

June 26 2023

New regulations set to reduce number of counterfeits for sale online

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Introduction

The volume of internet sales is increasing in Russia. According to a report by the Association of Internet Trade Companies, e-commerce turnover has increased by almost 30% in 2022, and this should continue in 2023. At the same time, the number of counterfeits sold at marketplaces is increasing as well, although some marketplaces use their internal anti-counterfeiting systems and the large marketplaces Wildberries, Ozon and Yandex have even implemented their own unified anti-counterfeiting information system.

Since 1 March 2023, by Resolution No. 1351 released 29 July 2022, marketplaces now have to report to the special monitoring system "Chestny Znak" and check the marking on each product subject to mandatory marking to avoid penalties. This means marketplaces are now treated as full-fledged market players.

Key aspects

The Chestny Znak is a Russian national system of marking goods by a special data matrix code that allows for the monitoring of a product at every stage, from the manufacturer and/or the importer up to the user. This should guarantee that the marked product is genuine. The lack of such marking may suggest that the product is counterfeit.

The goods marking systems was introduced in Russia in 2019. The list of such goods is being supplemented, and it is expected that all kinds of products will be subject to mandatory marking by the year 2024. The system already includes, in particular:

- tobacco products;
- photo cameras;
- perfumery;
- shoes;
- medicines;
- tires;
- clothes;
- furs; and
- leather goods.

There is an administrative and a criminal responsibility for marketing goods without such marking.

In particular, for selling goods without the mandatory marking, the following fines are in place.

Administrative responsibility (except for tobacco products)

For officials, the penalty is a fine between 5,000 and 10,000 rubles (approximately £47 and £95), and product confiscation.

For legal entities, the penalty is a fine between 50,000 and 300,000 rubles (approximately £478 and £2872), and product confiscation.

Administrative responsibility (for tobacco products)

For officials, the penalty is a fine between 30,000 and 50,000 rubles (approximately £287 and £478), and product confiscation.

For legal entities, the penalty is a fine between 300,000 and 500,000 rubles (approximately £2872 and £4789), and product confiscation.

Criminal responsibility (involving large amounts in case of conspiracy)

For manufacturing, purchasing, storing, transporting and selling products with fake codes, fines are assigned up to 1 million rubles (approximately £9580) and/or imprisonment of up to five years.

Criminal responsibility (other types of crime)

For other types of crime, fines are assigned up to 300,000 rubles (approximately £9580) and/or imprisonment between three and six years.

Other platforms

In the past, companies that only aggregated information on goods, managed logistics (ie, prepared the goods for the market, packed and delivered them) and received payments on behalf of sellers under agent and commission agreements were not responsible for mandatory marking of goods – sellers were in charge of this. With the lack of any control by marketplaces and its inadequacy, unfair

sales could be offered on e-platforms for suspicious goods originating from unreliable sources without any special marking. This is why the number of counterfeits offered for sale at marketplaces has become quite considerable.

As of 1 March 2023, such aggregators are also treated as parties of business transactions and thus have become liable for selling counterfeits. An aggregator is an entity that provides an opportunity for consumers in respect of a certain product to:

- get acquainted with the seller's offer to conclude an agreement for the purchase and sale of the product;
- conclude an agreement with the seller; and
- make an advance payment for the product in cash or by transferring the money to the aggregator.

Therefore, if a platform meets the above criteria, it must comply with the new regulations. Still, it does not concern the owners of the platforms that only provide information and operate as a display (eg, social networks and messengers).

Comment

The new rules may help rights holders in fighting counterfeits in addition to their brand protection strategies.

For a long time in most cases, marketplaces were able to avoid responsibility for trademark infringements since they were considered as information intermediaries only. Thus, an information intermediary that only provides the possibility to publish information on the internet will not be liable for IP infringements, provided that this intermediary:

- did not know and should not have known that the use of the IP assets was illegal; and
- took the necessary and sufficient measures to cease the infringement upon the receipt of the rights owner's claim in written form with indication of the website and/or web address of the infringing page.

Some experts believe the new regulations may also affect the approach of courts in trademark infringement cases, which may become stricter. This practice was observed in recent cases when the rights holders managed to get a compensation for trademarks infringements from marketplaces.

For instance, in case No. A41-2390/22, in its decision of 28 July 2022, the court awarded a compensation of 500,000 rubles (approximately £4789) to WESTLAND 1930 LIMITED for the trademark infringement by selling and offering for sale goods marked with designations that were confusingly similar to the trademarks of WESTLAND. The owner of the trademarks initially claimed from the marketplace WILDBERRIES a compensation of 5 million rubles (approximately £47,800), but the court reduced the amount. The IP Court acting as a Court of Cassation supported this decision in March 2023. In this case, the courts considered that the marketplace, as an information intermediary, had not taken timely measures after the receipt of the right holder's claims.

In another case, case No. A41-85375/2020, the rights holder was also awarded a compensation in the amount of 2 million rubles (approximately £19,150) to be paid jointly by WILDBERRIES and the seller. What is notable in this case is that WILDBERRIES was not recognised as an information intermediary (as in the previous case) and therefore was liable for the trademark infringement. The Court of Appeal and the Court of Cassation both confirmed this decision in 2022. Once again, the IP Court stressed that the marketplace had not taken timely measures to cease the infringement.

It may be too early to view these judgments as a general rule. However, to be on the safe side, marketplaces should inevitably improve the control over the goods offered for sale on their platforms to reduce the number of counterfeits for sale.

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