

Using Contracts to Protect your IP in South-East Asia: Non-disclosure Agreements and Employment Agreements

There are many ways in which intellectual property (IP) owners should protect their valuable assets. Perhaps the most apparent ways are to register the IP in relevant jurisdictions and then enforce that IP right against infringing third parties. There is, however, a very practical and pre-emptive way of protecting IP on a commercial level. SMEs should also think about protecting their IP with different contracts like non-disclosure agreements, memorandums of understanding and employment contracts.

A large proportion of the value of business is derived from IP due to its presence in SMEs' everyday business. IP can create value and revenue in a number of ways: it can be sold or licensed, contributed as capital in a joint venture, offered to enter into strategic alliances, integrated with a current business, or used to create a new business. The people and companies that SMEs do business with, and therefore contract with, will often use SME's IP to varying degrees. When doing business that involves IP, there are two key points to bear in mind: always use written contracts wherever possible and ensure that, where relevant, that company's IP is covered in those agreements.

Non-Disclosure Agreements (NDA) and Confidentiality Agreements

Ensuring non-disclosure and confidentiality is important for any type of deal—not only for technology, IP and trade secret matters which may be the core part of the deal, but also for business strategies, new product ideas and financial and accounting information, all of which are likely to be useful in deciding whether a deal will go forward. Non-disclosure and confidentiality undertakings are enforceable in South-East Asia, provided that they are reasonable and fair and do not 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 Southeast Asia.

NDAs are extremely important to SMEs and start-ups that have come up with new inventions and are looking for investors or manufacturers to produce these inventions. SMEs should bear in mind that it is important to use confidentiality and non-disclosure agreements when they have to disclose their invention to possible investors before it has been granted a patent. It is essential, because if the investing partner discloses information about the invention before the patent is granted, the invention can lose novelty and would not be eligible for patent protection. NDAs can sometimes also be helpful in the case when the partner ignores the clauses in an NDA and discloses the information, because some South-East Asian countries have legal rules whereby typically novelty destroying disclosures made in breach of confidence can be disregarded within a limited period of time from the disclosure.

Content of the Agreement

Good NDAs should try to define ‘confidential information’ and indicate whether the parties are required to record information that they have disclosed orally. Further provisions may concern ‘permitted purpose’ clauses, which means that how the receiving party can use the confidential information should be clearly defined and other uses should be explicitly prohibited in the contract. For this purposes phrases like ‘to evaluate the technology’ or ‘to evaluate the parties interest in developing research collaborations concerning...’ could be used.

When disclosing information to companies, it is important to remember that in practice these entities will need to share the information with their employees, and in some cases even with external consultants. SMEs should therefore accommodate this possibility. Yet, some limitations can be imposed to avoid an indiscriminate disclosure of information to employees and consultants. It is common to see in NDAs a clause requiring the information to be disclosed in a ‘need-to-know’ basis to employees and external consultants, as long as the individuals are aware of the confidential nature of the information and are also under equivalent obligations to keep it in confidence.

Sometimes, the non-disclosure undertaking that an SME seeks may not be directly with the target partner, but rather with third parties connected to the target or to the target IP. The SME can also ask its partner to add its own confidentiality restrictions (as amendments to existing or in new agreements) to its own agreements with its employees, agents, etc., and should request copies of these. This is common in South-East Asia and elsewhere and is advised.

What to pay attention to

Sometimes, however, SME’s counterpart in Southeast Asia, particularly if also an SME, may be uncomfortable with an NDA and feel that the European SME is taking a too-formal approach and that trust, rather than legally enforceable rights, is sufficient. This is usually the reaction if the NDA and its obligations are one-sided. While one-way 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 is also different. SMEs need to decide whether the deal progresses should be explained to their counterpart. If this still cannot be agreed, then a prudent buyer will ask themselves why uncertainty remains and whether this particular target is appropriate. Any potential business partner unwilling to sign an NDA should be treated with caution.

Memorandum of Understanding (MOU)

While technically not a binding agreement, these documents are designed to ensure that the parties are ‘on the same page’ and often involve disclosure or use of intellectual property. An MOU is usually used before parties are about to enter into a more complex written agreement such as a franchising

arrangement. Therefore, it is important to also consider using an NDA or another form of binding confidentiality provision when entering into an MOU.

Employment Agreements

Usually, 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 such agreements covering aspects from patenting of inventions and ownership of copyright to post-employment provisions regarding return of property and confidentiality. Importantly, in countries such as Indonesia or Thailand, copyright works created by an employee during the course of their employment are owned by the employee, unless agreed otherwise between the parties. On the other hand, laws in countries such as Singapore or Malaysia stipulate that in the case where the work is made by an employee during the course of his/her employment, unless there is any contrary agreement, the copyright shall be deemed to vest in the person who commissioned the work or the employer. This is something that should be checked with the South-East Asia Helpdesk team or with local lawyers. To be on the safe side, all employment agreements should contain a clause stating that all IP, including copyright works, are owned by the company. Some agreements may actually include an assignment of all copyright works from the employee to the company.

What to pay attention to

For other IP, the position is usually that the company owns it; but, for clarity, the employment agreement should state that the company owns it. Depending on the particular national laws, additional principles may apply; e.g. Thai patent law explicitly states that an employer has the right to file for a patent, but at the same time an employee-inventor has the right to receive remuneration in addition to his or her regular salary if the employer gains certain benefits from the use of the invention. This right cannot be exempted by any provisions in the employment contract. The amount of such remuneration is fixed and granted by the director-general of the Department of Intellectual Property, taking into account, among others, the employee's salary, the invention's importance, the current and future benefits of the invention.

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) to ensure ownership rights are explicitly defined. Generally, an employer can only claim rights to IP created after the date of the agreement.

In case the SME licenses its IP to a company which is an employer, it should contractually oblige the latter to introduce specific clauses into the employment agreements between him/her and his/her employees. These clauses usually identify the parties who will have permission to use the licensed rights, as well as the security procedures that are in place to prevent unauthorized use or misuse of licensed IP assets. Further assignment clauses should regulate the ownership of any improvements/modifications of the licensed IP made by the licensee's employees by stating that such IP is owned by the company.

There are also useful, practical steps that the employer-licensee can be required to complete, such as having the employee sign a separate confidentiality agreement for particularly sensitive information (trade secrets, etc.) or having the employee sign an acknowledgement of ownership form on completion of training and on ending of employment. This form can also state that all materials have been handed back to the employer when ending the employment.

Take-away Message

- Sign an NDA or ensure that there is adequate protection in your contract addressing confidentiality issues – never start business negotiations without previously contractually securing trade secrets which are to be disclosed.
- Ensure that employment contracts include provisions relating to ownership rights, remuneration, noncompeting and confidentiality (if no separate NDA is in place) – similar aspects should be addressed in joint-venture, manufacturing agreements or licenses.
- Include confidentiality provisions in all employee contracts. Even if that employee is currently unlikely to have access to confidential information, he or she may do so in future roles within the company.

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

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

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