

**American Bar Association
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Franchising in Latin America and the Caribbean

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FRANCHISING IN LATIN AMERICA AND THE CARIBBEAN

I. INTRODUCTION

If you close your eyes and you think about the Caribbean and Latin America, it is easy to conjure up images of tropical paradises, lush vegetation, exotic wildlife, and passionate cultures. It is not hard to understand why this region is a favorite vacation spot for many people, with its beautiful beaches and tropical climate. But it is more than just a place to get away, it is a diverse region of cultures, traditions, foods, religious beliefs, ecological diversity and historical significance. The population of the islands of the Caribbean totals approximately 40 million people; Brazil's population is over 200 million; Mexico's population is 122 million, and the total population of Central America is 42 million. For many franchise systems these regions represent an enormous opportunity.

Latin America includes the countries of Central and South America, where the predominant languages of the region are rooted in Latin (Portuguese and Spanish primarily). Add to the mix the countries and territories of the Caribbean and this paper is ambitious in covering a lot of geography. In the Caribbean alone there are roughly 30 territories including sovereign jurisdictions such as the Dominican Republic, Jamaica, and Trinidad and Tobago, overseas departments of France including French Guiana, Guadeloupe, and Martinique, and dependent territories such as Aruba, the British Virgin Islands, and the United States Virgin Islands.

In this paper we have reduced the geographic scope of "Latin America" by focusing upon the area covered by Mexico in the southern portion of North America, down to Brazil at the top of South America. Outside of Brazil, we have not included other Latin American countries in South America although they are certainly worthy of mention, and have been covered in past programs of the ABA Forum on Franchising. Along the way the paper highlights Puerto Rico, and for the first time in the history of the Forum on Franchising, we cover the emerging franchise opportunities in Cuba.

As is the case with all expansions of franchise systems, it is incredibly important for franchisors to have a fundamental grounding in the legal landscape of the foreign jurisdiction they are looking to expand into, as well as a deep understanding of the cultural imperatives of the region. With so many countries, dependent territories, sovereign jurisdictions and overseas departments in Latin America and the Caribbean, it is an obvious first step to acknowledge that no two areas are identical. The need for local counsel and local knowledge is imperative when planning an expansion into Latin America and the Caribbean.

With so many different countries and territories in such a large geographic region, we strive in this paper not to give a comprehensive review of all laws that impact franchising in Latin America and the Caribbean, but a sampling of the key highlights and consideration to keep in mind when planning an expansion into the region.

Each chapter starts with an introduction to the region and an overview of intellectual property considerations. Each author was then asked to review specific franchise laws, and common structures for a franchise transaction. In all international expansions, tax considerations are of paramount importance and the chapters address key tax issues. Each author was asked to also delve into other corporate issues that might impact franchising, as well as what factors may impact decisions regarding what laws should govern the franchise

relationship. Dispute resolution processes are also explored. Finally, each chapter concludes a summary of other local laws and regulatory considerations which might impact franchising.

With this year's Forum on Franchising being in Miami, this is a great opportunity to gain some insight into the beautiful and diverse regions that lie on the doorstep of the cosmopolitan city of Miami. Now sit back, and let's explore the vibrant regions of Latin America and the Caribbean.

II. MEXICO¹

A. Introduction

The vision of the Mexican government has been, for several years, to allow foreign investment in general without restriction – Mexico's economy is considered to be an open one. Foreign investment in Mexico is regulated mainly by the Constitution and the Foreign Investment Law and its Regulations. They exclusively reserve certain activities to Mexican entities without foreign investment, while some (few) other activities are reserved to Mexican entities with a limit or maximum percentage of foreign investment or participation. In general, the activities in which franchise systems participate in Mexico (such as the restaurant, fast-food, hospitality, automotive and health-care industries and services) are considered non-regulated activities and, therefore, foreign investors may participate in these activities without any limitation or restriction.

Foreign entities are entitled to grant any type of franchising rights, including master franchises, development rights, individual unit franchises and any other similar or related rights. Foreign entities can freely submit trademark applications to protect their industrial property rights in Mexico.

This chapter contains an analysis of certain laws and regulations applicable to franchising in Mexico. They should be carefully analyzed by franchisors, especially by foreign franchisors, before entering the Mexican market and expanding their business into Mexico.

B. Intellectual Property Considerations

1. Trademark Protection

Trademarks in Mexico are protected through their registration at the Mexican Institute of Industrial Property² ("IMPI"). In Mexico, it is not possible to submit multi-class applications, but rather individual applications per mark per class should be filed.

The applicant may claim priority when filing a Mexican trademark application if it has submitted a trademark application for the same mark in another jurisdiction, provided that the Mexican trademark is filed within six months after the foreign application is filed.

¹ Special thanks to Maria Elena de la Fuente, a senior associate at Gonzalez Calvillo, S.C., for her contributions to this section on Mexico.

² In Spanish, *Instituto Mexicano de la Propiedad Industrial*

Regarding prior use, it is relevant to mention that trademark protection is granted on a first-to-file basis; if, however, the mark has been used in the Mexican territory prior to the filing date, the date of first use can be declared as long as the applicant has means to evidence such prior use.

It is strongly recommended to register, or at least file for registration at the IMPI, any of franchisor's trademarks, licenses, patents and other industrial property materials, before commencing any negotiation, entering into a preliminary document with, or delivering the corresponding franchise disclosure document to, a prospective franchisee or any other third party.

The time frame for registering a trademark in Mexico is approximately four to six months, assuming there are no objections. If, during the prosecution of the intended mark, the IMPI examiner issues an office action requesting additional information such as clarification of the goods and services or citing an identical or confusingly similar trademark as having prior rights, the time frame for obtaining the registration of the mark will be from six to twelve months.

It is important to bear in mind that online searches for word marks can be conducted in the IMPI database³ and the results are obtained immediately. In general, the search results are reliable, but due to the limitations of the IMPI database, the search request will only find identical marks to the proposed one or a portion of the proposed mark. Thus, there may be other marks in the IMPI database that are not identical to the proposed mark that could be considered sufficiently similar to prevent use or registration. It is also important to consider that the IMPI database may not necessarily be updated; at least information submitted within the last three or four months may not appear at the time the electronic search is made. Physical searches at the IMPI's premises can always be conducted to confirm the results gathered through the website investigation.

2. Know-How Protection

The IMPI does not provide patent protection for business processes or know-how, which are often an essential part of franchise systems. However, there are two alternatives that could be used jointly or separately to protect such business processes or know-how in Mexico. One is through copyrights based on Mexico's Federal Copyright Law⁴, and the other is through patents or trade secrets⁵, based on Mexico's Industrial Property Law⁶ (the "IPL").

In accordance with the IPL, trade secrets are defined as any information with an industrial or commercial application that is kept confidential by a person or entity, by means of which said person or entity has a competitive or economic advantage as to third parties and regarding which this person or entity has adopted sufficient means to keep the confidentiality and restricted access to it.

³ IMPI database is available at <http://marcanet.impi.gob.mx/marcanet/controler/>

⁴ *Ley Federal del Derecho de Autor* published in the Official Gazette of the Federation on December 24th, 1996, which last amendment was published in the Official Gazette of the Federation on January 1st, 2016.

⁵ Trade secrets are known under Mexican law as 'industrial secrets' and are specifically protected under the IPL

⁶ *Ley de la Propiedad Industrial* published in the Official Gazette of the Federation on June 27th, 1991, which last amendment was published in the Official Gazette of the Federation on April 9th, 2012.

Given their nature, trade secrets are not registered and, therefore, their protection relies on the ability of their holder to put in place the necessary measures that will secure confidentiality, such as by executing confidentiality agreements with the individuals who will have access to information containing trade secrets or know-how. The breach of a confidentiality obligation may result in the payment of damages and losses caused, or of a conventional penalty (similar to liquidated damages under certain common law systems) if agreed in the corresponding franchise, confidentiality or other agreement entered into for such purposes.

3. Registration of the Franchise Agreement

Under Mexican law, there is no legal obligation for franchisors or franchisees to register a franchise agreement with the IMPI. However, franchisors should consider making such a registration for the reasons explained below.

According to the provisions of the IPL, a holder of a trademark registration must prove use of the same within the Mexican territory; otherwise, a cancellation action may be exercised by any third party claiming lack of use of the trademark by the holder. In terms of the provisions of the IPL, it is allowed to prove the use of a trademark through a licensee or franchisee, provided that the corresponding license or franchise is registered in the IMPI, clearly specifying the registered trademarks which use is being licensed or franchised.

In order not to reveal to the IMPI any confidential information contained in the corresponding license or franchise agreement and in the respective manuals or any other exhibits or attachments being part of the agreement, it is permissible to submit a summary of the license or franchise agreement containing only the essential information.

Additionally, for purposes of registering the summary of a license or franchise agreement with the IMPI, as well as of cancelling such registration upon termination of the license or franchise agreement, it is strongly recommended to include in the relevant agreement the licensee's or franchisee's obligation to grant a special power of attorney in favor of the individuals designated by franchisor (preferably franchisor's local counsel), authorizing them to carry out any procedures with the IMPI to obtain the registration and cancellation of the corresponding agreement. Such special power of attorney would have to be granted in accordance with Mexican laws, before a notary in Mexico, and contained in a document known as a public deed.⁷

4. Enforcement of Intellectual Property Rights

Unauthorized use of intellectual property rights is generally considered an administrative infringement under the IPL and, therefore, the IMPI is entitled to exercise specific actions against the corresponding infringer. Certain violations of the IPL may be considered felonies.

Regarding the enforcement of franchise-related intellectual property rights, it is important to make the following distinction. On the one hand, the IPL sets out the penalties for the non-authorized use of intellectual property rights. Trademark infringements may be penalized with

⁷ *Escritura pública*, which is a public instrument that only notaries in Mexico are entitled to execute and grant.

finest equal to 20,000 times the current minimum wage in effect in Mexico⁸, with additional fines equal to 500 days of the current minimum wage in Mexico for each day the infringement persists; the temporary closing down of the premises for up to 90 days; the permanent closing down of the premises; or an administrative arrest of up to 36 hours, depending on the type of infringement. The IMPI will investigate the infringement and impose the fines. More severe cases of infringement may be considered criminal offenses, such as recidivism or the unauthorized disclosure or use and exploitation of trade secrets.

The infringement action must be filed with the IMPI and the law provides that the plaintiff may request an inspection visit to the premises of the infringer in order to verify the existence of the violation to the IPL. The law also provides, as a measure, for provisional seizure of the infringing products or services.

C. Franchise Laws

Franchises in Mexico are governed and regulated by the IPL and its Regulations⁹ and by the general rules of contracts contained in the Commerce Code¹⁰ and the Federal Civil Code.¹¹ Commercial activities and contracts in Mexico, such as franchise agreements, are regulated by the general principle of contractual freedom, which applies to all provisions and aspects of a franchise agreement not specifically regulated by the IPL. The governmental agency in charge of applying the IPL is the IMPI. In addition, there are other laws that may have an application to franchises depending on the type of activities to be performed in Mexico.

Any franchise agreement that governs a franchise operated or to be operated within the territory of Mexico must comply with and observe the applicable provisions of the IPL, regardless of the nationality or place of residence of the entities or individuals involved in or participating in the franchise.

1. Definition of Franchise

According to Article 142 of the IPL, a franchise exists whenever, in conjunction with a license to use a trademark granted in writing, technical knowledge is transmitted or technical assistance is furnished in order to enable the franchisee to produce or sell goods or render services in a uniform manner and with the operating, commercial and administrative methods established by the holder of the trademark, with the goal of maintaining the quality, reputation and image of the products or services distinguished by the trademark.

⁸ As of January 1, 2016 and up to this date, the minimum daily wage approved in Mexico is \$73.04 Mexican Pesos (approximately USD\$4.00) per day.

⁹ *Reglamento de la Ley de la Propiedad Industrial* published in the Official Gazette of the Federation on November 1994, which last amendment was published in the Official Gazette of the Federation on June 10, 2011.

¹⁰ *Código de Comercio*, published in the Official Gazette of the Federation from October 7 to December 13, 1889, which last amendment was published in the Official Gazette of the Federation on April 7, 2016.

¹¹ *Código Civil Federal*, published in the Official Gazette of the Federation on May 26, July 14, August 3 and August 31, 1928, which last amendment was published in the Official Gazette of the Federation on December 24, 2013.

2. Pre-Contractual Disclosure

The IPL requires that, prior to granting a franchise, certain franchisor information must be provided to the prospective franchisee in a disclosure document at least 30 business days before the date of execution of the franchise agreement. In terms of the IPL and its Regulations, this is the only requirement that must be met before a franchisor may offer a franchise in Mexico.

The IPL does not provide for any obligation to update the information contained in the disclosure document, which must be accurate at the time it is delivered to the prospective franchisee.

Once the disclosure document is delivered and the obligation contained in the applicable provisions of the IPL is fulfilled, no ongoing disclosure obligation exists. Disclosure should be provided to a renewing franchisee and to a transferee franchisee in those cases in which there is an obligation for the new franchisee to execute a new franchise agreement.

a. Legal Requirements.

In accordance with the provisions of the Regulations of the IPL, the following technical, economic and financial information must be provided through the submission of the disclosure document:

- name, corporate name or business name, domicile and nationality of the franchisor;
- description of the franchise;
- seniority of the original main franchisor and, if applicable, of the master franchisee acting as franchisor of the business which is the subject matter of the franchise;
- intellectual property rights involved in the franchise;
- amounts and concepts of payments that the franchisee must make to the franchisor;
- types of technical assistance and services that the franchisor must provide to the franchisee;
- definition of the geographical area in which the business exploiting the franchise operates;
- rights or restrictions to grant sub-franchises to third parties and, if applicable, the requisites the franchisee must fulfill to grant sub-franchises;
- obligations of the franchisee with respect to the confidential information provided by the franchisor; and
- in general, the main obligations and rights of the franchisee arising from the execution of the franchise agreement.

b. Registration

Pursuant to Mexican law, there is no legal obligation for franchisors to register their disclosure document or to obtain any governmental authorization of the document.

c. Enforcement

The disclosure obligation may be enforced by the IMPI through an administrative infringement procedure. Failure by a franchisor to provide the disclosure document at least 30 business days prior to the date of execution of a franchise agreement may result in the imposition of an administrative sanction by the IMPI (i.e., economic fine, closure of premises or administrative arrest). This will only occur, however, if the franchisor fails to provide such

information after a written request for the same has been made by the prospective franchisee to the franchisor.

In the event of lack of veracity of the information disclosed to the prospective franchisee (misrepresentation by the franchisor), the franchisee will be entitled to claim, before the judicial courts, the nullity of the franchise agreement and may be awarded payment of corresponding actual (direct) damages and losses, as long as it can indefeasibly prove that such damages and losses are a direct consequence of the lack of accuracy of the information contained in the disclosure document provided by the franchisor.

Under Mexican law, there are only damages (as a general figure) and losses; Mexican law does not contemplate the specific amount of other damages such as consequential, exemplary and punitive damages. According to the provisions of the Federal Civil Code, damages are defined as the decrease or reduction of the patrimony derived from the breach of an obligation, and losses are defined as the privation of a lawful gain that would have been obtained as a consequence of the compliance of an obligation. A competent court with jurisdiction over the matter would have to calculate the corresponding damages and losses based on the evidence offered by the affected party. The right to claim for the payment of damages and losses may be exercised within a period of one year from the date of execution of the franchise agreement, while the action to claim for the nullity of the franchise agreement is subject to the general statute of limitations of 10 years provided in the Commerce Code.

3. Mandatory Contractual Provisions

Pursuant to the applicable provisions of the IPL, franchise agreements must be in writing and contain the following minimum mandatory provisions:

- the geographical zone in which the franchisee shall mainly perform the activities that are the subject matter of the agreement;
- the location, minimum size and investment characteristics of the infrastructure, relating to the premises in which the franchisee shall carry out the activities deriving from the agreement;
- if applicable, the policies of inventories, marketing and advertising, as well as the provisions relating to the merchandise supply and the engagement with suppliers;
- the policies, procedures and terms for any reimbursement, financing and other considerations in charge of the parties;
- the criteria and methods applicable to determining the franchisee's commissions and profit margins;
- the characteristics of the technical and operational training of the franchisee's personnel, as well as the method or manner in which the franchisor shall provide technical assistance to the franchisee;
- the criteria, methods and procedures of supervision, information, evaluation and grading of the performance and quality of the services under the respective responsibility of the franchisor and the franchisee;
- the terms and conditions of any sub-franchise, in the event it is agreed to by the parties;
- termination causes under the franchise agreement;
- events under which the parties may review and, if appropriate, mutually agree to amend the terms or conditions of the franchise agreement;

- if applicable, provisions regarding the franchisee's obligation to sell its assets to the franchisor or the franchisor's designated representative, upon the termination of the franchise agreement; and
- if applicable, provisions regarding the franchisee's obligation to sell or transfer the shares of its company to the franchisor or to make the franchisor a partner of such company.

4. Guarantees and Protection

The normal practice in Mexico has been for a franchisor to obtain a personal guarantee from the principal owners of the franchisee entity to guarantee the performance and timely compliance of the franchisee with its obligations. Said guarantee is normally granted in the form of a 'joint obligation' assumed by said principals, or by acting the same as personal guarantors of the franchisee. Joint obligations and personal guarantees are governed by the Federal Civil Code; enforceability of such guarantees depends on the content of the relevant agreement or contract regulating the same, which is recommended to be governed by Mexican laws.

In some other cases, especially when the franchisee assumes the obligation to acquire certain volume of products or other materials from the franchisor, it may be advisable to request that the franchisee obtain an irrevocable standby letter of credit from a bank approved by the franchisor, in order to guarantee the timely payment of the purchase price of said products or materials.

D. Tax Considerations

In general terms, federal, state and local taxes are imposed in Mexico. Federal taxes are collected by the Administration Revenue Service¹², while state and local taxes are collected by the treasuries of the governments of the corresponding states and municipalities.

In accordance with article 1 of Mexico's Income Tax Law¹³ ("Income Tax Law"), individuals and entities are bound to pay income tax in Mexico on the following income: (i) Mexican residents, with respect to all their income, without regard to the location of its source; (ii) non-residents with a permanent establishment in Mexico, but only with respect to the income attributable to such a permanent establishment; and (iii) non-residents, with respect to income coming from a source located within Mexico, when they do not have a permanent establishment within Mexico or when, having a permanent establishment, the income is not attributable to such an establishment (emphasis added).

It is important to bear in mind that pursuant to article 2 of the Income Tax Law, if a foreign resident performs activities within Mexico through an individual or entity (which is different from an independent agent), it would be considered that the resident has a permanent establishment in Mexico with respect to the activities performed by such individual or entity on behalf of the foreign resident, if such an individual or entity exercises powers of attorney to execute agreements in the name of or on behalf of the foreign resident.

¹² *Servicio de Administración Tributaria.*

¹³ *Ley del Impuesto Sobre la Renta*, which became effective as of January 1, 2014.

Likewise, it is considered that a foreign resident has a permanent establishment in Mexico when the foreign resident performs activities in Mexico through an independent agent and this agent carries out said acts outside of its normal activities or course of business.

1. Withholding Taxes

Foreign franchisors not having a permanent establishment for tax purposes in Mexico (as explained above), but obtaining income (such as through the granting of franchising rights to be exploited in Mexico against the consequent payment of royalties or other considerations) from the franchise agreements they may enter into with the purpose of being effective in Mexico, as a source located within Mexico, have the obligation to pay income tax in Mexico. This is paid in Mexico by the foreign franchisor through retention or withholding made by the corresponding franchisee.

In other words, franchisees have the obligation to make the corresponding retention or withholding of income tax on payments that they make to franchisors. Even though the tax is imposed on the franchisor, the franchisee has a withholding obligation and, as such, if the franchisee breaches such obligation, then it could be jointly liable for the omitted tax.

Tax withheld on payments made by foreign franchisors must be paid by the franchisee to the Mexican tax authorities no later than the 17th day of the month following that on which the related payment is made or becomes due, whichever occurs first.¹⁴

It is important that the foreign franchisors issue and deliver to each of their Mexican franchisees a monthly invoice related to the payments made by the franchisees under the corresponding franchise agreements that meets the requirements set forth in rule 2.7.1.16. of the Miscellaneous Tax Resolution¹⁵ which include, among other requirements: (i) name, domicile and tax identification number of franchisor; (ii) date and place where it is issued; (iii) tax identification number of the franchisee or, if not possible, its name; (iv) total amount being paid; and (v) the applicable tax rate.

2. International Tax Treaties

Mexico's Income Tax Law establishes that the benefits of international tax conventions or treaties shall be applicable when the taxpayer evidences residency in the corresponding foreign country. Mexico's Supreme Court of Justice¹⁶ has determined that the application of international tax conventions holds precedence over the federal tax laws (such as the Income Tax Law). This means that a foreign franchisor, as a resident for tax purposes of its country of origin, has the right to be submitted to taxation under the terms of the corresponding tax treaty or convention, if any, instead of being submitted to the provisions of Mexico's Income Tax Law. Normally, the applicable withholding tax rates included in international tax treaties to which

¹⁴ According to article 27 section V, of the Income Tax Law and according to article 6, Section I of Mexico's Federal Tax Code (*Código Fiscal de la Federación*, published in the Official Gazette of the Federation on December 31, 1982, which last amendment was published in the Official Gazette of the Federation on January 12, 2016).

¹⁵ *Resolución Miscelánea Fiscal* for 2016, which may be consulted, for informative purposes, at http://www.sat.gob.mx/informacion_fiscal/normatividad/Paginas/resolucion_miscelanea_2016.aspx

¹⁶ *Suprema Corte de Justicia de la Nación*

Mexico is a party are substantially lower than the income tax rate provided for in the Income Tax Law.

It is important to mention that Mexico has signed international tax treaties for the avoidance of double taxation with several countries, including the United States of America, Canada, Brazil, Colombia, the United Kingdom, Germany and Australia, among others.

Upon any withholding of income tax made by the franchisee to the franchisor, the franchisee must deliver to the franchisor a copy of the relevant withholding certificate, in order for the franchisor to be able to evidence the same to the tax authorities of its country of origin, which will allow the franchisor to obtain the corresponding tax credit, provided that the franchisor complies with any applicable requisites in terms of its local legislation.

On the other hand, in order for the franchisees to be able to apply the withholding rates contained in the relevant tax treaty, the franchisor must annually provide to each franchisee a tax residence certificate issued by the corresponding country with which Mexico has entered into a tax treaty.

E. Common Structures for a Franchise Transaction

In connection with this topic, it is important to bear in mind that, under Mexican law, there are no exemptions for partnership relationships, trademark licenses, credit card services arrangements, wholesale distribution agreements or any other kind of agreements or contracts, or with respect to specific industries (*i.e.*, petroleum dealers or automotive dealers), if the relationship meets the definition of a 'franchise' set forth in Article 142 of the IPL.¹⁷

1. Area Development

The implementation of an area development structure is very common in Mexico. In general terms, under an area development agreement, the parties agree on the terms and conditions to be applicable to the development of a franchise within a specific area and pursuant to a development schedule to be agreed upon by the parties. The granting of a franchise and, consequently the granting of the right and license to use the trademarks and system owned by the franchisor, would be subject to the execution of a unit franchise agreement for each specific site or location to be developed thereunder.

Regarding the applicability of the provisions of the IPL (related to franchises) to development agreements, in principle, development agreements are not considered as franchise agreements and, therefore, are not subject to the specific provisions of the IPL regulating franchise agreements. As mentioned before, under the IPL, a franchise agreement exists when together with the license of a trademark, technical assistance or transfer of technology is provided.

In view of the foregoing, a development agreement would not be subject to complying with the provisions of the IPL applicable to or regulating franchises. However, it would be advisable to include some specific provisions similar to the ones that would be included in the franchise agreements, such as requirements for site approvals, governing law, dispute

¹⁷ As referred to in Section I.C.1. hereof

resolutions and guarantees, among others. In any event, a franchise granted pursuant to an area development agreement will be subject to the provisions of the IPL.

2. Master Franchising

Another structure commonly used in Mexico is the master franchise. To be effective in Mexico, all master franchise agreements must comply with the provisions of the IPL and its Regulations, as previously mentioned above.

The main characteristics of a master franchise are as follows: (i) the franchisee is granted the right, license and franchise to use the system and the trademarks, as well as with the right to sub-license and sub-franchise the system and the trademarks to third parties, whether if the franchisor reserves for itself the right or not to previously approve the relevant sub-franchisees; and (ii) the franchisee is also granted with an exclusive territory to use, directly or through its sub-franchisees, the system and the trademarks.

Under this structure, the franchisor may not have full control with respect to the franchise system being operated by the franchisee within the specific territory, since the franchisee, acting as sub-franchisor, is the one having the contractual relation with its sub-franchisees.

3. Direct Franchising

Direct franchising is the most common structure in Mexico. Direct franchising may be granted as a unit franchise agreement or a multi-unit franchise agreement, which grants the franchisee the right to open more than one unit or establishment under and pursuant to the same franchise agreement.

By using this franchise structure, the franchisor is and will remain in full control of compliance by the franchisee of the franchisor's policies, guidelines, manuals and other rules applicable to the franchise system and trademarks being licensed under the franchise agreement.

4. Joint Venture

This is a less commonly used structure, but in certain occasions franchisors may create a joint venture relationship with its local partner, where a special purpose entity is created by both partners under Mexican law which would be granted specific development and/or franchising rights to develop a certain number of franchised units or businesses within a determined territory in Mexico. Specific corporate rights must also be regulated through the governing corporate documents of the joint venture entity, such as the by-laws and, in some cases, in a shareholder or similar agreement.

F. Corporate Matters

1. Organizational Aspects

Although Mexican law provides for other kinds of business entities (commercial and mercantile) that may be incorporated to do businesses in Mexico, the two most used in Mexico are the stock corporation¹⁸ and the limited liability company.¹⁹ In both structures, the entities

¹⁸ Under Mexican law, a stock corporation is known as '*Sociedad Anónima*'.

may also be of variable capital, which facilitates the increase or reduction of their corporate capital without having to comply with special formalities. The liability of the holders of interest in either of these two types of entities is limited to the amount of their contributions to the corporate capital of the company.

Mexican business entities must be incorporated before a notary public and recorded with the Public Registry of Commerce²⁰ of their corporate domicile. The deed of incorporation of a business entity consists of the by-laws and articles of incorporation evidencing the initial corporate capital, the names of the holders of interest in the capital, the appointment of directors and officers, and the express granting of powers of attorney to specific individuals to represent the company. The minimum number of shareholders or quota-holders to incorporate a stock corporation or a limited liability company is two.

Any modifications or amendments to the by-laws and articles of incorporation of a Mexican business entity must be approved by resolution of its shareholders or quota-holders, as applicable, and the relevant minutes must be formalized by a Mexican notary public and the relevant public deed needs to be recorded with the Public Registry of Commerce, for such resolution to be fully effective.

2. Authority of Legal Representatives

Under Mexican law, the appointment of an officer does not imply the grant of powers of attorney and/or authority to act on behalf of the legal entity (as may occur in certain countries with common law systems) and, therefore, it is necessary to grant express powers of attorney upon the incorporation of the company or through a further corporate resolution either of the shareholders' or quota holders', as applicable, or from the board of directors or the board managers of the franchisee.

For purposes of executing a franchise agreement on behalf of a Mexican franchisee, its legal representative must have sufficient power of attorney and authority to do so; at least, he/she must be vested with a general power of attorney for acts of administration. Notwithstanding, it is strongly recommended for a foreign franchisor to seek advice from local counsel, in view of the fact that, for example, if the agreement establishes the grant of a guarantee, it may be necessary to have broader authority. Otherwise, the franchise agreement could be void.

Except for some specific cases, any power of attorney and authority granted in favor of any individual or even a legal entity must be contained in a public deed granted by a notary public in Mexico.

G. Governing Law and Dispute Resolution

Mexican laws do not include mandatory requirements for choice of law, jurisdiction, dispute resolution mechanisms or venue designations. As a result, and based on the principle of freedom of contract regarding commercial transactions provided by Article 78 of Mexico's

¹⁹ Under Mexican law, a limited liability company is known as '*Sociedad de Responsabilidad Limitada*'.

²⁰ *Registro Público de Comercio*

Commerce Code²¹, the franchisor and the franchisee may freely choose the substantive law to govern their relationship and may freely submit to the jurisdiction of any given court or to mediation and/or arbitration for purposes of resolving disputes.

Foreign franchisors must be aware of when it is advisable to submit the franchise agreement to local laws or foreign laws, as well as to select the most appropriate dispute resolution mechanism, depending on the specific characteristics of the franchise agreement and the contracting franchisee (location of the main franchisee's assets, location of its owners' assets and place where the franchise agreement will produce its effects). The foregoing would likewise facilitate the enforcement of a franchise agreement.

1. Enforceability of Choice of Law and Arbitration Clauses

As previously mentioned, based on the principle of freedom of contract, the franchisor and the franchisee may freely choose governing law for their relationship and may freely submit to the jurisdiction of any given court or to arbitration for purposes of resolving disputes.

Specifically in connection with international franchise agreements, it is very important to know and analyse in detail some provisions to be included therein, in order to bolster the franchise agreements for enforcement purposes (for example, the governing law).

Choosing the governing law is a very sensitive issue; therefore, before selecting the governing law of a franchise agreement or of its guarantees, the following are suggested factors to take into consideration: (i) location of franchisee; (ii) location of franchisee's main assets; and (iii) place where the franchise that is the subject of the franchise agreement is or will be operated. The foregoing will considerably help to reduce the risk of not being able to enforce an arbitral award or a court resolution.

2. Judicial Proceedings and Arbitration

If a dispute arises under a franchise agreement that is considered a commercial or mercantile agreement, and if the parties to it decide to submit themselves to the applicable laws and competent courts of Mexico, an ordinary commercial or mercantile procedure may be initiated. The final resolution issued by the corresponding local judge in the first instance may be appealed before the local court of appeals (a higher-level court also known as second instance). The final resolution issued by the court of appeals in the second instance may be challenged before a federal court through a constitutional procedure, also known as *amparo*, but only if during the process specific constitutional rights were violated or if the final resolution is issued against the principles of Mexico's General Constitution. The resolution issued by the court in the *amparo* procedure would be final and definitive.

An alternative and common dispute resolution mechanism is arbitration, which may be subject to Mexican or foreign law. Awards that are issued under the law of a country that is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards²² will be recognized and enforced in Mexico as long as such awards are not contrary to

²¹ *Código de Comercio*, published in the Official Gazette of the Federation from October 7 to December 13, 1889, which last amendment was published in the Official Gazette of the Federation on April 7, 2016.

²² Entered into on June 7, 1959 in New York, United States of America (the "New York Convention").

Mexico's public order laws. Foreign judgments and arbitration awards that do not contravene public order laws are enforced in Mexico through a recognition and enforcement procedure before a judge, by means of a process known as homologation, given that Mexico is a party to the United Nations Convention.

In general, arbitration may have more advantages than disadvantages, especially when the foreign franchisor does not have a local subsidiary and operations in Mexico. Arbitration has proved to be time-efficient and if Mexican law is governing the franchise agreement and the resolution of the dispute, it should be possible to enforce an arbitral award. Arbitration in the franchise industry also carries the advantage of allowing the resolution of a problem to be carried out by one or more arbitrators with the necessary expertise and knowledge in franchising, which is a subject not necessarily known by the courts. The main possible disadvantage is that in certain cases, the related costs and fees could be higher than those applicable in a jurisdictional procedure, depending on the agency administering the arbitration, its rules and the profile of the arbitrators.

Mediation in Mexico is not mandatory for the parties; it is a voluntary procedure in which the parties involved in a controversy may submit their differences to a mediator and, if the parties are able to reach an agreement on the relevant discrepancy, the mediation would conclude through the execution of a settlement agreement. Formal mediation procedures are offered by the Superior Court of Justice of Mexico City²³, which is part of the government's judicial branch, and by the Mexican Institute of Mediation²⁴, which is a private organization composed of the most recognized law firms in Mexico, whose members are certified mediators.

3. Injunctive Relief or Similar Measures

The dispute resolution alternatives (jurisdictional and arbitration) are in addition to and independent from any administrative infringement action that may be initiated by a franchisor against any person violating the provisions of the IPL, in which case the IMPI is authorized to impose provisional or precautionary measures that include the seizure of merchandise and the closure of the premises. Injunctions are not available under Mexican law, but instead only the above-indicated administrative measures are available, as well as certain judicial measures that may be issued by the courts in few specific cases. A breach of contract by a franchisee having a franchise contractual relationship in place does not allow the franchisor to initiate an administrative infringement procedure and seek the issuance of a provisional administrative measure by the IMPI; it will be necessary to first terminate the corresponding franchise agreement and, if such termination is rejected or opposed by the franchisee, then to obtain a judicial resolution or an arbitral award, confirming termination of the franchise agreement.

H. Other Local Law and Regulatory Considerations

1. Foreign Exchange and Currency

Under Mexican law, the parties to a franchise agreement can agree in the agreement to make payments in any currency. If, however, according to the agreement, the payment is to be

²³ *Tribunal Superior de Justicia de la Ciudad de México*

²⁴ *Instituto Mexicano de la Mediación, A.C.*

made within the territory of Mexico, then, pursuant to the provisions of the Monetary Law²⁵, the party obligated to make the corresponding payment may freely elect to make such payment either in the foreign currency agreed in the contract or in Mexican currency (Pesos) according to the exchange rate published by Mexico's Central Bank²⁶ in the Official Gazette of the Federation on the date of payment. If it is agreed that payments are to be made abroad, then the party obliged to make such payment cannot elect to make it in Mexican currency based on the provisions of the Monetary Law.

2. Real Estate Restrictions

There are some restrictions on the acquisition of real estate by foreigners or foreign-owned Mexican entities. As a general rule, a foreign individual or entity may directly own real estate in Mexico, but foreigners (including individuals or entities) may not acquire direct ownership of real estate property located within the 'restricted zone' that consists of a 50km strip of land along the Mexican coasts and a 100km strip along the country's borders.

Although foreigners may not acquire direct ownership in the restricted zone, they can acquire other rights (similar to ownership rights which allow them to dispose of the real estate, and which are commonly used) over real property in the following cases: (i) wholly foreign-owned Mexican entities may directly acquire property within the 'restricted zone' to perform non-residential activities (industrial, commercial or tourism activities) and such acquisitions must be recorded with the Ministry of Foreign Affairs²⁷; (ii) if the real estate is for residential purposes, foreign individuals or entities and Mexican companies with foreign participation in their corporate capital (up to 100%) may acquire the rights of use and benefit from the real estate through a trust; and (iii) foreign individuals or entities may take and grant a lease in any real estate and other properties in Mexico without any limitation, but foreign entities need to carefully analyze when leasing property in Mexico, since it may imply the creation of a permanent establishment for tax purposes.

3. Data Protection

In terms of personal data protection, franchising operations must consider the applicable provisions of the Federal Law for the Protection of Personal Data Possessed by Private Persons²⁸ ("Data Protection Law"), as well as its Regulations²⁹, which provide the obligations that data controllers ("DCs") and data processors ("DPs") must comply with for the collection, processing, remission and transfer of personal data.

A franchise operation requires, in most cases, that the franchisee undertakes the role of a DC, since such entity normally makes decisions on the use of collected personal data from

²⁵ *Ley Monetaria de los Estados Unidos Mexicanos*, published in the Official Gazette of the Federation on July 27, 1931, which last amendment was published in the Official Gazette of the Federation on January 20, 2009.

²⁶ *Banco de México*

²⁷ *Secretaría de Relaciones Exteriores*

²⁸ *Ley Federal de Protección de Datos Personales en Posesión de los Particulares*, published in the Official Gazette of the Federation on July 5, 2010.

²⁹ *Reglamento de la Ley Federal de Protección de Datos Personales en Posesión de los Particulares*, published in the Official Gazette of the Federation on December 21, 2011.

customers in Mexico, and also in connection with personal data provided by their employees. In certain occasions, franchisors may receive personal data from franchisees by virtue of remissions in order to provide franchisees with certain administrative services or operational support, in which case franchisors act as DPs by processing personal data on behalf of their franchisees, or by virtue of data transfers for processing data for their own purposes (*i.e.*, marketing, analysis and similar activities).

Under the Regulations of the Data Protection Law, the data processing carried out by a DP, regardless of its location, on behalf of a DC established in Mexico, is governed by the provisions of such Regulations. Likewise, data processing carried out by a DC located abroad, which is subject to the Mexican legislation due to a contract or in terms of international law or by a DC that is not located in Mexico, but that uses means (equipment or staff) located in the Mexican territory (unless such means are solely used for transit purposes) is also governed by the Regulations of the Data Protection Law.

The most relevant obligations for franchisees as DCs include the following:

- processing personal data fairly and lawfully;
- issuing the corresponding privacy notices;
- obtaining consent from the data subject to process his or her personal data in terms of its privacy notice;
- providing information to the data subject regarding its personal data processing and data transfers by means of its privacy notice;
- ensuring the quality of the data;
- limiting the use of the data to the identified purposes expressed in the privacy notice;
- maintaining proportionality in the data processing;
- preserving personal data;
- limiting the retention of personal data;
- responding to the data subject's requests for the access, rectification, cancellation and opposition to the personal data processing;
- appointing a chief privacy officer or a data protection department;
- being accountable for the data processing;
- establishing and maintaining administrative, technical and physical security measures to protect personal data; and
- notifying the data subjects of a breach of security.

The main obligations for franchisors as DPs include the following:

- processing the personal data in accordance with the DC's instructions and its privacy notice;
- refraining from processing personal data for purposes other than those instructed by the DC;
- implementing security measures in terms of the Data Protection Law, its Regulations and other applicable provisions;
- preserving the confidentiality of the processed personal data;
- deleting personal data processed upon completion of the legal relationship with the DC or due to the instructions of the DC, as long as there is no legal provision requiring the retention of the personal data; and
- refraining from transferring personal data unless the DC decides to do so, or the communication derives from a subcontracting process, or when it is required by a

competent authority. The instructions of the DC must be included in a contractual instrument.

Remittances of personal data can be carried out without the consent of the data subjects and it is not necessary to include them in the privacy notice issued by the DC. Transfers must be disclosed to the data subjects in order to collect their consent (either their implied consent or their expressed authorization in the event of sensitive and financial data) and must be included within the DC's privacy notice.

4. Employment law

None of the applicable Mexican laws contain provisions relating to the possibility of considering the existence of labor relations between a franchisee and a franchisor or between the employees of the franchisee and the franchisor.

Nevertheless, when entering into a franchise agreement with a franchisee, the franchisor should bear in mind that under Mexican law contracts are governed by their content and not by how they are named. Therefore, if the franchisor incorporates or accepts the inclusion of provisions within the franchise agreement in error, that may be interpreted as constituting or creating labor relations and the Mexican labor courts have sufficient authority to determine the labor obligations of the franchisor and find in favor of the individual franchisee or the franchisee's employees due to the nature of the agreement, regardless of its name. The courts could then penalize the franchisor for non-compliance with such labor obligations.

The most important element that could be used by a franchisee in order to claim the existence of an employer/employee relationship would be the subordination between the franchisee and the franchisor, which means that all 'recommendations or guidance' provided by the franchisor are in fact considered 'imperative instructions' for the franchisee to comply with. Even though it seems difficult for a franchisor to be considered an employer of its franchisee, certain additional elements must be present, such as: (i) periodic payments being made by the franchisor to the franchisee (which generally are not present in a franchise relation); (ii) material evidence of the 'instructions' being periodically provided by the franchisor to its franchisee; (iii) the franchisee being a natural person and not an entity; and (iv) the franchisee needing to have material evidence of its subordinated relationship with the franchisor and its being part of the same company as the franchisor, such as credentials, memoranda, etc.

Likewise, the franchise agreement should contain a provision called 'absence of labor relations and non-representation', in which both parties state that they enter into the franchise agreement in their capacity as independent contractors and establish the distinction and independence between franchisor, franchisee and the franchisee's employees, among other stipulations.

5. Consumer Protection

The governmental body in charge of applying the Consumer Protection Federal Law³⁰ is the Federal Consumer Protection Agency.³¹ The main objective of this law is to protect

³⁰ *Ley Federal de Protección al Consumidor*, published in the Official Gazette of the Federation on December 24, 1992, which last amendment was published in the Official Gazette of the Federation on May 13, 2016.

³¹ *Procuraduría Federal del Consumidor* (known as 'PROFECO' according to its acronym in Spanish).

consumers and to regulate the activities of providers selling goods and rendering services to consumers. Its provisions include protection for consumers and restrictions regarding use of information pertaining to the consumers, information provided and advertisements, promotions and offers, services, credit transactions, real estate transactions, warranties and adhesion contracts, among others.

Pursuant to the provisions of the Consumer Protection Federal Law, a 'consumer' is considered to be the natural person or entity that acquires or enjoys goods, products or services as the final beneficiary of the same, and a 'supplier' is considered to be the natural person or entity that regularly offers, distributes, sells, leases or grants the use of goods, products, services or a combination of these. Based on the foregoing, according to Mexican legislation, the general rule can be interpreted to state that a franchisee is normally considered to be a supplier and not a consumer. In any event, it is recommended to stipulate in franchise agreements that the franchisee shall be responsible for complying with the provisions of said law and to indemnify the franchisor in the event of a claim by a consumer of the goods or services provided by the franchisee in Mexico.

6. Competition Law

The governmental body in charge of applying the Federal Economic Competition Law³² ("Competition Law") is the Federal Competition Economic Commission.³³ In accordance with the provisions of this law, there are some restrictions on the general principles of contractual freedom, such as when, through agreements, arrangements or a combination of acts between economic agents, the production, processes, distribution or commercialization of goods and services is diminished, harmed or impeded, in which case the situations are considered monopolistic practices. Infringements to the provisions of the Competition Law may result in the nullity of the acts and agreements in violation of the law and the imposition of administrative fines or the payment of damages and losses to third parties; in some specific cases, certain monopolistic practices may be considered felonies.

If agreements, arrangements or a combination of acts between economic agents diminish, harm or impede the production, processes, distribution or commercialization of goods and services, pursuant to such law, such would be deemed a monopolistic practice.

Infringements to the provisions of the Competition Law may result in the nullity of the acts and agreements in violation of the law, the imposition of administrative fines and the payment of damages and losses to third parties. For example, the obligation imposed on a franchisee by a franchisor to sell its products at predetermined prices could be considered a monopolistic practice and, therefore, it is advisable to include in franchise agreements that the franchisor will provide the franchisee with a list of suggested retail prices, but which will not constitute an obligation on the franchisee, but merely a recommendation.

³² *Ley Federal de Competencia Económica*, published in the Official Gazette of the Federation on May 23, 2014.

³³ *Comisión Federal de Competencia Económica* ('COFECE' according to its initials in Spanish language).

7. Anti-corruption

Mexico's Federal Criminal Code³⁴ makes it a criminal offense for any person to offer, promise or give, directly or through an intermediary, money or any other kind of gift, whether goods or services, to any individual (including governmental officers and employees) in order to require or propose to that individual to process or resolve, or accept a promise or refrain from doing so, any matter related to the functions inherent to the latter's employment, office or post, for the purposes of obtaining or retaining advantages in the development or conduct of international commercial transactions.

Mexico's Anti-Corruption Law in Public Contracting Procedures³⁵ provides for the liabilities and sanctions applicable to private parties (including entities or individuals), derived or related to the participation of private parties in a federal public contracting procedure (public tender or bid) that carry out activities or offer or promise money or other bribes for the purpose of obtaining advantages or benefits, or alter the award derived from the relevant tender or bid.

The scope of liability derived from corrupt acts related to contracting procedures is expressly extended not only to Mexican or foreign entities or individuals who participate as bidders or contractors in tenders or bids or agreements derived therefrom, but also to their shareholders, partners, associates, representatives, attorneys-in-fact, principals, subcontractors, employees, agents or any others who intervene in federal public tenders or bids in the name of, on behalf of or in the interest of such bidders or contractors.

8. Anti-Money Laundering

Mexico's Federal Law for Preventing and Identifying Operations with Illegal Resources³⁶ ("Anti-Money Laundering Law") has as its main objective the establishment of rules and procedures to prevent and detect transactions or activities involving illegal proceedings or terrorism financing. Therefore, this new legislation sets out rules to identify and notify certain transactions or activities defined as 'vulnerable', since the same could be used by organized crime groups for money laundering or terrorism financing, including limits on the use of cash in certain prohibited transactions. The law sets forth the obligation to notify the authorities (Ministry of Finance and Public Credit³⁷) of those transactions involving vulnerable activities that surpass a certain amount of money.

In addition, the law establishes the obligation for those entities or individuals involved in vulnerable activities to: (1) identify clients and users (know-your-client policy); (2) collect and retain the information of those individuals or entities involved in the vulnerable activity for a five-year period as of the date when the vulnerable activity was carried out; (3) file corresponding notices to the governmental authorities; and (4) appoint an individual who will be responsible for

³⁴ *Código Penal Federal*, published in the Official Gazette of the Federation on August 14, 1931, which was last modified by an amendment published in the Official Gazette of the Federation on December 26, 2013.

³⁵ *Ley Federal Anticorrupción en Contrataciones Públicas*, published in the Official Gazette of the Federation on June 11, 2012.

³⁶ *Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*, published in the Official Gazette of the Federation on October 17, 2012.

³⁷ *Secretaría de Hacienda y Crédito Público*.

the surveillance and compliance of the obligations set out in accordance with said law. In the event of a lack of designation, the board of directors or the sole administrator of the corresponding entity, as the case may be, will be responsible for such obligations, and in the event of individuals performing vulnerable activities, such individual will be personally liable.

I. Conclusion

From a legal and practical view, domestic and foreign franchisors have equal treatment in Mexico and are equally protected and restricted in terms of Mexican legislation, but lack of knowledge of the domestic laws, administrative restrictions and commercial and operational customs, as well as the lack of legal advice from a competent Mexican law firm, are important elements that could hamper a foreign franchisor's entry into the Mexican market.

Franchising has been a successful business model that has substantially increased development in Mexico and has an important presence in a variety of commercial activities. Franchise agreements are commonly used by foreign investors to do business in Mexico, and franchising is a business structure recognized by Mexican law and provides the necessary protection to foreign investors.

The freedom of contract principle contemplated by the civil and commercial legislation in Mexico allows the parties to voluntarily stipulate different terms and conditions to achieve their goals from a business perspective, which provides the necessary flexibility for franchisors to achieve their goals.

Doing business in Mexico through a franchise vehicle generally avoids the risk of having a permanent establishment in Mexico for tax purposes.

III. BRAZIL

A. Introduction

Brazil has become the 4th largest franchising country in the world, with a strong participation of national brands (90% of the market) and a limited number of foreign franchisors (10%). The growth was a result of the flexible legal treatment of local and international franchise agreements. The total annual revenue in 2015 of the franchising sector has surpassed R\$ 130 Billion (approximately USD\$44 Billion) excluding gas stations, automotive dealerships and bottling agreements. This revenue represents more than 8% growth over 2014 and, despite the current financial and political crisis, the expectation is that in 2016 there will be a continuing increase of around 6% in the system.

There are now more than 3,000 franchise chains in existence in Brazil with a growth of 4.5% over 2014. The total number of franchised outlets in 2015 is 138,343 with 10% increase compared to 2014. The franchise sector employs more than 1.2 million people.

Franchised units are present in 2,243 cities around the country. Brazilian native brands have expanded throughout the world and are present in 30 countries, with 37 marks in the U.S. and around 40 in Europe. In total, 120 Brazilian brands are franchised worldwide, in countries as distant as Australia, Japan and South Africa.

The franchise sector has proven extremely resilient during the economic downturn and has not only resisted decrease but has even shown continued growth, in spite of the recession

of the retail business as a whole. This resilience is a sign that franchising should continue to prosper and even experience a surge once the markets begin to respond to further investment return.

Under the Brazilian Intellectual Property Law³⁸, franchise agreements are considered intellectual property agreements, combining bundled licenses of trademark, know-how, operating technologies, technical services and possibly patent and industrial design licenses. The agreements are subject to approval by the INPI (National Institute of Industrial Property – Brazil’s patent and trademark office) and are regulated under Resolution 137³⁹ issued by INPI. Under certain circumstances, international franchising agreements are to be recorded at INPI before any franchise fee or royalties may be remitted legally outside Brazil.

Also, the main Brazilian regulation applicable to franchise agreements is Law 8.955 of December 15, 1994 (“Brazilian Franchise Offering Law”)⁴⁰, which defines franchising as a joint license of trademark or patent, associated with the right of distribution of products or services and the right to use technology of operation and administration of business or operational systems developed or held by a franchisor in exchange for direct or indirect remuneration, without an employment relationship. This law does not regulate the relationship of a franchisee and a franchisor, but rather provides only for franchise disclosure requirements, as reviewed in more detail below.

B. Intellectual Property Considerations

1. Trademark Protection

The trademark rights being licensed under the agreement are essential elements of a franchise. Trademark rights are deemed to be acquired only after the registration is granted, as Brazil adopts a first-to-file trademark protection system. In order to enter into a franchise agreement in Brazil, the main mark must have been registered or filed with INPI.

As a result, the proper steps to protect the marks in this country are essential to provide the proper legal framework for franchising. In addition, other IP rights must also be secured and protected in order to insure at least freedom-to-operate in the country.

³⁸ Law 9,279 of 1996, TITLE VI -TRANSFER OF TECHNOLOGY AND FRANCHISING

Article 211- INPI will effect the recordation of contracts that involve transfer of technology, franchising contracts and the like so that they may produce effect with respect to third parties.

³⁹ REGULATORY ACT NO.135 of 1997 - Subject: Normalizes the recordation and registration of technology transfer and franchise contracts. Article 2. INPI shall record or register, as the case might be, the contracts that involve technology transfer, as might be considered rights license contracts (exploitation of patent or trademarks use) and contracts for transfer of technology (technology provision and technical and scientific assistance service rendering), and franchise contracts.

⁴⁰ Law 8.955 of December 15, 1994 (“Brazilian Franchise Offering Law”) - Art. 2 - Franchising is the system by which a franchisor grants to franchisee the right of trademark or patent use, associated to the right to exclusive or semi-exclusive distribution of products or services and, eventually, also the right of use of technology of implantation and administration of business or operational system developed or detained by franchisor against direct or indirect remuneration, however, without characterizing an employment relationship.

For this reason, it is extremely important to run prior searches for trademarks, patents and industrial designs, which may also result in an analysis of the convenience to file for protection of such rights.

In order to insure protection of IP rights, applications for registration of the marks must be submitted to INPI and will be considered by INPI when approving franchise agreements for recordation.

The property in a mark is acquired by a validly granted registration, the owner being guaranteed exclusive use thereof throughout the national territory. Any visually perceptible distinctive sign, when not prohibited under law, is eligible for registration as a mark. The registrant of, or applicant for, a mark is also guaranteed the right to license its use under a franchise agreement. The registration of a mark will have a term of 10 years counted from the date of its grant.

2. Recordation of Franchises at the INPI

The recording of international franchise agreements at the National Institute of Industrial Property ("INPI") is indispensable. The purpose of the recordation is threefold: (a) to make the agreement effective against third parties; (b) to permit the remittance of payments to the foreign franchisor; and (c) to qualify the franchisee for tax deductions.

The INPI usually adopts a very liberal position in the recordation of franchise agreements and focuses on the assessment of the validity of the trademarks in Brazil, the specification of their serial number at the INPI in the agreement and, in case of agreements involving parent-subsidiary companies, on the approval of the applicable rate for tax deductibility and remittances.

The franchised trademarks have to be at least filed at the INPI. Therefore, franchise agreements may include only trademark applications and still generate royalties to be remitted from the franchisee to the franchisor.

Please note that for recording purposes, a list of all trademark applications/registrations must be included, with their relevant official numbers at the INPI.

Given this scenario, although Brazilian law provides that franchise agreements are valid and enforceable irrespective of registration with any governmental body, the recording of international franchise agreements at the INPI and subsequent registration at the Brazilian Central Bank ("BACEN") are mandatory requirements for the above mentioned purposes (remittance of fees and royalties from Brazil overseas, as well as for the local party to enjoy the fiscal deductibility of payments to offset local income tax and in order to produce effects against third parties).

Translation into Portuguese will be required for all documents executed in a foreign language that will be presented for recordation at the INPI. Local law sets forth that the disclosure document should be in a clear and precise language to the prospective franchisee. Since Portuguese is the official language in Brazil, one might assume that it should be in this language; however, as long as the Brazilian party knows English fluently and expressly acknowledges that fact, we believe that the parties in international franchising may decide to adopt the English language for the disclosure document, in order to avoid translation of such document.

For recording purposes at the INPI, an authenticated copy of the executed agreement is sufficient. As mentioned above, a simple translation of the franchise agreement must also be presented to the INPI.

Additionally, the franchisee will need to fill in an official INPI form with some specific information regarding its local company, the Ficha Cadastro, for statistics purposes at the INPI.

Furthermore, for the purpose of recordation and local enforceability, the franchise agreement must be executed by the parties and two witnesses. The initials of the parties and witnesses have to be placed on each page of the agreement and the signature of the foreign party has to be notarized and legalized at the Brazilian Consulate. Furthermore, the franchise agreement has to specify the full name and title of the representatives of the parties, as well as place and date of execution and the name and identification number of the witnesses.

Regarding agreements presented for recordation, the INPI has a legal term of 30 days to issue a decision. In practice, they usually take 50-60 days. After this term, the INPI can issue the Certificate of Recordation or an office action requesting further details of the agreement.

After the Certificate of Recordation is issued, the agreement must be registered at the Brazilian Central Bank for remittance of payments. This registration is a simple procedure and can usually be completed in about 2 days. No payment from the franchisee to the foreign franchisor can be legally remitted overseas before the recordation of the agreement and registration with the Central Bank.⁴¹

The INPI will continue to receive requirements for the recording of agreements and invoices in paper, as well as any other related petitions, nevertheless, with considerably higher costs.

It is important to highlight that the INPI currently adopts a reasonably new, yet already consolidated position, which considers the initial term of agreements submitted for recordation (for purposes of calculation and remittance of royalties) as the filing date of the agreement at the INPI.

In practice, this affects agreements as revenues acquired with the sale of products or the performance of services during the period between the date of execution and the date of filing of the agreement at the INPI are not considered for calculation of royalties. Therefore, remittance of payments derived from such period will not be permitted, as sales of products or performance of services can only accrue royalties as of the date of presentation of the agreement before the INPI and not necessarily the date set out in the agreement between the parties.

⁴¹ It is worth mentioning that July 7, 2015, the INPI's Electronic Petitioning System for Technology Agreements (e-CONTRACTS) has become effective. Said system is ruled by Regulation N° 147/2015 as well as the rules governing the e-INPI system, provided in Regulation N° 25/2013. The e-CONTRACTS system marks a major turn in the INPI's entire internal proceeding.

The Electronic Form e-CONTRACTS is a system, via Internet, to be utilized by users of the INPI's Contracts Department, Geographical Indications and Recordations - DICIG, in order to demand services or perform administrative acts related to the requirements for recordation of agreements and invoices.

C. Franchise Law

Law 8.955 of December 15, 1994 ("Brazilian Franchise Law") defines the franchise agreement and amongst other provisions, introduces franchisor's obligation to deliver a Franchise Disclosure Document (FDD) to prospective franchisees and/or master franchisees containing several aspects of the business, at least 10 days prior to the execution of any binding document related to the franchise and/or receipt of any payment by franchisor or other designated recipients.

Failure by the franchisor to supply such disclosure document at least 10 days prior to the execution of the agreement or payment by franchisee renders the agreement voidable by the franchisee and penalizes the franchisor with the refund of any and all amounts paid by the franchisee in connection with the franchise, such as franchise fees and royalties, duly updated, plus recovery of damages.

As there are no relationship laws regarding franchising in Brazil, the agreement is the main source of information as to the terms and conditions of the grant of the franchise. The FDD does not need to be registered in any agency or government body for franchising purposes, although the presentation of the statement of delivery of the FDD - duly signed by the prospective franchisee - will need to be presented.

The pre-sale disclosure requirements imposed by Brazilian Franchise Law include information about the franchisor's business, which needs to be provided in clear and comprehensive information. For your reference, among the information that needs to be provided by the franchisor in the FDD are:

- a summary of the background, business form and complete name or commercial name of the franchisor company and of all companies related thereto, as well as their respective trade names and addresses;
- balance sheets and financial statements of the franchisor company for the two preceding years. An audit is not required. If a new company will be created/incorporated to be the franchisor, this information will not be necessary;
- a clear description of all pending lawsuits involving the franchisor and its related companies, subfranchisors, and the owners of intellectual property rights used in the franchising system relating to or arising from the franchise agreement, which, depending on the outcome, may affect the continuance of the franchised business;
- a detailed description of the franchise, general description of the business and the activities that will be performed by the franchisee;
- a profile of the ideal prospective franchisee as regards prior experience, educational requirements etc.;
- information regarding the requirement of the direct involvement of franchisee in the franchise operation;
- specifications regarding: (a) estimated initial investment necessary for the establishment and startup of franchise operations; (b) value of the initial affiliation fee or franchise fee

and any guarantees (if any amount is specified by the franchisor); and (c) estimated cost of the facilities, equipment and initial inventory and respective payment conditions;

- clear information regarding periodic fees and other amounts to be paid by the franchisee to the franchisor or to third parties, (including any relevant calculations or formulae) and a description of rights, products or services for which compensation is being made, specifically indicating the following: (a) periodic compensation for the use of the system, of the trademark or for services provided by the franchisor to the franchisee ("royalties"); (b) payments for lease of the equipment or premises; (c) advertising fee or similar payments; (d) minimum insurance coverage amounts; and (e) any and all other amounts and or/expenses incurred by Franchisee and due to the franchisor or third parties related thereto;
- a complete list of all franchisees, subfranchisees or subfranchisor of the franchisor as well as of those who have terminated franchise agreements during the preceding twelve months;
- if the franchisee is guaranteed exclusivity or a right of first refusal in any particular territory or activity and, if so, under what conditions;
- clear and specific information regarding the obligation of the franchisee to acquire goods, services or materials necessary for the establishment, operation or management of its franchise from suppliers designated and approved by franchisor, providing a list of such suppliers, if applicable;
- description of services and products offered to the franchisee by the franchisor with respect to: (a) supervision of the chain; (b) orientation or guidance services provided by the franchisor to the franchisee for operating the business, and other services rendered to the franchisee, aside from training; (c) training of the franchisee, specifying its duration, content and cost; (d) training of the employees of the franchisee; (e) franchise manuals; (f) assistance on the analysis and selection of the location where the franchise will be established; and (g) layout and architectural plans of the facility of the franchisee, if applicable;
- status of the trademarks before the INPI;
- the franchisee's rights and obligations upon expiration of the contract, in connection with the use of know-how and trade secret related to the franchise and operation of competing activities; and
- draft of the franchise agreement and of any preliminary agreement.

Given the nature of the information required to be disclosed, it is important that franchisors periodically review and update the FDDs, so as to ensure that prospective franchisees always receive FDDs which accurately reflect the most current information about the franchised business.

We highlight that under Brazilian law, international agreements permit foreign law to rule and govern the relationship between the parties.

Brazil is a signatory and has ratified the United Nations Convention of New York of June 10, 1958 on the recognition and enforcement of foreign arbitration awards. Therefore, the rules applicable to international arbitration are based on the United Nations Convention of New York of June 10, 1958 and the Brazilian Arbitration Law⁴².

Foreign decisions, whether issued by a court of law or by means of an arbitration award, can be enforced in Brazil. However, foreign decisions need to go through a complex and time-consuming process of analysis in the Superior Court of Justice in order to be locally enforceable.

Among the main requirements parties must comply with are: (a) the parties must prove that the decision attends to all legal formalities; (b) the decision must be final with no possibility of further revision; (c) it needs to be notarized by a Brazilian Consul in the country where it was delivered and translated into Portuguese; and (d) in addition, in order to receive the exequatur from the Superior Court of Justice, the foreign decision cannot be contrary to the Brazilian public order and local practices. Although the case should not be retried, approval of the decision may take some time locally.

In light of the above, should the franchise agreement stipulate the choice of foreign law and jurisdiction or foreign arbitration, it is advisable to include some carve-outs in the agreement, especially involving intellectual property, unfair competition and non-compete covenants, for which the franchisor may elect to apply for preliminary injunctions directly in Brazil through the courts.

D. Tax Considerations

1. Tax Burden on Remittances Abroad Arising from Franchise Agreements

Royalties due to a foreign franchisor under franchise agreements are, as a rule, subject to the following taxation upon the remittances abroad:

- Withholding Income Tax (IRRF): 15%
- Contribution of the Intervention in the Economic Domain (CIDE): 10%
- Contribution for the Social Integration Program on import of services (PIS-Import): 1.65%
- Contribution for the Financing of Social Security on import of services (COFINS-Import): 7.60%
- Tax on Financial Transactions (IOF/Exchange): 0.38%
- Municipal Tax on Services of Any Nature (ISS): 2% up to 5%, depending on the Municipality where the franchisee is located

Below is a brief description of each of the above mentioned taxes, for reference and knowledge:

- IRRF: according to Brazilian legislation, any profit verified in Brazil by a foreign legal entity or an individual must be taxed in Brazil, regardless the nature of the remittance.

⁴² The Decree no. 4.311, dated as of July 23, 2002, introduces the United Nations Convention of New York of June 10, 1958 on the recognition and enforcement of foreign arbitration awards. Therefore, the rules applicable to international arbitration are based on the United Nations Convention of New York of June 10, 1958 and the Brazilian Law no. 9.307, dated of September 23, 1996.

The income earned in Brazil by legal entities or individuals must be subject to income tax withheld at source. The responsibility for withholding and collecting the IRRF is of the payer source, but this burden can be contractually shifted. Therefore, either the beneficiary will receive the due amount with the deduction of the income withheld tax or the Brazilian party should use the gross up method and bear the respective cost of the IRRF, depending on the agreed upon contractual terms. As anticipated, the current rate of IRRF is 15% and it levies on the value remitted, paid, or credited overseas. If the beneficiary is located abroad at a tax favorable jurisdiction or in a jurisdiction with a privileged tax regime, as established by the Brazilian Federal Revenue Service (RFB), the rate of IRRF is 25%. In brief, a tax favorable jurisdiction is the one that taxes the income up to 17% or do not disclose the partners of a legal entity.⁴³

- CIDE: The Contribution of Intervention on Economic Domain (CIDE) is due by corporate entities that have license to use or acquire technological knowledge, companies that sign contracts that entail transfer of technology, companies that sign contracts providing for technical and administrative assistance, all of which with parties residing or domiciled overseas. CIDE is levied at the rate of 10% on amounts paid abroad and the taxpayer of CIDE is the Brazilian party that remits the payment.⁴⁴⁴⁵ Under the regulation, the transfer of technology; provision of technical assistance (technical assistance services or specialized technical services); technical and administrative assistance and related services; trademark license; and license of patents are subject to CIDE.
- PIS-Import and COFINS-Import: as from May 1, 2004, services rendered by foreign entities to Brazilian companies are subject to the PIS-Import and COFINS-Import, provided that the service is rendered in Brazil or performed abroad, but its results occur in Brazil. The calculation basis of the PIS-Import and COFINS-Import comprises the amount remitted abroad (before the IRRF deduction), plus the ISS and the contributions (PIS/COFINS-Import) themselves (gross up method). As anticipated, the applicable PIS and COFINS rates on the importation of services are 1.65% and 7.6%, respectively.
- IOF/Exchange: the IOF/Exchange is a tax applicable on any conversion of foreign currency in Brazilian currency (Reais) or of Reais in foreign currency. The IOF/Exchange is calculated based on the value of the exchange transaction and it is collected by the financial institution involved in the conversion of currency. Although the current applicable rate to remit payments overseas (regardless of the legal nature) is 0.38%, the maximum rate provided by law is 25% and the Ministry of Finance has the constitutional right to increase or reduce the rate up to 25% at any time.

⁴³ In this regard, Normative Instruction N. 1,037/2010 lists all countries that RFB considers as tax favorable jurisdictions and also lists the regimes deemed by Brazilian tax authorities to be privileged.

⁴⁴ Law N. 10,168, of December 29, 2000 instituted the Contribution called CIDE.

⁴⁵ In April 2002, Decree N. 4,195 was issued to regulate the provisions of Law N. 10,168/2000, and established the activities that are subject to the payment of CIDE. In accordance with RFB's majority decisions, CIDE will levy depending on whether there is transfer of technology or the services are classified as technical services or technical, scientific, administrative and related assistance.

- ISS (service tax): In addition, the taxation by ISS⁴⁶ also applies on services rendered by foreign companies, provided that the service is performed in Brazil or that its results are verified in Brazil. In such cases, usually the importer of the service will be responsible for the payment of the ISS due in the service importation, but the cost of the ISS will be borne by the services performer. However, as IRRF, the cost may be contractually shifted and paid by the importer of the service, by means of a gross up provision. Tax Deductibility Aspects

As a general rule, legal entities that calculate the Corporate Income Tax (IRPJ) and the Social Contribution on Net Profit (CSLL) under Actual Profit Method (Lucro Real) can consider as deductible the operating expenses which are necessary to the business activities and are usual or regular in the course of a transaction, operation or activity of the company⁴⁷.

As mentioned above,⁴⁸ international franchise agreements (or any agreement involving transfer of technology) must be recorded at the INPI and registered with the BACEN in order to qualify local franchisee for tax deductions, among other purposes.

The tax deductibility of royalty payments under a franchise agreement is limited as set forth in Ordinance N. 436, issued in 1958 by the Ministry of Finance. Such limits vary between 1% to 5% of the net sales of the contractual products/services, depending on the field of technology and/or industry involved.

In addition, Interpretative Declaratory Act N. 02/2002, issued by the RFB, deals specifically with the deductibility of payments made under franchise agreements. In its terms, franchisees may add to the above mentioned maximum percentages, the specific percentage set forth in Ordinance 436/58 for deductibility of payments for trademark licensing, which is 1% over the net sales price of the contractual products/services. However, the final maximum percentage for fiscal deductibility under franchise agreements can never exceed 5% of net sales of the contractual products/services.

E. Common Structures for a Franchise Transaction

The most common structures for a franchise in Brazil are master franchises, area developers, unit or multi-unit franchises, franchisee co-ops, franchise conversions, and joint ventures.

⁴⁶ Supplementary Law N. 116, of July 31, 2003, local supply of services is subject to ISS. Law N. 116/2003 lists the services on which the Municipalities are entitled to charge the ISS. Franchising services are set forth on item 17.08. In spite of such legal provision, some taxpayers challenge the constitutionality of ISS taxation on franchising, on the grounds that it would not consist of actual services provision. The Federal Supreme Court (STF) will decide on the matter upon the judgment of Extraordinary Appeal N. 603136/RJ and of the Direct Action of Unconstitutionality N. 4784/DF. It is important to mention that if the franchise activity is not considered a service in accordance with the STF final decision, the taxpayers will have strong legal grounds to defend the non-taxation of PIS-Import and COFINS-Import. In general, the taxable basis of ISS is the price of the service rendered and the applicable rate vary from 2% up to 5%, depending on the Municipality competent to charge it. In case of international franchise agreements, the ISS should be collected in the Municipality where the franchisee is established.

⁴⁷ According to article 299 of Income Tax Regulation (Decree N. 3.000/99).

⁴⁸ According to Law N. 9,279, of 1996 (Industrial Property Law), as well as to tax Article 355, Paragraph 3rd, of Income Tax Regulation.

F. Corporate Matters

Although there are no ideal corporate structures for franchisors and franchisees, the most common structures are limited liability companies which need to be registered before the Board of Trade. There are substantial formalities and registration requirements for corporate venues. Foreign franchisors tend to prefer to grant the license without any obligation to participate as shareholders of the local company formed to operate the franchise and also not to be directly involved in commerce in Brazil in order to avoid any risks and pitfalls of doing business in Brazil.

Along with corporations (S/A), limited liability companies (LLC) are the most common types of entities in Brazil. These companies⁴⁹ bear an even stronger resemblance to corporations and are more complex than before. However, a limited liability company is not subject to the considerable costs of publishing certain relevant corporate acts that an S/A incurs.

The law requires a minimum of two partners in each of the mentioned structures, which may be Brazilian or foreign (either an individual or a legal entity), provided that the foreign partner appoints a Brazilian resident individual to act as its legal representative for corporate purposes.

We present below a general overview on the LLC and the S/A.

1. Limited Liability Companies:

Limited liability companies are governed by the Brazilian Civil Code.⁵⁰ The company's capital is divided into quotas, which may have equivalent or non-equivalent value, and may be paid up in cash, property or credits, provided that such form of payment is foreseen in the articles of association.

As a general rule, in a limited liability company, the liability of each member is limited to the quotas such member has subscribed, but all members are jointly and severally liable until the capital is fully paid for such quotas.⁵¹

It is important to mention that there are exceptions to the general rule of limited liability, such as: members' decisions that breach the law or the articles of association; fraud against creditors; incorrect valuation of any asset (other than cash) that comprises the capital, among others.

A limited liability company may be managed by one or more individuals, who may be partners or not, provided that such managers reside in Brazil. The managers may be appointed in the articles of association or in a separate instrument.

⁴⁹ Under the Brazilian Civil Code (Law no. 10,406/2002).

⁵⁰ Civil Code (Law no. 10,406/2002) may be additionally ruled by the Brazilian Corporations Law (Law no. 6,404/76), if the articles of incorporation include such ruling.

⁵¹ As per article 1,052 of the Brazilian Civil Code.

2. Corporations:

Corporations are ruled by the Brazilian Corporations Law and may be publicly-held or closely-held companies.

A Corporation's capital is apportioned in shares and the liability of each shareholder is limited to the total amount of the issue price of the shares such shareholder subscribes or purchases.

The management of a corporation may be performed by two bodies, the Executive Officers and the Board of Directors.

Although the Executive Officers must be comprised of either Brazilian nationals or foreign individuals residing in Brazil with a permanent visa, the members of the Board of Directors may be either Brazilian or foreign individuals, who are not required to reside in Brazil, provided that they maintain a representative in Brazil.

It is important to mention that, in the case of privately-held corporations with subscribed capital, the establishment of a Board of Directors is not mandatory.

G. Governing Law and Dispute Resolution

As far as franchise agreements are concerned, the recordation by INPI also functions as a prima facie review of enforceability and validity of the terms of agreements and therefore work in favor of the international franchisor by providing a legal seal of the government to the conditions per se.

In the international franchise, the local law allows the parties to agree on the choice of law and also to set up mediation and arbitration methods of dispute resolution, in Brazil or abroad. Foreign decisions or arbitration awards are enforceable and Brazil is a member of the New York Convention, as mentioned above.

The parties may set up in the agreements mechanisms to carve out jurisdictions to allow for local injunctive relief and the case law of Brazilian enforcement of contracts are consistent with the reviews that are expected in any major jurisdiction.

H. Other Local Law and Regulatory Considerations

When entering into a franchise to operate in Brazil, it is crucial to understand that there are other laws and regulations which may have an impact in the transition and their application to the specific case should be analyzed, such as privacy laws concerning business, competition laws affecting franchising, labor issues for franchisors and franchisees, regulatory approvals required, consumer protection law, real estate and leases impacting franchises, dealer protection/commercial agency in the event of payment of commissions, currency controls and exchange control regulations, anti-corruption laws and anti-money laundering measures, among others.

I. Section Conclusion

The legal environment for foreign franchises coming into Brazil is positive and franchising has been perceived as a proper way of business development. The Brazilian

Franchise Association (ABF) is very active in the market and promotes and divulges business format franchising as an efficient method of network expansion. ABF has also an important role of reviewing abusive practices by its members through the Ethics Committee and applying the regulation of Best Practices and Code of Self-Regulation.

IV. CUBA

A. Introduction

President Obama visited Cuba on March 20, 2016, the first visit by a U.S. President since the 1959 communist revolution that brought Fidel Castro to power. In the past year, the U.S. and Cuba have each reopened their respective embassies in the other country, and the U.S. has relaxed certain embargo measures against Cuba to facilitate renewed interest in American investment in Cuba. Despite the gradually improving relationship between the U.S. and Cuba, many economic and other sanctions against the island nation still remain, although they are gradually being relaxed.⁵²

A potentially significant impediment to the lifting of sanctions by the U.S. is the American Cuban Liberty and Democratic Solidarity (LIBERTAD) Act, otherwise known as the Helms-Burton Act, enacted in 1996. The Helms-Burton Act explicitly links the full lifting of economic sanctions against Cuba to the satisfactory resolution of outstanding property claims by American citizens, flowing from the nationalization of American-held private property during the Castro revolution. Full-scale removal of the U.S. embargo would require action from the U.S. Congress to substantially amend or repeal the Helms-Burton Act.⁵³ There remain fundamental aspects of the blockade that are still in force. For example, importation of goods or services of Cuban origin is prohibited unless specifically or generally licensed by the U.S. Treasury's Office of Foreign Assets Control, or they are otherwise exempt; and, ships carrying goods to Cuba are not allowed to return to U.S. ports for 180-day periods, increasing freight charges.⁵⁴

However, there has been incremental progress within the confines of the Helms-Burton Act that reflects the thawing U.S.-Cuban relationship. The Cuban Assets Control Regulation (CACR) and Export Administration Regulations (EAR), the two main tools through which the U.S. enforces the embargo against Cuba, have been greatly pared down in the past two years. A key change is that American travel restrictions to Cuba have been substantially eased and is now authorized by general license, eliminating the need for individual applications across a range of categories. Additionally, transactions ordinarily incidental to travel by American tourists are now permitted in Cuba, as is the use of U.S. credit and debit cards, and import and export of certain goods and services has become easier for U.S. companies.

⁵² Reuters, "EU pact to establish full ties as Cuba's thaw with West progresses" (March 11, 2016), online: <<http://www.reuters.com/article/us-cuba-eu-idUSKCN0WD1V2>>.

⁵³ Blake, Cassels & Graydon LLP: "What the United States' Weakened Embargo Against Cuba Means for Canadian Business" (February 3 2016), online: <<http://www.blakesbusinessclass.com/what-the-united-states-weakened-embargo-against-cuba-means-for-canadian-business/>>.

⁵⁴ Granma, "The blockade continues intact, assures Bruno Rodríguez" (March 17 2016), online: <<http://en.granma.cu/cuba/2016-03-17/the-blockade-continues-intact-assures-bruno-rodriguez>>.

While focused on the legal relationship of individual Americans to Cuba, the loosening of these restrictions is very important for potential expansion of franchise operations on the island nation.

In loosening the embargo, the U.S. is sending the signal to American businesses, as well as international business, that it is acceptable to invest in and to do business with Cuba. To wit, “Cuba is no longer *persona non grata*,” and the companies that realize that the soonest may reap a competitive advantage if they can establish themselves on the island before their rivals.⁵⁵

Thanks to the above-mentioned warming relations between the two nations, franchising in Cuba is becoming a more and more attractive opportunity for American businesses. However, like any other frontier economy, doing business in Cuba may be a culture shock to American investors who are used to mature capitalist markets. Cuba has for more than 50 years been under communist rule, and the rigidity of a centrally-planned bureaucracy filled with interim steps and red tape is still not easy to navigate successfully.

B. Intellectual Property Considerations

The protection of intellectual property is one of the most important considerations of a franchise system when considering entering a new market. Fortunately, Cuba has a fairly developed intellectual property regime and is a party to many of the key international intellectual property conventions and treaties.

Cuba is party to most of the international intellectual property conventions⁵⁶ including the Madrid Protocol, the 1870 Patent Cooperation Treaty, the 1883 Convention of the Union of Paris,⁵⁷ the European Patent Convention, the 1957 Arrangement of Nice Concerning the International Classification of Goods and Services,⁵⁸ the 1973 Vienna Trademark Registration Treaty,⁵⁹ the Berne Convention on the protection of works and the rights of their authors, and the Universal Copyright Convention of 1952.

Additionally, the U.S. has recognized the importance of intellectual property protection for American businesses in Cuba. As an exception to the Helms-Burton Act and attendant embargo-related legislation, U.S. companies are allowed to pay fees and hire Cuban agents to file and obtain trademark registration in Cuba without threat of penalty from the U.S. government.⁶⁰ Reciprocally, Cuba recognizes trademarks and patents from U.S.-based

⁵⁵ Victor Li, “A New Dawn for Cuba” (June 2016) [“A New Dawn for Cuba”], ABA Journal, June 2016, Vol 102, No 6 at 39.

⁵⁶ World Intellectual Property Organization, “Cuba: IP Laws and Treaties”, online: <<http://www.wipo.int/wipolex/en/profile.jsp?code=CU>>.

⁵⁷ State parties to this convention constitute a union for the protection of industrial property.

⁵⁸ State parties to this convention constitute a special union and adopt a common classification of goods and services for the purpose of trademark registration.

⁵⁹ Concerning classification, known as the Vienna Classification, for trademarks that consist of, or contain, figurative elements.

⁶⁰ Squire Patten Boggs, “Trademark Protection: Strategies for Cuba – Now” (March 31 2015) [“Trademark Protection: Strategies for Cuba – Now”], online: <<http://www.squirepattonboggs.com/~media/files/insights/publications/2015/04/trademark-protection-strategies-for-cuba/trademarkprotectionstrategiesforcubanow.pdf>>.

corporations and entities.⁶¹ Due to this important exception to the embargo, U.S. companies represent upwards of 80 percent of Cuban foreign trademarks that have been registered in Cuba since 1999.

Cuba is a “first to file” jurisdiction, meaning that trademark registration is awarded to the first applicant who files. An applicant does not have to use the mark in Cuba, or even plan to expand its business there, before filing a trademark application.⁶² This has commonly resulted in trademark trolling, whereby individuals file applications to register well-known or otherwise lucrative trademarks, and later attempt to sell them or negotiate a distribution agreement with the rightful trademark owner once the rightful owner has realized what has happened.⁶³ The practice of trademark trolling may be tempered by the fact that a trademark registered in Cuba must be used within three years of the grant of registration, or be subject to possible non-use cancellation by the Cuban Industrial Property Office (known by its acronym in Spanish, OCPI).⁶⁴ However, as of 2016, there are more than 100 cases of trademark trolling in Cuba, many of them related to the intellectual property of Top 500 franchises.⁶⁵

The OCPI is the governing entity that grants and registers intellectual and industrial property rights in favor of natural or legal persons, whether foreign or national. Foreign investors interested in applying for trademark registration to the OCPI from within Cuba must be represented by officially designated Industrial Property Agents who receive accreditation from the Cuban government. Additionally, foreign applicants must have “a real and effective domicile or commercial or industrial establishment in Cuba” to benefit from Cuba’s intellectual property protection regime.⁶⁶ Once a foreign applicant retains an Industrial Property Agent, a national Cuban trademark application can be filed at the OCPI. A trademark application from within Cuba is then screened against existing registrations previously granted by the OCPI.⁶⁷

Alternatively, if a U.S. applicant owns a registered U.S. trademark, a Cuban application to the OCPI can be based on the existing U.S. registration and filed directly through the Madrid Protocol process without the need to retain a Cuban Industrial Property agent. Once duly registered in Cuba either domestically or through the Madrid Protocol, U.S. companies are permitted to litigate or take other steps to protect their copyright trademarks and patents from infringement in Cuba.⁶⁸ Because of the “first to file” regime and the gradual lifting of the

⁶¹ Latinvex, “Cuba Reforms: No Haste, No Pause” (April 27 2016), online: <http://latinvex.com/app/article.aspx?id=2652>>.

⁶² “Trademark Protection: Strategies for Cuba – Now”, *supra* note 60.

⁶³ *Ibid.*

⁶⁴ Paul F Kilmer & Robert J Mlotkowski, “U.S. Economic Sanctions and Anti-Boycott Laws” (International Trademark Association, May 2012) at 8, online: < <https://www.hklaw.com/files/Publication/ad528700-c536-4334-b3e2-01da7e87dd36/Presentation/PublicationAttachment/be6cbb53-47f0-4f23-acde-fd3e69728f5c/INTA.pdf>>

⁶⁵ Hosanna Rodriguez Calvo – Legal Adviser/Industrial Property Agent Departamento de Asesoría Legal y Litigios – email June 13, 2016.

⁶⁶ Granma, “CUBA Investor Guide” [“CUBA Investor Guide”] at 39, online: <http://www.granma.cu/file/sp/cartera-de-opportunidades-de-inversion-extranjera-23/datos/documentos/Cuba_guia-del-inversionista_ENG.pdf>.

⁶⁷ “Trademark Protection: Strategies for Cuba – Now”, *supra* note 60.

⁶⁸ *Ibid.*

embargo, there have been many recent administrative actions filed by U.S. companies to protect or challenge rights with respect to their trademarks in Cuba.

The main legislation regulating trademark registration in Cuba are: (i) Decree Law No. 203/99 on Trademarks and Other Distinctive Features, which protects trademarks, commercial names, logos, signs and commercial slogans in Cuba by granting Industrial Property rights; and (ii) Decree Law No. 228/02 on Geographic Indications, which regulates the protection of geographic indications as objects of Industrial Property rights.⁶⁹

C. Franchising Laws and Common Structures for a Franchise Transaction

Cuba does not have any specific franchising laws, such as registration or disclosure requirements to prospective franchisees. However, because franchising laws are generally viewed as providing greater protections to franchisees and potential franchisees than franchisors, the lack of a regulatory regime tailored to franchising may not deter potential franchisors interested in establishing a brand in Cuba.⁷⁰ At present, foreign investors who wish to establish a franchise-like business appear to be governed by a combination of Cuban domestic laws, such as foreign investment law, intellectual property law, administrative law, and contract law.⁷¹

In Cuba, currently the traditional franchise licensing model is not available. Instead, franchisors utilize a “quasi-franchising entity” structure, which typically consists of a joint venture plus licensing arrangement. Joint ventures require very active and continuing participation by the franchisor. There are many examples of successful brands operating in Cuba under such arrangements, such as Adidas, Benetton, Lacoste, Mango, Paul & Shark, Pizza Nova (a Canadian based pizza chain which has six stores across Cuba), and Swiss Army.

Joint ventures with foreign investors are governed by Cuba’s 2014 Law No. 118, the Foreign Investment Act. The Foreign Investment Act allows direct investment when the foreign investor participates as a shareholder in a joint venture or in a foreign-capital company, pursuant to Article 12(a). The development of a joint venture requires the drafting of a public deed, articles of association, and an authorization and association agreement. Joint ventures acquire legal personality upon registration with the Cuban Business Register.⁷²

In Cuba, joint ventures are the instrument of choice for the Cuban government because of the tight control they provide, as a Cuban joint venture nearly always consists of a foreign investor as one partner and the Cuban government as the other.⁷³ Article 2(h) of Cuba’s Foreign Investment Act defines a joint venture as follows:

⁶⁹ CUBA Investor Guide, *supra* note 66 at 39.

⁷⁰ K M Paparelli, “Legal Barriers and Other Challenges to Franchising in Cuba” (April 22 2016) [“Legal Barriers and Other Challenges to Franchising in Cuba”], *International Journal of Franchising Law*, forthcoming, at 7, online: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2768953>.

⁷¹ Matias F Travieso-Diaz & Charles P Trumbull IV, *Foreign Investment in Cuba: Prospects and Perils* (2003) 35 *Geo Wash Int’ L Rev*, 903, at 182, online: <<http://www.ascecuba.org/c/wp-content/uploads/2014/09/v12-travieso.pdf>>.

⁷² CUBA Investor Guide, *supra* note 66 at 30.

⁷³ *Ibid.*

Cuban commercial company which adopts the form of a corporation with registered shares in which one or more national investors and one or more foreign investors participate as shareholders. (emphasis added)⁷⁴

The Foreign Investment Act is an attempt to instill greater confidence in foreign investors, including franchisors, with the hope that foreign capital will soon follow to strengthen Cuba's burgeoning economy.⁷⁵ The Foreign Investment Act has been specifically designed to "establish a system of facilities, guarantees and legal security" for investors⁷⁶ to attempt to assuage rule-of-law concerns around doing business in Cuba (discussed in greater detail below). Additionally, the Foreign Investment Act has made accommodations for international economic association agreements, investing in equities, bonds and securities, and for authorizing the import and export of goods by foreign investors in accordance with the needs of their investment operations in Cuba. As is standard in Cuba, any foreign investment must be authorized and approved by the Cuban state before the foreign investor may proceed with his or her business.⁷⁷ Article 58 of the Foreign Investment Act clarifies that the "rights to revenues obtained by foreign investment are regulated by agreements contained in joint venture agreements, in compliance with the relevant legislation in force, and subject to intellectual property protection..." (emphasis added), again emphasizing the joint venture agreement as the preferred method of foreign investment from the perspective of the Cuban government.

While Cuba has recently allowed its citizens to form joint ventures with foreigners, such arrangements have been confined to fairly limited circumstances such as self-employment of citizens in taxi services, restaurants, or other small business.⁷⁸ Additionally, the Foreign Investment Act provides for a "Totally Foreign Capital Company", defined as a commercial entity without the involvement of any national investor.⁷⁹ However, totally foreign capital companies have not yet been seen in operation in Cuba.⁸⁰

The biggest hurdle for franchisors investing in Cuba may be the challenges of remitting profits back to the franchisor. The franchise-like joint venture agreements currently operating in Cuba have been met with mixed results – companies such as Nestlé, Sol Mio, and Sherritt International Hotels have experienced success, while others have floundered.⁸¹ London based franchise lawyer Mark Abell suggests that new laws "recognizing and legitimizing franchising in Cuba" should be a high priority for the country. Mark Abell suggests that, given Cuba's close

⁷⁴ Cuba, Law No. 118, *Foreign Investment Act* (March 2014), art 1.2, [*Foreign Investment Act*] online: <<http://www.cubadiplomatica.cu/LinkClick.aspx?fileticket=lsdG-CVp5T0%3D&tabid=21894>>.

⁷⁵ Larry Catá Backer, "The Cuban Communist Party at the Center of Political and Economic Reform: Current Status and Future Reform", SSRN, 4-5 (March 30 2015) at 4-5, online: <<http://ssrn.com/abstract=2473351>>.

⁷⁶ Foreign Investment Act, *supra* note 74, art 1.2.

⁷⁷ "Legal Barriers and Other Challenges to Franchising in Cuba", *supra* note 70 at 3-4.

⁷⁸ K M Paparelli, "Reforming Foreign Investment Law in Cuba" (October 1 2015) ["Reforming Foreign Investment Law in Cuba"] at 35, online: <<http://ssrn.com/abstract=2678019>>.

⁷⁹ Foreign Investment Act, *supra* note 74, art 2(g).

⁸⁰ "Legal Barriers and Other Challenges to Franchising in Cuba", *supra* note 70 at 3.

⁸¹ K M Paparelli, "The Future of Franchising in Cuba", (March 24, 2016) *American Bar Association, International Commercial Transactions, Franchising and Distribution Committee* (Spring 2016) ["The Future of Franchising in Cuba"] at 5, online: <<http://ssrn.com/abstract=2768935>>.

proximity to the U.S. and the increasing interest from American franchise brands as U.S.-Cuba relations, that Cuba should enshrine traditional franchise law concepts of pre-disclosure and registration into their domestic system.⁸²

For investors interested in forming a joint venture in Cuba, Article 14.1 of the Foreign Investment Act provides procedural guidelines to incorporating a joint venture arrangement, including:⁸³ (1) begin with a company incorporated with nominal shares; (2) share capital contributions by national and foreign investors must be agreed upon and established in advance; (3) a public deed is an essential condition for the validity of a joint venture, and the articles of incorporation as well as the authorization and association agreement must be attached to it; (4) shareholders of a joint venture may be changed by their own consent, “provided there is approval by the authority which granted the authorization”⁸⁴; and (5) joint ventures may establish offices and subsidiaries in Cuba and abroad.

D. Tax Considerations

Within the joint venture structure of the Foreign Investment Act (as discussed above, the most common form of franchise-like transactions in Cuba in the absence of formal franchising law), the Foreign Investment Act provides tax incentives to encourage the influx of foreign capital.⁸⁵ Notably, these generous tax incentives are only available for joint ventures with the Cuban state, and other forms of investment linking foreign and Cuban companies; entities that are wholly foreign-owned do not benefit from the exemptions in the Foreign Investment Act.⁸⁶

Article 35 of the Foreign Investment Act provides that “foreign investors who are partners in joint ventures [...] shall be exempt from paying personal income taxes for the revenues received from the business’ dividends or profits.” Article 36.1 directs that “the profit tax shall be paid by joint ventures [...] by applying a fifteen per cent tax rate on the net taxable profit, but that joint ventures are exempt from paying this profit tax for a period of eight years. The fifteen percent tax rate is half of the standard profit tax rate.”⁸⁷

Additionally, Articles 37.1 and 38.1 of the Foreign Investment Act provides a fifty percent tax discount on the tax rate applicable to wholesales and services, in addition to a one-year exemption to wholesale tax and services tax at the beginning of the joint venture. Article 39 wholly exempts joint ventures from paying taxes “on the use of labor force,” and Article 41 wholly exempts joint ventures from customs taxes for the import of “equipment, machinery and other means during the investment process” through regulations promulgated by the Minister of Finance and Prices. Article 42 directs that joint ventures must remit a land tax “to contribute to local development.

⁸² *Ibid.* at 5.

⁸³ *Foreign Investment Act*, *supra* note 74, art 14.1.

⁸⁴ *Ibid.* at art. 14.1.

⁸⁵ *Ibid.*, arts 36.1-43.

⁸⁶ Reuters, “Cuba approves law aimed at attracting foreign investment” (March 29 2014), online: <http://www.reuters.com/article/us-cuba-investment-idUSBREA2S0EJ20140329>.

⁸⁷ *Ibid.*

Under Article 43 of the Foreign Investment Act, if the purpose of a joint venture is to develop a hotel or to render professional services, the joint venture does not receive any of the above incentives under the Foreign Investment Act, but is instead governed by the Tax System Act and regulations, with the result that such joint ventures have increased tax liability.

Foreign investment in the Mariel Special Development Zone, 40 miles west of Havana, is governed by Cuban Law No. 113, which provides: a 10 year exemption from profit tax, after which time a 12% tax rate will be applied; tax exemption on foreign investment profits reinvested into Cuba; tax-free use of the labor force; tax exemption on sales and services tax for the first year of operation; tax-exemption for income tax; and tax-exemption for imports into the Special Development Zone for equipment and goods necessary for the foreign investment.⁸⁸

E. Corporate Matters

Notably, normalization of U.S.-Cuba relations has not yet substantially affected the Helms-Burton Act. Title III of the Helms-Burton Act provides a private right of action in American courts to U.S. nationals who have a claim to property expropriated from them during the time of Castro's revolution. The right of action also allows U.S. nationals to recover damages against foreign companies and foreign citizens for "trafficking" in such confiscated property. "Trafficking" in the Helms-Burton Act is broadly defined such that it may include conducting business in relation to "trafficked" property.⁸⁹ Additionally, the Helms-Burton Act sets up penalties against international companies handling expropriated or "trafficked" property, a vast provision that touches companies in industries ranging from tourism to sugar. Thus, the Helms-Burton Act can cause compliance issues for European and Canadian companies, as well as companies from other jurisdictions that have subsidiaries in the U.S. and who have active investment in Cuba, or who are contemplating entering the Cuban market.⁹⁰ Foreign investors doing business in Cuba who also have assets accessible to the U.S. court system must conduct thorough due diligence to ensure that any property they may purchase or invest in is not the subject of an outstanding claim under the Helms-Burton Act. American claims to expropriated property are registered by the Foreign Claims Settlement Commission ("FCSC"), a quasi-independent entity within the U.S. Department of Justice. The FCSC has reviewed the applications of claims by American corporations and citizens, and has certified almost 6,000 claims valued at \$1.9 billion, before calculations of interest at 6 percent per year.⁹¹

Another important aspect of the U.S. embargo regime that has been lifted is that Cuba is no longer designated as a "state sponsor of terrorism" under American law. The lifting of the designation is significant because, under the previous status quo, most companies, American and International, viewed the profit potential in Cuba to be relatively minor compared to the risks and consequences of violating the provisions of the American law. Most banks would refuse to lend to companies, American and otherwise, seeking to do business in Cuba while it was

⁸⁸ CUBA Investor Guide, *supra* note 66 at 24.

⁸⁹ Blake, Cassels & Graydon LLP, "Doing Business in Cuba: Understanding Canada's Blocking Legislation" (February 25, 2013), online: <<http://www.blakes.com/English/Resources/Bulletins/Pages/Details.aspx?BulletinID=1664>>.

⁹⁰ Carolyn Kolker, "Competing in a New Cuba" (January 29 2015), *The American Lawyer*, online: <http://www.stikeman.com/2011/en/pdf/Competing_in_a_New_Cuba.pdf>.

⁹¹ Richard E Feinberg, "Reconciling U.S. Property Claims in Cuba – Transforming Trauma into Opportunity" (December 2015), online: <<http://www.brookings.edu/~media/research/files/papers/2015/12/01-reconciling-us-property-claims-cuba-feinberg/reconciling-us-property-claims-in-cuba-feinberg.pdf>> at 2.

designated a state sponsor of terrorism, due to the risk of regulatory infractions and, perhaps more importantly, attendant negative publicity.⁹²

F. Governing Law and Dispute Resolution

Regardless of the nature of the conflict, dispute resolution and the likelihood of enforceability of domestic and foreign judgments is among the most important considerations for foreign investors looking to enter the Cuban market. In Cuba there are three primary ways to resolve investment disputes concerning foreign investors.

First, if the parties do not explicitly designate a forum for dispute resolution, Cuba's position is that disputes will be submitted to the Cuban Court of International Commercial Arbitration ("CCAI"), a Cuban domestic court. The CCAI's Model Clause for Arbitration and Mediation directs that:

The parties shall comply with the contract in good faith. Any discrepancy in its performance, or agreements arising in connection therewith, shall be settled through friendly negotiations or mediation if necessary. Parties [who] do not reach an agreement agree to submit such disputes to the Cuban Court of International Arbitration, by arbitration, subject to its Rules of Procedure.⁹³

This option may not be viewed favorably by foreign investors, and there is anecdotal evidence that at least some North American companies have avoided Cuba during the last few years because of arbitrariness in the domestic legal system. Erik Richer La Flèche, a Canadian lawyer with Stikeman Elliott LLP who has worked on mining, telecommunications, and manufacturing joint ventures in Cuba since 1995, suggested that the Cuban government has sometimes ignored arbitration awards, and that foreign investors may be better off structuring a transaction so that non-Cuba-based entities have access to Cuban assets like bank accounts in the event of an arbitral claim.⁹⁴

The second primary way to resolve a dispute in Cuba involving a foreign investor is for the foreign investor to engage in proceedings under a bilateral investment treaty ("BIT"). Cuba is party to a great number of BITs.⁹⁵ BITs relating to Cuba generally include provisions attending to the conditions of foreign investment approval, Cuba's treatment of foreign investors, expropriation issues, and the resolution of disputes between the foreign investor and the Cuban state.⁹⁶

The third primary way to resolve a dispute in Cuba is through international arbitration, which is generally viewed as the most favorable option for foreign investors. Many Cuban BITs

⁹² "A New Dawn for Cuba", *supra* note 55 at 39.

⁹³ K M Paparelli, "International Dispute Resolution in Cuba" (October 29 2015), *Florida Bar, International Law Section, International Law Quarterly*, Fall 2015, Vol XXXII, No 1 at 1 ["International Dispute Resolution in Cuba"], online: <<http://ssrn.com/abstract=2683558>>.

⁹⁴ "A New Dawn for Cuba", *supra* note 55 at 42.

⁹⁵ "Legal Barriers to Franchising in Cuba", *supra* note 70 at 8-9.

⁹⁶ Jorge F. Perez-Lopez & Matias F. Travieso-Diaz, "The Contribution of BIT to Cuba's Foreign Investment Program", *The Association for the Study of the Cuban Economy* (2014) at 472.

agree to use international arbitration to resolve investment disputes, and even if Cuba and the investor's host country are not states parties to a BIT, Cuba signed on to the New York Convention in 1974.⁹⁷

The use of international arbitration in joint venture agreements – as mentioned, the most common form of franchise-like transaction – is contemplated by Article 60.1 of Cuba's Foreign Investment Act, which notes:

the conflicts which may arise in the relationship between the partners of a joint venture [...] shall be resolved as agreed in the constituent documents. (emphasis added)

Because the use of international arbitration must be explicitly laid out in the constituent documents of the joint venture, this must be specified at the time of contracting. There are specific industries and situations in the Foreign Investment Act which are barred from the use of international arbitration, and must instead rely on the Economic Division of the People's Provincial Court, a Cuban domestic court. The industries that must take this avenue are those carrying out "activities related to natural resources, public services and public works." Additionally, any joint venture that needs to be wound-up, dissolved or terminated must also proceed through the Economic Division of the People's Provincial Court.⁹⁸

International arbitration is recognized as a neutral evaluation of disputes in foreign countries, and it is often resolved by the International Court of Arbitration at the International Chamber of Commerce ("ICC"). Awards granted by the ICC are enforceable against states, such as Cuba, who are parties to the New York Convention of 1958. As a signatory, Cuba's membership should theoretically provide assurance to foreign investors.⁹⁹ However, as mentioned above, foreign investors may have more success collecting a judgment awarded in their favor by seeking to enforce their judgment against Cuban assets abroad in other signatory nations to the New York Convention.¹⁰⁰ Indeed, companies such as Unilever, Pain de Paris and Coral Capital Group have all departed Cuba on unfavorable and unprofitable terms after failing to secure payout from arbitral judgments that had already been granted in their favor arising out of disputes with the Cuban government.¹⁰¹

G. Other Local Law and Regulatory Considerations

Labor law

When the Cuban National Assembly approved the Foreign Investment Act in 2014, some outside observers hoped, in addition to provisions regulating the relationship between Cuba and foreign investors, that the Act would also change the existing regulatory scheme under which foreign-participant joint ventures engage Cuban workers. Unfortunately, that was not the case and the existing scheme was left largely intact.

⁹⁷ "A New Dawn for Cuba", *supra* note 55 at 42.

⁹⁸ Foreign Investment Act, *supra* note 74, arts 60.1, 60.3-60.4.

⁹⁹ "International Dispute Resolution in Cuba", *supra* note 93 at 2.

¹⁰⁰ "International Dispute Resolution in Cuba", *supra* note 93 at 2.

¹⁰¹ "Legal Barriers to Franchising in Cuba", *supra* note 70 at 10-11.

Under the existing scheme, foreign-participant joint ventures hire workers through a Cuban state employment agency. The employer joint venture pays a per-employee cost to the agency, and the agency hires and places the Cuban workers with the employer joint venture.¹⁰² Because Cuban employees are not the employees of the joint venture but are employees of the state, from a business standpoint, this relationship may raise issues of loyalty, authority, productivity, overstaffing and nepotism. The Cuban state employment agency makes all hiring and discipline decisions, and only pays them a small fraction of what the Cuban state employment agency charges to the joint venture.¹⁰³

Cuba's Labor Code is the framework for legislation regulating work in the country. A new Labor Code was promulgated in 2014 to replace the Labor Code of 1984, which had been regularly updated by successive waves of regulation and directives in the intervening years. After extensive government popular consultation, it was promulgated in June 2014. The new Labor Code, which functions much like a personnel manual, sets out basic employment conditions for the large number of public employers, as well as the smaller number of private employers. The Code defines basic workplace regulations, such as minimum vacation days, daily rest periods and termination criteria.¹⁰⁴

Anti-Corruption and Anti-Money Laundering

Some commentators have noted that Cuba's anti-corruption and anti-money laundering regimes are outdated and will certainly need overhaul as Cuba enters its period of upcoming globalization. In April 2016, Manuel Orozco, director of the Migration, Remittances and Development Program at the Inter-American Dialogue, and fellow at the Center for International Development at Harvard University, noted that Cuba needs to modernize its anti-money laundering practices and take guidance in a global context where de-risking is the norm. Orozco noted that Cuba has not been exempt from threats to financial crimes, narco-trafficking and other illicit activities, and "in a more integrated world, Cuba's exposure requires and demands strict risk management mechanisms".¹⁰⁵

Finance

An outstanding issue in Cuban finance is that the nation operates a dual currency system. One currency, the peso (CUP), largely circulates in the domestic economy. Residents and tourists can exchange the CUP for the "convertible peso" (CUC) at government exchange offices at a rate of one CUC for 25 CUP. State and foreign companies must exchange CUCs at the officially mandated one-to-one rate. Currently, there are ongoing currency reform discussions to remove the CUC, and informal convergence is already occurring. For example, many previously CUC-only businesses (generally tourism, upscale restaurants and clothing stores, and other imported items) now accept either currency.

¹⁰² Geoff Thale, "Cuba's New Labour Code and Foreign Investment Law: Implications for Workers" (July 10, 2014), *Washington Office on Latin America* ["Cuba's New Labour Code"], online: <http://www.wola.org/commentary/cuba_s_new_labor_code_and_foreign_investment_law_implications_for_workers>

¹⁰³ Erik Richer La Flèche, "Investing in Cuba: Five Things to Know" (December 14, 2015), online: <<http://www.canadianmandalaw.com/investing-in-cuba-five-things-to-know/>>.

¹⁰⁴ "Cuba's New Labour Code", *supra* note 102.

¹⁰⁵ Latinvex, "Cuba: US Banks Reluctant" (April 27, 2016), online: <<http://latinvex.com/app/article.aspx?id=2650>>.

Cuba is not a member of the International Monetary Fund ("IMF"), and does not report its holdings of foreign currency to that body. Full conversion into other currencies typically requires the backing of large hard currency reserves, often supported by IMF loans. In any event, Central Bank officials have told foreign businesspeople that devaluation will proceed incrementally, and in tandem with the strengthening economy as regulatory regimes adapt.¹⁰⁶ Stability in Cuban capital markets will certainly take time as Cuba adjusts to changes in its capital structure.¹⁰⁷

As mentioned previously, Cuba has recently been removed from the U.S. state sponsored terrorism list.¹⁰⁸ Because of this change, U.S. banks can now grant loans to companies wanting to do business in Cuba without the risk of supporting a state sponsor of terrorism.

H. Conclusion

Cuba is still an unpredictable market for franchising, presenting high risk and uncertain reward.

The potential market for American franchises that Cuba presents as U.S.-Cuba relations improve is significant, thanks to the proximity of the two countries, and there are examples of foreign companies that have flourished in Cuba, such as Pernod Ricard, Nestle, Imperial Tobacco, Melia Hotels International, and Sherritt International.¹⁰⁹ This gives rise to the hope that extensive franchising in Cuba may become a reality in the coming years. While there are still outstanding franchise-specific issues to be resolved on the island nation, franchising ventures that are early adaptors may be able to gain a competitive advantage if they can successfully navigate this intriguing frontier market.

V. CENTRAL AMERICA AND THE CARIBBEAN¹¹⁰

A. Introduction

Unlike the other sections in this paper that focus on a single jurisdiction, this Section V deals with the regions comprised of Central America and the Caribbean. Because of this broader scope, it is important to clearly define the jurisdictions covered and the approach this section of the paper will take to explore the applicable laws and issues.

¹⁰⁶ Marc Frank, "Cuba likely to end dual currency system" (June 15, 2015), *Financial Times*, online: <http://www.ft.com/intl/cms/s/0/b34fd7b8-fb12-11e4-9aed-00144feab7de.html#axzz4B0iaDArz>.

¹⁰⁷ Scott Brown and Pavel Vidal, "Cuba's Economic Reintegration: Begin with the International Financial Institutions" (2015), *The Atlantic Council*, online: <http://publications.atlanticcouncil.org/uscupa/>.

¹⁰⁸ "A New Dawn for Cuba", *supra* note 55 at 39.

¹⁰⁹ K M Paparelli, "Reforming Foreign Investment Law in Cuba", *supra* note 78 at 35.

¹¹⁰ The author would like to thank all who contributed to this section. From Baker & McKenzie: Uanna Alves, Rebecca Chang, Ximena Couret, Tyler Edwards, and Justin Welch. From correspondent firms: Emil Arguelles (Arguelles & Company), Carlos Oreamuno (Facio & Cañas), Luis Miguel Pereyra (Pereyra & Asociados), Cynthia Soto and Jorge Luis Arenales (Arias & Muñoz), Deanna Durban (Pasquet, Gousse & Associés), Jose Rafael Rivera (Consortium Legal), Peter Goldson (Myers, Fletcher & Gordon), Ivania Paguaga Cuadra and Ana Teresa Rizo (Arias & Muñoz), and Ricardo A. Moreno and Alfredo Ramirez Jr. (Alfaro, Ferrer & Ramirez).

Central America is the southernmost isthmus of the North American continent bridging North and South America. It is comprised of the seven sovereign jurisdictions of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

The Caribbean, in turn, is a region consisting of the Caribbean Sea, its more than 700 islands, and the surrounding coasts. The region lies southeast of North America, east of Central America, and north of South America. From a geopolitical perspective, the islands of the Caribbean are organized into roughly 30 territories and include sovereign jurisdictions (e.g., the Dominican Republic, Jamaica, and Trinidad and Tobago), overseas departments (e.g., French Guiana, Guadeloupe, and Martinique), and dependent territories (e.g., Aruba, the British Virgin Islands, and the U.S. Virgin Islands).

As a result of the number of jurisdictions, this section provides a general overview of the laws and issues a franchisor may expect to encounter when expanding into Central America and the Caribbean and the best practices for navigating them. It also presents specific examples that either have broad applicability across several jurisdictions or that pose red flags for particular jurisdictions.

B. Intellectual Property Considerations

A franchisor's intellectual property – and, in particular, its trademarks – are its calling card and lifeblood. As such, protecting those trademarks should be of fundamental importance throughout the life cycle of a franchise transaction in Central America and the Caribbean. This section explores the methods through which a franchisor may protect its trademarks before, during, and after licensing their use to a franchisee.

1. Protecting Trademarks Through Use or Registration

Depending on the jurisdiction in question, protection of trademarks may be generally obtained through a combination of use or registration.

As a basis for comparison, the United States is a “first to use” jurisdiction and, as such, trademark protection may be obtained through either use of a trademark before any other party or registration of a trademark with the United States Patent and Trademark Office (USPTO).¹¹¹

While they are in the minority, a few jurisdictions in Central America and the Caribbean are first to use jurisdictions, including Aruba,¹¹² Costa Rica,¹¹³ Jamaica,¹¹⁴ Panama,¹¹⁵ and Trinidad and Tobago.¹¹⁶ As with the United States, trademark protection in these jurisdictions may be obtained through use before any other party or registration with the relevant trademark

¹¹¹ United States Patent and Trademark Office, *Protecting Your Trademark: Enhancing Your Rights Through Federal Registration* (2014), <http://www.uspto.gov/sites/default/files/trademarks/basics/BasicFacts.pdf>.

¹¹² International Trademark Association, *INTA Quick-Start Trademark Chart* (2016), <http://www.inta.org/GlobalTrademark/Pages/QuickStartTrademarkChart.aspx>.

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*

authorities. Where the franchisor has recorded a franchise agreement or a short-form registered user agreement (as applicable depending on the jurisdiction), a franchisee's use of a trademark may be sufficient to establish the franchisor's use. This is discussed further in Section V.B.2 below.

It should be noted, however, that even in first to use jurisdictions, it is still best practice for a franchisor to register its trademarks. Among other reasons, registration (a) provides prima facie evidence of ownership and validity, (b) provides a defense to infringement, (c) allows for enforcement that is easier and less costly than enforcement of an unregistered trademark, and (d) fosters trust and confidence in franchisees.

The majority of jurisdictions in Central America and the Caribbean are "first to file" jurisdictions, meaning that protection of a trademark is obtained solely through registration before any other party. In these jurisdictions, it is incumbent on a franchisor to register its trademarks well in advance of entering into a franchise transaction in order to ensure that they are protected.

A franchisor seeking to protect its trademarks in an overseas territory (e.g., the British Virgin Islands or French Guiana) of a mother jurisdiction (e.g., the United Kingdom or France) will face an additional consideration – whether to seek protection directly in the Caribbean jurisdiction, the mother jurisdiction, or both. In some situations, the decision is simple. For example, the British Virgin Islands recently ended its practice of accepting registrations of United Kingdom trademarks, so a franchisor must seek to protect its trademarks directly in the British Virgin Islands.¹¹⁷ However, for certain other Caribbean jurisdictions, including France's overseas territories,¹¹⁸ a franchisor may automatically extend protection of its trademarks by registering them in the mother jurisdiction or, in some cases, through the European Union Intellectual Property Office. Whenever possible, seeking to protect trademarks in both the mother jurisdiction and overseas territory will afford a franchisor the most robust protection.

2. Granting Rights to a Franchisee

Once a franchisor has protected its trademarks, it is then free to license their use to a franchisee. Franchise agreements typically include a license of the franchisor's trademarks. As a general matter, such license is enough to allow the franchisee to use the trademarks in the operation of the franchised business without the need for the license itself to be filed or registered with any governmental authorities. Honduras poses an exception to this general rule, however, as it requires filing of either the franchise agreement or a separate trademark license agreement with the Honduran Intellectual Property Registry in order for the franchisee's rights in the trademarks to be recognized.¹¹⁹

Generally, a license alone is not sufficient to allow the franchisee to enforce its rights in the trademarks vis-à-vis third parties. It is also generally not sufficient for the franchisor to rely on the franchisee's use to protect its trademarks. In order to allow a franchisee to enforce its rights in the franchisor's trademarks and for the franchisor to rely on the franchisee's use of

¹¹⁷ Trade Marks Act, British Virgin Islands (2013).

¹¹⁸ French Guiana, Guadeloupe, Martinique, Saint Pierre and Miquelon, Saint Martin, and Saint Barthelemy.

¹¹⁹ Honduras Industrial Property Law, art. 100.

such trademarks to establish use, the franchisor must typically either file a copy of the franchise agreement or a separate registered user agreement with the relevant trademark authorities. If a franchisor decides to pursue this alternative, it is best practice to file a registered user agreement instead of the franchise agreement in order to avoid disclosing the full details of the arrangement between the franchisor and franchisee.

This may raise an interesting issue for the franchisor. On one hand, the franchisor likely expects the franchisee to be its eyes and ears on the ground to police infringement of its trademarks. On the other hand, as the owner of the trademarks, the franchisor will also likely want to control all decisions and actions related to those trademarks. While the former may seem to cut towards filing a registered user agreement, the latter may cut the opposite direction. A middle-ground compromise may include filing a registered user agreement coupled with clear limitations in the franchise agreement on what actions the franchisee may take without first seeking the franchisor's approval or involvement.

3. Policing Use by a Franchisee

During the term of a franchise agreement, the franchisor should ensure that its franchisee is using the trademarks in accordance with the franchisor's standards and specifications. Once the term has expired or the relationship has otherwise been terminated, the franchisor will want to ensure that its franchisee promptly ceases use of the trademarks. Injunctive relief may be an effective tool for the franchisor in either situation and may generally be obtained, either on a temporary or permanent basis, throughout Central America and the Caribbean.

C. Franchise Laws

For a franchisor accustomed to complying with franchise law obligations such as pre-sale registration and disclosure, expanding into Central America and the Caribbean should present a welcome reprieve. Subject to a few exceptions which are discussed in greater detail below, most jurisdictions in the region have not promulgated specific franchise registration or disclosure laws.

1. French Overseas Departments

The following are overseas departments or collectivities of France, and are thus subject to French law: French Guiana, Guadeloupe, Martinique, Saint Barthélemy, and Saint Martin. Although French law does not include a codified reference to franchise agreements, a portion of the French Commercial Code (commonly referred to as the *Loi Doubin*) does regulate most franchise agreements. The Loi Doubin imposes a pre-sale disclosure obligation on all agreements by which one person grants to another a trade name, trademark or sign, and requires an exclusive or quasi-exclusive undertaking for the exercise of such other person's activity.¹²⁰

A franchisor must provide the pre-sale disclosure to a franchisee in writing at least 20 days before execution of a franchise agreement or receipt of any payment from the franchisee,

¹²⁰ Code de Commerce [C. Com] art. L330-3 (Fr.).

whichever comes first.¹²¹ Disclosure is also required before each renewal of the franchise agreement.

The Loi Doubin requires the following information to be included in the disclosure document:

- the franchisor's name, location, description of its activity, capital, registration number, bank accounts, identity of the entrepreneur or of the managers, all indications regarding their professional references, date of the company's creation, principal stages of its evolution over the past five years, annual financial statements of the past two financial years, or the annual reports for the past two years if the company's securities are publicly traded;
- trademark registration, registration number, date of acquisition of the trademark, or date and duration of the license of the trademark;
- the state and prospects of both the general and local market;
- list of the franchise network with an indication of the network's method of operation, list of the companies located in France with which the franchisor concluded the same agreement and the date of conclusion or renewal, or both, of such agreements, indication of the number of companies which have left the franchise network during the previous year and of the reason why they left the network (termination, expiration, etc.), and indication of the presence within the business area of the franchisee of any commercial premises where the products or services concerned are sold;
- the terms and conditions of renewal, cancellation and assignment of the contract and the scope of the exclusive rights; and
- the nature and amount of the expenses and investments related to the commercial name, sign or trademark that the franchisee must pay before exploiting such intellectual property or commercial rights.¹²²

In practice, the market study disclosure may be the most challenging for a franchisor to produce. Since it is newly expanding into the region, the franchisor is not likely to have much, if any, experience regarding the local market in, for example, Guadeloupe, and may need to rely on third party studies and other materials.

2. Puerto Rico and the U.S. Virgin Islands

As a commonwealth and territory of the United States, Puerto Rico and the U.S. Virgin Islands, respectively, are subject to U.S. federal law, including the Federal Trade Commission

¹²¹ Loi 89-1008 du 31 décembre 1989 de Le développement des relations commerciales et le commerce entreprises et de l'amélioration de leur économique, juridique et social Environnement [Law 89-1008 of December 31, 1989 on the Development of Commercial And Trade Enterprises And To The Improvement Of Their Economic, Legal And Social Environment] (Fr.).

¹²² *Id.*

Franchise Rule¹²³ (the “FTC Rule”). A specific discussion of franchising in Puerto Rico may be found in Section VI of this paper, but a more general discussion of the FTC Rule is beyond the scope of this paper.

3. Dutch Dependent Territories

As of the date of this paper, the Netherlands had not yet promulgated a franchise law. However, the Dutch Ministry of Economic Affairs was considering implementation of a draft Dutch Franchise Code into law.¹²⁴ If that were to happen, it may affect franchise transactions in Aruba, Bonaire, Curaçao, Saba, Sint Eustatius, and Sint Maarten, as dependent territories of the Netherlands.

D. Tax Considerations

Much like most other regions around the world, a franchisor looking to expand its operations to Central America and the Caribbean will be faced with several tax considerations, including the risk of creating a permanent establishment and the payment of withholding taxes. Moreover, a franchisor based in the United States will not benefit from many tax treaties throughout the region, as these are currently only in place with Barbados, Jamaica, and Trinidad and Tobago.

1. Permanent Establishment

A permanent establishment is generally a fixed place of business that gives rise to income tax or value added tax (“VAT”) liability in a particular jurisdiction. Franchisors expanding into a new region should be cautious to avoid creating a permanent establishment and thus income tax or VAT liability in a franchisee’s jurisdiction.

In general, the mere execution of a franchise agreement should not create a permanent establishment for tax purposes throughout the jurisdictions in Central America and the Caribbean. However, should a franchisor create a branch or other type of entity or open an office with a permanently empowered attorney, agent, or representative, there is a risk that the franchisor may be considered to be domiciled in the jurisdiction and, therefore, subject to local taxes. For example, under Dominican tax law, a foreign entity is presumed to be domiciled for tax purposes in the place of business of its local representative.¹²⁵ Accordingly, a franchisor expanding into the Dominican Republic (or any other jurisdiction in the region) should clearly establish that its franchisees are merely independent contractors and not authorized or empowered to act on the franchisor’s behalf. This concept should be included in the franchise agreement and reinforced through the parties’ course of conduct.

2. Withholding Taxes

Franchisees will generally be required to pay withholding taxes when remitting royalty payments to a non-resident franchisor. A withholding tax is an obligation imposed on a payor to

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¹²⁴ Tessa de Monnik, *Update About the Dutch Franchise Code*, (2016), <http://gmsadvocaten.nl/en/update-about-the-dutch-franchise-code/>.

¹²⁵ Dominican Tax Code (Law No. 11-92), art. 13.

withhold or deduct a certain percentage from a payment and remit it to the government. Non-treaty withholding rates in the region range from 12.5% in Panama¹²⁶ to 27% in the Dominican Republic.¹²⁷ These rates would be reduced under applicable tax treaties. For example, under the treaty between the United States and Barbados, the withholding rate on royalty payments is 5%.¹²⁸

In order to mitigate or even eliminate the effects of withholding taxes, many franchisors turn to “gross-up” clauses in their franchise agreements. These clauses shift the burden of withholding taxes onto the franchisee by requiring the franchisee to increase the amount of its payments as necessary to make the actual amount received by the franchisor (after the withholding tax) equal to the amount the franchisor would have received absent a withholding tax.

These types of clauses are generally enforceable throughout Central America and the Caribbean. It is worth noting, however, that although gross-up clauses are commonly used in practice in Guatemala, they are technically not enforceable under Guatemalan tax law.¹²⁹ Assuming that a franchise agreement is governed by a law other than Guatemalan law and requires dispute resolution outside of Guatemala, a franchisor should be able to obtain an arbitral award or judgment requiring a Guatemalan franchisee to gross-up its payments. However, if the franchisee refuses to comply, there is a risk that the franchisor may not be able to enforce such award or judgment against the franchisee and its assets in Guatemala because the obligation is contrary to Guatemalan law.

E. Common Structures for a Franchise Transaction

Because of a general lack of franchise-specific laws throughout Central America and the Caribbean, there are no significant legal barriers to any of the common franchise structures (e.g., area development, master franchising, direct franchising, or joint venture). As a result, determining the optimal franchise structure for a given franchisor and concept becomes more a question of strategy than compliance with the law.

One factor for a franchisor to consider is that the jurisdictions in the region are relatively small in terms of geography and population. Guatemala is the most populous country in the region with a population of about 15,900,000, making it slightly larger than Illinois.¹³⁰ On the opposite end of the spectrum, certain island jurisdictions, such as the Cayman Islands and Saint Kitts and Nevis, have populations of around 50,000 each.¹³¹

¹²⁶ Panama Tax System, <https://www.world.tax/countries/panama/panama-tax-system.php>.

¹²⁷ Dominican Tax Code (Law No. 11-92), art. 272.

¹²⁸ Barbados Offshore, *Barbados USA Tax Treaty* (2012), <http://barbadosoffshoreadvisor.com/barbados-tax-treaties/barbados-usa-tax-treaty/>.

¹²⁹ Guatemalan Tax Code (Decree 6-91), art. 21-27.

¹³⁰ United Nations, *Guatemala* (2016), <http://data.un.org/CountryProfile.aspx?crName=Guatemala>

¹³¹ United Nations, *Saint Kitts and Nevis* (2016), <http://data.un.org/CountryProfile.aspx?crName=saint%20kitts%20and%20nevis>

Due to their size, it may be difficult for a franchisor to achieve scale in the region unless it grants rights over several jurisdictions. This may suggest a model such as area development or master franchising. However, a franchisor should exercise caution when lumping jurisdictions together into a single territory because jurisdictions in the region may differ considerably with respect to geography, culture, and language. An area developer's or master franchisee's experience in one jurisdiction may not necessarily translate to others.

Another important consideration for a franchisor is a population's income and spending power. The jurisdictions in Central America and the Caribbean tend to have significantly lower median annual household income than the United States. For example, the highest median annual household income in the region belongs to Costa Rica, at about USD\$9,000,¹³² while Haiti has a median annual household income of less than USD\$3,000.¹³³ For purposes of comparison, the median annual household income in the United States is about USD\$43,000.¹³⁴ Depending on the franchised concept, these figures may indicate that a franchisor is not able to justify as many franchised locations per jurisdiction.

One other strategy worth noting is that a franchisor may wish to include an overseas territory as part of a grant of rights to the mother jurisdiction. For example, when granting franchise rights to the United Kingdom, a franchisor may include the British Virgin Islands. While this may motivate development in the overseas territory, there is also a risk that the franchisee may never develop the territory due to its small size and distance from the mother jurisdiction. To mitigate against this risk, a franchisor should consider making the overseas territory an optional territory, granting contingent rights to the overseas territory (e.g., right of first refusal), or reserving the right to claw back the overseas territory if the franchisee has not developed it within a certain period of time.

F. Corporate Matters

While a franchisor will likely push for the application of the laws of its home jurisdiction or a neutral jurisdiction to govern its franchise agreement with a franchisee, there are certain laws of the franchisee's jurisdiction that will affect the transaction regardless of the choice of law. The mandatory laws of a franchisee's jurisdiction may present issues for a franchisor attempting to enforce its franchise agreement or comply with its own mandatory regulations, such as anti-terrorism and anti-corruption laws.

1. Apparent Authority

Apparent authority is the idea that a principal may be bound by an agent's actions if it was reasonable for a third party to believe under the circumstances that the agent had authority to act on the principal's behalf. For example, in a jurisdiction that recognizes apparent authority, a franchisee may be bound to a franchise agreement by its president's signature regardless of whether the president was actually authorized to sign if a franchisor reasonably believed under the circumstances that the president had such authority.

¹³² Glenn Phelps and Steve Crabtree, *Worldwide Median Household Income About \$10,000* (2016), <http://www.gallup.com/poll/166211/worldwide-median-household-income-000.aspx>.

¹³³ *Id.*

¹³⁴ *Id.*

With the exception of Belize¹³⁵ and Guatemala (but only with respect to commercial agreements),¹³⁶ most jurisdictions in Central America and the Caribbean do not recognize the principle of apparent authority. As a result, a person acting on behalf of an entity must have actual authority to do so. It is incumbent on a franchisor to confirm that the individual signing the franchise agreement on the franchisee's behalf has specific actual authority to bind the franchisee. Such specific authority may be granted by the franchisee's charter documents or delegated by an appropriate corporate body, such as through a power of attorney. In certain circumstances, there is a risk that an agreement entered into by a franchisee's agent without actual authority would not be deemed to bind the franchisee. To avoid these types of issues, it is a best practice for a franchisor to conduct a thorough due diligence review of the franchisee's corporate documents to confirm who has actual authority to sign the franchise agreement.

2. Corporate Purpose

It is common for entities formed in the United States to have a broad corporate purpose. In other words, they are likely to be authorized to carry out any and all lawful activities. However, entities formed in a jurisdiction in Central America or the Caribbean are likely to have a narrow, fixed purpose, such as hotel development or restaurant operation. Activities outside of such purpose are known as "ultra vires" activities.

Most jurisdictions in the region recognize the doctrine of the same name, which holds that an entity's activities must be within the scope of its corporate purpose. Ultra vires activities risk being unenforceable against such entity. Therefore, as with actual authority, it is a best practice for a franchisor to conduct a thorough due diligence review of the franchisee's corporate documents to confirm that the franchised business is within its corporate purpose.

It should be noted that Panama is an exception and its laws are more in line with those in the U.S., in that Panamanian companies may carry out all lawful activities even if they are not included in their corporate purpose.¹³⁷

3. Bearer Shares

With respect to the identity of a shareholder, there are generally two types of shares – nominative (sometimes also known as registered) shares and bearer shares. Nominative shares are issued to a particular person, include the person's name on the share certificate, and, at a minimum, must be endorsed over to a different person to be transferred. On the other hand, bearer shares do not include a person's name on the share certificate, but instead legally belong to the bearer, or the person in possession of the certificate. To transfer a bearer share, a person need only transfer physical possession of the share certificate. Although they are increasingly less common in practice, bearer shares are allowed in several jurisdictions

¹³⁵ Belizean Companies Act, ch. 250, art. 78(1).

¹³⁶ Guatemalan Commercial Code (Decree 2-70), art. 670.

¹³⁷ Cod. Com. Law 32/1927, art. 19 (Pan. 1927).

throughout Central America and the Caribbean, including the Dominican Republic,¹³⁸ Honduras,¹³⁹ and Nicaragua.¹⁴⁰

Because of their nature, bearer shares pose a regulatory compliance risk for franchisors, especially those who are based in the United States and must comply with mandatory anti-terrorism and anti-corruption laws, such as the Foreign Corrupt Practices Act. To ensure compliance with these laws, a franchisor should understand exactly with whom it is doing business. Ideally, this means conducting due diligence to identify the ownership structure of a franchisee up to the level of its ultimate individual owners. With their anonymity and easy transferability, bearer shares complicate this exercise. Therefore, it is a best practice for a franchisor to require that a franchisee's bearer shares be cancelled and re-issued as nominative shares.

G. Governing Law and Dispute Resolution

A franchisor expanding into Central America and the Caribbean will likely desire (i) for its franchise agreements to be governed by the laws of its home jurisdiction and (ii) to avoid ending up in the local courts of the franchisee's jurisdiction. As a general matter, these are reasonably attainable goals in the region if the franchisor navigates around a few potential stumbling blocks.

1. Choice of Law

As a general matter, most jurisdictions in the region should recognize and enforce the governing law contractually agreed between the parties. However, in certain jurisdictions, such as Honduras, there is a risk that a choice of law would not be enforceable if the agreement is deemed to have been executed in such jurisdiction.¹⁴¹ To mitigate against this risk, either both parties should actually execute the franchise agreement outside of Honduras or the franchisor should deliver the franchise agreement to the franchisee in Honduras as an offer and the franchisee should execute the agreement and return it to the franchisor outside of Honduras.¹⁴² By following either of these approaches, the agreement should be deemed executed outside of Honduras.¹⁴³

One other exception to note are any laws of mandatory application, which will apply to an agreement and relationship regardless of the choice of law. One category of laws of mandatory application are dealer protection laws, which are discussed in greater detail in Section V.H below.

¹³⁸ Guzman Ariza, *Incorporating in the Dominican Republic* (Dominican Commercial Code) (2016), <https://www.hg.org/article.asp?id=4858>.

¹³⁹ Juan Jose Alcerro Milla, *IBA Guide on Shareholders' Agreements* (Honduran Commercial Code, art. 140), AguilarCostilloLove (2013).

¹⁴⁰ <http://www.centralamericadata.com/en/tsearch?q=bearer+share&start=0>.

¹⁴¹ Honduras Civil Code, art. 1553.

¹⁴² *Id.*

¹⁴³ *Id.*

2. Dispute Resolution

For a franchisor engaging in cross-border transactions, it is generally a best practice to elect dispute resolution through arbitration in its home jurisdiction or a neutral jurisdiction. This allows the franchisor to avoid potential uncertainty and bias associated with the local courts of a franchisee's jurisdiction and maximize the likelihood of recognition and enforcement of an award through the New York Convention.

This general principle certainly holds true for franchising in Central America and the Caribbean. With the exception of Belize, the vast majority of jurisdictions in the region are signatories to the New York Convention. Therefore, after a relatively simple approval process in the local courts, a franchisor should be able to enforce an arbitral award obtained in another New York Convention member country (including the United States).

It should also be noted that many jurisdictions in the region are signatories to the Inter-American Convention on International Commercial Arbitration, which performs a similar function as the New York Convention for countries in Latin America.¹⁴⁴ These countries include Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and the United States.¹⁴⁵

By contrast, there are no treaties currently in force between the United States and any other country on reciprocal recognition and enforcement of court judgments. Accordingly, outside of Puerto Rico and the U.S. Virgin Islands, enforcement of a judgment obtained in a United States court in Central America and the Caribbean would depend on general principles of international law, the domestic laws of the jurisdiction in question, and ultimately, the discretion of the local court.

H. Other Local Law and Regulatory Considerations

Among the more significant potential issues when considering a franchise transaction in Central America and the Caribbean is that of dealer protection laws and compliance with anti-corruption obligations.

1. Dealer Protection Laws

Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Puerto Rico have promulgated some form of dealer protection or commercial agency law. These laws aim to protect local dealers, agents, and representatives vis-à-vis foreign principals by making it difficult and costly to terminate them. They represent significant risk to franchisors because, if deemed to apply, they may (i) subject a franchise agreement to local law and courts, (ii) limit a franchisor's ability to terminate the franchise agreement to statutorily-defined "just causes," and (iii) impose a termination indemnification for termination without just cause.

While each dealer protection law has its particular nuances, it is instructive to review the different aspects of Costa Rica's law in greater detail. Costa Rica's dealer protection law (the

¹⁴⁴ Inter-American Convention on International Commercial Arbitration of 1976, Jan. 30, 1975, 1438 U.N.T.S. 245.

¹⁴⁵ *Id.*

“Dealer Act”) was first enacted by the Costa Rican Congress pursuant to Law 4684 of November 27, 1970, and was subsequently amended by Law 6209 of March 9, 1978 and Law 8629 of December 18, 2007.

The Dealer Act applies to representatives, distributors and manufacturers of foreign enterprises. These terms are defined as follows:

- A representative is any individual or legal entity who, in a continuous and autonomous manner, with or without legal representation, prepares, promotes, facilitates or performs the sale of goods or services sold or rendered by foreign firms.¹⁴⁶
- A distributor is any individual or legal entity who, by means of a contract with a foreign firm, imports or manufactures products in the country for distribution of the same in the Costa Rican market, acting for its own account and risk.¹⁴⁷
- A manufacturer is any individual or legal entity who, with the authorization of a foreign firm, prepares, packages or manufactures in the country products with the trademark of the foreign firm, using raw materials and technology indicated by the foreign firm.¹⁴⁸

Because of the relatively broad definitions used in the Dealer Act, it is not difficult to see how a Costa Rican franchisee could make a colorable argument that it is protected under the law. Unfortunately for franchisors, this is still largely an open issue under Costa Rican law.

If it is deemed to apply, the Dealer Act requires the franchise relationship to be governed by Costa Rican law and any agreement between the parties providing otherwise will be deemed null and void.¹⁴⁹ After the latest round of amendments, the Dealer Act now allows for disputes to be settled by arbitration in Costa Rica or abroad as long as the Dealer Act is applied as the substantive law.

As previewed above, the Dealer Act also limits a principal’s ability to validly terminate or fail to renew its relationship with the dealer by establishing specific just causes for termination or non-renewal. These causes include: (a) crimes committed by the dealer against the property and goodwill of the principal, (b) judicially declared ineptitude or negligence of the dealer, as well as prolonged and substantial decreases or stagnation of sales for reasons imputable to the dealer, (c) breach by the dealer of obligations of secrecy and faithfulness to the principal through disclosure of facts, knowledge or techniques concerning the organization, products and

¹⁴⁶ Costa Rica Dealer Act, Law 8629 (2007).

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

operation of the principal, and (d) any other serious breach by the dealer of its contractual or legal obligations to the principal.¹⁵⁰

Any termination or failure to renew by the principal without just cause will subject the principal to pay the dealer a termination indemnification, a type of statutory penalty. Prior to its most recent amendment, the Dealer Act set the amount of the indemnification equal to four months' gross profit per year (or portion thereof) of the dealer's service, with a cap of nine years of service (i.e., a maximum indemnity of 36 months' gross profit).¹⁵¹ However, as it currently stands, the amount of the indemnification is calculated pursuant to standard contract damages rather than by using the statutory formula.¹⁵² A principal must also repurchase the dealer's inventory at the prices paid by the dealer plus 10%.¹⁵³

While there is still much uncertainty surrounding the application and impact of dealer protection laws to a franchise relationship in Central America and the Caribbean, there are certain best practices a franchisor should implement to protect itself. One recommendation is to disclaim application of such laws in the franchise agreement and to include language prohibiting the dealer from registering itself or the franchise agreement under any such laws. This is because certain dealer protection laws, such as the Dominican Republic law,¹⁵⁴ only apply if they are explicitly accepted. Other laws, such as those in Haiti¹⁵⁵ and Honduras¹⁵⁶ require the agreement or dealer to be registered in order to be protected.

Another best practice relates to governing law and dispute resolution. As discussed above, franchisor should elect the governing law of its home jurisdiction and dispute resolution through arbitration in its home jurisdiction. To a large extent, application of a dealer protection law will depend on the forum hearing the dispute. If a local court assumes jurisdiction, it will likely apply the dealer protection law rather than the law governing the franchise agreement. However, because many jurisdictions in the region are party to the New York Convention, they are obligated in principle to recognize and enforce a contractual international arbitration clause. As such, the arbitration clause in the franchise agreement should be enforceable and would likely wrest jurisdiction from the local court. An arbitral panel outside of the local jurisdiction is likely to enforce the choice of law in the franchise agreement in lieu of the dealer protection law. Although there is some risk that a local court may refuse to recognize the arbitration clause or enforce an arbitral award, a franchisor that has followed this suggestion will be in a far better position than one who has agreed to local law and local courts.

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ Dominican Commercial Code (Law 173), art. 10.

¹⁵⁵ Décret du 6 octobre, 1986 dotant les agents commerciaux d'un statut legal [Decree of October 6, 1986 regulating commercial agents], art. 1.

¹⁵⁶ Honduras Dealer Regulation, art. 12.

2. Compliance with Anti-Corruption Obligations

While the vast majority of jurisdictions in Central America and the Caribbean do not have their own anti-corruption laws, a franchisor that is based in the United States must still comply with the U.S. Foreign Corrupt Practices Act (“FCPA”). The FCPA broadly prohibits payments by U.S. companies and their representatives to foreign government and quasi-government officials to obtain or retain business or secure any improper advantage.¹⁵⁷ Violations of the FCPA are subject to both civil and criminal liability.¹⁵⁸ Because the FCPA may extend to operations conducted by a franchisor’s developers, franchisees, agents, brokers, consultants, or other third parties deemed to be representing it, a franchisor must be mindful of the actions of its own personnel and the personnel of these types of third parties.

The risk of corrupt business practices exists worldwide, but is particularly high in Central America and the Caribbean. The Corruption Perceptions Index published by Transparency International measures perceived levels of public sector corruption around the world on a scale from zero (highly corrupt) to 100 (very clean), with a jurisdiction scoring below 50 being considered as having a serious corruption problem.¹⁵⁹ With the exception of Costa Rica, which scored a 55, every other jurisdiction in Central America and the Caribbean appearing in the most recent version of the index scored below 50.¹⁶⁰ Haiti (17), Nicaragua (27), and Guatemala (28) were among the lowest scoring jurisdictions overall. As a point of reference, the United States scored a 76.¹⁶¹

While the Corruption Perceptions Index measures perceived and not actual corruption, a franchisor looking to expand into Central America and the Caribbean should certainly take note of these figures when formulating its policy and approach to complying with its anti-corruption obligations, including the FCPA.

I. Conclusion

For a franchisor looking to expand its concept beyond the United States, the regions of Central America and the Caribbean present a unique blend of opportunities and challenges.

From a legal perspective, the general lack of franchise-specific laws will be a welcome reprieve as compared to other jurisdictions with registration and disclosure laws. Conversely, the prevalence of dealer protection laws and the relatively high perceived levels of public sector corruption represent considerable legal risks.

The view from the business side is no different. The proximity to and familiarity with these regions for a franchisor based in the United States may make them seem like a natural stepping-stone for international expansion. However, their size and spending power may not be compatible with all concepts.

¹⁵⁷ Foreign Corrupt Practices Act of 1977, Pub. L. No. 95-213, 91 Stat. 1494 (codified as amended at 15 U.S.C. §§ 78dd-1-3 a, 78dd-1, 78dd-2, 78ff, 78m, 78o (2012)).

¹⁵⁸ *Id.*

¹⁵⁹ Transparency International, *Corruption Perceptions Index 2015* (2015), <http://www.transparency.org/cpi2015>.

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

VI. PUERTO RICO¹⁶²

A. Introduction

As an unincorporated, organized territory of the United States, the Commonwealth of Puerto Rico presents a legal environment that is a mixture of civil law (its local laws are historically based on the Spanish civil code) and common law (Puerto Rico is subject to most U.S. federal laws and many of the provisions of the U.S. Constitution).¹⁶³ Puerto Rico's Constitution, which was approved by U.S. Congress in the 1950s, is similar to the constitutions of the U.S. states and, thus, purports to give Puerto Rico a right of internal self-government,¹⁶⁴ but the U.S. retains control over matters such as foreign affairs, defense and immigration.¹⁶⁵ Moreover, as noted further in Section VI.H (Other Local Law and Regulatory Considerations), the U.S. also retains control over other areas such as the environment, labor and employment relations, civil rights, banking, and antitrust, among others, to a similar extent as such areas are controlled by the U.S. federal government in the U.S. states. Specifically, the Puerto Rico Federal Relations Act provides that except as otherwise provided therein, the U.S. federal statutory laws apply in Puerto Rico unless "locally inapplicable."¹⁶⁶ The official languages in Puerto Rico are English and Spanish, with Spanish being the primary language, although English generally dominates in the business environment.¹⁶⁷ Although natural born residents of Puerto Rico are U.S. citizens¹⁶⁸ and the U.S. dollar is the official currency of Puerto Rico, because of Puerto Rico's local legal system, including its own tax laws,¹⁶⁹ many U.S. franchisors include Puerto Rico among their international (rather than U.S.) territories. However, while that categorization may be helpful from a business relationship, business and legal due diligence and tax perspectives, from a franchise law standpoint, franchisors need to keep in mind that they must fully comply with their franchise disclosure obligations under U.S. federal law, as discussed below. Although U.S. federal laws generally apply in Puerto Rico, this paper is not intended to give a detailed analysis of such laws; rather, it is meant to provide guidance on the

¹⁶² Special thanks to Rossell Barrios, capital member at Goldman Antonetti & Córdova, LLC, for his contributions to this section.

¹⁶³ Central Intelligence Agency, *The World Fact Book: Puerto Rico*, <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/rq.html> (last visited Jun. 7, 2016).

¹⁶⁴ *Id.*; see also P.R. Const. Art. I.

¹⁶⁵ McConnell Valdés LLC, *A Guide to Doing Business in Puerto Rico 2* (Lex Mundi, 2011), http://www.lexmundi.com/lexmundi/Guides_To_Doing_Business.asp (follow "USA, Puerto Rico: Guide to Doing Business" hyperlink).

¹⁶⁶ 48 U.S.C. § 734 (2012).

¹⁶⁷ McConnell Valdés LLC, *supra* note 165 at 2.

¹⁶⁸ The Jones-Shafroth Act, Pub. L. No. 64-368, 39 Stat. 951 (1917).

¹⁶⁹ Puerto Rico is considered a "non-mirror" possession and its residents are obliged to file separate returns if required. That is, Puerto Rico residents will be required to file a local (Puerto Rican) tax return and, if otherwise required under Federal law, also file a U.S. tax return or may otherwise be subject to U.S. tax (such as by withholding). Thus, an individual resident in Puerto Rico is exempt from U.S. tax on Puerto Rican sourced income, but is subject to U.S. tax on U.S. source income. A corporation formed under Puerto Rican law is considered a "foreign" corporation for U.S. tax purposes. U.S. tax treaties do not apply to Puerto Rico as those treaties generally define the "United States" for such treaty purposes as the 50 states and the District of Columbia, but do not include U.S. territories such as Puerto Rico. See generally Joint Committee on Taxation, *Federal Tax Law and Issues Related to the Commonwealth of Puerto Rico* (JCX-132-15), September 28, 2015.

unique legal considerations that a franchisor should be aware of when granting a franchise in Puerto Rico.

In addition to the legal considerations discussed in this Section VI, Puerto Rico's current economic crisis presents a challenging environment for businesses and investors. Since the 1950s, Puerto Rico largely relied on financial and corporate tax incentives from the U.S. to drive economic growth and attract investment on the island. However, from mid-1990 to 2006, the U.S. phased out such incentives, which, together with a rise in oil prices, led to job losses, escalation in poverty rate, outmigration and resulting economic decline of the territory.¹⁷⁰ The Puerto Rico government attempted to counter the situation by borrowing heavily to balance its budget and has run deficits for the last decade, accumulating over \$70 billion in debt, a rise of over \$46 billion since the year 2000, resulting in the U.S. territory's current recession.¹⁷¹ Since 2015, Puerto Rico has defaulted on a number of financial obligations to its investors (mostly municipal bond holders). On June 30, 2016, one day before the U.S. territory was required to make a \$1.9 billion debt payment, President Obama signed a law, the Puerto Rico Oversight, Management and Economic Stability Act (or PROMESA), that created a federal oversight board for Puerto Rico and granted the board the authority to manage the restructuring of Puerto Rico's debt obligations, oversee the island's finances and enforce balanced budgets.¹⁷² PROMESA is designed to allow the island's government to enter a bankruptcy-like restructuring process and halt litigation in case of default. On the same day, Puerto Rico's governor then signed an executive order authorizing suspension of payments on Puerto Rico's general obligation debt.¹⁷³

B. Intellectual Property Considerations

1. Trademarks¹⁷⁴

Registration of a trademark, although not required to obtain protectable rights in Puerto Rico, is recommended because of the additional benefits it confers. Trademarks in Puerto Rico can be protected by registration under the U.S. federal trademark law, the Lanham Act,¹⁷⁵ and/or by registration under Puerto Rico's own trademark statute, Puerto Rico's Trademark Act¹⁷⁶ (the "PR Trademark Act"), which generally parallels the Lanham Act. Trademark registration under the Lanham Act provides a legal presumption of ownership of the mark and the registrant's exclusive right to use the mark in the U.S. (and its territories), public notice of the

¹⁷⁰ Edward J. Fennessy & International Contributors, *Trademarks Throughout the World* § 130:19 (Thompson Reuters. eds., 5th ed. 2015).

¹⁷¹ Nick Timiraos, *Is Puerto Rico Another Greece? 10 Questions*, WALL ST. J. (July 1, 2015, 4:47 PM), <http://blogs.wsj.com/economics/2015/07/01/is-puerto-rico-another-greece-10-questions/>.

¹⁷² Michelle Kaske & Martin Z Braun, *Puerto Rico's Slide*, BLOOMBERG (July 1, 2016, 7:30 PM), <http://www.bloomberg.com/quicktake/puerto-ricos-slide>.

¹⁷³ Nick Brown, *Puerto Rico Authorizes Debt Payment Suspension; Obama Signs Rescue Bill*, REUTERS (June 30, 2016, 7:16 PM), <http://www.reuters.com/article/us-puertorico-debt-idUSKCN0ZG09Y>.

¹⁷⁴ Special thanks to Jodi DeSchane, counsel at Faegre Baker Daniels LLP, for her contributions to this section of the paper.

¹⁷⁵ 15 U.S.C. § 1127 (2012).

¹⁷⁶ P.R. LAWS ANN. tit. 10, §§ 223-224(b); *Government of Puerto Rico Trademark Act*, Act No. 169 (2009), <http://www.oslpr.org/download/en/2009/A-0169-2009.pdf>, amended by Act No. 124 (2011); P.R. Laws Ann. tit. 10, § 223 et seq (2013).

registrant's claim of ownership of the mark, the registrant's ability to record the trademark registration with the U.S. Customs and Border Protection Service (as discussed further below),¹⁷⁷ the registrant's ability to bring a legal action concerning the mark in U.S. federal court,¹⁷⁸ and the ability to use such registration as a basis for securing trademark registrations in other countries. Trademark registration under the PR Trademark Act establishes a legal presumption of the validity of the registration, use of the mark in commerce as of the date stated in the certificate, the registrant's ownership of the mark and the registrant's exclusive right to use the mark in commerce in Puerto Rico (subject to the terms stated in the certificate).¹⁷⁹

Registration under the Lanham Act provides protection to a trademark in Puerto Rico to the same extent as it provides protection in any U.S. state – i.e., it provides constructive use of the mark in each state or territory and once the mark is registered, if a third party uses a mark that is likely to cause consumer confusion, such use may be enjoined. To obtain the greatest protection for a trademark, franchisors should consider registration under both the Lanham Act, with the USPTO, which provides protection for trademarks used in interstate commerce, as well as the PR Trademark Act, in the Trademark Registry of the Department of State of the Government of Puerto Rico (the “Trademark Office”), which provides protection if an infringement of a mark occurs exclusively within Puerto Rico. In addition, the PR Trademark Act recognizes that common law rights apply to unregistered trademarks in Puerto Rico.¹⁸⁰ Obtaining registration of a mark in Puerto Rico based solely on a federal registration is no longer available; however, a holder of a federal registration may deposit the federal certificate of trademark registration with the Puerto Rico Trademark Office, which deposit allows the registrant to advertise the mark in Puerto Rico under the protection of the federal registration.

Registration under the PR Trademark Act provides certain benefits not available under the Lanham Act. One such significant advantage is that the PR Trademark Act allows registration of marks that have not yet been used in commerce. This allows a foreign franchisor to secure trademark protection in Puerto Rico in advance of having established its presence there. To be eligible for registration under the PR Trademark Act, a mark must be either in use in Puerto Rico or the applicant may file an intent-to-use application based on a bona fide intent to use such mark in commerce in Puerto Rico. In connection with the “intent-to-use” application, to maintain the mark's registration, the registrant must submit, within three years of the trademark application filing date (subject to extension for one year by the Trademark Office, for “just cause”), a written attestation of use and show evidence of use of the mark in commerce in Puerto Rico.¹⁸¹ If the registrant fails to do so, the mark's registration will be cancelled.¹⁸² By comparison, under the Lanham Act, the applicant must first show proof of use of the mark in interstate commerce before the mark can be registered.¹⁸³ The trademark owner may apply for

¹⁷⁷ Edgar Ríos-Méndez & Jeanelle Alemar-Escabí, *Business Operations in Puerto Rico* (Portfolio 7320), §II.C.3.b(1) (BNA. ed. 2016).

¹⁷⁸ U.S. Patent and Trademark Office, *Protecting Your Trademark – Enhancing your rights through federal registration – Basic Facts about Trademarks* 11 (Jan. 2016), <http://www.uspto.gov/sites/default/files/BasicFacts.pdf>.

¹⁷⁹ Fennessy et al., *supra* note 170, at § 130:19.

¹⁸⁰ *Government of Puerto Rico Trademark Act* § 3.

¹⁸¹ *Id.* § 4; Fennessy et al., *supra* note 170, at §§§§ 130, 130:5, 130:13, 130:22.

¹⁸² *Government of Puerto Rico Trademark Act* § 4(B)(4).

¹⁸³ 15 U.S.C. § 1051(d) (2012).

registration under the Lanham Act by filing an “intent-to-use” application, but the applicant must show evidence of use in interstate commerce within six months of receiving a “notice of allowance” from the USPTO (subject to extension up to a total of 36 months from the notice of allowance issue date) before the mark can be registered with the USPTO. Therefore, registration under the Lanham Act may not be available to non-U.S. based franchisors that otherwise have no presence in the U.S., unless they have a bona fide intent to use the mark in the U.S. and a registration in their country of origin; provided the country is a party to certain international treaties.¹⁸⁴

As additional benefits, the PR Trademark Act provides specific guidelines for calculation of damages for trademark infringement, and it allows the registrant to choose to request statutory damages for trademark infringement.¹⁸⁵ The court will establish the amount of the damages based on the following factors: (i) gross profit that the infringer made by using the mark; (ii) the earnings that the plaintiff lost as a result of the infringer’s actions; (iii) the diminishing returns that the infringer’s actions caused the plaintiff; and (iv) any other factor that the court finds relevant in calculating damages.¹⁸⁶ Statutory damages range from USD\$750 to USD \$30,000 per violation, with the specific amount determined by the court.¹⁸⁷ If the court finds that the infringer’s actions were intentional or in bad faith, the court can award damages up to three times the infringer’s profit and/or the plaintiff’s loss, not to exceed USD \$150,000 per violation.¹⁸⁸ Likewise, if the court finds that the infringer was not aware that his actions violated the plaintiff’s rights, the court may reduce the damages to an amount as low as U.S. \$500. In addition, the PR Trademark Act allows the registrant to recover attorneys’ fees.¹⁸⁹ On the other hand, the PR Trademark Act has certain limitations as compared to the Lanham Act. For example, unlike under the USPTO practice, in Puerto Rico, an applicant cannot file a multi-class trademark application, but must file a separate application for each class of goods or services in order to cover multiple classes.

Under both the U.S. and Puerto Rico registration systems, the trademark registration is valid for 10 years and may be renewed for successive 10-year periods.¹⁹⁰ Under the PR Trademark Act, registrants must file a declaration of use of the mark between the 5th and 6th anniversary of the application filing date¹⁹¹ and if the registration is based on intent to use, a declaration of use must also be filed within three years from the filing date of the application. For a federal registration, a declaration of use must be filed between the 5th and 6th anniversary of the registration date with the USPTO.¹⁹² Under both statutes, a declaration of use must be filed again between the 9th and 10th anniversary of the registration date in connection with the

¹⁸⁴ 15 U.S.C. § 1126 (2012).

¹⁸⁵ *Government of Puerto Rico Trademark Act* § 26.

¹⁸⁶ *Id.*

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ Fennessy et al., *supra* note 170, at § 130:20.

¹⁹¹ *Government of Puerto Rico Trademark Act* § 18.

¹⁹² 15 U.S.C. § 1058 (2012).

mark's registration renewal.¹⁹³ Therefore, if a franchisor has secured its trademark registration under the PR Trademark Act too early and is unable to establish ongoing use of its mark in Puerto Rico within six years of the application (or three years for a registration based on intent to use) or the franchisor's activities in Puerto Rico (or in the U.S., with respect to the Lanham Act registration) have ceased within six years of its mark's registration, then the registration will be cancelled. Similarly, if a franchisor cannot establish use between the 9th and 10th anniversary of the mark's registration date, such mark will not be renewed under either regime. In addition, under both systems, non-use of a trademark for three consecutive years is prime facie evidence of the mark's abandonment and the registration becomes vulnerable to cancellation by any interested third party.¹⁹⁴

Priority of rights between a U.S. federal trademark registrant/applicant and a local Puerto Rico trademark registrant/applicant is determined based on the doctrines of constructive use and constructive notice.¹⁹⁵ The filing of a trademark application with the USPTO gives the applicant the benefit of constructive use of the mark as of the date of the filing, and it gives constructive notice of the applicant's claim of ownership of the mark.¹⁹⁶ Recordation of trademark licenses is not required for the license to be valid in Puerto Rico,¹⁹⁷ and franchisors typically do not record trademark license agreements in Puerto Rico, as a recorded trademark license could make it more difficult for a franchisor to terminate the franchise relationship. Licenses for unregistered marks cannot be recorded. There is no deadline for a recordation of a trademark license.¹⁹⁸ The federal trademark registration provides an additional benefit: the franchisor may register the mark with the Intellectual Properties Rights & Restricted Merchandise Branch of the U.S. Customs and Border Protection Service. Such registration will enable the U.S. Customs Service to seize merchandise bearing marks infringing the franchisor's trademarks.¹⁹⁹

2. Other Intellectual Property

Trade secrets are subject to statutory protection in Puerto Rico under the Industrial and Trade Secret Protection Act of Puerto Rico, Act No. 80 of 2011,²⁰⁰ which is based on the U.S. model Uniform Trade Secrets Act. The Act protects non-public information that provides present or potential independent economic value or advantage and the confidentiality of which has been maintained by reasonable means. The Act allows for injunctive relief and damages for misappropriation of trade secrets. Know-how is protected by contract. Patents are issued and protected under U.S. federal laws. Copyright protection is governed by both U.S. federal law (the Copyright Act of 1976)²⁰¹ and local law (Puerto Rico's Author's Moral Rights Act, Act. No.

¹⁹³ *Government of Puerto Rico Trademark Act* § 19; 15 U.S.C. § 1058.

¹⁹⁴ *Government of Puerto Rico Trademark Act* § 2.

¹⁹⁵ Ríos-Méndez & Alemar-Escabí, *supra* note at 177.

¹⁹⁶ 15 U.S.C. §§ 1057(c), 1072.

¹⁹⁷ Fennessy et al., *supra* note at 170, at §§ 130:24, 130:22.

¹⁹⁸ *Id.* at 130:24.

¹⁹⁹ 19 U.S.C. § 1526; 19 C.F.R. § 133; Ríos-Méndez & Alemar-Escabí, *supra* note 177.

²⁰⁰ P.R. LAWS ANN. tit. 10, § 4132 (2013).

²⁰¹ The Copyright Act of 1976, Pub. L. 94-553, 90 Stat. 2541 (1976).

55 of 2012)²⁰² (the “Moral Rights Act”). Copyrights can be registered only with the U.S. Copyright Office of the Library of Congress. In addition to copyright protection, the Moral Rights Act also protects “moral rights” of copyright owners.²⁰³ Moral rights are the exclusive personal rights of an author over his work and include the following rights: (i) the right to disclosure and first publication of the work; (ii) the right of paternity (i.e., recognition as an author of the work); (iii) the right of integrity of the work (which prohibits all modification of the work without author’s consent) and (iv) the right of withdrawal of the work (after the work has been published).²⁰⁴ The concept of moral rights is not otherwise available under U.S. law (except to a limited extent under the Visual Artist Rights Act (VARA),²⁰⁵ which is most likely not applicable in a franchise relationship); however, courts have established that moral rights protection exists in Puerto Rico.²⁰⁶ Although moral rights cannot be waived, the Act allows the author to relinquish the right to protect the work’s integrity if the waiver is in writing – the waiver may be signed using an electronic signature.²⁰⁷ Authors may register works of authorship in Puerto Rico, and registration is necessary to obtain statutory damages. The Moral Rights Act makes it clear than an employee or an independent contractor may not claim moral rights over work of authorship unless the parties involved consent to the claim in writing.²⁰⁸ Franchisors should ensure that their Puerto Rico franchise agreements include strong “work for hire” and assignment language pursuant to which the franchisee assigns to franchisor and the franchisor owns all of the rights to any inventions or other improvements to the franchisor’s system that a franchisee or any of its employees may develop. The work for hire/assignment language should clearly establish that the Puerto Rico franchisee may not claim any moral rights under the Moral Rights Act with respect to any franchise system improvements or any other aspect of the franchise system that such franchisee or any of its employees may develop or affect.

C. Franchise Laws

1. Disclosure and Registration Laws

There are no specific Puerto Rico franchise disclosure or registration laws. Puerto Rico law does not define what constitutes a franchise. No franchise registration is required in Puerto Rico. No local government agencies regulate the offer or sale of franchises in Puerto Rico.

²⁰² P.R. LAWS ANN. tit. 31, §§ 1401(i) -1401(ff).

²⁰³ *Doing business in United States: Puerto Rico*, <http://us.practicallaw.com/0-500-5771?q=&qp=&qo=&qe> (last updated Mar. 1, 2013). P. Rivera MacMurray, *Moral Rights in Puerto Rico: Spanish Tradition and the Federal System*, 57 Rev. Ju 297, 303 (1988), available at http://heinonline.org/HOL/Page?handle=hein.journals/rjupurco57&div=28&g_sent=1&collection=journals.

²⁰⁴ P.R. LAWS ANN. tit. 31, § 1401(j); P. Rivera MacMurray, *Moral Rights in Puerto Rico: Spanish Tradition and the Federal System*, 57 Rev. Ju 297, 303 (1988), available at http://heinonline.org/HOL/Page?handle=hein.journals/rjupurco57&div=28&g_sent=1&collection=journals.

²⁰⁵ See 17 U.S.C. § 106A (protecting rights of attribution and integrity of authors of visual art (i.e., certain paintings, drawings, sculptures, still photographs and prints)).

²⁰⁶ *Id.* at 310.

²⁰⁷ *Id.*; P.R. LAWS ANN. tit. 31 §1401(q).

²⁰⁸ P.R. LAWS ANN. tit. 31, §1401(o); *Puerto Rico Intellectual Property 7*, <http://www.lawforchange.org/images/lfc/PuertoRicoIntellectualProperty.pdf> (last updated Jul. 2012).

However, the U.S. Federal Trade Commission (FTC) Franchise Rule²⁰⁹ (the “Franchise Rule”) applies to the offer and sale of franchises in Puerto Rico.

Briefly, the Franchise Rule requires franchisors to make substantial pre-sale written disclosures to a prospective franchisee by delivering a franchise disclosure document (of a prescribed format and content) (the “FDD”) to such prospective franchisee at least 14 days prior to the prospect’s execution of a binding agreement or a payment of money. The Franchise Rule is designed to give prospective franchisees material information that allows them to evaluate the risks and benefits of their investment. The FDD includes 23 specific items of information about the franchise, the franchisor, its officers and other franchisees. The Franchise Rule defines a “franchise” as a commercial relationship pursuant to which (1) the person who is granted the franchise (i.e., the franchisee) receives the right to operate a business or to offer, sell or distribute goods, services or commodities, in each case under the trademark or other commercial symbol of the person granting the franchise (i.e., the franchisor); (2) the franchisor exerts (or has authority to exert) significant control over, or provides (or has authority to provide) significant assistance with respect to, the franchisee’s method of operation and (3) as a condition of obtaining, or starting operation of, the franchise, the franchisee must pay (or commit to pay) to franchisor or its affiliate at least \$570 during the first six months of franchise operations.²¹⁰

2. Law 75

Definition of Law 75. Puerto Rico’s Dealer’s Act,²¹¹ commonly referred to as “Law 75,” may also apply to the franchise relationship. Similar to the commercial agency laws that exist in various other countries of Central America, Law 75 is a protectionist statute that is the result of extensive lobbying efforts by dealers in Puerto Rico who were seeking protection from arbitrary unilateral terminations of their distribution agreements by their suppliers after the dealers had successfully developed a local market in Puerto Rico for the supplier’s products or services. Law 75 prohibits a company (referred to as the “principal” or “grantor”) from terminating or refusing to renew (at its normal expiration) a “dealer’s contract,” or otherwise directly or indirectly performing any act “detrimental to the established relationship” (established by the dealer’s contract), except for “just cause.”²¹² Law 75 defines a “dealer’s contract” as:

[A] relationship established between a dealer and a principal or grantor, whereby, and irrespective of the manner in which the parties may characterize or execute such relationship, the former actually and effectively takes charge of the distribution of a merchandise, or of the rendering of a service, by concession or franchise, in the market of Puerto Rico.²¹³

16 C.F.R. §§ 436–437; P.R. Laws Ann. tit. 31, § 5141 et seq.

²¹⁰ P.R. Laws Ann. tit. 31, § 5141 et seq.; see also Federal Trade Commission, *the Franchise Rule Compliance Guide*, 4 (May 2008), available at <https://www.ftc.gov/system/files/documents/plain-language/bus70-franchise-rule-compliance-guide.pdf>.

²¹¹ P.R. LAWS ANN. tit. 10, §§ 278–278e (2013).

²¹² *Id.* at § 278a.

²¹³ *Id.* at § 278b (emphasis added).

Thus, regardless of what the parties call their arrangement, if the realities of the relationship satisfy the definition of a “dealer’s contract,” the arrangement will be subject to the requirements of Law 75.

Law 75’s Application to Franchises. By its wording, Law 75 appears to apply to franchise agreements. Although arguments have been made against applying Law 75 to franchises,²¹⁴ they have generally not been successful. There is one Puerto Rico Supreme Court opinion that seemed to recognize that a franchise agreement has certain atypical particularities, but the opinion was focused on the enforceability of post-termination covenants not to compete and not on the franchise or distribution relationship as such.²¹⁵ In fact, in its opinion the court described the franchise contract as one where independent merchants distribute products or provide services under certain brands.²¹⁶ The courts have generally applied Law 75 to franchise relationships,²¹⁷ and therefore the following paragraphs of this section will provide an overview of the issues surrounding Law 75. The Puerto Rico Supreme Court has established that in determining whether a person is a dealer under Law 75, such person’s involvement in the following business activities must be evaluated: “(1) activities necessary to the transportation of the products from the manufacturer to the consumer or to some point in between; (2) publicity; (3) market coordination; (4) merchandise delivery; (5) collections; (6) keeping inventory; (7) promotion; (8) closing of sales contracts.”²¹⁸ The creation of a favorable market in Puerto Rico and gaining of consumers in Puerto Rico for a product or service have been considered the most significant factors,²¹⁹ along with the dealer’s assumption of financial risk and responsibility for the business.²²⁰ Some or all of these factors obviously apply to business format franchises and, thus, Law 75 is likely to be applied to all kinds of franchise relationships, including those that provide services. Law 75 textually applies to both sales of products and services such as the services provided by general insurance agents to insurance companies.²²¹

Just Cause. As noted above, Law 75 prohibits a principal from terminating or impairing a dealer’s contract without just cause. Law 75 defines “just cause” as the dealer’s failure to perform an “essential obligation” under the agreement, or “any action or omission” on the dealer’s part that “adversely and substantially affects the interests of the principal or grantor in

²¹⁴ Rafael Escalera-Rodriguez, *Puerto Rico: Is Every Franchisee a Distributor?* (May 18, 2011), http://www.franchise.org/sites/default/files/ek-pdfs/html_page/Puerto-Rico-Paper_0.pdf.

²¹⁵ *Franquicias Martins BBQ vs. Garcia de Gracia*, 178 D. P. R. 978, 985-989 (2010).

²¹⁶ *Id.* (emphasis added).

²¹⁷ See *Tatan Management v. Jacfran Corp.*, 270 F. Supp. 2d 197 (D.P.R. 2003); *MARPOR Corp. v. DFO, LLC & Denny’s, Inc.*, No. 10-1312 (PG), 2010 U.S. Dist. LEXIS 127616 (D.P.R. Dec. 2, 2010); *Caribbean Rest., LLC v. Burger King Corp.*, Bus. Franchise Guide (CCH) P 15, 298, No. 14-1200 (PG), 2014 WL 2465133 (D.P.R. June 3, 2014).

²¹⁸ *Garcia v. Duron, Inc.*, 175 F. Supp.2d 135, 139 (D.P.R. 2001) (citing *Accessories & Communication Sys., Inc. v. Nortel Cala, Inc.*, 85 F. Supp. 2d 95, 98 (D.P.R. 2000)).

²¹⁹ *Id.* (citing *Accessories* at 98).

²²⁰ See *Lineas Aereas Costarricenses S.A. v. Caribbean General, Inc.*, 682 F. Supp. 117, 122 (D.P.R. 1988).

²²¹ P.R. LAWS ANN. tit. 10, § 278; *Cordova & Simonpietri Insurance Agency v. Crown American Insurance Co of Canada*, 112 D.P.R. 797 (1982).

promoting the marketing or distribution of the merchandise or service” in Puerto Rico.²²² Determination of “just cause” is a fact-intensive analysis. For example: a violation by a franchisee of a contractual prohibition on change of control of franchisee does not, by itself, constitute just cause, unless the franchisor can demonstrate that “such nonperformance may affect, or has truly and effectively affected, the interests of such principal or grantor in an adverse or substantial manner in the development of the market, distribution of the merchandise or rendering of services.”²²³ Law 75 does not grant dealers or franchisees exclusive distribution or franchise rights to the Puerto Rico market, but it protects exclusivity if it is granted by the terms of the contract.²²⁴ Franchisors’ counsel who draft and negotiate franchise agreements for the territory of Puerto Rico should, therefore, be careful to define unambiguously the rights and obligations of both parties under the agreement, including the scope of the franchise grant as well as the franchisor’s reservation of rights to avoid uncertainties and future complications in the relationship.

Damages. The damages for violation of Law 75 can be quite significant and include, among other considerations: (1) the dealer’s/franchisee’s actual expenses of setting up the distribution or franchised business (to the extent the same cannot be “easily and reasonably useful to another activity in which the dealer is normally engaged”²²⁵); (2) the cost of all inventory in stock; (3) the goodwill of the dealer’s/franchisee’s business (or the relevant part thereof) determined based on: (a) the length of time the dealer/franchisee has had its distribution or franchised business; (b) the actual volume of distribution of goods or rendering of services (and the proportion such volume represents in the dealer’s/franchisee’s business); (c) the proportion that such dealer’s/franchisee’s volume of distribution represents in the Puerto Rican market; and (d) any other helpful factor; and (4) the amount of profit from the distribution or franchised business during the last five years (or if the business has been in existence for a shorter period of time, then five times the average annual profit during the years in existence).²²⁶ In addition, Law 75 provides for injunctive relief *pendent lite* and other provisional remedies.²²⁷ Law 75 prescribes a three-year statute of limitations on Law 75 claims²²⁸ and also allows the prevailing party to recover its attorneys’ fees and reasonable experts’ fees.²²⁹ Furthermore, with respect to damages under Law 75, the U.S. District Court for the District of Puerto Rico has held that Law 75 may be supplemented by applicable provisions of the Puerto Rico Civil Code and so Law 75 may also allow for awarding of damages for breach of contract under the Puerto Rico Civil Code.²³⁰

²²² P.R. LAWS ANN. tit. 10, § 278d (2013).

²²³ *Id.* at § 278a1 (2013).

²²⁴ *Vulcan Tools of Puerto Rico v. Makita U.S.A., Inc.*, 23 F.3d 564, 569 (1st Cir. 1994); *Harley-Davidson Motor Company v. Motor Sport, Inc.*, 6 F. Supp. 2d 996 (E.D. Wisc. 1998).

²²⁵ *La Playa Santa Marina, Inc. v. Chris-Craft Corp.*, 597 F.2d 1, 4 n.9 (1st Cir. 1979).

²²⁶ P.R. LAWS ANN. tit. 10, § 278b.

²²⁷ P.R. LAWS ANN. tit. 10, § 278b-1; *see also* *La Playa Santa Marina, Inc. v. Chris-Craft Corp.*, 597 F.2d 1, 4 (1st Cir. 1979) (regarding damages analysis).

²²⁸ P.R. LAWS ANN. tit. 10, § 278d (2013).

²²⁹ *Id.* at § 278e.

²³⁰ *Matosantos Commercial Corp. v. SCA Tissue of N. Am., LLC*, 2004 WL 1778279 (D.P.R. June 21, 2004).

3. Governing Law and Venue Considerations.

Law 75 prohibits parties to a dealer contract from agreeing to apply a governing law other than Puerto Rico law to controversies in the context of a distribution/franchise relationship and it prohibits any agreement to a venue outside of Puerto Rico. Specifically, Law 75 provides that (i) any clause in a dealer's contract requiring application of laws other than the laws of the Commonwealth of Puerto Rico shall be void and (ii) any clause in a dealer's contract requiring dispute resolution outside of Puerto Rico or "under foreign law" violates the public policy underlying Law 75 and therefore shall be null and void.²³¹ Law 75 also explicitly gives the parties the right to require a court to determine whether an arbitration clause in a contract was entered into "freely and voluntarily by both parties" before the arbitration clause can be given effect.²³² Law 75 places a burden of proof on the franchisor/principal to rebut a presumption that an arbitration clause in a contract was required by the principal/grantor and that any such arbitration agreement is an "adhesion contract".²³³ However, as noted below, the U.S. Federal Arbitration Act (the "FAA") applies in Puerto Rico, as does the Supremacy Clause of the U.S. Constitution. As a result, any provision of Law 75 that is inconsistent with the FAA will be preempted by the FAA and arbitration provisions will be enforced as required by the FAA.²³⁴ It is up to the arbitrators to decide which law will apply to the arbitration proceeding.²³⁵

The dealer/franchisee may not contractually agree to anticipatory waivers of its rights under Law 75.²³⁶ However, courts have upheld settlement agreements *after* a dispute has arisen between the parties even before the commencement of any arbitration or litigation. Importantly, despite the explicit language of Law 75 regarding forum selection provisions in dealer contracts, relying generally on the Supreme Court's analysis in *The Bremen v. Zapata Off-Shore Co.*²³⁷ and *Stewart Org., Inc. v. Ricoh Corp.*,²³⁸ the U.S. district court for the district of Puerto Rico has repeatedly enforced well written contractual forum selection provisions in distributor and franchise contracts.²³⁹ In *Bremen*, the Supreme Court held that contractual forum selection clauses are "prima facie valid and should be enforced unless enforcement is shown by the resisting party to be 'unreasonable' under the circumstances."²⁴⁰ In *Stewart*, the

²³¹ P.R. LAWS ANN. tit. 10, § 278b-2 (2013).

²³² *Id.* at § 278b-3.

²³³ *Id.*

²³⁴ *Audio Visual Concepts, Inc. v. Smart Techs.*, 2011 U.S. District Court Lexis 104304 (D.C.P.R. 2011).

²³⁵ *Medika Int'l v. Scanlan Int'l*, 830 F. Supp. 81 (D.P.R. 1993).

²³⁶ P.R. LAWS ANN. tit. 10, § 278c (2013).

²³⁷ *Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1 (1972), *superseded in part by statute*, Act of Oct. 18, 1962, Pub. L. 87-845, § 9, 76A Stat. 699 (codified at 28 U.S.C. § 1404), *as recognized in Stewart Org., Inc. v. Ricoh Corp.*, 487 U.S. 22 (1988).

²³⁸ *Stewart Org., Inc. v. Ricoh Corp.*, 487 U.S. 22 (1988).

²³⁹ *See Royal Bed & Spring Co. v. Famossul Industria e Comercio de Moveis Ltd.*, 906 F.2d 45 (1st Cir. 1990); *see also Antilles Cement Corp. v. Aalborg Portland A/S*, 526 F. Supp. 2d 205 (D.P.R. 2007); *D.I.P.R. Mfg., Inc. v. Perry Ellis Int'l, Inc.*, 472 F. Supp. 2d 151 (D.P.R. 2007); *Diaz-Rosado v. Auto Wax Co.*, No. Civ. 04-2296(SEC), 2005 WL 2138794 (D.P.R. Aug. 26, 2005); *Outek Caribbean Dist., Inc. v. Echo, Inc.*, 206 F. Supp. 2d 263 (D.P.R. 2002).

²⁴⁰ *Bremen*, 407 U.S. at 10.

Supreme Court found that federal law, specifically 28 U.S.C. §1404(a),²⁴¹ governed a venue dispute where the parties' contract included a forum selection clause, and although the Court reasoned that a forum-selection clause should not receive dispositive consideration, the Court emphasized that it is a significant and central factor to consider.²⁴² In addition, the Supreme Court in *Stewart* noted that "a state policy focusing on a single concern or a subset of the factors identified in §1404(a) would defeat [Congress's] command" that multiple considerations govern transfers within the federal court system.²⁴³ Furthermore, the Puerto Rico Supreme Court has adopted U.S. federal standards developed in *Bremen* and other federal case law on forum selection clauses, despite the explicit Law 75 language and the public policy interests underlying Law 75.²⁴⁴ However, Law 75 was not at issue in the case in which the Supreme Court of Puerto Rico adopted the federal criteria.²⁴⁵ Also, such federal criteria include a consideration of whether enforcing the judicial venue clause contravenes the "public policy" of the transferor jurisdiction (*i.e.*, the venue to which the principal/franchisor wishes to transfer the lawsuit) or transferee jurisdiction (*i.e.*, the venue in which the distributor/franchisee initially filed the lawsuit).²⁴⁶ Law 75's venue restriction could be viewed as a "public policy" factor when a forum selection clause is being evaluated in a putative Law 75 case. As discussed further below, the fact remains that contractual forum selection clauses have generally, although not always, been upheld in Law 75 cases.²⁴⁷ However, as explained further in Section VI.C.4, an arbitration clause will be enforced with much more certainty than a judicial venue provision in Law 75 disputes.

Specifically, in *Royal Bed and Spring Co. Inc. vs. Famossul Industria e Comercio de Moveis*, the U.S. Court of Appeals for the First Circuit, relying on the Supreme Court's decision in *Bremen*, stated that the party arguing for the rejection of the forum-selection clause has the burden of showing "that enforcement [of the clause] would be unreasonable and unjust or that the clause was invalid for such reason as fraud or overreaching."²⁴⁸ The party resisting the contractual forum selection clause must show that "trial in the contractual forum will be so gravely difficult and inconvenient that he will for all practical purposes be deprived of his day in court".²⁴⁹ The court reasoned that the enforceability of a forum selection clause depends on a specific analysis that considers the parties' private interests as well as public interest factors. In *Royal Bed*, the court balanced the public and private interest factors and concluded that the

²⁴¹ 28 U.S.C. § 1404(a) provides: "For convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought."

²⁴² *Stewart*, 487 U.S. at 28.

²⁴³ *Id.* at 28, 30.

²⁴⁴ *MARPOR Corp. v. DFO LLC*, 2010 WL 4922693 (D.P.R. Dec. 2, 2010) (citing *Unisys P.R., Inc. v. Ramallo Bros. Printing*, 128 D.P.R. 842 (1991)).

²⁴⁵ *Unisys P.R., Inc. v. Ramallo Bros. Printing*, 128 D.P.R. at, 855-857 (1991).

²⁴⁶ *Id.*

²⁴⁷ *Caguas Lumber Yard, Inc. v. Ace Hardware Corp.*, 2011 U.S. Dist. LEXIS 134534 (D.P.R. Nov. 21, 2011); see also *P.R. Surgical Tech., Inc. v. Applied Med.*, Civ. No. 10-1312 PG, 2010 WL 4237927 (D.P.R. Dec. 2, 2010) (there is no conflict between federal common law and Puerto Rico law regarding the enforceability of forum selection clauses).

²⁴⁸ *Royal Bed*, 906 F.2d at 49.

²⁴⁹ *Id.* at 49 (citing *Bremen*, 407 U.S. at 18).

circumstances did not “counsel against the application of the forum selected by the parties in their agreement”.²⁵⁰ After the *Royal Bed* decision, the Supreme Court held in *Atlantic Marine Const. Co., Inc. v. U.S. Dist. Court for Western Dist. of Tex.*²⁵¹ that a venue selection clause must be enforced through a venue transfer motion under 28 U.S.C. § 1404(a) if the transfer is between federal district courts, but when a venue selection clause points toward a state or foreign forum, the clause must be enforced through the “residual” doctrine of *forum non conveniens*. The Court remarked, however, that the factors and analysis are the same under both doctrines. Also in *Atlantic Marine*, the Supreme Court held that if there is a venue selection clause in a contract, only the public interest factors should be weighed. Thus, in the absence of a venue selection clause, the courts must evaluate both the so-called private interests of the parties and public-interest considerations, but when a contract contains a valid forum-selection clause, that clause “represents [the parties’] agreement as to the most proper forum,”²⁵² and should be “given controlling weight in all but the most exceptional cases.”²⁵³ The parties already took their private interests into account when they agreed to the venue selection clause. Because public-interest factors will rarely defeat a transfer motion, the practical result is that forum-selection clauses should be enforced in Puerto Rico except in rare cases.

Similarly, more recently, in *Caribbean Rest., LLC v. Burger King Corp.*,²⁵⁴ the U.S. district court for the District of Puerto Rico approved a transfer of venue to a U.S. District Court in Florida, enforcing the forum selection clause in the parties’ franchise agreements. Relying on *Atlantic Marine*, the court reiterated that the party acting contrary to the forum selection clause has the burden of showing that public interest overwhelmingly disfavors a transfer.²⁵⁵ The court emphasized that Law 75 is not meant to allow dealers or franchisees to ignore the express language of the contract.²⁵⁶ The franchisee, Caribbean, did not allege fraud or overreaching on the part of Burger King Corporation with respect to the forum selection clause in the franchise agreements, Caribbean was represented by legal counsel in contract negotiations and it chose to enter into the franchise agreements despite the forum selection language.²⁵⁷ In analyzing public interest factors, the court considered administrative difficulties, value of controversies being decided “at home,” and the benefit of a forum familiar with the law governing a dispute.²⁵⁸ The court did not give much significance to Caribbean’s argument that the Puerto Rico court is more familiar with Law 75, noting that “federal judges routinely apply the law of a State other than the State in which they sit”.²⁵⁹ Likewise, the court was not persuaded by Law 75’s “public

²⁵⁰ *Id.* at 53.

²⁵¹ *Atlantic Marine Const. Co., Inc. v. U.S. Dist. Court for Western Dist. of Tex.*, 134 S. Ct. 568 (2013).

²⁵² *Stewart*, 487 U.S. at 31.

²⁵³ *Id.* at 33 (Kennedy, J., concurring).

²⁵⁴ *Caribbean Rest., LLC v. Burger King Corp.*, 23 F. Supp. 3d 70 (D.P.R. 2014).

²⁵⁵ *Caribbean Restaurants*, 23 F. Supp. 3d at 76.

²⁵⁶ *Id.* at 78.

²⁵⁷ *Id.* at 77-79.

²⁵⁸ *Id.* at 78-80.

²⁵⁹ *Id.* at 80 (citing *Atlantic Marine*, 134 S.Ct. at 584).

policy” against venue transfers. The court concluded that Caribbean did not satisfy its burden to show that public interest factors justified litigation in Puerto Rico.²⁶⁰

Although courts have routinely enforced forum selection provisions in dealer/franchise contracts in the context of Law 75 claims, the enforceability of contractual choice of law provisions in Law 75 cases is less certain, except in the context of arbitration. Numerous courts in the U.S. “mainland” have applied Law 75 to disputes.²⁶¹ For example, in *Beatty Caribbean, Inc. v. Viskase Sales Corp.*,²⁶² the court, in balancing the factors of the Restatement (Second) of Conflict of Laws, refused to enforce a governing law provision in a distributor contract and ruled that Law 75 applied to the claims at issue, citing Puerto Rico’s strong interest in protecting its distributors.²⁶³ In *Beatty Caribbean*, the court also held that proper venue was in Puerto Rico. However, it is important to note that, in *Beatty Caribbean*, the parties’ agreement did not include a forum selection provision. In *Caribbean Rest., LLC v. Burger King Corp.*, as part of its analysis, the court stated that other than the Law 75 claim, Florida law applied to the dispute due to a freely-negotiated choice of law provision in the contract.²⁶⁴

4. Arbitration.

Enforcement of contractual governing law provisions (mandating law other than the law of Puerto Rico) has been more successful in the arbitration context. The Supreme Court has held that the Federal Arbitration Act (the “FAA”)²⁶⁵ preempts any state statutory prohibitions in conflict with the FAA policies.²⁶⁶ The FAA’s “primary purpose [is to ensure] that private agreements to arbitrate are enforced according to their terms”.²⁶⁷ The courts have held that the FAA specifically preempts Section 3B²⁶⁸ of Law 75.²⁶⁹ The court in *Royal Bed* noted that forum-selection clauses requiring dispute resolution via mandatory arbitration in foreign countries have

²⁶⁰ *Id.* at 80.

²⁶¹ See, e.g., *Harley-Davidson Motor Co. v. Motor Sport, Inc.*, 6 F. Supp. 2d 996, 999 (E.D. Wis. 1998) and *Whirlpool Corp. v. U.M.C.O. Int’l Corp.*, 748 F. Supp. 1557 (S.D. Fla. 1990), both of which apply Law 75 to a dispute between a principal and a distributor.

²⁶² *Beatty Caribbean, Inc. v. Viskase Sales Corp.*, 241 F. Supp. 2d 123, 129-30 (D.P.R. 2003).

²⁶³ *Id.*; see also *Pan American Comput. Corp. v. Data Gen. Corp.*, 467 F. Supp. 969, 970-71 (D.P.R. 1979).

²⁶⁴ *Caribbean Rests.*, 23 F. Supp.3d at 70, 80.

²⁶⁵ 9 U.S.C. §§ 1-16 (2012).

²⁶⁶ *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985); see also *Interboro Sys. Corp. v. Datacard Corp.*, No. 11-2163 (PG), 2012 WL 6619505 (D.P.R. Feb. 2, 2012) (ruling that section 278b-2 of Law 75, which mandates Puerto Rico law as governing law and venue in Puerto Rico, is clearly preempted by the FAA); *Diagnostic Imaging Supplies & Servs., Inc. v. Gen. Elec. Co.*, Civil No. 04-2368 (HL), 2006 WL 2077032 (D.P.R. July 24, 2006) (when an agreement includes arbitration and choice of law clauses, it is up to the arbitrator, not the courts, to decide what law applies); see also *Hawayek v. A.T. Cross Co.*, 221 F. Supp.2d 254 (D.P.R. 2002) (affirming an arbitration award applying Rhode Island law, to the exclusion of Law 75).

²⁶⁷ *Hawayek*, 221 F. Supp.2d at 257; see also *Ryvelix Co., Inc. v. Onset Dermatologics*, Civil No. 14-1041CCC, 2014 WL 4924473, at *1 (D.P.R. Sept. 30, 2014) (the FAA reflects a strong federal policy favoring arbitration).

²⁶⁸ P.R. Laws Ann. tit. 10, § 278b-2 (“Any stipulation that obligates a dealer to adjust, arbitrate or litigate any controversy that comes up regarding his dealer’s contract outside of Puerto Rico, or under foreign law or rule of law, shall be likewise considered as violating the public policy set forth by this chapter and is therefore null and void.”)

²⁶⁹ See *Diagnostic Imaging*, 2006 WL 2077032, at *4; see also *Hawayek*, 221 F. Supp. 2d at 256.

been upheld – by application of the Federal Arbitration Act.²⁷⁰ If an agreement includes an arbitration clause and a choice of law clause, the arbitrator (not the courts) shall decide what law applies to the agreement.²⁷¹

In order to maximize chances of the express terms of its Puerto Rico franchise agreements being upheld, a franchisor should ensure that such franchise agreements are carefully drafted. The franchise agreements should unambiguously define the scope of the franchise grant (granting non-exclusive rights if possible) and the parties' rights and obligations. In addition, a franchisor should include an arbitration agreement in its Puerto Rico franchise agreements, which prescribes mandatory arbitration of any and all disputes between the parties (including the existence, validity, breach and termination of the franchise agreement). Such arbitration agreement should include a choice of law provision, preferably the law of the home state of the franchisor, so that when deciding which law to apply to the controversy between the parties, the arbitrator can conclude that the chosen law preserves the uniformity of the franchise system and that it is clearly relevant to one of the parties and, perhaps, to both. Said law should govern any and all disputes related to the parties' agreement and relationship, including the existence, breach, and termination thereof. The location of the arbitration proceedings should be outside Puerto Rico, preferably in the state where the franchisor's home office is located, which will also have substantial relevance to the relationship between the parties and give the franchisor the home court advantage. Finally, the arbitration agreement should survive any termination or expiration of the franchise agreement. Such careful drafting may result in excluding the application of Law 75 to the franchise relationship.

D. Tax Considerations²⁷²

As discussed above in the Introduction to this Section VI, U.S. tax laws do not apply to Puerto Rico. As a U.S. territory, Puerto Rico is not covered by any U.S. tax treaties, and has no tax treaties of its own – with the U.S. or any other country. Puerto Rico has entered into a Tax Coordination Agreement with the U.S., effective May 26, 1989,²⁷³ for the purpose of the “exchange of information and mutual assistance with respect to taxes in order to prevent the evasion or avoidance of United States or Commonwealth of Puerto Rico taxes”.²⁷⁴

Royalties paid by a Puerto Rico franchisee to a U.S. franchisor are subject to a 29% withholding tax rate under Puerto Rican law. Other remittances from Puerto Rico that are considered “fixed and determinable, annual or periodic” payments would also be subject to the 29% withholding tax, such as amounts paid by a Puerto Rican payor for rents, annuities, compensation, etc. It is likely that, as in other international situations (from a tax perspective), any marketing fees under the franchise agreement paid to a U.S. franchisor would also be deemed subject to the 29% withholding tax since they are frequently computed as a percentage

²⁷⁰ *Royal Bed & Spring Co. v. Famosul Industria e Comercio de Moveis Ltd.*, 906 F.2d 45, 50 (1st Cir. 1990); see also *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 627 (1985).

²⁷¹ *Diagnostic Imaging*, 2006 WL 2077032, at *3.

²⁷² Special thanks to Ken Levinson, partner at Faegre Baker Daniels LLP, for his contributions to this Tax Considerations section of the paper.

²⁷³ 26 C.F.R. § 601.201 (2016).

²⁷⁴ Antonio Escudero-Viera, *Doing Business in United States: Puerto Rico*, PRACTICAL LAW (Mar. 1, 2013), <http://us.practicallaw.com/0-500-5771>.

of income or sales. The amount of the tax withheld is eligible for the U.S. Foreign Tax Credit on the U.S. federal income tax return of the franchisor, though these payments are part of the “passive basket” under the U.S. Internal Revenue Code § 904(d)(1)(A), and therefore determination of the current utilization of Puerto Rican and other foreign withholding taxes imposed on like income will be separately determined under U.S. tax law.

A franchisor may consider requiring a “gross up” provision in the franchise agreement – such a provision would require the franchisee to withhold the applicable tax (29%), pay such tax to the Puerto Rico tax authorities and pay to franchisor the full, unreduced amount of fees actually due under the franchise agreement without any reduction, diminution or withholding of any taxes from such amounts.²⁷⁵ Regardless of whether a franchisor is successful in imposing a gross-up provision on the franchisee, to reduce the impact of the withholding tax, the parties may consider splitting the franchise agreement into two separate agreements – a franchise agreement under which a royalty fee would be charged for the use of the franchisor’s trademarks and the franchise system (which will be subject to the 29% withholding tax), and a management services agreement, under which the franchisor would charge the franchisee a management or service fee for the provision of various support services to be provided in the United States by the franchisor, which fee should not be subject to the Puerto Rican withholding tax since it is a payment for services provided outside of Puerto Rico and therefore is not a Puerto Rican source for local tax purposes.

In providing any on-the-ground (and temporary) support to franchisees, franchisors must be careful to avoid creating a tax nexus in Puerto Rico by virtue of the franchisor’s employees’ presence or other activities in Puerto Rico.²⁷⁶ Such tax nexus, under Puerto Rico’s rules relating to income effectively connected with the conduct of a trade or businesses there, would subject the franchisor to local taxation and, potentially, may subject the employee personally to Puerto Rico tax. The franchisor that foresees regular and continuous activities of its personnel in Puerto Rico, or a business need to have a local presence (such as for marketing, training or other consulting services by locally-based personnel) should consider setting up a subsidiary or other affiliate entity in Puerto Rico that will provide the in-territory services to the franchisee(s). See section VI.F below for a discussion of common entity forms in Puerto Rico.

Pursuant to the Puerto Rico Relations Act, Puerto Rico may not impose duties on exports from Puerto Rico.²⁷⁷ Puerto Rico may impose taxes on imported goods from any country (other than the U.S.) so long as there is no discrimination with respect to similar goods imported from the U.S.²⁷⁸ U.S. customs rules and regulations apply in Puerto Rico to foreign imports.

²⁷⁵ Note that a full tax gross-up to protect the U.S. franchisor from the consequences of the Puerto Rican 29% withholding tax rate is substantial; the gross up equivalent amount is about 40.85%. A partial gross-up (or split gross-up) may also be worth considering.

²⁷⁶ In tax treaty parlance, having such local tax nexus is referred to as having a “permanent establishment,” but if no tax treaty applies, as in the case of Puerto Rico, then local tax law dealing with “doing business” locally will be the required reference.

²⁷⁷ 48 U.S.C. § 741 (2012).

²⁷⁸ 48 U.S.C. §§ 739, 741a (2012).

E. Common Structures for a Franchise Transaction

The current population of Puerto Rico is approximately 3.6 million. Such population can support area development arrangements, master franchising, direct franchising, and/or establishment of joint ventures, depending on a number of considerations that are not necessarily unique to Puerto Rico. Choice of a structure depends on factors such as the size of a per-unit investment, a franchisee's capabilities, resources and experience, as well as a franchisor's preferences as to the parties' relationship (e.g., a pure franchise relationship vs. a joint venture arrangement). Due to the size of the Commonwealth, its geographic proximity to the U.S., the lack of a language barrier (for a U.S. franchisor), and the applicability of U.S. federal laws (with which U.S. franchisors and/or their attorneys are familiar), U.S. franchisors in particular have found it suitable to engage in direct franchising in Puerto Rico. There are no restrictions on foreign owners of companies in Puerto Rico, except for certain industry-specific limitations (e.g., the insurance industry),²⁷⁹ which allows interested U.S. franchisors great flexibility in structuring joint venture arrangements with Puerto Rico franchisees.

F. Corporate Matters

The mere entering into a franchise agreement with a Puerto Rican franchisee (without additional "presence" by a franchisor in Puerto Rico) does not require the franchisor to create a business entity in Puerto Rico. However, as discussed above under Tax Considerations in Section VI.D, creation of a Puerto Rican entity may be appropriate if the franchisor's presence in Puerto Rico would otherwise create adverse tax consequences. Most popular forms of entities in Puerto Rico are corporations and limited liability companies. As in the U.S., Puerto Rican corporations are governed by a board of directors and shareholders (owners) are not generally involved in management except in the case of extraordinary transactions (e.g., a merger or an acquisition; a sale of a company; dissolution of a company, etc.) Limited liability companies can be managed either by members (owners) or by manager(s) and generally offer more flexibility with respect to management. Formation of such entities follows similar procedures as in the U.S. Any company doing business in Puerto Rico must register in the Compulsory Business Registry by July 15 of each year. Because many businesses in Puerto Rico are closely-held family businesses, such companies may not closely observe corporate formalities and so a franchisor should focus its due diligence efforts on gaining comfort that the individual(s) representing the prospective franchisee have the authority to act on behalf of the entity that is the prospective franchisee.

G. Governing Law and Dispute Resolution

As noted above, the text of Law 75 prohibits choice of law other than Puerto Rican law and it also prohibits dispute resolution outside of Puerto Rico. However, as discussed above (under Franchise Laws), U.S. courts have routinely enforced contractual forum selection clauses despite the language of Law 75 to the contrary. In addition, the U.S. Federal Arbitration Act preempts Law 75's bar against enforcing a dispute resolution clause requiring arbitration outside of Puerto Rico in interstate (and international) contracts. To maximize chances of being able to enforce the terms of their franchise agreements, franchisors should specify in their franchise agreements with a Puerto Rican franchisee a mandatory arbitration clause requiring arbitration of all disputes outside of Puerto Rico and prescribing a governing law other than

²⁷⁹ Escudero-Viera, *supra* note at 274.

Puerto Rican law. For a more detailed discussion, please see Section VI.C (Franchise Laws) above.

H. Other Local Law and Regulatory Considerations

Currency Issues; Manner of Payment. As noted above, the currency of Puerto Rico is the U.S. Dollar. Other than withholding taxes discussed in Section VI.D (Tax Considerations), there are no laws in Puerto Rico that affect the amount of or manner of payment of franchise fees or royalties payable to a U.S. or other (foreign) franchisor. There are no laws restricting the franchisee's ability to make payments to a foreign franchisor in the franchisor's domestic currency.

Language Requirements. There is no requirement under the laws of Puerto Rico that a franchise agreement must be in English or Spanish (the official languages of Puerto Rico). As noted above, English dominates in the business environment and so a franchisor should not have any issues requiring that its Puerto Rico franchise agreement be written and executed in the English language.

Antitrust Laws. U.S. federal antitrust laws apply in Puerto Rico. However, in addition, Puerto Rico has its own anti-trust laws that closely track the federal laws. The Office on Monopolistic Affairs of the Department of Justice of the Commonwealth of Puerto Rico is the competition authority in Puerto Rico.²⁸⁰

Labor and Employment Laws. U.S. federal labor and employment laws apply in Puerto Rico. In addition, local labor rules apply (e.g., regarding mandatory annual bonuses for certain employees (Christmas bonus),²⁸¹ severance pay, etc.). Unlike in the U.S., there is no "employment at will" concept in Puerto Rico and termination requires "just cause" when the employee has been employed for an indefinite term. Such employee is entitled to a severance pay which varies depending on the duration of his/her employment. The employee is entitled to two months' pay plus one week of pay for each full year of service if he or she has provided less than 5 years of service.²⁸² However, if the employee has provided at least 5 years of service, but less than 15 years of service, such employee is entitled to 3 months' pay plus two weeks per each year of service; or if more than 15 years of service, then the employee must receive 6 months' pay plus three weeks per year of service.²⁸³

Data Privacy Laws. Puerto Rico has enacted its own personal data security breach notification legislation. The Citizen Information on Data Banks Security Act of 2005²⁸⁴ and the Citizen Information on Data Banks' Security Regulation from the Department of Consumer Affairs (Regulation 7376) set forth procedures to follow if a breach of security of a data bank occurs where personal information of Puerto Rican citizens and residents could have been accessed by unauthorized persons. In addition, U.S. federal legislation regarding data

²⁸⁰ *Id.*

²⁸¹ See Act No. 148 of 30 June 1969, 29 P.R. LAWS ANN. tit. 29, § 501 et. seq. (2013); see also McConnell Valdés LLC, *supra* note 165 at 34-35.

²⁸² See P.R. LAWS ANN. tit. 29, § 185a (2013); McConnell Valdés LLC, *supra* note 165, at 35.

²⁸³ McConnell Valdés LLC, *supra* note 165, at 35.

²⁸⁴ P.R. LAWS ANN. tit. 10, §§ 4051-4055 (2013).

protection apply in Puerto Rico, including without limitation, the Federal Trade Commission Act²⁸⁵ (consumer protection legislation that has been applied to privacy and data security policies), the Gramm-Leach Bliley Act²⁸⁶ (regulates financial information collection, use and disclosure), the Health Insurance Portability and Accountability Act (HIPAA)²⁸⁷ (regulates medical information collection, use and disclosure), the Fair Credit Reporting Act²⁸⁸ (regulates consumer reporting information), the Telephone Consumer Protection Act²⁸⁹ (regulates collection and use of email addresses and phone numbers), and the Electronic Communications Privacy Act²⁹⁰ (regulates interception of electronic communications).²⁹¹

I. Conclusion

Although Puerto Rico, as a U.S. territory, is subject to U.S. federal laws and English is one of its official languages, franchising in Puerto Rico presents unique legal challenges to franchisors, which challenges do not exist when franchising in any of the U.S. states. Lawyers advising clients on franchising in Puerto Rico must understand the interplay between U.S. federal laws and Puerto Rico's local legislation. Although Puerto Rico does not have any local franchise disclosure or registration laws, franchisors must still comply with the Franchise Rule and its onerous disclosure requirements. In addition, Law 75, Puerto Rico's dealer protection legislation, very likely applies to the franchise relationship and makes it difficult and potentially expensive for a franchisor to terminate or not renew, without just cause, a franchise agreement with a Puerto Rican franchisee, although careful drafting of the franchise agreement provisions may limit or avoid the adverse consequences of the impact of Law 75. Last, but not least, franchisors must consider the current economic crisis in Puerto Rico, which does not present an attractive investment environment at this time, but has not yet substantially dampened consumerism; to what extent and how quickly PROMESA and other recent political developments will successfully create a path to recovery of the island's economy is to be seen.

VII. CONCLUSION

While this is the conclusion of this paper, it is just the start of the journey for many franchise systems as they consider an expansion into Latin America and the Caribbean. Franchise brands often gain exposure in new markets far in advance of their actual expansion into new territories. As a result, early planning for trademark protection is a key element of any franchisor's strategy when thinking about expansion into Latin America and the Caribbean. Entering this region is not without its legal challenges, and nothing can take the place of good local knowledge and advice.

²⁸⁵ 15 U.S.C. §§ 41-58 (2012).

²⁸⁶ Gramm-Leach-Bliley Act, Pub. L. 106-102, 113 Stat. 1338 (1999).

²⁸⁷ Health Insurance Portability and Accountability Act, Pub. L. 104-191, 110 Stat. 1936 (1996).

²⁸⁸ Fair Credit Reporting Act, Pub. L. 91-508, 84 Stat 1114-2 (1970).

²⁸⁹ Telephone Consumer Protection Act, Pub. L. 102-243, 105 Stat. 2394 (1991).

²⁹⁰ Electronic Communications Privacy Act of 1986, Pub. L. 99-508, 100 Stat. 1848 (1986).

²⁹¹ See Leuan Jolly, *Data protection in United States: Overview*, PRACTICAL LAW (July 1, 2015), <http://us.practicallaw.com/6-502-0467>.

While there may be some similar elements in the different regions of Latin American and the Caribbean, the area is defined as much by its differences as by its similarities. As the early European explorers to this region discovered, local knowledge is critical to success. Careful planning and execution is essential to a successful franchise expansion strategy in Latin America and the Caribbean.

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Mo Alturk is an attorney in the Dallas office of Baker & McKenzie LLP. He has a broad-based transactional practice focusing on complex corporate and commercial matters, with a strong emphasis on international franchising, licensing and distribution transactions. His experience also extends to cross-border joint venture transactions, mergers and acquisitions, regulatory compliance, and corporate governance. He graduated summa cum laude from Southern Methodist University and from Boston University School of Law.

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Lucie Guyot is counsel in the corporate group of Faegre Baker Daniels. She has been practicing corporate transactional law with the firm since 2004. Ms. Guyot received her undergraduate degree (Bachelor of Arts, English) from the University of Colorado at Boulder in December 2000 and her law degree (With High Honors, Order of the Coif, The George Washington Scholar) from the George Washington University Law School in May 2004.

Ms. Guyot has extensive experience representing U.S. franchisors expanding their brands internationally. She counsels clients on structuring efficient international relationships as well as advises on day-to-day international franchise relationship matters. In addition, Ms. Guyot advises U.S. franchisors in connection with domestic franchising. She also drafts, and counsels clients on, other domestic and international commercial agreements. Ms. Guyot has also represented clients in complex corporate transactions, including mergers and acquisitions, financings and securities offerings. Finally, she advises clients on general corporate matters, including corporate organization and governance.

Ms. Guyot co-authored a chapter of a book, *Mergers and Acquisitions of Franchise Companies, Second Edition*, published by American Bar Association in 2014. She also co-authored a chapter in *The International Comparative Legal Guide to: Franchise 2015, First Edition*, published by Global Legal Group in 2015.

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He has published several articles and materials, including the Mexican chapter of International Franchise Sales Laws, published by the ABA's forum on franchising in 2006 (1st edition) and in 2015 (2nd edition); *Covenants Against Competition in Franchise Agreements*, published by the ABA's forum on franchising in 2012; *The Franchise Law Review*, published by Law Business Research in 2014; and *Getting the Deal Through - Franchise*, since 2007, published by Law Business Research.

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