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## Supporting Russian Innovation

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he Venture Capital industry, and the angel investor community that it spawned, was born in Northern California at a moment when transformational technologies were emerging in computing, telecommunications, and biotechnology. The fundamental driver of this industry was the necessity for individuals to take great risks to fund the emergence of these technologies, created by small start up companies.

Fortunes were made by those who invested in, and otherwise supported, the winners, their great wealth a just reward for the risks taken by a few visionaries. The most important result for society was the creation of entirely new industries and technologies, unimaginable at the time, now considered necessities. The Internet is only the most obvious of many examples.

Northern California was the logical place for these developments to emerge because it is the home of the micro chip. Stanford and the University of California at Berkeley are world class centers of learning and research, in the middle of a California business culture that made its mark by thinking outside the box, challenging East Coast orthodoxies and institutional elites. For many years most of the VC and angel action was concentrated in "the Valley", because it became home to networks of support services.

Today, Russia and many other countries are trying to emulate this success, in a changing world whose most important characteristic is globalization. Today's high tech world is global, its players, international. Silicon Valley continues to attract the best talent from around the world. Much of it stays, but many are now dispersing. The Internet provides an infrastructure that enables world wide collaborative networks, and hybrid companies with locations scattered around the globe.

Russia is emerging from a closed past, where most technology was closely guarded, considered as a state asset focused on military applications. This mind set is not easily transformed. A new generation is emerging that is free from such thoughts. Russia's investment in basic research and its strong mathematical traditions, make it, today, a potential source for a new wave of transformational technologies, not yet introduced to the otherwise inter-connected global village.

While the potential of some of these technologies may be great, actualizing their commercial application is a complex task requiring new thinking. The first realization required is that Russia, while a large country (the world's largest!), represents only 5% of the world's technology market. This global market operates according to a set of rules that are founded on the protection of intellectual property. Russian owners of potentially transformational technologies must patent their inventions outside of Russia. If these inventions are patented only in Russia, once the Russian patent is issued, and published, it becomes common property for anyone outside of Russia.

Anyone is free to examine details of a Russian patent and to attempt to reverse engineer or otherwise copy the technologies, with no obligation to reimburse the inventor! This situation can be prevented by the filing of a PCT patent application, either in Russia, or outside, within one year of the filing of a Russian patent. A PCT application preserves the priority date of the Russian patent, and gives the inventor the opportunity to file for patents in any western country.

Russian patents have a different structure from international patents. They are similar to engineering documents, describing the technology. Western patents attempt to protect broad claims, listing a specific design of an invention as a preferred embodiment, but providing much broader protection against possible infringement. It is necessary to re-write a Russian patent application, for it to be effective in the western system. This should be done by specialists knowledgeable in both systems. In this regard, Finland is well positioned.

Patent protection in the west is a necessary step to any commercialization effort (as no investor will support a technology not protected by patents), but it is not sufficient to attract investment. A prototype that demonstrates the technology in a commercially interesting application environment must be built. Russia does not currently have the legal or technical infrastructure in place to accomplish this task, in isolation. There is no need for isolation! On the contrary, there is a need to integrate new technologies into existing, sophisticated, environments.

In this as well, Finland is well positioned to be of help. Finland has what Russia needs: a totally transparent high tech business environment, highly skilled engineers able to take ideas and transform them into working prototypes, recognizing international methods and standards. During its recent Presidency of the European Union, Finland focused on the challenges of innovation. VTT is the largest lab in Europe that links inventions coming from universities to the needs of business.

A Russian company with an interest to access the world market should form a company outside of Russia in order to represent its interests in the "outside" world. Why? Because western companies will not license technologies from Russian companies, due to the additional risks involved. Supporting new technologies is a process full of risk. The additional risks of dealing with non-transparent companies in an environment where change is likely to occur, is simply not necessary. The Russian entity can create a sister entity outside of Russia, in Finland or elsewhere, and assign clean title to the international patents to this entity. This removes unnecessary risk, and creates conditions for serious investment.

Today, there is a lot of money in Russia, interested in supporting innovation. Innovation is best supported by "smart money", money that comes with good advice, and with access to implementation networks. This is the special element of Silicon Valley money. Such money commands a strong negotiating position, particularly vis-à-vis immature technology. It is in the interest of Russian money to support the development of a strong negotiating position for transformational technologies originating in Russia, by supporting them through the development process described above.

Once a prototype is developed, and a commercial application for a technology demonstrated, the owner of the technology is in a much stronger negotiating position to license the technology to companies interested in integrating it into their products. The Russian provider of capital should recognize that one of his primary goals in this process is to become a player, and thereby learn the rules of this external game. He must realize that it is not realistic to demand a controlling interest.

I have recently formed a company, Buddha Biopharma OY Ltd. (BB) in Finland in support of the inventions of Dr. Igor Pomytkin, the first person in the world to understand the root cause of Alzheimer's Disease, the #1 medical challenge in the developed world. BB is contracting with Cerebricon, a company in Kuopio, Finland, specializing in CNS pre-clinical trials, to replicate positive results on mice and rats that Dr. Pomytkin has already achieved in Russia. We are getting very encouraging results in Finland, and are attracting the interest of many investors. This is but one example of the business model I have attempted to describe in this article.

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