the course of inspections 500 boxes of canned milk bearing the counterfeit Shadrinskoe label were seized. The "smart" entrepreneur put the popular label on his products inflicting heavy damage to the trademark's owner. The offender was convicted under Article 199

of the Criminal Code of Kazakhstan (*Illegal Use of a Trademark*).

In our firm's experience there are a number of criminal cases initiated on the grounds of illegal use of trademarks owned by The Coca-Cola Company. We filed applications with the Financial Police seeking to bring to criminal liability infringers who illegally produced soft drinks and bottled those using bottles bearing Coca-Cola, Fanta and Sprite trademarks. As a result criminal cases were instituted against the infringers. The infringers were detained in custody. In one case the court sentenced the offender to a six month imprisonment with the other ones being fined.

Also there have been cases when trademark infringements were stopped and the fake goods destroyed before instituting a criminal case. Those cases were heard in an administrative procedure as at that time the Finance Police were authorized to deal with such cases administratively and in a criminal procedure.

For example in 2005 every other local distilleries produced vodkas bearing the Moskovskaya and Stolichnaya trademarks in breach of the trademark holder SPI Group.

In 2005-2006 we filed about 10 applications with the Financial Police against infringers of the rights to the Moskovskaya and Stolichnaya trademarks. As a result most of the distilleries stopped producing vodkas bearing the above trademarks at the time the applications were reviewed by the Financial Police. Some of the distilleries were brought to administrative liability and promised not to infringe upon the rights to the Moskovskaya and Stolichnaya trademarks any more.



As a result of our actions there are no more fake vodkas bearing the Moskovskaya and Stolichnaya trademarks in the local market.

This proves the effectiveness of protection of trademark rights through the Finance Police. However the powers to initiate administrative cases are now with specialized administrative offence courts, while in order to open a criminal case one needs to prove either the fact of repeated infringements or the infliction of heavy damage.

It should be noted that by the law the unauthorized use of a trademark in the Internet and other networks accessible to the general public is regarded as a breach of the exclusive right of the trademark holder. However the legislation in that sphere is not perfect and there are problems in resolving such disputes. Currently trademark owners try to settle disputes involving the illegal use of a trademark in the domain name by way of warning letters which do not always bring desirable results.

In most cases a company takes immediate steps when it comes to know that its rights are being infringed. However the combat against infringement is a right rather than an obligation of the trademark owner. Sometimes the trademark holder takes no steps to stop infringement of his rights fearing that the infringer would respond by invalidating the registration of the trademark

on the ground of its non-use in Kazakhstan. A failure of the trademark holder to timely take appropriate steps against the infringer results in free spread of infringing goods over the territory of Kazakhstan.

State agencies very seldom take the initiative in using the provisions of the Trademark Law to fight pirated goods. However their role has been on the rise. They are likely to become more active when Kazakhstan accedes the WTO, particularly in fighting fake medications, foodstuff and some other goods where a failure of trademark owners to take due steps may endanger the life and health of people.