VIETNAM

Avoiding IP pitfalls in franchising in Vietnam

Tilleke & Gibbins
Hanoi

Thomas J Treutler

With its huge population of 92 million, 50% of them under the age of 25, Vietnam has become an attractive destination for the world's major franchises. In urban areas, numerous franchises in sectors such as fast food, clothing, exercise, coffee and convenience stores can be found, with Western franchises as well as franchises from Korea and other Asian countries flourishing.

A number of these franchises, however, have run into legal snags after having been in operation for several years. Based on recent case studies, we have identified various pitfalls that franchisors should seek to avoid when contemplating doing business in Vietnam, and possible solutions.

1. Proper due diligence on franchisee

A number of franchises have got off to poor starts in Vietnam and folded shortly after market entry due to picking the wrong partner. Language skills and knowing the country do not necessarily make a good partner. One needs to find a partner with a proven record in business, financial wherewithal and integrity. In some cases, franchisees that were not properly vetted have engaged in business practices that hurt the business relationship, and damaged the integrity of the franchise. In one of the most severe cases we have seen, a franchisee used the franchise's goodwill to call for investments, then fled the country with the proceeds. The best way to avoid these situations is to always do proper due diligence and background checks on potential franchisees.

2. Dispute resolution

Franchise agreements in more developed jurisdictions often rely on arbitration. Unfortunately, Vietnam, despite being a member of the New York Convention, does not have a good track record for enforcement of arbitral awards from abroad – only about 25% of them are successfully enforced.

In a recent case we handled, a $500,000 foreign arbitral award was successfully enforced against a local franchisee that had breached the franchise agreement. In this case, the first step to enforce the arbitral award was to apply to the Ministry of Justice, which approved the arbitral award for enforcement. Then, an application had to be made to the relevant local court to enforce the award. The court closely considered whether service of process was proper, but, based on the arguments of franchise counsel, the court ruled that the process was sufficient, and the award should be enforced.

This, however, is a rare occurrence, and given Vietnam's poor track record of enforcing foreign arbitral awards, franchisors may consider choosing the Vietnam International Arbitration Center (VIAC) or Vietnamese courts in the dispute resolution clauses of the franchise agreement. More and more foreign companies are choosing Vietnamese courts, just to ensure a higher chance of enforcing any judgment.

3. Injunctive relief for IP infringements

In Vietnam, when a franchise agreement is suspended or terminated, the infringer often attempts to continue using the franchisor's trade marks and other IP. In most jurisdictions, this would result in the franchisor seeking a preliminary injunction barring such use. In Vietnam, though, preliminary injunctions have been extremely rare, and most judges are very averse to granting them, even if an expert opinion declaring infringement has been issued.

However, there is an alternative to seeking a court injunction. Rather, as in our arbitral award case mentioned above, administrative IP actions can be taken to quickly stop the continued, infringing use of intellectual property by a terminated franchisee. Specifically, in that case, an expert opinion declaring that the continued use of the trade mark by the franchisee would constitute infringement was obtained from the Vietnam Intellectual Property Research Institute (VIPRI), the sole IP "assessment agency" licensed in Vietnam which is authorised to issue non-binding expert opinions on IP infringement. Later, the VIPRI opinion was submitted to the Ministry of Science and Technology (MOST) Inspectorate, an administrative agency with jurisdiction to enforce IP rights. In this case, based on the VIPRI opinion, MOST ordered the terminated franchisee to cease all use of infringing trade marks and remove any infringing signage.

Accordingly, when quick action is needed against a terminated franchisee to force it to stop using the franchisor's IP, an action at MOST based on a VIPRI opinion is a proven strategy.

4. Franchisee's registration of corporate name and IP

We have found that many local franchisees in Vietnam will take actions such as setting up a company with a corporate name that includes the franchise name or its Vietnamese equivalent, or registering domain names that include such names. Such actions, if occurring before the franchisor has secured trade mark rights in Vietnam, can lead to many legal problems, and possibly allow the franchisee to make a superior claim to IP rights to the franchise name itself. Therefore, it is important to monitor whether franchisees are attempting to register identical or confusingly similar IP, which is typically a breach of the franchise agreement.

5. Registration of trade mark licence agreement

Under a strict reading of the IP Law, it is a best practice for a franchisor to record any trade mark licence agreement with the National Office of Intellectual Property (NOIP), to ensure that the use of the trade marks by the franchisee inures to the franchisor.

6. Registration of the franchise trade marks

As a general rule, a franchise cannot be registered to operate in Vietnam unless it has at least one trade mark registered in Vietnam at the NOIP. In some cases, after the franchise agreement has been negotiated and the business deal made, the parties realise that the trade mark was never registered in Vietnam. Thus, it is important to verify which trade mark registrations are valid in Vietnam before negotiating a franchise arrangement in Vietnam.