

Licensing In Russia

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Russia is one of the few countries with a rapidly developing market. The markets of the developed countries have already shaped themselves, so Russia, along with China, India and Brazil remain today the only large countries where substantial market development is possible.

Russia is moving towards joining the WTO and TRIPS. To that end, Russia has been in the process of changing its legislation for a number of years.

A vivid testimony of the fact that Russia is now recognized as a market economy country is the recognition by the U.S. administration of Russia's market status of Russia in June of 2002 and then by the European Union.

A growing economy stimulates licensing activity. According to Patent Office statistics, in 2004 alone there were 657 patent and 4,395 trademark licenses recorded in the Patent Office.

Intellectual property licensing is mainly regulated through the Civil Code and the specific intellectual property laws, such as the Patent law and the Trademark Law. While the overall approach to licenses is uniform throughout the world and needs no detailed explanation there are certain points which have to be highlighted with respect to Russia.

There are formal requirements which are laid down in the law requiring certain provisions to be included in a licence even if they might otherwise be disregarded by the parties.

License agreements must be registered in the Patent Office. If not they are deemed to be invalid. Fail-

ure to register may lead to serious consequences. Aside from creating difficulties in remitting monies as part of the license contract the failure to register has more far reaching negative consequences. For instance, if there is a conflict between the contracting parties, they will not be able to invoke the license to support their respective positions.

A trademark must be used according to the law. The law requires a trademark to be used by the trademark owner or a licensee. While often parties enter into so called distributorship agreements or sales agreements, they will not necessarily be using the trademark exactly as provided by the law. If the trademark is not being used by the trademark owner himself or a licensee, and if the license agreement is not registered, there will be no "use" of the trademark and it will be liable to be cancelled by any interested person after a period of three continuous years of non-use.

This technique may and is being used by trademark pirates who file a cancellation petition based on the non use of the trademark with the Patent office and demand compensation in exchange for withdrawing the petition. The nominal use (publications, advertisements, etc.) is usually not taken into account unless such user presents solid arguments why he could not use the trademark as required by law.

The licensor must be identified in the agreement precisely as he is in the Letters Patent or the Trademark Certificate. Sometimes the owner will have changed or the assignment not be registered in the Patent Office; at other times, an owner might have moved to another address. These

issues should be regularized before submitting the documents for registration otherwise the documents will be returned for rectifying the defects with the inevitable loss of time and/or interest of one of the parties.

Most often the parties provide that an agreement will be valid and enforceable from the date of signing. The Patent Office rejects such agreements and returns them to the parties. According to the law, the agreement only becomes valid from the date of its recordal with the Patent Office.

Yet another reason for the rejection of a trademark license is vague indication of the licensed goods and services. In order to avoid rejection, the relevant provision should either state that the license is issued for all of the goods and services in respect of which the mark is registered or, it should cite the goods and services as they are given in the trademark certificate.

A very formal provision concerns the quality of goods and services. Even if the licensee does not manufacture the licensed goods there should be a provision in the agreement to the effect that the quality of goods or services of the licensee should not be inferior to that of the licensor and that the licensor should control observance of that requirement. The Patent Office is very strict in this respect and turns down license contracts in all cases where that provision is missing.

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Licenses cannot be recorded if they concern patent or trademark applications. There is logic in this requirement because an application may not mature in all cases into a patent or trademark registration. In such cases it is recommended that a preliminary contract be signed with a clear indication that as soon as the application matures into registration the parties will enter into a fully-fledged license agreement. The preliminary contract should contain all of the important provisions of the future license.

The parties should explicitly define the title of intellectual property which is being licensed.

There should be a special clause concerning payments. It is not necessary to disclose all of the details of the financial relationship between the parties. It should be at least stated in the license that this is a "paid" license and that the details of payment are contained in a separate confidential agreement between the parties. If there is no such clause the Patent Office may regard the license as a gift which in turn entails heavy taxation according to the Tax Code.

Often, parties execute a global license and send notarized copies of

such licenses for recordal in Russia. In most cases such notarized licenses are rejected by the Patent Office. This is because, notwithstanding all of the common features that exist between Russian law and the laws of other countries, the particular Russian rules shown above are more often than not, not complied with.

It is also advisable to include in a license a provision dealing with the possible "bad will" of the licensee, e.g. setting up a company with a name reproducing the trademark. The fact is that there are cases where a distributor abuses the trust of his licensor tries to organize his own business on the back of the reputation or marks of his licensor or supplier.

Finally, the signatures of the parties should be accompanied by the printed names of the signatories and their positions in their respective companies.

Franchising agreements are in substance license agreements but with a wider scope of rights. A franchising agreement must also be registered with the Russian local tax authority (Tax Inspectorate) in order to be valid and enforceable. Very often franchising agreements include trademark licenses. In that case, the

agreement must also be registered in the Patent Office.

Recordal in the Patent Office takes between three and six months. The Tax Inspectorates record agreements within a couple of weeks. The difference in the times taken for recordal is explained by the fact that the tax inspectorate does not review the contents of the contract. The recordal is purely formal. On the contrary, the Patent Office is quite meticulous in evaluation of the contents of the contract and strictly controls observance of the points mentioned above. As a practical consideration, it is more expedient to record a contract first in the Patent Office and then, in the Tax Inspectorate. If one records a contract in the tax inspectorate and later has it rejected by the Patent Office application will have to be made again to the Tax Inspectorate. Hence it is advisable to have an agreement vested by the Patent Office, correct the deficiencies, if any, and then, have it routinely registered by the Tax Inspectorate. As an alternative, one could send parallel copies of the contract to the Tax Inspectorate and the Patent Office at the same time.