

ESSENTIALS FOR A SUCCESSFUL FRANCHISE AGREEMENT IN THAILAND

Areeya Pornwiriyangkura

T: +66 2653 5882 | E: areeya.p@tillekeandgibbins.com

Clemence Gautier

T: +66 2653 5870 | E: clemence.g@tillekeandgibbins.com

The franchise business model is widespread in Thailand, especially in the wake of the recent recession. 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 authorises 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 licences 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 ensure 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.

Due Diligence

Prior to entering into a franchise agreement, the franchisor should conduct due diligence on the potential franchisee, such as reviewing the registered rights of the partner, any litigations in which the partner has been involved, any issues which could be raised when the product enters the market, etc.

After a franchisor 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.

Enforceability of Licensing Agreement

Legal Connector Clause and Sublicence Agreement

Thai trademark law requires that a trademark licence agreement (which a franchise agreement would be considered if a trademark usage right is granted to the franchisee) must be made in writing. 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.

Registration of Trademark Licence Agreement

According to Section 68 of Thai Trademark Act, all trademark licences are required to be registered with the Thai Department of Intellectual Property (DIP). The licence 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 equivalent to a trademark licence 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 licence of the use of trademark right only forms part of a broader commercial agreement between the parties. If the trademark licence 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 authorises the sublicensee to grant sublicences to third parties, both the master licence agreement and the sublicense agreements must be registered.

Legal Enforcement

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

Trademark Litigation

A trademark infringement lawsuit can be filed with the Central Intellectual Property and International Trade Court (IP&IT Court). Since 1996, Thailand has enjoyed the benefit of the establishment of the IP&IT Court, a specialised court which 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 specialise 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.

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 recognised 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 ICC. 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 centres are deemed to be neutral and experienced, and the mediation is conducted in English.

Conclusion

As the recent recession has demonstrated, an economic downturn often leads to an increase in franchising, as savvy entrepreneurs are emboldened to take up the challenges of self-employment. These entrepreneurs are supported by Thai government policies that encourage the development of small and medium-sized enterprises, including franchises. In this economic environment, franchising can provide a variety of benefits to both the franchisor and the franchisee, as long as sufficient care is taken in establishing the relationship. The main concern parties should keep in mind is carefully drafting their agreement, especially in regard to intellectual property rights and confidentiality, and ensuring the enforceability of the agreements and the process for resolving disputes which may arise.

This article was first published on www.executiveview.com.