Range of intellectual property rights and customs value of goods

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On December 16, 2014, the Judicial Panel for Economic Disputes of the RF Supreme Court ("**SC**") issued two court rulings on the Oriflame case[1] and Mary Kay case[2]. Although the subjects of the appeals in both cases were similar (range of intellectual property rights), the SC returned one case for retrial (Oriflame), while the appeal in Mary Kay was not granted.

These cases are primarily interesting in terms of enforcement practice on matters relating to range of rights. Litigation on some issues in the Oriflame case has been ongoing since 2010. The company's defense strategy focused on systematically following all available statutory forms of appeal – both pre-trial and judicial. Until recently, Oriflame had not obtained a positive decision on either appeals to customs, Reginal Customs Administrations and the Federal Customs Service, or appeals in court.

Issues relating to range of intellectual property rights became prominent with the formation of adverse court practice (unfavorable to companies) on the inclusion of trademark royalties in the customs value of goods.

Analysis of publically available information on foreign trade indicates that practically all goods imported into Russia contain a trademark (designation). Therefore, issues relating to protecting the rights holders' intellectual property rights are highly relevant.

Major multinational companies are typically interested in developing their trademarks on world markets. The parent company/rights holder in a group uses exclusive and non-exclusive licenses to give subsidiaries in various countries the right to use the trademark and principles for the placement of goods at point of sale, methods for sale and offer of such goods for ale, rights to use intellectual property on signage, business and advertising documentation.

In this way, the contractual relations between licensees and rights holders are complicated by the granting to licensees of a range of intellectual property rights, rather than merely the right to use trademarks. A range of rights may include the right to use a trade name, know-how, patent or rights to other intellectual property and not include the right to use a trademark.

Questions arise with respect to the inclusion of royalties for the use of a range of rights in the customs value of imported goods, the method for inclusion, and the ability to split royalties into "goods" and "non-goods" elements.

Companies have not so far had success in attempts to separate rights to use a trademark and a trade name (Oriflame), or in attempts to not include royalties for the right to promote sales by affixing a trademark to goods in the customs value of imported goods (Mary Kay). Despite the SC's positive decision in Oriflame, the question of whether the royalties for the right to use a trade name should be included in the customs value of goods does not give the court any doubt.

The Oriflame case was sent for retrial on grounds unrelated to intellectual property. The SC supported the company's position that the three-year period for customs control after the release of goods should be with respect to goods

released for domestic consumption after July 1, 2010 (after the entry into force of the Customs Union Customs code and the respective provisions). The Oriflame case was also sent for retrial at the court of first instance as the SC confirmed that the company has the right to appeal the decision of a higher customs authority in court within three months of the company receiving the higher customs authority decision against the company.

Therefore, the most promising position would appear to be that a company using a range of rights appeals the amount of royalties additionally assessed by the customs authorities. The amount may be reduced by properly selecting the basis for calculation and/or division of royalties into “goods” and “non-goods” elements.

We are also aware of successful experience in not including royalties for the use of commercial information on the business method and sales accounting system (know-how) in the customs value of imported goods. In the majority of cases, this position does not raise any doubts with the customs authorities, since know-how is generally used in the country of import (in particular, in Russia) and relates to the conduct of business and/or production in the country to which the goods are imported.
We would be glad to provide more detailed language for inclusion in agreements, draft appeals/statements of claim, provide opinions on the tax consequences of changes in the basis for royalty calculations, and to provide any other assistance necessary for the implementation of our proposals.

[1] RF Supreme Court Ruling № 305-KG14-78 of December 16, 2014
[2] RF Supreme Court Ruling № №305-ES14-1441 of December 16, 2014

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