The Russian Supreme Court clarifies intellectual property legislation

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The Plenum of the Russian Supreme Court's 2019 Ruling No. 10 "On the Application of the Fourth Part of the Civil Code" is a comprehensive explanation of the statutory norms of the Fourth Part of the Russian Civil Code related to intellectual property.

The issuance of such rulings by the Supreme Court is always high-profile news, because clarifications from the Supreme Court have a significant impact on the further development of court practice in Russia, providing direction to the lower courts to ensure a unified and accurate application of relevant laws.

Ruling No. 10 contains 182 items addressing different areas of intellectual property legislation, including copyrights and related rights, trademarks, patents, know-how, appellations of origin, commercial designation, and company names.

In this article, we review the general, top-level provisions of Ruling No. 10.
1. Definitions

In the beginning of Ruling No. 10, the Supreme Court gives lower courts some advice on terminology. According to the Supreme Court, the term “intellectual property” should only be applied to results of intellectual activities and means of identification (such as trademarks, services marks, appellations of origin, commercial designation, and company names); it does not cover rights to these objects. Rights to intellectual property should be defined as “intellectual rights.”

Intellectual rights include the exclusive right, which is an economic right, and moral rights (such as paternity rights, rights to names, withdrawal rights, and integrity rights). Moral rights arise and enjoy legal protection provided they are named in law for a particular result of intellectual activities or means of identification.

The Supreme Court notes that the Fourth Part of the Civil Code contains an exhaustive list of results of intellectual activities and means of identification, which fall under the definition “intellectual property” and are accompanied by intellectual rights. The list does not include domain names, names of nonprofit organizations, or the names of mass media; rights to these designations can be protected under the general provisions and principles of the civil legislation, but not under intellectual property legislation.

2. Joint ownership of the exclusive right

The exclusive right to the results of intellectual activities and means of identification (except for a company name) may jointly belong to several holders, and this rule also applies to the inheritance of intellectual property. The Supreme Court pointed out, however, that this does not mean the holders may split the exclusive right and obtain shares in it. The Court has therefore ended the long-running debate as to whether it is possible in Russia to split an exclusive right and define shares, explicitly stating that it is not possible.

Relations of the holders of the exclusive right among themselves should be regulated by mutual agreement. Such agreement may regulate, for example, any matters of the intellectual property’s use, the disposal of the exclusive right, the allocation of income receivable from the joint use of the intellectual property or from the joint disposal of the exclusive right.

Each of the right holders can independently defend and initiate legal action against infringers, and it is not permitted to change this rule in an agreement between the right holders.

If the holders of the exclusive right to intellectual property do not reach an agreement on their use of the intellectual property and the disposal of the exclusive right, the dispute on this matter can be settled through court proceedings initiated on the basis of a claim brought by any of the holders of the exclusive right.

The Supreme Court determined the following rules to be applied in the absence of an agreement between the holders of the exclusive right:

- each of the right holders can use the relevant results of intellectual activities or means of identification at the holder’s sole discretion unless otherwise stipulated by law
- the right can be disposed of by the holders on a joint basis unless otherwise stipulated by law
- income receivable from the joint use of the intellectual property, or from the joint disposal of the exclusive right, is divided among the holders in equal shares (the only exception is passing on the right to several heirs under an inheritance procedure, where the income allocation is arranged in accordance with inheritance shares).

Renewal or premature termination of the patent validity shall be carried out in accordance with the agreement between the relevant right holders; in the absence of an agreement, it can only be arranged by the holders jointly.

3. Disposal of an exclusive right

According to the Fourth Part of the Civil Code, the disposal of an exclusive right to a result of intellectual activity or means of identification can be arranged under the following main forms:

- an assignment agreement implying the full alienation of the exclusive right to a successor, who becomes the new fully-fledged right holder and
- a license agreement, according to which the licensee is granted a temporary right to use the result of intellectual
activity or means of identification with certain limitations, while the licensor reserves the exclusive right. Licenses can be exclusive or non-exclusive.

Given the above, the Supreme Court clarified that if the assignment agreement imposes any limitations on a successor of the right regarding the use of a result of intellectual activity or means of identification (for example, in terms of territory, term or methods of use) or stipulates a particular term of this agreement, it can be reclassified by a relevant court as a license agreement. If, however, there is no legal possibility to reclassify such agreement, then it will be deemed invalid in full or in part by a court.

4. Format; state registration

As a general rule, an assignment agreement must be executed in writing. A license agreement must be in writing unless otherwise stipulated by the law. Non-compliance with this rule invalidates the relevant agreement.\(^3\)

In some cases, the assignment of an exclusive right or a license is subject to obligatory state registration with the Russian patent authority (Rospatent).\(^4\) This rule mainly applies to trademarks and patents. With this in mind, the Supreme Court explained that, in the absence of such registration, a transfer of the exclusive right or the provision of a license is deemed to have not taken place. But this does not entail the invalidity of the assignment or the license agreement, which means that obligatory relations arising out of these agreements apply, regardless of state registration.

This clarification is important for structuring license arrangements providing an obligation of the licensee to pay royalties for periods preceding the date of the license registration. This is because earlier there was a position in doctrine that such historical royalties can only be accrued, but cannot be actually paid, until the license is registered. Therefore, Ruling No. 10 will certainly have a positive impact on the further development of such license models in Russia.

5. Terms and conditions of the license agreement

The Supreme Court explained that a license agreement with a term exceeding the term of the duration of the relevant exclusive right will be deemed concluded for a term equal to the term of the exclusive right. If the exclusive right is renewed after the conclusion of the license agreement, then the duration of the agreement will be determined on the basis of its conditions and the new term of the exclusive right.

If the license agreement does not stipulate that there is a royalty-free license, and it does not contain any provisions on the license fees, it will then be deemed non-concluded. However, a party that accepts any consideration from the other party under such agreement cannot rely on the fact that the agreement is non-concluded if this contradicts the principle of good faith.

Importantly, the Supreme Court clarified that, as a general rule, the license fees are paid under the license agreement for the fact of the provision of the license. Therefore, a court cannot dismiss the licensor's claim to recover license fees on the basis of the actual non-use of the relevant results of intellectual activities or means of identification by a licensee. By this clarification, the Supreme Court has settled an old practical issue related to situations where a licensee obtains a license but does not use it.

The Supreme Court added that if the license agreement stipulates a combined fee consisting of (i) a fixed fee and (ii) royalties representing a certain percent of revenue, then the non-using licensee shall pay only a fixed fee. However, a licensor may claim damages caused by the non-use of the license, and may terminate the license agreement.

When the parties to a license agreement stipulate royalties only, then if a licensee does not use the relevant results of intellectual activities or means of identification, a licensor may claim damages caused by the non-use of the license, and may terminate the license agreement. The amount of damages can be determined on the basis of the license fees that would be stipulated in similar circumstances for these or analogous results of intellectual activities or means of identification. This position of the Supreme Court is not ideal, because, in practice, lower courts will likely experience difficulties in determining "similar circumstances" when considering the licensors' claims.

Further, the Supreme Court explained that a licensor does not need the consent of a licensee (if the licensor has a valid license agreement) to enter an assignment agreement and assign the exclusive right to a successor. However, in this situation, entering into the assignment will not be a ground for amending or terminating the license agreement. The successor will become a licensor on the terms and conditions of such license agreement.
According to the Supreme Court, if the license agreement stipulates liability for the use by a licensee of relevant results of intellectual activities or means of identification beyond the scope of the granted license, the licensor may claim the following:

- the recovery of damages or compensation in the part not covered by the contractual penalty stipulated for such violation of the license
- if the agreement only allows for a penalty to be claimed, the licensor cannot claim damages (compensation)
- if the agreement allows the licensor to choose the liability, then depending on terms of the agreement, the licensor may claim a penalty.

In addition, the Supreme Court provided guidance on sublicensing rules. The Fourth Part of the Civil Code states that a licensee may grant sublicenses only on the condition a licensor gives permission. The Supreme Court clarified that such permission can be provided in the license agreement, or in the format of a separate document. The licensor may also include limitations on such permission (for example, by stipulating that the licensee may sublicense only particular methods of using the relevant results of intellectual activities or means of identification). Such permission can be recalled by the licensor on the condition of the compensation of damages caused by such recall.

6. **Pledge of the exclusive right**

As follows from the rules of the Fourth Part of the Civil Code, a right holder may dispose the exclusive right by means of pledge (except for the exclusive right to a company name or an appellation of origin). According to the Supreme Court, non-economic rights cannot be a subject matter of a pledge agreement. Economic rights can be pledged on condition that the law allows their alienation. For example, artist or author resale royalty rights regarding works of art or author manuscripts cannot be pledged.

The subject matter of the pledge must be defined by indicating a certain result of intellectual activity or means of identification to be pledged with reference to a document confirming the exclusive right to such objects (e.g., trademark certificate number, patent number). The Supreme Court also mentioned that the pledge agreement must determine whether the exclusive right is pledged in full or under certain limitations (in the latter case the agreement must indicate the permitted methods of using the results of intellectual activity or means of identification).

As a general rule, a pledgee may not use or alienate pledged results of intellectual activity or means of identification (except for cases of an assignment of the exclusive right) unless otherwise permitted by the agreement with a pledgor. At the same time, a pledger may not assign the exclusive right to third parties without the pledgee's consent unless otherwise provided by the agreement.

Enforcement of the exclusive right and legal action against infringers can only be initiated by the pledgor. The pledgee is not granted such possibility.

7. **Disposal of the exclusive right for objects to be created in the future**

The Supreme Court clarified that it is possible to conclude an assignment agreement or a license agreement for results of intellectual activity or means of identification that are expected to be created in the future.

In this case, the exclusive right or license will be deemed transferred/granted at the moment defined by the agreement, but not earlier than the moment the exclusive right arises. However, if the result of intellectual activity or means of identification is subject to state registration (for example, a trademark or invention), then the assignment of the exclusive right or the licensing of these objects is subject to state registration as well, and in this case the exclusive right or license will be deemed transferred/granted at the moment of the relevant registration.

The Supreme Court pointed out that the subject matter of the agreement related to objects to be created in the future must be determined so that it is possible to identify the object that will be created at the time of the assignment of the exclusive right or the provision of a license.

8. **Enforcement of intellectual rights**

8.1. **Financial sanctions**

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In Russian court practice, it is often difficult to claim damages caused by infringements of intellectual rights because Russian courts apply high standards of proof. Therefore, proving damages before the court is a complicated exercise.

The law provides right holders with a variety of options to impose financial sanctions on infringers:

- if a right holder believes it is possible to prove damages, then of course the right holder may claim such damages in court or
- as an alternative solution, the law provides the possibility of claiming so-called compensation, which is a sort of fine to be recovered in favor of the right holder. The Fourth Part of the Civil Code stipulates several types of “compensation,” in particular:

  **For a copyright infringement**
  - compensation in the amount of RUB10,000 - RUB5 million to be defined by a court depending on the specifics of a particular infringement
  - double the value of counterfeit goods
  - double the value of a license right for the relevant use of a copyrighted object.

  **For a trademark infringement**
  - compensation in the amount of RUB10,000 - RUB5 million to be defined by a court depending on the specifics of a particular infringement
  - double the value of goods illegally marked with a trademark
  - double the value of a license right for the relevant use of a trademark.

  **For a patent infringement**
  - compensation in the amount of RUB10,000 - RUB5 million to be defined by a court depending on specifics of a particular infringement
  - double the value of a license right for the relevant use of a patent.

With the above in mind, the Supreme Court clarified that such compensation cannot be claimed together with damages; a right holder must choose one or the other. The claim to recover compensation will be satisfied by a court if the fact of an infringement is duly proved by a right holder; the right holder is not obliged to prove damages.

When claiming compensation, a right holder has to substantiate the amount of the requested compensation by submitting relevant evidence and calculations in court.

The Supreme Court commented on situations of infringement of several results of intellectual activities and means of identification connected with each other, eg, a copyrighted object and a trademark, in which this copyrighted object is used (eg, a graphic work that is part of a trademark); a trademark and an appellation of origin (eg, a trademark containing a geographical origin of goods); a trademark and design. The Court explained that the compensation for each of the described objects is defined separately.

At the same time, according to the Fourth Part of the Civil Code, if a single action of an infringer violates simultaneously several results of intellectual activities or means of identification belonging to the same right holder, then the total amount of compensation can be reasonably reduced by a court, but should not be less than 50 percent of minimal level of all compensations for all intellectual property objects affected. The Supreme Court explained, however, that applying this statutory rule is possible only if (i) the illegal use of such set of several results of intellectual activities or means of identification represents a single process (eg, copying and distributing); and (ii) the infringer asks the court to apply this rule.

Receiving a court award of compensation does not prevent a right holder from claiming further compensation for any following infringements.

The Supreme Court also explained that claims to recover damages or compensation can be submitted even after the expiry of legal protection of a result of intellectual activity or a means of identification. This can be done by a claimant that was a right holder at the time of the infringement.

8.2. Plurality of infringers
According to the Supreme Court, in case of subsequent infringements of an exclusive right by several infringers, each of them bears a separate responsibility. If the infringement has been done jointly, the infringers are jointly liable.

The use of results of intellectual activities or means of identification upon an instruction or order of a right holder (eg, producing goods bearing a trademark under a contractor agreement concluded with the right holder) is covered by the exclusive right of the right holder and does not require any license arrangement.

However, using such objects upon an instruction or order of a person/company violating the exclusive right of a right holder constitutes a separate infringement. In this case, the user and the instructing party are jointly liable.

**8.3. Parallel import**

In Russia, the matter of permissibility of parallel imports (eg, “grey” imports of genuine branded goods avoiding the official supply channels) is being widely discussed among experts in the field of intellectual property. Existing legislation considers parallel imports as a type of infringement of the exclusive right of a right holder.

Because this issue resonates so powerfully in some areas (eg, pharmaceuticals), in 2018 the Constitutional Court issued a ruling in a case involving a parallel importer that was a supplier of medical-related products. 9

According to the Constitutional Court, the ban on parallel imports in the Russian legislation does not violate the Constitution of the Russian Federation. However, this type of infringement entails less serious consequences for public interests. Therefore, liability for this infringement cannot be the same as the liability for a counterfeit-type infringement.

Following on from the above, the Supreme Court mentioned that, when deciding the amount of the compensation for the illegal use of a trademark, the courts must consider whether the goods are genuine or counterfeit.

To be in line with the position of the Constitutional Court, the Supreme Court explained that, genuine goods imported by parallel importers, unlike counterfeit goods, cannot be seized from turnover and destroyed (the exception is when such goods are of an improper quality or it is necessity to protect people, the environment or cultural interests).

However, the Supreme Court emphasized that this does not prevent the right holder from using other remedies to stop the circulation of such goods.

**8.4. Website owners**

The Supreme Court provided guidance for situations where materials infringing the exclusive right to results of intellectual activities or means of identification are posted on a website.

The Supreme Court explained that a website's owner determines the way the website is used. Therefore, in the absence of evidence that infringing materials were posted by third parties, it should be presumed that it is the website owner who posted them.

Unless circumstances demonstrate otherwise, it is presumed that an administrator of a domain name associated with the website is the owner of the website.

In addition, it should be noted that the Fourth Part of the Civil Code uses the concept of the “information intermediary,” a person or a company providing the possibility to post information on a data telecommunications network. This definition may cover a wide range of parties, such as Internet providers, owners of social media and websites owners.

According to the law, an information intermediary only bears responsibility for infringements of intellectual rights if (i) this intermediary knew or should have known that certain material posted on a network is infringing; and (ii) after receiving a notice from a right holder, the intermediary failed to arrange necessary and sufficient measures to stop the infringement.

Therefore, the Supreme Court explained that a website owner can be recognized as an information intermediary, if it proves that infringing materials were posted by third parties and not by the owner itself.

The Supreme Court emphasised that if the website owner makes any amendments to materials posted by third parties, the question of whether this website owner is an information intermediary depends on its role in the creation of the posted material and whether it receives any income from posting the infringing material. Significant reworking by the website owner of posted materials may suggest that it is not an information intermediary, but a party directly using relevant results of intellectual activities or means of identification.
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1 Clause 2 Article 1229 of the Civil Code
2 Article 1233 of the Civil Code
3 Clause 2 Article 1234 of the Civil Code, Clause 2 Article 1235 of the Civil Code
4 Article 1232 of the Civil Code
5 Article 358.10 of the Civil Code
6 Article 1301 of the Russian Civil Code
7 Clause 4 Article 1515 of the Russian Civil Code
8 Article 1406.1 of the Russian Civil Code
9 Ruling of the Constitutional Court No. 8-P of 13 February 2018

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