



Happy Valentine's Day



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"Tip of the Month"

Outsourcing to China and Nondisclosure Agreements

When discussing new ventures or when contracting work to another party, a business often uses a standard nondisclosure agreement (NDA) to protect confidential information. Most businesses believe that using their standard NDA protects them sufficiently even when outsourcing work to China. Unfortunately, the standard NDA is useless when it comes to business dealings with Chinese companies. The reason is that the standard NDA addresses the wrong issues and is unenforceable. For dealing with Chinese companies, what's needed is a non-disclosure/non-use/non-circumvention agreement.

A U.S. company that intends to outsource manufacturing to China does not want its designs revealed to a third party. To prevent this, most companies use their standard NDA. Unfortunately, disclosure to a third party is not the problem in China.

A standard NDA is unworkable and unenforceable in China because many Chinese businesses have multiple subsidiaries (i.e. related companies) and manufacturing is often done through a network of subcontractors. The standard NDA is not designed to address the flow of confidential information between related companies and subcontractors of the Chinese manufacturer. Thus, your standard NDA must instead be modified to also focus on the control of confidential information among the related companies and subcontractors in order to be truly enforceable.

Your company, like most U.S. businesses, does not want the Chinese manufacturer to make use of your product design to compete with your company's products. This concern requires a non-use agreement. The non-use provisions focus on two issues. First, the agreement must identify your company's applicable intellectual property (IP) or confidential information and must authorize the Chinese manufacturer to only use that IP or information solely to manufacture the product for your company. Second, the agreement must require that the manufacturer agree not to manufacture the product or any similar product for anyone other than your company. This is to prevent the Chinese manufacturer from producing a similar product under the manufacturer's own trademark. Because many products are not covered by patent or other IP protections, non-use provisions are the only way to prevent such copying.

Not only do you not want the Chinese manufacture to use your product design, you also do not want the Chinese manufacturer selling the manufactured product directly to your company's existing or future customers. Because this is quite common in China, you need a non-circumvention provision in the agreement in order to prevent this from happening.

If your company is considering outsourcing manufacturing to China, the IP attorneys of Mesmer & Deleault can help you with your agreements. Please contact the attorneys at Mesmer & Deleault, PLLC by calling 603-668-1971 or contacting us by email at [mailbox @ biz-patlaw.com](mailto:mailbox@biz-patlaw.com).

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