

Unfair Trade Practices in Franchise Business

Franchisors, amongst others, are prohibited from conducting any "unfair trade practices" that can cause damages to their franchisees under Section 57 of the Trade Competition Act B.E. 2560 ("TCA"). To implement Section 57 of the TCA, for franchise business, the Trade Competition Commission issued its Notification on Guidelines for Consideration of Unfair Trade Practices in Franchise Business ("Notification") dated 30th October 2019. The Notification was published in the Government Gazette on 6th December 2019 and became effective from 5th February 2020. The major guidelines set out in the Notification are as follows:

1. Disclosure of Information. Before entering into a franchise agreement ("FA"), the franchisor must disclose to the franchisee the following information about the business activities of the franchisor:

- (1) the remunerations and business costs payable by the franchisee, such as the franchise fee, the royalty fee, the marketing expenses and the training costs;
- (2) the franchise business plan, such as management assistance, training, advice, number and locations of franchisees located in the neighborhood of the franchisee;
- (3) the essential information about the relevant trademark rights, patents and copyrights and their license terms;
- (4) the terms and conditions for renewal, amendment and termination of the FA.

2. Opening a Branch to Compete with Franchisee. If the franchisor will open and operate a branch by itself, the franchisor must notify its franchisee whose branch is located in the nearest area and offer such franchisee the right of first refusal with a reasonable period of time for the franchisee to respond to the offer.

3. Trade Practices Unfair and Damaging to Franchisee. To consider whether or not the franchisor's practice is unfair and damaging to the franchisee, the TCA will consider the followings:

- (1) Unreasonable restrictions against the rights of the franchisee, such as requiring the franchisee to purchase from the franchisor or a producer, seller or service provider designated by the franchisor the products or services that are not related to the franchise or purchase the products or raw materials at the volume higher than the actual demand without allowing the franchisee to return the products or raw materials that exceed the demand.
- (2) Stipulating additional terms and conditions for the franchisee to purchase the products or services other than those originally specified in the FA after the execution date of the FA, except

in case where there is an appropriate business reason or necessity for the franchisor to maintain its reputation, quality and business standards.

(3) Unreasonably prohibiting the franchisee from purchasing products or services from other producers, sellers or service providers, who offer products or services of equivalent quality at a cheaper price, and requiring the franchisee to purchase them only from the franchisor and/or producers, sellers or service providers designated by the franchisor.

(4) Unreasonably prohibiting the franchisee from selling perishable products or products the expiry dates of which are approaching without any discount.

(5) Unreasonably stipulating different terms and conditions for different franchisees leading to a trade discrimination practice.

(6) Stipulating any other inappropriate terms and conditions for purposes other than maintaining the franchisor's reputation, quality and standards as agreed under the FA.

As the scope of the “unfair trade practices” under the Notification is very broad, it is likely that in the future more franchisees will file claims with the TCA and/or court against franchisors on the grounds of unfair trade practices.



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AUTHOR



Kowit Somwaiya
Managing Partner | **Bangkok**
kowit.somwaiya@lawplusltd.com



Usa Ua-areetham
Partner | **Bangkok**
usa.ua-areetham@lawplusltd.com

LawPlus Ltd.

Unit 1401, 14th Floor, Abdulrahim Place 990

Rama IV Road, Bangkok 10500, Thailand

Tel: +662 636 0662

Fax: +662 636 0663

LawPlus Myanmar Ltd.

Unit No. 520, 5th Floor, Hledan Centre

Corner of Pyay Road and Hledan Road, Kamayut Township,

Yangon, Myanmar

Tel: +95 (0)92 6111 7006

and +95 (0)92 6098 9752