

# IP DUE DILIGENCE ON LICENCE AGREEMENTS FOR SMALL ENTREPRENEURS

When a new entrepreneur starts to look for opportunities, joining a franchise business is often one of the first business models to consider. Small business ventures seeking a new product to excite the market and expand their customer base commonly enter into licence agreements authorising them to manufacture and/or sell inventive products. The number of Thai entrepreneurs who also are innovators is smaller than those who license technology from foreign innovators. Often, small Thai entrepreneurs eager to get such technology or intellectual property rights face an imbalance in power when negotiating contracts with foreign innovators. Some inexperienced entrepreneurs get locked into a contractual relationship without having first gained proper legal advice. Before proceeding with negotiation on key issues such as rights granted, royalty payments, and termination, the intellectual property rights involved in any licensing deal need to be understood.

A challenge in identifying IP rights often occurs when the product or technology is commingled with several intellectual property rights that are not all owned by one entity. To illustrate: Company A in Thailand signs an agreement titled "Licence to

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Manufacture and Sell the Yenjung Ice Cream Cone," which is a green tea ice cream cone sealed in a special plastic wrapper that can prevent melting for six hours after being removed from refrigeration. The ice cream manufacturing and distribution agreement may not as be as simple as the agreement title, as the ice cream manufacturing process may be a trade secret or a patented technology and the special characteristic of the plastic wrapper could have patent or design or trademark or copyright protection. Certainly, the brand Yenjung would involve some trademark rights. The sooner a local entrepreneur can identify the elements of intellectual property involved in the deal, the better positioned the licensee will be in negotiations with the licensor, as the licensee can then determine whether the licensor intends to authorise the licensee to fully utilise all relevant intellectual property rights.

Once the intellectual property rights

have been identified, performing IP rights due diligence is strongly recommended. The summary of identified IP rights will become a useful tool of the licensee's to further negotiate with the licensor. Unwanted IP may be offered up despite it having no real value to the existing or planned business. Your partner should identify the IP to a degree sufficient to confirm that it fits the needs of your business. Do the patents cover what you hope them to achieve? Are the trademarks in the appropriate classes for the goods/services you will use them with? Full searches are ideal, but not always practical in the time available or if costs are limited, in which case prioritisation is crucial.

Furthermore, IP rights due diligence gives the licensee comfort that (i) the agreement fee and royalties to be paid are reasonable and worthwhile, and (ii) should there be an infringing act in the future, the licensee's market will be protected under the related intellectual property rights law.

For patent, design, trademark, and to a certain extent copyright, these are registered rights and even a minimal amount of due diligence will reveal the relevant details of important information such as (i) ownership, (ii) validity, (iii) expiration date, (iv) disputes over the rights and (v) other encumbrances.

For any trademarks associated with licensed products, it is important to make sure that the mark is properly registered in Thailand. A pending application cannot guarantee that the mark will eventually be registered, as the law allows interested parties to oppose the mark's registration on several grounds during its prosecution period. If the trademark is already granted, it is imperative to verify that information provided in the mark certificate is accurate. The name of the rights owner must correlate to the name of the licensor, and the correct type of mark (trademark or service mark) must be verified. Since the Thai trademark law is rather strict, the mark must correspond to the nature of the business as well as the list of goods. To fully exploit legal protection at the maximum level, the mark must be registered with the correct list of goods.

Thai law requires that a trademark licence agreement must be recorded with the Department of Intellectual Property of the Ministry of Commerce. Trademark owners' awareness of this rule is improved and it has been adopted as regular practice. Before entering into a trademark licence agreement, it is wise for a licensee to check with the DIP to see whether the specific mark has been or licensed to anyone in Thailand before.

The due diligence process for patents

is very similar to the process for trademarks. Of particular importance for a patent is its term. As the prosecution period to obtain a patent can be very long, it is prudent to check the remaining life of the patent to ensure that it corresponds to the terms of the licence agreement. The most important issue for a patent is that if the technology is not patented in Thailand, the enforcement of unpatented rights is extremely difficult, as patent law is sovereign; no system exists in which one patent is granted protection in several countries, though inexperienced entrepreneurs often assume otherwise.

Spending just a little time to confirm basic details of the IP rights being offered up for your project is of invaluable benefit. In the short run, it may help to better balance negotiations to settle on agreement fees and royalties. In the long run, it may help you to better protect yourself and the business you have built up. Do not let the pressure to enter the market blind you to the advantages of a thorough investigation of the licensor's intellectual property portfolio.

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