

Laws Affecting IP Licensing—Russia

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In common with the other material in this publication, this chapter provides information of a general nature for purposes of discussion and does not provide legal advice.

1. Is there a requirement to register licences in your jurisdiction and, if so, what are the sanctions for failure to do so and how could either of the parties be adversely affected if licences are either not registered or are unregistrable?

Yes, there is a legal requirement to register certain IP licenses in Russia. More specifically, the grant of a license concerning registered IP subject matter (e.g., invention, trademark, design, etc.) must be registered with the Russian Federal Service for Intellectual Property (Rospatent). A license that is not registered with Rospatent in respect of registered IP will be regarded as non-granted (Article 1232 (6) of the *Russian Civil Code*). As a result, an unregistered licensee will not stand as a valid licensee against third parties. No specific sanctions for failure to register an IP license are set forth by law, however, there may be negative legal consequences that should be taken into account, which are described in Question 2.

Russian law does not set a specific period within which the grant of a license has to be registered with Rospatent. In practice, the contracting parties prepare and file documents necessary for recordal immediately upon the execution of the original license agreement.

Pursuant to the provisions of Article 1232 (3), contracting parties may submit an application for recordal of a license duly signed by them. If one of the parties is in charge of filing under the agreement, the applicant may submit: (i) notification on disposal of IP rights (notification), (ii) notarized excerpt, or (iii) original license agreement. In practice, notification is usually filed by licensors or licensees to avoid the disclosure of sensitive data, including financial clauses.

License agreements may contain various terms and conditions depending on the transaction structure. As regards the most essential elements from the registration standpoint, license agreements must contain the following information and clauses:

- Parties (i.e., corporate names and addresses according to the local trade registry)
- Subject matter (i.e., registration numbers of licensed patents/designs/trademarks)
- Licensed goods or services (i.e., under licensed trademark registrations for trademark licenses)

- Permitted use of patents (i.e., for patent licenses)
- Type of license (i.e., sole, exclusive, or non-exclusive)
- Term (i.e., term of protection of licensed IP or certain specific period)
- Territory (i.e., the whole of Russia or specific regions)
- Sub-licensing (i.e., permitted or prohibited)
- Termination (i.e., if unilateral is permitted by licensor or licensee)
- Signatures of parties (i.e., made by authorized officers)

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Once registered the following information becomes publicly available: (i) licensee's details; (ii) term of license; (iii) type of license; (iv) licensed goods or services (for trademark licenses); (v) territory. The text of the original license agreement (if submitted) is never published by Rospatent.

2. Is it possible to register licences voluntarily?

No, it is mandatory to register IP licenses made with regard to registered IP subject matter (e.g., inventions, trademarks, designs, etc.). There is no system of voluntary license registration with Rospatent or any other governmental agency.

A license that is not registered in respect of registered IP will be regarded as non-granted (Article 1232 (6) of the *Russian Civil Code*). As a result, for instance, an unregistered license will provide no sub-licensing rights to the unregistered licensee, whether it is an exclusive or a non-exclusive license. Also, an unregistered exclusive license will give no right of enforcement against third parties (potential infringers) to unregistered exclusive licensees, although such a legal right is available according to the general law (Article 1254 of the *Russian Civil Code*).

Of course, registration of an IP license may help to protect an initial licensee from a licensor and subsequent licensees with whom further license agreements are made and which conflict with rights initially granted (e.g., on the issue of exclusivity). In other words, further exclusive or non-exclusive licenses, if granted by the licensor after the grant of an initial exclusive license, will be blocked by Rospatent.

3. Are there any laws that relate to the basic grant (*i.e.*, which limit the prohibited acts such as manufacture and sale) or which affect the grant of licences within fields of use?

Russia supports the principle of “freedom of contract.” Therefore, parties can generally agree on any terms and conditions under the license agreement which is not contrary to the relevant laws and regulations, including local ones. Similarly, principles of international private law cannot be avoided.

Yes, it is possible to limit the manufacture of products under licensed IP. In this case, if manufacture occurs in breach of such contractual limitation, licensor will have two causes of action—(i) breach of contract, and (ii) IP infringement—and can bring the case to the court.

Types of sales (*i.e.*, offline, online) and fields of use (*i.e.*, industries, channels) can be regulated by the license agreement. However, further resales of products under licensed IP which have been introduced onto the Russian market are not possible to control (prohibit) from the IP perspective due to the principle of exhaustion of IP rights.

As follows from Article 1033 of the *Russian Civil Code*, a franchisee may be obliged by contract to sell goods or provide services using the prices fixed by the franchisor. Similar rules are not available for IP licensing, therefore, price fixing—if set out—may be questionable under the license agreement.

Under the *Russian Law on Competition Protection*, anti-competitive practices that restrict trade in the market, including cartels (that is, agreements between competitors trading in the same product market) are generally prohibited. Other agreements that lead or can lead to restraint of competition, including those which are regarded as concerted actions of business entities that limit competition in the market, are also banned. Abuse of dominance and unfair competition is not permitted either. Exploitation of IP rights, including by way of licensing, is generally exempt from the application of competition law (Articles 10 (4), 11(9) of *Russian Law on Competition Protection*).

Pursuant to the provisions of Article 1236 of the *Russian Civil Code*, while the licensor reserves the right to grant non-exclusive licenses to an unlimited number of partners (licensees) within one and the same contracted territory, the licensor may not grant any more exclusive licenses. In other words, the licensor is restricted from selling the exclusivity to third parties for the same licensed territory and within the same scope as an exclusive IP license is limited to only one by its type and nature.

On the issue of territory, the territory (region, city, street) may or may not be specified in the license agreement. If the license agreement is silent on the issue of territory, the licensee will be entitled to use the granted IP rights in the whole territory of Russia (Article 1235 (3) of the *Russian Civil Code*).

There is no maximum permitted term within which a license agreement can be made effective. The license agreement may be executed for a definite or indefinite term depending on the business needs. In particular, the contract may provide for a specific term (*e.g.*, seven years), or clearly state that it stays valid during the period of protection of the licensed IP. If the term of the license agreement is not defined by the contract, the license shall be regarded as granted and effective for five years (Article 1235 (4) of the *Russian Civil Code*).

4. Are there any rules which apply to the exhaustion of intellectual property and how does that affect territorial licensing?

Yes, there are certain rules and principles for IP exhaustion that must be taken into consideration, even in terms of IP licensing. Russia is part of the Eurasian Economic Union (EEU) together with Kazakhstan, Belarus, Armenia, and Kyrgyzstan where the principle of exhaustion of IP rights is regional. This means that once licensed products are first sold in Belarus, for example, such products can be freely and further imported into Russia, without separate or additional consent (or license) from the IP owner (licensor). From the IP perspective, such actions by third parties will not be considered IP infringement, and, therefore, cannot be prosecuted by the licensor (within the EEU region).

5. Are there laws that either prevent or impose termination of rights granted, including rights under sub-licences?

No, under Article 1235(7) of the *Russian Civil Code* the assignment of IP rights is not a legal ground for termination or amendment of the existing IP license. The new IP owner will automatically become a party to the license agreement without any consent of the existing licensee and its sub-licensees.

On the insolvency side, if a licensor becomes insolvent and ceases to exist, any IP license previously granted by it will terminate in connection with the liquidation of the legal entity under Article 419 of the *Russian Civil Code*. If insolvency proceedings are started against the licensor, but not yet or fully completed (that is, the licensor still exists), the license will continue until the licensor ceases to exist, unless the agreement provides otherwise.

In the event that a bankruptcy case is initiated against

the licensor, the fate of its tangible and intangible assets (including the licensed exclusive rights) will be decided by a bankruptcy manager and the court. If such licensed exclusive rights are of interest to another market participant (a third party), the bankruptcy manager may sell them to the interested party at an auction. Therefore, if there is a buyer in place and it acquires licensed exclusive rights, which usually happens in relation to income-generating intangible assets, then the same will pass to such buyer (along with the exclusive rights) in an unchanged or altered form, as well as the obligations of the licensee will remain in force on the same terms and conditions, but in relation to and towards the new IP owner.

In practice, if the price of exclusive and licensed rights at the auction is low, they are bought by respective licensees. In these cases, the license agreements will terminate by virtue of Article 413 of the *Russian Civil Code*, since the debtors and creditors will coincide. In case there is no buyer, the licensor will become bankrupt and liquidated, while the license agreement will be terminated according to the general rule of Article 419 of the *Russian Civil Code* due to the liquidation of the contracting legal entity. In addition, the exclusive rights will lapse also. As the case may be, an obligation can be included in the license agreement for the licensor to transfer the licensed IP directly to the licensee or an assigned third party in the event of the initiation of bankruptcy proceedings against the licensor. However, such transfer of licensed IP can be challenged in court by the licensor's creditors or the bankruptcy manager. To mitigate this risk, the price of such IP transfer should not be nominal and must correspond to the relevant and current market price of the licensed IP.

Sometimes, parties would agree that the license will terminate automatically if bankruptcy procedures (supervision, external administration, settlement, financial recovery, or insolvency proceedings) are initiated against the licensor or licensee.

6. Are there laws that limit the amount of any payments or the period during which those payments are to be made?

There are no such laws in effect. Parties are free to negotiate and set the contracted amount (license fee) and the period of payment of the same in the license agreement.

Importantly, for unfriendly countries¹ the Russian President's Decree No. 322 (Decree) governing a temporary procedure for the performance of obligations in respect of certain IP owners, including those who prohibited the use of their IP after 23 February 2022, or ceased sales of goods in Russia—due to sanctions or

prohibitive measures, must be taken into account.

More specifically, Russian licensees can use a special account to pay royalties under license or sub-license agreements in roubles. Russian banks can open such accounts without attendance at the bank by the licensor. If the latter has not provided consent for such transactions the licensee will not be in violation of the contract, and the licensee reserves the right to use the licensed IP on the earlier agreed terms and conditions, if all requirements of the Decree are met. When funds are remitted by the licensee in roubles on the special RUR-account, the licensor can further approach the Russian Government Commission for Control of Foreign Investments to obtain permission for the transfer of money into its bank account located outside of Russia.

These provisions will not apply in the case of (i) the import of drugs, medical equipment, industrial and agricultural products, and food products, (ii) providing break as telecommunications services, (iii) software and database development and use, (iv) payments which do not exceed RUR 100,000 which are made by physical Russian persons, and (v) IP owners from unfriendly countries that properly perform their obligations.

7. Are there any exchange control laws and, if so, are they in any way related to the topic in questions 4 and 6?

Yes, there are national exchange control regulations that should be taken into consideration for the repatriation of royalties to foreign licensors.

Importantly, the Russian licensee must register (account) the international contract with a competent bank to remit royalties to a foreign licensor. This rule applies only to the remittance of money owed under a license (contract) of an amount equal to RUR 3,000,000 or more (for import-related contracts) and RUR 10,000,000 or more (for export-related contracts).²

The bank will register (account) the international contract if the underlying license agreement is translated into Russian, the transaction documents, including the copy of the license agreement, are submitted to the bank and the IP license grant is registered with Rospatent (if applicable), provided that the transaction price exceeds the above amounts. If the contract price is less than the mentioned amounts, the bank may not require contract registration.

8. Are there rules relating to the licensing of IP rights and confidential information outside the jurisdiction?

Yes, there are certain local rules, which must be ap-

1. USA, Germany, Japan, and other ones named as such.

2. Instructions of Russian Central Bank No. 181-I dated 16 August 2017 (as amended).

plied in the event of a transfer of IP rights and confidential information outside Russia, especially when there is an export of dual-use technologies that can be used for military purposes. There is a list³ of products and dual-use technologies and there is a special export control regime⁴ for the same.

Control related to such (outside) IP transfers is made by the Russian Government and is performed through a special permission procedure as well as special customs control. For example, the underlying technology transfer or license agreement must contain the description of (i) the purposes and location of use of transferred products/technologies, (ii) the end-use of controlled products/technologies, (iii) the obligations of the party which is to receive the transferred technology/prod-

uct, to require it to use the same for the contracted purposes and not to copy, modify, re-export or transfer such products/technologies to any third party without the consent of the Russian exporter approved by the Russian Federal Service for Technical and Export Control (Service). Service is competent to issue one-time or general licenses for the export of controlled products/technologies. Related technical data can be exported under special permission given by the Russian Commission for Export Control.

Exports of products and technologies that contain state secrets are also regulated by the *Russian Law on State Secrecy No. 5485-1* dated 21 July 1993 (as amended). ■

3. Approved by the Russian Government Regulation No. 1299 dated 19 July 2022.

4. Implemented by the Russian Government Regulation No. 447 dated 7 June 2001.