THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW

SECOND EDITION

Editor
Thomas Vinje

THE LAWREVIEWS

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KAZAKHSTAN

Saule Akhmetova, Timur Berekmoinov and Igor Lukin[1]

I INTRODUCTION

The issues of competition and intellectual property are closely interrelated in Kazakhstani law. This interaction is traced through cross-provisions in the main regulatory acts – the Civil Code of the Republic of Kazakhstan, the Entrepreneurial Code of the Republic of Kazakhstan (EC), and special laws regulating issues in the area of intellectual property.

The Civil Code establishes general issues of regulation in the area of intellectual property (IP) and general principles for securing exclusive rights to IP objects. For issues that require more detailed regulation, the Civil Code refers to special legislative acts defining types of IP objects and terms for protection of the rights to those IP objects. In addition, the Civil Code prohibits the abuse of business freedom, and restriction of competition (Article 11); contains certain allowable and unacceptable conditions for franchising agreements; and provides for the nullity of, or challenge to, transactions that violate the requirements and prohibitions of legislation in the area of competition protection.

The EC provides support for fair competition, limits and regulation of monopolistic activities, and concepts and conditions for the admissibility of anticompetitive agreements and concerted actions. IP objects are the subject of special regulation under Kazakhstani antitrust legislation. First, the EC provides for the release of agreements on the use of IP objects from prohibitions or restrictions that apply to certain provisions of horizontal and vertical agreements. Second, the EC prohibits unfair competition, and for IP it provides special articles:

a Article 178, Illegal Use of Means of Individualisation of Goods, Works, Services and Objects of Copyright;
b Article 179, Illegal Use of Goods from another Manufacturer;
c Article 180 Copying the Appearance of the Product; and
d other articles of Chapter 16, Unfair Competition, may also apply indirectly.

Unfair competition means any actions in competition aimed at the achievement or provision of undue benefits.

1 Saule Akhmetova is a partner, Timur Berekmoinov is an associate and patent attorney, and Igor Lukin is a senior associate at GRATA International.

II YEAR IN REVIEW

Until 26 December 2016, agreements on IP rights were completely excluded from the list of prohibited agreements and could provide for any conditions that potentially restrict competition. However, following amendment of the EC on 26 December 2016, agreements on IP rights can provide for any conditions that are *per se* prohibited for other agreements (exclusivity, market-sharing, price-fixing, etc.) as long as the conditions do not restrict competition.

No other significant decisions, cases, legislative developments or policy developments relating to the intersection of intellectual property and antitrust have taken place over the course of the year.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

The EC provides for the release of IP agreements from the prohibitions or restrictions that apply to certain provisions of horizontal and vertical agreements:

a agreements on organisation of sales of goods under a seller's or producer's trademark or mean of individualisation are not subject to the prohibition against vertical agreements that include an obligation not to sell competitors' goods (Article 169.2(2) of EC);

b vertical agreements that establish or support discriminatory conditions for equivalent contracts with other market entities, including the establishment of agreed terms for the purchase or sale of goods (or both purchase and sale) are prohibited and void if the vertical agreements cause or may cause the restriction of competition (Article 169.3(1) of EC). Franchise agreements are not subject to this provision;

c prohibitions on anticompetitive agreements do not apply to agreements between market entities that are members of the same group of companies or persons (or a combination of these) if one of the market entities is controlled by another market entity, and if the market entities are under the control of one person (Article 196.6 of EC); and

d restrictions and prohibitions against anticompetitive agreements provided by Article 169 of EC do not apply to agreements on the implementation of exclusive rights to IP and the means of individualisation and means of individualising goods, provided that the agreements do not effect or cannot effect restriction or elimination of competition (Article 196.7 of EC).

The Civil Code (Article 900) contains allowable and unacceptable restrictions for franchise agreements. The allowable restrictions (exclusive conditions) include:

a the licensor's obligation not to grant other similar complex business licences for use in the territory assigned to the licensee, or to refrain from immediate self-employment in this area;

b the licensee's obligation not to compete with the licensor in the territory of application of a complex business licence in respect of a business carried on by the licensee with exclusive rights belonging to the licensor; and

c the licensee's obligation not to obtain other complex business licences from competitors (or potential competitors) of the licensor.

Restrictive conditions of the franchise agreement shall be invalid in cases where it is stated that:

a the licensor is entitled to determine the licensee's selling price of the goods or the price of works (services) performed (provided) by the licensee, or to set an upper or lower limit of the indicated prices; and

b the licensee is eligible to sell goods, works or services only to a certain category of buyers (customers) or exclusively buyers (customers), who live (residence) on the territory specified in the contract.

ii Refusals to license

The law generally does not provide for the right holder's obligation to enter into licence agreements with third parties. The right holder's refusal to license the rights to means of individualisation is not an antitrust violation.

In respect of patents, the Patent Law of the Republic of Kazakhstan contains the concept of a 'compulsory licence'. If the patent holder does not use an industrial property object and refuses to enter into a licence agreement on acceptable commercial terms within 90 calendar days of a request to enter into such an agreement, any person may apply to the court for a compulsory non-exclusive licence if the industrial property object has not been continuously used after the first publication of information on the issue of the protection document for the industrial property objects for any period of three years preceding the application. If the patent holder fails to prove that the non-use is due to lawful reasons, the court will grant the said licence indicating the limits of use, terms, amount and order of payments. The amount of payments shall not be lower than the market price of the licence defined in accordance with established practice.

Any compulsory non-exclusive licence must be issued mainly to meet the needs of the domestic market of the Republic of Kazakhstan, unless the licence is requested for a medicine or the process of manufacturing a medicine for the purpose of exporting a patented medicine or a medicine manufactured through a patented process to the territory, where there are no or insufficient manufacturing facilities in accordance with the international treaties ratified by the Republic of Kazakhstan.

Thus, actions of the patent holder aimed at unjustified refusal to issue a licence to third parties in cases stipulated by Kazakhstani legislation may be recognised as a restriction of competition and constitute a violation of Kazakhstani antitrust legislation.

Some antitrust issues regarding compulsory licences are also discussed in Section IV.iii, below.

We have no information from public sources on court cases regarding any disputes about forcing the patent holder to grant a compulsory licence for a patent.

iii Unfair and discriminatory licensing

Restrictions and prohibitions against anticompetitive agreements do not apply to agreements on the implementation of exclusive rights to IP and the means of individualisation. However, where such agreements cause or may cause restriction or elimination of competition, the anti-monopoly authority may apply to court to void the agreements. Franchise agreements that contain prohibited terms as mentioned in Section III.i are void.

iv Patent pooling

Kazakhstani law does not provide for the concept of 'patent pooling'. Agreements of two or more companies on the mutual use of a patent may lead to antitrust issues if the agreements cause or may cause restriction or elimination of competition.

v Software licensing

There are no antitrust issues specific to software licensing. As mentioned in Section III.i, restrictions and prohibitions against anticompetitive agreements provided by legislation do not apply to software licences, provided that the agreements do not effect or cannot effect restriction or elimination of competition.

vi Trademark licensing

There are no antitrust issues specific to trademark licensing. As mentioned in Section III.i, restrictions and prohibitions against anticompetitive agreements provided by legislation do not apply to trademark licences, provided that the agreements do not cause or may not cause restriction or elimination of competition.

IV STANDARD-ESSENTIAL PATENTS

Kazakhstani law does not contain a definition of standard-essential patents.

i Dominance

Since Kazakhstani law does not contain the concept of a parent patent, these provisions or considerations are not available in the legislation.

ii Injunctions

The law of Kazakhstan does not provide for injunction right to patents.

iii Licensing under fair, reasonable, and non-discriminatory (FRAND) terms

Kazakhstani law does not contain the concept of FRAND terms. Similar provisions regarding fair and acceptable conditions for compulsory licensing of any patent are given in Article 11.4 and Article 11.5 of the Patent Law:

a a person may apply to the court for a compulsory licence if the patent holder has refused to conclude a licence agreement on reasonable commercial terms and conditions (i.e., such a refusal is grounds for recourse to a court; however, the law does not specify that the court establishes the reasonable commercial conditions in the decision on granting the compulsory licence); and

b the amount of royalties is established by the court on the basis of the market price of the licence, in accordance with established practice.

Antitrust provisions generally do not apply to IP agreements if the agreements do not or cannot cause restriction or elimination of competition. However, antitrust rules are relevant to licensing obligations in the following cases:

a in cases of abuse of patent rights by the patent holder, the court may decide to issue a compulsory non-exclusive licence; and

b if the position of the patent holder for an invention related to semiconductor technology is recognised by a court as violating the requirements of Kazakhstani legislation in the area of competition protection, the court may decide to grant a compulsory non-exclusive licence for the invention to change the position of the patent holder in the market.

iv Anticompetitive or exclusionary royalties

There is not any guidance on the impact of any royalty provisions (including royalty bases or calculation of royalty rates) on potential antitrust liability.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

Strictly speaking, under Kazakhstani law, merger between two firms may only be constituted by acquisition of shares or participatory interest. Therefore, the acquisition of intellectual property rights from one party by another may not constitute a merger between two firms. However, a firm may merge with another firm to take control over IP rights owned by the latter firm. In this scenario, no anti-monopoly concerns associated with IP rights arise.

ii Remedies involving divestiture of intellectual property

Under Kazakhstani law, IP rights have no legal meaning for anti-monopoly regulation of mergers and acquisitions. For example, IP rights are not considered for the purposes of identification of a dominant position. Therefore, the assignment of IP rights cannot be the remedy for a merger that raises competition concerns.

VI OTHER ABUSES

i Sham or vexatious IP litigation

It may be difficult to determine whether IP litigation is sham or vexatious, and thus an antitrust infringement. The official database of court cases contains potentially relevant cases regarding recognition of unfair competition in an entity's action. These cases concern the cancellation of a trademark registration obtained for the purpose of unfair competition. According to practice, in Kazakhstan there are often cases when a person registers in his or her own name a trademark for goods that have conquered the Kazakhstani market, but the goods' true manufacturer has not properly registered the rights to the goods.[2] Such actions are recognised as an act of unfair competition. One such court case is discussed below.

VKD LLP, a Russian company, delivers vodka under the trademark Khlebnaya Sleza to the Kazakhstani market. DPA LLP, a Kazakhstani company, filed for and obtained the registration of a similar trademark. The Russian company appealed against this registration to the Appeals Board of the Committee on IP Rights as being illegal and having been

2 M T Alimbekov, Zh N Abdiev, G E Abdrasulova, E V Goryacheva, T E Kaudyrov, N I Mamontov, N T Sukhanova, A B Tagajayeva, *Disputes Concerning Intellectual Property Rights (Practical Guide)* (Astana, 2011), p. 56–58.

obtained for the purpose of unfair competition. Notably, DPA LLP does not and did not produce vodka. The Appeals Board granted the Russian company's and declared the disputed registration as null and void.

The Kazakhstani company subsequently filed a claim to the Specialised Inter-District Economic Court (SMES) of Astana appealing against the decision of the Appeals Board. SMES refused to satisfy the claim and recognised the actions of the claimant (the Kazakhstani company) as unfair competition, stating the following.

The claimant filed for the registration of the verbal designation Khlebnaya Sleza with a priority dated 4 April 2007 (i.e., when the product – labelled vodka – under the trademark Khlebnaya Sleza had already been sold in the territory of the Republic of Kazakhstan). The claimant only had to check the presence or absence of registration in the State Register of Registered Trademarks of the Republic of Kazakhstan (a paid service of the IP Committee) and, having learnt that there was no such registration, applied for the registration in its name. This fact gives rise to the following conclusions: the claimant, with knowledge of the requirement of Article 6.3.1 of the Trademark Law, nevertheless applied for registration in its name. Registration of designations as trademarks or their elements is not allowed where the designations are false or capable of misleading about the product or its manufacturer, including geographical indications that are capable of misleading concerning the place of manufacture. In this case, the product – vodka under the trademark Khlebnaya Sleza – was already known in the Kazakhstani market as a product manufactured or produced by a Russian company. By registering a trademark that is confusingly identical to a trademark registered in the name of another manufacturer, the claimant tried to mislead the Kazakhstani consumer as to the manufacturer of the product. By its illegal actions, the claimant appropriated the role of the product manufacturer. Kazakhstani consumers, when buying this product or upon reading the official industrial property bulletin, would have thought that the vodka manufacturer or producer was DPA LLP rather than VKD LLP, whereas the legal owner of the trademark Khlebnaya Sleza is VKD LLP under the certificate of the Russian Federation No. 166936 dated 28 June 1995. Furthermore, according to international registration No. 932777, it has an international priority registered by the International Bureau of the World Intellectual Property Organization on 22 June 2007. Thus, the trademark has effect in the following countries: Kazakhstan, Armenia, Azerbaijan and China.

ii Misuse of the patent process

There is no information on any enforcement practice or regulations addressing abusive conduct in the form of manipulation of the patent process (e.g., for the purpose of artificially extending the term or geographical scope of patent protection, or enforcing patents obtained through fraud).

iii Anticompetitive settlements of IP disputes

There is not any information on any enforcement practice or regulations addressing anticompetitive settlements of intellectual property disputes, such as exclusion payments to potential generic entrants in the pharmaceutical sector.

Currently we have one dispute in our practice where we decided to apply antitrust legislation rather than IP law. In this case, Company A filed an application with the antitrust authority to recognise as unfair competition the violation by Company B of Article 177 of the EC, Illegal Use of Means of Individualisation of Goods, Works, Services and Objects of Copyright. Company B copied Company A's packaging in a very careful way,

with a general visual similarity to the competitor's packaging, but which did not contain Company A's trademarks in a recognisable form; there was, therefore, practically no chance of proving a violation of Company A's trademark rights within the framework of civil proceedings. Since in accordance with the EC the applicant only has to prove the similarity of packaging, rather than the fact of confusing similarity of designations (as IP legislation provides for in civil proceedings), the company decided to apply to the antitrust authority.

According to the case file, Company A submitted a sociological survey confirming that consumers considered the new packaging of Company B's product similar to the packaging of Company A's product and, therefore, a significant number of the interviewees confused the manufacturers and believed that Company B's product was manufactured by Company A.

The investigation by the antitrust authority is still under way; however, Company A's preliminary position is not entirely clear. The antitrust authority believes that the evidence on the similarity of the packaging is not sufficient and requires an additional expert opinion on the confusing similarity of the packaging.

The antitrust authority has offered to file a request with the Patent Office of the Republic of Kazakhstan to conduct a comparative analysis of the packaging and thereafter provide its opinion on the analysis results. Company A, however, believes that the issue of such an opinion by the Patent Office of the Republic of Kazakhstan cannot be a key proof and so determine the case outcome.

VII OUTLOOK AND CONCLUSIONS

The government of Kazakhstan is considering introducing a lot of amendments into the country's IP legislation by the end of 2017. These amendments have been developed to bring the national legislation into line with international treaties and agreements to which Kazakhstan is a party. However, there are no alterations related to IP and antitrust issues.

The most recent package of anti-monopoly amendments was implemented at the end of 2016 and, to the best of our knowledge, there is no further relevant legislation pending at the present time, nor significant pending competition authority decisions or court judgments. Given that no amendments to anti-monopoly legislation are currently being contemplated, it is difficult to foresee any upcoming developments.

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She also advises and represents the interests of Kazakhstani and international clients in negotiation processes with governmental authorities in relation to investment contract terms and conditions. Saule speaks Russian, English and Kazakh.

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Timur graduated from Al-Farabi Kazakh National University in Almaty, Kazakhstan in 2012.

Timur practises in intellectual property law, with particular focus on trademarks, copyright, commercialisation of IP, pretrial protection of IP rights, IP litigation and border protection of IP.

Timur's recent deals in the field of IP litigation include assisting with trademark registrations for a Kazakhstani pharmaceutical producer, foreign food producers and other companies; representing a famous FMCG company and advising on the protection of its IP rights before regional IP departments and Kazakhstani administrative courts (for destruction of counterfeit goods); border protection of IP rights of a famous FMCG company, a European producer of door technology systems and allied products, a European enamel jewellery manufacturer and others (cooperating with regional customs authorities and Kazakhstani IP departments, advising on parallel import issues and initiating administrative proceedings against infringers); advising a European confectionery producer, and a European dairy products producer on IP rights protection and initiating administrative proceedings against infringers; advising a US franchisor of frozen yogurt retail stores, a French retail clothing company and an international clothing design manufacturer on concluding and further registration of franchising agreements with Kazakhstani franchisees. Timur speaks Russian, English and Kazakh.

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Igor Lukin is a senior associate in GRATA's Almaty office. He specialises in anti-monopoly and corporate law. He has solid experience in advising on arranging and closing M&A transactions, creating business ventures, corporate governance issues and due diligence investigations. Igor is a final-year PhD candidate, and is conducting his research in the field of corporate law. Igor speaks Russian and English.