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UNFAIR COMPETITION IN THE PRACTICE OF FAS RUSSIA AND COURTS: 9.5 MILLION ROUBLES TO BE PAID FOR AN INFRINGEMENT OF HEINEKEN'S TRADEMARK

On 1 March 2018, the Commission of the Federal Antimonopoly Service of the Russian Federation Office (FAS Commission) for St. Petersburg issued an order in respect to Afanasy Private Brewery LLC (ООО «Частная пивоварня «Афанасий») to stop violation of Article 14.6.1 of Federal Law No. 135-FZ, dated 26 July 2006 'On Competition Protection', in particular, the illegal use of the designation 'ОХОТА НАШЕГО' being confusingly similar to the trademark 'ОХОТА' the right holder of which is Heineken Russian subsidiary.

This order is noteworthy because Afanasy Private Brewery LLC is also obliged to pay to the federal budget within three months all the income received from all the sales of its products marked by the said designation, in the amount of 9,437,988 roubles[1].

The case was initiated on the basis of the claim of Heineken United Breweries LLC (HUB LLC) dated 17 February 2016 related to the violation by Afanasy Private Brewery LLC of Articles 14.2 and 14.6.1 of the Federal Law 'On Competition Protection'. These Articles prohibit unfair competition by means of misleading, including in respect of the quality and consumer properties of goods, and performing by an economic entity of actions (omission) that can cause confusion with the activities of its competitor or with goods or services that the competitor sells/provides in Russia, including:

- illegal use of a designation that is similar or confusingly similar to the trademark of the competitor's business by placing it on goods, labels, packages or otherwise used in relation to goods that are sold or otherwise introduced into circulation in the territory of Russia, and use thereof in the Internet, i.e. in domain names;
- copying or imitating the appearance of goods introduced into circulation by the competitor, as well as packaging of such goods, label, name, colour scale, corporate identity as a whole or other elements that individualise the competitor and(or) its goods.

According to the claimant, the defendants - Afanasy Private Brewery LLC and NikitiN LLC - have been engaged in sales of mead titled «ОХОТА НАШЕГО! Крепкое» which are counterfeit products since this designation is confusingly similar to the trademark 'OXOTA' registered for goods of 32 and 33 ICGS classes, which include beer, alcoholic and honey drinks, as well as 42 ICGS class (sale of the above products), the right holder of which is HUB LLC.

At the same time, pursuant to Article 1484.3 of the Civil Code of the Russian Federation (the Civil Code), no one has the right to use without a permission of the right holder designations similar to the right holder's trademark in respect of goods, for the individualisation of which the trademark has been registered, or similar goods, if such use causes the likelihood of confusion. Under Article 1252.4 of the Civil Code, if the manufacturing, distribution or another use, as well as import, transportation or storage of the tangible media in which the result of intellectual activity or means of individualisation (i.e. a trademark) is expressed, cause an infringement of the exclusive right to the respective intellectual property, such tangible media shall be deemed counterfeit and, upon a court decision, subject to withdrawal from circulation and destruction without any compensation whatsoever, unless other circumstances are specified by the Civil Code. By virtue of Article 1515.1 of the Civil Code, goods, labels, packaging of goods, on which a trademark or a designation confusingly similar thereto has been illegally placed shall be deemed counterfeit.

In the course of the case consideration by the FAS Commission, the status of competition in the all-Russian market for the sale (production) of beer and fermented beverages was analysed and

[1] Approximately 135 thousand euro

it was established that Afanasy Private Brewery LLC and HUB LLC are competitors in this commodity market.

The FAS Commission by its decision, dated 30 November 2016, recognised the violation of Article 14.2 of the Federal Law 'On Competition Protection' in the actions of Afanasy Private Brewery LLC, in particular, the dissemination by the company in the Internet of unreliable information that the mead titled 'ОХОТА НАШЕГО! Крепкое' is beer, and issued an order to cease this violation.

The Arbitration Court of St. Petersburg and the Leningrad Region by its decision dated 6 November 2016 on case No. A56-16284/2016 under the claim of HUB LLC, established the confusing similarity between the trademark 'ОХОТА' and the designation 'ОХОТА НАШЕГО', which were used by the defendants in respect of homogeneous products. The court proceeded from the fact that the products protected by the registered trademark of the claimant and the products, in respect of which the defendants used the disputable designation, are homogeneous, and a designation is considered confusingly similar to another designation (trademark), if it is associated with it in general, despite their differences (p. 41 of the Rules for drafting, filing and examining documents being the basis for committing legally significant actions for the state registration of trademarks, service marks, collective marks approved by the Order of the Ministry of Economic Development of Russia No. 482 dated 20 July 2015). The court also relied on the explanations of the Presidium of the Supreme Arbitration Court of the Russian Federation contained in p. 13 of the Information Letter No. 122 dated 13 December 2007, according to which the issue of confusing similarity of two verbal designations used on the claimant's and defendant's goods can be settled by the court from the standpoint of ordinary consumers, and does not require any special knowledges. Under the court’s decision Afanasy Private Brewery LLC and NikitiN LLC were obliged to pay the compensation in favour of HUB LLC in the amount of 100,000 roubles each for the illegal use of a designation confusingly similar to the claimant's trademark. The defendants were also prohibited from the manufacturing goods using the designation 'ОХОТА НАШЕГО' in respect of alcoholic beverages of the 32 and 33 ICGS classes and homogeneous goods.

The Thirteenth Arbitration Court of Appeal by its Order No. A56-16284/2016 dated 13 March 2017, upheld the decision of the first instance court, having indicated that in this case the element 'Охота' included by the defendants in the designation of their products is dominant in visual perception and leads to confusing similarity of this designation and the claimant’s trademark.

Thereat, as the court stated, ordinary consumers in this commodity market segment do not generally conduct a detailed analysis of the designations, on which the defendants insisted. Pursuant to the evidence provided by the claimant, the trademark 'ОХОТА НАШЕГО!' was not registered, Rospatent established the confusing its similarity to the 'ОХОТА' trademark. According to the poll by the All-Russia Public Opinion Research Centre, 71% of the survey participants believed that the designations 'ОХОТА' and 'ОХОТА НАШЕГО' are more or less similar. 60% of survey participants admited that they could perceive the products labelled with the analysed designations as products of the same manufacturer.

The Intellectual Property Court (IPC) by its decision dated 4 July 2017, changed these judicial acts of arbitration courts and refused to satisfy the claim against the defendants for the prohibition of the manufacturing of products marked with the designation 'ОХОТА НАШЕГО', since the right holder's claim for suppressing actions that violate law can be brought only against the person who performs such actions or prepares for them (Article 1252.1 of the Civil Code). In other words, this remedy is provided for a continuing or unfinished violation characterised by the continuous performance of an illegal act that starts from the moment of committing the violation and ends due to

the action of the violator aimed at stopping the violation, or the occurrence of events preventing the commission of the violation.

In the rest of the court of cassation instance upheld the judicial acts of the arbitration courts of the first and appellate instances. IPC noted the correctness of the conclusion that marking of products with the designation 'ОХОТА НАШЕГО' is the violation of the exclusive right to the trademark 'ОХОТА', regardless of the presence of the punctuation mark '!' used by the defendants, or the absence of any punctuation mark, because its presence or absence does not lead to a principally different perception of the designation by consumers.

Despite the fact that at the meeting of the FAS Commission held on 22 January 2018 Afanasy Private Brewery LLC submitted copies of expert opinions, which, in its opinion, show the lack of confusing similarity between the designation 'ОХОТА НАШЕГО' with the trademark 'ОХОТА', the Commission did not consider it possible to give an assessment to the evidence submitted that would differ from the assessment made by the arbitration courts on case No. A56-16284/2016.

Afanasy Private Brewery LLC marked its products (mead) with the designation 'ОХОТА НАШЕГО! Крепкое', despite the fact that the 'mead' is a feminine noun, which shall go with an adjective 'крепкая' (i.e. in corresponding gender form), and has repeatedly posted on the Internet the information that the mead titled 'ОХОТА НАШЕГО! Крепкое' is beer. According to the FAS Commission, such actions only increase the risk of confusing this product with the product (beer) of the claimant marked with the designation 'ОХОТА Крепкое', since the consumer at first perceives the mead titled 'ОХОТА НАШЕГО! Крепкое' as beer, which it is not.

At the same time, pursuant to the research by Synovate Comcon, the beer titled 'ОХОТА Крепкое' is the No. 1 brand in Russia in terms of profit[2]. This fact was confirmed by the defendant.

As reported by Afanasy Private Brewery LLC at the meetings of the FAS Commission, in 2015 and 2016 it sold about 650 thousand litres of mead 'ОХОТА НАШЕГО! Крепкое', while in 2017 it no longer put into circulation this product.

In this connection, the FAS Commission concluded that business of Afanasy Private Brewery LLC was aimed not at the one-off production of mead titled 'ОХОТА НАШЕГО! Крепкое', but at the systematic and continuous introduction of the mead into circulation, and these actions affected the competition in the all-Russian market for the sale (production) of beer and fermented beverages.

As indicated in the decision of the FAS Commission, Afanasy Private Brewery LLC as a result of such a behaviour on the market gained the advantage, in particular, it did not have to invest significant funds to promote its products on the market. Instead of developing its own brand, Afanasy Private Brewery LLC took advantage of the positive reputation of the beer 'ОХОТА Крепкое' and 'parasited' on a more successful competitor's brand.

These actions of the defendant could be the reason for the consumers mischoice, if they perceived the defendant's products as a new line of the long-known products of HUB LLC and, therefore, caused damage that could be classified as a loss of profit.

Besides, these actions of Afanasy Private Brewery LLC, in the opinion of the FAS Commission, may detract from the business reputation of HUB LLC: if the defendant sells inappropriate products, this

[2] http://www.heinekenrussia.ru/brands/national_brands/okhota/

leads to a decrease in confidence to the manufacturer of the beer titled 'ОХОТА Крепкое' as a more recognisable brand.

When issuing to Afanasy Private Brewery LLC the order to transfer to the federal budget all the income received from sales of the mead titled 'ОХОТА НАШЕГО! Крепкое' for the entire period of putting this product in circulation, the FAS Commission was guided by the following.

The designation 'ОХОТА НАШЕГО! Крепкое' that is confusingly similar to the trademark of HUB LLC under certificate No. 183777/1 was reproduced illegally on each label of the mead that was put into circulation by the defendant.

In this regard, the FAS Commission concluded that, since is every fact of the introduction of mead titled 'ОХОТА НАШЕГО! Крепкое' into circulation is an infringement of the claimant's trademark, all the income received by Afanasy Private Brewery LLC from the introduction of this product is income received from illegal actions and must be transferred to the federal budget. In this case, the amount of income was determined by the Commission in view of the provisions of Articles 248 and 249 of the Tax Code of the Russian Federation. This measure, as noted by the Commission, corresponds to the influence of the actions by Afanasy Private Brewery LLC on the competition in the commodity market, as well as is fair and aims to deprive the defendant of the advantages derived from unfair competition.

At the same time, the FAS Commission rejected the claimant's arguments that in this case violations of the antimonopoly law can be recognised both in the actions of Afanasy Private Brewery LLC and NikitiN LLC. Both legal entities are included in one group of entities, which shall be regarded as a single economic entity. Thereat, the mead titled 'ОХОТА НАШЕГО! Крепкое' was manufactured and sold to other business entities, i.e. put into circulation, by Afanasy Private Brewery LLC. In this connection, the Commission came to the conclusion that NikitiN LLC acted in a joint common interest with Afanasy Private Brewery LLC and acted only as a formal seller of the mead.

As explained by the Supreme Arbitration Court (SAC) of the Russian Federation in p. 17 of the Resolution of the SAC Plenum No. 11 dated 17 February 2011, the subject of administrative liability for administrative offenses provided for by part 2 of Article 14.33 of the Code of Administrative Offenses of the Russian Federation can only be the person who first put into circulation the products with illegal use of the intellectual activity results and means of individualisation.

Which conclusions can be made from the decision of the FAS Commission and the court judgements in this case?

Firstly, when considering the case in the first instance, the court did not appoint an expert examination and the issue of confusing similarity of verbal designations of the claimant and defendant was resolved thereby from the standpoint of an ordinary consumer - insofar as these verbal designations are used to individualise products belonging to the same ICGS class, while the first designation is associated with the second as a whole, despite their differences, both phonetically and visually (in particular, on the labels for the mead 'ОХОТА НАШЕГО! Крепкое' they used colours that remind the labels of the beer 'ОХОТА. Крепкое'; the very word 'охота' was also in capital letters):

'ОХОТА НАШЕГО! Крепкое' mead label sample

'ОХОТА Крепкое' beer label sample

The correctness of the first instance court's conclusions was confirmed in the appeal and cassation instances, in particular based on the results of opinion polls.

Secondly, if the right holder in its points of claim against the violator specifies the claim for compensation (instead of losses recovery) for the illegal use of a trademark under Article 1515.4 of the Civil Code in the amount from 10 thousand to 5 million roubles, it must be taken into account that the court can at its discretion reduce the compensation to an amount close to the minimum[3].

Thirdly, if on the date of consideration of the case under the right holder's claim containing the requirement to prohibit the violator to manufacture and put into circulation of products marked with a designation confusingly similar to the right holder's trademark, the defendant has ceased such actions and does not make preparations for them, the claim may be refused in this particular part. However, this does not prevent the right holder to file a complaint with the FAS Russia with a statement on violation by the infringer of Article 14.6.1 of the Federal Law 'On Competition Protection', and the FAS Commission that shall consider the relevant case to issue an order to the infringer to terminate the violation.

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- legal advise on antitrust regulation of trade, advertising, state procurement, mergers and acquisitions;
- preparing/review and obtaining a preliminary approval of FAS Russia of terms and conditions of agreements, commercial policies (regulations on counterparty selection) and other documents which may restrict competition;
- obtaining of a preliminary approval of FAS Russia of transactions and other actions aimed at economic concentration.

[3] Pursuant to Clause 43.3 of the Decisions by the Plenum of the Supreme Court of the Russian Federation No. 5, SAC Plenum No. 29, dated 26 March 2009 'On Certain Issues that Arose in Connection with the Introduction of Part Four of the Civil Code of the Russian Federation'', in determining the amount of compensation the court in view of the nature of the violation, period of illegal use of the intellectual activity result, degree of the violator's guilt, presence of violations of the exclusive right of the right holder, and probable losses of the right holder, shall take a decision based on the principles of reasonableness and justice, as well as the proportionality of compensation to the consequences of the violation.

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