

Russia

Dealing with trademarks in Russia

Part IV of the Civil Code became effective on January 1 2008, codifying all existing IP law provisions into a single piece of legislation. Part IV also updated the provisions on trademarks and agreements relating to trademarks.

This chapter considers the provisions of Part IV relating to agreements on the transfer and use of trademark rights, specifically trademark assignment agreements and trademark licence agreements. It also looks at the substantial legislative amendments concerning the conclusion of franchising agreements, since Part IV on trademark licence agreements also applies to such agreements.

Trademark assignment agreements

Dealings in trademarks are divided into assignments and licences. Part IV does not change the division that existed previously in the Law on Trademarks, Service Marks and Appellations of Origin.

Under a trademark assignment agreement, the trademark owner assigns the exclusive right to the trademark in respect of all or some of the goods or services for which the trademark is registered. Assignment is akin to sale of a trademark – the assignee becomes the new trademark owner.

A trademark assignment agreement should set out:

- the number of the trademark registration certificate; and
- the amount of the remuneration (if the assignment is not free).

However, Russian law prohibits gifts between profit-making legal entities, so a free assignment is impossible if both parties are profit-making legal entities.

Traditionally, the Law on Trademarks has imposed some restrictions on assignment agreements. Similar restrictions are included in Part IV. Trademark assignment is not allowed if it might cause confusion among consumers with respect to the goods or their manufacturer. In addition, the assignment of a trademark

that includes, as a disclaimed element, a geographical indication protected in Russia is allowed only if the assignee is the holder of that geographical indication.

Part IV does not define cases where consumer confusion might arise as a result of trademark assignment.

The Administrative Regulation on the Registration of Assignment and Licence Agreements has not yet been adopted; thus, registration of the relevant agreements is still governed by the old Rules on the Registration of Agreements for the Assignment of Exclusive Rights to an Invention, Utility Model, Industrial Design, Trademark, Registered Integrated Circuit Topography and Agreements Granting the Right to Use Them or for the Full or Partial Transfer of the Exclusive Right to a Computer Program and Database, which were approved by order of the Russian Trademark and Patent Office (Rospatent) on April 29 2003.

Where rules were adopted to implement certain provisions of old laws that are no longer in force, these remain effective only insofar as they do not conflict with the new legislation. Consequently, these rules are still used in determining whether a trademark assignment might mislead consumers.

The list of potentially confusing cases is not exhaustive. Assignment may be considered as being capable of misleading if, among other things, the trademark contains:

- a designation that represents a state flag, symbol or emblem; or
- the official name of a state or the emblem or the short or full name of an international intergovernmental agency.

Assignment is also capable of causing confusion when, among other things, it is made in respect of:

- goods that are similar to goods for which the assignor holds the right to the trademark;
- a well-known trademark; or

a trademark that reproduces the trade name (or part thereof) of the assignor.

There were many arguments in favour of lifting restrictions on the assignment of trademarks in the new legislation; however, it appears that most of them will be retained in the administrative regulation.

One of the main purposes of enacting Part IV of the Civil Code was the need to make intellectual property more marketable and more conducive to commercial exploitation. However, the preservation of so many restrictions on trademark assignment hardly serves this declared purpose.

Trademark licence agreements

A trademark that is protected in Russia can be licensed only either based on a national registration or through the Madrid System; thus, unregistered marks or trademark applications cannot be licensed.

While Part IV of the Civil Code retains most of the provisions of the Law on Trademarks in respect of trademark licences, there are a number of notable changes. Under the new law, a licence is deemed to be granted for remuneration unless the agreement expressly envisages otherwise.

In addition, the licensee shall ensure that the quality of all goods produced or distributed under the licence complies with the quality requirements of the licensor. The licensor has the right to control the licensee's compliance with this provision. Under the Law on Trademarks, the licensee had to ensure that the goods were not of worse quality than those of the licensor, and the latter was obliged to ensure the licensee's compliance with this provision.

The new law introduces the joint responsibility of the parties (the licensee and the licensor) in claims filed against the licensee as the manufacturer of the product. This new provision places a significant burden on the licensor. While the licensor has the right to control the quality of the goods manufactured or sold by the licensee under the licence agreement, in many instances it does not and should not have too much control, as this will inevitably be both time consuming and costly.

The purpose of licensing a trademark is to make more efficient use of it without forcing the owner to control every aspect of the licensee's activities.

One way to avoid application of such strict liability is to choose a foreign law as applicable to the trademark licence agreement concluded between a foreign trademark owner and a Russian licensee. Yet there is a risk that this liability rule may be considered mandatory and will therefore apply irrespective of the law applicable to the licence agreement.

The possibility of trademark sublicensing must be expressly provided in the licence agreement.

Registration requirements

Despite hopes that the new IP legislation will make the lives of all parties to licence agreements easier, the new legislation has failed to achieve this.

The Law on Trademarks required the registration of both assignment and licence agreements with Rospatent – the new law changes nothing in this regard. Part IV states that trademark assignment agreements, trademark licence agreements and any other agreements relating to transfer of a trademark should be registered with Rospatent.

The registration requirement extends to both exclusive and non-exclusive licences. Without such registration, any agreement is null and void. Therefore, unregistered licence agreements are still invalid. Russia remains one of the few countries in the world that still requires the registration of all licence agreements, including non-exclusive licences.

At the same time, Part IV introduced a new notion of 'use under the owner's control', thus indicating that trademark use on the basis of an agreement other than a trademark licence agreement is possible.

The 'use under the owner's control' provision has been introduced for the purpose of trademark revocation proceedings for non-use. If a trademark is not used in Russia for three consecutive years it can be revoked on the basis of an application submitted by any interested party to the Chamber for Patent Disputes.

Under the Law on Trademarks, 'proper use' was defined as use of the trademark by either the trademark owner or its licensee under a registered trademark licence agreement. Part IV retains these two grounds for proper use, but also introduces a new one. 'Proper trademark use' is now also considered to be use of the trademark by any person provided that that the use is under the control of the trademark owner. This provision was intended to reflect the Singapore Treaty on the Law of Trademarks, which expressly provides that a contracting party may not require the recording of a licence as a condition for use of a mark by a licensee to be deemed to constitute use by the holder in proceedings relating to the acquisition, maintenance and enforcement of marks.

Practical application of this provision remains to be seen, but it should provide more opportunities for trademark owners to defend their trademarks against revocation.

Franchising agreements

Since January 1 2008 a new version of Chapter 54 of the Civil Code relating to franchising (commercial

concession) has been in force. The new chapter changes the subject of a franchising agreement, which also entails amendments to other material terms of the agreement.

The concept of a franchising agreement is clarified in Article 1027(1) of the Civil Code. Under the previous definition, which was in effect until December 31 2007, one party to the franchise agreement (the rights holder) undertook to provide the other party (the user), for remuneration and for a specific term or otherwise, with the right to use in its business operations a set of exclusive rights belonging to the rights holder, including the right to:

- the firm name and/or commercial designation of the rights holder;
- protected commercial information; and
- other items subject to exclusive rights envisaged by the agreement (eg, trademarks, service marks, patents).

This definition placed the right to use the firm name at the centre of the set of rights transferred under the agreement. As from January 1 2008 this provision is no longer in effect since, in accordance with Article 1474(2) of the Civil Code, it is no longer possible to deal in the exclusive right to a firm name, including by disposing of it or providing it to another person.

This prohibition on deals involving the exclusive right to a firm name is a new feature of Part IV of the Civil Code and its inclusion has resulted in changes to the subject matter of a franchising agreement.

Thus, according to the new version of Article 1027 of the Civil Code, under a franchising agreement one of the parties (the rights holder) undertakes to provide the other party (the user), for remuneration and for a specific term or otherwise, with the right to use in its business operations a set of exclusive rights including the right to a trademark or service mark, as well as rights to other items subject to exclusive rights, in particular regarding commercial designations and production secrets (know-how).

Accordingly, the right to a firm name has been removed from the set of exclusive rights transferred under a franchising agreement, but the provisions of this article are now worded in such a way that the exclusive right to a trademark or service mark constitutes a mandatory part of the franchising agreement. The remaining list of exclusive rights included in the set of rights transferred under the agreement is left open.

A distinguishing feature of the subject matter of a franchising agreement is the transfer of a set of exclusive rights, which must now include the right to the trademark or service mark.

The new provision in Article 1027 of the Civil Code to the effect that the rules of the Civil Code on licensing agreements are applicable to franchising agreements is connected to this. Possible restrictions deriving from this rule arise only when there is a conflict with Chapter 54 of the Civil Code and the essence of the franchising agreement. Accordingly, the conditions on the procedure for paying remuneration under the agreement, the term and the territory, as well as exercise of control over the quality of the goods and services by the franchisor, are material. The possibility of sub-franchising must be expressly envisaged by the franchising agreement.

Also among the new provisions connected to the change in the subject of a franchising agreement is the possibility of the liability provisions associated with protecting the exclusive rights of the rights holder to its trademark or commercial designation applying to these contractual relations – in particular, for instance, when the franchisee applies the given rights in a manner not envisaged by the agreement or by any other method outside the scope of the rights granted to the user under the agreement (Article 1237(3) of the Civil Code).

In relation to amendments to and termination of contractual obligations, the following provisions connected with the change in the subject matter of the franchising agreement should be noted. Special rules determine the consequences of the franchisor assigning its exclusive rights to another person and govern the determination of the exclusive rights to a particular item included as the subject of the agreement. The new rights holder becomes party to the agreement and assumes the contractual obligations associated with the exclusive right transferred to it.

Therefore, the transfer of an exclusive right to a new rights holder does not constitute grounds for changing the terms and conditions of the agreement. However, in order for the agreement to remain in effect, the rules governing the granting of rights to use protected items must be observed.

The most common problem is assignment of the exclusive right to a trademark. If, for example, the original franchisee has assigned its exclusive right to the trademark, the new franchisee is required to take steps to keep the trademark certificates in effect. Under the Civil Code, an unconditional ground for termination of an agreement is the rights holder losing the exclusive right to a trademark or service mark or commercial designation that has been granted for use under a franchising agreement. However, the agreement terminates on this ground only if the terminated right cannot be replaced by an analogous new right. Although this chapter does not consider amendments connected with a change of status

of a commercial designation, such changes have also greatly affected the provisions of a franchise agreement.

Registration requirements

A franchising agreement must be made in writing and, under the new law, is subject to state registration with Rospatent.

Previously, such registration was required only if the agreement granted rights to use industrial property (ie, trademarks, utility models and inventions) protected by a certificate or patent issued by Rospatent. Moreover, the body responsible for registering franchise agreements was previously the tax authority that registered the franchisor as a legal entity or, if the latter was a foreign legal entity, the tax office at the place of registration of the franchisee. The procedure for registering an agreement with the tax authorities derived from the mandatory inclusion in the agreement of the right to use the firm name, which was entered in the Register of Legal Entities where the franchisor itself was registered.

Since the right to use the trademark or service mark is now a mandatory part of the franchising agreement, its registration with Rospatent has also become mandatory, while double registration with the tax authorities has been abolished. Therefore, Rospatent is currently the only body recognised to register franchising agreements in Russia.

Failure to observe the written format or the requirement for state registration of a franchise agreement with Rospatent invalidates it. The agreement is recognised

as null and void and the relevant consequences set out by law ensue.

All amendments to a franchising agreement are also subject to registration.

Conclusion

The new Russian IP legislation introduces some important changes in the area of agreements relating to trademarks such as the 'use under control' provision, and also abolishes the double registration of franchise agreements.

However, it does not abolish the compulsory registration requirements for trademark licences, or even for non-exclusive trademark licences.

Furthermore, it introduces joint liability of both the licensee and the licensor for claims related to the quality of goods produced by the licensee under the licence. This provision could have a negative impact on trademark licensing in Russia.

Therefore, foreign trademark owners should be aware of the restrictions imposed by the Russian legislation on any agreements related to transfer of trademark rights and the practical implications of such restrictions.

In regard to changes in the text of a franchising agreement – particularly as such agreements now require the transfer of the right to use the trademark or service mark – all the provisions associated with the licensing of a trademark described above also now apply to franchising agreements.

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