

Locke Lord QuickStudy: OFAC Authorization of Certain Transactions Related to Patents, Trademarks, and Copyrights

Locke Lord LLP

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On May 5, 2022, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") issued **General License No. 31** ("GL 31"), which makes clear that U.S. Persons may continue to act in the Russian Federation to protect their intellectual property. These actions might otherwise be prohibited by the Russian Harmful Foreign Activities Sanctions Regulations, 31 CFR part 587.

Specifically, GL 31 allows U.S. Persons to do the following acts in the Russian Federation: (i) file and prosecute any application to obtain a patent, trademark, copyright, or other form of intellectual property protection, (ii) receive patent, trademark, copyright, or other form of intellectual property protection; (iii) renew or maintain patent, trademark, copyright, or other form of intellectual property protection, and (iv) file or prosecute any opposition or infringement proceeding with respect to a patent, trademark, copyright, or other form of intellectual property protection, or the entrance of a defense to any such proceeding. The foregoing, however, remains subject to other U.S. sanctions requirements including blocking transactions in certain targeted areas. Such areas include investment in the Russian energy sector or doing business with persons who are "specially designated nationals".

While GL 31 makes clear that U.S. Persons can protect their intellectual property within the Russian Federation, there remain practical issues that can frustrate the good intention. For instance, since the SWIFT banking system has suspended correspondence with many major banks in the Russian Federation, delivering payments into Russia can be complicated. OFAC has provided guidance in certain contexts that require U.S. banks to send funds to intermediate banks in "neutral" countries for onward payment to banks within the Russian Federation. While these processes may work for large payments, the cost and effort to send small dollar amounts through intermediaries in "neutral" counties such as India, China or Israel, may exceed the value of the payment.

Furthermore, in March 2022, Russia issued Decree No. 299 that permits Russian actors to use intellectual property rights of patent holders from "unfriendly countries" without consent of or payment to the patent holder. Russia considers as unfriendly, among others, the U.S., the UK, Australia and all 27 members of the European Union. We note that we believe the Russian Decree No. 299 does not permit Russians to avoid payments due under pre-existing contractual arrangements. Subsequently, Russia issued Decree No. 322 in May 2022 that prohibits Russian residents from making direct IP license payments to licensors residing in "unfriendly countries."

For IP license payments to foreign licensors that are permitted, Decree 322 provides specific payment rules to be followed; payments are to be made in Rubles into a “Type O” account in Russia and the assets in those accounts cannot be transferred out of Russia absent specific authorization. Therefore, even if U.S. companies do protect their intellectual property in the Russian Federation, some Russian actors may ignore the protection and seek cover granted by the aforementioned decrees.

Lastly, while GL 31 grants U.S. persons the right to defend their Russian intellectual property rights, gaining personal jurisdiction over an offending party outside of Russia could be difficult. Additionally, in the current political environment, it could be difficult getting access to, and a fair trial from, courts in Russia.

Conclusion

This paper is intended as a guide only and is not a substitute for specific legal or tax advice. Please reach out to the authors for any specific questions. We expect to continue to monitor the topics addressed in this paper and provide future client updates when useful.

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