



# Commercial name case raises questions

**Julianna Tabastajewa** and **Yulia Yarnykh** of Hogan & Hartson examine recent Russian case law

**AUTHORS**

**Julianna Tabastajewa** (left) is counsel at Hogan & Hartson LLP in Moscow. She focuses her practice on intellectual property protection and litigation, pharmaceutical law, competition law, media law, and franchising. She also has extensive experience in domestic litigations and arbitrations in Russia. Throughout her career, Julianna has represented major Russian and international companies in sophisticated copyright, trademark, patent, and domain disputes, including several successful precedent cases for Volkswagen AG, Audi AG, and KNAUF Gips KG.

**Yulia Yarnykh** is an associate at Hogan & Hartson LLP in Moscow. Her practice focuses on general corporate matters and public securities transactions. She is working on regulatory issues with regard to activities of non-commercial organisations in Russia. Prior to joining Hogan & Hartson as an associate, Yulia studied English and German and worked as a secretary/translator in the Moscow office of Hogan & Hartson.



Protection of company names is a current IP issue in Russia. In general, the current legal base has been brought in compliance with recognised international legal standards. Protection of company names and other means of individualising is governed by the local legislation – Part IV of the Civil Code of the Russian Federation, effective 1 January 2008 (Part IV of the RF CC), Russia is a party to the majority of the international conventions in this field, including The Paris Convention for the Protection of Industrial Property of 20 March 1883 (Paris Convention), The Stockholm Convention establishing WIPO of 4 June 1967 (Convention establishing WIPO), the Madrid Agreement Concerning the International Registration of Marks of 14 April 1891, the Nice Agreement Concerning the International Classification of Goods and Services for Registration of Marks of 15 June 1957, as well as other international treaties.

Yet Russia is not a party to the Agreement on Trade-Related Aspects of Intellectual Property Rights (Agreement on TRIPs) since it is only preparing for entering into the WTO. It is also not a member of other important intellectual property treaties of the European Community.

Therefore, there are still some IP-related spheres that lack legal protection on the level of the recognised international standards. All too often the shortcomings in the legislation are to be eliminated in the course of court practice formation. However, court practice is not a substitution for legislation, and, very often, certain subjects are left wide open for discussion.

In spite of recent codification of the regulations governing the rights to results of intellectual activity and means of

individualisation in the Part IV of the RF CC, the disputes between entities pertaining to company names, trademarks and commercial names competing with each other are still the most common ones.

For the first time, the issue of correlation of the rights to various means of individualising was tackled in the Part IV of the RF CC. In pursuance of Article 1252(6) of the RF CC, if different means of individualising (company name, trademark, service mark, commercial name) prove to be identical or confusingly similar for consumers and/or contracting parties, the means of individualising the exclusive right to which arose earlier shall have preference.

**General provisions on company names and commercial names**  
**Company names**

In pursuance of the RF CC, a commercial legal entity acts in civil turnover under its company name which is indicated in its constitutive documents and included in the Uniform State Register of Legal Entities (USRLE) at the moment of state registration of the legal entity. Company name contains an indication to its legal form and its own name, which may not consist only of words designating the nature of the company's activity.

A legal entity is not allowed to use a company name identical or confusingly similar to the company names of another legal entity, if both legal entities are engaged in similar activity and the company name of the second legal entity has been included in the USRLE earlier than the company name of the first legal entity.

The law does not provide for special registration of company names. An exclusive

right to company name originates on the date of the legal entity state registration and terminates upon striking the company name off the USRLE due to the dissolution of the legal entity or change of its company name. Company names, as opposed to commercial names, are a personal non-property right which may not be disposed of, including though alienation or granting the right of its use to another person.

In spite of prohibition to use identical or confusingly similar company names by legal entities engaged in similar activities, the law does not stipulate a preliminary verification of the existing company names, as well as other means of individualising. As a result, there are a lot of commercial organisations of the same legal form with identical names engaged in similar activities. Furthermore, there are numerous legal entities, which company names are identical or confusingly similar with registered trademarks or commercial names of other legal entities and individual entrepreneurs, engaged in similar commercial activities.

### Commercial name

Legal entities that are engaged in entrepreneurial activity (including non-commercial organisations to which the right to conduct commercial activity stipulated in their bylaws is granted by law) and individual entrepreneurs are entitled to use for individualisation of trade, industrial and other enterprises owned by them commercial names, which are not company names and are not subject to obligatory inclusion in the constitutive documents and the USRLE.

Russian law prohibits use of a commercial name that can be disorienting regarding the identity of a person who the enterprise belongs to - in particular, a name confusingly similar to a company name, trademark or commercial name, protected by exclusive right, and belonging to another person whose respective exclusive right arose earlier. A person who has violated this rule shall be obliged at the demand of the right holder to stop using the commercial name and compensate the right holder for the losses incurred.

Whereas commercial names are not subject to registration, the information thereof is neither entered into bylaws and registers, nor published, the exclusive right to the commercial name originates immediately upon its use on the outdoor signs, letterheads, accounts and other documentation, announcements and advertising, goods and

## “This case is an evidence of violation of an international treaty – the Paris Convention – of which the Russia Federation is a party”

packing thereof, and terminates if the right holder does not use it continuously for a year.

Applicable law protects the exclusive right to a commercial name, which is used for individualisation of the enterprise located in the Russian Federation. Recent court practice proves to be unfavourable towards foreign organisations, which are not registered as legal entities in their country of origin. Courts unreasonably do not apply Article 8 of the Paris Convention, using literal interpretation, i.e. that Article 8 covers only company names and not commercial names, although the international law enforcement practice applies Article 8 of the Paris Convention widely, assuming that both company names and commercial names should be covered.

Part IV of the RF CC was the first attempt to distinguish between and specify the regulation of the right to company name versus the right to commercial name. However, these attempts, in our opinion, were not successful. In fact, the drafters of the law have replaced the notion of the “company name” with the notion of the “commercial name” known from the list of the intellectual property objects set forth in Article 2 of the Convention establishing WIPO. Eventually, company name has become a substitution for the legal entity’s name individualising it as a subject of law (beyond the market turnover), while the commercial name has become a substitution for company name, which should individualise the legal entity’s enterprise within the market turnover.

As a result, the court practice reveals a lot of issues that arise in connection with law enforcement regarding company names and commercial names.

### Use of company names and commercial names of legal entities

The issue of legal protection of company names and commercial names has always been one of the most complex and intricate in both legal doctrine and legislation. Recent court practice has revealed another problem

in connection with protection of rights to company names and commercial names of foreign persons.

Apart from the domestic legislation, the issue of protection of rights to company name and commercial name is governed by Article 8 of the Paris Convention and Article 2 of the Convention that instituted WIPO. Herewith, the international legislation implies protection of commercial names, which are not subject to special registration in the other country.

The case of Polish company PP BI-ES COSMETIC, which defended its own right to the company name showed that a foreign company, not registered as legal entity in the country of origin, has difficulty in protecting its rights to the company name or commercial name in Russia.

Polish company PP BI-ES COSMETIK is a well-known European manufacturer of perfumery products under trademark BI-ES. The company sells and distribution its products in Europe and (since 1999) in Russia. The company is a right holder of the company name PP BI-ES COSMETIC and combined trademark BI-ES. This trademark has been duly registered in Poland, the European Community, under the Madrid Agreement Concerning the International Registration of Marks, and entered into the trademark register of the WIPO International Bureau.

The international trademark did not receive legal protection in Russia, because the Russian partner of the Polish company had incorporated a Russian company LLC BI-ES COSMETIC and registered in its name trademarks identical to those of the Polish company without notifying the latter.

In order to protect its right to the company name, the Polish BI-ES COSMETIC filed an action against LLC BI-ES COSMETIC, claiming to prohibit the use of the distinctive part of the company name BI-ES Cosmetic, as being confusingly similar with the distinctive part of the company name PP BI-ES Cosmetic in production, offering for sale, advertising and sale and other distribution of cosmetic or perfumery products indicating the company name LLC BI-ES COSMETIC, and demanding to change the company name BI-ES COSMETIC.

The action was filed on the basis of a priority of the company name of the Polish company (incorporated on 27 May 1996, the company name being protected in Russia by virtue of its use since 18 November 1999) over the company name LLC BI-ES COSMETIC (incorporated on 14 February 2000) and its similarity to the company name of the Russian company.



The Arbitrazh court of first instance dismissed the claims of Polish BI-ES COSMETIC on the basis that the Polish company was initially acting as an individual entrepreneur in 1996 and during following years had changed its legal form to simple partnership and full partnership, obtaining the status of a legal entity in Poland in 2003 only. Meanwhile, the Russian company was incorporated as a legal entity in 2000. The ruling of the appellate and cassation instances sustained the judgment of the first instance court.

In this case there are a number of issues revealed: 1) application of a new law instead of the old one 2) misinterpretation of the Paris Convention provisions 3) non-application of the Polish and Russian laws provisions in determining the legal status of the Polish company 4) non-application of unfair competition provisions.

Pursuant to the Federal Law on Enactment of Part IV of the RF CC, the provisions of the former law should have been applied to the right to company name arising before the enactment of Part IV of the RF CC. Later this was also confirmed in the joint decree of the Supreme Court and the Supreme Arbitrazh Court as of 26 March 2009.

However, in our case, the courts unreasonably failed to apply the provisions of the Regulations on Firm, adopted in 1927 referring to operation of the new law, specifically Part IV of the RF CC. Therefore, the subject of action and the circle of evidence were not determined correctly.

In violation of provisions of Articles 14 of the Arbitrazh Procedure Code and Article 1203 of the RF CC, the courts failed to apply the provisions of foreign law, though Polish BI-ES COSMETIC was a foreign organization incorporated under the laws of the Republic of Poland, and the provisions of the Polish laws

should have been considered in determining its legal status. The problem lay in that, originally, the Polish company was incorporated as an individual entrepreneur in 1996, and then for the last few years it had changed its legal form to simple partnership and full partnership, obtaining the status of a legal entity in Poland by 2003 only. Meanwhile the Russian company was established in 2000.

The courts have erroneously interpreted the norms of Article 8 of the Paris Convention and come to the wrong conclusion that the Paris Convention protects company names of legal entities only, and does not protect the names identifying the enterprise of a legal or natural person, i.e. commercial names, as happens in all countries of the Paris Convention. Also, the courts did not take into consideration that Russian law treats foreign organisations, which are not legal entities in the country of origin, as legal entities, and, in pursuance of Article 1203 of the RF CC, where the Russian law is applied, the activities of the foreign organization, which is not a legal entity under foreign law, shall be subject to the rules, which regulate the activities of legal entities.

The case in question is a dangerous precedent. It should be noted that, in the future, foreign persons will be denied protection of their rights within Russia. The state, probably, in order to support the local producer turns a blind eye to the fact that in this case, the Russian company had unfairly used the other company's protected company name and trademarks with earlier priority for creation and promotion of its own business and, thereby, endeavoured to drive a foreign investor out of the Russian market.

Moreover, this case is an evidence of violation of an international treaty – the Paris Convention, of which the Russia Federation is a party.

In 2006, a similar situation occurred with assertion of rights to the company name and the trademark of the famous American company Starbucks, when a notorious trademark invader registered the Starbucks trademark in its name and won the case against Starbucks in the Russian Arbitrazh court.

In that case, Starbucks managed to assert its rights in a higher court, due to a combination of public attention and political forces (as Russia was about to join the WTO).

#### **Correlation of rights to company names of legal entities**

In case of a conflict of rights to the company names of two legal entities engaged in similar activity, the courts qualify the activity of the legal entity which right to the company name arose later as unfair competition and sustain the plaintiff's claim on compelling the defendant to cease the use of the company name identical or confusingly similar with the plaintiff's company name in accordance with the domestic legislation, as well as provisions of Article. 8 and Article 10 bis of the Paris Convention.

Moreover, in its Letter of Information No. 122 as of 13 December 2007 the Presidium of the Supreme Arbitrazh Court pointed out that the difference in legal form as a part of the plaintiff's and defendant's company names not to evidence the absence of violation of right to the company name. Thus, if in case of coincidence of random parts of the company names of two legal entities the compulsory part (specification of the legal form) is different, such company names are deemed similar which may result in confusing the legal entities in the course of conducting their business activity.

In case of infringement of the exclusive right to company name, the right holder may demand that the infringing person stops using

the company name, which is identical or confusingly similar to the right holder's company name, in connection with the types of activities similar to the activities that the right holder is engaged in, and to compensate for the losses incurred.

The following court decision may serve as an illustration of application by courts of the right precedence principal in the course of settlement of disputes related to the exclusive right to the company name. In the proceedings on the claim by OOO "Accounting Service, Moscow" (Accounting, Moscow) against OOO "Accounting Service, Volgograd" (Accounting, Volgograd) on compelling the defendant to cease the use of the company name confusingly similar with the plaintiff's company name with regard to the accounting activity, the plaintiff's demands were sustained in full. The court grounded its decision on the earlier date of priority of the plaintiff's company name. Moreover, the court specified a possibility of prohibition of the use of the protected part of the service mark, namely, the visual (graphic) part of the protected verbal element of the Accounting trademark. But, since the plaintiff did not make such a claim, no relevant decision was made by the court.

In the course of the settlement of disputes related to conflicts of rights to company names of two legal entities, Russian courts also consider the provisions of Article 10 bis of the Paris Convention prohibiting all actions which may in any way result in the confusion of companies, goods or industrial or trade activity of a competitor. In the above-mentioned case of Bi-Es COSMETIC, the court allowed the Russian company to use its company name simultaneously with the company name of the Polish company due to the unproved similarity of the means of individualisation of the plaintiff (PP BI-ES COSMETIC, Beata Piotrowska, Slawomir Piotrowski, spolka jawna) and the defendant (LLC BI-ES COSMETIC) which may result in confusing the companies.

In case of interference of the rights to the company names, the right precedence principle is more acceptable. However, in the case of conflict of rights to the means of individualisation that are different in the importance extent (for instance, in case of conflict of right to the company name and the right to the trademark), it becomes obvious that the right precedence principle has been introduced without taking into account peculiarities of various means of individualization and current practice.

**“The court found and the case materials confirmed that the defendant’s right to the company name OA ARGUS originated earlier than the date of priority of the trademark owned by ChAO ARGUS ”**

#### Disputes related to correlation of rights

In accordance with Article 1483 (8) of the RF CC names that are identical or confusingly similar to a company name or a commercial name (or certain elements thereof) protected in the Russian Federation and other entities' rights to which in the Russian Federation arose earlier than the date of the priority of a trademark to be registered, may not be registered as a trademark with regard to the similar goods.

At the same time, in the course of the trademark application expertise, the trademark applied for registration is not examined with regard to existence of a similar or identical company name. However, even if such an examination is performed, it is impossible verify the use of a company name with regard to the goods and services similar to those with regard to which the trademark protection is requested. Moreover, as said above, in the course of registration of a legal entity, the law does not provide for examination of authenticity of its company name.

As a result, due to the absence of compulsory verification of the identity and similarity of the trademarks to be registered with the existing company names, a duly-registered trademark of one entity may coincide in full or in part with the company name of another entity. The applicable legislation imposes responsibility for a potential breach of the third parties' exclusive rights on the applicant.

LLC Chastnoe Agentsvo po Okhrane ARGUS (Private Security Agency ARGUS) ("ChAO ARGUS") applied to the Arbitrazh court with the claim against LLC Okhrannoe Agentsvo "ARGUS" (Security Agency "ARGUS") ("OA ARGUS") on compelling the defendant to cease, when rendering the security services, the use of the ARGUS element confusingly similar to the plaintiff's combined trademark ARGUS, to delete the element and to prohibit its use in the materials, documents, advertising, signboards; to publish the court decision on the committed violation and to specify the effective right holder, as well as to recover from the defendant the monetary compensation for

illegal use of the plaintiff's trademark ARGUS.

The stated claims were based on the RF CC and grounded that the defendant for the purposes of rendering the similar services illegally uses the verbal designation confusingly similar to the trademark the exclusive right to which is owned by ChAO ARGUS.

The Arbitrazh court by the decision affirmed by the ruling of the court of the appellate and cassation instance dismissed the claim due to the absence of violation of the exclusive rights of ChAO ARGUS by OA ARGUS.

The court found and the case materials confirmed that the defendant's right to the company name OA ARGUS originated earlier than the date of priority of the trademark owned by ChAO ARGUS. According to the court, this use of the part of the company name holding the priority over the trademark with regard to its registration date, is not a violation of the plaintiff's exclusive rights.

The verbal designation in question was examined for identity and confusing similarity to the plaintiff's trademark. Pursuant to the court conclusions, the verbal designation ARGUS used by OA ARGUS together with the graphic design of an eagle differs from the protected trademark of ChAO ARGUS which excludes confusion them and misleading the customers.

Further, taking into account the location of ChAO ARGUS and OA ARGUS on the territory of different constituent entities of the Russian Federation, the territorial aspect of the activity thereof cannot be deemed coinciding because the companies are not exclusive providers of the services which are unique, and the services rendered thereby are purposed to meet the usual regular needs.

In accordance with the effective legislation, in case of identity or confusing similarity and coincidence of the territorial sphere of the activity, a bona fide right holder may face the possibility of cancellation of its trademark legal protection under the claim of the legal entity which right to the company name originated earlier the priority of the

trademark. The right holder of the company name with the earlier priority date is entitled to claim under the judicial procedure the prohibition to use its company name or certain elements thereof included in the trademark of another entity conducting similar activity, as well as to have legal protection of the trademark acknowledged invalid.

One of the drawbacks of the effective regulation on protection of rights to the trademarks and settlement of correlation of rights to the trademarks and company names, is that – following a rather continuous and complex procedure of examination of the applied designation with regard to its protectability and state expertise of the application – the right holder has no guarantee that its duly-registered trademark does not violate the exclusive right of a third party to a company name.

On the other hand, taking into account the possibility provided by the new law to challenge the legal protection of trademarks, the holder of the right to the trademark may not be absolutely sure that the registered trademark is definitely safe against potential trespasses. Thus, the concept of legal

**“Company names, as opposed to commercial names, are a personal non-property right which may not be disposed of, including though alienation or granting the right of its use to another person”**

protection of a trademark seems to be discredited to a certain extent.

In this relation, the best way to minimise the possible risks will be a thorough verification of the designation expected to be used by the applicant as a trademark in order to avoid a conflict with the exclusive rights of third parties. The existing company names may be verified against USRLE, maintained by the tax authority. Such information is publicly-available and can be also searched in

the electronic database of the tax authority. However, as mentioned above, even following such verification the right holder may not be sure that its rights to the trademark will not be challenged.

**Conclusions**

As the practice illustrates, the concept of codification of certain legal acts governing objects of intellectual property proved itself not absolutely perfect. The right holders face a lot of problems in the course of protecting their rights in courts. The courts do not always properly interpret the effective law.

In spite of the above and based on our continuous practice in the field of intellectual property protection, the positive process should be emphasised: both law and court practices are levelling up to the European rules and European court practice. Although the current situation does not absolutely meet the interests of intellectual property right holders, the trend is favourable.

That is why companies, including foreign ones, shall not be afraid of asserting their rights. The chances to exercise the right in Russia are high. 


