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Potential Remedies for Russia's Suspension of Foreign Investors' Intellectual Property Rights

Potential Remedies for Russia's Suspension of Foreign Investors' Intellectual Property Rights: International Investment Arbitration

Foreign investors in Russia may have remedies pursuant to international investment treaties for harm suffered as a result of recent steps taken by Russia that interfere with an investor's intellectual property rights: pressing a claim in arbitration directly against the Russian state. If the requirements of an applicable treaty are met, an investor may seek remedies from an international arbitral tribunal that is independent of the Russian state that range from interim measures of protection to permanent injunctive relief and monetary damages for the full value of its loss. These protections are potentially available to holders of validly registered IP rights in the pharmaceuticals and life sciences, energy, franchising and hospitality, software, music and film, gaming and other industries.

Russia's Rollback of Intellectual Property Rights Held by Nationals of "Unfriendly Countries"

Reacting to the consequences of its invasion of Ukraine—including significant economic, trade, and political sanctions, and announcements by hundreds of multinational companies that they intend to scale back or shut down Russian operations—Russia has imposed its own set of “anti-sanction” retaliatory measures against so-called “unfriendly countries.”¹ These include measures that roll back the protections previously provided to intellectual property rights-holders. King & Spalding reported on Russia's retaliatory measures imposed on March 11, 2022.²

In particular, on March 6, 2022, Russia issued a decree that owners of Russian patents who are registered, doing business, or hold the nationality of “unfriendly countries” are no longer entitled to any compensation for compulsory licensing of their patents. This decree effectively suspends the enforceability of any patents owned by nationals of Russia's “unfriendly countries.”

Russia has taken or threatened to take other retaliatory measures and to implement additional policies designed to undermine intellectual property rights pursuant to its February 28, 2022 decree imposing “special economic



measures in relation to unfriendly actions by the United States of America and associated foreign States and international organizations.” This decree and other Russian anti-sanction retaliatory measures have already been cited by Russian courts and in administrative decisions: On March 3, 2022, a Russian court dismissed outright—as an “abuse of rights”—the trademark infringement claims of the British owner of the “Peppa Pig” trademark. This conclusion was based solely on the British trademark owner’s “unfriendly” status. On March 12, 2022, a Russian entity sought to register a trademark for a logo very similar to the famous McDonald’s golden arches. This McDonald’s example appears to be the tip of the iceberg, as Russia scrambles to fulfill the demand for products sold by multinational corporations that have scaled back or terminated operations in Russia as a result of Russia’s invasion of Ukraine.

What is the Role of Investor-State Arbitration?

In addition to other measures that may be available to investors whose registered IP rights have been harmed by Russia’s actions,³ certain investors may have a private right of action against the Russian state pursuant to a bilateral or multilateral investment treaty.

While there is no bilateral investment treaty between Russia and the United States, Russia has investment treaties with 24 of its “unfriendly countries”: Albania, Austria, Belgium, Bulgaria, Canada, Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, Japan, Lithuania, Luxembourg, the Netherlands, North Macedonia, Norway, Republic of Korea, Romania, Singapore, Switzerland, Ukraine, and the United Kingdom.

While these treaties provide varying levels of protection, in general they require Russia to provide investors from countries with whom it has investment treaties certain protections including protections against expropriation, discrimination, and unfair treatment. Most importantly, an investor who is harmed by a Russian treaty violation – whether perpetrated by the executive, the legislature, a government agency, or another organ of the Russian state – may have the right to bring a claim in arbitration directly against Russia and to have that claim adjudicated by a tribunal consisting of arbitrators who are independent of the Russian state. The investor may seek from this arbitral tribunal remedies ranging from interim measures of protection to permanent injunctions and monetary damages.

For example, Article I(1)(d) of the Sweden-Russia BIT defines “investment” as “any kind of asset, invested by an investor of one Contracting Party in the territory of the other Contracting Party in accordance with its legislation, and shall include in particular ... intellectual property rights, as well as technology, know-how and goodwill.” Article I(2)(a-b) defines an “investor” as “any natural person who is a citizen of a Contracting Party in accordance with its laws” and “any legal person constituted in accordance with the legislation of a Contracting Party.” Article III provides substantive protections including fair and equitable treatment, national treatment, and most-favored nation treatment, while Article IV regulates expropriations and prohibits expropriations unless they are in the public interest, non-discriminatory, carried out under due process of law, and “accompanied by the payment of prompt, adequate and effective compensation.” Article VIII permits an investor who is unable to resolve a dispute amicably after six months following the provision of written notice to Russia to bring a claim in arbitration under the rules promulgated by the United Nations Commission on International Trade Law (“UNCITRAL”).

An award against Russia is enforceable through courts outside of Russia in one or more of the 165+ jurisdictions which are signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) where Russia has assets. However, we note that one challenge will be to identify assets of the Russian state that are both outside Russian territory and subject to collection.

Events in Russia are unfolding quickly and foreign holders of intellectual property rights in Russia should immediately assess the avenues available to them (including the structure of their foreign investments in Russia) and take all necessary steps to protect their registered IP rights in Russia. Investor-state arbitration may provide powerful remedies to qualified investors.



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¹ <http://ips.pravo.gov.ru:8080/default.aspx?pn=0001202203070001> (Decree of the Government of the Russian Federation dated March 5, 2022 No. 430-r, identifying as "unfriendly" nations the following: Australia, Albania, Andorra, Great Britain, Member States of the European Union, Iceland, Canada, Liechtenstein, Micronesia, Monaco, New Zealand, Norway, Republic of Korea, San Marino, North Macedonia, Singapore, USA, Taiwan, Ukraine, Montenegro, Switzerland, and Japan).

² See our Client Alert on Russia authorizing the nationalization of businesses intending to exit the country in protest of Russia's invasion of Ukraine at <https://www.kslaw.com/news-and-insights/russia-moves-closer-to-nationalizing-businesses-intending-to-exit-russia>.

³ Russia is a party to a number of multilateral treaties that provide for protection of IP rights, including, for example, the Agreement on Trade-Related Aspects of Intellectual Property Rights (as Amended by the 2005 Protocol Amending the TRIPS Agreement) (the "TRIPS Agreement"), the Paris Convention for the Protection of Industrial Property (the "Paris Convention"), the Berne Convention for the Protection of Literary and Artistic Works (the "Berne Convention"), and the Patent Cooperation Treaty (the "PCT"). In addition, owners of IP rights used in conjunction with operations in Russia should consider strategies to mitigate a negative enforcement regime in Russia by using available extra-territorial measures to confine and limit the scope and impact of infringement.