



PILLAR II
PRACTICAL AND ADMINISTRATIVE CASES

Using Industrial Property Rights for Securing Financing

By Av. Eni Kalo

Partner at Kalo & Associates

I. ABSTRACT

This article examines the right to use industrial property rights which represent a high value asset for companies, as good source for access to financing. The first paragraph provides a brief explanation on IP rights recognized under the Albanian legislation and the mechanisms for securing financing on the bases of such intangible property rights. The second paragraph examines the new provisions on the registration of right of pledge on an industrial property right, which were recently introduced by Law No.17/2017, dated 16.02.2017 “On some amendments and additions to Law No. 9947, dated 07.07.2008 “On industrial property”, as amended”, while the last paragraph presents conclusions and remarks on the applicability of this financing method in practice.

KEYWORDS: Industrial Property, Patent, Industrial design, Trademark, Securing charge, Pledge

ABBREVIATIONS

Amending Law	Law No.17/2017, dated 16.02.2017 “On some amendments and additions to Law No. 9947, dated 07.07.2008 “On industrial property”, as amended”
Civil Code	Law No. 7850, dated 29.07.1994 “On the Civil Code of the Republic of Albania”, as amended
GDPI	General Directorate of Industrial Property, which is the competent authority in the field of industrial property
IP Law	Law No. 9947, dated 07.07.2008 “On industrial property”, as amended
IP rights	Industrial property rights, such as patents, industrial designs, trademarks, as defined by the IP Law
Law on Securing Charges	Law No. 8537, dated 18.10.1999 “On Securing Charges”, as amended
WIPO	World Intellectual Property Organization ¹ , which is one of the specialized agencies of the United Nations, created in 1967 to encourage creative activity, to promote the protection of intellectual property throughout the world. WIPO counts 189 member states, one of which is the Republic of Albania.

¹ <http://www.wipo.int>



II. INTRODUCTION TO IP RIGHTS IN ALBANIA AND THEIR USE TO SECURE FINANCING

IP rights are intangible proprietary rights specifically regulated under the IP Law. Under this law, the main IP rights, which are also the most current and worth focusing on are patents, trademarks and industrial designs. Patents of invention are proprietary rights granted for inventions, in all fields of technology, provided that such inventions are novel, involve an inventive step and are susceptible of industrial application. On the other hand, trademarks are distinctive signs the main function of which is to allow consumers to distinguish a company's goods/services from another's. As to industrial designs, under the IP Law, those are defined as the characteristics of the external form of a product, in general the ornamental or aesthetic aspect of a product, as a whole or of its parts, which give it a particular appearance. In principle, the owner of an IP right protected under the IP Law, has the exclusive right to use it and to prevent any third party from using it without his/her consent.

By the monopoly granted by the IP Law (as described above), IP rights have become an increasingly substantial portion of a company's total assets. In an economic environment where balance sheets of many businesses are thin, as it is the case for Albania, IP right may constitute an essential piece of the collateral pool that is readily available to borrowers and lenders.

In Albania, the possibility to secure financing using IP rights was initially provided under Law on Securing Charges, where a "securing charge" is defined as a property right on a movable property that can either be tangible or intangible... and "intangible property" is further defined as to include intellectual property. In light of the applicable legislation, a securing charge on an IP right is to be considered as non possessory, which means that this asset remains in the property of the borrower, who is free to use it in the course of his/her business, but cannot transfer it to the benefit of any third party as the securing charge is registered in the Securing Charges Register, which was created for the purpose of registration of securing charges, claims and rights pursuant to the Securing Charges Law and any other law that requires or permits registration in the Registry of Securing Charges.

In practice, the owner of an IP right, such as a trademark for example, which has been used by the owner in the course of its business and has gained a certain value thanks to this use, may offer this intangible property as a securing charge in favor of a financing institution, which would accept to finance the IP right owner on this basis. Once the loan agreement is concluded between the parties, and the securing charge is duly registered in the Securing Charges Register, the trademark owner would still remain the owner of the trademark and would enjoy all the rights deriving from the IP Law on that trademark (such as continuing the use of it). However, the trademark owner would not be allowed to transfer such a right to a third party because of the securing charge that has been registered on that trademark. In the event of failure of the trademark owner to comply with its obligations under the loan agreement, the financing institution would be entitled to claim the transfer of the trademark under its name.



Even if the Law on Securing Charges provides for this opportunity, using such financing method has been rarely observed in practice. Hesitation was probably due to the fact that when such law entered into force, awareness of the business operators on IP rights was relatively low, which means that IP rights could not be considered at that time as being a valuable asset which could be used to enhance credit. In addition, the method above would not affect an IP owner which conserves the property over its right as much as it affects the lender, that would lend based on a right that may suddenly lose all value due to the actions or omissions of the IP owner in the course of its business.

Later on, the definition of “securing charge” provided by the Law on Securing Charges, was subject to an amendment in 2013 by Law Nr.132/2013, which excluded the term “intangible property” from this definition, hence excluding the possibility to enhance credit using IP rights on the grounds of the Law on Securing Charges. Notwithstanding this amendment, nothing would prevent the parties to use IP rights to secure financing under an agreement governed by contract provision under the Civil Code. In practice however, employing this method would differ from the above: the lender would become the owner of the IP right and thus may benefit from the monopoly deriving from the IP Law. This tends to be problematic in practice as businesses would certainly not take the risk of losing ownership of their IP rights as more often than not, such rights are imperative to the success of their business since IP rights tend to embody the goodwill of the company. A solution which would benefit both parties would be that the lender which becomes the owner of the IP right grants to the borrower the license for the exclusive use of that IP right to enable it to continue its business and maintain or enhance the value of that IP right. Based on the above, it must be emphasized, that the exclusion of “intangible property” from the field of application of the Securing Charges Law in 2013, significantly complicated the situation, even if this financing method could be used based on the relevant provisions of the Civil Code.

As explained above, the matter remained unregulated starting from 2013, however, in 2016 Law on Securing Charges was subject to another amendment by Law No. 101/2016, bringing the definition of “securing charge” as it was before the amendment of 2013 (i.e. reintroducing the term “intangible property” in this definition. It may be confirmed that now awareness on the importance of IP has significantly raised, however the use of this financing method is still to be tested in practice. The recent amendments of the IP Law (explained in the section below) clearly state the will of the government to further promote IP rights and comforting business operators by introducing provisions on registration of pledge on IP rights in the IP Law.

III. THE RECENT PROVISIONS ON THE REGISTRATION OF THE RIGHT OF PLEDGE ON AN IP RIGHT BY THE AMENDING LAW

One of the main goals of the Amending Law was the creation of a legal framework on the securitization of IP rights and their use as collateral, as to grant to those rights a market value that has been ignored to the date. In fact, this matter was already regulated before the entry into force of the Amending Law, thus it shall not be considered as a novelty but as an effort to complete the existing legislation, by imposing to the parties to a pledge agreement on an IP right



protected by the IP law, the obligation to register such agreement with the GDPI. In particular, Article 36/a of the Amending Law introduces the right of pledge on patents of invention, providing that the pledge agreement shall be registered in the patent register as to produce legal effects for third parties. However, a similar agreement may produce effect for a third party even before the registration, if it is proved that the third party was aware of such an agreement.

Furthermore, Articles 129/a and 163/a of the Amending Law provide for the possibility to place a pledge on an industrial design/trademark and the requirement to register the pledge agreement in the industrial design/trademark register in order for it to produce legal effect. The registration of the pledge is then published in the bulletin of the GDPI. As specified under the Amending Law, the form and content of the application for pledge registration shall be set out in the Council of Ministers' Decisions² relevant to each of these IP rights. It is to be noted that the registers on which the pledge introduced by the IP shall be registered, are not related to the Securing Charge Register created under the Securing Charges Law. In fact, in no case does the IP Law refer to the Securing Charges Register, hence, the registration in the IP rights register should logically be considered as an additional requirement to the registration in the Securing Charges Register.

IV. CONCLUSIONS AND RECOMMENDATIONS

Asset based lending with IP collateral can be ideal for distressed businesses as IP rights as collateral represent a more certain and stable form of guarantee than its financial performance or cash-generating capabilities. This approach may improve the borrowing capacity of the enterprises thus enabling them, as economic operators, to achieve their intended financial goals. However, one of the main shortcomings of the system lays in the lack of adequate evaluation methods of IP rights, which constitutes a crucial aspect of the IP financing procedure given the need of the lending institution to be informed of the value of these assets at the time of the transaction. The absence of a certain evaluation method may provoke the simultaneous abstention of both business operators and lenders from opting for such alternative of securing financing. Creating and consolidating general principles of a proper valuation of IP should be the next challenge for Albania. WIPO has provided several guidelines on valuation of intellectual property, which may be used by the Albanian government as a safe benchmark for creating and implementing an intellectual property valuation system.

As to the recent amendments to the IP Law, it is to be noted that the applicability of such provisions is not tested and may be problematic due to their potential contradiction with the Law on Securing Charges and the Civil Code³, thus further amendments of the IP Law may be necessary.

² Council of Minister Decision No. 1707, dated 29.12.2008 "On the approval of the regulation on patents and utility models", as amended, Council of Minister Decision No. 1706, dated 29.12.2008 "On the approval of the regulation on the registration of trademarks", as amended, and Council of Minister Decision No. 381, dated 08.04.2009 "On the approval of the regulation on industrial designs".

³ The Amending Law uses the term «pledge» which has a possessory character, while the Law on Securing Charges and Civil Code provide the term "securing charge" for intangible property.