

## **INTA Comments on the Ukrainian Draft Law May 2018**

INTA would like to submit the following comments on the Ukrainian Draft Law No. 4614 of July 5, 2016 (hereafter ‘the Draft Law’).

The International Trademark Association (INTA) is a global association of brand owners and professionals dedicated to supporting trademarks and related intellectual property (IP) to foster consumer trust, economic growth, and innovation.

INTA’s members are more than 7200 organizations from 191 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 1,780 member organizations in the European Union and 33 members in Ukraine.

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).

INTA respectfully submits the following comments on the Draft Law:

### **I. GENERAL COMMENTS on the Customs Register of Intellectual Property (IP) items**

Right holders can register their IP rights in the so-called register of IP items held by customs. Relying on the customs register of IP items remains the most efficient mechanism for Customs to identify and seize infringing goods at the border. We believe that this is an efficient tool to prevent counterfeit goods from entering the territory of Ukraine.

According to the legislation, a customs officer has to check the compliance of the data on declared goods with the information on the customs register of IP items, including the classification code of goods for its conformity to the Ukrainian Classification of Goods for Foreign Economic Activity, the description of the goods, IPR attached to them, whether the importer is an authorized importer, the type of transport and the peculiarities of crossing the customs border. As a result, customs authorities suspend the customs clearance of goods if such goods are imported by importers which are not listed as authorized importers in the customs register of IP items.

Ukrainian customs should be encouraged to refer to the customs register of IP items, along with verification of shipping documents, to more easily identify counterfeit products. The register is particularly beneficial in disputed territories where law enforcement authorities are not in a position to fight counterfeits and piracy goods to the full extent of their ability.

Support should be provided to the Ukrainian customs authorities in terms of the fight against counterfeiting.

However, the available definition of counterfeit goods provided in Article 4 of the Customs Code of Ukraine (“counterfeit goods means the goods that constitute intellectual property items, whose import into or export from the customs territory of Ukraine violates the intellectual property rights laid down by the law”) is very general. That is why, for the time being, the main efforts of the customs authorities are aimed at combating the movement of goods that are the objects of parallel trade, namely goods that were brought into commerce abroad by the right holder or with the consent of the holder of the relevant IP rights, and which are subsequently imported to the domestic market without permission of the owner of such rights. According to the legislation, a customs officer checks the compliance of the data on declared goods with the information of the customs register of intellectual property items, in particular, he checks the code of goods for its conformity to the Ukrainian Classification of Goods for Foreign Economic Activity, the description of the goods and its inclusion of information on IPRs, information on subjects of foreign economic activity engaged in foreign trade operations (authorized importers), the type of transport and the peculiarities of crossing the customs border. As a result, the customs authorities suspend the customs clearance of goods, if the original goods are imported by unauthorized importers which are not included in the customs register of intellectual property items.

That is why setting up an effective work of the customs authorities of the State Fiscal Service in frames of assisting in the protection of IP rights at the customs border is an urgent matter, as it concerns the security of Ukraine (profits received from the sale of counterfeit products are widely used by organized crime, including terrorists) and should be implemented in practice within the shortest possible time.

## **II. SPECIFIC COMMENTS to the norms of the Draft Law No. 4614 of July 5, 2016**

### **1. Definition of counterfeit goods (§ 57-1)**

The Draft law has an unfortunate narrow scope of application, since it refers to “goods violating the IP rights”, i.e. only where there is a proven violation of IPRs. We would suggest that the Draft law also applies to “goods suspected of infringing an IP right” instead, as it is the case in Regulation (EU) No 608/2013 of the European Parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights (‘EU Regulation’). This is important to ensure action from customs and reinforce the fight against counterfeiting.

The Draft Law also proposes a narrow definition of counterfeit goods, referring to features of identity and the impossibility of distinguishing characteristic features. This may be interpreted as limiting Customs to deal with completely identical signs only. We believe that the EU’s Regulation definition “a sign which cannot be distinguished in its essential aspects from the registered trade mark” would help capturing more cases of counterfeiting, including obvious but not identical signs (such as a simple change of a letter for example).

Therefore, we recommend that the definition of counterfeit goods in par. 57-1) of the Draft Law No. 4614 be amended as follows:

- "Counterfeit goods shall mean:
  - a) goods that violate the trademark rights granted in Ukraine and bear, without an authorization, a sign which is identical or confusingly similar to the trademark registered in Ukraine in the name of another person for the same or related products and services;
  - b) ...
  - c) any packaging, label, sticker, brochure, user manual, warranty or other document of this type, even if presented separately, which are the subject of an action that violates the trademark right or right to geographical indication, and which includes a sign, name or term

which is identical to a validly registered trade mark or protected geographical indication, or which cannot be distinguished in its essential aspects from such a trade mark or geographical indication registered in Ukraine in the name of another person for the same or similar goods and services or a protected geographical indication."

## **2. Exceptions for personal luggage - Measures aiming to suspend the customs clearance (§3 of article 397)**

The Draft Law proposes to exclude all 'personal belongings moved in the carry-on luggage, accompanied and unaccompanied baggage' from its scope of application, meaning that customs will not be able to seize goods carried in personal luggage, even if such goods are infringing and even if they are suspected to be for commercial purposes. This broad exclusion may benefit counterfeiters who will be able to transport small quantities of infringing goods without risking customs' seizure. We support the EU's Regulation narrower exception with reference to "goods carried by passengers in their personal luggage provided that those goods are for their own personal use and *there are no indications that commercial traffic is involved*".

## **3. Exhaustion**

The Draft Law proposes an exception for measures connected with the suspension of customs clearance to goods that were manufactured by the owner or with his consent and *entered into civil circulation*, meaning that the Draft law introduces the principle of international exhaustion of IP rights. The issue of determining the principle of exhaustion of IP rights should not be the subject of a regulation of the Customs Code and should be excluded from the Draft.

Moreover, Draft No. 5419 on establishing some provisions for improving trademarks registration procedure and IPR enforcement for trade marks in Ukraine, dated 17 November 2016, has already been registered and recommended for the first reading in the Parliament of Ukraine. This Draft proposes to introduce the national exhaustion regime concerning trademarks. We strongly support that proposal, being in favor of the national exhaustion principle and appreciate the Commission's efforts on this proposal.

We urge Ukraine to clarify its exhaustion principle and to adopt the 'national exhaustion' system.

## **4. Compensation of damages to the right holder by the customs authorities and other persons (§5 of article 397 & 398)**

The draft law does not exempt customs from liability when the right holder has not been submitting a statement on the protection of their property. As such, it appears to contradict article 27 of the EU Regulation on the liability of the customs authorities.

An amendment should be considered. The norm contained in paragraph 5 of Art. 397 of the Draft Law No. 4614 has been previously provided in par. 7 Art. 401 of the Customs Code of Ukraine. Given the structure of Chapter XIV of the Customs Code of Ukraine, we recommend an amendment by adding the second part and move it to Art. 398 of the CCU in the following wording:

- "9. Revenue and duties authorities shall not indemnify the right holder of any material damage in cases where goods suspected of violation of intellectual property rights are not detected by the customs authorities and released into free circulation or no actions have been taken with regard to their detention. The right holder has the right to apply to the court for the recovery of damages resulting from the unlawful use of the IPR object by an infringer or other persons who may be considered liable."

## **5. Filing fees in the customs register (Art. 398)**

At the same time, the Draft Law should clarify that a right holder does not have to pay administrative fees to apply for an entry of the IP right in the customs register. Par. 2 Art. 398 should be amended by adding the provision: "par. 2 ... Filing an application and inclusion of information shall not be subject to any charges".

#### **6. Information in the Customs Register of IP items sufficient for the identification of counterfeit goods (§3 of Article 398)**

The amendments to article 398, proposed by the Draft Law, limit customs' action to goods 'violating IPR' based on information from the customs register, instead of capturing goods 'suspected of infringing intellectual property rights, thereby limiting the competences of customs in terms of IP right protection.

The absence of an obligation for the right holder to provide in the Customs register of IP items the information necessary for the identification of counterfeit goods can result in unjustified suspension of customs clearance of original goods and impacts the efficiency of customs authorities in detecting counterfeit goods.

For this purpose, par. 3 of Art. 398 should be amended by adding the norm:

"... When submitting an application, the right holder shall provide a detailed description of the goods, of the IPR object, and indicate the following data: the country of origin (production), features of original shipping packaging of goods, features of original packaging of the product, features of original product itself, information about the right holder and his representative".

#### **7. Application of the guarantee mechanism to the right holders and owners of the goods (§8 of article 398)**

We welcome the application of the guarantee mechanism to right holders which are abusing their rights, as it will help preventing the unfair use by the right holders of their IP rights. This would also protect the market from the "Ukrainian patent trolling", i.e. obtaining IP rights to long familiar objects such as hangers, matches, packaging, etc., and including these items in the customs register in order to demand importers of such products to pay for providing consent for customs clearance.

The current legislation does not provide for any sanctions regarding the liability of such rights holders for actions involving unfair competition or for the use of information provided by the customs for the purposes other than the protection of intellectual property rights.

Moreover, according to Article 24 of the EU Regulation, the customs authorities shall release the goods or put an end to their detention only where the declarant or the holder of the goods has provided a guarantee that is of an amount sufficient to protect the interests of the holder of the decision. That is, the Regulation imposes the burden of providing guarantees to the declarant or the holder of the goods, while the Draft does not specify the person who should provide these guarantees. In order to ensure that customs do not require guarantees from all right holders, we propose to amend par. 8 of Art. 398 of Draft Law 4614 by adding the provision:

"... The application of the guarantee mechanism to the owners of intellectual property rights should be supported by the documents which confirm the right holder's abuse of the right in the course of interaction with customs authorities".

The second option of application of the guarantee mechanism, according to this Draft Law, is provided for the owners of the suspended goods in case of the early release of such goods with the prior consent of the right holder if IP rights are not violated, and this seems appropriate in view of Ukrainian practice.

#### **8. Customs' clearance (§15 of article 399)**

Amendments to article 399, paragraph 15 of the The Draft Law prescribe an obligation for the right holder to reimburse the costs incurred by the customs authorities, when requested by these authorities. The Draft Law prescribes that 'the goods in relations to which the customs clearance has been halted (...) may be released from the storage of the revenues and duties body only after the right holder reimburses the revenues and duties body for their storage'. According to article 29 of the EU Regulation, the holder of the decision shall reimburse the costs incurred by the customs authorities by the request of these authorities. We would favor a similar provision.

**9. Preterm Release of the Goods In Relation to Which the Customs Clearance Has Been Halted Under the Suspicion of the IPR Violation (article 400)**

Article 400-1 of the Draft Law does not require the declarant or the holder of the goods to provide a guarantee that is of an amount sufficient to protect the interests of the holder of the decision, as a condition for the customs authorities to proceed with an early release of the goods. INTA recommends to introduce a mandatory guarantee requirement similar to Article 24 of the EU Regulation.

**10. Destruction procedure (Articles 401 and 401-1 of Draft Law No. 4614)**

First of all, and as already explained in previous submissions, the proper destruction of counterfeit products requires improvements in Ukraine. Bearing this in mind, the implementation of articles 401 and 401-1 of the Draft Law may be problematic: many counterfeit products may benefit from a certain interpretation of the said articles and avoid being destroyed on the basis that they are meant for studying or informing the public.

Under Art. 23 of Regulation (EU) 608/2013, "the destruction of the goods shall be carried out under customs control and under the responsibility of the holder of the decision, unless otherwise specified in the national law of the Member State where the goods are destroyed. Samples may be taken by competent authorities prior to the destruction of the goods. Samples taken prior to destruction may be used for educational purposes".

As regards taking samples, it is advisable that the right holder give his written consent to such actions, which will allow avoiding potential abuses.

Moreover, the role of the owner of the goods in the destruction procedure ends after he gives consent to the destruction or upon his "tacit consent". The effectiveness of further action depends on the interaction of customs authorities and the right holder.

The suggested simplified destruction procedure gives the right holder a possibility to control the fulfillment by the owner of the goods of his obligations and the opportunity to be directly involved in the process of destruction of such goods. The owner of the goods is dependent in determining the terms of placing the goods in the customs regime of "destruction or elimination" on the necessity of obtaining positive decisions of the revenue and duties authority and other government agencies. However, by referring to such norms, the owner may take advantage of this situation and delay execution of the procedures necessary for the destruction of counterfeit goods. Consequently, the right holder suffers additional material damages by "persuading" the owner of the goods to take actions within his control and within the control of government authorities to destroy the counterfeit goods as soon as possible.

It is advisable to bring the existing simplified procedure for the destruction of goods suspected of being counterfeited, in particular with regard to destruction of small consignments, in line with the EU Regulation. This would allow minimizing the procedural burden on the owner of the goods, as

well as the administrative burden on the customs authorities. The destruction procedure should be carried out under control of the customs authorities, and must be easy to complete. The right holder must be able to obtain information from the customs about the cost of storage, transportation, destruction, processing of documents and other expenses associated with the observance of the customs regime of destruction or elimination, because these expenses are covered by the right holder.

#### **11. Halting of Customs Clearance and Destruction of Small Shipments of Goods Sent to the Customs Territory of Ukraine in International Postal Items or International Express Items (Article 401-1)**

Article 401-1 of the Draft Law regulates the order of destruction of goods in small consignments and contains restrictions which differ from article 26 of the EU Regulation, in particular:

- small consignments of goods that are subject to the destruction procedure are defined as goods shipped to the customs territory of Ukraine in international postal parcels or international express shipments, in quantities not exceeding three units or total weight not exceeding 2 kilograms;
- the decision on suspension of customs clearance and the intention to use the procedure of the destruction of small consignments of goods shall be taken by the head of the customs authority or the person authorized by him;
- the provision regarding the establishment of a 10-day period for a court order to secure a claim (paragraph 8).

According to the Draft Law, the right holder has to receive in 10 days a court order to secure a claim prohibiting certain actions in the case of infringement of IP rights (restrictions apply to small consignments of goods). If the right holder does not receive the court order, goods that are potentially in violation of his rights will be subject to customs clearance. Obtaining such a court order within 10 days is extremely difficult, due to the peculiarities of the trial. Accordingly, right holders are substantially limited in their ability to protect their rights, and counterfeit goods are more likely to enter the domestic market of Ukraine. INTA recommends that the provision be amended to be similar to the EU Regulation which allows the person whose rights are violated 10 days to appeal to the court, not to receive the appropriate court order as it is prescribed by the Draft.

#### **12. Timeline of coming into force of the norms of Draft Law No. 4614**

INTA advises not to wait until September 2020 for the entry into force of the Draft Law. The Draft Law should stipulate that:

"This Law shall come into force from the day following the day of its publication and shall be put into execution in six months after its entry into force.

2. To the Cabinet of Ministers of Ukraine prior putting the Law into execution: to develop and approve its own regulatory acts necessary for the implementation of this Law; bring its own regulatory acts in compliance with this Law; ensure the adoption by the ministries and other central executive bodies of the regulatory acts envisaged by this Law, as well as review and abolish regulatory acts that contradict this Law ".

After approval of the Draft Law No. 4614 of July 5, 2016 in principle by the Verkhovna Rada (in the first reading), it is advisable to amend the Draft Law (prior to the second reading) by adding all the above-mentioned provisions and providing for other important norms, namely:

- Participation of a person whose intellectual property rights have been violated in the proceedings regarding violation of customs rules (Articles 497, 498 of the Customs Code of Ukraine) in order to be able to protect their IP rights and convey their position to a judge;

- To amend the sanction of Art. 476 by adding "destruction" in order to prevent the sale of seized counterfeit products through the State Bailiffs' Service. For the time being, the courts refuse to issue judgments on the destruction of counterfeit products due to the lack of such sanction in Art. 476 of the Customs Code of Ukraine;
- To set an alternative range for the amount of a fine (ranging from 17,000 to 170,000 UAH), depending on the quantity of imported/exported counterfeit products. For the time being, the amount of the fine is undifferentiated (17,000 UAH);
- To provide for the possibility for the right holder to confirm the violation of his IP right in the course of moving of goods across the customs border of Ukraine (par. 14, Art 399 Customs Code of Ukraine). To date, only expert opinions issued by a certified judicial expert of the relevant authorized body are accepted.