
THE FRANCHISE LAW REVIEW

THIRD EDITION

EDITOR
MARK ABELL

LAW BUSINESS RESEARCH

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EDITOR'S PREFACE

Since the publication of the second edition of *The Franchise Law Review*, there have been major economic and geopolitical developments that have had a significant impact on world trade. The price of oil has plunged relentlessly downwards; China's manufacturing sector is suffering significant setbacks while its capital markets have taken a tumble; Europe faces a range of challenges, from Schengen and 'Brexit' to VW's disgrace over emissions; Iran and Saudi Arabia are exacerbating the problems in the Middle East and the Russian economy continues to float in the doldrums. Through all this, however, the apparently inexorable march towards the globalisation of commerce has continued unabated.

Despite the slow emergence of a few economic bright spots, the economy of what was once called the 'developed' world continues for the most part to struggle, while even Brazil – one of the much-vaunted BRICS nations – has fallen into recession. As a consequence, businesses are often presented with little choice but to look to more vibrant markets in Asia, the Middle East and Africa for their future growth.

At the same time, South–South trade is on the increase, perhaps at the expense of its North–South counterpart. All of this, coupled with the unstable wider geopolitical landscape, presents business with only one near certainty: there will be continued deleveraging of businesses in the coming years and, thus, growing barriers to international growth for many of them. All but the most substantial and well-structured of such businesses may find themselves facing not only significant difficulties because of their reduced access to funding to invest in their foreign ventures, but also challenges arising from their lack of managerial experience and bandwidth.

Franchising, in its various forms, continues to present businesses with one way of achieving profitable and successful international growth without the need for either substantial capital investment or a broad managerial infrastructure. In sectors as diverse as food and beverages, retail, hospitality, education, health care and financial services, it continues to be a popular catalyst for international commerce and makes a strong and effective contribution to world trade. We are even seeing governments turning to it as an effective strategy for the future of the welfare state as social franchising gains still more traction as a way of achieving key social objectives.

Given the positive role that franchising can make in the world economy it is important that legal practitioners have an appropriate understanding of how it is regulated around the globe. This book provides an introduction to the basic elements of international franchising and an overview of the way that it is regulated in 36 jurisdictions.

As will be apparent from the chapters of this book, there continues to be no homogenous approach to the regulation of franchising around the world. Some countries specifically regulate particular aspects of the franchising relationship. Of these, a number try to ensure an appropriate level of pre-contractual hygiene, while others focus instead on imposing mandatory terms upon the franchise relationship. Some do both. In certain countries there is a requirement to register certain documents in a public register. Others restrict the manner in which third parties can be involved in helping franchisors to meet potential franchisees. No two countries regulate franchising in the same way. Even those countries that have a well-developed regulatory environment seem unable to resist the temptation to continually develop and change their approaches to regulation – as is well illustrated by the recent changes to the Australian regulations. The inexorable march towards franchise regulation continues as countries such as Argentina, which has previously not specifically regulated franchising, have adopted franchise specific laws over the last 12 months.

Many countries do not have franchise-specific regulation, but nevertheless strictly regulate certain aspects of the franchise relationship through the complex interplay of more general legal concepts such as antitrust law, intellectual property rights and the doctrine of good faith. This heterogeneous approach to the regulation of franchising presents yet another barrier to the use of franchising as a catalyst for international growth.

This book certainly does not present readers with a full answer to all the questions they may have about franchising in all the countries covered – that would require far more pages than it is possible to include in this one volume. It does, however, try to provide the reader with a high-level understanding of the challenges involved in international franchising in the first section and then, in the second section, explain how these basic themes are reflected in the regulatory environment within each of the countries covered.

I should extend my thanks to all of those who have helped with the preparation of this book, in particular Caroline Flambard and Nick Green, who have invested a great deal of time and effort in making it a work of which all those involved can be proud.

It is hoped that this publication will prove to be a useful and often-consulted guide to all those involved in international franchising, but needless to say it is not a substitute for taking expert advice from practitioners qualified in the relevant jurisdiction.

Mark Abell

Bird & Bird LLP

London

January 2016

Chapter 24

DENMARK

*Jacob Ørskov Rasmussen*¹

I INTRODUCTION

Most of the franchise systems in Denmark are found in the retail sector, but there are also franchise systems in the restaurant and hotel sector, as well as in the car rental and service sector, and the education sector.

Franchising has experienced a rapid growth in Denmark over the recent decade, which is attributable to both foreign franchise systems establishing in Denmark and Danish companies expanding through the use of franchise systems. From 2007 to 2009 the annual growth rate of franchise brands in Denmark was 4.4 per cent and in 2009 82 per cent of the franchise brands in Denmark were domestic.²

Among the biggest foreign franchise brands in Denmark are McDonald's, Burger King, Domino's Pizza, Subway, 7-Eleven, Avis Rent a Car and Sixt Rent a Car. Some of the latest newcomers are Dunkin' Donuts, Starbucks, Carl's Jr and Pizza Hut.

Several of the domestic franchise brands are small or medium-sized companies that have chosen franchising as a way to expand their business in Denmark. Some of the domestic franchise brands have also expanded their business internationally, such as Bang & Olufsen, Jysk, Vero Moda, Jack & Jones, Bianco and BoConcept.

Dansk Franchise Forening (DFF) is an interest group for Danish companies involved in franchising. It was established in 1984, at a time when franchising was

1 Jacob Ørskov Rasmussen is a partner at Plesner Law Firm.

2 'Franchising: a Vector for Economic Growth in Europe 2011', the European Franchise Federation.

almost unknown in Denmark. DFF has issued a code of ethics, which is based on the European Code of Ethics for Franchising adopted by the European Franchise Federation (EFF). The code of ethics is binding for the members of DFF.

There are no current governmental activities or other official campaigns focusing on franchising as a business model in Denmark.

II MARKET ENTRY

i Restrictions

As a member of the European Union, Denmark is committed to observe the principle of free movement of goods, persons, services and capital, and the general prohibition against discrimination on grounds of nationality. Consequently, there are no market entry restrictions or other approval requirements that apply to foreign franchisors in Denmark. This also applies to foreign franchisors from outside the EU.

However, persons who are not residents of Denmark and who have not previously been resident in Denmark for a total period of five years may only acquire title to real property in Denmark after having obtained permission from the Ministry of Justice. This also applies to companies that do not have their registered office in Denmark, such as foreign franchisors.

EU or EEA nationals may acquire an all-year dwelling in Denmark without obtaining permission from the Ministry of Justice on certain conditions. The same applies to companies established in accordance with the law of an EU or EEA Member State that have established branches or agencies in Denmark or intend to do so or plan to deliver services in Denmark. It is a requirement that the property will serve as a necessary all-year dwelling for the acquirer or that the acquisition is a precondition for engaging in self-employed activities or providing services.

ii Foreign exchange and tax

Payments to and from Denmark are fully liberalised. This means that there are no restrictions on taking banknotes and coins out of or into Denmark, nor are there restrictions on other external transactions, including loans from and deposits with foreign banks, or portfolio investments and direct investments. However, anyone who enters or leaves the Danish customs area carrying money, etc. exceeding €10,000 in value shall on their own initiative go through a customs check and shall declare all money, etc. to the customs and tax authorities.

There is no tax regulation that relates specifically to franchising in Denmark (see Section V.i, *infra*).

III INTELLECTUAL PROPERTY

i Brand search

To a large extent the Danish Trademarks Act³ has been harmonised with the EU Trademark Directive, but there are still differences. The most notable difference is that a Danish trademark can be acquired through use. Further, the Danish Trademarks Act is to some extent supplemented by the Danish Marketing Practices Act,⁴ which is a statutory law of unfair competition.

Protected registered trademarks can be searched on oami.europa.eu/eSearch (Community Trade Marks) and www.dkpto.dk (Danish trademarks). These websites can also be used for searching EU and Danish-registered design rights. Unregistered Danish trademarks would have to be found through general knowledge of the market and internet searches.

Copyrighted works, image rights and business processes are not registered, and a search for these would therefore have to be conducted using the internet and through general knowledge of the market.

The process for ascertaining whether there is a conflict follows the normal process of determining whether there is an intellectual property infringement.

ii Brand protection

There are four ways in which a trademark can be obtained in Denmark:

- a* registration with the Danish Patent and Trademark Office (DKPTO);
- b* use in Denmark;
- c* international WIPO registration designating Denmark; and
- d* Community Trademark (CTM) registration with OHIM.

The Danish requirement for graphic representation is similar to that of CTMs, as are the relative and absolute grounds for refusal. DKPTO will provide a search report of its findings. An application for trademark registration will not be refused based on relative grounds for refusal.

The Danish Trademarks Act contains a rule about 'trademark theft'. It follows from this provision that registration cannot be obtained for trademarks that are identical or very similar to trademarks that are being used in a foreign country for the same goods or services, if the applicant knew or should have known of this older, foreign mark.

Design rights may also be registered via DKPTO. To be registered a design has to be new and have individual character.

iii Enforcement

A trademark proprietor is entitled to start proceedings based on its trademark rights. A franchisee can be a licensee, and a licensee is also entitled to start proceedings in relation to infringements of the trademark right, unless otherwise agreed upon between

3 Consolidated Act No. 109/2012 on Trademarks.

4 Consolidated Act No. 1216/2013 on Marketing Practices.

the licensee and the trademark proprietor. For the licensee it is possible to start the proceedings without the consent of the trademark proprietor. However, the licensee shall duly notify the trademark proprietor of such proceedings.

In general the remedies are the following:

- a* imposition of a court injunction, including a preliminary injunction, on the defendant, (i.e., an order to refrain from any – continued – trademark infringement in the future);
- b* the securing of evidence (similar to an *Anton Piller* order);
- c* receiving compensation, in cash or in another form;
- d* imposition of a court order on the defendant (i.e., an order to do something so as to prevent any threatening – continued – trademark infringement);
- e* on conviction, having the defendant publish the judgment in whole or in part;
- f* imposition of a fine on the defendant; and
- g* surrender of the profit enjoyed as a result of the infringement.

The remedies apply regardless of whether the trademark right has been granted by registration or has been obtained by use.

The enforcement of design rights and copyright also follows the enforcement procedures listed in the EU Enforcement Directive.

iv Data protection, cybercrime, social media and e-commerce

The Danish Data Protection Act⁵ applies to the processing of personal data. The purpose of the act is to enable companies, etc. to process personal data within the EU and EEA while ensuring adherence to certain data processing principles and the preservation of the rights of the data subject. It is, *inter alia*, a requirement that personal data, whether related to employees or customers, is protected by special safeguards when said data is transferred outside the EU and EEA, for instance, from a franchisee to the franchisor. The act also requires the responsible entities, ‘data controllers’, to register and obtain prior approval from the Danish Data Protection Agency when processing certain types of personal data and also for some data transfers outside the EU and EEA.

So far, special rules regarding cybercrime and notification of government authorities in relation to data breaches have only been adopted for the telecommunications sector.

The Danish E-Commerce Act⁶ contains certain requirements in relation to identification of the trader and a duty to provide information on relevant aspects when purchasing goods or services online, for instance the name of the trader, its physical address and business registration number. In relation to distance sales, a trader must also provide a consumer with a right of cancellation according to the Consumer Contracts Act.⁷

Finally and more generally, a trader, whether a franchisor or a franchisee or other, must comply with the Danish Marketing Practices Act when performing marketing

5 Consolidated Act No. 429/2000 on the Processing of Personal Data.

6 Consolidated Act No. 227/2002 on Services in the Information Society, etc.

7 Consolidated Act No. 1457/2013 on Certain Consumer Contracts.

directed towards the Danish market. The Act requires adherence to the principles of good marketing practices, no use of misleading or undue indications or omission of material information if this is designed to significantly distort consumers' or other traders' economic market behaviour. The Act also applies to advertisements on social media such as the internet if directed towards the Danish market. Furthermore, with respect to advertisements on social media such as the internet, a main principle of the Danish E-Commerce Act stipulates that traders within the EU/EEA offering information society services – meaning commercial services delivered online – are subject to domestic control, thus a trader in a country within the EU/EEA has to comply with the requirements regarding digital marketing in said country, even though the marketing is targeted at other countries within the EU/EEA.

IV FRANCHISE LAW

i Legislation

There is no legislation that makes express provisions for franchising in Denmark. This means that every aspect of franchising is regulated by the general rules of law.

The Danish Contracts Act⁸ and general principles of contract law apply to franchise agreements. The overall principle in Danish contract law is the principle of freedom of contract (i.e., the parties are free to decide the contents of their agreement). However, the drafting (or carrying out) of a franchise agreement may be regulated by various mandatory rules. In particular, certain statutory rules such as the Danish Competition Act,⁹ the Marketing Practices Act, the Business Lease Act,¹⁰ the Product Liability Act¹¹ and the Interest on Overdue Payments Act¹² may restrict the parties' room for manoeuvre.

Among the rules to be considered in the Danish Contracts Act when drafting (or carrying out) a franchise agreement, the general clause in Section 36 is of particular relevance. Section 36 stipulates: 'An agreement may be amended or set aside, in whole or in part, if its enforcement would be unreasonable or contrary to principles of fair conduct. The same applies to other legal transactions.'

Danish courts are reluctant to apply Section 36 on commercial agreements, but it may be applied where there is an evident discrepancy between the parties' bargaining positions.

Where the franchise agreement is silent, the parties' relationship may be regulated by general principles applicable to commercial relationships. Such principles may be found in the Danish Sale of Goods Act¹³ as well as in the Commission Act¹⁴ and the

8 Consolidated Act No. 781/1996 on Contracts and other Juristic Acts pertaining to Property.

9 Consolidated Act No. 869/2015 on Competition.

10 Consolidated Act No. 1714/2010 on Lease of Business Premises.

11 Consolidated Act No. 261/2007 on Product Liability.

12 Consolidated Act No. 459/2014 on Interest etc. on Overdue Payments.

13 Consolidated Act No. 140/2014 on Sale of Goods.

14 Consolidated Act No. 332/2014 on Commission.

Commercial Agents Act.¹⁵ However, the principle regarding payment of compensation for goodwill at termination in the Commercial Agents Act will only apply by analogy in very exceptional cases (see also Section VI.ii, *infra*).

Case law is also a relevant source of law in relation to franchises, especially where an earlier decision has been made in the superior courts. Possible precedents may be found primarily in various law reports. However, not many precedents relating to franchises have been published. This may be because many franchise agreements refer disputes to be settled by arbitration and not by the ordinary courts.

ii Pre-contractual disclosure

There are no specific pre-contractual disclosure requirements in Danish law. Consequently, there are no legal requirements to disclose certain information relating to the franchise prior to entering into the franchise agreement. However, as a general principle, a duty of disclosure arises when reasonable commercial standards of fair dealing require that particular circumstances should be disclosed when entering into an agreement. A misrepresentation prior to entering into a franchise agreement may therefore give rise to an action for breach of the agreement. In a commercial relationship, the parties are also obliged to give information voluntarily if they know or ought to have known that the information is material to the other party.

The basis of liability for contractual damages on account of breach of an agreement is the concept of fault (*culpa*). In addition, liability requires that the non-breaching party has suffered a loss and that there is an adequate causal connection between the breach and the loss. Damages are computed on an expectation basis (i.e., the non-breaching party shall be put in the same position as if the agreement had been performed).

Danish courts are reluctant to award damages for pre-contractual behaviour when no agreement has been entered into. However, the doctrine of *culpa in contrahendo* is recognised as a general principle but only as an exception. As a starting point, pre-contractual liability requires a clear breach of the law in the form of an unfair behaviour or a clear breach of the rules applicable to the contractual process.

Furthermore, the general conditions of liability in terms of loss and adequate causal connection must be fulfilled to impose a pre-contractual liability. Since no agreement has been entered into, damages will be computed based on reliance damages.

iii Registration

There are no registration requirements for franchises in Denmark.

iv Mandatory clauses

There are no mandatory clauses in franchise agreements according to Danish law.

15 Consolidated Act No. 272/1990 on Commercial Agents and Commercial Travellers.

v Guarantees and protection

There is no legislation relating to guarantees made by a franchisee under a franchise agreement, regardless of whether it is provided by a person or a company. A guarantee promise is subject to the rules in the Danish Contracts Act. A guarantee promise is thus binding on the promisor when it has been communicated to the promisee, and it does not require any acceptance from the promisee to be binding. The guarantee commitment as such is subject to the general rule of contractual freedom. Where the guarantee is silent, the reality of the guarantor's obligation must be determined by reference to case law and legal tradition.

Whether the guarantee is enforceable must be evaluated under the general rules on invalid declarations of intent in the Danish Contracts Act. In particular, the general clause in Section 36 may be of relevance (see Section IV.i, *supra*).

V TAX

i Franchisor tax liabilities

The tax system in general

There is no Danish tax code applicable specifically to franchising structures. Hence, the taxation of a franchise in Denmark depends on whether the franchise is subject to personal or corporation tax.

Furthermore, the Danish tax system distinguishes between tax payers domiciled in Denmark and abroad.

Individuals and companies domiciled outside Denmark can be subject to a limited tax liability to Denmark regarding a number of specified income types.

Foreign persons and companies are, however, obviously often subject to tax liability in another jurisdiction as well. To avoid double taxation for limited liable taxpayers, Denmark has entered into a large number of double taxation treaties. Further, Denmark has implemented various EU directives seeking to eliminate double taxation.

Corporation tax

A company is domiciled and subject to full tax liability in Denmark if the company is registered with the Danish Business Authority or if the management of the company has its principle place of business in Denmark.

Companies are subject to 23.5 per cent tax (2015) on income, capital gains, interests, etc. The corporate tax rate will be lowered to 22 per cent in the income year 2016.

Companies can deduct from taxable income expenses incurred when obtaining, ensuring or maintaining the taxable income, though with certain limitations. Additionally, companies can obtain a deduction from amortisation of assets. Finally – with some limitations – losses realised on tax relevant assets, such as debt and real estate, are deductible.

For non-domiciled companies withholding taxes on income from Denmark is particularly relevant. Most importantly Danish withholding taxes may apply to royalties, dividends and interests.

Royalties received from a Danish source are subject to limited tax liability. Thus, Denmark will withhold tax on royalty (e.g., from a Danish franchisee to a foreign franchisor). The withholding tax rate on royalties is 22 per cent (2015).

However, for royalties paid to recipients domiciled in a jurisdiction with which Denmark has entered into a double taxation treaty, the state in which the beneficial owner of the royalty is domiciled has the exclusive right to tax the royalty payment. Additionally, Danish tax on royalties between group-related companies in the EU is normally waived pursuant to the EU Interest and Royalties Directive.

Non-domiciled companies are subject to limited tax liability on dividends at a 27 per cent tax rate (2015). Further, it is noted that an amendment to the law has been proposed, whereby (if passed by the parliament) the general tax rate of 27 per cent will be reduced to 22 per cent on 1 July 2016, whereas the withholding rate will remain at 27 per cent.

Dividends received by non-domiciled companies from Danish subsidiaries are tax exempt if the receiving company would not be taxable pursuant to the EU Parent–Subsidiary Directive or the tax should have been exempt pursuant to a double taxation treaty.

Similarly, dividends received by non-domiciled companies from related Danish companies are exempt if the recipient is domiciled within the EU or EEA and would be tax exempt pursuant to the EU Parent–Subsidiary Directive or the tax should have been (fully or partially) exempt pursuant to a double taxation agreement.

If the dividends are not exempt from withholding taxes, but the receiving entity is resident in a state with which Denmark has concluded a double tax treaty that calls for a lower rate of withholding taxes, tax at the rate of 27 per cent (2015) must generally be withheld, and the receiving entity may subsequently reclaim the excess withholding tax.

Personal tax

An individual is subject to personal tax on employment income. Furthermore, income derived from self-employment is subject to personal tax.

An individual is fully liable to tax in Denmark, if the individual is domiciled in Denmark or has been present in Denmark for a continuous period of at least six months (including short stays abroad in the form of vacations, etc.).

An individual is subject to tax on salary, profits from self-employment, capital gains, interests, dividends, pensions, etc.

For employed individuals the expenses qualifying for a deduction are very limited; hence, for example, certain work-related transport and interest expenses on debt are deductible.

A personal business tax regime is applicable to self-employed individuals to allow for a harmonised taxation of personal businesses and companies. The tax rate applicable to self-employment income under this regime is 23.5 per cent (2015) and will be lowered to 22 per cent in the income year 2016. Operating costs such as salary, rent, travel expenses, insurance, training, etc. are deductible from self-employment income (such deductions may also be obtained outside the tax regime for self-employed individuals).

When self-employment income is extracted from the franchise business by the franchisee for personal use it will be subject to ordinary salary tax with a progressive

net tax rate of up to 56.45 per cent including labour market contribution (2015). The tax already paid on the self-employment income will be credited in the personal tax for the individual.

ii Franchisee tax liabilities

See Section V.i, *supra*.

iii Tax-efficient structures

The structuring of a franchise business in Denmark is generally not driven by tax considerations. Hence, there is no general best practice used specifically for franchises.

Instead the structuring – from a tax point of view – is typically dependent on the specific business drivers for the franchisee, such as the nature of the business, the place of residence, whether the franchise is conducted as an individual concern or partnership or in a corporate form, etc.

VI IMPACT OF GENERAL LAW

i Good faith and guarantees

Danish contract law recognises the principle of good faith. This means that the parties to an agreement are obliged to care for each other's interests and to give each other information that is necessary to mitigate losses, as well as to avoid acting contrary to previous behaviour and to avoid an abuse of rights.

The principle of good faith has not been expressed in any statutory provision, but its existence is presupposed in some statutes, for example in Section 36 of the Danish Contracts Act (see Section IV.i, *supra*).

Unfair actions and omissions as well as actions and omissions carried out in bad faith by a contracting party may give rise to an action for breach of the agreement (see Section IV.ii, *supra*).

ii Agency distributor model

According to Danish law, franchisees are normally treated as independent distributors purchasing and selling goods in their own name and for their own account, and the franchisors are thus acting as suppliers. There are no specific Danish rules on either distribution or franchise agreements.

It is possible to include in the franchise agreement provisions providing for the franchisee to act as a commission agent. It would also be possible to include provisions providing for the franchisee to act as a commercial agent. This would not modify the nature of the franchise agreement as such, but it would constitute an 'agreement within the agreement', which would be governed by the Danish Commission Act or the Commercial Agents Act, as the case may be. It should be emphasised that the Commercial Agents Act is based on an EU Directive that embodies a number of mandatory provisions serving to safeguard the interests of the agent by ensuring certain minimum rights.

In particular, the provisions in the Commercial Agents Act relating to goodwill at termination and minimum notice of termination may not be deviated from to the

detriment of the agent through an agreement stipulating that foreign law shall apply, if the legal relationship would otherwise be governed by the Act. Therefore, if the franchisee acting as an agent has its place of business in Denmark, these provisions will apply regardless of any choice of law clause contained in the franchise agreement (see Section VI.ix, *infra*).

According to published Danish case law, a distributor is only entitled to compensation at termination under very special circumstances. This could be the case if the distributor or dealer, despite fixing its own resale prices and otherwise being responsible for the commercial risks, has not been duly compensated for its investments, etc. at termination; for example, if the duration of the agreement was very short, and if the distributor or dealer also actively transfers the customer records, etc. to the supplier at termination, provided that the identity of the customers is not generally known. In a case before the Danish Supreme Court on 25 April 2000, a terminated dealer was, under very special circumstances, awarded compensation in the amount of 200,000 Danish kroner. In the ruling the Danish Supreme Court clearly stated that under normal circumstances an independent distributor or dealer will not be entitled to any compensation upon termination of the distributorship or dealership. However, in this specific case the Danish Supreme Court awarded the terminated dealer the compensation mentioned with reference to the fact that the termination of the dealership had taken place with no reasonable explanation and without taking the dealer's interests into consideration (very disloyal behaviour towards the terminated dealer), and with reference to the fact that the terminating supplier in question had taken over the customer base built up by the dealer, thereby preventing the dealer from being duly compensated for its investments in marketing, etc.

iii Employment law

According to Danish law, a franchisee is generally considered as a separate and independent business partner to the franchisor. However, depending on the intensity of the parties' cooperation and provided that the franchisee is a natural person, the franchise relationship may be qualified as a camouflaged employment relationship governed by general principles of employment law, whereby the franchisee is considered similar to an employee, as the weaker party in need of protection. There is also a risk that mandatory rules such as the Danish Salaried Employees Act¹⁶ will apply, as well as statutory tax law relating to employment relationships.

Whether the franchise relationship is to be considered as a camouflaged employment relationship depends on an overall assessment of the circumstances of the case, including the wording of the franchise agreement and the parties' execution thereof. Among the factors to be considered is the extent to which the franchisee may manage its own hours, the extent to which the franchisee is taking on a financial risk by paying for the business premises and any employees, whether the remuneration to the franchisee is determined by the franchisee's performance or the time spent, etc.

16 Consolidated Act No. 81/2009 on the Legal Relationship between Employers and Salaried Employees.

iv Consumer protection

When entering into a franchise agreement the franchisee is considered to act in the course of business, and the franchisee will therefore not be treated as a consumer in accordance with any of the Danish laws concerning consumer protection.

However, the parties' position of strength may be of relevance in relation to Section 36 in the Danish Contracts Act (see Section IV.i, *supra*).

v Competition law

The Danish competition rules, which are found in the Danish Competition Act and executive orders issued on the basis of the Act, are in all relevant aspects identical to the EU competition rules. In particular, the European Commission's Block Exemption Regulation for vertical agreements has been incorporated into Danish law.

This means that issues of exclusivity, pricing, product ties, e-commerce and full-line forcing are treated in the same way under Danish law as under EU competition law.

vi Restrictive covenants

The Danish competition rules are in all relevant aspects identical to the EU competition rules, and non-compete obligations are therefore treated in the same way under Danish law as under EU competition law.

Accordingly, a non-compete obligation relating to the products or services purchased by a franchisee is permitted for the duration of the franchise agreement, provided that the obligation is necessary to maintain the common identity and reputation of the franchised network.

vii Termination

Danish law does not require a minimum period of notice for the parties to terminate a franchise agreement made for an indefinite term and the parties are free to agree the period of notice. If a short period of notice has been agreed, the courts may in rare circumstances establish a reasonable period of notice by applying Section 36 in the Danish Contracts Act (see Section IV.i, *supra*).

If no period of notice has been agreed, a franchise agreement made for an indefinite term may be terminated with a reasonable period of notice taking all circumstance into consideration, including the duration of the franchise relationship. A period of notice of six months is normally considered reasonable, including in situations in which the parties' relationship has lasted for several years (also, according to case law, if it has lasted over 20 years).

It is the starting point under Danish law that a franchisee is not entitled to compensation for goodwill at termination following an adequate term of notice. However, Danish courts have in some cases allowed a distributor such compensation but only in cases offering very special circumstances (see Section VI.ii, *supra*).

The Danish competition rules are in all relevant aspects identical to the EU competition rules, and post-term non-compete obligations are therefore treated in the same way under Danish law as under EU competition law. Accordingly, post-contractual non-compete obligations in franchise agreements related to products or services that compete with the products and services covered by the franchise agreement are permissible

for a maximum period of one year after termination of the agreement, provided that the non-compete obligation is indispensable to protect know-how transferred by the franchisor to the franchisee and is limited to the point of sale from which the franchisee has operated during the contract period.

The right for the franchisor to take over the franchisee's business upon termination should be regulated in the franchise agreement. If nothing has been agreed, Danish law predicts that neither party has a right or a duty to take over the other party's rights and obligations under the agreement.

viii Anti-corruption and anti-terrorism regulation

Fraud

The Danish Criminal Code¹⁷ deals with different types of fraudulent behaviour and actions, including embezzlement, deceit, fraud against creditors, breach of fiduciary duties, breach of trust, including providing the authorities with false or misleading information concerning a company's accounts.

There is no strict liability under the Danish Criminal Code. As a general rule, criminal liability requires the intention to commit a criminal fraudulent act for the purpose of gain that causes a corresponding loss to the victim.

Bribery

According to the Danish Criminal Code both active and passive bribery is prohibited.

Active bribery means any person who unlawfully grants, promises or offers another person exercising a Danish, foreign or international public office or function a gift or other privilege to induce him or her to do or fail to do anything in relation to his or her official duties.

Passive bribery means any person who, while exercising a Danish, foreign or international public office or function, unlawfully receives, demands or accepts the promise of a gift or other privilege.

Facilitation payments and kickbacks are also prohibited.

Directors and employees of a company may also under certain circumstances be found personally liable for acts of the company.

17 Consolidated Act No. 873/2015 on Criminal Law.

Money laundering

The Danish Act on Money Laundering¹⁸ is based on an EU directive.¹⁹

Money laundering is defined as any of the following:

- a* accepting or acquiring for oneself or others a share in profits, which is obtained by a criminal act in violation of the law;
- b* concealing, keeping, transporting, assisting in the disposal of or, in a similar manner, ensuring for the benefit of another person, the profits of a criminal act in violation of the law; and
- c* attempting or participating in either of the above actions.

Companies may under certain circumstances be found liable for acts committed by a third party, if that third party in some ways is connected to or is representing the company. Consequently, a franchisor may be found liable for fraud, bribery and money laundering committed by a franchisee or the employees of the franchisee.

For this reason it is recommended that the franchisee agrees to comply with the franchisor's internal guidelines, code of conduct, etc.; such proper adequate procedures can be used as a defence for the franchisor against liability for acts committed by the franchisee or the employees of the franchisee.

ix Dispute resolution

With regard to issues relating to jurisdiction, the 1968 Brussels Convention, the 2007 Lugano Convention and Regulation 1215/2012 apply in Denmark. This means that when entering into an agreement the parties are free to agree on the choice of forum. Many franchise agreements refer disputes to be settled by arbitration and not by the ordinary courts. It is also possible to agree on mediation as a form of dispute resolution. With regard to jurisdiction outside the ambit of these rules, international jurisdiction of Danish courts is based on a number of provisions in the Danish Administration of Justice Act²⁰ and the starting point is that the defendant must have home court in Denmark.

Regarding choice of law, the 1980 Rome Convention applies in Denmark (not the Rome I Regulation (593/2008) because of Denmark's reservations to the EC Treaty). Consequently, the parties are free to agree on the law that shall govern their agreement. To the extent that no valid choice of law has been made by the parties, the starting point is that the agreement shall be governed by the law of the country with which it is 'most closely connected'. According to the basic presumption, the closest connection

18 Consolidated Act No. 1022/2013 on Measures to Prevent Money Laundering and Financing of Terrorism.

19 Directive 2005/60/EC of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The Member States shall implement the new anti-money laundering directive (Directive (EU) 2015/849 of 20 May 2015) by 26 June 2017.

20 Latest version (as of 9 December 2014): Consolidated Act No. 1308/2014 (continuously updated) on Administration of Justice.

is to be found in the country where the party who is to effect the performance that is 'characteristic of the agreement' has his or her habitual residence or, in the case of a company, its central administration.

It is generally considered in relation to franchise agreements that the franchisor is to effect the performance that is characteristic of the agreement, consisting of the franchise concept, the right to use the franchisor's business names, trademarks and know-how and in some cases also patent rights, which shall be provided to the franchisee against payment of remuneration. Nevertheless, there are many indications that the franchise agreement shall be considered to have its closest connection to the country in which the franchisee is to make use of these rights. There is no relevant Danish case law dealing with these issues.

It is possible to obtain a court injunction, including a preliminary injunction, ordering a former franchisee to refrain from trading in breach of a non-compete provision, or from using the franchisor's trademarks or other intellectual property rights (see also Section III.iii, *supra*).

As a starting point, damages for breach of contract (and misrepresentation) are calculated on an expectation basis (i.e., the non-breaching party shall be put in the same position as if the agreement had been performed).

The party 'losing' the case will normally be ordered to effect reimbursement to the other party of the costs incurred by the latter in connection with the case (court fees, legal fees, etc.). In principle, the fees of legal professionals are not regulated. However, the High Court has laid down publicly accessible guidance rates for some fees, which are usually followed by the court. The amount to be reimbursed by the losing party according to these guidance rates will normally not cover the actual legal fees for conducting the case.

Foreign judgments against Danish citizens may be enforced in accordance with the rules in the 1968 Brussels Convention and the Lugano Convention, as well as EU Regulation 44/2001. If neither of these rules is applicable, the starting point is that foreign judgments are not recognised and that they cannot be enforced in Denmark. With respect to arbitration awards, Denmark has acceded to the 1958 New York Convention and, according to the Danish Arbitration Act,²¹ Danish courts recognise foreign arbitral awards, irrespective of the country in which they were made. Recognition and enforcement may, however, be rejected on grounds of public policy, etc.

21 Consolidated Act No. 553/2005 on Arbitration.

Appendix 1

ABOUT THE AUTHORS

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Jacob Ørskov Rasmussen is the head of Plesner's commercial contracts team and has years of experience in advising Danish and international clients on contractual relationships, both nationally and internationally.

Jacob has acquired in-depth knowledge of and experience in a broad spectrum of commercial contract types, including sales and distribution agreements, agency agreements, franchise agreements, logistics and warehousing agreements, facility management agreements, supplier agreements and supply agreements and purchasing contracts.

The car industry is one of Jacob's special areas of expertise and he heads Plesner's automotive team. His clients include car factories and factory-owned and private car importers, as well as banks and finance companies.

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