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UPDATE: FRANCHISING IN BRAZIL

Kitty McGahey*

I. INTRODUCTION

BRAZIL has a well-established franchise market and a strong economy—the strongest in South America.¹ Its economy is characterized by, among other things, a well-developed services sector and a low unemployment rate.² The franchise market, considered one of the world’s largest and most sophisticated,³ has in recent years consistently grown faster than the overall Brazilian economy.⁴ The downside is that foreign franchisors face serious competition from established domestic products; local franchisors hold approximately 90 percent of the market.⁵ But, the upside is a mature consumer base accustomed to and prepared for franchise products.⁶ Foreign franchisors, especially from the United States, are gaining traction in Brazil.⁷

This update outlines the requirements under Brazilian law for establishing a franchise agreement. It also highlights a couple other considerations when establishing a franchise in Brazil: the benefits of arbitration

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1. Brazil is a federal republic governed by civil law; the official language is Portuguese. CENT. INTELLIGENCE AGENCY, *Brazil*, THE WORLD FACTBOOK, <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html> (last updated Feb. 26, 2014).
2. *Id.*
3. PAULO RODRIGUES, U.S. COMMERCIAL SERV., *BRAZIL: FRANCHISING* (2011); see also BRAZILIAN FRANCHISE ASSOCIATION, *ECONOMIC IMPACT IN BRAZIL REACHES NEW HEIGHTS IN 2010* (2011) available at <http://www.franchise.org/uploadedFiles/Economic%20Impact%20in%20Brazil%20Reaches%20New%20Heights%20in%202010.pdf>.
4. Kristin Houston, *U.S. Commercial Service to Franchisors: Seize the Trends and Grow Globally*, FRANCHISING WORLD, Mar. 2011, at 15, available at <http://www.franchise.org/Franchise-Industry-News-Detail.aspx?id=53749>; see also MFV Franchise Expo., *The Brazilian Political-Economic Scenario and the Reflexes in the Growth of the Franchise Market*, NASDAQ (Mar. 28, 2013), <http://www.nasdaq.com/article/the-brazilian-politiceconomic-scenario-and-the-reflexes-in-the-growth-of-the-franchise-market-cm231758>.
5. RODRIGUES, *supra* note 3.
6. In addition, the number of young Brazilians (ages eighteen to twenty-four) “who became entrepreneurs . . . rose 74 percent between 2002 and 2010.” *Franchises in Brazil*, EZ BRAZIL (Nov. 6, 2012), <http://ezbrazil.com/franchises-in-brazil/>.
7. Houston, *supra* note 4.

for Brazilian franchise agreements and the presence of a strong national franchise association.

II. REQUIREMENTS

A. DISCLOSURE LAW

Brazil has an established body of franchise law (“Franchise Law”), unlike most South American countries.⁸ Common Law No. 8955 of December 14, 1994 is a pure disclosure law, with no specific registration requirements,⁹ and applies to any franchise system installed or operated in Brazil.¹⁰ Under the law, a franchisor is required to deliver to a prospective franchisee a written disclosure at least ten days prior to the execution of a franchise agreement or payment of any fee.¹¹ The franchise agreement is also regulated under the intellectual property law which does have specific registration requirements, as discussed below.¹²

A franchise is defined as a system, which is not characterized as employment,¹³ in which “franchisors grant franchisees . . . the right to use a trademark or patent . . . in exchange for . . . direct or indirect remuneration.”¹⁴ The system includes “exclusive or semi-exclusive distribution rights for products or services” and may also include the right to use business deployment and administration technology, or operating systems developed by the franchisor.¹⁵ The term franchisor includes a sub-franchisor, such as a master franchisee.¹⁶ Because a master franchisee’s primary role is to build and support a network of franchises within the country, or a region of the country, the master franchisee is, in effect, a

8. See Mary-Ellen Wayne, Review, *The Five Stones: Bill 15, The Franchises Act*, 35 *MAN. L.J.* 135, 159 (2012) (listing franchise laws in the South American countries of Brazil and Venezuela).
9. Lei No. 8.955 de 15 de Dezembro de 1994 [Law No. 8.955 of December 15, 1994], *DIÁRIO OFICIAL DA UNIÃO* [D.O.U.] de 16.12.1994 (Braz.), available at http://www.planalto.gov.br/ccivil_03/Leis/L8955.htm.
10. *Id.* art. 8.
11. *Id.* art. 3–4.
12. Lei No. 9.279 de 14 de Maio de 1996 [Law No. 9.279 of May 14, 1996], *DIÁRIO OFICIAL DA UNIÃO* [D.O.U.] de 14.5.1996 (Braz.), available at http://www.planalto.gov.br/ccivil_03/Leis/L9279.htm.
13. An employee is one in a position of subordination who continuously renders service to the employer for a wage. The characteristics of an employment relationship are: individual (work is performed solely by employee), continuous (i.e. not occasional), compensation (for services rendered), and subordinate. Subordination is the critical characteristic, however, and is determined by how the relationship of the parties develops in the regular course of business. The individual is subordinate to an employer when the employer instructs the individual in how to do the work, directs and supervises the work, including how and when the work is to be performed, and has the ability to penalize the individual for non-compliance. RENÉ GELMAN & RODRIGO D’AVILA MARIANO, *Brazil, in GETTING THE DEAL THOUGH - FRANCHISE 2013* 25, 27 (Philip F. Zeidman, et al. eds., 2013), available at <http://www.franchise.org/uploadedFiles/F2013%20Brazil.pdf>.
14. *Id.*
15. *Id.*; see also Law No. 8955 of December 15, 1994, art. 2.
16. *Id.* art. 9.

franchisor in its region.¹⁷ The sub-franchisor is, therefore, subject to the same disclosure requirements as the franchisor.

The franchisor must prepare a written franchise offering circular, or franchise disclosure document (FDD), that is in clear and accessible language.¹⁸ The FDD must contain the following fifteen items:¹⁹

1. The complete name of the franchisor and all related companies, as well as respective trade names; addresses for each named company; the business form; and a brief history;
2. Financial statements and balance sheets for the past two years;²⁰
3. Precise description of all pending litigation, worldwide, related to the franchise system which may affect the continuation of the franchise business. This includes suits involving the franchisor, related companies such as controlling companies or sub-franchisors, and owners of licensed trademarks, patents, and copyrights;²¹
4. Detailed description of the franchise with a general description of the business activities to be performed by the franchisee;
5. Detailed description of the “ideal franchisee,” including education and experience, as well as mandatory and preferred characteristics;
6. Requirements for the franchisee’s direct involvement in the operation and administration of the business;
7. Total estimated initial investment for acquisition, installation, and startup of franchise operations; amount of initial fees (membership, affiliation, franchise fee, security deposit, guaranty, etc.); estimated value of the premises, equipment, and initial stock; and payment terms;
8. Clear information on any periodic fees or other amounts payable by the franchisee to the franchisor or a third party, with a description of the rights, products, or services for which the fees are paid. The information must include any relevant calculations or formulae, and specifically indicate:
 - o Royalties—periodic compensation for use of the system, the trademark, or services provided by the franchisor;
 - o Equipment rental or lease of premises;

17. See Catherine A. Riesterer, *Structuring the Contractual Relationship*, in *FUNDAMENTALS OF INTERNATIONAL FRANCHISING* 37, 48 (Richard M Asbill & Steven M. Goldman, eds., 2001).

18. Law No. 8.955 of December 15, 1994, art 3.

19. See Law No. 8.955 of December 15, 1994, art 3.

20. There is no requirement in the law for the financial statements to be audited. See *id.* at art 3(II); LUIZ HENRIQUE DO AMARAL, CÂNDIDA RIBEIRO CAFFÉ & CAMILA COSTA DE CASTRO SILVA, *BRAZILIAN FRANCHISE ASSOCIATION, GUIDELINES FOR THE RECORDAL OF FRANCHISE AGREEMENTS IN BRAZIL 3* (2011) [hereinafter *GUIDELINES*].

21. Examples include breach of contract claims by former franchisees, claims that the franchise relationship is a fraud or a labor relationship, claims of intellectual property infringement, or bankruptcy proceedings against the franchisor. *GUIDELINES, supra* note 20, at 3.

- o Advertising fee, or any similar payment;
 - o Minimum insurance, and any other amounts owed that are linked to it;
9. Complete list of all franchisees, sub-franchisees, and sub-franchisors, including any that left the system within the last twelve months, with name, address, and phone number;
 10. Whether the franchisee is guaranteed exclusivity or right of first refusal in any particular territory or activity and, if so, under what conditions; whether the franchisee will have the right to sell products or provide services outside its territory or outside of Brazil;
 11. Detailed information regarding franchisee's requirement to purchase goods, services, or materials deemed necessary for establishment, operation, or management of the franchise from suppliers designated and approved by the franchisor, including a complete list of those suppliers;
 12. Description of products and services offered by the franchisor to the franchisee with respect to:
 - o Supervision of the chain;
 - o Orientation or guidance in how to operate the business, and other services to the franchisee;
 - o Franchisee training, including content, duration, and cost;
 - o Training of franchisee's employees;
 - o Franchise manuals;
 - o Assistance with analysis and selection of location for franchise;
 - o Layout and architectural plans for the facility;
 13. Status of National Institute of Industrial Property (INPI) registration for any trademarks or patents franchisee will be authorized to use;
 14. Existence of post-agreement non-disclosure requirements for trade secrets or business knowledge the franchisee will have access to during the operation of the franchise, as well as post-agreement non-compete requirements;
 15. Model standard franchise agreement and a standard preliminary franchise agreement,²² if applicable, with full text, including exhibits and expiration dates.

The franchisor must deliver the FDD to the prospective franchisee at least ten days prior to signing either a preliminary or final franchise agreement, or receiving any fee payment.²³ There is no requirement in

22. It is not unusual to execute a preliminary franchise agreement even before the franchisee's legal entity is formed. After the entity is formed, the preliminary agreement is replaced with the final franchise agreement, executed with the newly formed entity. GELMAN & MARIANO, *supra* note 13, at 29.

23. *Id.* art. 4 (discussing that after initial disclosure, there is no requirement to provide ongoing disclosures).

the Franchise Law that the document be in Portuguese.²⁴ If the franchisor does not allow the franchisee the ten-day evaluation period, any contract that is signed is voidable by the franchisee and all sums²⁵ paid by the franchisee must be returned.²⁶ The franchisee may also be entitled to damages.²⁷ In addition, if any information in the FDD is false, criminal sanctions may also apply.²⁸

The Franchise Law is purely a disclosure law, i.e., it does not contain any relationship provisions.²⁹ There is no requirement for on-going disclosure, only to deal in good faith.³⁰ All other aspects of the franchisor-franchisee relationship are governed by principles of both contract law and civil law.³¹ For example, there are no specific clauses governing the termination of the franchise agreement; instead, “in general, the Civil Code allows either party to terminate [the] contract upon breach by the other party.”³² And, under Brazilian law, no one is obligated to remain in a contract relationship with someone else.³³ Under the principles of contract law, the parties are free to negotiate the renewal and termination terms as they see fit.³⁴

B. REGISTRATION

Although the Franchise Law is a pure disclosure law, there are three registration and recording requirements to complete the franchise agreement.³⁵ First, the intellectual property—trademark or patent—that is licensed in the franchise agreement must be properly registered with the

24. Because the law does require the FDD be in clear and comprehensible language, it is a best practice to either deliver the document in Portuguese or have the prospective franchisee execute and acknowledgement that the signatories are fluent in the language in which the FDD is written. See Luiz Henrique O. Do Amaral, Moshe B. Sendacz & Eduardo Turkienicz, *Brazil*, in *INTERNATIONAL FRANCHISE SALES LAWS 18* (Andrew P. Loewinger & Michael K. Lindsey, eds., 2006).

25. Sums are adjusted for inflation based on the interest rate of official savings accounts during the period. See *id.*; see also GELMAN & MARIANO, *supra* note 13, at 29.

26. Law No. 8.955 of December 15, 1994, art. 4.

27. *Id.* Damages can include compensatory, consequential (lost profits), and “moral damages” (an equivalent to pain and suffering). While punitive damages are not specifically allowed, courts have discretion to adjust moral damages to account for “bad behavior.” GELMAN & MARIANO, *supra* note 13, at 30.

28. *Id.* art 7.

29. See generally Law No. 8.955 of December 15, 1994.

30. *Id.*

31. *Id.*; see also Amaral et al., *supra* note 24, at 18 (“The terms of the contract and the relationship between the Franchisor and Franchisee may be freely stipulated by the parties . . .”).

32. GELMAN & MARIANO, *supra* note 13, at 30.

33. See *id.* (“Brazilian law does not impose specific limitations on a franchisor’s ability to terminate a franchise relationship; nor does it list specific event in which it may occur.”).

34. See *id.* at 31.

35. There are other registrations that may be required under Brazilian law. For example, the transfer of real estate must be registered with the Real Estate Registry for the jurisdiction. *Id.* at 27. This update addresses only the registrations necessary to properly put a franchise agreement in place. As always, consultation with local counsel is advised.

INPI.³⁶ Second, the franchise agreement itself must be recorded with the INPI.³⁷ Finally, the franchise agreement must be registered with the Central Bank of Brazil.³⁸

1. Registration and Protection of Trademark³⁹

Any trademarks that will be part of the franchise agreement must be registered with the INPI, Brazil's patent and trademark office, in order to be valid and the rights enforceable.⁴⁰ An application consists of a filing request, prints of the mark, and proof that the applicable fees have been paid.⁴¹ The original application does not have to be in Portuguese, but a translation must be submitted within 60 days of filing.⁴² A foreign applicant must appoint a qualified Brazilian agent and the agent must be retained during the entire registration process.⁴³ The power of attorney for the agent also must be filed, in Portuguese, within 60 days.⁴⁴ The agent will represent the applicant both administratively and judicially.⁴⁵

Registrations are valid for ten years and renewable for subsequent ten-year periods during the last year of the current registration.⁴⁶ There is an automatic six month grace period, however, upon expiration of the registration period, subject to a fee surcharge.⁴⁷ Brazilian law does not require use in order to file, nor does it require continued use to maintain the registration.⁴⁸ But, a registration may be subject to cancellation for non-use if the mark is not used within five years, or if it is not used for any five consecutive years during the registration period.⁴⁹ A request for cancellation may be brought by any person having a legitimate interest, which can include the INPI.⁵⁰ The owner will maintain the registration, however, if it can provide legitimate reasons for the lack of use.⁵¹

Brazil is a contracting party to the Paris Convention which provides priority and protection for international marks.⁵² Under the Paris Con-

36. *Id.* at 30.

37. *Id.*

38. *Id.*

39. Because a franchise system usually involves trademarks as opposed to patents, a discussion of Brazilian patent law is beyond the scope of this article.

40. *See generally* Lei No. 9.279 de 14 de Maio de 1996 [Law No. 9.279 of May 14, 1996], DIÁRIO OFICIAL DA UNIÃO [D.O.U.] de 14.5.1996 (Braz.).

41. *Id.* art. 155.

42. *Id.*

43. *Id.* art. 217.

44. *Id.* art. 216.

45. *Id.* art. 217.

46. *Id.* art. 133(1).

47. *Id.* art. 133(2).

48. *Id.* art. 133.

49. *Id.* at art. 143.

50. *Id.*; *see also* BRA-6 ETHAN HORWITZ, WORLD TRADEMARK LAW & PRACTICE § 6.05 (Mathew Bender, Rev. Ed. 2012) (discussing non-use cancellation).

51. Lei No. 9.279 de 14 de Maio de 1996 [Law No. 9.279 of May 14, 1996], DIÁRIO OFICIAL DA UNIÃO [D.O.U.] de 14.5.1996 art. 143 (Braz.).

52. *See* Paris Convention for the Protection of Industrial Property arts 1, 4, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305, *available at* http://www.wipo.int/treaties/en/text.jsp?file_id=287556 [hereinafter Paris Convention]. Brazil became a con-

vention, the owner of a foreign mark, registered in a member country, can apply for protection of its mark in any other member country.⁵³ For example, if the Brazilian application is made within six months of the original foreign application for registration, the Brazilian application will be treated as if it was filed on the same day as the foreign application.⁵⁴ Especially important for foreign franchisors, the Paris Convention also provides protection for well-known marks.⁵⁵ When a mark is well-known in a member country, regardless of whether it is registered or even used in that country, no conflicting mark can be registered in that country. The owner of a well-known mark can challenge a registration and, under the Paris Convention, the conflicting registration must be denied or cancelled. This applies when the conflicting mark is used, registered, or filed for identical or similar goods.⁵⁶

Intellectual property protection is also available through the World Trade Organization (WTO). Brazil became a member of the WTO on January 1, 1995.⁵⁷ Membership in the WTO carries with it compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).⁵⁸ TRIPS is the product of the Uruguay Round of WTO negotiations and was signed in April of 1994.⁵⁹ There are three main parts to TRIPS: standards, enforcement, and dispute resolution.⁶⁰ The parties took—as a starting point—the main conventions of the World Intellectual Property Organization (WIPO): the Paris Convention and the Berne Convention. All of the substantive obligations of those conventions are incorporated by reference into TRIPS, which then goes on to add additional obligations to complete the standards section. The set of enforcement provisions defines general principles for domestic enforcement procedures for all members. It specifies with a degree of detail the civil, administrative, and criminal procedures and remedies that must be available to intellectual property owners. And finally, TRIPS-related dis-

tracting party to the Paris Convention on July 7, 1884. The United States became a contracting party on May 30, 1887. See *Contracting Parties*, WORLD INTELLECTUAL PROP. ORG., <http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/paris.pdf>.

53. Paris Convention, *supra* note 52, art. 4.

54. *Id.*; see also WIPO INTELLECTUAL PROPERTY HANDBOOK 243 (2d ed. 2004), available at http://www.wipo.int/export/sites/www/freepublications/en/intproperty/489/wipo_pub_489.pdf [hereinafter HANDBOOK].

55. Paris Convention, *supra* note 52, art. 6bis.

56. HANDBOOK, *supra* note 54, at 252; see also Law No. 9279 of May 14, 1996, art. 126.

57. *Members and Observers*, WORLD TRADE ORG. [WTO] (Mar. 2, 2013), http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm. The United States of America became a WTO member on the same date. *Id.*

58. *Trade-Related Aspects of Intellectual Property Rights*, WTO, http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm (last visited Mar. 6, 2014) (“The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization signed in Marrakesh, Morocco on 15 April 1994.”).

59. *WTO Legal Texts*, WTO, http://www.wto.org/english/docs_e/legal_e/legal_e.htm (last visited Mar. 6, 2014).

60. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994).

putes between WTO members are subject to the settlement procedures of the WTO.⁶¹

2. INPI Recordation of the Franchise Agreement

Recording the franchise agreement with the INPI is not required, but is highly recommended.⁶² Recordation enables the agreement to be enforceable against third parties, allows for tax deductions, and permits payments to be remitted to the foreign franchisor.⁶³ In addition, it serves as prima facie evidence of Brazilian antitrust compliance.⁶⁴ Either the foreign franchisor or the local franchisee must file the following documents:⁶⁵

- Franchise Agreement: The original and two certified copies along with a Portuguese translation. The agreement must be executed by all parties indicating the place and date of execution. Two witnesses are required for filing; parties' and witnesses' initials must be on each page. If the franchise agreement is executed outside of Brazil, it must be signed before a notary public and legalized at a Brazilian Consulate. The full name and title of all representatives is required and, if any representative is an attorney, a duly notarized and legalized power of attorney must also be included.
- INPI Forms as specified on its website⁶⁶ accompanied by a cover letter.⁶⁷
- Statement of Delivery: A document executed by the franchisee at least ten days before the execution of the Franchise Agreement or the payment of any fees indicating that the franchisee received the required FDD in accordance with the Franchise Law.⁶⁸

61. Overview: *The TRIPS Agreement*, WTO, http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last visited Mar. 6, 2014).

62. See *Guia Básico—Contratos de Tecnologia [Basic Guide—Technology Contracts]*, INPI (Oct 3, 2013, 3:22 PM), http://www.inpi.gov.br/portal/artigo/guia_basico_contratos_de_tecnologia [hereinafter *Basic Guide*].

63. *Id.* Limitations on remittances are controlled by Regulation No. 436/58, and “vary between 1 percent and 5 percent . . . depending on the field.” GUIDELINES, *supra* note 20, at 5.

64. Cândida Ribeiro Caffé, *Franchising in Brazil*, FRANCHISING WORLD, Mar. 2008, at 28, available at <http://www.franchise.org/franchise-news-detail.aspx?id=38426>. The INPI has the authority to identify potential antitrust violations in intellectual property contracts. *Id.*

65. GUIDELINES, *supra* note 20, at 7; Caffé, *supra* note 64, at 30–31; *Documentos Necessários [Necessary Documents]*, INPI, http://www.inpi.gov.br/images/docs/documentos_necessarios_cgtec.pdf (last visited Mar. 6, 2013) (discussing Franchise Law documentation requirements).

66. See *Downloads de Formulários para Pedidos Protocolados em Papel no INPI [Downloads of Forms for Paper Claims Filed with the INPI]*, INPI, http://www.inpi.gov.br/portal/artigo/downloads_de_formularios_para_pedidos_protocolados_em_papel_no_inpi (last updated Feb. 11, 2014) (listing forms required to comply with the Franchise Law).

67. See *Necessary Documents*, *supra* note 65 (discussing cover letter requirements).

68. GUIDELINES, *supra* note 20, at 7.

- Power of Attorney for registered agent. This document does not have to be legalized by the Brazilian Consulate for agreements executed outside of Brazil.

The FDD, itself, is not required for recordation, only a Statement of Delivery. This is important because the recordation documents are part of the public record, but the FDD remains private. The Statement should include a declaration by the franchisee that the FDD was received in accordance with the Franchise Law.⁶⁹

By law, the INPI has thirty days to issue a decision regarding the recordation.⁷⁰ Sources report, however, that the process can take longer.⁷¹ The examination focuses on the validity and identification of the trademarks, the applicable rate for tax deductibility, and remittances.⁷² Once the documents are accepted by the INPI, it will issue a Certificate of Recordal that will be valid as of the date of filing.⁷³ Remittances are allowed as of this date, but not before.⁷⁴

3. Central Bank of Brazil

Brazil has a strong central bank that requires approval prior to remittances of foreign currency abroad.⁷⁵ The recorded franchise agreement must be filed with the Central Bank of Brazil before the foreign franchisor can receive payments from the Brazilian franchisee.⁷⁶ Unlike the INPI recordal process, this registration is simple and is usually completed in about two days.⁷⁷ All remittances abroad require registration with the Bureau of Currency and Credit (SUMOC) and proof of income tax payment.⁷⁸ Note, however, that the United States and Brazil do not have a treaty in place against double taxation.⁷⁹

69. GUIDELINES, *supra* note 20, at 3.

70. Lei No. 9.279 de 14 de Maio de 1996 [Law No. 9.279 of May 14, 1996], DIÁRIO OFICIAL DA UNIÃO [D.O.U.] de 14.5.1996 art. 211 (Braz.).

71. Caffé, *supra* note 64, at 30; GUIDELINES, *supra* note 20, at 6.

72. See Caffé, *supra* note 64; GUIDELINES, *supra* note 20, at 5.

73. GUIDELINES, *supra* note 20, at 6.

74. *Id.* There is an exception for Agreements presented within sixty days of execution. In this case, the Certificate is valid from the execution date. *Id.*

75. Joyce Mazero, *Impact of Other Local Laws, in* FUNDAMENTALS OF INTERNATIONAL FRANCHISING 216, 224 (Richard M. Asbill & Steven M. Goldman, eds., 2001).

76. Lei No. 4.31 de Setembro de 1962 [Law No. 4.131 of September 3, 1962], DIÁRIO OFICIAL DA UNIÃO [D.O.U.] de 3.9.1962 art. 11 (Braz.), available at http://www.planalto.gov.br/ccivil_03/Leis/L4131.htm; Mazero, *supra* note 75, at 223.

77. GUIDELINES, *supra* note 20, at 6.

78. Law No. 4.131 of September 3, 1962, art. 9 § 1.

79. *United States Income Tax Treaties - A to Z*, IRS (last updated Oct. 21, 2013), <http://www.irs.gov/Businesses/International-Businesses/United-States-Income-Tax-Treaties---A-to-Z>. Note: a complete discussion of Brazilian tax law is beyond the scope of this update.

III. CONSIDERATIONS

A. ARBITRATION

While the franchise agreement is registered with the INPI and the Central Bank of Brazil, there is no entity that has specific jurisdiction over the agreement. If a dispute arises, it will be handled as any other breach of contract issue: in the courts or through arbitration.⁸⁰ In international disputes, arbitration is usually the mechanism of choice.⁸¹ And, in Brazil, it is a good option. Brazil accessioned to the New York Convention effective September 5, 2002.⁸² Under the New York Convention, parties have the assurance that an arbitration award will be recognized and enforced by the courts of member nations. Arbitration will be recognized as the only forum for dispute resolution if the franchise agreement so specifies.⁸³

Brazil, along with the United States and most South American countries, is also a signatory of the Inter-American Convention on International Commercial Arbitration, or Panama Convention.⁸⁴ Unlike the New York Convention, the Panama Convention expressly states which rules will govern if the Agreement does not specify the arbitration rules.⁸⁵ Under U.S. law, if both the New York and Panama Conventions apply, the Panama Convention will govern when a majority of the parties are citizens of OAS member states.⁸⁶

B. BRAZILIAN FRANCHISE ASSOCIATION (ABF)⁸⁷

One of the significant benefits of franchising in a well-established market such as Brazil, is the existence of a strong franchise association. The ABF is a non-governmental, nonprofit organization, established in 1987. Its membership is comprised of franchisors, franchisees, and employees. It conducts national and international activities such as symposia, seminars, meetings, and training. It has even created an MBA course in Franchising in Latin America. It is a member of the International

80. GELMAN & MARIANO, *supra* note 13, at 29.

81. Roger Schmidt & Joyce Mazero, *Legal Enforcement of International Franchise Relationships: What Makes Sense for the Business*, FRANCHISING WORLD, Mar. 2008, at 24 available at <http://www.franchise.org/franchise-news-detail.aspx?id=38406>.

82. *New York Convention Countries*, N. Y. ARB. CONVENTION, 2009, <http://www.newyorkconvention.org/contracting-states/list-of-contracting-states>. The United States of America accessioned effective Dec. 29, 1970. *Id.*

83. Eric B. Wulff, *Dispute Resolution: Choice of Law and Forum*, in FUNDAMENTALS OF INTERNATIONAL FRANCHISING 305, 312 (Richard M. Asbill & Steven M. Goldman, eds., 2001).

84. *Inter-American Convention on International Commercial Arbitration*, ORG. OF AM. STATES, <http://www.oas.org/juridico/english/sigs/b-35.html> (last visited Mar. 6, 2014).

85. *Inter-American Convention on International Commercial Arbitration* art. 3, Jan. 30, 1975, 1438 U.N.T.S. 245, available at <http://www.oas.org/juridico/english/treaties/b-35.html> (last visited Mar. 6, 2014).

86. 9 U.S.C. § 305 (2006).

87. ASSOCIAÇÃO BRASILEIRA DE FRANCHISING, <http://www.portaldofranchising.com.br/> (last visited Mar. 6, 2014).

Franchise Association and founding member of the World Franchise Council. It offers many publications on franchising and guides to franchising in Brazil. Most importantly, the ABF has a Code of Ethics in place that applies to all members.

IV. CONCLUSION

Brazil is an excellent choice for foreign franchisors, and from a technical standpoint, is a relatively easy market to enter. The country has a Franchise Law, and it has been in effect for almost twenty years. There is proper protection in place for intellectual property rights. And registration requirements are minimal. Brazil is a signatory to most major international conventions that would be of interest in protecting the rights of a foreign franchisor. Because of its strong, well-established franchise market, the economic opportunities are significant. This update outlines the basic requirements for establishing a franchise relationship in Brazil. But, as is the case with any foreign franchise operation, the use and advice of local counsel is an absolute requirement.

FRANCHISE LAW IN CHILE: CURRENT ISSUES AND FUTURE OUTLOOK

Guillermo Carey,* Tim R. Samples,** Paulina Silva***

INTRODUCTION

Franchising in Latin America gained momentum in the late 1980s with an influx of franchising investment, primarily from the United States.¹ Foreign investment in franchising first swept through the largest economies in the region, Brazil and Mexico, before turning to Argentina and Chile.² In the decades that followed, the franchising industry diversified and consolidated across the region. More recently, with the emergence of middle-class consumers across the region, Latin America has attracted a new wave of franchising investment.³

The character and record of franchise law are well established in academic literature.⁴ An immensely popular practice with its origins in contract law, franchising has been wildly successful throughout developed economies.⁵ In the United States alone, franchising is responsible for \$700 billion worth of goods and services, approximately 8 million jobs, and adding \$400 billion to GDP.⁶ Some twenty-nine countries have en-

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1. William R. Long, *Doing Business: Latin America's New Retailers*, L. A. TIMES (November 30, 1993), http://articles.latimes.com/1993-11-30/news/wr-62354_1_master-franchise (last visited Nov. 9, 2013).

2. *Id.*

3. Taylor Barnes, *Franchising Boom in Latin America*, LATIN BUS. CHRON. (May 29, 2012), <http://www.latinbusinesschronicle.com/app/article.aspx?id=5688>; REUTERS, *Darden Announces Additional Franchise Deals In Latin America* (July 12, 2013), <http://www.reuters.com/article/2013/07/12/fl-darden-latin-amer-idUSnPNFL46284+1e0+PRN20130712>.

4. For historical accounts of franchising, see COLEMAN R. ROSENFELD, *THE LAW OF FRANCHISING* 1-8 (1970); Robert W. Emerson, *Franchising and the Collective Rights of Franchisees*, 43 VAND. L. REV. 1503, 1506-07 (1990). For a thorough discussion of how franchising is defined, see Robert W. Emerson, *Franchise Contract Clauses and the Franchisor's Duty of Care Toward Its Franchisees*, 72 N.C. L. REV. 905, 908 (1994). For a treatment of franchise encroachment, see Robert W. Emerson, *Franchise Encroachment*, AM. BUS. L.J., 191 (2010).

5. See Robert W. Emerson & Uri Benoliel, *Can Franchisee Associations Serve as a Substitute for Franchisee Protection Laws?*, 118 PENN ST. L. REV. 99, 100-101 (2013).

6. *Id.* at 101. See also IHS GLOBAL INSIGHT, *FRANCHISE BUSINESS ECONOMIC OUTLOOK: MAY 2012*, available at <http://emarket.franchise.org/BusinessOutlookReport2012.pdf>.

acted specific franchise legislation.⁷ Other countries, including Israel and Japan, prefer to leave the operation of franchises to their extant contract and property law.⁸ The business of franchising seems to thrive in either situation.

With an established middle-class and a stable investment framework, Chile offers a mature market for franchising. Franchising revenues in Chile are estimated at \$1.48 billion dollars per year.⁹ Though Chile does not have franchise-specific legislation, a variety of general commercial laws apply to franchise activities, including the Civil Code,¹⁰ Commercial Code,¹¹ Intellectual Property Law,¹² Industrial Property Law,¹³ and in some cases the Labor Code¹⁴ and the Consumer Protection Act.¹⁵ This article provides an overview of franchise law in Chile, identifying key legal issues and particular themes under the Chilean legal environment.

I. THE CHILEAN MARKET FOR FRANCHISING

A. THE ECONOMY OF CHILE

Chile has arguably the most advanced and stable economy in Latin America.¹⁶ As of 2012, Chile's gross domestic product was \$269.9 billion with a population of 17.46 million.¹⁷ Roughly a third of Chile's population—almost 6 million people—is concentrated in the metropolitan area of Santiago, the nation's capital.¹⁸ With per capita income of nearly \$15,000,¹⁹ the highest in Latin America, Chile was recently classified as a

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7. MARK ABELL, MARCO HERO & R. SCOTT TOOP, INTERNATIONAL FRANCHISE ASSOCIATION, IFA 45TH ANNUAL LEGAL SYMPOSIUM: ADVANCED BEST PRACTICE FOR INTERNATIONAL REGULATORY COMPLIANCE (2012), available at <http://www.franchise.org/uploadedFiles/Advanced%20Intl%20Regulatory%20Compliance.pdf>.
 8. Emerson & Benoliel, *supra* note 5, at 102.
 9. NICOLE PINAUD VERDE-RAMO, MERCADO DE LAS FRANQUICIAS EN CHILE [FRANCHISE MARKETS IN CHILE] 28 (2012), available at <http://www.cnc.cl/downloadfile.aspx?CodSistema=20020129172812&CodContenido=20121016181042&CodArchivo=20121127130805>.
 10. *See generally* Cód. Civ. (Civil Code of Chile).
 11. *See generally* Cód. Com. (Commercial Code of Chile).
 12. *See generally* Law No. 17.336, Octubre 2, 1970, DIARIO OFICIAL [D.O.] (Chile).
 13. *See generally* Law No. 19.996, Marzo 11, 2005, DIARIO OFICIAL [D.O.] (Chile).
 14. *See generally* Cód. Trab. (Labor Code of Chile).
 15. *See generally* Law No. 19.496, Marzo 7, 1997, DIARIO OFICIAL [D.O.] (Chile).
 16. *See Why Chile*, MINISTRY OF FIN., <http://www.hacienda.cl/english/investor-relations-office/why-chile.html> (last visited March 26, 2014) (“In international comparisons of competitiveness and economic freedom, Chile is at the forefront of Latin America, and despite its emerging status, ranks alongside the most developed economies in the world.”).
 17. *Data: Chile*, THE WORLD BANK, <http://data.worldbank.org/country/chile> (last visited Mar. 26, 2014).
 18. *Chile Population 2014*, WORLD POPULATION REVIEW, <http://worldpopulationreview.com/countries/chile-population/> (last visited Mar. 26, 2014).
 19. United Nations Development Programme, Human Development Report 144 (2013), available at http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf.

“high income” country by the World Bank.²⁰ Chile’s economy grew 5.6 percent in 2012 but cooled somewhat in 2013.²¹ The economy is on track to grow between 4.0 and 4.5 percent in 2013 and between 4.0 and 5.0 percent in 2014.²²

Though a relatively small economy, Chile offers a mature market with an appetite for international brands. Chile has a well-established and diversified financial system compared with other countries in Latin America.²³ Business regulation in Chile is stable and transparent. Chile consistently performs well in the World Bank’s international *Doing Business* report, ranking 34 out of 189 in the most recent rankings.²⁴ Excluding Chile, the average rank for Latin America is 76 out of 189.²⁵

B. THE FRANCHISING INDUSTRY IN CHILE

Franchising developed rapidly in Chile in the late 1980s after the arrival of United States fast-food icons like McDonald’s, Pizza Hut, and Kentucky Fried Chicken.²⁶ Domestic franchises expanded during this period as well.²⁷ Restaurants like Doggi’s and Lomitón established a market share for the first time while existing franchises such as Fuenzalida Propiedades (real estate services) and Farmacias Cruz Verde (retail pharmacy) consolidated their positions.²⁸ More recently, Chile was the first country in Latin America to open Gap retail locations.²⁹ Interest in the Chilean market for franchising remains strong today.³⁰

Chile’s franchise industry accounts for an estimated \$1.48 billion per year in revenues.³¹ Franchise revenues have tripled in just eight years.³² The franchise industry provides an estimated 31,000 jobs in Chile, repre-

20. *New Country Classifications*, THE WORLD BANK (July 2, 2013), <http://data.worldbank.org/news/new-country-classifications>.

21. *Update 1-Chile Economy to Grow 4.5 pct in 2013-Finance Minister*, REUTERS (Oct. 1, 2013, 10:49 AM), <http://www.reuters.com/article/2013/10/01/chile-economy-idUSL1N0HR0YV20131001>.

22. *Update 1-Chile Central Bank Cuts 2013 GDP View, 2014 Forecast Similar*, REUTERS (Sept. 4, 2013, 12:35 PM), <http://www.reuters.com/article/2013/09/04/chile-bank-forecasts-idUSL2N0H011520130904>.

23. See generally BANCO CENTRAL DE CHILE, FINANCIAL STABILITY REPORT: FIRST HALF 2013, available at http://www.bcentral.cl/eng/publications/policies/pdf/fsr_1_2013.pdf.

24. See WORLD BANK, DOING BUSINESS 2014: CHILE 5, available at <http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/CHL.pdf>. The World Bank’s *Doing Business In* report provides an aggregate ranking of countries based on regulations that apply to starting up and maintaining domestic enterprise, including small-to medium-size businesses.

25. *Id.* at 7.

26. VERDE-RAMO, *supra* note 9, at 5.

27. *Id.*

28. *Id.*

29. Press Release, Gap, Inc., Gap Inc. Expands in Latin America with First Stores in Chile (Oct. 12, 2011), available at http://gapinc.com/content/gapinc/html/media/pressrelease/2011/med_pr_Gap_Inc_Expands_in_Latin_America101211.html.

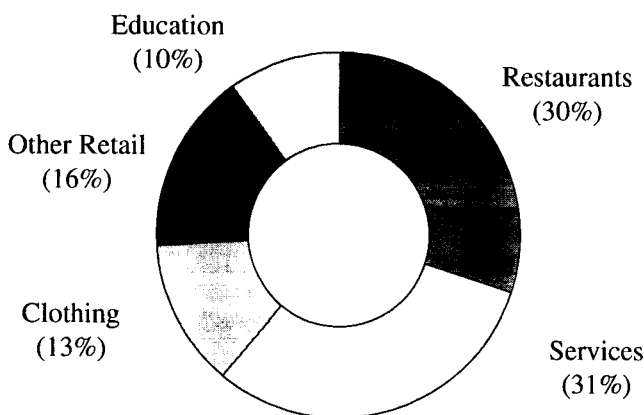
30. Beth Solomon, *Chile Keeps Warming to U.S. Franchising*, IFA FRANBLOG (Sep. 6, 2012), <http://www.ifafranblog.com/chile-keeps-warming-to-u-s-franchising-2/>.

31. VERDE-RAMO, *supra* note 9, at 2.

32. *Id.*

senting 24 percent growth in the last five years.³³ Startup costs for franchisees tend to be quite reasonable in Chile. In 60 percent of cases, the initial investment required to start a franchise business is less than \$100,000.³⁴ In more than 80 percent of cases, it takes less than \$200,000.³⁵ The payback period—the amount of time it takes to recover the initial investment in terms of profits or savings—averages just below two years for franchise investments in Chile.³⁶

Initially, the fast-food restaurant industry dominated franchise activity in Chile.³⁷ Currently, services and restaurants are the most active sectors with 60 percent of franchised trademarks.³⁸ Fast-food remains a key franchising industry but clothing, retail, and education have become increasingly important sectors in recent years.³⁹ Approximately 130 franchises are operating through 3,666 locations across Chile.⁴⁰ Figure 1 below illustrates the number of franchise trademarks by sector.⁴¹



II. FOREIGN INVESTMENT IN CHILE

A. THE CONSTITUTION AND FOREIGN INVESTMENT

Protection of foreign investment in Chile is rooted in constitutional provisions. Article 19 of the Chilean Constitution of 1980 guarantees numerous rights to “all persons”⁴²—thus including foreign persons—whereas the previous Constitution of 1925 provided guarantees only to

33. *Id.*

34. *Id.*

35. *Id.*

36. *Id.* at 26–27.

37. *Id.* at 5; VERONICA PINTO, U.S. COMMERCIAL SERVICE, CHILE: FRANCHISE INDUSTRY BACKGROUND (2010), available at http://www.franchise.org/uploadedFiles/Franchise_Industry/International_Development/Country_Profiles/Chile_Franchising_2010.pdf.

38. VERDE-RAMO, *supra* note 9, at 2.

39. *Id.* at 19.

40. *Id.* at 16.

41. *Id.* at 19.

42. CONSTITUCIÓN POLÍTICA DE LA REPÚBLICA DE CHILE [C.P.] art. 19.

“inhabitants of the Republic.”⁴³ Under Chilean law, the concept of “person” extends to natural persons and legal entities.⁴⁴ To that end, section 2 of article 19 of the 1980 Constitution further provides that there shall be “no privileged persons or groups” or “arbitrary distinctions.”⁴⁵ Furthermore, article 57 of the Civil Code provides that “the law does not recognize differences between Chilean and foreigners in regards to the acquisition and exercise of the civil rights regulated by this code.”⁴⁶ These provisions establish a broad foundation for equality among Chileans and foreigners.⁴⁷

B. STATUTES AND FOREIGN INVESTMENT

Statutes provide additional protection and regulation of foreign investment.⁴⁸ Enacted in 1974, Decree Law No. 600 is known as the Foreign Investment (FDI) Statute and guarantees equal footing for foreign investors and local businesses.⁴⁹ The FDI Statute provides an optional mechanism for the entry of capital into Chile with flexible options for the deployment and remittance of foreign investment capital. As of 2011, nearly \$82 billion in capital entered Chile through the FDI Statute mechanism, representing 56.5 percent of foreign capital invested in Chile since 1974.⁵⁰

The Foreign Investment Committee (FIC) is the regulatory agency charged with processing foreign capital received under the FDI Statute.⁵¹ Investments entering Chile under the FDI Statute require FIC approval.⁵² Aside from certain industries deemed to be of national interest, whole ownership of investments by foreigners is permitted. Repatriation of capital and profits is also quite permissive, with few exceptions.⁵³

43. CONSTITUCIÓN POLÍTICA DE LA REPÚBLICA DE CHILE DE 1925, art. 10, *available at* <http://biblio.juridicas.unam.mx/libros/4/1641/10.pdf> (replaced by the current Constitution in 1980).

44. CONSTITUCIÓN POLÍTICA DE LA REPÚBLICA DE CHILE [C.P.] art. 19, § 15.

45. *Id.* art. 19, § 2.

46. Cód. Civ. art. 57.

47. For a thorough review of constitutional protections of foreign investment in Chile, see Rodrigo Polanco Lazo, *Legal Framework of Foreign Investment in Chile*, 18 L. & BUS. REV. AMERICAS., 203, 203–209 (2012).

48. For complementary Chilean legislation on foreign investments, see Law No. 19.840, Noviembre 13, 2002, DIARIO OFICIAL [D.O.] (on Investment Platform); Law No. 18.840, Octubre 4, 1989, DIARIO OFICIAL [D.O.] (the Constitutional Organic Act of the Central Bank of Chile); Law No. 18.657, Septiembre 16, 1987, DIARIO OFICIAL [D.O.] (on Investment Funds of Foreign Capital).

49. See Law No. 600, Septiembre 3, 1993, DIARIO OFICIAL [D.O.] (Chile) (FDI Statute).

50. See *What is DL 600?*, FOREIGN INV. COMM., <http://www.ciechile.gob.cl/en/dl-600/que-es-el-dl600/>.

51. Lazo, *supra* note 47, at 210.

52. *Id.*

53. See Law No. 600, Septiembre 3, 1993, DIARIO OFICIAL [D.O.] (Chile) (FDI Statute); Law No. 18.840, Octubre 4, 1989, DIARIO OFICIAL [D.O.] art. 47 (the Constitutional Organic Act of the Central Bank of Chile). For summaries of these two laws, see *Legal Framework*, MINISTRY OF FIN., <http://www.hacienda.cl/english/investor-relations-office/incentives-for-foreign-investment/legal-framework.html> (last visited Mar. 27, 2014).

C. INTERNATIONAL TREATIES AND MULTILATERALISM

With one of the most open economies in the Americas, Chile has shown a strong commitment to multilateral economic integration. Chile was the first South American country to join the Organization for Economic Cooperation and Development.⁵⁴ Chile is also a founding member of the General Agreement on Tariffs and Trade (GATT).⁵⁵ In recent decades, Chile has pursued a policy of open trade through numerous bilateral, regional, and multilateral trade agreements.⁵⁶ Chile has signed over fifty bilateral investment treaties to date.⁵⁷ Additionally, Chile has twenty-five double taxation treaties in force.⁵⁸ Chile also recognizes and participates in multilateral efforts for investment dispute resolution mechanisms, including the International Centre for Settlement of Investment Disputes (ICSID or Washington Convention), the Inter-American Convention on International Commercial Arbitration, and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.⁵⁹ Chile is a member of the Multilateral Investment Guarantee Agency (MIGA) as well.⁶⁰

III. FRANCHISE LAW IN CHILE

Like many countries, Chile does not have franchise-specific legislation. The legal dimensions of franchising activities in Chile are primarily defined by franchise agreements, the contract between the franchisor and the franchisee. Like all commercial contracts, franchise agreements in Chile are governed by the principle of the contractual autonomy of the parties. As article 1545 of the Civil Code sets forth, “[a]greements law-

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54. Press Release, OECD, Chile Invited to Become a Member of the OECD (Dec. 15, 2009), available at <http://www.oecd.org/general/chileinvitedtobecomeamemberoftheoecd.htm>.
 55. Press Release, WTO, Fiftieth Anniversary of the Multilateral Trading System (1998), available at http://www.wto.org/english/thewto_e/minist_e/min96_e/chrono.htm.
 56. See *Why Chile*, MINISTRY OF FIN., <http://www.hacienda.cl/english/investor-relations-office/why-chile.html> (last visited March 26, 2014) (“Chile, one of the most open economies in the world, has signed more free trade agreements than any other nation.”).
 57. United Nations Conference on Trade and Development, Bilateral Investment Treaties Signed by Chile (June 1, 2013), available at http://unctad.org/Sections/dite_pccb/docs/bits_chile.pdf.
 58. *International Tax Conventions*, SERVICIO DE IMPUESTOS INTERNOS, <http://www.sii.cl/pagina/jurisprudencia/convenios.htm> (last visited Mar. 27, 2014).
 59. INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES, LIST OF CONTRACTING STATES AND OTHER SIGNATORIES OF THE CONVENTION (Nov. 1, 2013), available at <https://icsid.worldbank.org/ICSID/FrontServlet?requestType=ICSIDDocRH&actionVal=ShowDocument&language=English>; *Inter-American Commercial Arbitration Commission*, ORG. AM. STATES, <http://www.oas.org/juridico/english/Sigs/b-35.html> (last visited Mar. 27, 2014); *Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, UNITED NATIONS TREATY COLLECTION, http://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtmsg_no=XXII-1&chapter=22&lang=en (last visited Mar. 27, 2014).
 60. *MIGA Member Countries*, MULTILATERAL INVESTMENT GUARANTEE AGENCY, <http://www.miga.org/whoware/index.cfm?stid=1789> (last updated Dec. 17, 2013).

fully entered into are deemed to be law for the parties, and cannot be revoked but by mutual consent, or for legal causes.”⁶¹ However, a variety of general commercial laws apply to the franchise agreement and franchise activity, particularly intellectual property, taxes, and royalties.

A. INTELLECTUAL PROPERTY

A key factor in the legal environment for franchising is the role of intellectual property rights. More specifically, in order to mitigate infringement risks and to define the limits and outlines of the franchise agreement (such as purpose of the contract, rights and obligations of the parties, territory, duration, exclusivity) the franchisor must grant to the franchisee authorization for use of the intellectual property rights involved in the franchise. The franchisor’s authorization of use takes the legal form of a license.

As a general matter, Chilean law distinguishes between intellectual works and industrial works. Intellectual works are protected under Intellectual Property Law No. 17.336.⁶² Industrial works, including trademarks, patents, utility models, industrial designs and drawings, service inventions, integrated circuits, denominations of origin, and trade secrets, are protected under Industrial Property Law No. 19.039.⁶³

1. *License to Use Intellectual Works Protected under Intellectual Property Law 17.336 (IP Law)*

The IP Law protects an author’s rights arising from the creation of works in the literary, artistic, and scientific fields, whatever the medium of expression, and the corresponding rights provided for under law.⁶⁴ As a general rule, the author of a work is deemed to be the person who appears as such at the time of the work’s disclosure, or who appears as such in the Registry of Intellectual Property in Chile.⁶⁵ In the case of computer programs, however, Chilean law presumes the existence of work for hire, which means that intellectual property rights are vested in the natural person or the corporation whose employees or contractors have developed the software for the first party, unless otherwise provided by written agreement.⁶⁶ As a general rule, the protection provided by the IP Law lasts for the life of the author plus seventy years after the author’s death.⁶⁷ Article 3 provides a non-exclusive list of the different works protected under the IP law.⁶⁸ This list includes intellectual works such as

61. Cód. Civ. art. 1545.

62. See generally Law No. 17.336, Octubre 2, 1970, DIARIO OFICIAL [D.O.].

63. See generally Law No. 19.039, Enero 25, 1991, DIARIO OFICIAL [D.O.].

64. Law No. 17.336, art. 1.

65. *Id.* art. 8. For more information on the Registry of Intellectual Property in Chile, see *Departamento de Derechos Intelectuales*, DIRECCIÓN DE BIBLIOTECAS, ARCHIVOS Y MUSEOS, http://www.propiedadintelectual.cl/Vistas_Publicas/publicHome/homePublic.aspx?idInstitucion=75 (last visited Mar. 27, 2014).

66. *Id.* See also *infra* note 71.

67. Law No. 17.336 art. 10.

68. *Id.* art. 3.

books, leaflets, articles, audiovisual productions, drawings, software programs, and data compilations, among others.⁶⁹

a. Scope and Content of the License to Use

The IP Law grants two categories of rights to the author for the protected work: (i) a moral, inalienable right that is not subject to a statute of limitations;⁷⁰ and (ii) patrimonial or economic rights.⁷¹ The latter rights allow the author to make a financial profit on his work and these rights parallel the common law concept of copyright. Patrimonial rights can be freely used, licensed, or transferred by their owners.⁷² Articles 18 and 19 of the IP Law create a legal monopoly for specific uses of the protected work for the benefit of the author, who has exclusive rights to grant licenses on his work or to assign patrimonial rights to any third party.⁷³

Multiple licenses for the same work may coexist in different territories or in the same territory in the event the rights licensed are not exclusive. Likewise, an author may also grant different licenses for the same work and territory but covering different uses, such as reproduction, representation, adaptation, public communication, distribution, or publication.⁷⁴ As for the content of the license, article 20 of the IP Law stipulates that licenses, or authorizations of use, must provide for certain specific elements, such as the scope of the granted rights, the duration of the license, the royalties or terms of remuneration, the minimum or maximum number of authorized performances or copies—if limited—or the territories concerned.⁷⁵

b. Registration of Intellectual Property Rights

Intellectual property rights arise at the moment a work is created.⁷⁶ Registration is not required for the creation of intellectual property rights.⁷⁷ However, registration is recommended for the purposes of notice and proof. There is a presumption of authorship in favor of the person in whose name the work is registered.⁷⁸ Registered authors may be natural persons or companies, but companies must provide evidence of the assignment of the intellectual property rights (or the work for hire agreement) from the individual that actually created the work because

69. *Id.*

70. Article 14 of the IP Law establishes the existence of a moral right for the benefit of the author and his heirs. *Id.* art. 14.

71. Under the IP Law, patrimonial rights are exclusive, assignable, and temporary. *Id.* arts. 10, 17. Article 10 of the IP Law grants patrimonial rights to the author for seventy years during the author's lifetime or for life plus seventy years after the date of his death, depending on whether the author was a natural or artificial person. *Id.* art. 10.

72. *Id.* art. 17.

73. *Id.* arts. 18–19.

74. *Id.*

75. *Id.* art. 20.

76. *Id.* art. 1.

77. *See id.*

78. *Id.* art. 8.

the law assumes that only human beings are capable of creation.⁷⁹ The Registry of Intellectual Property in Chile is run by the Department of Intellectual Property Rights, which operates under the Direction of Libraries, Archives and Museums of Chile (DIBAM).⁸⁰

c. Practical Approaches to Franchise Agreements

In franchise agreements, a franchisor commonly provides to a franchisee various franchise manuals. These franchise manuals often detail instructions, systems, and processes related to the franchise including relationships with clients, dealings with third parties, marketing strategies, instructions on promotional materials, equipment, insurance, accounting directives, sales techniques, personnel training, or customer service. In other words, a franchisor frequently provides a franchisee with know-how, techniques, and instructions needed to operate the franchised business. Consequently, the information, material and intellectual works (designs, software programs, manuals, etc.) transferred to the franchisee should be recognized as licensed works. License agreements are not subject to any specific legal formalities or registration requirements.⁸¹

2. *License to Use Works Protected Under Industrial Property Law No. 19.996*

Industrial property rights are critical to franchising in Chile. Because one of the main objectives of the franchisor is to gain brand recognition and market share, a franchisor often authorizes a franchisee to use trademarks, trade names, designs, and models, all of which are protected under the Industrial Property Law.⁸² The Industrial Property Law also governs industrial property license agreements and patents.⁸³

As a general principle, a license agreement does not require prior governmental approval or registration to be effective. However, industrial property license agreements subject to Chilean law and involving industrial privileges registered in Chile (trademarks, patents, utility models, and industrial designs) must be made in writing, signed by the parties, and executed before a notary public.⁸⁴ If executed outside of Chile, these agreements must be legalized by the nearest Chilean Consul in order to be valid in Chile.⁸⁵ In addition, these license agreements, including franchise agreements, must be recorded before the Chilean National Institute of Industrial Property (INAPI) in order to be enforceable against

79. *Id.* arts. 5, 10–12, 72bis, 73.

80. See DIRECCIÓN DE BIBLIOTECAS, ARCHIVOS Y MUSEOS, www.dibam.cl (last visited Mar. 27, 2014).

81. Law No. 17.336 art. 20.

82. Law No. 19.996, Marzo 11, 2005, DIARIO OFICIAL [D.O.] art. 1.

83. *Id.*

84. *Id.* art. 14.

85. *Id.* art. 15.

third parties.⁸⁶

B. FRANCHISING TAXATION REGULATIONS

In a franchise agreement, the franchisee, as consideration, pays a certain amount of money to the franchisor. This payment may be structured as a fixed amount payable at the signature of the contract, as monthly or annual royalties, or as a combination of both. Whether the payment is a fixed amount or royalties, applicable taxes will vary depending on whether or not the franchisor is a resident company of Chile.

1. Corporate Taxation of Chilean Resident Companies

A foreign franchisor may opt to create a Chilean business organization as a corporation, a limited liability company, or a branch. In this case, the local entity is liable for a 20 percent corporate tax according to the Income Tax Law (ITL).⁸⁷ Therefore, all amounts paid by the franchisee to the franchisor would be taxed up to 20 percent.

2. Taxation of Royalties Transferred Abroad

If the franchisor is not a resident Chilean entity, amounts paid upon execution of the franchising agreement or paid in royalties are subject to a withholding tax when transferred outside of Chile.⁸⁸ Whether or not franchisors are residents of double taxation treaty jurisdictions will also affect tax liabilities.

a. Franchisor is a Resident of a Double Taxation Treaty Jurisdiction

When the country of residence of the franchisor has signed a double taxation treaty with Chile, applicable tax liabilities are determined by the provisions of the treaty in question. Chile currently has double taxation treaties in force with the following twenty-five countries: Australia, Belgium, Brazil, Canada, Colombia, Korea, Croatia, Denmark, Ecuador, Spain, France, Ireland, Malaysia, Mexico, Norway, New Zealand, Paraguay, Peru, Poland, Portugal, Russia, Sweden, Switzerland, Thailand, and the United Kingdom.⁸⁹ Chilean tax law provides that royalty payments subject to a 10 percent withholding tax are exempted from value added tax (VAT).⁹⁰ However, this VAT exemption will not apply when payments are ultimately exempt from withholding by taxation treaty or other domestic relief.⁹¹

86. INSTITUTO NACIONAL DE PROPIEDAD INDUSTRIAL, DIRECTRICES DE PROCEDIMIENTO DE REGISTRO MARCAS COMERCIALES 127 (2010).

87. Law No. 824, Diciembre 31, 1974, DIARIO OFICIAL [D.O.] art 20 (law on income tax).

88. *Id.* tit. IV.

89. *International Tax Conventions*, *supra* note 58.

90. Law No. 825, Diciembre 27, 1974, DIARIO OFICIAL [D.O.] art. 12(E)(7).

91. *Chile—Recent VAT Exemption Changes for Services Supplied from Chile*, KPMG (Dec. 12, 2013), <http://www.kpmg.com/global/en/issuesandinsights/articlespublications/global-indirect-tax-brief/pages/chile-recent-vat-exemption-changes.aspx>.

b. Franchisor Is Not a Resident of a Double Taxation Treaty Jurisdiction

If not a resident of a double taxation treaty country, the franchisor will be subject to withholding taxes on payments received from a Chilean franchisee. Under Chilean tax law, the general withholding tax rate is 35 percent.⁹² However, Article 59 of the ITL provides that the royalty payment should be subject to a 30 percent withholding tax over the gross amount transferred abroad.⁹³ At the same time, under Article 59, professional or technical services are subject to a reduced 15 percent withholding tax rate.⁹⁴ Transferred amounts are exempted from VAT.⁹⁵

C. IMPACT OF THE CHILEAN LABOR REGULATION ON FRANCHISE AGREEMENTS

Under Chilean labor law, a company may be held liable for subcontractors' labor obligations.⁹⁶ In 2008, the Supreme Court of Chile considered a case on this subject.⁹⁷ In this case, seven terminated employees brought employment claims against the subsidiary franchisee as well as the parent franchisor.⁹⁸ The Supreme Court determined that a franchisor can be held liable for the labor obligations of a subsidiary franchisee—including salaries, retirement contributions, and social security contributions—but is not liable for obligations related to the termination of an employment contract.⁹⁹ The Supreme Court based its decision on a broad interpretation of Article 64 of the Labor Code.¹⁰⁰ In doing so, the Supreme Court justified its finding by recalling that the franchise arrangements allowed the franchisor to gain profitable and effective distribution networks without significant costs or investments.¹⁰¹

D. CONSUMER PROTECTION ACT

The Consumer Protection Act (the CPA) regulates the relationship between consumers and providers.¹⁰² The CPA defines consumers as all natural persons or legal entities who, by virtue of any legal act, acquire use or enjoy as final users, goods, or services.¹⁰³ Providers are defined as persons who produce, manufacture, import, distribute, or commercialize goods or services for consumers on a regular basis for a price or fee.¹⁰⁴

92. Law No. 824, Diciembre 31, 1974, DIARIO OFICIAL [D.O.] art 58.

93. *Id.* art. 59.

94. *Id.*

95. Law No. 825, Diciembre 27, 1974, DIARIO OFICIAL [D.O.] art. 12(E)(7).

96. CÓD. TRAB., art. 183-B.

97. Corte Suprema de Justicia [C.S.J.] [Supreme Court], 25 Septiembre 2008, "Ortiz c. Comercial Proventa SA y Movistar SA," Rol de la causa: 4.012-2008, contrato.

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.*

102. Law No. 19.496, Febrero 7, 1997, DIARIO OFICIAL [D.O.] (Chile).

103. *Id.* art. 1.

104. *Id.*

The CPA, therefore, may be directly applicable to a franchisor in two scenarios:

1. *Micro or Small Businesses Franchisees*

If the franchisee qualifies as a micro or small business, the CPA considers the franchisee as a “consumer” and the franchisor as a “supplier.”¹⁰⁵ A recent modification to the CPA has defined micro, small, and medium-sized businesses on the basis of sales revenues.¹⁰⁶ Various provisions in the CPA benefit micro and small-sized businesses (MSBs) vis-à-vis suppliers.¹⁰⁷ A company may be considered an MSB depending on its annual sales and service revenues after VAT and excise taxes.

- Micro business: Annual sales of UF 2,400 or less (approximately \$100,000);
- Small business: Annual sales between UF 2,401 and 25,000 (approximately \$100,000 and \$1,050,000).¹⁰⁸

In other words, MSBs are considered “consumers” vis-à-vis suppliers. Consequently, franchisors should consider issues arising under the CPA in relations with MSB franchisees, including mass contracting, remote contracting, warranties, advertising, and information provided to MSBs.

2. *Non-MSB Franchisees*

If the franchisee is not an MSB, the CPA applies to the franchisor as a manufacturer or producer of the goods or services sold or provided in Chile. Under the CPA and as a matter of public policy, a customer may claim damages directly against the manufacturer or importer (or a franchisor, as the case may be) in case a seller ceases to exist due to bankruptcy, business termination, or other similar cause.¹⁰⁹ In cases of defective or non-conforming products, consumers have rights to request from the franchisor, in its position of manufacturer or importer, repair or replacement in addition to the indemnification for any damages that might have been caused.¹¹⁰ These rights cannot be waived in advance by the consumers.¹¹¹

105. Law No. 20.416, Febrero 3, 2010, DIARIO OFICIAL [D.O.] (Chile) art. 9; Law No 19.496 art. 1.

106. Law No. 20.416 art. 9.

107. *Id.*

108. *Id.* art.2.

109. Law No. 19.496, Febrero 7, 1997, DIARIO OFICIAL [D.O.] (Chile) art. 21.

110. *Id.* arts. 21–22.

111. *Id.* art. 4.

Case Note

