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Assignment of rights under licensing agreements in Kazakhstan

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Kazakhstan has its own state system for the protection of trademarks for more than 20 years. This system is based on the main international conventions, bilateral interstate agreements and the national legislation of the Republic of Kazakhstan.

Pursuant to Article 1.9 of the Law of the Republic of Kazakhstan No. 456-I dated July 26, 1999 On Trademarks, Service Marks and Appellations of Origin of Goods (hereinafter –the Law), the use of a trademark is the use of a trademark on goods and in the provision of services in respect of which it is protected, and (or) their packaging, production, use, import, storage, offer for sale, sale of goods with the designation of a trademark, use in signboards, advertising, printed materials or other business documents, as well as its other introduction into business. This definition is given in order to determine what in particular a trademark owner has the right to prohibit, and what action performed by the third party without a trademark owner's consent can be considered a violation of his rights.

Everything listed in this article, and this is almost everything that is done with trademarks by the third party without a trademark owner's consent may be a violation. "Maybe" refers to a trademark owner's right not to prohibit its use, however further we refer to other issues.

Article 19.4 of the Law states: "*Evidence of the use of a trademark is considered to be its use on the goods for which it is registered, and (or) their packaging by a trademark owner or a person who has been granted such a right on the basis of an assignment agreement on the transfer of rights to a trademark in accordance with Article 21.2 of this Law. The use of a trademark includes production, import, storage, offer for sale, sale of goods with the designation of a trademark, its use in advertising, signboards, printed materials, on official letterheads, other business documents, transfer of the right to a trademark or when displaying goods on exhibitions held in the Republic of Kazakhstan, as well as their other introduction into business".*

Article 1028 of the Civil Code of the Republic of Kazakhstan (hereinafter - the Civil Code of the Republic of Kazakhstan) also supports Article 19 of the Law and provides that "the conclusion of a license agreement for the use of a trademark is considered its use". This clearly and unconditionally indicates that a trademark owner having in fact a monopoly on the registered designation and the right to prohibit those listed in Article 1 of the Law of the action of the third parties, at the risk of cancellation of the registration of a trademark is obliged to use it on the product or its packaging or to enter into licensing agreements. Only these actions are direct evidence of the use of the trademark and other uses specified in Article 19 of the Law can only be recognized as evidence of use when considering a disputable situation.

In order to consider assignment of rights, first of all we should refer to Article 1, taking into account the encumbrances that are transferred to the receiving party on the grounds of Article 19 of the Law and Article 1028 of the Civil Code of

the Republic of Kazakhstan.

As can be seen from the above quote from Article 1028 of the Civil Code of the Republic of Kazakhstan, the right to use trademarks can be assigned either not to all rights, or not to all types of use, or in relation to not all classes in which a trademark is registered, or not for all goods listed in a specific class.

This right may be limited in time (for example, only from 2019 to 2022), there may be restrictions related to the territory.

The assignment of rights (if this is not a sale of a trademark) is carried out on the basis of a license agreement or under an agreement on the provision of a complex license (franchise). At the same time, as shown above, the very fact of concluding a license agreement or franchising agreement even without use of a trademark for subsequent three years is already evidence of its use. However, if, after three years from the date of registration of the license agreement or franchising agreement, a trademark is still not used by either its owner or the licensee (franchisee), then its registration may be cancelled.

The conclusion of another license agreement can be recommended in this case and a new three-year period of permissible non-use will begin.

The date of registration of a trademark is important as all registered property transactions must be registered, including a licensing agreement or franchising agreement.

The need for registration in this case also provides certain requirements to the license agreement and franchising agreement, even if these agreements are governed by foreign law. However, the requirement to register the agreements is now under the dispute, since Kazakhstan joined the Singapore Treaty on the Law of Trademarks, according to which the fact of conclusion of agreements is registered and not the agreements themselves. However currently it is

agreements that are being registered. Such registration requires:

- translation of the license agreement or franchise agreement into Kazakh and Russian languages;
- inclusion of the obligation of the licensee to produce goods of a quality no worse than the goods of the licensor;
- inclusion of the licensor's right to control this quality;
- submission of materials for registration no later than six months from the date of signing an agreement.

Pursuant to the Singapore Treaty, if one of the parties is in a country that is a party to the Treaty, then the treaty can only be submitted in one language (Russian or Kazakh), and we hope that this provision will soon be applicable in Kazakhstan. At the same time, if an agreement is concluded between two Kazakhstanis and despite the fact that both of these parties are formally located on the territory of a country that is a member of the Singapore Treaty, the Law No. 151-I of the Republic of Kazakhstan dated July 11, 1997 On Languages in the Republic of Kazakhstan is applied and the agreement should be prepared in both Kazakh and Russian languages. This conflict between the prevailing international treaty and the requirements of national legislation and language policy must be resolved.

In relation to international trademarks, that is, trademarks registered under the Madrid Agreement Concerning the International Registration of Marks or the Protocol thereto, the fact of a license agreement may be registered with the WIPO International Bureau in Geneva and the licensor submits a request in one of the recognized languages of WIPO.

However, in such cases, we recommend (and it is allowed) to register agreements in Kazakhstan with the Intellectual Property Department of the Ministry of Justice of the Republic of Kazakhstan. In practice, it is easier to

work this way in courts, law enforcement and tax authorities.

A license agreement or franchise agreement is valid from the date of its registration, and, for example, royalties for previous periods (most often from the date of the conclusion of the license agreement until the date of its registration) should not be made.

Unlike a license agreement, a significant issue when concluding a franchise agreement is the need to prepare and register it in accordance with the rules for preparing and registering a license agreement. The latter, as required by the legislation of Kazakhstan, should relate to one object, for example, only to a trademark or patent for an invention, while under a franchise agreement, a set of rights related to any objects can be transferred. This contradiction technically prevents the conclusion of a franchise agreement, but, unfortunately, changes in legislation that could help in overcoming it are not foreseen. In such conditions, we recommend concluding a franchise agreement containing only one registered intellectual property object, and transferring other objects on the basis of separate license agreements each of which refers to one of such objects.

Other types of assignment of rights to use a trademark, for example, within the framework of distribution or dealer agreements are illegal - such agreements are not registered, and therefore, the assignment of rights under them is not valid. In essence, by entering into such an agreement, the trademark owner deprives himself of the opportunity, in the event of a conflict to dispute the use of the trademark by the distributor or dealer, does not receive proper control over this use or the right to receive royalties for the use of a trademark.

The following should be also taken into account. A license agreement is assumed to be paid for, however it may be free of charge if such agreement clearly provides that no royalties are charged for the use of a trademark. Tax issues are also refer to this provision, in particular: free of charge license agreement implies that the licensee (franchisee) receives property rights without

any counter-obligations to the licensor (franchisor).

Pursuant to the Tax Code of the Republic of Kazakhstan, the total annual income includes all types of taxpayer's income, including property received free of charge, works performed and services provided. At the same time, the cost of property received free of charge is determined according to accounting data in accordance with international financial reporting standards and the requirements of the legislation of Kazakhstan on accounting and financial reporting.

The Tax Code does not provide for the procedure for assessing the value of property rights received free of charge. However, we believe that when evaluating property rights, the principle of determining income when receiving property free of charge, which consists in evaluating it based on market prices can be applied.

Consequently, when the right to use a trademark is obtained free of charge, non-sale income includes income in the form of the free right to use property, determined on the basis of market prices for the use of similar rights.

The foregoing is applicable to both foreign and Kazakhstani companies, however our more than 20 years of experience shows, it is foreign companies that come to the Kazakhstani market and:

- sometimes do not have valid trademark registrations or these registrations are insufficient in terms of the number of trademarks, their writing in Cyrillic, indicating classes or goods. Registration in other countries in most cases does not matter for operations in Kazakhstan;
- conclude a license agreement or franchise agreement and do not register them or enter into distribution or dealer agreements, believing that they are sufficient, however this is not the case;
- start paying royalties without establishing proper cooperation with their Kazakh partners and by this violating the tax legislation of Kazakhstan;

- try to use unavailable or insufficient rights to trademarks, which jeopardize both their own business and the business of those associated with them.

We recommend to companies operating in Kazakhstan or those who are just going to start working here:

- conduct appropriate searches for the presence of registered own trademarks or, especially if they are not registered, for the presence of registrations of these (or confusingly similar) trademarks in the name of the third parties, in particular, their dealers or distributors, other counterparties or partners in business;
- finish registration of the necessary intellectual property rights, in particular, trademarks;
- fix all drawbacks of existing registrations;
- prepare, conclude and register licensing agreements or franchising agreements;
- calculate and pay royalties,
- include royalties in the customs value of goods;
- monitor the market and protect appropriate rights.