



Termination of license agreements in Russia in uncertain times for the IP community

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1. General

Many foreign companies own registered IP rights, e.g. trademarks, patents, designs, and used to work with Russian partners on the basis of license agreements. Currently, some rightholders suspended their business activities in Russia and may consider terminating their licenses in the wake of the Ukrainian crisis. The reader will find below a summary discussion of the possible scenarios that may materialize under Russian law in that regard.

According to article 1235 of the Russian Civil Code, a license agreement for the use of IP rights must be executed in writing on pain of invalidity, and must be registered with the Rospatent, if the licensed right is subject to registration. The IP object and the scope of the grant are essential elements for the validity of a license agreement, as well as the royalty rate or its calculation method for non-gratuitous licenses. In case of licensing of a trademark, a list of the

goods and services falling under the license must be similarly included in the agreement. The term of the license, the granted territory and a number of other particulars are included in the license upon agreement of the parties. Information and data about all licenses of registered IP rights are recorded in the official registers of the Rospatent based on the request of the party(ies) in accordance with the prescribed procedure and following its review by a Rospatent examiner. Let us briefly turn to the main instances when a license agreement terminates.

2. Expiry of license term

A license agreement may (and ordinarily does) include an express term of duration of the grant of the IP right. As a result, the simplest way a license agreement terminates is its expiry. If the license as registered does not contain a term clause, the Rospatent will presume that the grant was provided for 5 years.

3. Termination based on specific provision of license agreement



Unilateral termination provisions contained in the agreement constitute reasonable grounds to put the license to an end subject to compliance with the agreed conditions and procedures. These typically include the length and form of the termination notice, and the occurrence of a specific triggering event (e.g. a change of ownership or control of a party).

4. Termination due to non-performance of licensee's obligation to pay royalties

Part 4 of article 1237 of the Civil Code provides that the licensor may unilaterally terminate the license upon material breach by the licensee of its obligation to pay royalties within the agreed term. The license agreement is terminated after 30 days from receipt of the termination notice if the licensee failed to perform the payment within such period.

It should be noted that, as a counter-measure to US, EU and other countries' sanctions adopted within the context of the Ukrainian crisis, Decree no.79 dated 28 February 2022 was approved in Russia introducing, amongst other matters, a ban on bank transfers to accounts outside of Russia in foreign currencies, so that Russian licensees may face problems with the payment of royalties to foreign bank accounts of the rightholders in currencies other than Russian Ruble. The issue of whether the impossibility to make a currency transfer because of the adoption of mandatory measures in the country of payment constitutes an event of non-performance for which the licensee should be liable may be debatable, and the effectiveness of a hypothetical termination on such grounds could arguably be questioned.

5. Termination due to non-performance of licensee's quality obligations

Part 2 of article 1489 of the Civil Code places a specific obligation upon a licensee of a trademark, namely, compliance with the licensor's quality standards and requirements. The provision furthermore entitles the licensor to perform quality and compliance controls. Both licensee and licensor are jointly liable for the quality of goods

produced under the license. Compliance with quality requirement is considered a material term of a trademark license and consequently, failure to comply therewith can constitute a ground for termination of the license agreement as a material breach, as set out in subparagraph 1 part 2 of article 450 of the Civil Code. A breach is material if the affected party loses or forfeits the benefit of its legitimate expectation from the contract. According to general rules, the burden of proof of the breach and its materiality rests with the party claiming it.

6. Termination based on non-performance of obligations of licensee to provide reports on use of licensed IP rights

Part 1 of article 1237 of the Civil Code provides that the licensee shall provide the licensor with reports on the use of the licensed IP right unless otherwise provided in the agreement. If the agreement does not contain provisions on the timing of reports, they must be provided at the request of the licensor. The non-performance of this obligation may be relied on, typically as additional grounds besides the non-payment of royalties. The failure to provide reports as a separate ground for termination needs to be supported by evidence, and the burden of proof that the same amounts to a material breach again rests with the party claiming the breach.

7. Termination based on significant change in circumstances

A significant change in circumstances constitutes a general ground for rectification or termination of an agreement, which is applicable to license agreements (article 451 of the Civil Code). According to the letter of the law, the circumstances are deemed to have significantly changed where the agreement would not have been concluded (or would have been concluded on different terms), if the parties had foreseen such change. If the parties do not agree on the occurrence or significance of the change, the dispute will be adjudged by the competent court. There are certain criteria set out in part 2 of article 451, which need to be met for a

Russian court to find an agreement terminated because of a significant change in circumstances. It cannot be ruled out that payment difficulties deriving from public measures, and the sanctions and counter-sanctions scenarios previously referred to, might be relied on as grounds for termination because of a significant change in the circumstances that prevailed when the agreement was concluded.

8.Termination generally based on breaches of license agreement

It is not unfrequent for license agreements to contains a clause generally allowing termination by the licensor if the licensee breaches any provision of the agreement.

Notwithstanding the agreement, it cannot be ruled out that the materiality of the breach could be contested by the breaching party, and the burden of proving the breach and its materiality similarly rests with party invoking it.

9.Termination by mutual consent

Based on the general principle of freedom of agreement, a license agreement can be terminated by the mutual consent of the parties, irrespective of its terms and conditions. A properly drawn up agreement terminating a previous agreement by mutual consent constitutes sufficient grounds for registration of the license termination with the Rospatent. Besides the expiry of the term of the license, this is the simplest and most straightforward way to put an end to a license, leaving no room for doubt or disputes.

10.Continuing use of IP rights notwithstanding termination of a previous license

Finally, it is worthwhile noting that the continuing use by the former licensee of IP rights previously licensed after the license is terminated constitutes and infringement of the right, which can be the object of a distinct, non-contractual infringement claim by the former licensor against the former licensee.



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