

16. TRADEMARK DISPUTES UNDER FRANCHISE LAW IN SAUDI ARABIA

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ABSTRACT

The passing of the new Saudi Franchise Law in October 2019 raised questions about the implications of this law on trademark and other intellectual property rights, which primarily drive franchise rights and interests. This research paper explores the potential impact of this new law by exploring the key differences between franchise contract and trademark law. This research will aid foreign investors who intend to invest in a trademark by licensing a franchise as well as make note of possible legal ramifications in Saudi Arabia. This study will compare franchise contract and trademark law in order to fill the gaps that may lead to disputes between parties. Case studies, including relevant on-going disputes before courts in Saudi Arabia, will provide some concrete examples of interpretation and consequences of owning a franchise, specifically those arising out of trademark and contract law.

Keywords: *trademark; franchise; contracts; entrepreneurs; licensing; intellectual property*

1. INTRODUCTION

Saudi Arabia has been a member of the World Trade Organization (WTO) since 2005. Prior to that year, it amended several laws in order to meet WTO's minimum requirements.

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¹ Ahmed Makhloof, *Intellectual Property Rights* (Dar Elejada, 2nd edn, 2018) 13.

² Paris Convention for the Protection of Industrial Property, concluded in 1883, was revised at Brussels in 1900, at Washington

One of the fields that have seen significant reform are the legislations concerning intellectual property. Thus, many laws such as those concerning Trademark, Copyrights, and Patent law were enacted. Some of them are legislated for the first time while others were revised, such as Trademark law.¹

Saudi Arabia has also joined other international conventions and treaties such as the Paris Convention for the Protection of Industrial Property.² However, there are other treaties and conventions that Saudi Arabia has not joined, or are being assessed by the Saudi Arabian government, such as the Nice Agreement, which concerns the International Classification of Goods and Services for the Purposes of the Registration of Marks.³

Saudi Arabia's history of forming a country-wide position statement on intellectual property laws began when intellectual property authorities were divided between several government agencies such as the Ministry of Commerce and King Abdulaziz City for Science and Technology. In 2018, however, Saudi Arabia took a significant step towards a countrywide intellectual property position when the government established the Saudi Authority for Intellectual Property (SAIP) as an independent governmental authority.⁴

To date, the SAIP has played an important role in reassessing numerous national laws such as the copyright law and other regulations.⁵ Further, in order to be more engaged with the international community, SAIP has adapted many initiatives to join international conventions such as the Budapest Treaty

in 1911, at The Hague in 1925, at London in 1934, at Lisbon in 1958 and at Stockholm in 1967, and was amended in 1979, WIPO, '*Treaties and Contracting Parties*', <https://www.wipo.int/treaties/en/remarks.jsp?cnty_id=1754C> accessed 1 October 2019.

³ Saudi Authority for Intellectual Property <<https://www.saip.gov.sa/en/>> accessed 20 December 2019.

⁴ Saudi Authority for Intellectual Property <<https://www.saip.gov.sa/en/>> accessed 20 September 2019.

⁵ Makhloof (n 1) 7.

on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (Budapest Treaty), Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid Agreement), and Hague Agreement Concerning the International Registration of Industrial Designs (Hague Agreement). They are still under assessment.⁶

The significant progress of Saudi Arabian government is being

2. THE NATURE OF THE RELATIONSHIP OF THE FRANCHISE PARTIES AFTER THE NEW FRANCHISE LAW WAS PASSED

The relationship between franchisee and franchisor is originally a contractual relationship. The passing of the new Franchise Law, however, prompts an examination of whether the new law affects this relationship. In Saudi Arabia, contractual relations are mainly ruled by *Fiqh*, which is mainly the scholarly books written by Islamic scholars. *Fiqh* can also be called the jurisprudence of Sharia Law.

In addition, *Fiqh* has many rules and principles that Saudi Arabian judges professionally apply.¹³ As a result, *Fiqh* is sufficiently flexible for contractual relationships. This new law is primarily based on the general rules of *Fiqh*. However, after enforcing the Franchise Law, the law will be the dominant regulation on this relationship.

In other words, franchise parties will be regulated by Franchise Law, which is compatible with Sharia's principles. However, if the disputes have not been regulated in the law, then courts will consider the principles of *Fiqh* as next source of regulation. Furthermore, the competent court is the commercial court, which is primarily ruled by Sharia law when there is no a specific law that governs the dispute.¹⁴

Although such prohibition is mainly ruled by regulations on competition laws, a franchisor can take further steps to protect his trademark. For example, in addition to invalidating the contract, franchisors can stipulate in the contract that the franchisee must forfeit the franchise, even if they only attempt to register a similar trademark or if they take an action that poses a competitive threat to the trademarked

to the franchisor. In addition, executive regulations, which have not been declared yet, may indicate more exceptions.⁴²

5. CASE STUDY⁴³

This is a brief case of trademark and franchise that was litigated at the commercial court in Riyadh, the capital city of Saudi Arabia, in 2014 and ruled in 2016.

A. FACTS:

The plaintiff, who is the franchisor, entered into a 10-year franchise agreement with the defendant, who is the franchisee, to use trademarks and sell goods and services exclusively in Riyadh in 2005. The agreement should last until 2015.

(i) Plaintiff's Claims:

- 1) Defendant breached the agreement by selling competitor's products.
- 2) Defendant counterfeited the franchisor's brand and used it on his own products. His intent was to create confusion between the franchisor's mark and his own mark. This resulted in damage to the franchisor's trademark reputation.
- 3) Defendant also used other intellectual property rights such as promotional phrases, packaging and designs to make the products appear similar to the original goods and services.
- 4) In 2007, Defendant received a Commercial Registration with a similar name and trademark to that of plaintiff. Defendant aimed to use the licensed trademark under this registered corporation.
- 5) Therefore, the plaintiff requested the following:
 - a) Compensation of 100,000 SAR (33.333 USD) as the agreement stated, 'when the second party (franchisee)

breached one of the agreement's terms, he must pay the franchisee 100,000 SAR as compensation.'

- b) Payment of 5,000,000 SAR (1,333,333 USD) for the damages and loses caused by the defendant.
- c) To terminate the agreement with the franchisee. To invalidate the franchisee's corporation that was established in 2007.
- 6) After deliberations, plaintiff narrowed his requests to only the payment of 5,000,000 SAR for the damages.

(ii) ~~15567D 7699-BD Cn~~ TT1 1 Tf -0.005 Tc 0.032 Tw 0.187 0 Td [(A)0.7

⁴² *ibid.*

4) The defendant admitted that he received commercial registration in 2007, two years after the franchise agreement. He emphasized this was not a registration of trademark, nor had any relevance to any goods or the business related to the agreement with the plaintiff. Thus, there was not any confusion between this corporation's goods and services and the franchisor's. Defendant also questioned why the plaintiff had presumptively remained

6. CONCLUSIONS

This research started with a definition of the legal basis of trademark and franchise disputes in Saudi Arabia. It introduced *Fiqh* as the jurisprudence of Sharia law, which Saudi judges mainly consider in the ruling of contractual disputes. It discussed the consequences that the new Franchise Law on the contractual relationship since it used to depend on mainly the general rules of *Fiqh*.

Essentially, the research discussed the contract that the competent authority has offer to the public. Even if the sample contract is a good model, this research discussed some suggested rules that the contractors should be aware of.

This paper argued that relying on franchise law is not sufficient to protect the franchisor's trademark. Rather, it suggested that franchisor could take further steps to protect his trademark by stipulating additional conditions in the franchise contract.

This paper argued that since the sample contracts are intended to be guidance only, they should not be offered by any governmental authority. The government authorities' main duty is to legislate laws and observe the implementation of these laws. This is what the authorities should focus on. After legislating Franchise Law, rules of franchise are no longer exclusively dependent on contracts. Hence, franchise contracts are now ruled by Franchise Law.

Contracts' conditions are primarily based on parties' needs. Their needs vary based on many factors such as region, laws and regulations, and the nature of goods and services.⁴⁴ Although sample contracts are helpful, they should be accompanied with further consultations and discussions. Thus, this can only be done through legal advice rather than government authorities.

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⁴⁴ Aldossary (n 20) 15

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