

The benefit of knowledge

Those embarking on trademark licensing in Russia for the first time need to understand the legal framework and practical requirements before they can enjoy some of the benefits

The legal framework for trademark licensing differs from country to country. Understanding the legal and practical requirements for licence agreements in Russia is crucial to making these contracts enforceable.

Recordation

Pursuant to the Civil Code, a trademark licence agreement must be recorded with the Russian Patent and Trademark Office (PTO) to be valid – failure to do so will render the agreement null and void. In order to be recorded, the licence must contain some specific elements and provisions. They include the following:

- trademark number and registration date (thus, a pending application cannot be licensed);
- description of trademark uses;
- list of goods and services for which the trademark is licensed;
- term of validity of the licence (ie, any period starting from the trademark registration date with the PTO, but not exceeding the term of validity of the trademark);
- territory covered by the licence (ie, the whole of Russia or part of it); and
- consideration (eg, lump sum or the royalty fee).

Failure to indicate the uses, the list of goods and/or services or the consideration will result in recordation being refused. Failure to indicate the validity period or the territory will result in the licence being valid:

- for the whole of the Russian Federation; and
- for five years.

In addition, unless the agreement specifies otherwise, the licence will be deemed non-exclusive.

Basis for damage calculation

Beyond the obvious business advantages of granting use of a trademark, a licence agreement offers various benefits. One of them is to provide an objective and fair basis to calculate damages in case of trademark infringement. This is governed by statute and enforced by the courts. Thus, if a licensee pays \$10 per trademarked item to a licensor, the latter may claim damages in the amount of \$10 for each item sold by the infringer.

Alternatively, the Civil Code stipulates that instead of damages, the rights holder may claim monetary compensation from the infringer in the amount of double the licence fees. Therefore, the amount of compensation paid under a trademark licence agreement can be double what it would have been otherwise, and the courts are not shy in awarding such level of compensation.

Furthermore, if a conflict is settled out of court, the parties may negotiate reasonable compensation for the past unfair trademark use, keeping in mind the existing licence fees.

Thus, a trademark licence agreement, aside from business considerations, provides a clear framework for the calculation of damages or monetary compensation to be claimed by the rights holder from the infringer during negotiations or litigation.

Proper evidence of use

In addition to being invaluable in the calculation of damages, a trademark licence has a role to play when it comes to claims for cancellation for non-use.

The registration of the mark is often considered a key moment in the trademark's life. As soon as the trademark is registered, the matter is

deemed successfully finalised and the trademark holder may start doing business. Sometimes, however, the owner does so without paying proper attention to the business arrangements with its partners. This should not be neglected as under Russian law, any interested party may apply for the cancellation of a mark that has not been used for three years after registration. In its defence, the rights holder must prove that the mark has been "properly used". The law does not specify what trademark uses can be considered proper. However, the courts accept, as evidence of proper use, use of the trademark under distribution and licensing agreements if these agreements feature provisions under which the trademark owner exercises control over the mark. After use of the trademark by the mark owner itself, a licence agreement is thus considered and accepted by courts as the second best evidence of use.

Customs issues

The licensee may not only manufacture the licensed goods in Russia, but also import them. If Customs questions either the origin of the goods (ie, whether they are genuine) or their original character (ie, whether they are imported with the consent of the rights holder), it may detain the goods and ask the importer whether it is authorised by the rights holder to import the goods. In turn, the importer may submit various documents confirming the rights holder's consent for import – including the licence agreement.

If the goods are genuine, Customs may still question whether they are parallel-imported. The judicial practice with regard to parallel imports has taken a definitive turn in favour of trademark owners. Hence, Customs may inform the trademark owner of the suspected consignment so that the trademark owner can initiate a civil case

in court. However, showing a licence to Customs will help to solve the problem. The licensee's name may also be added to the customs register as an authorised importer.

Lastly, a trademark licence may be useful if Customs and the importer's calculations of the customs duties differ. The licence agreement will help in calculating such duties and avoid disagreement.

Taxation and royalty payment

The tax authorities may, from time to time, conduct checks and question trademark use from a fiscal point of view.

Current legislation provides that a trademark licence agreement can be for consideration if not provided otherwise. In case the licence is to be granted for consideration, the respective amount of compensation or the procedure for its determination must be specified in the agreement.

Where the licence agreement involves payment, the parties may first decide on the amount of the licence fees and consequently calculate the amount of taxes to be deducted. In case of a tax check, the licensee and the licensor may easily justify the amount of taxes paid to the state budget.

The fact that an agreement may provide no compensation, but is explicitly royalty-free, should not be a bar to recording it. However, the wording may elicit the interest of the tax authorities at a later stage, as gifts between commercial organisations are prohibited in Russia. In such case, the tax authorities may calculate the royalty (and taxes) based on the market value of the licence. Hence, a presumption of compensation should be taken into account, eg when drawing up such agreements.

A final note on the financial benefits of a licence agreement is its help in smoothing out the process of remitting money from licensee to licensor. This has been demonstrated in a number of cases where the banks refused to make remittance to the licensor without a recorded licence agreement in place.

Distribution versus licence agreement

Whether to enter into a distribution and/or trademark licence agreement is a key consideration for business entities that import and further distribute foreign trademarked goods in Russia.

The Civil Code provides that the importation of trademarked goods amounts to trademark use and therefore requires a licence agreement or authorisation from the rights holder. However, that provision



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was not clearly understood for some time. Some practitioners believed that only a licence agreement (recorded with the PTO) could give the importer the right to import trademarked goods. Others considered that, along with a licence, any legal document (eg, letter of authorisation or distribution agreement) may grant the importer the right to import the relevant trademarked goods into Russia. The second opinion eventually prevailed and the courts now consider distribution agreements as proper legal instruments for importation. Thus, in January 2013 the Moscow Region Court of Cassation (the second highest judicial instance in Russia after the Supreme Commercial Court of the Russian Federation) held that an agreement according to which the goods at issue were legally imported into Russia was a distribution agreement, which was not subject to mandatory recordation with the PTO.

Often, the importation of the goods is only a part of a wider business for the distributor. Promotion and advertising may also be needed to raise interest in and demand for the trademarked products. In

such cases, a distribution agreement may be insufficient and a licence agreement shall be concluded in order to authorise the distributor to use the trademark in advertising and promotional campaigns. Of course, where production of trademarked goods is concerned, a licence agreement will be the correct legal instrument for granting the right to use the trademark.

Thus, whether a distribution or a licence agreement should be signed depends on the particular business needs of the parties. A distribution agreement can be recommended where only importation and further distribution take place, while a licence agreement is the better option for granting a right to manufacture, advertise, promote and use a trademark on the Internet. [WTR](#)