

4 Questions For Cos. Seeking To Recover Value Of Russian IP

By **Marney Cheek, Nikhil Gore and Paris Aboro** (April 7, 2022, 1:13 PM EDT)

The Russian Federation is threatening to effectively nationalize the patents, trademarks, copyrights and other intellectual property assets of foreign investors from countries that have imposed sanctions on Russia.

Companies with affected Russian IP may be able to recover the value of their assets by bringing international arbitration claims under Russia's bilateral investment treaties.

In evaluating the benefits and costs of IP-related investment claims against Russia, companies should evaluate four key questions: (1) whether their assets are protected by an investment treaty; (2) whether they can show that their losses were caused by Russian government measures; (3) how they will be able to quantify, prove and collect damages; and (4) whether they need to take any immediate action to preserve the possibility of a future claim.

Background

In the past month, the Russian government has announced a series of actions to weaken or annul the intellectual property rights of foreign investors from countries that have imposed sanctions on Russia.[1]

These measures reportedly include reducing the royalty rate for compulsory patent licenses to zero for patent holders from countries it deems unfriendly, and suspending the applicability of patents, trademarks and copyrights in respect of as-yet unspecified categories of goods.

The European Commission has described Russia's actions as "[allowing for] the expropriation of IP rights,"[2] and a Russian court has already declined to enforce a valuable trademark over Peppa Pig, a popular children's television character.

Russia's actions implicate its commitments under its bilateral investment treaties, which restrict its ability to impair foreign investments, including IP rights.

The investment rights in these treaties include protections against expropriation and nationalization, nationality-based discrimination, and arbitrary and unfair government action.



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These investment protections can be enforced directly by investors, via clauses that provide for the arbitration of investment disputes.

While investment arbitration can be a valuable tool for companies with IP in Russia, such arbitrations are also procedurally complex and can be lengthy.

The four questions addressed in this article can help companies evaluate whether a claim is available and worthwhile.

Questions to Consider

1. Are my company's IP assets in Russia protected by an investment treaty?

IP assets are likely to be protected under Russia's investment treaties, so long as the IP rights are held by or through companies from jurisdictions that benefit from treaty protection.

Many of Russia's bilateral investment treaties expressly define IP as a protected asset, and there is a track record of investment tribunals considering claims relating to IP.

IP licenses and unregistered IP may also qualify for treaty protection.

To benefit from treaty protection and enforce it, IP has to be held directly or indirectly by a company that is from a country that maintains an investment treaty with Russia, and the investment treaty has to include a dispute resolution clause that extends to pertinent categories of investment claims.

Russia maintains relevant investment treaties with several European countries, as well as Canada, Japan, South Korea and Ukraine, among others.

There is no Russia-U.S. investment treaty, but U.S. firms should consider whether their Russian IP is held through foreign subsidiaries that do benefit from treaty protection.

2. Can I show that my company's losses were caused by the Russian government?

Russia may seek to defend against investment claims by arguing that it revoked an investor's IP in a manner that was consistent with preexisting Russian law.

For example, if an investor does not make routine maintenance payments or otherwise take necessary steps to preserve its IP rights, that might be used against the investor in any future investment case, with Russia arguing that the investor's losses were caused by its own inaction.

Exceptions to sanctions regimes may ultimately allow for investors to make routine maintenance payments, but investors will still need to consider whether the steps necessary to maintain IP are consistent with their legal obligations, their ethics and compliance policies, and any public commitments they have made on exiting the Russian market.

Investors will also need to consider whether such steps are practically viable, if banks and other intermediaries have suspended operations in Russia.

3. How will damages be quantified, and will they be collectible?

In other disputes, Russia has sought to undervalue expropriated assets for damages purposes by pointing to the immediate political and economic climate at the time of the expropriation.

Companies should consider taking steps to preserve documentation that reflects the full, long-term value of their IP assets in Russia — including, for example, preserving contemporaneous reports and forecasts relating to the economic performance of the businesses to which the IP relates.

Companies that are withdrawing from Russia should also consider whether they would have had the ability to sell their IP to others, or to otherwise derive economic value from their Russian IP, in light of their plans to withdraw.

An award for damages under Russia's investment treaties is likely to be enforceable in a similar manner to any other international arbitration award. In other words, it should be recognized and enforced against Russian assets in a wide range of international jurisdictions.

Tracing and identifying nonimmune Russian government assets can be a complex process, but investors may also be able to monetize their awards in other ways.

For example, companies can assess whether an award, or the economic value of an award, can be sold to a party that specializes in asset recovery and judgment enforcement.

Companies can also consider whether their home governments may be willing to condition any future normalization of economic relations with Russia on the payment of outstanding arbitration claims.

4. Does my company need to decide on a claim now — and if not, what steps should I take today?

Investors likely do not need to make a final decision on whether to bring an investment claim today, or any time in the immediate future.

However, investors that may seriously consider a future claim should take steps now to preserve their position.

Among other things, investors can:

- Evaluate whether their Russian IP is held by or through companies from countries that have relevant investment treaties in place with Russia;
- Assess whether they may need documents or other evidence that is physically located in Russia, and if so, take steps to preserve copies of such evidence outside of Russia; and
- Consider the procedural requirements of the relevant investment treaties, which may include election of remedy clauses or waiting period provisions that require advance planning, as well as limitation periods that investors can use to set internal decision-making deadlines.

Investment arbitration involves different procedural and evidentiary standards from domestic litigation, and focused advance planning can help lay the foundations for a successful claim.

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[1] See, e.g., Government of the Russian Federation, Resolution No. 299 "On Amending Paragraph 2 of the Methodology for Determining the Amount of Compensation Paid to the Patentee when Deciding to Use an Invention, Utility Model or Industrial Design without His Consent and the Procedure for its Payment," (March 6, 2022), at <http://publication.pravo.gov.ru/Document/View/0001202203070005?index=0&rangeSize=1>; Federal Law No. 46-FZ "On Amendments to Certain Legislative Acts of the Russian Federation" (March 8, 2022), at <http://publication.pravo.gov.ru/Document/View/0001202203080001>.

[2] European Commission IP Helpdesk, Russia suspending some IP Rights and Peppa Pig trade mark infringement, (March 17, 2022), at https://intellectual-property-helpdesk.ec.europa.eu/news-events/news/russia-suspending-some-ip-rights-and-peppa-pig-trade-mark-infringement-2022-03-17_en.