

# Transfer of Technology, Know-How and Trademark in Ukraine

## *Practical Guidelines*



by Pavlo I. BYELOUSOV



by Anzhela M. MAKHINOVA

**“We live in a society exquisitely dependent on science and technology, in which hardly anyone knows anything about science and technology.” - Dr. Carl Sagan**

**D**ue to globalization there is tough competition among producers and services providers in the global market economy. Under such conditions only companies able to offer better and outstanding products at a lower price will be really competitive and profitable. Thus, in order to survive, grow, compete and achieve their place in the market, it is essential and vital for companies to obtain rights to new IP objects and use new technologies by developing and creating their own technology or obtaining the latter from other companies.

Only huge transnational corporation can afford to carry out such high cost fundamental research and new technologies development and, in so doing, benefit from the advantages of their superior and outstanding products. Contrary to transnational corporations, SMEs<sup>1</sup> employ another approach to use of new technology as they can hardly afford to invest in expensive technological innovations and technology creation.

As the result of the above need to use a licensing instrument, such SMEs are quite often bound to accept sometimes strong and complex restrictions set out by licensors in order to protect their IP

rights and technologies. Therefore, the current challenge is to work out an effective, pragmatic and realistic mechanism for the licensing and transfer of technology, know-how, trade secrets and other IP objects providing, on the one hand, proper IP rights protection for licensors, and, on the other, more access for licensees depending on the use of such technologies, trademarks, etc.

Herein we would focus on the peculiarities of licensing in Ukraine, including licensing of trademarks and transfer of technology and know-how being the most frequently granted IP objects, as well as provide some practical hints to be borne in mind in the course of transfer of IP objects in Ukraine.

### **Licensing agreements**

Under Ukrainian legislation a licensing agreement is defined as an agreement according to which a person (licensor) provides another person (licensee) with a permit to use an IP object (license) under conditions agreed upon by the parties.

At present the majority of licensing agreements are not concluded separately. Instead, they are used either in conjunction with other agreements e.g. franchising agreements, distribution agreements, hotel management/operation agreements *or* as a part (i.e. as a so-

---

*Pavlo I. Byelousov is an associate with Vasil Kisil & Partners  
Anzhela M. Makhinova is an associate with Vasil Kisil & Partners*

---

<sup>1</sup> Small and Medium-sized Enterprises.

called “licensing-clause”) thereof. This trend has occurred because nowadays as a rule licensors provide licensees not just with rights to use a particular IP object, but a complex business scheme comprising a set of different IP objects to be used jointly for successful business establishment and later-on development<sup>2</sup>.

Licensing agreements are regulated mainly by the *Civil Code of Ukraine (Civil Code)*. At the same time, there are a lot of laws and by-laws setting forth some additional issues related to licensing agreements depending on IP objects e.g. the *On Protection of Rights to Trademarks for Goods and Services Act of Ukraine (Trademarks Act)*; the *On State Regulation of the Technology Transfer Act of Ukraine (Technology Transfer Act)*; the *On Protection of Rights to Industrial Designs Act of Ukraine*; the *On Protection of Rights to Inventions and Utility Models Act of Ukraine*, etc.

Ukrainian law envisages the following essential conditions of licensing agreements: type of license; spheres of use of IP object (e.g. particular rights to be transferred, ways, territory and term of use thereof, etc.), payment conditions (i.e. amount of payments, order and terms) as well as other conditions considered by the parties as expedient. Furthermore, the *Civil Code* provides that “rights to use IP objects, which are not valid as of the date of entering into the licensing agreement, shall not be subject-matter of the latter”. Therefore, if according to Ukrainian legislation IP rights to certain objects are conditional on registration thereof and the said objects are not duly registered in Ukraine under national or international procedure, they shall not be transferred under licensing agreements.

In order to be fully effective and operational in Ukraine, licensing agreements shall be entered into in writing and signed by the parties. It is worth emphasizing that Ukrainian legislation does not envisage mandatory state registration of a licensing agreement. At the same time, the parties are free to apply to the State Department of Intellectual Property of the Ministry of Educa-



tion and Science of Ukraine (the Department) for such registration.

### Licensing of trademark

According to the *Civil Code* trademarks “...shall be certified by a certificate”. Thus, in Ukraine only certified trademarks can be licensed. Otherwise, from the legal standpoint, unregistered trademarks shall not be transferred under the licensing agreements. Moreover, if the trademark is not duly registered there is also commercial risk that potential licensees, franchisees, distributors and hotel developers, intending to obtain rights to a famous trademark and goodwill/image associated therewith may be granted only with the designation, which is not the IP rights object and therefore, is not subject to legal protection. Consequently, prior to entering into a licensing agreement, or franchising, distribution or hotel management/operation agreement, it is crucial to verify trademark status in Ukraine.

The *Trademarks Act* envisages a wide range of activities to be regarded as trademark use:

- trademark placement on a product, product package, signboard, labeling, tags as well as other objects placed on the product;

- storage of products with the trademark placed thereon for the purposes of offering the latter for sale;
- sale, import and export of products with the trademark placed thereon;
- use of trademark, while offering and rendering any services;
- application of trademark in commercial documents or advertising and on the Internet.

The licensing agreement shall directly and precisely stipulate every way of trademark use. Otherwise, under Ukrainian legislation “...rights to and ways of trademark use that are not listed in the licensing agreement, shall not be regarded as granted to the licensee”.

It may be also a crucial issue, especially for trademark protection<sup>3</sup>. For instance, today “grey/parallel” import is a huge problem on the Ukrainian market as franchisees, distributors/ official importers of products incur significant losses due to the latter. Ukrainian legislation provides for a lot of different efficient remedies against “grey/parallel” import from the perspective of trademark protection e.g. border measures, remedies under the *Civil Code*, unfair competition protection remedies.

<sup>3</sup> According to the *Trademarks Law* only an owner of a trademark or a licensee with the consent of the owner is entitled to claim for restoration of the infringed rights to the trademark.

<sup>2</sup> Please note that all requirements and issues set out in the present article in respect of licensing agreements concern “licensing-clause” as well. Therefore, for the sake of convenience, we will use only the term “licensing agreement”, bearing in mind “licensing-clause” as well.

However, since licensors, franchisors, suppliers are usually foreign companies, they can face certain difficulties to establish effective and timely communication with Ukrainian state agencies to protect their rights to trademarks. Therefore, in order to facilitate such protection, it is advisable to appoint in Ukraine an authorized representative of the trademark owner. For instance, local licensees, franchisees, distributors may also effectively fulfil such functions subject to the respective rights granted under the licensing agreement.

## Transfer of technology and know-how

The transfer of technology is formalized by entering into a technology transfer agreement providing certain property rights and duties in respect of a technology and/or components thereof as well as granting the support to operate such technology by means of wide-range of know-how/trade secrets, schemes and instructions.

The above said formalization of technology transfer can be conducted through entering into the following contracts:

- industrial technology supply contract;
- technical/industrial cooperation contract;
- technical services contract;
- engineering contract;
- joint venture contracts;
- technology components or equipment lease or leasing contracts;
- commercial concession (franchising) contracts, etc.

### Main terms and conditions

The *Technology Transfer Act* provides for substantial terms and conditions to be followed while drafting and concluding a technology transfer agreement. In particular, the latter is required to provide the extensive list of technology components to be transferred and the period of such transfer as well as the price or fees for the use of such technologies.

As the transfer of technologies is almost always accompanied by sale-purchase of the special equipments/materials and supporting thereof, the special terms and conditions shall be provided in respect of transfer of technical knowledge (know-how) required for

installation, operation and maintenance of equipment, as well as purchase, lease and use of such machinery, equipment, components and materials.

Furthermore, special attention should be drawn to the license conditions for use of any technology and its components:

- (i) territory restrictions;
- (ii) exclusivity;
- (iii) restrictions on use of technologies;
- (iv) sub-licensing of technology components to third parties; etc.

“There is also commercial risk that potential licensee... may be granted only with the designation, what is not an object of IP rights...”

Taking into account the above, while granting certain rights to technology it is noteworthy to provide in an exact and exhaustive manner what a licensee is entitled to do under a transfer technology agreement (a licensee can be given the right to manufacture, use and/or sell IP objects transferred under such an agreement).

Moreover, while considering the territory and exclusivity issues, a transferor/licensor shall decide whether to limit the territory and usage rights of licensee or to provide a set of rights enabling such licensee to secure the particular market for and on behalf of a transferor. If this is the case, the licensee granted with an exclusive license shall have enough skills, experience and remedies to market the technology in the licensed territory in the

manner required by a transferor providing the special targets for incomes and returns. It is usual practice for a technology transfer agreement to entitle transferor to cancel the exclusivity if a licensee fails to meet the said targets.

### Know-how

The transfer of technology is going hand in hand with the transfer of rights to know-how, instructions, specifications, drawings and other information on a technology, including the confidentiality information, as otherwise the licensee will not be able to use the transferred technology.

Under Ukrainian legislation “know-how” is information obtained through experience and tests, which:

(a) is not in the public domain or easily accessible as on the date of conclusion of a technology transfer agreement, and

(b) is essential (*i.e.*, important and useful for manufacture of products and/or the provision of services) and

(c) is defined (*i.e.*, described with the sufficient details making it possible to check if such technology meets the non-public-domain and essentiality criteria).

At the same time, the more general definition of “commercial (trade) secret” is commonly used in Ukraine, because the term “know-how” is not defined and employed under the *Civil* and *Commercial Codes of Ukraine*.

### Transfer agreement restrictions

Furthermore, the *Technology Transfer Act* specifies the particular restrictions in respect of concluding a technology transfer agreement:

- payments under technology transfer agreement shall not considerably exceed the price of the technology and its components;
- the transferor shall have no right to provide the sales or the re-export price of products manufactured with the application of the technology transferred or to prohibit or limit the export of such products;
- it is prohibited to introduce inconsistent restrictions on the volume of product manufacture;
- illegal restrictions on the use of property rights to technologies and their components are prohibited;

– the transferor is not entitled to prohibit the use of similar or better technologies and components thereof.

## Practical guidelines

### *What is really transferred?*

Normally, franchisees, distributors, hotel developers are granted not only the right to use a top-ranked trademark, but also other different IP objects e.g. technologies, know-how. However, as a rule, the said agreements may not stipulate directly the exhaustive list of all IP objects to be granted. Moreover, usually, such “complex” agreements lack sufficient regulation of peculiarities of transfer and subsequent use of the said IP objects.

Therefore, in order to ensure proper IP rights protection and uniform understanding and application of provisions of different types of contracts (*i.e.*, licensing agreement, technology transfer agreement, franchising/distribution/hotel management contracts) it is essential for licensees, transferees, franchisees, distributors, hotel developers to clarify and set out directly in the agreement, (1) exactly which IP objects and rights thereto are going to be transferred, and (2) on what conditions (e.g. exclusivity, territory or fees to be paid, etc).

### *Foreign currency settlement*

Pursuant to the *Foreign Currency Settlement Act*, in the event of the export of intellectual property rights the proceeds of residents in a foreign currency shall be credited within 180 calendar days of the date of signing of a protocol or other document confirming performance of such export of intellectual property rights (180-day rule). The 180-day rule analogously applies also to import of IP rights carried out under the postponement delivery terms.

The violation of the 180-day rule is subject to a fine at the rate of 0.3 % of the non-received proceeds (undelivered goods` price) amount for each day of the delay in crediting the said proceeds. However, the total amount of the charged fine may not exceed the total amount of the non-received proceeds/undelivered goods` price, related to export/import of IP rights.

### *Formalities & tax issues*

In order to meet the requirements

of Ukrainian tax, customs and foreign currency regulations as well as to ensure interests in the event of any dispute arising within court/arbitration proceedings, it is worth formalizing the fact of such transfer of technology, know-how trademarks, or any other IP objects.

In particular, it would be recommended to introduce a clause on act (statement) for transfer-acceptance of the technical documentation, information, know-how, works carried out which can be used: (a) as evidence of due transfer of the technical documentation, information, know-how, etc. by the transferor; and (b) to prove the export of the works, services and IP rights under the transfer agreement for the tax authorities in accordance with requirements of the *Foreign Currency Settlement Act* as set out above.

Furthermore, the taxation issues should be closely considered as tax liabilities in respect of transfer of trademark, know-how and other IP object depend on a particular qualification of the fees paid under respective licensing agreement. Thus, for instance, royalties under non-exclusive licensing agreements are not subject to VAT under current legislation.

### *Licensing agreement registration: pros and cons*

As stated above, Ukrainian legislation does not envisage mandatory state registration of licensing agreements. However, while deciding whether state registration is necessary, the parties shall consider that from the practical standpoint such state registration may be beneficial for both of them due to the following:

(1) State registration of licensing agreements ensures proper notification of third parties on conclusion of the licensing agreements and on transfer of rights to use certain IP objects to particular persons that is essential to ensure a sufficient level of protection for IP rights against violations by third parties;

(2) State registration consists of additional confirmation that IP rights have been transferred without infringement of the rights of third parties, which may be especially important in the event of the sale of the business;

(3) State registration may further also be used to maintain registration of an IP object (in order to substantiate that a certain IP object is actually used);

(4) After state registration of the licensing agreement, the Department retains a copy of the latter (or extract from it) as a check copy that can be used in the event of any dispute arising between the parties.

In addition, it is worth emphasizing that from the procedural standpoint, state registration is a very flexible vehicle:

– Licensing agreements can be registered at any moment (it is not necessary to register the licensing agreement exactly on the date of its conclusion);

– For registration purposes it is possible to submit not the whole licensing agreement, but only extracts thereof related to terms and conditions of license transfer. The latter helps to avoid or eliminate risks related to disclosure of confidential information contained in such an agreement;

– Ukrainian legislation does not stipulate compulsory registration of termination or introduction of amendments into the licensing agreements initially registered.

Whilst deciding on state registration, the parties shall take into consideration their business scheme and contractual structure of its implementation. Moreover, the parties shall consider ownership issues in respect of IP objects. Usually, in transnational corporations all IP objects are registered in the name of one company. At the same time, another company (not one responsible for IP objects) enters into licensing, technology transfer, franchising, distribution and hotel management/operation agreements.

Therefore, on the one hand, it is important for potential licensees, franchisees, distributors and hotel developers to verify whether the company entering into a particular agreement is entitled to transfer rights to IP objects. On the other hand, according to Ukrainian legislation the licensing agreement, being in fact a sublicensing agreement, shall be registered only subject to prior registration of a principal licensing agreement. However, usually licensors, transferors, franchisors, suppliers and hotel operators are not eager to disclose their “principal” agreements, which may be another “stumbling stone” on the path of registering a licensing agreement. ■