

Technology Licensing in Thailand

Investors are upbeat about Thailand, and technology transfer is on the increase both by way of licensing in of needed foreign technology and by outright acquisition of foreign technology. **Alan Adcock** reports from Bangkok.

With the 10 nations of ASEAN committing to full implementation of the ASEAN Economic Community (AEC) by 2015, Thailand will likely see an increase in inbound technology transfer to the country, both by fellow AEC member state companies as well as by foreign companies. Since Thailand joined the Patent Cooperation Treaty in 2009, there has been a significant increase in the number of patent applications filed with the Department of Intellectual Property (DIP). Patent office capacity building is a specific AEC IP harmonization goal, with training programs for patent examiners to feature heavily in coming years. Various international patent offices have committed to providing training and best practice recommendations, with ASEAN patent examiners receiving training in neighboring patent offices.

But while Thailand gears up for what is likely to be a continued increase in patent filing and more efficient examination on to grant, backlogs exist. The delay in examination of patent applications by the Thai Patent Office is a serious matter which has resulted in numerous complaints from applicants, especially from pharmaceutical companies. The Thai government does not particularly support homegrown innovation as consistently or as well as other ASEAN neighbors either by direct grants or by tax relief/credits. Thai government investment in research and development is among the lowest in the region at just 0.2% of gross domestic product, as compared to 1% of GDP in Malaysia and 2% in Singapore, and has lagged significantly behind in increasing R&D spend despite impressive GDP growth.

Investors remain upbeat, however, particularly given Thailand's growing economy and close proximity to potentially lucrative Myanmar, as well as Cambodia and Laos. Technology transfer is on the increase both by way of licensing in of needed foreign technology and by outright acquisition of foreign technology. Several such recent large transactions have been in technologies as diverse as energy and biofuels to materials components and agricultural manufacturing.

When in-licensing technology to Thailand, several laws and regulations have to be considered. There is no comprehensive guide to licensing in general. Instead, a practitioner confronted with instructions to draft or interpret a license agreement in Thailand will generally need to be familiar with the following sources of law:

- Civil and Commercial Code.
- Trademark Act BE 2534 (AD 1991), as amended by Trademark Act (Number 2) BE 2543 (AD 2000).
- Patent Act BE 2522 (AD 1979), as amended by Patent Act (Number 2) BE 2535 (AD 1992) and Patent Act (Number 3) BE 2542 (AD 1999).
- Copyright Act BE 2537 (AD 1994).
- Trade Secrets Act BE 2545 (AD 2002).
- Protection of Layout-Designs of Integrated Circuits Act BE 2543 (AD 2000).
- Unfair Contract Terms Act BE 2540 (1997).
- Trade Competition Act BE 2542 (AD 1999)
- Act relating to Price of Merchandise and Service BE 2542

(AD 1999).

- Revenue Code BE 2481 (AD 1931).

Technology Licensing

The principles of Thai contractual law are based on the freedom of contract. Traditionally, therefore, the government will not intervene in mutually agreed-on expressions of private parties, unless the intentions of such parties were clearly prohibited by law or were contrary to public order or good morals. Presently, however, due to injustices caused by parties with greater bargaining power taking advantage of those less fortunate, the government considers it necessary to provide guidelines for the courts in evaluating whether any terms found within a contract are unfair and to give the courts the power to intervene in contractual arrangements between parties by voiding or limiting any unfair terms that courts find to exist in such arrangements.

In several contexts described more fully below, substantive governing law will require that a certain term must appear in the license agreement in order for the agreement to be recognized by the courts and enforceable. The recitation of required terms depends on the subject matter of the licensing transaction.

Some terms are generally forbidden by law in Thailand. For example, an agreement made in advance exonerating a debtor from his own fraud or gross negligence is void as a matter of law. Other examples of terms that may run afoul of the Thai Unfair Contract Terms Act include terms that:

- Exempt or restrict liability arising from breach of contract.
- Allow contract termination without reasonable grounds or without any material breach by the other party.



Currently non-patentable subject matter in Thailand includes animals and plants; scientific and mathematical rules and theories; methods for diagnosing, treating, or curing diseases; or inventions which are contrary to public order or morality.

- Allow one party to delay or not to comply with its contractual obligations without reasonable grounds.
- Allow one party to enforce further obligations on the other party than those agreed to on the date of contract execution.
- Allow for confiscation of deposits (or liquidated damages) that are excessively high in relation to the damages arising or resulting from a contract under which the deposit was placed.
- Constitute terms, notices, or statements made in advance that restrict or exempt liability for infringement or breach of contract with respect to injury to life, body, or health of a third person caused by a deliberate or negligent act committed by the party who sought to restrict or be exempted from such liability, or by other persons to whom said party also must be liable.

Unlike most laws enacted regarding civil court jurisdiction in Thailand, the Unfair Contract Terms Act gives the courts great discretionary power in determining whether contract terms are

generally unfair and unreasonable.

However, the Act does provide general guidelines under which the court is to consider whether certain terms are unfair or unreasonable. For example, the court is to consider:

- The time and place of making the contract or compliance therewith.
- Whether one party shoulders a much heavier burden than the other.
- The normal practice within the industry concerned.
- The integrity, bargaining power, economic positions, and adeptness of the parties.

In this regard, the Act allows for the use of expert testimony during court hearings.

Patent Licensing

In the patent context, a license agreement for a registered patent is required to be made in writing and registered with the DIP at the Ministry of Commerce or with a Provincial Commercial Office or with another agency as prescribed by the Minister of Commerce. Failure to comply with the prescribed form will cause the license agreement to be void according to section 152 of the Civil and Commercial Code. The Director-General of the DIP is empowered to request the Board of Patents to cancel the licensed patent. Although the Patent Act does not provide whether a patent license must include a term of exclusivity or non-exclusivity, in practice, such terms and conditions should be clearly specified.

The patentee may authorize any other person, by granting a license, to exercise the rights conferred to him under the Patent

Act, including, in the case of product patents, the right to produce, use, sell, possess for sale, offer for sale, or import into Thailand the patented products and, in the case of process patents, the right to use the process and produce, use, sell, possess for sale, offer for sale, or import into Thailand products made by the application of the patented process. Currently non-patentable subject matter in Thailand includes microorganisms which naturally exist and their components, animals, plants, or extracts from animals or plants; scientific and mathematical rules and theories; computer programs; methods for diagnosing, treating, or curing human or animal diseases; or inventions which



are contrary to public order or morality, public health, or welfare.

Trade Secret Licensing

The use and misuse of trade secrets and other confidential information in Thailand is governed by the Trade Secrets Act BE 2545 (AD 2002). This legislation, which came into force on April 12, 2002, immediately placed the rights of trade secret owners on firmer footing than had previously been the case.

As the essential value of trade secrets derives from their secrecy, which confers a competitive advantage over competitors, the licensing of third parties to use trade secrets is not as common as other forms of intellectual property. Nevertheless, the licensing of trade secrets often goes hand-in-hand with licenses of other types of intellectual property — particularly in technology transfer types of agreements in Thailand. In such agreements, proprietary know-how, show-how, or negative know-how can be

licensed to third parties in conjunction with licenses of patented technology. Licenses of trade secrets also are common in franchise type relationships, OEM manufacturing, and other outsourcing type relationships. It is common to find licensors of patented technology seeking to restrict the use of trade secrets which may often be imparted with the license of the patent. This is particularly the case many times in Thailand, where the patent may have been drafted narrowly so as to ensure successful and relatively on time registration.

The ability to grant licenses to use or to disclose trade secrets is expressly recognized in the Trade Secrets Act. A trade secret owner may "license someone else to disclose, deprive of, or use the trade secrets". When licensing the trade secrets, the owner is entitled to stipulate such terms and conditions for the maintenance of the secrecy of the information as he deems fit. Licenses of trade secrets do not need to be in writing, and there is no recordal requirement with the DIP. However, in practice, most dispositions involving the grant of rights of use to a trade secret are in writing.

Civil and criminal remedies for infringement are available to an aggrieved trade secret proprietor. Where a trade secret proprietor can provide clear evidence that an infringement of a trade secret either has been committed or is about to be committed, the "controller" of the trade secret may apply to court for an interim injunction (to be followed by a permanent injunction) together with a claim for damages. In April 2011, the Thai IP&IT Court awarded its highest penalty against a trade secret infringer. A foreign plaintiff won a US\$1.7 million judgment including permanent injunctions and legal fees against former employees who stole trade secrets and use these to establish a competing business.

Tax and Technology Transfer

In Thailand, the withholding tax imposed on royalties is 15%. The licensee, as the payer of royalties, has the duty to withhold 15% income tax and remit the tax to the Revenue Department no later than the seventh day of the month following the month of payment.

The 15% withholding tax may be reduced to 10% under some double-taxation treaties that Thailand has with various countries. The 15% withholding tax paid to the Thai Revenue Department may be used as a credit against the licensor's income tax payable on such royalties in the resident country (credit method). Under some double-taxation treaties, the exemption method is applied instead of the credit method. Under the exemption method, royalties subjected to tax in Thailand are exempt from income tax in the resident country. There is no requirement to inform the Revenue Department of the payment of royalties. The licensee will file a withholding tax return and remit the tax to the Revenue Department no later than the seventh day of the month following the month of payment. However, the withholding tax certificate issued by the Thai Revenue Department may be required as evidence for a tax credit in the resident country.

In this regard, the licensor generally appoints the licensee as its appointee on an application for a withholding certificate. Documents required for submission to the Thai Revenue Department for the application include a patent license agreement, a copy of the withholding tax return, the receipts issued by the Revenue Department, and a power of attorney.

There is value-added tax imposed on payment of royalties to foreign licensors. The licensee, as a payer of royalties, is required to self-assess and remit 7% value-added tax to the Thai Revenue Department no later than the 16th day of the month



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following the month of payment. The value-added tax paid to the Thai Revenue Department can subsequently be used by the licensee as a credit against its value-added tax payable or claimed as a refund. Therefore, the tax cost for the licensee is only the time value of money.

Parties to a technology licensing agreement may essentially agree on any term in a license agreement, provided there is no unfair limitation of competition or violation of public policy. As such, the parties may agree on whether the royalty will be a percentage of net sales, a percentage of gross sales, a lump sum periodic royalty, or a minimum guaranteed up-front royalty payment. There is no minimum or maximum royalty rate.

One particular point on Thailand technology transfer that often troubles foreign licensors is the peculiarity regarding control over foreigners "conducting business" when they visit Thai licensees for the temporary provisions of technology training or technology management services which are common in technology transfer relationships. In some licensing arrangements, the licensor from a foreign country will commit to sending or "dispatching" an employee to the licensee in Thailand for purposes of training or teaching the practice of the patented invention or the trade secrets. This may create a tax liability for the licensor in certain circumstances. Under current Thai tax law, a foreign corporation may be deemed as carrying on business in Thailand if it has in Thailand an employee, a representative, or a go-between whose activities generate income or gains in Thailand for the corporation. One needs to be wary in this circumstance as the Thai Revenue Department may claim that the employee so dispatched is generating revenue for the foreign licensor in the form of the royalty stream. The corporation might then be subject to Thai income tax (currently 23% corporate income tax on net profits). **AIP**

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