Russia Practice

February 2017

Major events in the field of intellectual property in Russia in 2016

In 2016 the Russian legislators and courts implemented many ideas and were quite active in the area of intellectual property protection. In this information bulletin we will try to track the year's most important events in this field.

Laws and Draft laws

Mandatory claims procedure

A mandatory claims procedure has been in effect since 1 June 2016 for disputes between commercial enterprises. Before filing suit in court, the claimant must first submit the relevant claim to the respondent. It was expected that this measure will help to stem the flood of lawsuits.

This rule also affects disputes regarding intellectual property. However, disputes on the early termination of legal protection of a trademark as a result of disuse are an exception to this rule.

It is expected that revisions will be made in 2017 to the provisions on the claims procedure for intellectual property disputes. The claims procedure should be in effect exclusively for demands for the payment of compensation or restitution of losses, and also in respect of the termination of the legal protection of a trademark. For other claims (on recognising rights to a patent or trademark, on restraining a violation, etc.) the claims procedure is not mandatory, although as a rule a claim for compensation is submitted together with a claim to restrain a violation. Clearly, Russian legislators are not entirely consistent: first they establish a claims procedure, only to then limit it for many areas of intellectual property protection.

In addition, a 2017 draft law contains a detailed description of the claims procedure for cases when a claim is made for the termination of legal protection of a trademark as a result of disuse: in its claim, the claimant should demand that the respondent voluntarily cancel the trademark in whole or in part, or cede the rights to the trademark. The rights holder (respondent) is given two months to make a decision.

Extension of antitrust legislation to the field of intellectual property

Up to now, legal relations in the field of intellectual property have been free of regulation by anti-trust legislation. Intellectual property rights were exercised (licensing of intellectual property (patents and trademarks)) without any restriction by anti-trust legislation. For example, the rights holder could issue an exclusive license, thereby restricting other market participants. In this respect, Russian legislation differed from European.

However, in 2016 a draft law was prepared that would radically change the current situation in such a way that when exercising intellectual property rights it would be essential to take into consideration and comply with the provisions of antitrust legislation.

If the draft law is adopted in its current version, there will be significant implications for companies that hold a dominant position in the market, that is to say companies whose market share is more than 35%. Any business activity by such companies related to the use of intellectual property should be reviewed for compliance with the restrictions of antitrust legislation.

Another idea of the Russian government, the introduction of mandatory licensing of medicines, was rejected after careful review by the corresponding Government committee.

Software localization

Since 1 January 2016, foreign software has been prohibited from participating in state and municipal tenders[1]. In addition, a Russian software register was created.

There are two exceptions to this rule: foreign-made software may be acquired by state (municipal) clients if (i) the Russian software register does not contain software that matches the software to be acquired, or (ii) the register contains such software, but it does not meet the client's requirements in terms of functional, technical, and operating characteristics.

In other words, in certain cases foreign software can participate in procurement and is permitted by law, first and foremost when Russian companies do not offer the necessary software. At the same time, this participation will depend on the organiser of the tender, which in each individual case must announce that foreign software is given access to the tender.

The criteria for including software in the register concern not only the rights holder of the software, but also requirements on the software itself.

To be listed in the Russian software register, the rights holder of the software should be a Russian legal entity with dominant Russian ownership. Thus, in the final analysis, the majority shareholder of the rights holder in the chain of owners should be a Russian legal entity.

In this regard, the fact that direct and indirect ownership is defined in accordance with the provisions of Russian tax law is significant. This makes it possible to implement certain corporate arrangements under which a Russian legal entity is *de jure* the majority owner, but from the standpoint of corporate law does not have full control over the rights holder. In addition, these arrangements will allow a foreign owner to exercise control over the Russian rights holder without being declared the majority owner.

Another condition for software to be included in the register is the possession of exclusive rights to the software.

[1] Russian Government Resolution No. 1236 dated 16 November 2015 "On Establishing a Ban on the Admission of Software Originating in Foreign States for the Purposes of Procurement to Support State and Municipal Needs".

Exclusive rights to software may arise through the modification of existing software. Accordingly, it is important to understand what changes have been made to the software (for example, translation of the interface into Russian, the addition of certain functions related to Russian technical standards, etc.) and whether they constitute grounds for the appearance of new exclusive rights to the new software from the standpoint of Russian legislation.

According to the data as at the middle of October 2016, 583 software rights holders have been entered in the register. This number is constantly growing, as is the number of programs registered (2602 programs as at 26 January 2017).

Since the procurement restrictions on software are planned to be extended to companies with a government stake (such as Aeroflot, Rosneft, Gazprom, etc.), it is recommended that foreign investors include their software products on the register.

Court Practice

Storage of illegal software[2]

If illegal software is discovered on a computer, one should proceed on the assumption that the software was saved by the computer's owner, and not a third party.

In a case decided by the Russian Supreme Court, illegal software was discovered on the respondent's computer. The respondent insisted that in and of itself the presence of software did not prove that it was used; in addition, it was not proven that it was the respondent who had saved the illegal software.

The court concluded that the storage of illegal software constitutes the use of a copyrighted work in the sense of Russian legislation.

In addition, the court found that it could be assumed that it was in fact the owner of the computer with illegal software who had saved it on the computer. This legal position can be explained first of all by the fact that under Russian law businessmen bear liability even in the absence of culpability.

Liability of the actual user of a web page

Under the general rule, the administrator of a domain is liable under Russian law for violations identified on the corresponding page of the website. However, the domain administrator is often an individual, whereas the web page that violates rights to copyrighted material may indicate contact details for a legal entity. In this case, as a rule the legal entity figures in the court proceedings as a third party.

However, in case No. A56-62226/2014 the Supreme Court concluded that if there is a link between the domain administrator (an individual) and the legal entity whose contact details are indicated on the web page, then this legal entity may be liable for violations on the web page.

The link may be established by the fact that the individual is the general director or a shareholder of the legal entity, or the domain administrator provided the legal entity with the opportunity to publish its contact details on the web page, etc.

[2] Judgment No. 308-ES14-1400 of the Supreme Court dated 9 June 2016

Termination of legal protection of a trademark due to disuse

The legal protection of a trademark may be terminated if the rights holder does not use the trademark for a certain period of time (three years in Russia, five years in Germany). In this case, any third party interested in using this trademark has the right to submit an application to terminate the legal protection of the trademark.

The rights holder of the trademark is then obligated to provide that it has used the trademark

In its ruling No. 300-ES15-10765 dated 11 January 2016, the Supreme Court found that use of a trademark occurred if it was used in respect of goods that are homogenous with the goods for which the trademark was registered.

Previously, a different position had been taken in court practice: the rights holder had to prove that it had used the trademark in connection with goods identical to those for which the trademark was protected. Thus, court practice has become more favourable to the trademark holder.

Stricter court practice in respect of license registration

The situation with licenses is otherwise. In one case, the claimant entered into a contract with the respondent on the transfer of technical documentation for the manufacture of a particular kind of equipment. Later, the claimant registered the technical solutions contained in the documentation as a utility model, and demanded in court that the respondent, which was manufacturing the product in accordance with the technical documentation, make licensing payments.

The courts of the first and second instances granted the claim. The court of cassation reversed the decision on the following grounds: there was no licensing agreement between the claimant and the respondent; nonetheless, by entering into the agreement on the transfer of the technical documentation, the claimant had expressed its consent to the respondent's use of the technical solution.

The Supreme Court overturned the decision of the court of cassation. In so doing, the court stated quite technical grounds for its position, pursuant to which the permission to use a utility model may exclusively be granted on the basis of a licensing agreement. Since the parties to the contract on the transfer of technical documentation did not expressly stipulate a license, this contract cannot be considered to be a licensing agreement. Thus, the use by the respondent of the utility model was unlawful.

The fact that the Supreme Court made a technical interpretation of the law indicates that, in parallel with the widespread practice of contracts on the sale of objects, the issue of licensing of the corresponding documentation should also be addressed.

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