

INTERNATIONAL IP SEMINAR

IP in Fashion

Italy, Russia and International Overview

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FROM THE DESIGN  
SERVICES AGREEMENTS  
TO THE TRADEMARK  
AND DESIGN LICENSE  
AGREEMENTS:  
THE RUSSIAN LEGAL  
IP PERSPECTIVES

**GORODISSKY**

GORODISSKY & PARTNERS  
PATENT AND TRADEMARK  
ATTORNEYS IP LAWYERS

# AGENDA

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FASHION

- **Introduction to Russian Fashion Business**
- **Design Services and Consultancy Agreements**
- **Trademark and Design License Agreements**
- **Supply and Distribution Agreements**
- **Final Comments and Recommendations**

# INTRODUCTION TO RUSSIAN FASHION BUSINESS



# FASHION MARKET AND CURRENT STATISTICS: **RUSSIA**

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- Russia is **the largest retail and fashion market** in Eastern Europe
- The size of the Russian fashion market is **growing constantly** each year (*approx.* by 3-4%)
- The turnover of **apparel, shoes and accessories** equal **2 448 bl. rubles**
  - apparel segment equals 1 503 bl. rubles and remains the largest segment (61,4%),
  - shoes - 27% (661 bl. rubles), and
  - accessories - 11,6% (284 bl. rubles).
- **What's next:** the inevitable rise in prices of all goods (both imported and domestic)...

*Source:* <https://fashionunited.ru/fashion-industry-statistics-russia>

# POPULAR BRANDS – ALREADY HERE IN RUSSIA!

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- Armani
- Bottega Veneta
- Bvlgari
- Canali
- Dolce & Gabbana
- Etro
- Fendi
- Givenchy
- Gucci
- Iceberg
- Kiton
- Moschino
- Pal Zileri
- Prada
- Roberto Cavalli
- Salvatore Ferragamo
- Trusardi
- Versace

**PRADA**



  
GIORGIO ARMANI

GUCCI



**D&G**  
DOLCE & GABBANA



**FENDI**

# FASHION RELATED BUSINESS MODEL: EXAMPLE

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## **Fashion House (*Maison*):**

- (1) develops (or orders the development of) the design/collection of goods' models,
- (2) manufacture and produces (or orders the manufacture and production of) the goods,
- (3) supplies the goods to distributors/boutiques/re-sellers/retailers/shops (as applicable),
- (4) licenses/franchises its IP assets to boutiques/re-sellers/shops (as applicable), and
- (5) controls the quality, marketing and sales of goods to customers

# FASHION INDUSTRY CONTRACTS: TYPES AND MODELS

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- Employment agreements
- Manufacturing and production agreements
- **Services and consulting agreements**
- Show room and store lease agreements
- **License agreements**
- Franchise agreements
- **Supply and distribution agreements**
- Marketing and media agreements
- E-commerce related agreements
- Other agreements...



**DESIGN SERVICES  
AND CONSULTANCY  
AGREEMENTS**





# SERVICE: LEGAL CONCEPT

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**Service Agreement:** under a service agreement (fee-based) – a contractor is obliged under the assignment (task) of the customer to provide services (perform certain actions or commit certain activity), and the customer is obliged to pay for these services\*

## Types of services (examples):

- communications,
- **designing,**
- medical,
- **consulting,**
- educational,
- touristic



\* **Source:** Article 779 (1) of the Russian Civil Code (Part Two)

# DESIGN SERVICES AND CONSULTANCY: ESSENTIAL ELEMENTS

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- subject matter assignment (task)
- scope of ordered services/consultations
- compensation and payment terms
- quality of services/consultations and warranties
- sub-contracting and assignment provisions
- **IP ownership and confidentiality**
- term and termination
- choice of applicable law and jurisdiction



# DESIGN SERVICES AND CONSULTANCY: IP ISSUES

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## Ordered (commissioned) design/work:

- exclusive rights to the created design/work belong to the customer, unless there is an agreement to the contrary (the designer reserves *the right to use* to the created design/work under the non-exclusive and royalty-free license for its own purposes and for the term of IP protection, unless otherwise is provided by the agreement)
- if the agreement provides that the exclusive rights belong to the designer, the customer reserves *the right to use* the created design/work under the non-exclusive and royalty-free license for the purposes of the contract and for the term of IP protection, unless there is an agreement to the contrary

## Non-ordered (non-commissioned) design/work:

- exclusive rights to the created design/work belong to the designer, unless there is an agreement to the contrary (the customer reserves *the right to use* to the created design/work under the non-exclusive and royalty-free license for the purposes of the contract and for the term of IP protection, unless otherwise is provided by the agreement)
- if the agreement provides that the exclusive rights belong to the customer or a third party, the designer reserves *the right to use* the created design/work under the non-exclusive and royalty-free license for its own purposes and for the term of IP protection, unless there is an agreement to the contrary

# IP RIGHTS: COPYRIGHTS V. PATENTS

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## Copyrights (exclusive) rights:

- reproduction
- sale and assignment
- public display
- importation
- rental
- broadcasting
- modification
- communication to public

## Patent (*exclusive*) rights:

- importation
- manufacturing
- application
- offering for sale
- sale
- storage
- other way of marketing



# TRADEMARK AND DESIGN LICENSE AGREEMENTS



# LICENSE: LEGAL CONCEPT

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**License Agreement:** under a license agreement one party – holder of exclusive rights vested in result of intellectual activity or means of individualization (licensor) – grants or is obliged to grant to other party (licensee) the right of use of such result or means, subject to terms and conditions set forth by agreement\*

## Types of licenses:

- patent and know-how
- software and database
- **trademark and design**
- copyright and related rights



*\*Source: Article 1235 (1) of the Russian Civil Code (Part Four)*

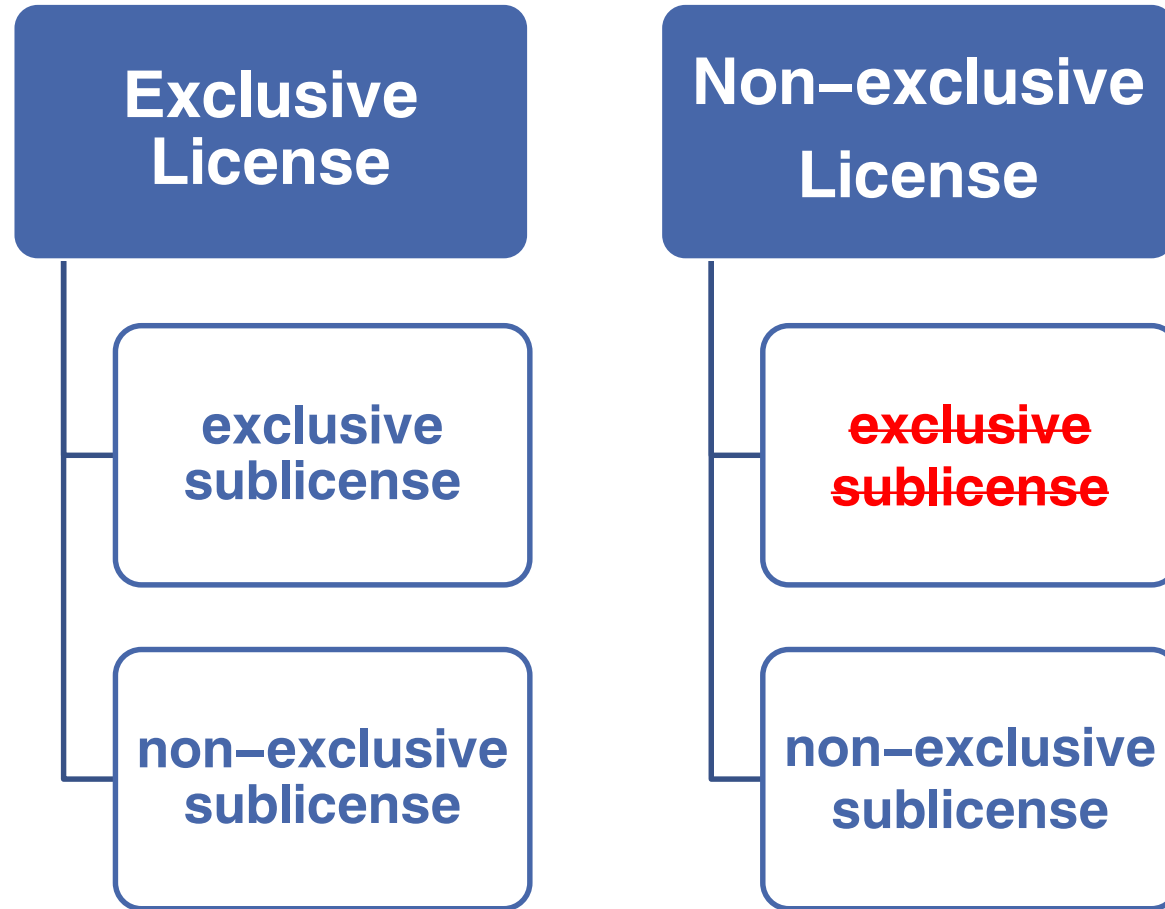
# TRADEMARK AND DESIGN LICENSES: ESSENTIAL ELEMENTS

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- **parties**  
*(licensor/licensee)*
- **subject matter of agreement**  
*(IP registration number/description)*
- **licensed goods/services**  
*(for trademark licenses)*
- **type of license**  
*(exclusive/non-exclusive)*
- **scope of licensable rights**  
*(permitted IP use)*
- **consideration**  
*(lump-sum payment/royalties/both)*
- **territory**  
*(by default – the whole territory of Russia)*
- **term**  
*(by default – 5-year term)*
- **quality control**  
*(for trademark licenses)*
- **sublicensing**  
*(by default – not permitted)*

# TRADEMARK AND DESIGN LICENSES: EXCLUSIVITY ISSUES

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# TRADEMARK AND DESIGN LICENSES: **DISTINCTIVE FEATURES**

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- **quality control provision** – licensee must secure compliance with licensor’s instructions
- **sub-licensing** – is permitted under a license agreement or licensor’s written consent
- ***exclusive licensee*** – may enforce its rights if they are affected by third party infringers
- **termination (unilateral) for convenience** – is possible if prescribed by license agreement
- **choice of law** – the ‘law of licensee’ may apply under the principles of international law
- **arbitration** – is available if there is an arbitration clause in the agreement

# TRADEMARK AND DESIGN LICENSES: TAX CONSIDERATIONS

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## Corporate income tax (CIT) – 20% rate:

- **tax benefits** may be achieved under the relevant *effective* double tax treaty with Italy (i.e. **0% rate may be applied!**)
- the concept of ‘**factual receiver of income**’ has to be taken into account...

## Value added tax (VAT) – 18% rate:

- **applies to** IP licenses involving:
  - **trademarks**, and
  - **copyrights**
- **exemption for** IP licenses involving:
  - **patents and designs**,
  - know how and trade secrets,
  - software, databases, and mask works

# TRADEMARK AND DESIGN LICENSES: ANTI-TRUST ISSUES

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## IP licenses are exempt from anti-trust law restrictions\*

- abuse of dominance
- cartels (*'horizontal' agreements*) involving:
  - setting or maintenance of prices (tariffs), discounts, surcharges (premiums) or mark-ups;
  - increase, decrease or maintenance of prices at auctions or tenders;
  - division of the market by territory, volume of sales or purchases, range of goods being sold;
  - division of the market by type of sellers or buyers (customers);
  - reduction or cessation of production of goods;
  - refusal to enter into contracts with certain sellers or buyers (customers)
- anti-competitive agreements \*Source: 'Third Antimonopoly Package' (Federal Law No. 401-FZ dated December 6, 2011)

# TRADEMARK AND DESIGN LICENSES: **PERFECTION STEPS**

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## Execution of agreement:

- **material terms and conditions**  
*(as required by law)*
- **signatures & titles of signees**  
*(duly authorized officers)*
- **corporate seals/stamps**  
*(if any!)*

## Recordal of license:

- **power of attorney**  
*(notarization/legalization is not required)*
- **underlying document**  
*(agreement, or extract, or **notification**)*
- **Russian duly certified translation**  
*(bilingual format is acceptable!)*

# TRADEMARK AND DESIGN LICENSES: RECORDAL PROCESS

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## Registrar:

- ROSPATENT

## Term:

- 45 working days  
*(in the absence of office action)*

## Office action:

- 3 months for responding



# TRADEMARK AND DESIGN LICENSES: NON-RECORDAL

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## Negative Consequences and Principal Implications:

- unenforceability against third parties
- inability of *exclusive* licensee to enforce its rights against third party infringers
- inability of licensee to implement sublicensing business
- inability of licensor to collect royalties from licensee
- inability of licensee to deduct royalties from the tax base

# TRADEMARK AND DESIGN LICENSES: FINAL CONCERNS

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License agreements must be entered into by and between:

- *IP owners and third party companies,*
- *IP owners and intra-group companies,*
- *IP owners and affiliated companies, -*

**if such companies are mainly involved in the manufacturing or packaging activities!**

**Important Note:** if the above companies are mainly importing and re-selling the goods under supply or distributorship agreements, there is NO need to make and register separate IP licenses from the IP/legal perspective due to the effective doctrine of ‘exhaustion of IP rights’...

# SUPPLY AND DISTRIBUTION AGREEMENTS





# SUPPLY AND DISTRIBUTION: LEGAL CONCEPTS

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**Supply Agreement:** under a supply agreement a supplier-vendor, that is involved in performing of certain business activity, is obliged to transfer with the determined term (or periods) the goods to the customer, which have been manufactured or purchased by the supplier, for the exploitation of the same in the business or for other purposes, - not related to personal, family, house and other similar use\*

**Distribution Agreement:** NO legal definition!

**In Practice:** distribution agreement is interpreted as a 'mixture' of contracts (e.g. sale and purchase, supply and service agreement)



*\*Source: Article 506 of the Russian Civil Code (Part Two)*

# SUPPLY AND DISTRIBUTION: ESSENTIAL ELEMENTS

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- description and specification of goods
- appointment of distributor, exclusivity and territory
- periods for supply and delivery
- compensation and payment terms
- quality of goods and warranties
- supply and acceptance terms (the rule of ‘collections, quantity and quality’)
- sub-contracting and assignment provisions
- **trademark and design license (as applicable)**
- term and termination of agreement
- choice of applicable law and jurisdiction

# DISTRIBUTION V. LICENSING: LEGAL MODELS

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- **Scenario 1\***: ‘distribution and license’ (i.e. two separate agreements)
- **Scenario 2\***: ‘license in distribution’ (i.e. one underlying agreement)
- **Scenario 3\*\***: ‘simple distribution’ (i.e. without any license)



*\*scenarios 1 and 2 require registration of license grant!*

*\*\*scenario 3 does not require registration of distributor!*

# FINAL COMMENTS AND RECOMMENDATIONS

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## Best Practices:

- Understand the fashion-related business model and industry
- Review the applied laws and practices, including case law
- Conduct due diligence and audit, including towards IP assets
- Prepare a letter of intent and term sheet
- Draft the appropriate underlying contract(s)
- Negotiate and secure the execution of the contract(s)
- Do not forget to make the required registrations!

**THANK YOU  
FOR YOUR  
ATTENTION!**

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