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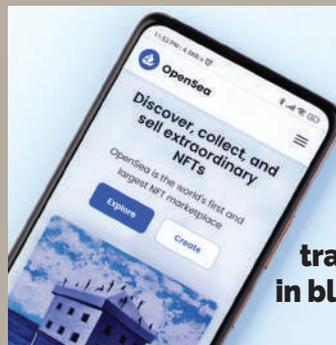
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Parallel imports vs Counterfeits: Mechanisms of preventing Intellectual Property Rights infringement in Azerbaijan

Shabnam Sadigova Huseynova and Nargis Tagiyeva of GRATA International, Azerbaijan, detail customs registration, unfair competition complaints, and civil protection as preventive measures against parallel imports and counterfeit goods.

Parallel import, which refers to the import of original trademarked products without the consent of the right holder, is a matter of great concern in the international trade. Parallel import is tightly associated with another global issue of counterfeit. The general notion of counterfeit shall be distinguished from the concept of parallel import. The definition of counterfeit goods is envisaged in the Law of the Republic of Azerbaijan on Trademarks and Geographical Indications dated June 12, 1998, #504-IQ (hereinafter "the Trademark Law") as goods illegally equipped with trademarks, geographical indications or signs confusingly similar to them. The significant difference between parallelly imported goods and the counterfeit goods is that unlike the case with parallel import, counterfeit goods are non-original products created by breaching the intellectual property rights (IPRs). The fact that parallelly imported products are genuinely produced makes the matter even more complex. As a result, there is no unified approach to the regulation of parallel import in the world and different countries apply various regimes.

In practice, it is usually questioned whether the parallel imports are allowed under the legislation of Azerbaijan. Current legislation of the Republic of Azerbaijan does not regulate parallel import matters; hence it is not practically barred, which means that it is generally allowed in the country. Contrary to the parallel import, Azerbaijani legislation only stipulates the measures for combatting the import of the counterfeit goods. One of such measures is customs registration.



**Shabnam Sadigova
Huseynova**



Nargis Tagiyeva

Customs registration:

The main provisions covering the issue are stipulated in Chapter 49 of the Customs Code of the Republic of Azerbaijan dated June 24, 2011, #164-IVQ (hereinafter "the Customs Code"). The Customs Code provides that in order to prevent the release of counterfeit goods the right holder or other authorized person can apply for the registration of goods containing intellectual property rights to the State Customs Committee of the Republic of Azerbaijan ("Customs Committee"). Customs Committee is considered as an authority responsible for maintaining a register of goods containing IPRs in order to ensure the implementation of customs control. Opposed to the procedure in the neighboring countries, in Azerbaijan the customs registration is carried out not for the trademarks, patents or other intellectual property objects, but rather for the goods containing the objects of IPRs. In other words, only the goods that include trademarks, patents and etc., are subject to registration in the Customs Registry as a means of protection of the IPRs.

The application for the registration of the goods containing the objects of IPRs may be submitted either in paper or in an electronic format to the Customs Committee. The application must be followed by a number of the required documents as stipulated in the Customs Code. As follows from the practice, it is strongly recommended to the applicant to provide as much information as possible to assist the customs-officials in distinguishing the original product from the counterfeits during registration.

of the goods at Customs Committee. To give an example the applicant can provide the photos of the counterfeits, the information about distributors (current and former), specify the customs borders where the counterfeit products are imported, etc. Copies of goods, including pirated or counterfeited goods, may be submitted together with the application.

As follows from the Customs Code, the applicant shall also submit to the Customs Committee one of the guarantees indicated in Article 258.1 of the Customs Code. Those guarantees include:

- (i) pledge;
- (ii) a bill of exchange (aval);
- (iii) bank guarantee;
- (iv) transfer of the amount to be paid to the deposit account of the customs authority;
- (v) insurance contracts;
- (vi) a third party guarantee;
- (vii) advance payments.

In practice, the applicant's obligation to provide guarantees to the Customs Committee is one of the most debatable aspects of the customs registration, that usually raises a number of questions of the trademark owners. As a matter of fact, the purpose of providing guarantees is:

- to compensate for the damage caused to the owner of the suspended goods or other interested persons; and
- to reimburse the expenses incurred by the customs authorities as a result of suspension of the release of goods if it is detected during the customs clearance and the customs control procedures that the suspended goods are not pirated or counterfeit.

The applicant can submit one of the above-mentioned guarantees in order to cover the amount of the deposit. The amount of the deposit to be paid is set by the customs authority based on the characteristics and nature of the goods. As observed in practice, an insurance contract is the most common type of guarantee submitted to the Customs Committee.

The application on the registration of the goods including the objects of IPRs is reviewed within a one month period after which the customs official takes a decision on its registration or refusal. The refusal can be issued due to the failure to provide accurate information on the right holder, failure to provide one of the required guarantees to the Customs Committee, etc. Upon eliminating the shortcomings, it is possible to re-apply for the registration of goods.

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Upon the positive decision of the Customs Committee, the protection of the trademark-holders' rights is granted for a five years period. This term may be extended several times subject to the right holder's application. When submitting the documents for extension, the right holder should take into account that the validity period of customs registration will not exceed the validity period of their rights to the intellectual property object.

The advantage of the registration of the goods including the objects of IPRs in the Customs Registry is that it allows the customs officers to identify and seize counterfeit goods at the customs border. That said, if during the customs clearance and the customs control procedures it has been revealed that the goods containing objects of intellectual property are piratic or counterfeit, the release of such goods is suspended for 10 working days by the decision of the head of the Customs Committee or by the person representing them. Afterwards, the customs officials immediately notify the applicant of the decision to suspend the release of the goods. Upon motivated request, the applicant indicated suspension period may be extended for another 10 working days. Within this timeframe the applicant can raise a claim in court on IPRs infringement. If the Customs Committee does not receive information on the commencement of the court hearing on the merits within the provided period, the goods

Résumés

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containing objects of IPRs shall be released. At this point the very fact of initiating legal proceedings and informing the Customs Committee is important.

A disadvantage of the registration process: the applicant would be required to compensate damage inflicted on the owner or other persons affected as a result of suspension of the goods.

Overall, it is recommended to register goods containing the objects of IPRs in the Customs Registry since registration serves as a direct basis for the customs authorities to temporarily suspend the import of counterfeit goods and inform the right holder about this fact. This measure will allow the right holder to track the cases of import of the counterfeit goods and to take the relevant action (file an application for the protection of his rights in court) for preventing the illegal import.

Unfair competition:

Filing a complaint on unfair competition to the State Service for Antimonopoly and Consumer Market Control under the Ministry of Economy of the Republic of Azerbaijan ("Antimonopoly Service") is considered as another method for preventing the circulation of the counterfeits.

The forms of unfair competition are provided in Article 3 of the Law of the Republic of Azerbaijan on Unfair Competition dated June 2, 1995, #1049 (hereinafter "the Law on Unfair Competition"):

- (i) copying of economic activity of competitor;
- (ii) discrediting of economic activity of competitor;

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- (iii) interference with economic activity of competitor;
- (iv) unfair entrepreneurship;
- (v) unscrupulous business behavior;
- (vi) delusion of consumers.

The commonly spread form of unfair competition is the delusion of consumers in relation to IPRs. The Antimonopoly Service, if recognizing the actions of the offender as unfair competition, can make a decision on imposing financial penalties envisaged in the Law on Unfair Competition. In our practice, financial penalties or even real risks thereof led offenders to refrain from repetition of the illegal actions.

Civil protection:

Individuals producing counterfeits by means of supplying the goods with the trademarks without the authorization of a right-holder must stop such illegal action at the request of the right-holder and compensate the damage caused to the owner of the trademark. In the event the individuals do not stop such illegal production of the goods, the trademark owner has a right to file a claim about violation of their IPRs. When considering disputes in civil proceedings, court may decide to withdraw the following goods from the trade turnover and/or to destroy the goods without compensation:

- (i) goods that are the subject of an offense i.e. counterfeits;
- (ii) with the purpose of preventing offenses that may be committed in the future; materials and equipment used directly in the manufacture of counterfeit goods.

Additionally, the right holder may also demand compensation in an amount from AZN 1000 to 50000 (approx. USD 588-29,411) in court for the damage caused to them by a person who produces counterfeit goods.

In addition, monetary sanctions may apply to the individual held liable for manufacturing the counterfeits

Another subject of interest for right holders is the risks that may arise from the breach of the consumers' rights by parallel imports and counterfeits. For instance, if during the warranty period prescribed in the contract or other regulations, the consumer discovers a defect or falsification in the purchased product they are entitled to demand the following from the seller or producer at their discretion:

- to replace the purchased goods with one of quality;
- to decrease the sale price to an appropriate amount;
- to eliminate defects of the purchased goods at the expenses of the seller or



producer; or to demand the reimbursement of the costs made by the consumer or a third party in order to eliminate the defects;

- to substitute the goods for another model (brand, type and etc.) corresponding to those goods, subject to recalculation of the value;
- to terminate the contract and request compensation for the harm caused.

Moreover, the seller or manufacturer shall compensate for the damage caused to the life, health, or property of an individual or the property of a legal entity as a result of defects or poor quality of the goods as well as incorrect or incomplete information about the goods regardless of their guilt or contractual relationship with the victim.

It is clear from the discussion above that there are no specific provisions or procedures under the Laws of Azerbaijan allowing the right-holder to prevent the parallel import or impact the parallel importers to stop such import. Contrary to the parallel imports, the Azerbaijani legislation provides the mechanisms of preventing the counterfeits. As it is seen from the analysis above, a trademark owner can file a claim to a

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court according to civil proceedings, benefit from the customs registration, seek protection against unfair competition by filing a complaint to the respective authority, etc. Azerbaijani legislation also establishes various sanctions in nature for those producing counterfeits. Those sanctions or even real risks thereof led offenders to refrain from repetition of the illegal actions.

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GRATA International is an international law firm founded on April 22, 1992 that provides legal services for projects in the countries of the former Soviet Union and Eastern Europe. GRATA International has offices in 20 countries around the globe, including Azerbaijan.

GRATA International, Azerbaijan office was incorporated and registered in accordance with the laws of the Republic of Azerbaijan in 2003. Since its establishment, GRATA Azerbaijan has provided legal services to companies engaged in business in different fields of industry, including oil and gas, pharmaceuticals, communications and media, banks and financing, transportation and construction.

With its 15-member team and 19-years of experience, GRATA Azerbaijan provides full legal support to international and local companies in Azerbaijan in different fields of law including, but not limited to Intellectual Property Law, Employment Law, Immigration Law, Tax Law, Contract Law and etc.