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## THE PROBLEMS OF LEGAL QUALIFICATION OF TRADEMARK COUNTERFEITING IN RELATION TO GOODS, WORKS AND SERVICES

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**Abstract.** The article is concerned with the problems of estimating the amount of damage caused by trademark counterfeiting in relation to goods (works, services), which is the basic component of an offence under Article 180 of the Criminal Code of the Russian Federation. The authors give a critical appraisal of the law enforcement practice in this field, and based on the analysis of the activities of anti-monopoly enforcement authorities, they make sound recommendations on the use of special techniques for identifying and calculating damage caused by different types of offences under study, which will allow to qualify them properly. The research procedures include analysis, induction and deduction. The results of the research can be used as a basis for developing concrete techniques for law enforcement practice.

**Keywords:** trademark, counterfeit products, damage, losses, lost profit, criminal liability, qualification of crimes.

## ВОПРОСЫ КВАЛИФИКАЦИИ НЕЗАКОННОГО ИСПОЛЬЗОВАНИЯ СРЕДСТВ ИНДИВИДУАЛИЗАЦИИ ТОВАРОВ (РАБОТ, УСЛУГ)

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**Аннотация.** Целью настоящей работы является исследование проблем установления содержания ущерба в преступлениях, связанных с незаконным использованием средств индивидуализации товаров (работ, услуг), как обязательного признака преступления,

предусмотренного ст. 180 УК РФ. Авторы критически оценивают правоприменительную практику по данному вопросу и на основе анализа деятельности органов по надзору за соблюдением антимонопольного законодательства предлагают рекомендации по применению специальных методик установления и расчёта ущерба в отдельных преступлениях. Предлагаемые методики позволяют осуществить правильную квалификацию противоправных деяний. Авторами при проведении исследования использованы методы анализа, индукции и дедукции. Новизна настоящих идей заключается в разработке специальных методик установления и расчёта ущерба и выработке эффективных рекомендаций для правоприменителя по их использованию в практике. Выводы исследования могут стать основой подготовки практических методик для профессиональной деятельности сотрудников правоохранительных органов.

**Ключевые слова:** товарный знак, контрафактная продукция, ущерб, убытки, упущенная выгода, уголовная ответственность, квалификация преступлений.

The current Russian legislation considers trademark counterfeiting an offence if the act is committed repeatedly or cause major damage (Article 180 of the Criminal Code of the Russian Federation) [5]. A review of the criminal record of Russia for 2013–2017 shows that the number of convicts under this article increases by a quarter on the average every year. Still, one cannot be sure that in all cases of accountability the offence in question received correct legal qualification [1].

The qualification of this offence implies a full, objective and comprehensive assessment of damage and a description of the mechanism of its infliction as a result of the unlawful impact on the exclusive rights of the owners of intellectual property (trademarks). The unsubstantiated and superficial determination of the qualitative and quantitative characteristics of this offence predetermines, in addition to the violation of the rights of the parties in criminal proceedings, a poor judicial perspective in a criminal case [3]. Thus, the Nagatinsky District Court of Moscow, returning a case of S. charged in committing a crime under Part 3 of Article 180 of the Criminal Code of the Russian Federation to the prosecutor of the Southern Admin-

istrative District of Moscow to remove obstacles to its consideration by the court, indicated that the amount of the imputed damage was not specified and there is no description of evidence confirming the amount of damage caused<sup>1</sup>.

Meanwhile, when calculating the amount of damage in practice, a rather primitive technique is used by investigating authorities and courts, the point of which is to determine the quantity of counterfeit goods of one trademark, multiply it by the cost of one unit and record the result as an amount of damage caused to the trademark owner. If it exceeds 250 thousand rubles, the case is sent to the criminal court, with the provision of the described method of damage calculating and, as a rule, a guilty verdict is announced.

Thus, according to the verdict of the Perm District Court of the Perm Territory dated January 15, 2016, D. was found guilty of committing crimes under Part 3 of Article 30, item «b» of Part 6 of Article 171 of the Criminal Code of the Russian Federation, Part 1 of Article 180 of the

<sup>1</sup> Appeal Resolution of the Moscow City Court dated 30.05.2016 № 10-8024/2016. [Электронный ресурс] Available at: SPS Consultant Plus.

Criminal Code of the Russian Federation. The trial court's decision was that the actions of D. caused damage to the company «Société Jas Hennessy & Co» in the amount of 1,719,360.5 rubles, at the rate of 9,938.5 rubles for 1 bottle of the cognac «HENNESSY X.O.», 0.5 liter volume, the total number of sold bottles of the cognac «HENNESSY X.O.» was 173 bottles. According to the presented data, the damage caused by counterfeit products with the illegal trademark «Hennessy X.O.» 0.5 l and 0.7 l is calculated using the formula «number of bottles x original price = damage cost» – (105 bottles x 10,048 rubles = 1,055,040 rubles + 48 bottles x 13,156 rubles = 631,488 rubles) and the total sum is 1,686,528 rubles, based on the selling price of the original product Hennessy X.O. 0.7 l of 13,156 rubles per bottle at the time of withdrawal<sup>1</sup>.

The peculiarity of this case is the fact that the counterfeit cognac was poured into bottles of 0.5 l volume, and the presented calculation was based on the producer's prices per 0.35 l and 0.7 l volume bottles. It is obvious that this calculation is incorrect even mathematically. However, it did not prevent the court from convicting the suspect and satisfying the trademark owner's claims for inflicted damage.

Thus, after hearing an appeal to uphold the damage claims the Perm Regional Court indicated that the defendant's criminal actions had incurred the loss of profit in the form of non-received income, which would have increased the owner's capital, and caused damage to the business reputation of the trademark owner

in the region where counterfeit products were distributed<sup>2</sup>.

However, such bases for calculating damage arouse strong objections.

Firstly, it is quite obvious that in this particular case the trademark owner did not suffer from any loss in the form of lost profits by the turnover of counterfeit products, since the seized goods had not been put into mass circulation – consumers did not show any interest in them – and the act of selling just a part of goods to a law enforcement officer can hardly be qualified as detriment to the legal producer. Besides, in the damage calculation report there is not a word of the distribution of the original product of «Société Jas Hennessy & Co» in the region.

Secondly, it is possible to calculate only the probable income that the trademark owner could have received if the counterfeit goods had been traded and really ousted the part of legal products mentioned in the verdict and led to the loss of the trademark owner's profit. It is this mechanism of calculating damages in the form of lost profits that seems to be logical and allows to trace the development of a causal link from the violation of trademark rights to the damage caused to a trademark owner.

We assume that the calculation of the lost profit of the company «Société Jas Hennessy & Co.», as a result of D's illegal actions, should look like this: Loss of profit = (CP2015 – AP2015) + (CP2016 – EP2016), where: CP is the counterfactual profit that the trademark owner would have received at the product sales in the

<sup>1</sup> Verdict of the Perm District Court of the Perm Territory dated 15.01.2016 on the case № 1-1/2016 (1-337/2015). [Электронный ресурс] Available at: SPS Consultant Plus.

<sup>2</sup> Appeal Definition of the Perm Regional Court dated 20.03.2017 in case № 33-3172/2017. [Электронный ресурс] Available at: SPS Consultant Plus.

absence of violation; AP2015 – the actual profit received by the trademark owner for the period of counterfeit goods sales; EP2016 – the estimated profit which, according to reasonable forecasts, the trademark owner would have got in 2016<sup>1</sup>.

As one can see, this method of calculation allows quite objectively to establish the amount of income that the trademark owner could receive, provided that his right to the trademark were not violated. Meanwhile, in practice, a simplified approach to damage calculation is used, which is not aimed at losses incurred by the proprietor, but at income received by the offender.

Thus, canceling the verdict in the case of the unlawful use of a trademark, and referring the case to a new consideration to determine the amount of damage (lost profit) caused to the trademark owner, as well as the amount of the convicted person's income, the Nizhny Novgorod Regional Court indicated that «it should be remembered that according to Article 180 of the Criminal Code of the Russian Federation non-pecuniary damage shall not be taken into account when calculating the amount of caused damage, the courts should proceed from the circumstances of each particular case (for example, the fact and amount of real damage, the amount of profit received by a person as a result of his violation of intellectual property rights) [4]. Besides, it should be noted that in relation to Article 15 of the Civil Code of the Russian Federation, the lost profit

is calculated not in the amount of the alleged income of the trademark owner, but in relation to the income of the offender»<sup>2</sup>.

In our opinion, in the stated above case the court restrictively interpreted the rule of civil law which states that «if a person who violated a right received income as a result of this violation, the person whose right was violated has the right to claim compensation for the loss of profit in the amount of no less than the incomes received», i. e. the amount of the right holder's lost profits cannot be less than the unjustified income of the offender, but these incomes should be taken into account along with other losses [2]. In the situation when the bodies of the preliminary investigation and the courts have not the formula for calculating losses proposed by the Federal Antimonopoly Service of the Russian Federation such a calculation may look albeit incomplete, but partly reflecting the amount of the losses incurred. Moreover the revenues received by the offender, in accordance with the Civil Code of the Russian Federation, are ascribed to the lost profit and quite objectively reflect its amount. The relativity of the alleged losses here can be also proved by the fact that, as a rule, counterfeit goods are much cheaper than the legal ones, and offenders use «promoted brands» to attract customers with low prices, and it's highly likely that consumers «peck» on a favorable discount more than on a well-known trademark. As it can be seen, damage calculation in the equivalent value of the obtained illegal income is not without a flaw, but today it is the most common technique for determining the quantitative

<sup>1</sup> Clarification of the Presidium of the FAS of Russia dated 11.10.2017 No. 11 «To Determine the Amount of Damages Caused by Violation of Antitrust Laws» (approved by the protocol of the Presidium of the FAS Russia dated 11.10.2017 № 20). [Электронный ресурс] Available at: SPS Consultant Plus.

<sup>2</sup> Cassation Definition of the Nizhny Novgorod Regional Court dated 04.03.2011 in case № 22-1419/11. [Электронный ресурс] Available at: SPS Consultant Plus.

component of the consequences of the crime in question.

Besides, the considered techniques of calculating losses do not include the income that the trademark owner could have received by making a licensing agreement with the seller of their products.

According to the explanations provided in Paragraph 11 of the Resolution of the Plenum of the Supreme Court of the Russian Federation and the Plenum of the Supreme Arbitration Court of the Russian Federation No. 6/8 dated July 1, 1996, the amount of non-received income (lost profit) should be calculated by taking into account the reasonable costs that the lender should have incurred if the obligation had been fulfilled<sup>1</sup>. Thus, the Presidium of the Supreme Arbitration Court of the Russian Federation considering the issue of calculating the amount of damages caused to the copyright holder, indicated that the case file contains a copy of the license agreement concluded by the claimant for the purpose of transferring the non-exclusive right to a trademark. The user's annual payment on it is \$24,000.00 or about 650,000 rubles, or 6,500 minimum wages. This amount can be regarded as the plaintiff's losses in the form of lost profit<sup>2</sup>. This method of calculation is current in investigative judicial practice<sup>3</sup>.

<sup>1</sup> Resolution of the Plenum of the Supreme Court of the Russian Federation No. 6, Plenum of the Supreme Arbitration Court of the Russian Federation dated 01.07.1996 (ed. 03.24.2016) № 8 «On Some Issues Related to the Application of the First Part of the Civil Code of the Russian Federation». In: *Rossijskaya gazeta*, 1996, August 13.

<sup>2</sup> Resolution of the Presidium of the Supreme Arbitration Court of the Russian Federation dated July 05.07.2005 No. 3578/05 in case No. A55-3830 / 2004-12 of ATP «Consultant Plus».

<sup>3</sup> Verdict of the Anapa City Court of Krasnodar

At the same time, for inclusion of a fee that the violator did not pay to the right holder for using a trademark into the amount of caused damage, it is necessary to proceed from the price, which under comparable circumstances is usually charged for their legitimate use, and when calculating its size, the compensation due to license agreement providing for a simple (non-exclusive) license at the time of the violation should be taken into account<sup>4</sup>.

Summarizing the above, when qualifying a crime under Article 180 of the Criminal Code of the Russian Federation on the basis of causing major damage to the trademark owner, we suggest a counterfeit analysis, i.e. economic and financial modeling of the market situation free from trademark counterfeiting. It is also necessary to take into consideration that one of the damage components can be remuneration not received by the trademark owner by concluding a license agreement on using the trademark with the seller of the products. Moreover, the amount of damage caused cannot be less than the illegal profit gained by the offender due to trademark counterfeiting, and the moral damage caused to the victim should not be taken into account when calculating the damage.

Territory dated 09.12.2011 in case № 1-251/2011. Available at: SPS Consultant Plus.

<sup>4</sup> Resolution of the Plenum of the Supreme Court of the Russian Federation No. 5, Plenum of the Supreme Arbitration Court of the Russian Federation dated 26.03.2009 No. 29 «On Some Issues Arising in Connection with the Introduction of Part Four of the Civil Code of the Russian Federation». In: *Rossijskaya gazeta*, 2009, April.

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