

## **Protecting your IP whilst Transferring Technology to South-East Asia**

In recent years, European SMEs have started to look to the Association of South-East Asian Nations (ASEAN) to be a key player in the investment and development of several different types of technologies across a multitude of industries. Relatively low labor costs, high skill levels and diversity in the level of development across the region, enabling South-East Asia to attract a range of technologies, are making the region so attractive for the European SMEs.

Whilst accessing the lucrative South-East Asian markets, the European SMEs are often willing to ‘transfer’ some of their technologies and designs to local subsidiaries of European firms, joint-venture partners, or local manufacturing and service companies. One of the challenges facing European companies coming to South-East Asia is devising creative solutions to minimize the risk to their intellectual property associated with technology transfers. A technology transfer can happen in a number of different ways. European companies most commonly transfer their technology by licensing their patents, designs, software, trade secrets, and know-how. A common misconception is that a technology transfer is limited to transfers of high technology. However, many European companies using contract manufacturing to manufacture low technology, consumer, or industrial products, such as those based on product designs, must deal with the same risks to their IP as their high technology counterparts.

It is not uncommon that some unscrupulous companies in South-East Asian countries seeking to acquire foreign technology often obtain it from European companies either through inadvertent leakage of IP, or in breach of agreements or law. Therefore, SMEs wishing to transfer technology to South-East Asia, should have robust IP strategies in place, to protect their business.

### **First Step – Secure your IP through Registration**

Aside from copyright, IP is territorial and so it must be registered. There is no centralized system, like in Europe, through which SMEs can protect their IP regionally across South-East Asia. Therefore, it is necessary to file for patents, designs, and trade marks in each separate country, where the SME plans to trade. SMEs should also keep in mind that goods move relatively freely across borders in South-East Asia. This means that European SME’s own goods or worse, infringements thereof could appear in Laos, Cambodia, or Vietnam, when, in fact, the European SME only sells into Thailand, or has a manufacturing base in Malaysia. Given this, if budget allows, it may be sensible for the SMEs to file patents, trade marks, and designs in as many countries in the region as possible. Copyright is also registrable in most South-East Asian countries, except for Singapore, Myanmar and Brunei.

Most South-East Asian countries operate under the first-to-file system, meaning that the first person to file for a patent, trade mark or a design, will become the owner of the IPR of that patent, design or trade

mark, irrespective of the first use. Therefore, European SMEs should register their IP as soon as possible. Having the filing (even the mere application) in place before opening talks with a partner strengthens the SMEs' position and reduces the risk that a failed discussion with a potential partner could end up with the theft of IP.

### **Finding your Partner - the Importance of Non-disclosure Agreements and Contracts**

SMEs may not be familiar with using formal Non-Disclosure Agreements (NDA), but it is worthwhile considering using such documents prior to entering into talks with a partner, particularly where an SME can identify specific IP or confidential information that will be disclosed during the course of discussions. Such agreements are concise, clear, and generally of standard form and easy to draft. Furthermore, business partners in South-East Asia are becoming very familiar with agreeing to such terms. In South-East Asia, with each member having different laws and legal systems, SMEs should seek to obtain a different NDA for each relevant country. Obtaining an NDA by no means provides a 'watertight' case, but it certainly assists in protecting intangible assets, in particular those that cannot be registered or easily protected under local IP legislation (e.g. trade secrets such as certain technologies, formulas, production methods etc.).

A written contract is infinitely preferable to a casual arrangement or an oral agreement. Local legal advice is recommended to ensure that a strong network of agreements is put into place. It is also highly important to ensure that the translation of the contract into the local language of the jurisdiction is accurate, as many courts will use this rather than an English or other European language contract when considering evidence.

After a suitable partner has been found, the second important step is to ensure that the agreement will be enforceable in the country where the contract will be executed. Having the ability to obtain direct relief (including preliminary injunctive relief) in a local court should be a clause that is built into all licenses. This can sit alongside an arbitration clause, but in instances of trade secret theft by an employee or third party, one will want to have direct recourse to the local courts to obtain an emergency injunction, or to carry out search and seize orders, or asset freezing orders.

### **Internal IP Strategy and Practical Considerations**

SMEs, as owners of IP, will no doubt be concerned about how their partners in South-East Asia use their IP. Therefore, it is important to have one's own internal IP management strategy in place. The following are examples of best practices to consider:

- SMEs need to ensure their partner undertakes to use confidentiality agreements/clauses in its contracts with third parties and their employees. Non-solicit and non-compete clauses in employment contracts should also be considered. Regarding employees, it is important to ensure that copyright created by the employee is assigned to the employer, since most South-East Asia countries have laws providing that employees own the copyright to their work.

- To spread the risk an SME may wish to consider having certain components of their product manufactured/assembled in separate countries or by different parties to help reduce the risk of IP being misappropriated.
- SMEs should have formal training documentation protected through NDA/confidentiality agreements and where necessary ensure that their partner uses NDA/confidentiality agreements.
- Valuing IP can be difficult in licensing situations. SMEs should consider minimum royalty payment clauses to protect their IP from undervaluing.
- IP owners should also ensure that they are entitled to physically visit the partner's premises, witness their activities, and perform quality control. This will assist the SMEs in their review of the IP and improvements.
- SMEs are advised to take legal action against infringements and breaches of contract. This will ensure that the SME maximizes the monopoly rights of its IP and increases its license value.

#### **Checklist for Successful Business Endeavor in South-East Asia**

- Register your IP first
- Conduct due diligence on your business partner
- Manufacturing/licensing/distribution/franchising agreement: Complies with the laws of the country in which you are operating; it has terms to ensure proper use of IP, monitoring process, and quality control; it has terms to ensure IP is registered and owned by rights holder and not by a third party (or their employees); it has terms to get out safely and ensure that the IP is not used beyond the contract term (this happens frequently with Original Equipment Manufacturer (OEM); it has terms to ensure continuation of business after ending of agreement. Note that in some countries licensing agreements must be recorded with local IP office to be valid.
- Auditing of partner (you or your authorized representative) to ensure no unauthorized use is being made.
- Watch for infringements of third parties and have a framework in agreement for the licensee's cooperation and assistance
- Ensure that the contract allows for local enforcement to stop the source of the IP violation, rather than first reverting to EU laws or arbitration. Also, note that Singapore is a major transshipment (unloading/reloading) point for the whole of Asia, and containers can be stopped.
- Consider arbitration (e.g. in Singapore) as a secondary means of resolving issues. Singapore has a WIPO dispute resolution office that is ready to deal with such issues.

#### **Take-away Messages**

Given the rapidly evolving economic environment with varying levels and rates of development in South-East Asia, it is important to have tailored strategies when it comes to technology transfer. While it is advantageous to begin viewing the region as a single area in which to trade, it should be borne in mind that each country has its own peculiarities in terms of procedures and laws, and that each country presents its own set of risks and challenges. To ensure that SMEs are as prepared as possible, they

should firstly take on a review of their own IP. Then, obtaining local legal advice is recommended, whether it is wide in scope, such as full due diligence and South-East Asia-wide negotiations of a contract, or simply reviewing existing agreements to ensure local compliance. Finally, if there is one thing that must not be overlooked, it is the registration of IP. If an SME does not have a written contract or if it uses several partners in one jurisdiction, the fall back and underlying principles on which to enforce the IP will be the SME's collective IP registrations. Without such, the value of European SMEs' IP is substantially reduced.

South-East Asia IPR SME Helpdesk Team

## SOUTH-EAST ASIA IPR SME HELPDESK

*The **South-East Asia IPR SME Helpdesk** supports small and medium sized enterprises (SMEs) from European Union (EU) member states to protect and enforce their Intellectual Property Rights (IPR) in or relating to South-East Asian countries, through the provision of **free information and services**. The Helpdesk provides jargon-free, first-line, confidential advice on intellectual property and related issues, along with training events, materials and online resources. Individual SMEs and SME intermediaries can submit their IPR queries via email ([question@southeastasia-iprhelpdesk.eu](mailto:question@southeastasia-iprhelpdesk.eu)) and gain access to a panel of experts, in order to receive **free and confidential first-line advice** within **3 working days**.*

*The South-East Asia IPR SME Helpdesk is co-funded by the European Union.*

*To learn more about the South-East Asia IPR SME Helpdesk and any aspect of intellectual property rights in South-East Asia, please visit our online portal at <http://www.ipr-hub.eu/>.*