

IP ISSUES IN JOINT VENTURES - A PRACTICAL IP COUNSEL'S APPROACH

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Introduction

The importance of intellectual property (“IP”), its value and impact on commercial deals cannot be disregarded as intellectual property now permeates practically every commercial deal whether as a key asset used by deal makers to close a deal or the lack thereof resulting in a deal breaker. As IP counsel advising on aspects of IP found in a joint venture, it is critical to understand the client’s business and needs and to work closely with the client from the outset to identify the client’s main objective for entering into a commercial deal with a third party that touches on intellectual property.

Identifying the client

Understandably, where the client is an IP owner, the IP counsel’s duty is to remind the client of the importance of

setting aside an annual financial budget to protect its IP portfolio in the various forms (whether these be in the form of trade marks, copyright, design, patents or other industrial property) especially in the countries where the client’s dominant business involving use of its IP is being carried out and also to work closely with IP counsel to ensure proper docketing of renewal dates and annuity payment dates so as to prevent the lapsing of its IP rights. In respect of IP that are either unregistrable or registrable but unregistered, whether adequate protective steps have been taken to protect these forms of IP.

Where the client is acquiring an IP or obtaining IP rights whether these be in the form of licenses, franchises and the like, the client is to be advised of the need to ensure adequate due diligence is conducted on the other party’s financial standing, ownership of subject IP and the legal status IP as being valid and subsisting. The client is also to be alerted to the need to protect its

confidential information, which shall include non-public information regarding its IP, notably trade secrets which may be exchanged during preliminary exploratory negotiations. This is to prevent the other party from using or disclosing the confidential information for any other purpose other than for the purposes of such negotiations. This is commonly done through the entry into confidential, non-disclosure agreements.

Identifying the IP

Whilst this may appear obvious, it may sometimes be overlooked and may result in conflicting expectations of parties as to the IP which is the subject of the contract. Whilst a detailed description is ideal but not practical, basic adequate descriptions and references to application numbers, registration numbers and version number of documents are to be set out in the contract. IP counsel can also be tasked with assisting with the due diligence where such information is provided so as to confirm the existence

of such IP, their application or registration status and ownership status. If the IP involved is not recorded on the register of any intellectual property office, there must at least be sufficient documents and evidence produced to verify the existence of such IP, its nature, and type.

Scope and structure

There has to be clarity in the commercial contract regarding the expectations of both parties vis-a-vis the scope of a joint venture and its structure thereof in relation to IP. For instance, does the joint venture mean collaboration without the need for creation of a separate new entity (commonly referred to as “NewCo”) to be jointly owned by parties or not? Further, is the subject IP to be assigned to and owned by the NewCo or is it a case that a mere licence is granted for use of the IP during the term of the joint venture?

If it is a case of sale and assignment and IP counsel is acting for the assignor company, the IP counsel for the assignor has to ask the assignor if it has weighed the monetary or other non-monetary consideration or benefits from entering such a deal as it is giving away its IP asset to the NewCo. IP counsel also has to explain the legal ramifications and consequences if the joint

venture were to fail in the future for any reason.

If it is a case of licensing or franchising scenario, commonly used expressions like “exclusive”, “non-exclusive”, “revocable”, “non-revocable”, “limited”, “perpetual”, “transferable” and “non-transferable” are typically used in the joint venture agreement to assist to set the background as to how the subject IP is to be dealt with during the term of the joint venture. It also helps to set the boundaries within which the actual commercialisation can occur.

Roles of parties

The joint venture has to define the respective roles of parties as regards the IP. For instance, apart from providing information or documents regarding the IP, is the IP owner required to provide training to any persons who will be assisting in the commercialisation of the IP the joint venture? Is the other party required to source for manpower, funding or acquire machinery or equipment for the joint venture?

Use, Protection and infringement

It is also not unusual that the IP owner would, in a licensing case, impose strict restrictions on use of its IP in a particular manner, whether these be in terms of territory, particular

dimensions, colour and representation of trade marks on certain goods and certain services as well as the use of IP for certain restricted purposes for instance, only in certain manufacturing processes or for research and development work etc. and the need for confidentiality of trade secrets and non-public information and protection against infringement.

Where the subject IP requires prosecution and maintenance, the parties also have to decide the party who will be bearing all costs involved in such prosecution and maintenance.

The joint venture has to further address whether there is the possibility of new IP being generated from the joint venture, the ownership of such new IP and the cost to be borne by the party who will apply, prosecute and maintain such new IP.

It is also usual in such joint venture agreements to provide what happens in an infringement, whether it be a case of infringement of the IP owner’s IP or that the IP owner’s IP infringes upon a third party’s intellectual property rights.

Hence if IP counsel is acting for the IP owner, then IP counsel should insert appropriate wording in the joint venture agreement to provide the IP owner with the right to remedies, which include without limitation to

appropriate temporary or permanent injunction and damages. However if IP counsel is acting for the other party, then IP counsel should explore with the other party the remedies it requires in the event that the IP owner's IP is infringing upon a third party's intellectual property rights and these remedies may include, the IP owner modifying the IP so that it is no longer infringing or seeking the third party's consent to continued use by the other party etc.

Confidentiality

This is not to be confused with the confidentiality and non-disclosure agreements signed by parties during the negotiation process. Usually after a joint venture is successfully entered into, the confidentiality clause in the joint venture will supersede that of the confidential and non-disclosure agreement in so far as it relates to disclosure of confidential information relating to aspects of the joint venture.

This can be wide and encompassing to cover confidential information of the IP, for instance, trade secrets or other confidential information, for instance, business information and client information.

The respective owners of the confidential information are to therefore reach an agreement on the period of

confidentiality that is to apply. This is subject to the confidential information retaining its confidential status and not having entered the public domain. Other exclusions would be that the information was already lawfully in the other party's possession at the time of disclosure without there being any breach of confidentiality or when there is a requirement by law, courts, governmental, statutory or administrative action.

Non-competition and non-solicitation

One area of concern for most business clients is to ensure that if there is a joint venture entered into, that both parties would like the joint venture to succeed and as such, during the term of the joint venture, it is not unusual for clauses to be inserted which restrict the parties from competing with the joint venture whether this be a NewCo or other form or structure. Where IP ownership of the subject IP remains with one party, it is also not uncommon for a clause to be inserted to prevent the other party from competing with the IP owner as the other party may have been privy to the IP owner's confidential information or other trade secrets. IP counsel's role is therefore to assist to scope out a reasonable boundary which balances the opposing interests

of the IP owner and the other party.

As both parties may have access to supplier and client contacts as well as the key employees of the other party, there is also the concern that if the joint venture were to fail, these contacts and employees may be solicited by the other party and hence the disclosing party has to exercise its discretion as to the amount of information it is prepared to provide and also require clauses to be inserted into the joint venture agreement to discourage such solicitation.

Ultimately, however, parties are to be advised that all such restrictive covenants will still have to undergo the reasonableness test by the courts before the courts are prepared to enforce them on the other party.

Representations/warranties/imitation and exclusion of liabilities

As IP counsel for the IP owner, representations and warranties, if provided to the other party, tend to be of a narrow and restricted nature so that protection which the IP owner considers as adequate for the other party's protection is given and yet the IP owner's legal position is not compromised. As IP counsel for the other party, the tendency is to advise the client to obtain representations and warranties that provide wide

and comprehensive coverage so that these clauses can be easily invoked when it is suspected that there has been a breach.

Likewise as IP counsel for the IP owner, where as much as possible, the liability of the IP owner is to be limited or excluded to the extent permitted by applicable laws and the converse is true if one is acting as IP counsel for the other party.

Governing law

Lastly, where the parties are from different jurisdictions, it is not unusual for each party to request for their own country's laws to be the governing law for the joint venture. Usually, the party with the stronger bargaining power is likely to succeed on this issue but it is also not uncommon for a neutral third country's laws

(which both parties consider acceptable) to be the governing law and this can sometimes also be the country where the contract is being carried out. However, as IP is territorial in nature, regard will still have to be made of the relevant applicable territorial IP laws in respect of the IP issues arising from the joint venture (whether these issues relate to ownership, use or infringement etc.).

Conclusion

The joint venture agreement has to therefore adequately address the aforesaid issues or these issues should have at least have been raised by IP counsel to the client and sufficient thought be put into it before the sealing of the deal. Whilst it is not the intention of this article to comprehensively set out all aspects or issues

regarding a joint venture, as much as possible, highlights of potential instances where IP issues may arise have been made. Each joint venture is the result of negotiations between parties who may hold a very different subjective view of its own role and that of the other party in the joint venture. As such, each joint venture poses its own unique issues which have to be dealt with and it takes an experienced IP counsel to flash out potential IP issues that matter to the client so that the client can make a considered decision regarding the joint venture.



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Connie has been in practice since 1995 with a number of well established and reputable large Singapore law practices, including M/s Khattar Wong & Partners and was formerly a Partner with the Technology, Media & Telecommunications Department at M/s Shook Lin & Bok LLP.

Connie's specialisation is in intellectual property, information technology, info-communications, media, personal data protection, corporate, commercial and regulatory matters. She has provided practical legal advice to listed companies, multi-national corporations and small and medium enterprises in the cloud hosting, media and entertainment, social media, aviation, pharmaceutical, banking and finance sectors. She has also advised clients in the shipping, construction, hospitality, logistics and manufacturing industries as well as advised exchanges, government agencies and research institutes in the bioscience and biotechnology sectors.

Connie's primary focus is on handling legal matters relating to information technology or intellectual property. Her expertise lies in advising and negotiating hardware and software licence agreements, electronic transaction agreements, the systematic, strategic and worldwide protection of IP (through filing, prosecution to registration, brand management, IP audit and managing and settling of IP disputes) as well as providing regulatory advice on internet, media, info-communications and data privacy.

Connie's experience includes cross border transactional work involving corporate mergers, acquisitions, restructuring, joint ventures and IP commercialisation through sale and purchase of IP, technology transfer, R & D collaborations, licensing, distribution and franchising.

Connie is noted in the PLC Intellectual Property Handbook as a leading Intellectual Property lawyer in Singapore and is also a recommended lawyer in Singapore in The Asia Pacific Legal 500 2009, 2010, 2011, 2014 and 2015 for intellectual property, technology and media matters.

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