Licensing

Contributing editors
Fiona Nicolson and Claire Smith

2018

GETTING THE DEAL THROUGH

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Preface

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Tenth edition

Getting the Deal Through is delighted to publish the tenth edition of *Licensing*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes new chapters on South Africa, Thailand and Vietnam, and an updated global overview.

Getting the Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

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GETTING THE DEAL THROUGH

London
January 2018

Russia

Sergey Medvedev
Gorodissky & Partners

Overview

1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

There are no restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor in Russia from the intellectual property perspective. Neither are there any restrictions against a foreign licensor entering into an intellectual property licence agreement without establishing a subsidiary or branch office in this jurisdiction. A foreign business entity is free to license its intellectual property subject matter directly or indirectly to the Russian business entity, or create a joint venture with a Russian partner using the appropriate international licensing scheme.

Before a foreign licensor can establish a business entity or joint venture in Russia, it has to undergo the following general tests from a legal perspective: investment, corporate, commercial tax and antimonopoly.

Each particular test may (or may not) require special filing or licence (permission), a regulatory review process or registration, depending on its specificity or nature, as well as the applicable legal requirements.

Kinds of licences

2 Identify the different forms of licence arrangements that exist in your jurisdiction.

In Russia, a licence arrangement will be regarded as one of the contractual forms of intellectual property disposal. As a matter of fact, a licence is a valid permission of the rights holder for the use of its intellectual property by a third party (user). According to article 1235(1) of the Russian Civil Code, under the licence agreement, one party – the owner of exclusive rights to the result of intellectual activity or to means of identification (licensor) – grants or agrees to grant to another party (licensee) the right to use such result or such means within the scope of the agreement.

The scope of an intellectual property licence agreement will depend on the factual circumstances of the deal, commercial opportunities and needs of the contractual parties as well as the effect of the parties' negotiations. However, as a general rule, the licensee will be able to use the licensed intellectual property only within the limits as permitted by the licensor. In other words, the licensee will not have the legal right to use the licensed brand, technology or software in a particular way or manner that has not been specifically authorised by the licensor and clearly defined in the relevant contract.

The intellectual property licence agreement may be exclusive or non-exclusive. If the licence agreement is exclusive, the licensor will be deprived of granting the other exclusive or non-exclusive licences in favour of third parties within the same territory and scope of permitted use of the licensed intellectual property. Moreover, in the event of the exclusive licence, the licensor will not be able to use the licensed intellectual property within the same territory and by the same means, unless there is an agreement to the contrary. If the licence agreement is non-exclusive, the licensor will be free to grant other non-exclusive licences in favour of third parties within or outside of the same territory and scope of permitted use of the licensed intellectual property, and will be free to use the licensed intellectual property within or without the same territory and the same means.

Indeed, different types of licence arrangements are legally recognised and generally used in Russia. They may be individually outlined as follows:

- copyright and design licences;
- software and database licences;
- patent and know-how licences;
- trademark and service mark licences;
- plant variety and breeder's right licences;
- mask work licences; and
- others.

In addition, various licensing models are often applied in mergers and acquisitions and joint ventures, franchising and distribution, advertising and sponsorship, information technology (IT) and outsourcing, and other corporate or commercial transactions.

Law affecting international licensing

3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

Russian legislation does not specifically govern the creation or otherwise regulate the terms of an international licensing relationship. At the same time, the creation as well as the terms of the international licensing contract shall basically:

- not be in conflict with the Russian national law;
- assume the Russian licensing imperatives (as applicable); and
- respect Russian public policy.

In connection with this, the contractual parties will be free to set up a licensing contract by inserting certain terms and conditions effective under the international licensing practice, provided that the same do not run afoul of the Russian law, including on royalty rates and on the duration of the contractual term.

For the purpose of taxation, the Russian Tax Code protects the general principle of determination of market product prices in the course of different transactions, including cross-border ones. And, the national tax authorities reserve the right to check the relevant transactions for the accuracy of price application and transfer pricing compliance. When the applied prices used by the contractual parties substantially deviate from those market prices, the Russian tax agency may decide on surcharging the taxes and setting penalties.

Regarding the duration of the contractual term, the common rule will be as follows: the term of the licence agreement may not go beyond the term of protection of the licensed intellectual property; in the event of termination of legal protection of the licensed intellectual property, the licence agreement will terminate. Hence, before entering into the licence agreement it would be wise to identify the term of protection (registration) of the licensed subject matter. Where the licence agreement is silent on its term, or where the term of licence is not fixed in the contract, the licence will be effective for five years. This rule will be applied even if the licence agreement is governed by a foreign law.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

In Russia, the licensor should not make any pre-contractual disclosure formalities to the prospective licensee as the law would not just oblige the licensor to do so. Under the concept of 'good faith', which is valid under the Russian civil law and used in the national legal doctrine, fair and reasonable dealings of the subjects of law will be presumed. At the same time, Russian law protects the legal requirement of mandatory registration of licence transactions that mainly concern the grants of certain licensing rights to the registrable intellectual property (ie, patents, industrial designs, trademarks, service marks, etc), regardless of whether the licence grants are national or international in their pure legal sense and regardless of whether the licence agreements are governed by national or foreign law. Hence, if the subject matter of the international licence agreement is a trademarked brand, a patented technology, a registered mask work or another registered intellectual property asset, such licence will be subject to compulsory registration. Registration of the licence transaction (with respect to the registered intellectual property) will be a condition for completeness, validity and enforceability of such transaction against third parties. In contrast, a non-registered licence transaction in relation to the registered intellectual property will be incomplete and generally unenforceable against third parties. Importantly, there is no obligatory deadline within which the licence transaction must be registered in order to be completed.

5 Are there any statutorily or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The concepts of 'good faith', 'fair dealing' and 'reasonable action' are the basic principles of Russian civil law. These fundamental principles are supported and enforced by the Russian courts in disputes involving national and international parties. The licensing relationship, whether national or international, is not an exception.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Russian law distinguishes between licences and franchises and recognises both such contractual tools. The main difference between these agreements is that the franchise agreement will always contemplate the grant of a licence for a set of intellectual property rights (system), including necessarily the right to use the franchisor's trademark or trademarks, whereas the licence agreement will grant the exclusive or non-exclusive right to a licensee for the use of one or several intellectual property object or objects. While, in addition to the franchised system, the contracted franchisee will also be able to use the commercial experience and goodwill of the franchisor under the franchise agreement, the licence agreement will not normally grant the same benefits to the contracted licensee. Another basic difference between licensing and franchising in Russia is that in the latter case both the franchisor and the franchisee must stand as the duly registered commercial organisations or individual entrepreneurs; the licence agreement can be entered into by and between the referenced legal persons as well as by and between non-commercial organisations. The last principal difference would be the onerous nature of the franchise agreement; the licence agreement may be royalty-bearing or royalty-free. In general, the franchise arrangement will be usually regarded as a complex business intellectual property licence in Russia.

Russian law sets forth that the licensing legal principles may be applied to a franchise relationship, unless such application contradicts the franchising legal principles and the essence of the franchise agreement. The issue on whether the franchising legal principles may be conversely applied to a licence relationship is rather controversial.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes, Russia is a party to these treaties. In fact, Russia is a party to many other intellectual property-related conventions and agreements, including:

- the WIPO Copyright Treaty;
- the Berne Convention for the Protection of Literary and Artistic Works;
- the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations;
- the Locarno Agreement Establishing an International Classification for Industrial Designs;
- the Patent Law Treaty;
- the Strasbourg Agreement Concerning the International Patent Classification;
- the Madrid Agreement Concerning the International Registration of Marks;
- the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks;
- The Patent Cooperation Treaty;
- The Agreement on Trade-Related Aspects of Intellectual Property Rights;
- the Trademark Law Treaty; and
- the Singapore Treaty on the Law of Trademarks.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee can be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in Russia. The 'no-challenge clause' is not prohibited by Russian law and is, therefore, usually applied in the Russian licensing practice. And, the licensee's action to the contrary may be considered as a breach of contract, or even abuse of rights, that may be remedied eventually by the licensor. At the same time, Russian law gives anyone certain freedom for challenging the intellectual property protection – hence allowing any third party to do so. As a result, many practitioners will argue that the licensee may not be estopped by contract from such legal 'right to challenge', even in the event of contractual existence of the 'no-challenge clause' in the licence agreement, assuming the 'no-challenge clauses' are unenforceable. At any rate, the court should take into account all circumstances surrounding such an action (if brought) and render the judgment on the basis of the civil law concepts of 'good faith' and 'fair dealing' (see question 5).

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

In Russia, the invalidity or expiry of registration of an intellectual property right on a related licence agreement leads to automatic termination of the licence agreement. This fact is specifically confirmed by Russian law and relevant court practice. According to the common rule, the licence agreement based on patent or trademark rights, which are subsequently held invalid, shall be terminated immediately (ie, from the date of issuance of the respective decision on the invalidity of the contracted patent or trademark). And, in this regard, the licensee's claims on the refunding of licence fees – for the period preceding the patent or trademark invalidation – shall be simply dismissed by the court. Similarly, the licensor's claims on the recovery of non-settled licensed fees – for the period preceding the patent or trademark invalidation – will not be satisfied by the court.

When the licence agreement does not remain in effect, the royalties cannot be levied by the licensor, and the licensee may then start to compete, using different intellectual property assets. Generally, the use of the licensed intellectual property subject matter upon expiration or termination of the licence agreement shall be regarded as infringement (article 1237(3) of the Russian Civil Code).

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

There are no such requirements set forth to foreigners in Russia. Any foreign investor (legal entity or individual – as applicable) can register its intellectual property in this jurisdiction without having an original intellectual property registration or evidence of use in the jurisdiction of origin. At the same time, in order to be able to license certain intellectual property in Russia its owner has to register the intellectual property object in this jurisdiction first. For instance, this rule may be applied to trademarks and patents.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered marks, unless such marks have obtained a special well-known status within the meaning of Russian law, may not be licensed in Russia. In other words, pending national or international marks, as well as regular trademark applications, may not be the subject matter of licence transaction in this jurisdiction. However, if the unregistered mark is officially recognised as a well-known trademark in Russia, it may be licensed in favour of a third party without fail and without trademark registration as an imperative prerequisite. As to other intellectual property rights, which are not subject to registration for the purpose of protection in Russia, such as copyrights and related rights, software and databases, know-how and others, the same may be freely licensed, and the relevant licence transactions do not need to be registered.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

As a general rule, an intellectual property licence must be in writing. In other words, it has to represent a written executed instrument (agreement) that clearly shows the will of the contracting parties towards the subject matter of a particular transaction and contains the material terms required by law depending on the nature of the transaction. In addition, in order to be complete, valid and enforceable an intellectual property licence – made against the registrable objects (eg, trademarks, patents) – must be registered with the competent state authority (see question 4). The described legal requirements on the written form of a contract and the associated state registration will also be applicable to the security interests granted over the intellectual property rights in Russia.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor of intellectual property can institute enforcement proceedings against a third party for infringement in Russia without joining the licensee as a party to the proceedings. An exclusive intellectual property licensee may institute the enforcement proceedings against a third-party infringer only where its relevant contractual rights are affected. It is not possible for the intellectual property owner to contractually prohibit the exclusive licensee from doing so, as it is the legal right provided by law, but it is possible for the owner to join the enforcement proceedings as a party. A non-exclusive intellectual property licensee does not have the legal right to commence the infringement proceedings; however, it may be authorised under the owner's power of attorney to act on behalf of the latter against a third-party infringer.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

A trademark or service mark licensee can sub-license the use of the mark to a third party only under the consent of the trademark or service mark owner (licensor). Such consent must be in writing and may be given expressly in the licence agreement. Otherwise, such written consent may be granted separately by the licensor before the implementation of the sub-licence agreement. If the licence agreement is silent on the issue of sub-licensing, and no separate written consent of the licensor has been granted, the licensee will not be entitled to sub-license the use of the trademark or service mark or other intellectual property subject matter in Russia.

15 If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

If the intellectual property, such as copyrighted or patented subject matter, is jointly owned, co-owners must deal with that intellectual property all together, unless the agreement between co-owners provides otherwise. In other words, the underlying contracts, including licences, assignments, security interests, have to be signed by each and all co-owners, provided there is no co-owner agreement to the contrary. By way of written agreement, co-owners are free to empower one respective owner to take the disposal of the corresponding intellectual property object on behalf of or in the name of the others. Therefore, the co-owner agreement may allocate the rights and interests of co-owners and state the relevant liabilities of the parties. Trademarks, unless they represent collective marks, may not be registered in the name of two persons and hence be co-owned.

16 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Russia is a 'first to file' jurisdiction. The intellectual property registration will be granted on a 'first come, first served' basis.

With regard to patents, if there is no patent registration in Russia, its owner will not be able to license the use of its invention in favour of a third party. Only Russia-registered and Russia-granted patents may be licensed in this jurisdiction. Pending patents or patent applications cannot be licensed in Russia.

17 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

According to article 1350(5.5) of the Russian Civil Code, software (computer programs) are regarded as non-patentable objects. As a general rule, the subject matter of invention that does not have the technical character is not patentable in Russia. Software (computer programs) 'as such' are regarded as subject matters that do not have the technical character, hence software cannot be patented in this jurisdiction. At the same time, a patent may be granted to a new, inventive and industrially applicable software products in conjunction with hardware computer elements. The local practice affirms this fact so far.

On a separate note, software (computer programs) are protected as literary works by operation of copyright law. During the whole period of software protection, its owner has the optional right to apply for registration of its computer program with the competent state authority. Software registration is not a prerequisite for its legal protection in Russia, but it may serve as an additional (documentary) evidence of intellectual property creation, validity and ownership. In addition, software registration may have an advantageous effect in the course of enforcement proceedings.

According to article 1350(5.4) of the Russian Civil Code, rules and methods for doing business are not considered as inventions. Hence, business processes or methods are not patentable in Russia.

Living organisms may be patented in Russia, provided that they meet general patentability criteria. At the same time, there are certain

exceptions. Pursuant to article 1349(4) of the Russian Civil Code, the following shall not be regarded as patented objects:

- methods of cloning human beings;
- methods of modifying the genetic integrity of human germline cells; and
- use of embryos for industrial and commercial purposes.

In addition, plant varieties, animal breeds and biological methods of obtaining them, with the exception of microbiological methods and products obtained through the use of such methods, are also regarded as non-patentable inventions. Nevertheless, plant varieties and animal breeds are regarded as 'achievements of selection' that may be protected as intellectual property objects under a special legal regime in Russia.

18 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is specific legislation that governs trade secrets and know-how in Russia. While trade secrets are governed by the Russian Federal Law on Trade Secrets (No. 98-FZ, dated 29 July 2004 – as amended), know-how (also known as 'secrets of production') is regulated by the Russian Civil Code (Chapter 75). In particular, 'trade secret' is defined by law as the regime of confidentiality of information allowing its owner, under the existing or potential circumstances, to increase profits, to avoid unnecessary expenses, to preserve the market standing of the goods, works and services, or to receive other commercial benefits (article 3(1) of the referenced Law on Trade Secrets). Know-how is regarded as information of any kind (industrial, technical, economical, organisational and other) related to the results of intellectual activities in the sphere of science and technology, and information on the means of performance of professional activities that has actual or potential commercial value by virtue of being unknown to third parties, to which third parties have no legitimate access under lawful grounds, and with regard to which, the owner has undertaken reasonable measures to protect the confidentiality of such information, including by implementing the trade secrets regime (article 1465 of the Russian Civil Code). Hence, trade secrets (or the 'trade secrets regime') may be the cornerstone of know-how, which is protected as individual intellectual property subject matter in Russia.

The Russian courts traditionally and regularly enforce the intellectual property rights vested in know-how in the event the 'trade secrets regime' has been implemented by its owner in due course. Basically, the owner of confidential information must take the following reasonable measures so that such information may acquire know-how protection:

- to identify the list of information containing trade secrets;
- to limit the access to the information containing trade secrets by establishing the appropriate procedure for dealings with the same and by exercising control for compliance over such procedure;
- to keep records of persons who have legitimate access to the information containing trade secrets as well as persons to whom such information has been transferred to;
- to regulate the relationship in connection with the use of information containing trade secrets by employees (under labour or employment contracts), or by contractors (under civil law contracts); and
- to record the information containing trade secrets on any material object or tangible medium (document, paper, disc, etc) and affix the notice 'trade secret' along with the indication of the owner's details.

If the owner of confidential information ultimately fails to take the above-mentioned measures, the owner of confidential information may undertake other measures that it considers as reasonable or appropriate to acquire rights in know-how. As a result, the owner is entitled to implement the trade secrets regime or other reasonable measures (as applicable) to receive know-how protection for its confidential information.

19 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

According to article 1469(3) of the Russian Civil Code, the licensee under the know-how licence agreement shall be obliged to preserve the confidentiality of the licensed know-how up until the termination of effect of the licensor's exclusive rights to such intellectual property. In other words, in addition to the contractual restriction of disclosure of the licensed confidential information (know-how), the licensor will be automatically (by operation of law) protected, whether during or after the term of the licence agreement. As to the use of trade secrets and know-how by the licensee (or third parties), the same must be clearly and properly regulated under the relevant contract. On the issue of improvements to which the licensee may have contributed to, the parties' agreement shall basically regulate the parties' respective rights to the same. If the licensee becomes the valid owner of improvements over the licensed know-how, the licensor will not be able to interfere in the licensee's relationship with third parties, but it will usually obtain the grant-back licence in order to be able to use such improvements in its business (if necessary).

20 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright subsists in scientific, literary and artistic works fixed in any tangible medium of expression, regardless of benefits, purposes as well as methods of their expression. To be copyrightable, a work of authorship shall satisfy two fundamental requirements. It must be creative (ie, made as a result of the author's creative activity) and embodied in any material form (ie, fixed in any tangible medium of expression).

According to article 1259(1) of the Russian Civil Code, the following examples of works of authorship can obtain copyright protection:

- literary works;
- dramatic works;
- musical works;
- choreographic works and pantomimes;
- audiovisual works;
- sculptural, graphic and design works;
- architectural works;
- pictorial works; and
- computer programs.

Also, copyright law protects compilations (including databases) and derivative works (including translations).

Essentially, copyright vests in a work of authorship from the moment of its creation. There is no need to register or comply with any other formalities to acquire, exercise, transact, license, protect or enforce copyright in Russia.

21 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

It is advisable to require the contractual assignment of copyright by the licensee to the licensor for any artworks, software improvements and other copyrightable works that the licensee may have contributed to in the course of a licensing relationship. Otherwise, it is possible to obtain a grant-back licence to the use of the same, if the licensee becomes the valid owner of such objects.

Software licensing

22 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Yes, Russian law recognises the validity of 'perpetual' software licences. In other words, the term of the software licence may be conditioned by the term of protection of the licensed software. And, in the event of termination or expiration of relevant software protection, the underlying licence agreement will lapse automatically. If the licence agreement is

silent on its term, the software licence will be effective within five years starting from the signing date.

23 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

In general, there are no legal requirements, except for the execution and delivery of the software licence agreement, to be complied with prior to granting software licences in Russia. The legal restrictions may be applied only to the imports and exports of certain encrypted software tools or equipment. Indeed, if the licensed software contains encryption, as it is defined by Russian law and regulations, an official licence must be obtained or notification must be made in due course, prior to the import or export of the same.

24 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In Russia, the 'improvement and modification right', which generally leads to creation of a new (derivative) work, may be either authorised (permitted), or not authorised (prohibited) by the licensor within the scope of the software licence agreement. If the licensee is authorised to make software improvements or modifications under the licence agreement, the ownership to such improvements or modifications shall belong to the licensee. Further, the parties are generally free to agree upon the assignment or grant-back licence of the developed software improvements or modifications on certain preferential terms and conditions.

By virtue of Russian law, the 'adaptation right' (ie, software modification for the purposes of its functioning on the specific user's hardware or under management of specific user's software) as well as the 'right to correction of obvious errors' shall automatically vest with the duly authorised licensee, unless the agreement between the latter and licensor (owner) provides otherwise. Therefore, a software licensee is entitled to adapt or correct the licensed software by operation of law (ie, in the absence of contractual provision and explicit prohibition to that effect), provided that such licensee's activities do not unreasonably damage the legal software use and unfairly infringe upon the owner's interests in the licensed software.

As to the issues of bug fixes, upgrades and new releases from the licensor, the same are usually regulated under special provisions of the software licence agreements or relevant maintenance (support and service) contracts. The law is tacit with regard to these issues.

25 Are there any legal restrictions in your jurisdiction with respect to the restrictions a licensor can put on users of its software in a licence agreement?

The legitimate user has the right by virtue of law to record, store and enter necessary modifications to the software for functioning purposes, unless there is an agreement to the contrary. The legitimate use has also the right by operation of law to create a backup copy of the software for archive purposes and just in case the original copy has been lost, destroyed and become out of order, although such backup copy must be destroyed, if the software use becomes no longer legitimate. Under certain circumstances the legitimate user can reverse engineer or decompile the acquired software; however, all such activities shall not contradict the normal software use in commerce and unreasonably affect the interests of the author or the other rights holder. The licensor's restrictions in this regard may be implemented by contract, but they have to be in line with the valid provisions of the law.

26 Have there been any legal developments of note in your jurisdiction concerning the use of open source software or the terms of open source software licences?

The Russian courts have not restricted in any manner the enforceability or applicability of public licences for open source software. Various 'public' licence arrangements, including GNU, Apache, Linux and Mozilla, are operating in Russia. Moreover, the recent civil law amendments have effectuated the validity of 'open' as well as 'free' licences, supporting the international practice on the use of open source software in the Russian jurisdiction. Hence, with these amendments in force, the question on whether the public and open source software licences are enforceable in Russia will be irrelevant, although the adaptation of such licences as to Russian legal reality may be recommended in certain instances.

Royalties and other payments, currency conversion and taxes

27 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

There is no specific legislation in Russia that governs the nature, amount, manner or frequency of payments of royalties or other fees in an international licensing relationship. Nor is there any law in Russia that requires regulatory approval of the royalty rates or other fees payable by a licensee. Russian law is quite flexible on this issue. Therefore, royalties and lump-sum payments are recognised and applied in this jurisdiction depending on the nature of transaction, contracting parties' negotiations and commercial arrangements.

In addition, Russian law protects default interest as well as interest on late payments. Again, the law does not set out any legal restrictions regarding the recovery of the same. Generally, default interest and interest on late payments must be reasonable, well grounded and reflect the consequences of the corresponding breach of the contract to be awarded.

28 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there are any associated regulatory reporting requirements?

As a general rule, the transfer of foreign currency between residents and non-residents into or from Russia is a currency operation within the meaning of the Russian Federal Law on Currency Regulation and Currency Control (No. 173-FZ dated 10 December 2003 – as amended). Such currency transfer will require the opening of a 'passport of transaction' in the authorised Russian bank where the aggregate contract price is equivalent to US$50,000 (or more). If the contract price is less than the referenced monetary equivalent, there will be no need to open the 'passport of transaction', and the competent bank will transfer the currency (payment) under the contract without this particular document. Usually, it takes three to seven days to obtain the 'passport of transaction'.

If the contracting parties are international business entities (non-residents), there is no need to obtain the 'passport of transaction' to clear the payment under the licence agreement in Russia.

29 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Foreign licensors that generate income from the Russian jurisdiction must pay a corporate income tax to the Russian budget. Royalties payable to a foreign licensor, when they are not attributable to the licensor's permanent Russian establishment, are subject to withholding tax that has to be remitted by the foreign licensor's tax agent (ie, a Russian licensee). The present standard rate of corporate income tax (CIT) in Russia is 20 per cent. However, if the foreign licensor is incorporated and does business under the laws of a jurisdiction that has signed a double taxation treaty with Russia, a reduced (or even zero) CIT rate may be applied. But, in order to avoid the double taxation regime, the foreign licensor must provide documentary certified evidence of its permanent establishment in the relevant contracted foreign jurisdiction. Such evidence must be provided to the Russian licensee before the remittance of the withholding tax.

In addition, the foreign licensor must charge a value added tax (VAT) on royalties payable by a Russian licensee. The present standard rate of VAT is 18 per cent, and it is basically involved in trademark licences, copyright licences and plant variety and breeder's right licences, as all other licences, such design licences, software and database licences, mask work licences, patent and know-how licences have been exempted from VAT since 2008. When the foreign licensor does not have any Russian permanent establishment, Russian branch or Russian representative office, the Russian licensee will be acting as its tax agent in order to withhold and remit the VAT to the Russian budget.

Usually, the amount of royalties payable to the foreign licensor under the licence agreement will be grossed up by 18 per cent.

There is no special intellectual property or licensing tax in Russia.

Competition law issues

30 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Anticompetitive practices that restrict trade on the market, including cartels (ie, agreements between competitors trading on the same product market), are prohibited in Russia, if they entail or may entail:

- fixing or support of prices (tariffs), discounts, mark-ups (additional payments) or extra charges;
- an increase, decrease or support of prices at tenders;
- division of the product market by territory, volume of sales or purchase of products, assortment of the products sold or composition of sellers or purchasers (customers);
- limitation or termination of the product manufacture (production); or
- refusal to enter into agreements with certain types of sellers or purchasers (customers).

Other agreements that lead or may lead to restraint of competition in Russia are also prohibited, such as:

- tying a counterparty to enter into an agreement containing certain provisions that are disadvantageous or unrelated to the subject matter of agreement (unreasonable requirements to transfer monetary funds, other property, including proprietary rights, as well as consent to enter into agreement only under condition that it would include provisions related to products in which the counterparty is not interested and other requirements);
- economically, technologically or otherwise ungrounded setting of different prices (tariffs) for the same products;
- creating barriers to other business entities for product market entries or exits; and
- setting of conditions to participate in professional and other associations.

In addition, the above-referenced activities will be banned if they are regarded as concerted actions of business entities that limit competition on the market.

Abuse of dominance and unfair competition are not allowed in this jurisdiction.

31 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

In Russia, intellectual property licensing per se has been exempted from the mentioned (see question 30) antitrust legal restrictions, and, therefore, it is currently beyond the scope of the national antimonopoly law. In this connection, there are no legal restrictions – from the competition standpoint – in respect of the following provisions stated in licence agreements:

- duration;
- exclusivity;
- internet sales prohibitions;
- non-competition restrictions; and
- grant-back provisions.

These provisions must be clearly regulated by contract and will be enforced according to the relevant terms and conditions (as stipulated), subject to the general civil law principles and subordinated intellectual property legislation.

32 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Typical situation of intellectual property use or abuse may relate, for example, to a trademark infringement claim brought against a bona fide user who has started using a mark in good faith and prior to trademark registration. Another instance of intellectual property use or abuse may be a case when a company registers a trademark and enforces trademark rights against those who have been using the same widely in commerce and prior to trademark registration. The latest court practice also shows that the trademark owner may be requested to demonstrate the actual use of its own trademark in order to claim infringement. Such forms of IP use or abuse may be recognised as unfair by the court, and, as the result, the claims of the 'trademark owner' will be dismissed.

Indemnification, disclaimers of liability, damages and limitation of damages

33 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Russian legislation does recognise the legal concept of 'indemnification', although it is slightly different from the one that exists under English law. Indeed, indemnity provisions are widely used in various types of international intellectual property licensing arrangements targeted at Russia.

In the event of a trademark licence, importantly, according to the imperative rule of Russian law, the licensor and the licensee will have to bear joint and several liability under all claims or actions of third parties addressed to a licensee acting as the manufacturer of licensed products (article 1489(2) of the Russian Civil Code). Therefore, an indemnity provision may be a 'safe harbour' for this particular situation.

Actual damages and loss of profits may also be claimed and awarded as regular civil law remedies in the event of a contractual breach, provided that such damages are reasonable, well grounded and there is a valid cause-and-effect relation (nexus) between the relevant contractual breach and damages.

Insurance coverage may be used for the protection of foreign licensors in support of the indemnity provisions.

34 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties can contractually agree to limit certain types of damages. Otherwise, damages may be sought and awarded by the aggrieved party in full. At the same time, it is not possible to waive damages or disclaim or limit the liability related to losses of the aggrieved party resulted from the profits of the adverse party in the event of infringement. In other words, the aggrieved party's losses cannot be less than the adverse party's profits. A disclaimer or limitation of liability is usually based on the 'force majeure clauses' that perfectly fit within the basic Russian civil law rules on the liability exclusion.

Termination

35 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Russian law does not impose any conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship. Neither does Russian law require any payment of an indemnity or other form of compensation upon termination or non-renewal of the licensing arrangement, unless the same has been stipulated by the agreement. Hence, the contractual parties are indeed free to terminate the licence agreement in any manner that has been agreed between them and are also free to decide not to renew the agreement. Where the contracted termination procedure does not require any payment of monetary compensation, termination of the licence agreement will occur under no such payment. In general, termination of the licence agreement will usually be subject to a certain material breach of the contract that has not been cured in due course. In the event of a material breach with regard to payment of royalties or other compensation, the licensor reserves the right to terminate the licence agreement in the unilateral manner (without resorting to any court action) by claiming any sustained damages if the licensee has failed to settle royalties

or other form of compensation prescribed by the contract within 30 days upon notification received from the licensor (article 1237(4) of the Russian Civil Code).

On a separate note, if the licence agreement provides for the unilateral termination option, the respective beneficiary will be able to terminate the contract on an ex parte basis without having the other party's consent or signature on such termination. If the licence agreement does not provide for the opportunity to unilaterally terminate the contract, it may be terminated only by way of the executed termination agreement. Where the licence transaction has been registered, the earlier termination of the same, whether unilateral or mutual, will need to be registered with the competent state authority to have binding legal effect.

Finally, according to article 1235(7) of the Russian Civil Code, the transfer of exclusive rights vested in the intellectual property subject matter to a new owner shall not be a basis for variation, modification or termination of the licence agreement concluded by the previous owner. In other words, the assignment of the licensed intellectual property object shall not affect the existent licence agreement, and the new owner will just 'step into the shoes' of the contracted licensor with all relevant rights and obligations arising out of or from the valid licence agreement.

36 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

The termination or expiration of a licence agreement will automatically terminate any sub-licence granted by the licensee in favour of a third party. In other words, the sub-licence agreement, being a 'derivative' instrument, cannot survive the termination or expiration of the licence agreement, which shall be the main obligation towards the dependent one (sub-licence). An agreement to the contrary may be unenforceable for the parties.

At the same time, nothing shall further prevent the licensor (owner) from assuming the licensee's (sub-licensor's) rights and obligations towards the contracted sub-licensee if the licensor, being the valid owner of the licensed intellectual property, is interested in preserving the licensing relationship with such sub-licensee. In this case, the parties (licensor and sub-licensee) may transform the expired or terminated sub-licence agreement into an effective licence agreement (by entering into a new licence agreement) and continue doing business based upon the new contract.

Bankruptcy

37 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that the licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

In the event the licensee goes bankrupt (insolvent) and is liquidated in full, the licence as well as all onward sub-licence agreements will automatically terminate. According to the common rule, which is fixed in article 419 of the Russian Civil Code, the obligation is terminated under the liquidation of the business entity (debtor or creditor).

The contract may be structured in the manner that will allow the licensor to terminate the relationship prior to the bankruptcy. For example, in the event of filing and acceptance by the court of the bankruptcy-related claim, the licensor will be entitled to terminate the licence agreement and remove the licensee's rights from the register.

Non-settled royalties or other payments under the terminated licence agreement can be received by the licensor through the bankruptcy proceedings set out by law.

38 What is the impact of the bankruptcy of the licensor on the legal relationship with its licensee; and any sub licence the licensee has granted? Are there any steps a licensee can take to protect its interest if the licensor becomes bankrupt?

Usually, the bankruptcy of the licensor will lead to the sale of intellectual property rights, interests, contracts, including licences, to a third party. As noted above, according to article 1235(7) of the Russian Civil Code, the transfer of exclusive rights vested in the intellectual property subject matter to a new owner shall not be a basis for variation, modification or termination of the licence agreement concluded by the previous owner. In other words, the assignment of the licensed intellectual property subject matter shall not affect the existent licence agreement, and the new owner will just 'step into the shoes' of the contracted licensor with all relevant rights and obligations arising out of or from the valid licence agreement. Therefore, the interests of the licensee will be protected and saved by operation of the law, especially in the event of licensor's bankruptcy.

Governing law and dispute resolution

39 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

There are no restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties to the contract. Under the basic principle of the international private law, the contracting parties are free to choose the relevant governing law when entering into agreement (or afterwards). In the absence of the choice of law agreement between the contracting parties, the law shall be that of the country where the party, being in charge of performance that has a decisive role for the nature of the contract, is residing or mainly operating. The international licensing arrangement will not be an exception to this fundamental rule of law. According to article 1211(8) of the Russian Civil Code, the law of the country where the licensee has been authorised to use the intellectual property subject matter shall be applied in the absence of the choice of law agreement between the licensor and the licensee. At the same time, when such use has been permitted on the territories of several jurisdictions, the law of the country where the licensor is located or has its principal place of business will govern the parties' relationship under the licence agreement. In general, the law of the country that is more bound up with the contract may be applicable where the nature and terms of the contract, or circumstances surrounding the transaction, clearly evidence such fact (article 1211(9) of the Russian Civil Code).

40 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

Yes, the parties can contractually agree to arbitration instead of resorting to litigation in the local courts. The arbitration proceedings may be conducted in any jurisdiction as decided by the parties and fixed in the contract. Nowadays, the London Court of International Arbitration is the most popular arbitration institution in the context of cross-border licensing deals. Mediation is also available as an alternative form of dispute resolution.

41 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A court judgment from another jurisdiction may be enforceable in Russia, provided that recognition and enforcement of the foreign court judgment is stipulated by the relevant international treaty, which Russia is a party to, and federal law. And, in the absence of a relevant international treaty, a Russian court may recognise and enforce a foreign judgment on the basis of the international principle of reciprocity and comity (comitas gentium). Although not in the licensing sphere, there are at least a couple of successful cases with landmark court decisions when foreign judgments have been recognised and enforced in Russia on the basis of the comitas gentium principle.

Russia is a signatory to many multilateral and bilateral international treaties for recognition and enforcement of foreign judgments, including the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958) (the New York Convention). Hence, an arbitral award from another jurisdiction that is a signatory to the New York Convention may be enforceable as well.

The Russian federal procedural codes provide certain formal mandatory requirements for recognition and enforcement of foreign judgments and arbitral awards. These include:

- effectiveness of the court judgment under the law of the jurisdiction on the territory of which it has been issued;
- compliance with the statutory three-year term for filing a motion for recognition and enforcement of the foreign court judgment; and
- consistency of the foreign court judgment with Russian public policy, etc.

If such requirements are not observed in due course, a Russian court may refuse to recognise and enforce a foreign judgment or arbitral award.

42 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Russia. Injunctive relief may be awarded on the preliminary or permanent condition. The right to seek judicial relief, whether injunctive or monetary, is a legal right of every person which is recognised automatically by civil law. While injunctive relief cannot be waived contractually, monetary relief (eg, damages) may be limited to a certain extent by way of contract in Russia. But, the award of injunctive as well as monetary relief is always left to the discretion of the competent court in charge of the case at issue.

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