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Ruben Attia

Cardozo International & Comparative Law Review, rattia2@law.cardozo.yu.edu

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The Legality of Russian Gray-Market Imports

By: Ruben Attia



In its efforts to cope with Western sanctions implemented in response of its invasion of Ukraine, Russia launched the parallel imports scheme, allowing the importation of many goods without the consent of their intellectual property right-holder.[1] Such goods are called grey market goods because they have been formulated or packaged for a particular jurisdiction and are imported into a different jurisdiction in contradiction to the brand owner's intention.[2] The value of parallel imports in Russia may well attain \$16 billion by the end of 2022, as reported by Russian Minister of Industry and Trade Manturov.[3] The Russian scheme also protects Russian importers from civil lawsuits by bypassing custom control and official distribution channels. But is this alternative legally justified? What can the West do to counter its effects and to maintain its legitimacy?

The Russian parallel import scheme is not inherently illegal. It is based on the intellectual property doctrine of exhaustion, or first sale doctrine. There are two types of exhaustion. National exhaustion is a system that considers the "brand owner's [IP] rights exhausted *for a specific country or region* once goods in relation to which the [right] is used have been put on the market in that particular country or region by the [right] owner or with the owner's consent." [4] Conversely, international exhaustion prevents the right owner to maintain their right and consent in relation to the sale of goods *anywhere in the world* once the goods have been put on a market in a specific country or region. Each jurisdiction can decide whether to

have a national or international exhaustion regime. The United States established international copyrights and trademark exhaustion in the landmark Supreme Court cases of *Kirstaeng v. John Wiley & Sons*[5] and *Impression Products, Inc. v. Lexmark International Inc.* [6] respectively.

For many years, Russia maintained a policy of national exhaustion, and parallel imports of IP-protected goods into the Russian market were prohibited. But in March 2022, Decree No. 506 allowed the Russian Ministry of Industry and Trade to selectively apply the principle of international exhaustion on selected goods.[7] In fact, the Russian parallel import scheme constitutes a list of goods that are eligible to be imported - through parallel imports - mostly from countries that adopted international exhaustion, like the United States. Additionally, as a member of the Eurasian Economic Union (“EAEU”), Russia, along with Belarus, Kazakhstan, Armenia, and Kyrgyzstan, agreed on the regional exhaustion of rights.[8] Specifically, goods which have been legally imported or sold within EAEU territory by the intellectual property right owner can be freely resold or exported to another member state of the EAEU.[9] As a result, notwithstanding trade sanctions - which were partly designed to prevent Western exports to Russia - Russia is able to import goods that were originally intended for export to other states. For instance, Apple products, like iPhones, end up on the Russian market by being ordered from China or South America, then shipped to Russia through EAEU countries or even Iran, a long-time Russian ally.[10] And indeed, most nations in the world have an international exhaustion regime. The case of Russia clearly demonstrates that brands can easily lose control of their distribution and sale.

To curb parallel imports into Russia, the United States – which has mainly imposed primary sanctions since the beginning of the war – could push the revival of multilateral intellectual property agreements. For instance, the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) does not address the issue of exhaustion at all. Article 6 of the Agreement clearly asserts that this issue shall not be addressed by the Agreement.[11] This provision allows member states to independently decide whether to adopt a national or international exhaustion regime.[12] Requiring member states to adopt national exhaustion through an amendment of the Treaty could complicate things for TRIPS member states, like Russia, that utilize the discretion granted by Article 6 to legitimize parallel imports. However, at least several states may raise the sovereignty issue, arguing that Article 6 of TRIPS should not be amended as it allows members to choose how to deal with exhaustion in a way that best fits their domestic policy objectives. Indeed, this is the very clarification that the Doha Declaration brings on the matter.[13]

Another solution to prevent Russian parallel imports is for the United States to expand its set of secondary sanctions, thus imposing economic penalties on states not subject to its legal jurisdiction but nonetheless engaged in the same dealings prohibited under primary sanctions, like EAEU states. Such sanctions might deter Russian allies to reduce their trade dealings and transactions with Putin’s regime. But secondary sanctions are considered by many to represent a tool to influence the policies and decision-making processes of other countries who would not otherwise be in violation of primary sanctions.[14] Russian allies, including EAEU states, could call U.S. secondary sanctions an extraterritorial application of U.S. law. This is mainly why this solution, although impactful, would be a “reluctant last resort” for the United States.[15]

Ruben Attia is a Staff Editor at CICLR.

[1] World Trade Organization, Parallel imports, https://www.wto.org/english/thewto_e/glossary_e/parallel_imports_e.htm [<https://perma.cc/HA39-USYQ>] (last visited Nov. 28, 2022).

[2] *Parallel Imports / Gray Market*, International Trademark Organization, <https://www.inta.org/topics/parallel-imports/> [<https://perma.cc/9G9C-3RF2>] (last visited Nov. 28, 2022).

[3] Bloomberg News, *Russia Cranks Up Bootleg Economy and Offers Rare Tally of Import*, Bloomberg (Aug. 15, 2022), [https://www.bloomberg.com/news/articles/2022-08-15/russia-cranks-up-bootleg-economy-and-offers-rare-tally-of-import?](https://www.bloomberg.com/news/articles/2022-08-15/russia-cranks-up-bootleg-economy-and-offers-rare-tally-of-import?leadSource=verify%20wall) [leadSource=verify%20wall](https://perma.cc/V6YW-CRRN) [<https://perma.cc/V6YW-CRRN>].

[4] *Parallel Imports / Gray Market*, *supra* note 2.

- [5] *Kirstaeng v. John Wiley & Sons*, 568 U.S. 519 (2016).
- [6] *Impression Prods., Inc. v. Lexmark Int’l Inc.*, 137 S. Ct. 1523 (2017).
- [7] Ksenia Andreeva & Valentina Semenikhina, *How Russia’s Parallel Import Order May Affect Companies’ IP*, Law360 (May 11, 2022), <https://www.law360.com/articles/1491497/how-russia-s-parallel-import-order-may-affect-companies-ip> [<https://perma.cc/L9VB-4RM2>].
- [8] Treaty on the Eurasian Economic Union, Annex 26, Protocol on the Protection and Enforcement of Intellectual Property Rights, May 29, 2014.
- [9] *Id.*
- [10] Faezeh Foroutan, *Suspicious Blind: Iran’s relationship with Russia*, EUROPEAN COUNCIL ON FOREIGN RELATIONS (Sept. 2, 2022), <https://ecfr.eu/article/suspicious-bind-irans-relationship-with-russia/> [<https://perma.cc/A7YZ-CR94>].
- [11] TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C, Art. 6, Apr. 15, 1994, 1869 U.N.T.S. 299.
- [12] *Id.*
- [13] World Trade Organization, Doha Declaration on the TRIPS agreement and public health, art. 5, WT/L/540 (2001).
- [14] Daniel Flatley, *What Secondary Sanctions Mean, for Russia and World*, Wash. Post (Apr. 6, 2022), https://www.washingtonpost.com/business/what-secondary-sanctions-mean-for-russia-and-world/2022/04/05/83cf8ebc-b52c-11ec-8358-20aa16355fb4_story.html [<https://perma.cc/8XXS-JZPD>].
- [15] *Id.*