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## PLANNING A SUCCESSFUL FRANCHISE AGREEMENT

The franchise business model is widespread in Thailand in many fields, such as clothing retailers (Zara and The Gap), fast food outlets (McDonald's and KFC), and convenience stores (7-Eleven and Family Mart). This level of popularity can be attributed to the fact that franchising allows the franchisor to promote a successful business model or product in other geographical areas, 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 in many cases deriving greater benefits from the business than a company-owned outlet. In structuring a successful franchise agreement, it is important to implement certain steps prior to the agreement, during the life of the agreement, and at the agreement's termination.

### Due diligence

Prior to entering into a franchise agreement, the franchisor and the franchisee should conduct due diligence on their partners, which means reviewing the registered rights of the partner, any litigation in which either partner has been involved, any issues which could be raised when the product enters the market, etc. For more details on the due diligence process, please consult Alan Adcock's article "Due Diligence in Asian IP Acquisitions – How Much Is Enough?" in the September 2009 edition of *Thailand: IP Developments*.

### Franchise agreement

The Thai legal system provides a general legal principle of freedom of contract. In practical terms, this principle entails care by parties, who are free to choose the contractual provisions of their franchise agreement, especially in regard to intellectual property rights (IPR) and confidentiality. Once a franchise agreement has been reached, it must be recorded with the Thai Department of Intellectual Property (DIP).

**Intellectual property rights.** IPR are the core of a franchise agreement and should be clearly defined in the agreement. This should encompass any trademark, patent, design patent, copyright, and/or trade secret relevant to the franchise agreement. After defining these rights, the parties have to determine the enforceability of such rights, in particular who is entitled to take actions against infringers. The agreement should also determine the scope of the rights of the franchisee in registering IPR under its own name. It is common practice to limit such right only to trademarks that are not identical or confusingly similar to the franchisor's. When an agreement is terminated, it is unfortunately common for a franchisor to discover that the franchisee has filed trademarks which may compete with the franchisor's marks. Thus, a correct understanding of the scope of the IPR is essential.

**Confidentiality.** A franchise agreement is not limited only to IPR. In addition to providing the use of the brand name, business model, and so on, the franchisor will provide confidential information used in training the franchisee, which can include sales techniques and documents regarding the products. Thus, it is necessary to clearly define the scope of the confidential information. Without a clear definition, there is a risk that valuable information will enter the public domain.

**Registration of the agreement.** In theory, a trademark license agreement can be registered with the DIP if it fulfills two conditions: (1) it contains a list of goods and/or services for which the trademark is to be used; and (2) it includes terms that ensure effective control by the registered owner of the trademark over the quality of the goods or services of the licensee. This registration is required for the master license agreement and any sublicense agreements granted to third parties.

However, the Trademark Registrars at the DIP sometimes refuse to record franchise agreements, judging that this type of agreement is not equivalent to a trademark license agreement if such agreement does not contain the required information as mentioned above. In Thai courts, two points of view confront each other. The first considers the trademark license agreement as inseparable from the franchising relationship. In this case, if the franchise agreement (including the trademark license) is not registered, the agreement is void. From a second perspective, other judges consider the trademark license agreement as a part of the franchise agreement. Thus, if the provisions regarding trademark use are not registered, they will be void, but the franchise agreement will survive.

For legal compliance, some franchisors enter into a separate trademark license agreement with the franchisee 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).

### Dispute resolution

In case of conflicts among the parties, three dispute resolution options are available under Thai law: (1) litigation; (2) mediation; and (3) arbitration.

**Litigation.** A trademark, patent, or copyright infringement lawsuit is filed with the Central Intellectual Property and International Trade Court (IP&IT Court). 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 have been issued in recent years.

**Mediation.** The venue for prelitigation 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. A mediating judge who is not involved with the main trial will be appointed to mediate the case. In practice, mediation frequently leads to successful outcomes in Thailand.

**Arbitration.** The last option is the arbitration clause specifying the venue and jurisdiction for arbitration. These clauses in contractual agreements are recognized and enforced by the Thai courts under Thailand's Arbitration Act. 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. 🐘