

## **EU-Ukraine Intellectual Property Rights (IPR) Dialogue –2017**

Please find below INTA's comments based on input from its members, which may be helpful as the EU-Ukraine IP Dialogue continues. INTA is encouraged by the EU-Ukraine IPR Dialogue discussions, which hopefully, together with the EU-Ukraine Association Agreement, will lead to a process of further improvements in terms of protection and enforcement of trademark rights in Ukraine. Trademarks play a significant role in the economy and employment of a country, as illustrated for the EU by the 2014 IP Contribution Study of OHIM and the EPO<sup>1</sup>. An efficient protection of trademark rights in Ukraine is therefore crucial to protect consumers and the business community.

### **GENERAL COMMENTS**

#### **A new IP agency was created but is not yet operational:**

INTA commends Ukraine for its laudable efforts to reform intellectual property rights protection. Ukraine created a national agency for intellectual property as a public organization within the Economic Development and Trade Ministry, on the basis of the current State enterprise Ukrainian Intellectual Property Institute (Ukrpatent) and the State Service of Intellectual Property. We welcome the creation of the national office for intellectual property and hope it will be fully equipped to register and administer trademark rights efficiently. The reorganization seems ongoing. On 23 August 2016, the State Intellectual Property Service was formally liquidated. In the third quarter of 2017, its functions have to be fully transferred to the newly established Intellectual Property Office. The process is dependent on the adoption of the relevant decree by the government. INTA hopes that the EU would be able to provide expertise and support to Ukraine in establishing this new entity.

#### **Consistency and coherency are needed as several draft legislations are in the pipeline:**

It appears that the draft laws proposed by the Ukrainian Ministry of Economic Development and Trade in the framework of the Implementation Plan for the EU-Ukraine DCFTA address several existing trademark issues. However, there seems to have been some delays in the legislative reform. The draft law concerning trademark rights that includes a part of an omnibus revision act "*On the Revision of Certain Laws of Ukraine Aimed at Strengthening Responsibility and Protection of Rights in the Intellectual Property Field*" amending the Civil Code, the Commercial Code and the major IP laws in Ukraine, has reached the Ukrainian Parliament on January 23, 2017 and assigned with the serial number 5699. It is now in the process of examination by the relevant committees of the Ukrainian Parliament.

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<sup>1</sup> <http://ow.ly/rO6xf> *Intellectual Property Rights Intensive Industries: Contribution to Economic Performance and Employment in the European Union*. Trademark-intensive industries account for **21%** of all direct jobs in the EU and for **34%** of the EU GDP.

Another Draft Law no. 2157a “*On the Protection of Rights to Marks for Goods and Services*,” dated May 24, 2015, has been submitted to the Parliament in May 2016 and addresses the implementation of the statutory damages mechanism. However, its future remains unclear and it appears that in March 2017, it was sent for further revisions to the relevant parliamentary committees. This draft law introduces a very useful mechanism of statutory damages, but the proposed amount of damages varies from 10 to 50000 minimal guaranteed salaries.

It is important to emphasize the importance of consistency and coherency in this overall IP reform since for example, the mentioned omnibus act also contains provisions on statutory damages. It also contains provisions on the responsibility of infringers while other draft laws have been submitted to the Parliament by Customs.

Finally, a new law no.1404-VIII « *On Execution Proceedings* » of June 2, 2016 entered into force on October 5, 2016. INTA suggested the introduction of a mechanism to allow right holders to be involved in the execution proceedings and to oversee the process of destruction of infringing goods. We understand that this mechanism has been introduced following exchanges in the EU-Ukraine IPR dialogues, for which we are grateful. According to this law, those who suffered from infringement of their IPRs are now listed among the participants to the execution proceedings for seizure or destruction of goods in accordance with Articles 176, 177 and 229 of the Criminal Code of Ukraine and Article 51-2 of the Code on Administrative Violations. We now look forward to the implementation of such a mechanism.

#### **The treatment of parallel imports remains unclear:**

On November 17, 2016, another draft law no. 5419 was submitted to the Parliament. This draft focuses on the restriction of rights for the registration of marks by individuals and on the definition of a national regime of exhaustion of rights. Ukrainian courts have adopted the principle of international exhaustion of rights. Again, coherency is essential among the various different draft laws: draft law No. 5419 advocates for a national regime of exhaustion while draft law no. 5699 provides for an international exhaustion regime. INTA supports the national exhaustion of trademark rights and we would thus recommend the adoption of the provision of the draft law no. 5419. In line with our [Board Resolution](#), if Ukraine decides to follow international exhaustion, a “material differences” standard should be adopted in order to exclude parallel imports that are materially different from those products authorized for sale by the trademark owner in the domestic market.

#### **The establishment of the new welcome specialized judiciary authority requires support:**

Consistency is also needed in judicial reform. The judicial reform in the field of intellectual property has been substantially affected by the Law of Ukraine “*On Judiciary and Status of Judges*” of June 2, 2016 No. 1402-VIII and the relevant changes in the Ukrainian Constitution which entered into force as of September 1, 2016. This law introduces a new independent court in the Ukrainian judicial system – the High Intellectual Property Court--

that shall start functioning by September 2017. The Council on Judicial Reform is currently working on the approval of the structure of this court, its competences and jurisdiction, such as whether it has jurisdiction over criminal cases involving IP crimes.

Meanwhile, the Law “On Judiciary and Status of Judges” has been amended twice, and on March 23, 2017 the President of Ukraine filed with the Parliament the draft Law No. 6232 proposing substantial changes with respect to the High Intellectual Property Court. The draft law remains to be approved.

INTA strongly supports the creation of the High Intellectual Property Court. INTA has found that judges and prosecutors with substantive IP experience resolve IP disputes efficiently and fairly, and generate consistent case law which enhances understanding and certainty among IP users.

We believe that it is key that Ukraine be supported not only in making the necessary amendments to the Civil Procedural Code and the Commercial Procedural Code of Ukraine in order to secure a proper functioning of this court, but also in the training of the future judges of this court.

## **SPECIFIC ISSUES**

INTA believes that there are several areas where improvement is needed for trademark protection and enforcement in Ukraine, as summarized below:

### **I. Criminal sanctions for counterfeiting**

INTA encourages countries to enact legislation that go beyond the minimum enforcement standards contained in Part III of the TRIPS Agreement. Specifically, in order to increase the deterrent impact of fines, governments should develop calculation methods that lead to fines against counterfeiters commensurate to the harm caused.

**Penalties are too low.** Under Article 229 of Ukraine’s current Criminal Code, the only criminal sanctions for the illegal use of trademarks, irrespective of the crime and damages to the brand owner, are as follows: a fine from UAH 17,000/EUR 1,500 to UAH 255,000/EUR 22,000 and prohibition of the rights to proceed with certain activity or to occupy certain positions. These are rather low penalties compared to other European countries and are not a deterrent for counterfeiters.

**Fines should not be the only sanction.** In Ukraine, there are no sanctions of imprisonment, confiscation and destruction of counterfeit goods, equipment and materials used for their destruction. In fact, the Law “*On Amending the Criminal and Criminal Procedure Codes of Ukraine Aimed at Implementing the Recommendations of Section VI of the Report of the European Commission on the Status of the Fulfilment of the Implementation Plan for Liberalization of the Visa Regime for Ukraine in the Part of the Improvement of the Mechanisms of Seizure of Property and the Institute of Special Confiscation,*” which entered into force on February 28, 2016, deleted the sanction of confiscation and destruction of counterfeit goods and their manufacturing equipment. The deletion from Article 229 of the Criminal code on trademark infringement left just the existing

low fines as the only available remedy. This is certainly a negative development and a serious step back in the fight against counterfeiting.

## II. Suggested improvements to the Draft Law No. 5699 on Strengthening IP Protection

The Draft Law No. 5699 “*On the Revision of Certain Laws of Ukraine Aimed at Strengthening Responsibility and Protection of Rights in the Intellectual Property Field*” introduces:

- The publication of data on filed trademark applications in the official bulletin. This provides the possibility of opposing a trademark before registration thereof;
- The clarification of absolute grounds for refusal;
- The prohibition of unfair registration of agent’s marks;
- The international principle of exhaustion of rights;
- The increase of the non-use grace period to 5 years;
- A deadline for cancellation action against the registered trademarks; and
- The statutory damages in case of filing an application with infringement of trademark rights, with the possibility of an alternative for the damages that varies from 10 to 50000 of minimal guaranteed salaries.

INTA strongly recommends the following amendments:

- **On exhaustion:** the provisions on the international exhaustion of rights should be deleted.
- **On Special confiscation:** The list of exceptions for “special confiscation” (Articles 96-1 and 96-2 of the Criminal Code) should include the “goods involving IPR infringements”, as well as “equipment and materials used for their manufacture”.
- **On administrative liability for IPR infringements** (Art 512 of the Ukrainian Code on Administrative Violations), provisions for higher fines and the destruction of infringing goods.
- **An efficient simplified destruction procedure** should be included.
- **The involvement of trademark holder in administrative proceedings initiated by the customs** (Article 497 and Article 399 of the Customs Code on the Suspension of Customs clearance of goods subject to IPR registered with customs) should be included. INTA recognizes that rights holders and their agents are best at identifying their own genuine products. Currently Customs can only accept “independent” expertise, conducted by court experts, in order to initiate administrative proceedings. Expert opinions in trademark proceedings are costly, lengthy and unnecessary, unless there is another question of fact with a need for an independent party. IPR holders and their agents should be allowed to certify the nature of the suspected goods as they are the only ones capable of making the best assessment of the goods that infringe their trademarks.

- **Fines on the violation of customs rules** provided under Article 476 of the Customs Code should be increased.

**The Customs Code needs to be amended to comply with the Singapore Treaty.** INTA endorses the adherence to the Singapore Treaty on the Law of Trademarks. The Customs Code should be amended to implement Article 51-53 of the Singapore Treaty relating to border measures (particularly, it is expedient to consider the possibility to reintroduce the requirement for a security deposit to prevent misuse). It seems that the draft law no. 4614 revising the Customs Code, submitted to the Parliament on May 06, 2016 will provide a solution on this issue, but this draft law requires improvement since it contains several inaccuracies.

Indeed, according to Article 398 (par. 8), Customs may require lodging of security for goods suspected to infringe IPRs. However, the article fails to clarify the person acting as a guarantor, and thus to whom the security requirement is related to. It may be the customs declarant considering that article 398 is meant to prevent the misuse of IPRs. Nevertheless, this article may also concern the IPRs owner, since it also focuses on the pre-term release of goods, which customs clearance has been suspended. However, Article 400 (par.2), stresses that for goods which have been suspended on suspicious of IPR infringement, a final decision may be reached subject to the following condition: the customs declarant is obliged to provide customs with the documents confirming agreement between the owner of IPR and the owner of the goods (declarant), including the guarantee agreed between them in compliance par. 8 of the Article 398 of the Code. Therefore, the aforesaid draft law needs improvements to provide clarity on the above points.

**Enhanced cooperation between departments of Customs authorities is needed.** INTA recommends that governments should revise their rules and procedures to provide prompt and reasonable access by trademark owners to relevant documents and information gathered by governments on counterfeiters for the trademark owners' use in conducting private investigations or the filing of complaints to the courts or other government agencies.

### **III. Necessary improvement regarding the destruction of counterfeit goods**

All the issues listed last year remain applicable. The draft legislation should ensure that there is no room for issuance of judgments allowing the return of counterfeit goods to trade channels. It should also ensure appropriate conditions for storage and an improved simplified procedure of destruction of goods.

Effective destruction: INTA recommends that governments should take appropriate steps to ensure that all counterfeit goods are compulsorily destroyed, definitively removed from channels of commerce, or disposed of with the rights holders' consent in cases where there is no health or safety risk.

Ukrainian legislation lacks effective procedures and legal norms governing the destruction of seized counterfeit products and equipment used for their manufacture. As a result, counterfeit products and equipment are not always destroyed in a proper way and may even find their way back to the market. For instance, equipment may not be destroyed if it belongs to another person (e.g. if it is rented by an infringer).

The State Execution Service may dispose of the goods without asking consent from the IPR holder. Theoretically, the goods can be given for “*educational purposes, to medical institutions, or other social care of cultural institutions financed from the State budget, or should be processed or destroyed*” (Art. 243 of the Customs Code). This gives too much discretion to the authorities to dispose of “confiscated” counterfeits. It does not sufficiently guarantee the IP rights at stake and that the goods will not end up in the marketplace.

Moreover, in most instances, when a criminal case is initiated and later suspended, there is no clear direction to investigators and judges regarding what should be done with material evidence, including equipment and counterfeit products.

Final destination of counterfeit goods and manufacturing equipment seized within the criminal case may vary depending on the decision by the investigative body and courts. Such material evidences could be transferred for sale, utilization, destruction or returned to the owner, if the case is suspended or closed without applying criminal sanctions. Effective destruction procedures, properly monitored by law enforcement agencies and right holders, are crucial to prevent both counterfeit products from ending up into legitimate trade channels and manufacturing equipment from returning to illicit factories, regardless of the sanctions. Also, there are not enough adequate facilities with the necessary capacities and respective licenses to destroy certain types of counterfeit products, such as counterfeit agrochemicals.

Participation of right holders: Right holders should be granted access to or be allowed to participate in the destruction process and ensure that seized counterfeit products and equipment are properly destroyed. Currently, only the Customs and holders of goods (importers) are considered to be parties in the proceedings dealing with suspected goods.

Simplified procedure: Although the Ukrainian Customs Code provides for a simplified procedure, in practice it is still a time-consuming, complicated and expensive process, mainly because:

1. The holder of the goods (importer) who consents to destroy the counterfeit goods is entirely responsible for all stages of the destruction. He must find a recycling company and sign an appropriate agreement on destruction, find a proper vehicle for transportation of the counterfeits to the place of destruction and obtain all necessary documents and permits allowing the destruction.
2. Only a limited number of licensed recycling companies are eligible to destroy counterfeit goods. It is difficult to find a licensed company and to sign a corresponding agreement. It also happens that such company can be located far away from the customs point, in another city or even region. In order to speed up the process of destruction of counterfeit goods, it would be also very helpful that all Ukrainian Customs Offices cooperate with licensed recycling companies and provide adequate transportation means depending on the goods to be destroyed.

3. There is a limited experience and lack of knowledge about the simplified procedure among Ukrainian Customs officers. Only few Customs points in Ukraine are experienced in the process of simplified destruction.

There is still a need to further specify the simplified procedure (including the documents required to obtain the consent of the customs checkpoint to declare the goods in the customs regime of destruction) and the criteria recommended recycling companies shall comply with.

Small consignments: It is also recommended to develop clear recommendations and standards for the procedure concerning the destruction of small consignments of counterfeit goods.

The situation with storage of seized counterfeit goods is also worrying. Sometimes the conditions of storage are so poor that our members report cases where there is practically nothing left to destroy by the end of a trial in a criminal case. This is particularly problematic for dangerous counterfeit products such as agrochemicals, which can leak in the soil.

Training of customs officers on a regular basis and harmonization of practices between customs checkpoints are needed. Perhaps the EU could consider technical assistance regarding the training of customs in Ukraine. Trainings done by trademark holders should be allowed and encouraged, in respect of the procedure, from recognition of counterfeits to seizure and destruction.

#### **IV. Unfair competition**

Protection of Trademark holders against Unfair Competition is needed. According to Article 6 of the Law of Ukraine “*On Protection against Unfair Competition*”, outward appearance of products is protected against unfair competition. Unfortunately, this article does not seem to apply to products being protected as objects of intellectual property. Intellectual property right holders are thus formally deprived of the possibility to apply for protection to the Antimonopoly Committee, and are entitled to appeal only to the court. Nevertheless, the Antimonopoly Committee of Ukraine tends to accept such cases into consideration that creates an inconsistency in the enforcement practice. The aforesaid law should be amended or another draft law should explicitly resolve this inconsistency by inclusion of the protection of outward appearance of products protected as objects of intellectual property against unfair competition.

#### **V. Substantive trademark law**

##### **Refusal or invalidation on the grounds of bad faith should be allowed:**

Bad faith trademark registrations are frequent in Ukraine. The Ukrainian Office and the Board of Appeal seem reluctant for the past few years to evaluate bad faith as a ground for refusal and are keen to pass the cases to the court.

There is no provision in Ukrainian law that would enable a right holder to oppose trademarks filed in bad faith. In fact, nothing prevents the registration in bad faith of trademarks that have reputation abroad. Applying article 6 septies of the Paris Convention in court proceedings is difficult in practice since Ukrainian courts are bound to the provisions of the

national legislation when it comes to such definitions as “agent” or “representative” (for example, we refer to 174/2002 AZONIC/AZONIC in OHIM Guidelines on article 8(3) of the CTMR about “lifting the corporate veil”). Bad faith should be available and clearly defined both for opposition and invalidity proceedings in the trademark legislation. The draft law No. 5699 provides the effective measures for such cases, so, again, it is recommended to facilitate it’s consideration in the parliament.

### **Opposition proceedings are needed:**

Under the current regulations third parties may file “oppositions” against a trademark application “before it is examined by the PTO”. There is no information available indicating whether an application has been already examined or not. Therefore, it is very difficult for third parties to establish whether they can still file oppositions against a certain application. Such system gives too much discretion to the PTO officials to accept or reject an opposition, and does not provide the legal certainty required for third parties to ensure they can defend their rights in a timely manner. Moreover, the deadline to file an opposition is rather short, often less than a week for a fast track procedure.

Also, third parties do not become a party in the proceedings, and their role is merely limited to submit their “observations” to the IPO. The chances to prevent any third party from obtaining similar trademark registration are: (a) filing a preliminary unofficial opposition at the stage of its examination or (b) filing a cancellation action before the court. However, costs for cancellations are high and the proceedings are challenging because effective competitiveness must be established.

INTA recommends the adoption of a proper opposition procedure, similar to the one existing in most EU countries, with trademarks being published for opposition after a certain procedure and with a certain sufficient period granted for oppositions to be filed by third parties. We recommend amending the trademark legislation to that end. The current Draft Law no. 5699 seems to be adequate in respect of opposition procedure, so, it is expedient to fasten it’s consideration by the Ukrainian Parliament.

### **Proof of Use**

In order to prove trademark use, courts require that both the purchasing and the selling take place inside Ukrainian territory. This poses a problem to trademark owners which conduct business in Ukraine (e.g. via the Internet) without having a physical presence in the territory such as a store: they are not able to prove trademark use under these circumstances, which makes their trademarks vulnerable to cancellation actions due to “non-use” and thus not easily enforceable.

This, in turn, forces trademark owners to re-file new registrations in order to make sure they always have registrations which are within the post-registration grace period.

Article 16 of the Law of Ukraine “*On the Protection of Rights to Marks for Goods and Services*” (the Trademark Law of Ukraine) provides examples of evidence of use of a trademark which are not that restrictive: “...its application on any goods for which it was registered, their package, signboards related to these goods, labels, tabs, tags or any other subjects fixed to the goods, storing goods bearing the said mark for the purpose of offering for sale, offering these goods for sale, sale, importation and exportation of these goods; its use in business papers or advertising, as well as on the Internet”. Article 18 of that Law refer

to use/non-use of a trademark by its owner or other person under control of the trademark owner on the territory.

According to some court guidelines (Y2012), a trademark owner must prove use of his trademark with evidences of conducting at least some of the activities provided for by Article 16 of the Law above. Such evidences, in particular, could be an example of products bearing the appropriate trademark, documents depicting the mark (catalogues, price lists proposals for the provision of services or delivery of goods, etc.). An extension of goods bearing the trademark on the territory of Ukraine can be confirmed by checks, receipts, invoices and other documents containing information on the name of the product and place of its acquisition. In case when the trademark owner is non-resident, customs declarations and other customs documents may serve as a confirmation of import of goods to Ukraine.

However, it seems that the courts are taking a case-by-case approach, and that evidences of sales in a third country and import in Ukraine are not sufficient to prove use of a trademark before the courts. Along with other evidences, a purchase and sale agreement bearing respective trademarks, an agreement on placement of advertising of these products at appropriate promotional materials etc. may be provided to the court in confirmation of a trademark use. The absence of real sales of the goods in Ukraine seems to play in favor of the trademark owner's opponent.

A clarification in the law is needed so that the approach of the courts is harmonized and not unduly restrictive regarding the nature of evidences to provide. It is essential also to summarize court practice in this respect and to publish some court guidelines for development of the stable and consistent court practice.

## **VI. Suggestion on the practices of the Ukrainian Patent and Trademark Office**

Our members noticed inconsistency in the practice of the Office, for example regarding absolute grounds for refusal, and in particular the evidence regarding use to be provided by an applicant of a purely descriptive trademark. It is also recommended to formalize some standards regarding the use of certain evidence, such as the use of Internet sources. Perhaps the European Commission could offer training on these specific practices.

## **VII. IP in Crimea**

The situation regarding trademark rights is very sensitive and complex in Crimea.

### **From the Russian point of view:**

According to the laws regulating the accession of Crimea to the Russian Federation, Russian IP rights became automatically valid in the respective territories. Likewise, Ukrainian IP rights retained their validity. Additionally, Russia provided for re-registration of Ukrainian IP rights owned by residents of the respective territories in Russia, so as to extend the validity of Ukrainian IP rights owned by this group of persons to the whole of Russia.

This may lead to double protection in Russia, if the same trademark owner previously held both a Russian and a Ukrainian IP right. Double protection is, however, not permitted under the Russian Civil Code.

This may also lead to the co-existence of conflicting IP rights, if one IP owner previously owned rights in Ukraine and another IP owner owned rights in Russia. It is currently unclear as to how these issues are going to be resolved, but first court processes in Russia are already available. Perhaps it would be worth exploring the resolution of the co-existence of conflicting IP rights in the manner that the EU has resolved conflicts when new Member States joined.

### **From the Ukrainian point of view:**

Ukraine considers that Crimea is still part of its territory. Ukrainian IP rights are still valid, Russian IP rights are not. This situation implies several practical issues: correspondence with applicants and IP right owners in the occupied territories; payment of fees by the residents of the occupied territories; correct indication of country code (RU) or (UA) in application documents; use of trademarks in Crimea sufficient to prevent non-use cancellation of Ukrainian registrations; conflict between Ukrainian and Russian IP rights in use in Crimea; relevance of Crimean consumers in surveys; territoriality of Madrid designations; and so on.

The Ukrainian PTO seems to be working on these problems and could provide further clarifications as to the situation of trademark rights in Crimea, but it seems that no substantial development is available from the last year. It is recommended to intensify the work in this respect, as the number of conflicts grow up.

### **About INTA**

*The International Trademark Association (INTA) is a global association of trademark owners and professionals dedicated to supporting trademarks and related intellectual property in order to protect consumers and to promote fair and effective commerce. INTA's members are more than 7000 organizations from 190 countries. INTA members collectively contribute almost US \$12 trillion / €8.8 trillion / ¥73 trillion to global GDP annually. For comparison, the 2013 annual GDP of the top three markets was \$9.2 trillion (China), \$17.9 trillion (European Union) and \$16.7 trillion (United States).*

*The Association's member organizations represent some 30,000 trademark professionals and include brand owners from major corporations as well as small- and medium-sized enterprises, law firms and nonprofits. There are also government agency members as well as individual professor and student members. INTA has 1,915 member organizations in the European Union and 121 trademark professionals in our Ukrainian member organizations.*

*INTA undertakes advocacy work throughout the world to advance trademarks and related rights, and offers educational programs and informational and legal resources of global interest. Headquartered in New York City, INTA also has offices in Brussels, Shanghai, Singapore, Santiago de Chile and Washington D.C. and representatives in Geneva and New Delhi.*

Further information about our Association can be found at [www.inta.org](http://www.inta.org).

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