



Brand plans: licensing in Russia

Licensing is undergoing legislative reform in Russia. Olga Yashina of Gorodissky & Partners looks at how the practice might be affected

A licence agreement in Russia is one of the contractual forms of intellectual property rights disposal. 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 a licence agreement to a trademark may depend on the factual circumstances of the deal, commercial opportunities and needs of the contractual parties. However, as a general rule, the licensee will be able to use the licensed trademark only within the limits as permitted by the licensor, ie, the licensee will not have the right to use the licensed trademark in any way that has not been clearly defined in the licence agreement.

As has been specifically confirmed by court practice and the law, the expiration or early termination of the right to a trademark leads to automatic termination of the corresponding licence agreement (from the date of issuance of the respective decision on the invalidity or cancellation of the contracted trademark).

However, all royalty fees paid by the licensee during the period when the trademark has been valid will be recognised as legally paid, and all of the licensee's claims on the refunding of licence fees for such a period will be simply dismissed by the court.

A licence to a trademark can be exclusive or non-exclusive. Unless it is provided otherwise, the licence is deemed to be non-exclusive. Article 1236 also affirms that an owner is not entitled to use its trademark itself to the extent that the right to such trademark was granted to the licensee under the exclusive licence agreement.

In case it is provided by the licence agreement, it is possible for a licensee to sub-license the trademark to the third party. There is also the possibility for the trademark owner to prepare separate written consent to such sub-licensing, which should be given before the implementation of the sub-licence agreement. The legal requirements for such a sub-licence agreement are the same as those for the master licence. The licensee can only receive a sub-licence that is as broad as the terms set out in the master licence and for a term not exceeding that of the master licence.

The termination of a licence agreement will automatically terminate any sub-licence granted by the licensee.

When the licence agreement does not remain in effect, the royalties cannot be levied by the licensor, and the licensee in return will refrain from further use of the trademark. Generally, the use of the licensed IP subject matter

upon expiration or termination of the licence agreement will be regarded as infringement (Article 1237(3) of the Russian Civil Code).

Russian law protects the legal requirement of mandatory registration of trademark licences regardless of whether the licence relates to a national or international trademark, and regardless of whether the licence is governed by national or foreign law. The granting of a right to use a trademark under an unregistered licence will be recognised as ineffective and such a licence cannot be enforced against third parties.

New recording requirements

In October 2014, the federal law on changes to the Russian Civil Code (Part IV) entered into force. In this new law, various shortcomings were corrected, previously unresolved matters were resolved, and the requirements of international treaties were taken into consideration, in particular, owing to Russia's accession to the World Trade Organization.

The new law introduced major changes to the requirement to record licences.

The amendments facilitate the recording of licences under Article 1232 of the Civil Code. Instead of submitting the actual licensing agreement for recording, an applicant may optionally submit to the trademark office one of the following: a 'notice of license' of the trademark signed by both of the parties to the agreement; a notarised extract from the licence agreement; or the agreement itself.

All documents submitted to the trademark office should contain all essential terms such as the number of the trademark registration and the scope of the licence (ie, the exact goods and services for which the licence is granted and the way it can be used).

As before, it will be important to ensure that the parties and the relevant trademark are correctly identified and that there are no inconsistencies in that regard between the licensed rights, the goods or services for which the licence is granted, the owners named in the Trademark Register, and the purported licensor.

The new procedure means that the trademark office does not have to be provided with confidential information such as the financial terms of the contract, since submission of the contract becomes optional.

Possible tax issues

Foreign licensors that receive income from the Russian jurisdiction must pay a corporate income tax to the budget of Russia. 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). 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) income tax rate may be applied.

Recently tax authorities, with support from the courts, have started building new cases regarding the practice of intragroup expenses. A case (A40-138879/14) concerned a dispute between a Russian company and the Moscow Tax Department regarding the royalties paid to an affiliated foreign company under a licence agreement.

The court examined the corporate website of the foreign company, catalogs and advertising, and decided that it gives consumers the impression that the Russian company is a representative of the foreign company in Russia, despite the fact that it is registered as a Russian legal entity.

As a result, the court held that since the taxpayer is a permanent establishment of a foreign company, the conclusion of a licence agreement shows that the taxpayer has obtained an unjustified tax benefit by increasing its costs in the amount of the deduction of royalties.

Whether this decision is consistent with the provisions of the Russian Tax Code regarding the permanent establishments of foreign organisations and the agreements concerning the avoidance of double taxation is a subject for discussion.

Nevertheless, the described court decision suggests a potential change in the way tax authorities and commercial courts approach tax disputes concerning intragroup costs of Russian organisations (payments for services and rights to IP provided by foreign affiliates), and the criteria applicable when assessing whether these costs are deductible.

Issues regarding non-use

In accordance with the Russian Civil Code, a trademark is considered used if it is affixed to the goods for which this mark is registered and/or packages of these goods by the owner of a trademark, or a person/party who has been granted such a right on the basis of a licence agreement, or any other person/party under the trademark owner's control.

If the trademark is not used for three consecutive years after its registration (on the condition that the trademark has not been used right up to the filing of a cancellation request), its legal protection may be terminated ahead of time in respect of all or part of the goods/services for which it is registered. During cancellation proceedings, the trademark owner has the burden of proof that its trademark has been properly used.

Court practice has made it clear that the presence of a concluded licence agreement cannot be recognised as the proper use of the trademark during the non-use cancellation proceedings without the actual presence of the corresponding goods/services on the Russian market.

Court practice regarding the use of the trademark under a unregistered licence agreement is rather contradictory. In view of the Russia's accession to the Singapore Treaty, which provides that any contracting party cannot request the state registration of a licence in order to prove proper use of a trademark during non-use cancellation proceedings, the courts consider an unregistered licence as evidence of use in addition to the actual presence of goods on the market.

In a recent court case (SIP-251/2013), however, the IP Court of Russia decided, that, when the trademark owner does not actually control the actions of its 'licensee' regarding the use of the trademark, through an unregistered licence (for example, it does not receive any reports concerning use), such evidence will be waived.

Anti-competition issues

Article 11.9 of the Law on Protection of Competition exempts assignment and/or

licence agreements for IP rights from any restrictions for agreements violating anti-competition rules.

But Russian law is currently undergoing certain changes due to pending civil law as well as anti-competition reforms.

The so-called 'Fourth Antimonopoly Package', which is currently under legislative deliberation, extend the basic anti-competition restrictions to IP licensing.

If the changes are adopted and enter into force, licence agreements will need to be cleared on exclusive dealing, resale price maintenance, territorial and market sectors, and other issues.

It is difficult to predict how the new rules might affect trademark licensing, however, it is obvious that rights owners will have to adapt their agreements to such rules and the relevant practice.

Moreover, despite the fact that the Fourth Antimonopoly Package has not yet matured into law, the Federal Antimonopoly Service (FAS) is now starting to shape the practice connected with IP licensing in Russia.

In a recent case, the FAS decided that Israel-based company Teva, being the owner of several trademarks and patents

for pharmaceutical products, has violated anti-competition law by refusing to conclude a licence and distribution agreement with Russian company Biotech.

The court ruled that Teva should be considered to be in a dominant position within the meaning of anti-competition law by mere fact that it vests in exclusive rights to the IP objects, and so should be considered as responsible for the abuse of rights to such IP objects. The ruling of the court has been sustained by the court of appeal and cassation instances (A40-42997/14). [IPPro](#)



Olga Yashina
Lawyer
Gorodissky & Partners