



**Thanyalak Inthachard**  
Attorney-at-Law  
thanyalak.i@tilleke.com

## Thai Supreme Court Rules on Bad Faith of Franchisee Imitating Franchisor's Trademark

A franchise agreement is a legally binding contract between a franchisor and a franchisee, specifying the rights, costs, and responsibilities of the parties in the franchising relationship. A typical component of a franchise agreement is a clause allowing the franchisee to use the franchisor's intellectual property assets, such as trademarks, to reap the commercial benefits of a successful brand or business model.

Extensive experience in Thailand has shown that if a franchisor allows a franchisee to use its unregistered trademarks without a specific clause detailing proprietary rights, the parties can easily become embroiled in a struggle over ownership of the marks. Typically, these disputes emerge from an ambiguously written clause stating that the franchisor permits the franchisee to "use" the trademarks in Thailand, without further clarification declaring the owner's rights to those marks. Imprecise drafting may open up an avenue for the franchisee to misinterpret the contract—intentionally or not—leading to a result unintended by the marks' rightful owner.

This article highlights a recent case in which the Supreme Court addressed an ownership dispute and bad-faith circumstances of a franchisee by focusing on a questionable clause in the franchise agreement regarding the IP in question.

### Background of Contentious Interpretation

The franchisor and trademark owner (the Plaintiff) had registered its trademark in another country, but had not done so in Thailand. The franchisee (the Defendant) was contractually permitted in the franchise agreement to "use" the franchisor's trademark in Thailand. During the valid term of the contract, the franchisee sneakily filed and registered copycat marks in Thailand, imitating the true owner's trademark.

As soon as registration of the marks was approved by the Trademark Office, the Defendant terminated the franchise agreement to concentrate on its own business operations under the newly registered trademarks. The Plaintiff, understandably irritated, took legal action against its former franchisee by requesting the cancellation of the imitated trademarks on the basis of better rights. All of the initial decisions were in favor of the true trademark owner, resulting in a court order to revoke the Defendant's imitated trademarks. However, the Defendant took its claims to the Supreme Court.

### Insight on the Court's View

One of the central questions that arose during this case was "Who is the owner of the trademarks: the Plaintiff or the Defendant?" The court followed a well-settled legal framework to determine the answer.

The court reviewed previous franchisor-franchisee disputes related to trademark ownership in an effort to establish the grounds of better rights for the Plaintiff and bad faith

of the Defendant. The court also considered written agreements, and found that they addressed the ownership of the trademark as belonging to the Plaintiff. While this evidence was already persuasive, the Supreme Court in case No. 2553-2554/2561 also looked at general factors to determine ownership of the trademark, including the following:

- ▶ Who invented the trademark?
- ▶ Who was the first party to register the trademark, whether in Thailand or overseas?
- ▶ Who exported the goods bearing the trademark to Thailand?
- ▶ Which party was authorized to allow another party to use and register the trademark in Thailand?
- ▶ Which party was first to see, recognize, or know the trademark?
- ▶ Was there an incident indicating acceptance of ownership by another party?

Ultimately, the court found that the above factors also weighed in favor of the Plaintiff because the Defendant could not establish rights to the trademarks prior to the time the franchising relationship began.

In addition to determining the Plaintiff's better rights, the court also examined the Defendant's intention. During the proceedings, the Defendant admitted to seeing the Plaintiff's trademarks at trade fairs in other countries before entering into the franchise agreement. Therefore, the court concluded that the Defendant had seen and known the trademarks prior to filing its trademark applications in Thailand. This fact, along with the Defendant's inability to rebut the analysis of the court regarding the ownership of the trademarks, showed that the Defendant had filed its applications in bad faith to benefit from the Plaintiff's reputation.

The court ruled that the franchisor was the party who invented and owned the rights to the trademarks, and that the franchisee acted in bad faith by registering trademarks that imitated those of the franchisor, resulting in the franchisee's trademarks being canceled.

### Lessons Learned

While the trademark owner was victorious in this case, similar scenarios in the future might not have as positive an outcome. Franchise relationships are one of the most common forms of foreign indirect investment in Thailand, but franchisors should recognize the risks they bear if the franchise agreement is not precisely drafted and the franchisee is not loyal in its business practices. In some cases, franchisees are happy to transfer trademark registrations to the true owner, but the costs can be substantial. There is also a great risk that trademark applications filed by a franchisee never come to the trademark owner's attention until there is a dispute or the parties stop working together.

Experienced IP lawyers can make significant contributions when preparing a precise and thorough franchise agreement, ensuring the inclusion of comprehensive clauses on the ownership of the IP subsisting in the products or services, the franchisor's right to use such IP—including the commonly granted right to use the franchisor's trade name as part of the franchisee's company name or domain name—and setting strict limitations on such rights during the term and after the expiration of the franchise agreement.

By carrying out the simple acts of trademark registration in the name of the original owner and careful drafting of agreements, a franchisor can easily avoid an unnecessary trial or the possibility that a former franchisee may infringe on the rights to its marks. 🏡