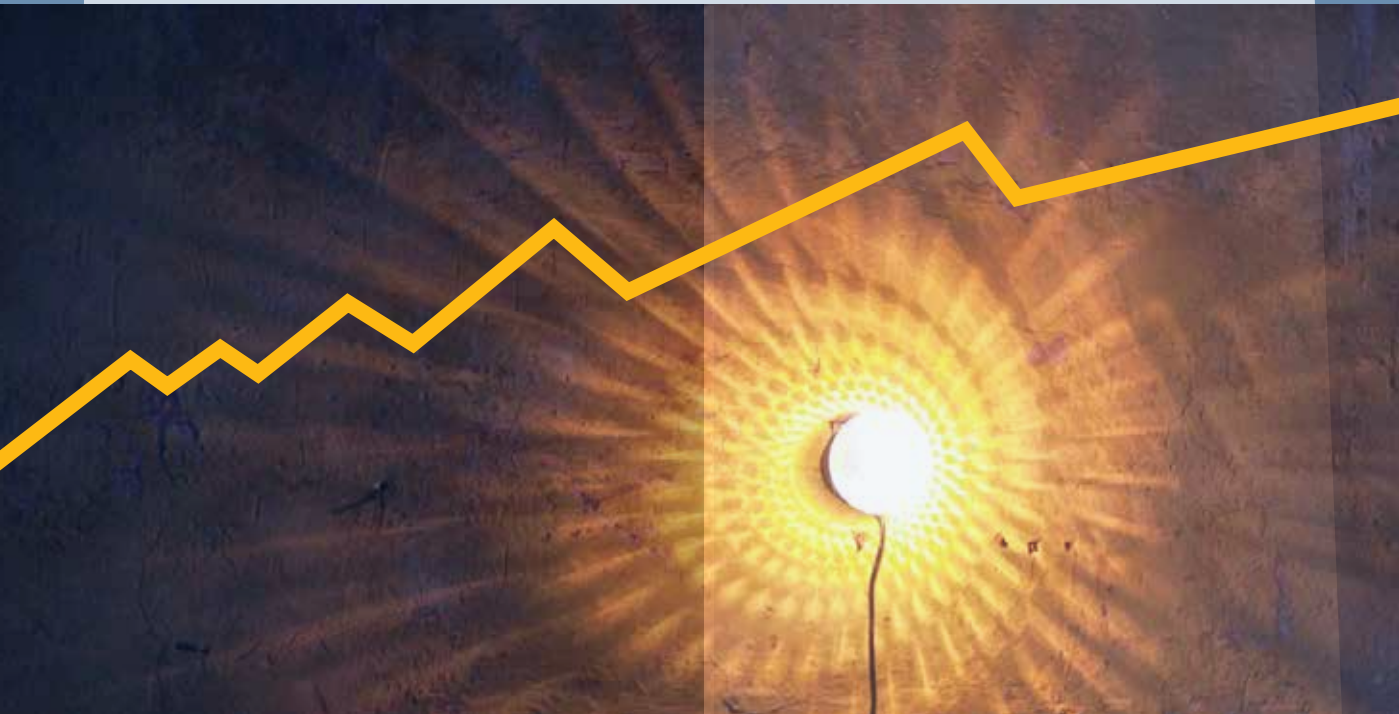


BASIC STEPS

to Commercialize your
Intellectual Property in

THAILAND



Basic Steps to Commercialize your Intellectual Property in Thailand

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About the European ASEAN Business Centre (EABC)

The European ASEAN Business Centre (EABC) is a newly established platform representing the interests of the European business community in Thailand. Our main objective is to contribute to the improvement of the trade and investment climate for European companies in Thailand and to increase trade, investment and the establishment of European companies and businesses in Thailand. Through its constructive engagement with the Thai authorities and counterparts, EABC strives to work towards achieving a greatly strengthened Thai economy with sustainable competitiveness. EABC supports trade advocacy by playing an important role as an independent voice of European business vis-à-vis Thai authorities. It also acts as a focal point for market information for European companies both in Thailand and Europe, facilitating their market access.

Who we are

EABC was established as a consortium with sixteen business organisations and chambers of commerce, both in Thailand and Europe¹, with a combined membership base of EABC and our Consortium partners of approximately 2,000 companies in Thailand. EABC is part of a strategy of the European Union to support the internationalisation of European SMEs and other European enterprises by enhancing market access; in particular to emerging and fast growing markets such as Thailand and the other members of ASEAN. With strong support from the European Union, as well as our partners, and extensive networks both in Thailand and Europe, EABC serves as the platform for business to interact with authorities and counterparts in Thailand in order to improve trade and investment of Europe into Thailand and to promote Thailand and ASEAN as potential markets for European companies.

EABC interacts with “the unified voice of European businesses in Thailand”. Eight Advocacy Working Groups are actively functioning to facilitate constructive dialogues among interested European businesses. These economy-wide as well as sectoral Working Groups are: Automotive, Food & Beverages, Healthcare & Pharmaceutical, Cross Sectoral Issues, Information & Communication Technology (ICT), Intellectual Property Rights (IPR), Insurance and Transport & Logistics. These Working Groups are chaired by representatives of prominent European enterprises from their respective sectors, such as BMW, DHL, Diageo Moët Hennessy, GlaxoSmithKline and Standard Chartered Bank.

For further information about us, please visit www.eabc-thailand.eu

1 EABC partners and associates : German-Thai Chamber of Commerce; Advantage Austria; British Chamber of Commerce Thailand; Belgian-Luxemburg-Thai Chamber of Commerce; Danish-Thai Chamber of Commerce; DIGITALEUROPE; EURATEX; EUROCHAMBRES; Franco-Thai Chamber of Commerce; Irish-Thai Chamber of Commerce; Netherlands-Thai Chamber of Commerce; Swiss-Thai Chamber of Commerce; Thai-Finnish Chamber of Commerce; Thai-Italian Chamber of Commerce; Thai-Norwegian Chamber of Commerce; and Thai-Swedish Chamber of Commerce



Our mission

In the spirit of partnership and cooperation, EABC aims to enhance the economic conditions to facilitate European companies operating in Thailand and those who wish to establish their presence in both Thailand and, further afield, in ASEAN. Our main activities include carrying out policy and advocacy work, providing support to European businesses with trade-related information and organising key events to foster opportunities for European businesses in Thailand.

EABC is committed to working closely with European businesses, the Royal Thai Government, EU Member States Embassies, EU institutions and chambers of commerce as well as counterparts in Thailand, in ASEAN, and in Europe. We strive towards the establishment of an enabling, result-oriented dialogue to foster closer economic relations between Thailand and Europe, especially on key trade and investment agenda.

About the Author

James Evans, a UK-qualified lawyer, is a senior consultant with the Tilleke & Gibbins intellectual property group. In addition to experience in franchising, licensing and other commercial IP matters, James handles infringement matters in relation to all types of IP, with particular expertise in patent litigation (e.g. in the pharmaceutical field, in which he has acted for large pharmaceutical companies in litigation against generics companies), trademark infringement/passing off, copyright infringement, and alternative dispute resolution. James also has experience in media-related matters, having advised several international broadcasting and media companies on such subjects as advertising, broadcasting, online marketplaces, and file-sharing. James acts for a wide range of international and local clients in IP enforcement, such as civil actions in court and enforcement work with Thailand's police force and Customs. In addition, James has significant experience in trademark and patent portfolio management at both the national and international level. He has also handled IP matters in Vietnam, Indonesia, Malaysia, Cambodia and Myanmar.

James began his career in law in the UK, where he worked on reported patent and trademark infringement matters in the UK High Court and Court of Appeal. He qualified in the UK as a lawyer (Solicitor of England & Wales, 2002) and has been working on IP matters in Bangkok since 2004. In 2010, James was recognized as one of the top 250 life sciences patent litigators worldwide by Intellectual Asset Management's IAM Life Sciences 250.

Tilleke & Gibbins is a leading regional law firm with over 100 lawyers in Bangkok, Hanoi, and Ho Chi Minh City. Established in 1890, we have grown into the largest independent law firm in Thailand and a leading international firm in Vietnam. Tilleke & Gibbins is a one-stop centre for all intellectual property services, including registration and enforcement, commercialization, litigation, government relations, and regulatory affairs.

On the basis of our expertise and client work, the Tilleke & Gibbins IP group is consistently recognized as the leading IP practice in Thailand by such surveys as Managing Intellectual Property, Asialaw Profiles, Chambers Asia-Pacific, The Legal 500 Asia Pacific, Asia IP, Asian Legal Business, and World Trademark Review.

To learn more about how we can help you position, protect, and profit from your intellectual assets, please visit www.tilleke.com.





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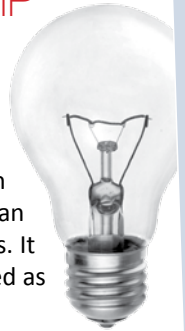
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Basic Steps to Commercialize your Intellectual Property in Thailand

Chapter I: Introduction - Making the best use of your IP

Regardless of how large or small your business is, it is important to know as much as possible about your own IP. Much of the value of your business is derived from IP due to its presence in every business, regardless of the business field, as an important intangible asset. IP can create value, and cash, in a number of ways. It can be sold. It can be licensed in or out. It can be contributed as capital into a joint venture. It can be offered to enter into strategic alliances. It can be integrated with a current business or used to create a new business. It can also be used as collateral when it is pledged, mortgaged, or charged.



An intellectual property asset management program (IAM program) is an internal program that is designed to help your company establish systems and business processes that will enable you to manage your intellectual property as creatively and as efficiently as you manage your other assets. The underlying purposes of IAM programs are always the same:

- To maximize the value of your company's IP; and
- To enable you to derive competitive advantage from your IP, and ultimately, increase your company value.

One very clear example of the importance of recognizing and protecting your business's IP would be that a company with registered trademarks and patents has a higher value to potential investors than a company with no registered IP. The reason for this is that the investors are looking for security, and a company with a strong IP position is safe, in terms of being able to exclude others from using the same IP or license that IP out (which itself generates cash through royalties) and also means that the company is much more likely to be able to successfully innovate in the future.

Further, securing IP is extremely important when companies are looking to franchise or license their business either within their own country or overseas. Sometimes IP is the only asset that would be licensed in such a deal and therefore, to have registrations for trademarks and patents, strong commercial arrangements in place and a clear IP strategy is not only attractive for a potential franchisee, it is vital for a successful franchise arrangement.

If you are considering manufacturing in Thailand, obtaining good IP protection should be one of the first thoughts that your company takes in terms of strategy. Contrary to some beliefs, Thailand does have international-standard IP laws and it is possible to take action to prevent your IP from being exploited by third parties or even your manufacturer.

Also of note is that IP assets can be used both offensively and defensively as a strategy against your competitors. Having a wide variety of patent protection can exclude other people from using those inventions. An example of this would be the purchase of around 750 IBM patents in 2012 by Facebook. Not only does this allow Facebook to use those inventions, importantly, it prevents its competitors from using them too. Coupled with a strategy to enforce your IP rights against infringers, IP allows you to have an extra edge in the marketplace. An example of an aggressive policy of enforcement would be Apple and Samsung's recent battles around the world in relation to patents and designs covering their tablet computers. Of course, most companies would not adopt such a strong approach and would only resort to litigation as a last resort, but it should be borne in mind that litigation of IP against competitors can be a powerful tool.

What does an IAM program involve?

Often, large companies that are proceeding with their own internal IAM programs will call on their external IP lawyers to assist them, particularly after the acquisition of new portfolios or under the terms of a licensing transaction. IAM programs are generally made up of specific modules. Companies decide, usually in discussion with such external advisor, which modules will be of most relevance and beneficial to them. The key drivers for IAM programs are:

- The identification and recordal of IP, both registered and unregistered, and the strengthening of legal title to these rights, both in Thailand and elsewhere;
- The monitoring of third-party activities for actions that could negatively impact your business;
- The development of systems to ensure that IP is relevant to your business, that it is properly protected and managed, and that maximum commercial advantage is being derived from it; and
- The minimization of cost and risk associated with the acquisition, use, and misuse of IP.

How will such a program benefit my company?

The program can ensure that you truly own the IP that will give you a competitive advantage and distinguish you from your competitors, that you are able to enforce those rights quickly and cost effectively should others misappropriate them, and that at every level you are extracting maximum value from your IP.



Chapter II: Recognizing and identifying your own IP

The first step for many individuals and companies is to identify your own IP. Generally speaking, those with commercial responsibility should be able to draw up a list of the following forms of IP:

Trademarks

A trademark can be one of a number of a fairly inexhaustible list: a name, logo, product line, shape, combination of colours etc. The most important aspect of a trademark is that it identifies trade origin.

Designs and Trademarks

Designs are generally those applicable to industrial use such as product design. It protects the appearance of the product but not any aspect of the way it works. An invention patent protects the way things are created or the way they work and can be applied to products, processes and sometimes methods.

Copyright materials authored or used (whether licensed in or out)

Copyright applies generally to creative or artistic works and covers things such as music, art, films, sculptures, literature and software.

Trade secrets

Sometimes referred to as “know-how” this is an important part of a company and is often difficult to define. It can be a secret process to make something or a combination of different practices that your company has built up over time.

Domain names

Every website must have a specific domain name to be accessible using the internet. Each domain name must be registered and there are international level domain names (e.g. .com .org) as well as national domain names (e.g. .co.th, .co.uk).

Websites and digital marketing

Whilst not specifically a type of IP, websites and digital marketing are an extremely important focal point for modern businesses in terms of the use of their IP, particularly their trademarks, copyright works and domain names. More and more advertising and marketing in general is done over the internet so protecting and maximizing your IP in relation to this type of use is critical.



How do I recognize and identify my IP?

Trademarks in use

When identifying your trademarks, it is important to bear in mind the essential function of a trademark: to distinguish the goods or services of one entity from the goods or services from another. Typically, trademarks are either words or logos (or a combination thereof), but they can also be combinations of colors, 3 dimensional, sounds, or even smells.

To qualify for protection, trademarks must be distinctive, therefore care must be taken when creating your trademark, whether done internally or through branding, marketing, or advertising professionals. There is a spectrum of distinctiveness with invented words. Those that carry no connection to your business or any direct meaning are the most distinctive, as no-one else would come close to it. Some examples are KODAK, PEPSI, VIAGRA, EXXON, LYCRA, DIAGEO or XEROX. Then, the next “strongest” trademark would be arbitrary trademarks such as ORANGE or APPLE which have no relation to the goods or services to which they are applied. Then there are suggestive marks which may indicate the nature or character of your business, but still require some imagination to link the trademark to the goods or services. Examples of suggestive marks are RED BULL, NIKE, and NESCAFE. Of course, company names may also be registered as trademarks, whether they are formed from an individual’s name or other sources. These are very common types of trademarks and include TIFFANY & CO, LOUIS VUITTON, and CHANEL. Generic or descriptive words should be avoided since these are non-distinctive and will be rejected by most Trademark Offices around the world.

Once you have chosen your trademarks it is important to register them in each country you are using or intend to use them, or in each country you will license such use. A law firm or trademark attorney firm can assist with this registration process.

Designs and inventions in progress and in use

If you are a company that actively seeks to innovate, then it will be relatively easy to identify designs and inventions, since they will form part of your R&D projects or part of an employee’s job description and function within the company. Again, registration is imperative to protection for this type of IP. It is important not to publish the designs or inventions prior to applying for protection, and not only in the country where you intend to apply, but also in any other countries. As a result of these requirements, your company must also maintain confidentiality in the process. It is important to note that even small incremental improvements to existing or known inventions or designs can qualify for protection.

Copyright materials authored or used (whether licensed in or out)

From software written or developed by your company, to marketing materials and photographs, it is necessary to identify all works within your company. With copyright, it is extremely important to keep records of creation, ownership, and publishing so that your company, and no other, can claim ownership of the work in question. Unlike other IP rights such as trademarks, design patents, or patents for inventions, copyright protection is automatically granted to the creator or owner without having to be registered with the Department of Intellectual Property (DIP).



Trade secrets

Business methods, know-how, recipes, manufacturing procedures, and customer lists can all qualify as a trade secret. The company must identify all types of confidential material that may exist within a company and ensure that employees are aware of such confidentiality obligations (usually set out in their employment agreements). The most famous example of a trade secret is the Coca-Cola recipe.

Domain names

This is an important part of any company's IP portfolio and care must be taken to ensure you register your desired domain name. Usually this will involve registering a .com domain. It is important to do so in order to protect local domain names as well; there is no automatic entitlement to the local domain name, and simply having the .com domain name or owning the trademark does not give you specific entitlement as the registration system is essentially a first come first served system. There is however a dispute policy available if you feel a third party has wrongfully registered your domain name.

Websites and digital marketing

A website is a strategic platform on which you can offer your goods or services to customers. It is therefore crucial to control the IP that is used on the website, such as your trademark, so that it is in line with company policy or by notifying visitors that your material is protected by copyright (many websites have copyright notices at the bottom of each page). It is also necessary to have a company policy on search engine key words and for example, Google's AdWords. Strong policies on the use of your trademark are important to control and protect this vital marketing tool, as your trademark links to your domain name, ensures a visit to your website, and then provides the potential for a sale. The above steps regarding registration must therefore be rigorously followed to maximize the impact of your IP.



Chapter III: Company set up and practical consequences



In what ways can I make an investment in Thailand and overseas, and how would my IP be affected?

Inward investment through franchising, licensing etc. and technology transfer

If you are an overseas company wishing to invest in Thailand by licensing your business to a local company to use, then franchising will be a major consideration for your operations. The franchise business model is widespread in Thailand, especially in the wake of the recent recession in Europe and the US. This level of popularity can be attributed to the fact that franchising allows the franchisor to promote a successful business model or product to another geographical area, while many of the risks are borne by the franchisee. At the same time, franchising is attractive to franchisees because it authorizes the franchisee to use this successful business model or product while deriving greater benefits from the business than a company-owned outlet. The strategy of developing a franchise agreement is well appreciated by Thai entrepreneurs, as can be demonstrated by the proliferation of franchises such as 7-Eleven, Black Canyon, McDonald's, and Zara, and this year's arrival of Gap Inc and Century 21.

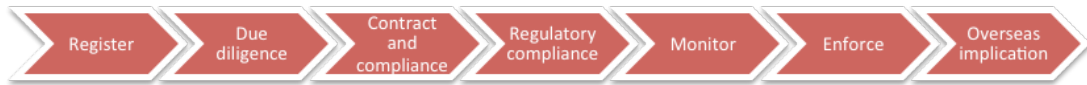
Granting licenses to sublicensees is a frequent legal transaction in Asia. In Thailand, the general legal principle of freedom of contract is applicable. Thus, both contractual parties are free to bind themselves to any condition in the contract as long as the contract is not otherwise prohibited by law. With regard to franchising, there is currently no specific regulation which restricts parties' rights in this regard.

This raises a concern among licensors regarding how to avoid or limit any conflict in the future with the franchisee or the sublicensees. Disputes arising from breaches of franchise agreements are relatively uncommon when compared to disputes in other areas of intellectual property, but it is nevertheless recommended to take certain steps to avoid any possible future disputes and to set up clear processes in case a dispute arises.

Finally, an overseas company can work alongside a Thai company through, for example, a joint venture and can transfer their own technology and expertise, or do what is called a cross-licensing of patents or technologies, in which case both parties can mutually benefit from the arrangement. This permits such companies to develop and improve their current technology through synergistic alliances.



What are the steps involved?



Register

Always, the first step in such a process is to ensure that your IP is registered in Thailand. This not only increases the value of your brand and rights in Thailand, but it also ensures that no third party can fraudulently register, for example, your domain name or trademark before you. It also prevents your proposed business partner in Thailand from registering this important IP, which is a common problem in licensing arrangements. To obtain protection for trademarks and patents, you must register them with the DIP, whereas for copyright, it is not compulsory.

Due diligence

Prior to entering into a franchise or a licensing agreement, the franchisor should conduct due diligence on the potential franchisee/licensee. This may involve reviewing the registered rights of the partner, any litigation in which the partner has been involved, or any issues which could be raised when the product enters the market. After a franchisor/licensor has found a suitable partner, the second important step is to ensure that the agreement will be enforceable in the country where the contract will be executed.

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 onto negotiation on the key terms such as the rights granted, royalty payments, and termination, understanding the intellectual property rights involved in any franchising/licensing deal first is essential.

A challenge in identifying IP rights often occurs when the product or technology is commingled with several intellectual property rights, not all of which may be owned by one entity. To illustrate: Company A in Thailand signs an agreement titled “License to 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 be as simple as the agreement title—in a legal sense, 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 rights 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 authorize the licensee to fully utilize 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 for the franchisee/licensee in furthering negotiation with the franchisor/licensor. Unwanted IP may even be offered up, despite it having no real value to the existing or planned business. Your partner should identify the IP to a degree that is sufficient to confirm that it fits the needs of your business. Do the patents cover what you hope for them to achieve? Are the trademarks in the appropriate classes for the goods/services you will use them with, and are those still valid? Full searches are ideal, but not always practical in the time available or if costs are limited, in which case prioritization 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.


Patent, design, trademark, and to a certain extent, copyright, are registered rights; 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 correspond to the name of the franchisor/licensor, and the correct type of mark (trademark or service mark) must be verified. Since the Thai trademark law is rather strict in applying the law, the mark must correspond to the nature of business as well as to 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 license agreement must be recorded with the Department of Intellectual Property of the Ministry of Commerce. Trademark owners' awareness of this rule has been improved and adopted as regular practice. Before entering into a trademark license agreement, it is wise for a licensee to check with the DIP and see whether the specific mark has been or was licensed to anyone in Thailand before. The recordation of trademark license agreement can only be performed for registered trademarks. There are no such requirements for trade secret or copyright-related agreements.

The due diligence process for patents is very similar to the process for trademarks. A sensitive issue 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 license 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 which are 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.

Contract and compliance

Although verbal agreements may be binding under Thai laws, it is worth taking the time and expense to create a written agreement with your business partner in Thailand. The agreement, in addition to your standard business terms, should cover ownership of IP (both old IP and new IP), limits and restrictions on the use of IP, royalties or other forms of payment, rights to register, auditing procedures and other clauses that enhance your protection and ensure your business runs as smoothly as possible. In addition, such a written agreement would then allow you to take legal action for breach of contract if problems occur further down the line.

It is advisable to obtain local legal counsel's advice on drafting an agreement or on localizing a standard form license or franchise agreement that you may already have in place. Thai trademark law requires that a trademark license agreement must be made in writing (a franchise agreement would be considered if a trademark usage right is granted to the franchisee). In order for a company to be able to sublicense to a local Thai entity, a clause which grants the franchisor/licensor's right to appoint sublicensees in Thailand should be added in the main agreement. This would also give the licensor/franchisor legal standing to pursue actions against the sublicensees, should any dispute arise.

According to Section 68 of Thai Trademark Act, all trademark licenses are required to be registered with the Thai DIP. The license agreement must demonstrate, at least, the following particulars:

- Conditions or terms between the trademark owner and licensee to ensure effective control by the registered owner of the trademark over the quality of the goods or services of the licensee; and;
- The goods or services for which the trademark is to be used.

However, a practical problem arises when the Trademark Registrar at the DIP sometimes refuses to record a franchise agreement based on the reasoning that a franchise agreement is not exactly the same as a trademark license agreement. From this perspective, the franchise agreement is not required to be registered. However, Thai courts have varying views on this issue. Some judges see that trademark licensing is inseparable from franchising relationships; if the franchise agreement is not registered, the whole agreement is void. Other judges, however, see that the license of the use of trademark right only forms part of a broader commercial agreement between the parties. If the trademark license has not been registered properly, the terms regarding trademark licensing are void, but other commercial terms will survive.

For legal compliance, some clients enter into a separate trademark licensing agreement with the franchisee/licensee and register that agreement with the DIP. The DIP allows the parties to conceal parts of the agreement which are irrelevant to trademark licensing and conditions required under the trademark law (i.e., short-form recordal). When the licensee authorizes the sublicensee to grant sublicenses to third parties, both the master license agreement and the sublicense agreements must be registered.

As a licensor/franchisor, it is also recommended prior to detailed discussions about the products, to require your partner to sign a confidentiality agreement, in particular if a patent application is being considered but has not yet been filed, or some trade secrets have to be explained prior to confirming a possible business deal. To protect your interests, you should seek to sign a confidentiality agreement or memorandum of understanding with a confidentiality clause and clearly indicate which items and information are supposed to be considered as confidential. Legal advice can be provided on drafting and preparation of such agreements.

Regulatory compliance

If your products are those that require regulatory approval before import and sale, then the parties must be sure as to who has what duties and who bears the expense. Such products include medical devices, medicines, food, agricultural products, cosmetics etc.

Monitor

It is important to keep a regular watch on your licensee's activities not only in terms of sales but also in terms of actual use of your IP. You may consider the following questions as a simple overview or checklist:

- Are trademarks in shops being used correctly?
- Is the proper know-how being transferred properly to the employees and are they following orders?
- Have the employees signed up to the appropriate employment agreements that protect your IP?
- Is the licensee/franchisee developing their own product lines and trademarks, and are such trademarks similar to your own?

Enforce

Your licensee will thank you for taking action against third parties who are infringing your IP. You must therefore ensure your licensee has a cleaner market as it results in better business, particularly if they are an exclusive licensee. In addition, if relations turn sour and it is necessary to take legal action against the licensee or later as an ex-licensee, be sure to take local legal advice on this prior to taking any litigious steps.





Overseas implications

Most IP is territorial in nature – i.e. to obtain protection in a certain country or region, you must register it in that country or region. This applies to trademarks, designs and patents but notably, not to copyright, which, as long as the country is a member of the Berne Convention, copyright is protected automatically in that country.

Best practice is to have an overseas business strategy. If you are planning to sell or do business overseas, make a list of those countries and then file applications to protect your IP in those countries. If you are already doing business overseas, it is more urgent to protect your IP, so as to prevent third parties, such as your distributor, from registering in that country. Once you have decided on your overseas business strategy, you can then consult a lawyer or trademark/patent attorney on how best to implement the filing strategy. It is possible to stagger applications over a period of time to make the costs of applying easier to manage, and all applications can claim the first priority date. The specific periods of time will depend on the type of IP. For trademarks and designs it is generally 6 months. For patents it is between 12 and 18 months.

It is essential to have a written agreement with your overseas licensee or distributor. This agreement must cover IP usage and ownership. Again, it is advisable to get a local lawyer in each country to review the agreement to ensure that it complies with local laws and practice.

Establishing your business in Thailand

Local company set up

You may wish to establish your own company in Thailand, for which there are specific corporate rules. Unless you qualify for one of the government's special projects (such as Board of Investment approval) the Thai company must be owned by a majority of Thai shareholders. Foreigners can own 49% of the company. This means that if the IP is owned by the company, the company rules and employment agreements must be clear about how the IP is managed both during the operation of the company and upon break-up of the company.

Who owns and who uses the IP?

You should assess whether your newly formed Thai company will own the IP or whether it should be owned by an overseas company and instead subject to a license agreement between the overseas company and the Thai company. There may be various advantages of doing this, taxation savings being one of them.

Employment agreements and IP

Employees use the company IP and in addition they contribute to and create the company IP. It is vital to have IP covered in all employment agreements covering all aspects from patenting of inventions and ownership of copyright to post-employment provisions regarding return of property and confidentiality.

Importantly, under Thai law, copyright works created by an employee during the course of their employment are owned by the employee unless agreed otherwise between the parties. Therefore all employment agreements must contain a clause stating that all IP, including copyright works, are owned by the company. For other IP, the position is that the company owns it, but for clarity, the employment agreement should state that the company owns it. If the company is particularly creative or is involved in R&D, then it may also be worth differentiating between old IP (IP created before the date of the agreement) and new IP (IP created during the course of that employee's employment).

Acquiring a company in Thailand

Much of the value of a company is in its IP, whether the brand, patents, trade secrets, or other forms of IP. Such acquisitions are becoming commonplace in Asia with the move to knowledge-based economies. Agricultural and manufacturing economies may not have been prolific creators of IP, but these are often key territories for global or regional deals

IP is fast becoming a focus for capital markets and the investment community. It is a “tradable” commodity in its own right and serves as a vital tool for a company's ability to sustain its competitive advantage. IP value has seen a dramatic increase in recognition in recent years. Today IP is less a defensive tool and more a layer of additional value on products and services. In some cases, it is a pure asset in its own right. For this reason, Asian companies are now turning to and appreciating the value of the IAM program as a business process that helps align IP assets to the corporate strategy, realizing costs savings and creating new revenue streams, as well as increasing the overall value of the business.

Due diligence should not only include a review of the status of registered rights, but also an analysis of previous transactions and other relevant agreements which may affect what can be done with the IP.

When acquiring IP (by way of either purchase or license) or when IP is contributed as part of a joint venture's capital, due diligence on that IP is critical to confirm several things.

First, a buyer should identify the property to a degree sufficient to confirm it fits his needs. Regarding patents, the technology covered in those patents should be reviewed to ensure it covers your area of interest but also to assess the strength and value of those patents. For trademarks, it is important to check the coverage – is there protection in the business areas and for your goods of interest?

Second, a buyer will want to confirm that the IP is owned by the seller (and in the context of patents, whether any government funds were involved in development or whether any inventor may have lingering inventorship rights) so that the seller can legally assign the property to the buyer. This is mainly confirmed by review of all licenses, agreements, and encumbrances relating to the IP.

Third, a buyer will want confirmation that the IP does not infringe any third party intellectual property rights which, after acquisition, could pose a risk to the new owner. Due diligence must consider all disputes and litigation related to the IP including IP registry actions by trademark, patent, copyright and industrial design offices in each jurisdiction the IP is registered. Contested IP may come at a lower price, but a buyer may be precluded from using that IP or may even be sued for its use of contested IP upon acquisition. This needs to be addressed and settled long before the signing of any acquisition agreement and it is unwise to rely solely on indemnifications.



Additionally, the IP itself may not be completely sufficient on its own to market goods / services in a particular territory. For example, there may be necessary regulatory permits or product certifications or accreditations which should flow with the IP from the seller to the buyer. This is normally true for IP covering food, beverage, pharmaceutical, nutritional, and personal care items. There may also be valuable know-how, associated materials or technical knowledge related to the IP for use in manufacturing products or in dealing with customers. This needs to be identified, verified, and included in the acquisition. If such know-how is transferred only by way of a license, it is best to understand who else will be allowed to use it, where, and under what terms.

Patents will require an assessment of the technology in question by the buyer's patent attorneys and an analysis of the strength of the patents to be acquired. Patent mapping can identify related technologies and current competitors, as well as key inventors in the field (buyers may want to recruit them) and, through forward citation mapping, who may be a future competitor.

The amount of time required to complete the due diligence depends on the amount of disclosure and the depth of investigation the buyer thinks necessary and the seller thinks reasonable. The exercise itself culminates in the production of two very important documents. First is the Due Diligence Report prepared by the buyer's counsel setting out in condensed format a complete picture of all relevant information disclosed by the seller and obtained by the buyer's counsel. The Due Diligence Report will assess legal risks and liabilities so that a decision, as to whether or not to proceed, can be made. Second is the Disclosure Letter which is prepared by the seller's counsel and sets out the IP, the defects in the IP and other risks. The Disclosure Letter often serves to limit the warranties set out in the S&P so that the buyer will be precluded (save for fraudulent misrepresentation) from taking action against the seller after the deal is completed.

The process of acquiring IP in Thailand is much the same as anywhere else. However, there are several areas of concern, which, if left unsettled, may cause difficulties in the future. This isn't a job that should be left entirely to your corporate M&A lawyers at head office. IP assets are unlike tangible asset deals. They require a great deal of specialist knowledge both in relation to the assets and the conduct of the necessary due diligence. Indeed, even within IP asset classes, specialist technical knowledge may be needed. Likewise, Asian companies looking to expand abroad are buying up distressed IP assets in the West. Corporate lawyers sometimes overlook this in their push to complete a deal. Calling the IP lawyers at the last minute is often a complaint. However, with the increased sophistication of Asian technologies and established brands, these deals are increasing significantly.

IP Due Diligence Checklist

<input type="checkbox"/> <i>Trademark:</i>	All trademarks should be listed and their status noted, including jurisdiction, precise wording, images and non-alphabetic marks used, renewal dates, the registered proprietor, pending applications, copies of registration certificates, and lapsed or expired marks in the last five years.
<input type="checkbox"/> <i>Copyright:</i>	All copyrighted works should be listed, noting the date and place of creation, identity and contact details of the author(s)/creator(s) and of the current owner, and the mode of copyright acquisition.
<input type="checkbox"/> <i>Design:</i>	All designs should be listed, noting jurisdiction, design and image thereof, Locarno class(es), application and registration numbers, annuity / extension dates, the registered proprietor, and all expired or invalidated designs in the past 10 years.
<input type="checkbox"/> <i>Patent:</i>	All patents and patent applications should be listed, noting jurisdiction, application and registration numbers, status, and the registered proprietor. Any patentability opinions, patent plans, the patent portfolio, descriptions of “design around” efforts, infringement assessments, freedom to operate opinions, clearance opinions, or validity assessments held by the seller should also be included.
<i>Know how, associated materials, technical knowledge, etc.</i>	
<input type="checkbox"/> <i>Other Intellectual Property Rights:</i>	<ul style="list-style-type: none"> ◆ Domain names ◆ Common law unregistered and unfair competition rights and common law goodwill ◆ Unregistered trademarks, logos, and/or business names, including those in foreign languages ◆ Brand descriptors or brand extensions or any other tag lines, sub brands, and slogans
<input type="checkbox"/> <i>Third Party Rights in the IP:</i>	These should be listed, noting all third parties with any interest in the IP, rights held, the source of those rights, and the relevant jurisdiction.
<input type="checkbox"/> <i>Litigation and Disputes</i>	should be listed, noting parties, the nature of the dispute, jurisdiction, cause(s) of action, status, etc. for any actual, pending, or threatened litigation, administrative action, or settlements.
<input type="checkbox"/> <i>Regulatory Approvals:</i>	These should be listed for all countries where obtained or applied for, along with a copy of such approval, for food, beverage, pharmaceutical, veterinary, nutritional, medical devices, agribusiness products, hazardous substances and personal care items.
<input type="checkbox"/> <i>Manufacturing information:</i>	This includes current and past manufacturers, copies of current manufacturing contracts, and current and past label and packaging printers, print plates, and mould ownership details.
<input type="checkbox"/> <i>Transitional arrangements:</i>	These are important in cases where Seller participation is necessary for Buyer’s smooth takeover of existing business
<input type="checkbox"/> <i>Product formulations:</i>	These are for branded products
<input type="checkbox"/> <i>Customers, shops, outlets or wholesalers:</i>	This includes those that are involved with the IP
<input type="checkbox"/> <i>Territory:</i>	In cases where the acquisition is non-global
<input type="checkbox"/> <i>Security interests in intellectual property</i>	



Chapter IV: A closer look at license agreements



What is the definition of a license agreement?

A license agreement is simply a contract that governs duties, rights, and obligations between parties to a transaction. The licensor is generally the owner or holder of title to certain rights and the licensee is the party who has contracted to use some or all of those rights with or without certain restrictions.

License agreements arise in many contexts in Thailand. For example, some licenses are created in the process of selling a business, while others arise as the result of a party's wish to grow or develop by acquisition of rights to new technologies, trademarks, content, or other valuable assets. Other licenses may arise in the end game of litigation.

As demonstrated below, license terms may be dictated by legislation, negotiation, or practical considerations that have critical importance in Thailand. Specifically, although Thailand is generally a 'freedom of contract' jurisdiction, some provisions are absolutely required in certain license agreements, while other terms are not permissible or advisable in such agreements.

Thai legislation only touches on a few basic aspects of license arrangements. The parties must negotiate most of the terms of a given license. A bargain at arm's length will generally not be disturbed by the Thai courts unless there is a clear public policy reason to do so.

How are licensing agreements interpreted?

Terms Mandated by Law

As mentioned above, under the Trademark Act, owners of trademarks or service marks registered in Thailand who license other parties to use their trademarks or service marks for any or all of the goods or services for which the marks are registered are legally required to register the license agreements with the Registrar of the Trademark Office of the DIP.

In other aspects of the agreement, some terms are generally forbidden by law. 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;
- 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; and
- 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 will 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; and
- 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.

Thai antitrust law also may play a part in the regulation of intellectual property licenses. The law on trade competition in Thailand is principally enshrined in the Trade Competition Act 1999. This legislation, in section 25, sets out a number of activities which will be proscribed in respect of entities that are essentially dominant in the market. These proscribed activities correspond to the type of activities that are restricted in other jurisdictions and termed as abusive dominance or unfair monopolization. These activities, outlawed in Thailand, include:



- Unfairly fixing or maintaining the purchase price or sale price of goods and services;
- Unfairly imposing compulsory contractual conditions in either a direct or indirect manner and in terms which require a customer to limit the provision of services or limit the manufacture or the purchase and sale of goods. Or the terms may restrict the opportunity for a customer to buy or sell goods, acquire or provide services, or obtain credit from other business operators;
- Suspending, reducing, or limiting the provision of services or the manufacture, purchase, sale, delivery, or importation without reasonable ground, and the destruction or damaging of goods so as to reduce the quantity thereof to a level lower than market demand; and

Generally, to fall foul of these provisions, the licensing party would have to hold a dominant position in the relevant market. None of Thailand's intellectual property statutes dictate that an intellectual property right holder automatically holds a dominant position for the purpose of this legislation; however, in many cases, a licensor will hold such a market controlling position due to the lack of viable substitutes for the protected intellectual property.

Section 27 of the Trade Competition Act is also relevant to intellectual property licensing. The provisions of this section seek to prohibit collusive behavior between undertakings which could be regarded as anti-competitive. Among the types of collusion prohibited are price fixing and market segregation agreements, cartels, and restrictions on field of use.

The Protection of Layout-Designs of Integrated Circuits Act (BE 2543) makes specific reference to competition legislation by requiring licensors to ensure that license agreements do not contain terms which are anticompetitive. Moreover, Ministerial Regulation Number 25, issued under the Patent Act (BE 2522), dictates that prohibited terms in patent licenses include "conditions, which are against the law relating to competition."

Terms Open to Party Autonomy

As Thailand is generally a 'freedom of contract' jurisdiction, the parties may essentially agree on any term in a license agreement, provided there is no unfair limitation of competition or violation of public policy. In certain situations, a licensor must be reasonable in setting terms. If not, the term may be held unenforceable as an unfair limitation on competition. For example, in the copyright context, a 'tying arrangement' may be prohibited. In a tying arrangement, the licensor establishes a requirement that the licensee must purchase from the licensor (or his agent) materials for use in the production of a copyrighted work. This type of tying arrangement would be seen as anticompetitive and would be unenforceable.

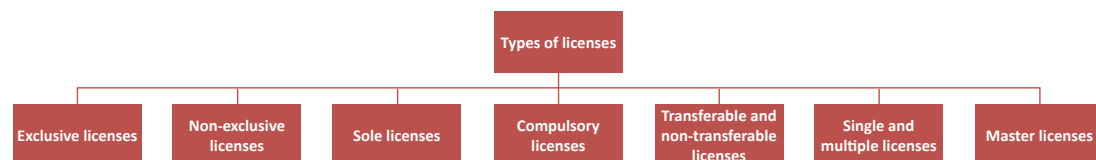
In other contexts, if the licensor or rights holder refuses to grant a reasonable license to a licensee, the Director General of the DIP may intercede and grant a license on such conditions, restrictions, and royalty terms, as he deems appropriate.

Terms Presumed Absent Party Stipulation

Thailand is a civil law jurisdiction; therefore, the Common Law notion of ‘implied terms’ to give effect to the intention of the parties generally does not apply. However, in some limited circumstances in licensing scenarios, some terms may be implied. For example, according to the Civil and Commercial Code, if the object of a reciprocal contract is the transfer of a right in a specific tangible object and such object is damaged or lost by a cause which is not attributable to the licensee, the loss or damage will be held to fall on the licensor.

Third-party beneficiary status also may be presumed under Thai law. If a party to the license agreement agrees to tender performance to a third person, the latter has the right to claim such performance directly from the promisee. In the patent context, if the licensor unreasonably refuses to grant a license and the Director General of the DIP intercedes and grants a license to the applicant under sections 46, 47, or 47 *bis* of the Patent Act, certain conditions and restrictions will be presumed, including the scope and term of the license granted, the right to appoint other licensees, the non-transferability of the license, and royalty level.

What types of licenses are available?



Exclusive Licenses

An exclusive license arrangement is one where the licensee expects to have the sole right to use, manufacture, sell, or distribute technology, products, content, or other licensed assets in a particular territory. To determine whether the licensor has kept the right to grant another license to other licensees, one must examine the terms and conditions in the license agreement to see whether the licensor grants an exclusive or a non-exclusive license to the licensee. For example, under a Ministerial Regulation issued under the Trademark Act, a term specifying whether the license grant is exclusive or non-exclusive must be included within the terms and conditions in a trademark license agreement.

According to the Copyright Act, a license grant can be made with or without imposing any terms and conditions. Generally, the terms and conditions of a copyright license agreement may not restrict fair competition as prescribed in the Ministerial Regulations. If the license agreement does not include a provision prohibiting the copyright owner (licensor) from granting to additional persons the use of such rights, it will be presumed that the copyright owner (licensor) has the right to do so.

In the patent context, a license agreement for a registered patent is required to be made in writing and registered. 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.

Non-Exclusive Licenses

In a non-exclusive trademark license agreement, the trademark owner will have the right to use the trademark or authorize any person in addition to the authorized licensee to use it. This term must be specified in the trademark license agreement, or the agreement cannot be registered with the Department of Intellectual Property.

For a patent license, the law does not provide whether exclusive or non-exclusive license provisions must be included in the patent license. Therefore, the parties can agree on this term. Under the Copyright Act, a non-exclusive copyright license avails the copyright owner of the right to grant to as many persons as he deems appropriate the use of such rights.

Sole Licenses

A sole license is an intermediate form of license between an exclusive and a non-exclusive license. When granting a sole license, the licensor typically desires to grant the licensee rights which are akin to an exclusive license, but the licensor also retains the right to use the intellectual property.

Hence, a sole licensee is not in the same position as an exclusive licensee but is in a generally better position than a non-exclusive licensee who is typically faced with the prospect of a multitude of licensees. Sole licenses are often used in circumstances where the licensee's ability is unclear and where the licensor desires the right to exploit the intellectual property where the licensee has failed in its obligations.

Compulsory Licenses

Compulsory licensing arises when a government regulation results or could result in the taking of property, even if 'ownership' remained with the purported property owner. In the area of international intellectual property, fair use exclusions and compulsory licenses are the most frequent 'takings' which have been sanctioned to some extent by the international community.

In Thailand, discussions of compulsory licensing most often arise in the patent context. An applicant may apply to the Director General of the Department of Intellectual Property under patent law for a license to be granted on such conditions, restrictions, and royalty terms as agreed on by the patent holder-licensor and the applicant. If the applicant and the patentee cannot agree on terms within a specified period, the Director General will grant a license to the applicant on terms he considers appropriate.

If a patentee fails to appropriately work the patent, an applicant may, within four years from the patent application date or three years from patent grant, apply to the Director General for a license. The Director General also is empowered under Thai law to grant a compulsory license in the case of emergency or state of war, or to prevent or alleviate a severe shortage in foodstuffs, medicine, and the like. The Thai Copyright Act also contemplates the possibility of the Government issuing compulsory licenses for copyright where the forecasted use of the copyright is not for profit, generally research-related, and where an agreement between the copyright owner and the license seeker could not be reached in a reasonable period of time. A compulsory license also may be issued where an owner's refusal to issue a license is unreasonable. A compulsory license also may be obtained under the protection of Layout-Designs of Integrated Circuits Act (BE 2543). In particular, such compulsory

licenses may be available where the owner of the layout-design right has exercised his rights in an anticompetitive manner, or where the necessity of national defense, security, public safety, health, or environmental dictate.

Transferable and Non-Transferable Licenses

It is generally a matter of negotiation between the parties to choose whether a license will be transferable or non-transferable or assignable or non-assignable.

Single and Multiple Licenses

It is generally a matter of negotiation between the parties to choose whether a licensor may grant more than one license or whether the licensee may sublicense to other parties.

Master Licenses

Master license arrangements are possible, depending on the licensor's business model and the agreement of the parties.

What are the procedural requirements?

All patent licensing agreements must be in writing and submitted to either the DIP at the Ministry of Commerce, a Provincial Commercial Office, or another agency as prescribed by the Minister of Commerce. Similarly, all licenses of layout-design rights must be in writing and registered with the DIP.

A trademark license agreement must be made in writing and registered with the Trademark Office Registrar; otherwise, it will be void. A distribution agreement in which the trademark is used by the distributor may be distinct from a trademark license agreement and thus may not be void if not registered with the DIP. The Registrar may issue an order accepting the license agreement, imposing conditions or limitations as he deems suitable for the well-being of the public. The documents required to file an application for registration of a trademark license agreement are as follows:

- Powers of attorney from the licensor and licensee with notarial acknowledgement;
- The original license agreement executed by the authorized directors of the licensor and licensee with notarial acknowledgements or a certified copy of the license agreement notarized by a notary public, along with a Thai translation;
- A copy of the latest certificate of trademark or service mark registration or renewal in the Thai language.

A principal benefit from recording a trademark license agreement is that the use of the trademark or service mark by the licensee will be deemed as use of the mark by the licensor, which can be raised as a defense in the event of a cancellation action for non-use. The licensor or the authorized licensee also can take action against trademark counterfeiters.



However, the right of the licensee to take action against infringers depends on the extent of the terms and conditions set forth in the license agreement. Therefore, it is for both the licensor's and licensee's benefit to be very clear in the agreement concerning the licensee's ability or obligation to protect or enforce the mark. Section 78 of the Trademark Act states that:

“... [i]n the absence of any provision in the trademark license agreement to the contrary, the authorized licensee will have the right to use the trademark throughout the country...”

Section 78 may be interpreted as conferring the right to protect the mark. However, research has failed to disclose any case precisely on point. As in most jurisdictions, licenses in Thailand will see the licensor retaining the right to enforce but, if it chooses not to do so, having a provision whereby the licensee is obliged to enforce or may choose to enforce or not, but having to keep the licensor abreast of all developments and without any rights to settle without the licensor's approval.

With respect to civil law, any action directed against intellectual property infringement by a third-party licensee, to be on the safe side, should also be joined by the licensor and/or intellectual property owner. In a case before the Intellectual Property and International Trade Court (IP&IT Court) in 2003, a judge rejected the action brought by the plaintiff (the licensee) because the litigious patent has not been filed in Thailand, and therefore no actions were available.

The plaintiff licensee was deemed an injured person and was not entitled to take criminal action in case of possible patent infringement; the license agreement only authorized him to use the patent rights (exclusive right to produce and sell). In other words, the agreement did not state that the licensee was authorized to take legal actions on behalf of the licensor and, thus, in this case the court found no standing to sue. This decision highlights that the license agreement should clearly identify rights to enforce. With respect to penal law, the limit of the licensee's rights is identified by the conditions set out between both parties in the license agreement. If the licensor restricts the right to take any action, the licensee is bound by the restriction in the agreement. In the absence of any restriction, our interpretation is the same. The licensee most likely has the right to file a complaint with the police and attach a copy of the recorded license agreement as evidence of standing. Safe practice dictates that the licensor-owner should join in any complaint filed by the licensee in a criminal action. In the event that either the licensor or the licensee breaches the licensing agreement, either party can of course initiate private settlement negotiations. If this fails, the parties may turn to the agreement proper, which may contain a dispute resolution or arbitration clause, and follow the procedures outlined therein. Alternatively, the complaining party may file a claim in the IP&IT Court of First Instance, while appeals may be filed with the Supreme Court. In the event that the licensing agreement is infringed by a non-contracting party, the complaining party may file a claim in the IP&IT Court directly. Both criminal and civil action can be taken, as stipulated by the patent, copyright, and trademark acts and ministerial regulations. The Director General of the DIP is the Minister of Commerce's appointee for regulating all of the licensing agreements.

Chapter V: Protecting your commercial assets



How can your intellectual property rights be enforced?

Thailand has long been a popular country for companies to have goods manufactured. It has a skilled labor force, especially when it comes to apparel, and it offers competitive labor costs. However it is vital to have strong license agreements in place when authorizing such companies to manufacture and/or distribute your goods to ensure that these benefits do not suddenly turn into problems.

For one reason or another, most license arrangements come to an end. However, care must be taken to ensure that the licensed activities also come to an end. A common problem in Thailand, and indeed in Asia, is that ex-licensees will continue to manufacture, distribute, or sell the goods following termination of the agreement. It is important to have very clear termination and phase-out clauses in the license agreement so that each party knows exactly what they are allowed to do following termination.

Clarity on such issues also makes recourse to the courts much easier in cases where the ex-licensee continues their activities even though they are not authorized to do so. The unauthorized activities of the ex-licensee could qualify as breach of contract in addition to possible trademark infringement. In a situation where the written contract is clear and there is evidence that the ex-licensee is continuing to manufacture and distribute goods post-termination, what courses of action does the IP rights holder have?

Once the sublicense agreement is terminated, any unauthorized use of the licensed trademark by the sublicensee is actionable under trademark infringement causes of action and breach of contract if such termination clause survives.

Since 1996, Thailand has enjoyed the benefit of the establishment of the IP&IT Court. As a specialized court, it has jurisdiction to hear matters relating to intellectual property law, including intellectual property licensing. The IP&IT Court is staffed by judges with expertise in intellectual property law, many of whom are high-profile judges who received legal training abroad. In addition to the trained judges, associate judges who specialize in areas relating to disputes (in such fields as chemistry, biology, engineering, software or information technology, entrepreneurship, etc.) will be appointed to hear cases as well. The plaintiff can claim damages and request the Court to issue a permanent injunction against the infringers. Preliminary Injunctions and Anton Piller orders are available in the Thai system, and although the Court takes extreme consideration when granting both orders, several such orders have been issued in recent years.

Once the complaint is filed, the litigation takes approximately 18 to 24 months before judgment at the trial level is received, depending on the number of cases in the court docket. Because the IP&IT Court is a court with special jurisdiction, a party who is dissatisfied with the judgment can submit an appeal directly to the Supreme Court. The Supreme Court judgment will be issued approximately 12 to 18 months after an appeal is submitted.



Importantly, Thai courts do not automatically accept overseas judgments to be enforced directly in Thailand. Therefore, a fresh court action must be commenced in Thailand to bring a full action based on Thai laws with full evidence and testimony. The court may take into account overseas judgments when reaching their decision.

Mediation

The IP&IT Court and the DIP regularly encourage parties to mediate disputes relating to intellectual property matters. The venue for pre-litigation mediation is the Office of Dispute Prevention and Settlement at the DIP. After the case is filed, a party can file a request with the Office of Mediation at the IP&IT Court to propose mediation with the opposing party. If the parties decide to go forward, a mediator judge who is not involved with the main trial will be appointed to mediate the case. No documents are exchanged and discussion during the mediation sessions cannot be used as evidence, nor will it be logged in the main pleadings.

Arbitration

Arbitration clauses which specify the venue and jurisdiction for arbitration are recognized and enforced by the Thai courts under Thailand's Arbitration Act. As a party to the New York Convention on the Enforcement of Arbitration Awards, any award duly rendered abroad under a contractual agreement of arbitration can be enforced in Thailand. In light of this, it may be preferable for the franchising / licensing agreement to refer all disputes to arbitration before a defined arbitration panel in the defined jurisdiction.

Many arbitration cases in Thailand are overseen by the International Chamber of Commerce. However, Thailand has two main local entities for this purpose: (i) the Institute of the Alternative Dispute Resolution Office, Office of the Judiciary; and (ii) the Thai Commercial Arbitration Institute of the Board of Trade. Companies sometimes prefer to choose the Singapore International Arbitration Center or the Hong Kong International Arbitration Center because their centers are deemed to be neutral and experienced, and the mediation is conducted in English.



Chapter VI: In summary, what to avoid – common mistakes made in IP commercialisation

For a foreign company interested in an Asian target, are there any particularly tricky steps which deserve more attention than you might normally pay? By taking a proposed acquisition of a Thai business by an overseas business as an example, several lessons can be learned that are relevant to all commercial IP deals.

The Non-Disclosure Agreement – an important first step in deal planning or an overzealous overreaching attempt to look strong?

Obligations of non-disclosure and confidentiality are important for any type of deal touching on IP, not only for technology, IP and trade secret matters which may be the target of the purchase, but also for business strategies, new product ideas and financial and accounting information which are likely useful to decide whether a deal will go forward.

Non-disclosure and confidentiality undertakings are enforceable in Asia provided they be reasonable and fair and not do violate the public interest. Normal Western-style confidentiality undertakings setting out the agreed terms of what constitutes the “confidential information” and what does not, acknowledgement of proprietary interest in the confidential information and penalties for unauthorized disclosure, etc are also common in Asia.

However, sometimes your Asian counterpart may feel uncomfortable with your standard NDA. He may feel that you are taking too formal of an approach to a relationship he believes should be built on trust rather than legally enforceable rights. This is usually the reaction if the NDA and its obligations are one-sided. While non-reciprocal NDAs may be achievable in terms of a licensor/licensee relationship, a buyer-seller relationship is different and the necessary (and expected) disclosure of information needed to decide whether the deal progresses should be explained to your Asian counterpart. If this still cannot be agreed, then a prudent buyer will ask himself why uncertainty remains and whether this particular target is appropriate.

Sometimes, the non-disclosure undertaking you seek may not be directly with the target, but rather with employees or other third parties connected to the target or to the target IP. If you are not in a position to enter into a NDA directly with those people who know of the confidential information, you can ask your seller counterpart to add its own confidentiality restrictions (as riders to existing or in new agreements) to its own agreements with its employees, agents, etc and you should request copies of these. This is common and we would certainly advise it.

Disclosure Statement – what is the minimum expected and how much can/should you ask for?

The attractiveness of acquiring a business in Asia is not only the prospect of an instant market for goods or services the target already sells or manufactures, but also the ability to acquire valuable IP rights or to source materials at prices often more competitive than in other countries. Having a business here also makes for easy distribution within the Asia Pacific region. However, when acquiring a business in Asia, it is imperative that you get the seller to identify defects in the IP, in the market and in the business

which may affect your purchase price or which will need to be corrected (possibly with the help of the seller). Representations and warranties from the seller should be expressly set out in the acquisition agreement and the Disclosure Statement serves to limit these (save for fraudulent misrepresentation on the part of the seller) by identifying such problems and putting the buyer on notice that they exist. This should be explained carefully to your Asian seller so that he understands that this serves to protect him against future claims you may make for breach of warranties and representations.

Many times, sellers may not be able to answer all of the buyer's questions on existing IP portfolio defects, disputes or business concerns. This is particularly true if the IP has not been carefully maintained (which occurs frequently in Asia with local domestic counsel and registries themselves making mistakes). There may be disputes over the IP both in Asian IP registries as well as on the ground with infringers or with others who claim that the IP you wish to buy infringes their rights. Sometimes, a seller's business is strong in some countries, but not in others. You should be wary of any seller who paints only a rosy picture and fails to disclose any problems. In many Asian jurisdictions, the time and costs of litigating representations and warranties can be extremely high and will likely take years to resolve (if at all). This, of course, may delay rollout of your business plans.

Defining the IP – registered vs unregistered IP

Many times the type of IP that you want to acquire is mixed bag of properties. Is it registered rights like patent or trademark which can be easily identified and verified by checking with the particular country registers where that IP is located? Registered IP rights are those which the government has granted to an owner and are represented by certificates of registration. These are easy to identify and contain all the information necessary to check at their respective registries whether the rights are valid and subsisting and registered in the name of the purported owner.

Or is it unregistered rights such as copyright, know-how or common law rights to various enforcement options such as passing off? Determining the type of IP rights will assist in the drafting of the acquisition agreement particularly in terms of the types of warranties you will demand from the seller. Unregistered IP rights may also take the form of trade secret or confidential information, in which case the seller must be able to describe the property in enough detail for a buyer to fully understand it (and for his lawyer to define it in the acquisition agreement). This can be a simple step if the target technology is a product, but if it is a process for the formulation of something or a process for effecting some desired result, then the description may be more complicated, especially if the process is a trade secret or confidential information kept in the heads of a small reference group of employees or inventors or in an operator's manual that the seller may not want to share until the deal is completed.

IP may also exist in the services necessary to maintain registered and unregistered IP, for example trainings on improvements and upkeep and maintenance visits. If such services are needed in order to maintain the IP you are acquiring from an Asian seller, then you must have these identified and require that the service contracts be novated to name as the recipient after you acquire the associated IP.

Due Diligence – on IP to be bought/licensed as well as on your IP partner

While Asian IP due diligence should be approached in the same manner as you would in your regular experiences, there are three issues which sometimes go under-investigated.

First, a company 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 prioritization is crucial.

Unwanted IP may be offered up despite it having no real value to the existing or planned business. While it is wise to accept any IP which, if left unacquired, may be used to compete against the business you plan to operate, such unwanted IP should not be factored into the purchase price or at least should not be valued as high as desired IP. In addition to the normal registration details of the various IP rights including territory where registered, registration number (or application number if the registration is pending), goods/services covered (for trademarks), renewal/annuity details, registered proprietor's name, etc, we advise buyers to also request information on domain names, common law unregistered passing off and unfair competition rights (yes, there are some common law jurisdictions in Asia), confidential information/trade secrets, foreign language marks, all lapsed and abandoned IP rights and brand descriptors/brand extensions. Anything left out poses the risk of being used against you later. This is especially true when the seller is retaining some segment of the market for himself.

Second, a seller should also confirm that it owns the IP and can therefore legally assign it and that no one else has any claim to it. Undisclosed issues of ownership, inventorship, charges or other encumbrances and state funds which may have been used to develop the IP may not be reflected in status reports from Asian registries. If the seller is not specifically asked about such issues, it is rare that he will offer these. It is crucial for a prospective buyer to know how the IP was developed, by whom, when, and with whose money.

Third, the company should ensure that the technology does not infringe upon any third party's IP rights which, after acquisition, could pose a risk to the new owner. This may involve review of licenses and agreements, financial and manufacturing data, customer lists and most importantly IP registration details. Due diligence must consider all disputes and litigation related to the IP including IP registry actions by trademark, patent, copyright and industrial design offices in each jurisdiction the IP is registered. Contested IP may come at a lower price, but a buyer may be precluded from using that IP or may even be sued for its use of contested IP upon acquisition. This needs to be addressed and settled long before the signing of any acquisition agreement and it is unwise to rely solely on indemnifications.



Valuation – the dark horse of the IP world – valuation models and how these may work in Asia

The black art of IP valuation is sometimes even more daunting when undertaken in Asia. Various valuation models exist and calculating IP value in Asia can be difficult in those countries where accountancy standards may not be to an international standard. Rarely in Asian IP deals would you find identification and calculation/assessment of intellectual capital expressed as a management statement attached to the Balance Sheets of Annual Reports. Two common factors do, however, seem to be included in most of these, namely (i) marketability of the IP and (ii) revenue generation potential. While this is a highly specialized area for experienced accountants and IP professionals only, there are some precautions you can take to help ensure the figures you get are as close to correct as possible.

A market approach to IP valuation asks whether IP purchased will be used in an existing and growing market or a new market. Your seller may calculate the existing market's value by creative means which you should attempt to verify by independent sources. In new market sectors there is likely to be even more uncertainty as to success of the IP you are buying and hope to exploit.

To measure revenue generation, a buyer would look to existing licenses or other agreements the seller enjoys to determine value of the IP to be acquired. From this review, royalties/license fees can be anticipated, future licensing possibilities can be explored and use of the acquired IP for other purposes/applications can be considered. Again, royalty generating agreements an Asian buyer presents to you to prove revenue generation potential should be independently verified. This can be done by contacting the source paying the royalty or checking tax returns to confirm if royalties have been declared.

Territories where the IP will be used need to be especially scrutinized for known revenue generating value, IP defects, potential disputes or other problems. Value should be re-calculated to reflect the risk. All this can drive the purchase price down.

Brand localization – translate or transliterate – the importance of local language trademarks and slogans

If the trademarks you are acquiring in Asia are purely Latin or are purely in local script, then you will need to decide whether these will match your business plan. Many times we are asked whether a Latin script trademark should be made into a Chinese character (中文汉字), Japanese hiragana (かんじ), Korean hangeul (한글), Thai script (ตัวอักษรไทย) or other scripts for registration and use in Asia. There is no easy answer for this question. The question must be considered only after understanding the differences in two fundamental areas – language and consumer behavior.

Like all markets, Asia's consuming public are extremely segmented. Differences exist in where people live, levels of education, earnings, ages, etc. Not all people are attracted by the same thing. Some consumers may choose to purchase a product or a service because it is branded in a way that describes its quality, purpose and function clearly and in terms they understand and are comfortable with. Others may be attracted to the complete newness of a brand which may not communicate anything about the product. Still others may make their purchase decisions for foreign products because they already know the foreign brand.

There are two good reasons to register an Asian script trademark. First, even if you plan to conduct your marketing under your Latin script trademark, you should remember that the vast majority of

Asian people do not read or speak a foreign language. Most may not even be able to sound out your Latin script mark. Second, in Asia, if consumers can not sound out your Latin script mark, then they will come up with their own descriptor for your product and will begin to refer to it by that local word rather than your Latin script word. Eventually, someone will pick this up and register this in local languages and may then begin selling similar goods under that local language trademark, which means you may lose market share and will have to fight to get the registrant to stop.

Sometimes you may be able to negotiate with a seller to make the application for the unregistered mark (be it a missing Latin or Asian script mark) and then include the application in the acquisition. This can save time and costs for you.

Securitization – taking “charge” over someone else’s IP

As Asian companies expand their businesses globally, financing for this growth becomes important and IP assets are becoming a popular means by which to acquire loans. IP securitization really took off in the West in the late 1990s first with music copyright (the “Bowie Bond” transaction of 1997 backed by the future revenues of David Bowie’s song catalog) and then quickly moved into patents. The first recorded loan backed by IP in China was made in 2006 when the Industry and Commercial Bank of China loaned RMB¥2 million (approximately US\$250,000) to companies in Shanghai who backed it with their patents. It is a trend we see increasing which means that the IP you may acquire may very likely be something that someone else already has a (security) interest in.

Financing firms lend and then secure their loans by way of charges over the borrower’s assets. When intangible IP assets are pledged as collateral for loans or to secure a debt already owed, the security interest must be recorded with each respective registry which maintains the IP. Most Asian countries have rules and regulations regarding secured interests and other guarantees, but problems arise when IP registries are engaged to record or release these.

Often, registries in Asia may be less knowledgeable and less efficient in such requests for recordal of security interests over patents, trademarks, copyright or even domain names. In complex financing where there may be multiple or subsequent chargees, releasing prior recorded security interests so that subsequent security interests can be charged can be especially difficult. Registries may request sensitive supporting documentation such as the facilities agreement or the debenture. There may be issues raised by registry officers if there are prior recorded licenses over the charged IP. Encumbrances such as security interests over IP assets must be carefully investigated prior to any acquisition in Asia.

Non-competition covenants

After the acquisition of IP and business rights in Asia, you should consider how the seller may compete (unfairly or otherwise) in the market after your arrival. Non-competition clauses are generally acceptable in Asia, though the region is adopting various anti-monopoly regulations which must always be considered in light of your desired non-competition covenant (China is the most recent example). However, as stated above, only if these restrictions are considered fair and reasonable will they be upheld as valid under the laws of most Asian jurisdictions.

It is important to consider non-competition especially if there are transitional arrangements in place between the buyer and seller as the buyer begins to gradually take over the business from the seller.



A zero tolerance policy is usually unwise in Asia in the weeks just after completion as things do move slower here. We do advise keeping close watch on any transgressions as these should be noted and evidenced for future use.

Governing law

Buyers and sellers are free to select the governing law of their IP acquisition agreements and are not required to be based on the law of the jurisdiction where the assets are registered. Typically, this will be the law of the buyer's jurisdiction as he will want to ensure adequacy and familiarity with his law in case of future disputes. However, there may be relevant laws and regulations of the seller's jurisdiction where the IP exists which may require consideration. Certain technologies may be prohibited or restricted from foreign ownership or export and government approval for assignment may be required. If the IP is one part of a larger asset acquisition deal, then there may local regulations which govern the acquisition of the other assets.

Timing

Do not underestimate the time needed to complete an IP acquisition in Asia. Signatories can be tricky as many jurisdictions require proof of authorization for an individual to sign to bind a body corporate. Certificates of incorporation to prove the legally valid and existing status of a body corporate are often necessary too. Translations of these and other documentation necessary to complete a purchase can be lengthy exercises and often expensive. Contracts usually require the parties' chop (seal) in order to prove legitimacy and if you do not have one, you will need to get one. Finally, the actual recording of the IP assignment agreements from the seller to the buyer can take several weeks before the new owner's name is actually changed on registries and the intermittent limbo period may make enforcement of your newly acquired rights very difficult.

Conclusion

IP is fast becoming a focus for capital markets and the investment community in Asia as the region grows in consumer sophistication and technological innovation. As IP-driven Asian companies grow, they will increasingly be seen by investors and competitors as attractive targets. By careful planning and practical local advice, IP commercialisation in Asia can assist in your expansion plans.

Testimonials:

In a common case in Thailand, a western sports apparel company ended an agreement with its Thai licensee that was previously authorized to distribute in Thailand and have goods manufactured by prior-authorized factories. Subsequent to the termination, the licensor wished to enter into another arrangement with a new licensee. This is a case that “underlines the importance of having secure IP but also a strong license agreement with your manufacturer and distributor in Thailand”.

The problem that usually arises is that the ex-licensee will continue to instruct unauthorized factories. These factories are also far below the standard that this apparel company would normally authorize—not only in terms of quality, but also in relation to health and safety and labor law standards, including the employment of underage workers. The low-quality unauthorized product continues to flood the market and lowers the brand value, also making the future licensee uneasy about signing up as the next distributor. The goods were being made in breach of contract, as there were clear phase-out provisions that were not being met, in addition to the substandard factories. Moreover, the unauthorized manufacturing constituted fresh acts of trademark infringement.

It is unlikely that the police would wish to get involved here, since it would be deemed a civil law matter. It would therefore be difficult to initiate a criminal raid action in such circumstances. An option definitely worth considering would be to apply for a search-and-seize order via the civil courts (the “Anton Piller” order). However, to ensure the highest chances of success in obtaining such an order from the court, the following criteria should be present:

1. A strong prima facie case with clear legal grounds for the action.
2. Risk of irreparable harm.
3. An emergency situation.

Having clear termination and phase-out clauses in a license agreement improves the strength of the prima facie case and legal grounds. Also, if the rights holder can gather actual evidence of the ongoing unauthorized manufacturing or other activities; this would give significant weight to the case.

As for risk of irreparable harm, there must be evidence of damage but also that such damage would not likely be recovered if the action proceeded to a final hearing. Demonstrating an emergency situation could be linked to the irreparable harm, but would normally involve goods being moved or evidence of infringement disappearing. In these circumstances, the civil search-and-seize order could be an efficient way to secure evidence of infringement and prevent further damage being done to the brand and indeed the local market.

It is also worth noting that it is possible to get a preliminary injunction from the civil courts to temporarily restrain the defendant from doing certain acts that may infringe your rights. However, practically speaking it should be stated that it has historically been extremely difficult to obtain such an order because, whilst the judges are open to considering these motions, they will often believe that where damages and a final injunction may be obtained and are an appropriate remedy, a preliminary injunction is not necessary.



Taken together, these factors provided a good prima facie case for the licensor to pursue action, but fairly weak arguments on the irreparable harm and emergency situation requirements for a search-and-seize (“Anton Piller”) order. During the course of considering what action to take, coincidentally, the ex-licensee will usually commence a clearance sale in Bangkok to try to get rid of all stock. Items will be heavily discounted at up to 90 percent off retail prices, and the sale will give rise to the risk of irreparable harm and an emergency situation, since all the stock could well be sold within one to two weeks.

It will now be possible to obtain the Anton Piller order against the ex-licensee as all three requirements for the order were present. The Court Execution Office will carry out the execution of the order and seize all stock at the ex-licensee’s premises. This stock is held by the Court Execution Office until final resolution of the matter, either by judgment of the Court or by settlement.

In the past few years, Anton Piller orders have not often been granted by the civil courts in a trademark infringement situation. However, this case shows that in certain circumstances, such as when dealing with a problematic ex-licensee, the Anton Piller order can prove to be an extremely helpful tool.



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