US Patent Takeaways From Russia Sanctions Exemption

By Mark Mathison (July 13, 2022)

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Winding down patents in Russia is no longer mandatory for U.S. companies. On May 5, the U.S. government declared an exemption to its unprecedented barrage of sanctions on Russia.

Without the exemption, the broad and unprecedented sanctions, brought on by Russian President Vladimir Putin's invasion of Ukraine, meant that U.S. owners would have had to abandon their patents in Russia.[1]

For whatever reason, such as recognition that intellectual property protection in Russia helps U.S. owners drastically more than its loss hurts the Russian government, or the fact that IP sloshes easily across borders anyway, the U.S. government permanently exempted IP from its sanctions on Russia.

Most everything else, including oil imports, luxury exports, airline flights, accounting, management consulting, corporate formation[2] and most other forms of legal work, are not exempted. IP stands out.

General License No. 31, or GL31, issued by the Office of Foreign Assets Control of the U.S. Department of the Treasury, explicitly allows payments for the "renewal or maintenance of a patent, trademark, copyright, or other form of intellectual property protection" in Russia that are otherwise prohibited by U.S. sanctions.[3]

The term "other form of intellectual property protection" presumably includes industrial designs, utility models and mask works that are registered through the Russian patent office, commonly referred as Rospatent.[4]

The term may also cover plant varieties and animal breeds that are registered through the State Commission of the Russian Federation for Selection Achievements Test and Protection. Unlike prior general licenses from OFAC, this one has no end date.

Before GL31, many patent practitioners were relying on the sunset period in OFAC's GL13, which postponed sanctions until June 23 on payments of "taxes, fees, or import duties, and purchase [of] permits, licenses, registrations, or certifications" provided that they are "ordinarily incident and necessary to ... day-to-day operations in Russia."[5] GL13 has since been updated to extend to Sept. 29.[6]

Of course, this reliance was premised upon patents being considered part of day-to-day operations.

Within the sunset period, some patent practitioners were advising that maintenance fees be paid in advance as much as possible so as to postpone decisions on winding down. A few optimists hoped that the delay would outlast the war.

After all, U.S. companies with patents in Russia were faced with a Hobson's choice: Pay the maintenance fees and break U.S. law, or don't pay and lose rights.

A maintenance fee is due annually on each issued Russian patent.[7] Each due date is the anniversary of its application's filing date, and the window for paying is any time within the preceding 12 months. One may pay up to six months late with a 50% surcharge. Not paying a maintenance fee would result in expiration of the patent.

A patent that has lapsed due to nonpayment of maintenance fees may be revived in Russia within three years of expiring. However, reviving requires a petition for reinstatement.[8]

The fact that a petition could be denied, especially if a patent owner did not pay in order to obey sanctions from what Russia defines as an unfriendly country, poses a risk.

The risk was viewed as unacceptable to some companies, so the default advice was pay maintenance fees in advance instead of letting patents expire and then reviving them later.

But GL31 acts like a cure-all in that it not only eliminates the sunset deadline but also explicitly allows payments to Rospatent for filing, prosecution and receipt of patents, trademarks, copyrights and other intellectual property.

For good measure, GL31 exempts payments to Rospatent for opposition proceedings, either as the opposer or defender. It also allows payments for infringement proceedings in Russian courts.

Coupled with GL14, GL31 makes it abundantly clear that paying Rospatent for patents is acceptable despite the fact that Rospatent's bank — the Central Bank of the Russian Federation[9] — is a sanctioned entity.[10]

That is, the Russian central bank is a specially designated national on OFAC's sanction lists,[11] but GL14 exempts from sanctions transactions in which the Russian central bank acts as the system operator for clearing and settlement only.[12]

Because the Russian central bank acts only in this settlement and clearance capacity for payments to Rospatent, such payments are exempted from sanctions.

This comes with the caveat that none of a payment amount may go into the central bank's coffers as a beneficiary.[13] For example, if there were, hypothetically, a transaction fee paid to the bank for the convenience of payment, then it is apparently not authorized under GL14.

While obtaining and maintaining patents in Russia is allowable by the U.S. government, one must take care to avoid transacting with other sanctioned entities.

For example, a company must ensure that its local — Russian — law firm, the law firm's bank, translator and any other vendors assisting with the patents are not specially designated nationals. To verify this, OFAC hosts a lookup webpage to its database.[14]

Names of Russian entities should be checked at least upon start of a new engagement. Because more and more entities are constantly being added to the sanctions list, which currently numbers over a thousand, it is wise to check periodically.

In May and early June, reports circulated anecdotally of certain U.S. banks refusing to fulfill any payment whatsoever to Rospatent, or anyone else in Russia.

These bank refusals seem to have abated, likely as their legal compliance departments have digested the exemptions in GL13/13A, GL14 and GL31. Or perhaps U.S. practitioners have switched banks to those with faster compliance teams.

But the banks' legal compliance teams may be rightfully contemplative. Residual sanctions remain in IP, as there are exemptions to the exemptions in GL31.

The back page of GL31 summarily states that its exemptions do not apply to transactions prohibited by Executive Order No. 14066 or No. 14068. Many practitioners say this back page creates more questions than answers.

Executive Order No. 14066 prohibits oil imports from Russia and any new investment in the energy sector there.[15]

Executive Order No. 14068 prohibits new investment in any sector of Russia as determined by the Treasury Department,[16] which has yet to determine additional sectors.[17] Yet GL31 omits any reference to Executive Order No. 14071, issued a month before, which blanketly prohibits all new investment in Russia whatsoever by anyone in the U.S.[18]

Because GL31 directly authorizes IP, specifically excludes Executive Order No. 14066 and No. 14068, and omits Executive Order No. 14071, one interpretation is that GL31 authorizes new patents, trademarks, etc., except for those having to do with the energy sector.

After all, the executive order banning new investment in the energy sector — i.e., Executive Order No. 14066 — is specifically excluded from GL31's authorization of IP. However, the executive order banning all new investment — i.e., Executive Order No. 14071 — is not.

And the Treasury Department's definition of "investment" pertaining to the executive orders is "a commitment of capital or other assets for the purpose of generating returns or appreciation."[19]

This may very well include patents, as a plethora of FAQs issued by the Treasury Department does not say otherwise.[20] Or does it?

Although a patent application is sometimes considered an asset — e.g., under generally accepted accounting principles — filing one with a patent office does not equate to committing it for generating returns or appreciation.

Rather, it is filed so that the patent office may approve it to become a patent. Yet there may be instances where a new patent application might run afoul of sanctions by inadvertently being committed to a joint venture through a contract or earning royalties as part of a bundled portfolio.[21]

Perhaps a saving grace to those who proceed with new energy sector patents in Russia is the rule of lenity in interpreting unclear or inconsistent laws.

U.S. sanctions on Russia will likely continue for years. Even if the war stopped immediately, the public's anger at the invasion and what happened to Ukraine will endure, and there is no foreseeable world in which things go back to the way they were.

GL31 gives clarity and longevity to IP under the sanctions regime for the declining few U.S. companies who remain in the Russian market, or at least maintain IP there for now.

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[1] Mathison, M., "How to Wind Down Patents in Russia over Next 3 Months," Law360, 17 Mar. 2022.

[2] Determination Pursuant to Section 1(a)(ii) of Executive Order 14071, "Prohibitions Related to Certain Accounting, Trust and Corporate Formation, and Management Consulting Services," Office of Foreign Assets Control, 8 May 2022.

[3] General License 31, "Authorizing Certain Transactions Related to Patents, Trademarks, and Copyrights," Russian Harmful Activities Sanctions Regulations 31 CFR part 587, Office of Foreign Assets Control of the U.S Department of the Treasury, 5 May 2022.

[4] "Rospatent" is the official nickname for the Federal Service for Intellectual Property, that is, the Russian patent office.

[5] General License No. 13, "Authorizing Certain Administrative Transactions Prohibited by Directive 4 under Executive Order 14024," Russian Harmful Activities Sanctions Regulations 31 CFR part 587, Office of Foreign Assets Control of the U.S Department of the Treasury, 02 Mar. 2022.

[6] General License No. 13A, "Authorizing Certain Administrative Transactions Prohibited by Directive 4 under Executive Order 14024," Russian Harmful Activities Sanctions Regulations 31 CFR part 587, Office of Foreign Assets Control of the U.S Department of the Treasury, 25 May 2022.

[7] Maintenance fees begin accruing at the third year after filing of a patent application in Russia but do not start being due annually until actual grant of a patent.

[8] Civil Code of the Russian Federation, Part IV, amended 1 July 2017, Chapter 72, § 6, Article 1400, "The reinstatement of the effectiveness of a patent for an invention, an [sic] utility model, or an industrial design. Prior rights," https://new.fips.ru/en/documents/civil-code-of-the-russian-federation-4.php last visited 3 July 2022.

[9] See Rospatent's bank details web page, https://rospatent.gov.ru/en/news/izm-rekvizitov-01012021 last viewed 3 July 2022.

[10] Psaledakis, D. et al. "U.S. slaps sanctions on Russia's central bank, threatens more action," Reuters, 28 Feb. 2022, https://www.reuters.com/business/us-blocks-any-us-transactions-with-russian-central-bank-others-2022-02-28/ last visited 3 July 2022. See also Rappeport, A. "U.S. escalates sanctions with a freeze on Russian central bank assets," The New York Times, 28 Feb. 2022, https://www.nytimes.com/2022/02/28/us/politics/us-sanctions-russia-central-bank.html last visited 3 July 2022 and "Russia-Ukraine: US, UK, EU, Canada sanction Russia's central bank," Al Jazeera, 28 Feb. 2022, https://www.aljazeera.com/news/2022/2/28/russia-ukraine-us-uk-eu-canada-sanction-russias-central-bank last visited 3 July 2022.

[11] Directive 4 under Executive Order 14024 "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.

[12] General License 14, "Authorizing Certain Clearing and Settlement Transactions Prohibited by Directive 4 under Executive Order 14024," Russian Harmful Activities Sanctions Regulations 31 CFR part 587, Office of Foreign Assets Control of the U.S Department of the Treasury, 02 Mar. 2022.

[13] Ibid.

[14] https://sanctionssearch.ofac.treas.gov/.

[15] Executive Order 14066, "Prohibiting Certain Imports and New Investments With Respect to Continued Russian Efforts To Undermine the Sovereignty and Territorial Integrity of Ukraine," The White House, signed by President J. Biden 8 Mar. 2022.

[16] Executive Order 14068, "Prohibiting Certain Imports, Exports, and New Investment With Respect to Continued Russian Federation Aggression," The White House, signed by President J. Biden 11 Mar. 2022 (also prohibiting imports of Russian seafood, alcohol, non-industrial diamonds, and exports of luxury goods to Russia).

[17] OFAC has prohibited importation of gold from Russia, see Determination Pursuant to Section 1(a)(i) of Executive Order 14068, "Prohibitions Related to Imports of Gold of Russian Federation Origin," Office of Foreign Assets Control, 24 June 2022.

[18] Executive Order 14071, "Prohibiting New Investment in and Certain Services to the Russian Federation in Response to the Continued Russian Federation Aggression," The White House, signed by President J. Biden 6 Apr. 2022. This was issued directly in retaliation for Russian army atrocities uncovered in the Bucha Massacre.

[19] U.S. Treasury FAQ 1049, 6 June 2022, https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1049 (defining "new" and "investment").

[20] U.S. Treasury FAQ 1050, 6 June 2022), https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1050 (defining "maintenance" of investments as opposed to new investments), last visited 8 July 2022.

U.S. Treasury FAQ 1051, 6 June 2022, https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1051 (distinguishing new investments from imports/exports);

U.S. Treasury FAQ 1052, 6 June 2022), https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1052 (pertaining to subsidiaries and affiliates);

U.S. Treasury FAQ 1053, 6 June 2022, https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1053 (explaining divestment);

U.S. Treasury FAQ 1054, 6 June 6, 2022, https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1054 (prohibiting purchase of debt);

U.S. Treasury FAQ 1055, 6 June 2022, https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1055 (regarding entities outside of Russia). All were last checked 8 July 2022. See also U.S. Treasury FAQs 1058-1068.

[21] See, e.g., Id. FAQ1049 second & third bullet examples.