

Practical Considerations About Your Russian IP

March 22, 2022 Jeffrey Wolfson

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In the wake of financial sanctions by the United States, the United Kingdom, EU nations, and various other countries against Russia for its unprovoked attack on Ukraine¹, you might be considering what, if anything, to do about your patents, trademarks, utility models, industrial designs, etc., in Russia. You may have already decided to write off your Russian IP as a complete loss. Is it possible that surrendering your Russian IP *might* be the courageous decision and the best advice?

First, aside from the invasion of Ukraine, consider that President Vladimir Putin of Russia issued his own executive order around March 8, 2022 declaring various countries and regions “unfriendly.” Russia now designates almost a quarter of the world’s countries, including the U.S., U.K., EU nations, Japan, Canada, and many more, as “engaging in unfriendly activities toward Russia.” This is not merely name calling—it’s a response to the sanctions imposed by many of those countries.

Second, and even worse for Russian IP rights holders, the Russian government has taken the rare step of using those IP rights more directly in responding to the sanctions. How? By saying “no” to any pretense of IP enforcement. Specifically, President Putin’s executive order has eliminated all requirements to compensate the owner of any Russian patent, utility model, industrial design, trademark or other IP if the owner is from an “unfriendly” country or region. The equation on evaluating Russian IP might now be as simple as: No compensation = No value! Most IP rights holders obtain those rights not merely for the “bragging rights” of having a patent or trademark, but for a legally enforceable right to stop others from infringing on those rights and to pursue associated damages. Russia’s track record on IP enforcement was weak at best, placing it on many a watchlist even before the Ukraine invasion. Saying goodbye to compensation for Russian IP infringement will be the final straw for many IP rights holders.

Calmer heads might consider that the Ukraine war won’t last forever and that the unfriendly designations and legalized piracy of IP will revert to a system supporting the rule of law and compensation for property rights. However, the timing of such a return to normalcy is unclear at best. The transition will take time regardless of when and how the war on Ukraine ends, but it seems unlikely that sanctions and executive orders will be withdrawn immediately afterwards. Considering the potential duration of unenforceability along with the cost of obtaining and maintaining Russian IP rights, it will be difficult to justify continued investment in Russian IP rights to the extent that is even possible in view of the existing sanctions and lack of meaningful enforceability.

Third, in considering the topic of intangible assets in Russia, one might want to weigh the risks and benefits to the most valuable assets of your company. Which valued employee(s) or officer(s) will be sent from your “unfriendly” country to Russia to help enforce any Russian IP rights that may still be in force, once enforcement with compensation is possible again? Will they even be given a visa and permission to enter and leave the country? Will their pleas of infringement be heard fairly in a Russian IP enforcement proceeding? Will Russia eventually be expelled from the World Trade

Organization (WTO) as the result of a dispute brought by a country that has been damaged by Russia's unprecedented disregard of IP rights? All of these potential scenarios further decrease the expected value (and increase the potential risk) of Russian IP.

Fourth, presuming you want to try protecting and/or preserving Russian IP and believe there is value in doing so, can one legally comply with the U.S. sanctions while doing so? Keep in mind, "[a]ny transaction that evades or avoids, has the purpose of evading or avoiding, causes a violation of, or attempts to violate any of the prohibitions...is prohibited." The U.S. Department of the Treasury granted a short wind-down period for certain transactions, which may permit payments due to Rospatent by June 23, 2022.² Because the only route currently available to make such payments to Rospatent is via the sanctioned Central Bank of the Russian Federation, the sanctions will prevent payments to Rospatent after that date. Until that time, it may be possible to make payments already due, presuming you can ensure the payment will be completed before the grace period ends. If your payments are due later, can you pre-pay? That is a tougher question that may not have a clear answer. Violation of the sanctions, even "accidentally," could result in strict liability or criminal charges for attempting to evade the sanctions by making a payment early that is not actually yet due or by making a payment on time that is delayed and ends up being transmitted past the deadline.

On a related topic regarding the requirement to file first in Russia if the invention occurred in Russia, one must keep in mind the analysis above but add to that the risks of criminal prosecution for an inventor residing in Russia if they are found to be listed on a foreign patent right on an invention where Russian patent law required a first filing in Russia. If a decision has been made to abandon all pretense that your Russian IP might be obtainable, maintainable, enforceable, and valuable, and any Russia-based employee involved has already relocated outside Russia, then the choice is simplified when electing to file first outside Russia. Of course, that decision likely would result in the invention not ever being protectable in Russia and the Russia-based inventor(s) possibly not being able to safely return to Russia. This latter decision falls far outside the scope of IP law.

Finally, the highly fluid geopolitical situation must be considered. Further drastic shifts are possible on all sides. The extremely dire outlook for Russian IP could possibly revert back to a more normalized situation within days or weeks, as unlikely as that seems, or could become even more challenging. Careful monitoring and consideration of any change in the sanctions or Russian designations of IP enforceability will become critical in June as the U.S. grace period deadline approaches. Even if new filings are made in Russia before that deadline, the above discussion bears on the timing and value of such rights, including whether they can be further pursued before they become abandoned. It could even be possible that trade is eventually normalized on all sides, and that Russia then provides a grace period to encourage former IP rights holders to return, pay fees to revive lapsed rights (with a likely late surcharge to replenish the Rospatent coffers), and pursue meaningful compensation for infringement of their Russian IP rights.

In short, the best course may simply be to "do nothing" and let your Russian IP lapse to avoid sanctions, while conserving limited resources that might be better applied in jurisdictions that permit meaningful IP enforcement and compensation for IP infringement. But there are limited circumstances and opportunities to keep IP alive for a little longer in Russia if some perceived longer-term value exists.

¹ For example, see U.S. Executive Order 14024 issued April 15, 2021, and particularly Directive 4 titled "Prohibitions Related to Transactions Involving the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, and the Ministry of Finance of the Russian Federation," 28 Feb. 2022. This Order prohibits payments or transactions with the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, and the Ministry of Finance of the Russian Federation. The Federal Service for IP in Russia, commonly known as Rospatent, receives payment for IP filings and annuities via the Central Bank of the Russian Federation.

² General License No. 13, "Authorizing Certain Administrative Transactions Prohibited by Directive 4 under Executive Order 14024," Office of Foreign Assets Control of the U.S. Department of the Treasury, March 2, 2022.