

RIGHTS WATCH

PROTECTING TRADE SECRETS WHILE FRANCHISING A BUSINESS

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Franchising can be a good model to expand a business of the franchisor by granting license to franchisees. Generally, this gives a franchisee an access to use the knowledge, processes, 'know-hows' and trademarks of the franchisor and sell a branded product or service under their goodwill and name. Elaborating the number of franchisees ensures the expansion of geographical reach and business of the franchisor. To avail the license of the franchisor, the franchisees



outlets. A franchisor may need to protect their customer/client list. This aspect must be included in a contract with a franchisor. This notion must be normalised in contractual clauses, in the context of Bangladesh.

It is imperative that people thinking about stepping into franchising must think about adding these aspects into the contractual clauses. For example, the framework of a contract for a restaurant business looking to go into franchise business must pay due attention to protect its recipes and its components. For this, the restaurant may choose to control the kitchen of the franchisee's outlets in the contractual clause. A clause may be put with elaborate directions about how the franchisee will handle the recipe, who are the personnel to have access, and how to process the dry ingredients to a final dish and so on. It is established that the extreme precautionary measures regarding Coca-Cola's secret formula makes it an example of protection of trade secrets even after having so many franchisees globally, which has resulted in no exact replication of its taste. Apart from protecting recipes, some businesses may need to protect their business model, or the strategy revolving around their services to protect integrity.

To ensure interest of the businesses, it is always a better model to ensure that the trade secret is not jeopardised in the first place rather than avenues for post-breach remedies. For that purpose, the concern of protecting trade secrets must come from the initial stage of drafting the agreements, where a perceptive legal mind has to be applied from the side of the franchisors to fully benefit from the existing laws of Bangladesh.

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may need to pay initial fees and time bound royalties to the said franchisor.

One of the concerns for individuals who want to franchise their businesses in Bangladesh could be the protection of their trade secrets due to the lack of any concrete safeguarding mechanism. The aversion may stem from the fear of trade secrets getting disclosed by franchisees. In Bangladesh there is no separate law for the protection of either trade secrets or franchising as a whole. The entire sphere of this sector is operated through separate contractual arrangements between the parties. As a result, there is often a regulatory

vacuum in the field.

In our country franchise business is a contractual relationship based upon the Contract Act, 1872 between the franchisor and the franchisee. In these contracts, a franchisor can assign their trademark and goodwill using the provisions of chapter 5 of the Trademarks Act, 2009. An inference can be drawn that the main driving force of the franchise would be the agreement, which needs to be comprehensive if certain aspects of intellectual property of the franchisor are to be protected. In practice, it is often seen that the private contracts between franchisors and franchisees do not contain (or often contain poorly drafted) clauses on intellectual properties, e.g., trade secrets. The non-disclosure agreements are often not sufficient to ensure the protection of trade secrets because they provide post-breach remedies failing to ensure breach in the first place.

Singapore's case laws depict that for information to be protectable as confidential information or a trade secret, it must be 'at first place' not be something which is 'already available

to the public at large.' Drawings, specifications, technical information etc. have been considered a trade secret and confidential information by the Indian courts and the restraints can be put upon these elements. However, the Bangladeshi courts are yet to face any similar legal challenge.

A franchisor's main negativity may arise from the concern of their trade secrets getting found out. The World Trade Organization (WTO) has propounded on the definitions of trade secrets and ways to protect them. It calls for effective sanctioning against misappropriation of confidential information. This practice can be implemented through an agreement containing effective and detailed non-disclosure clauses. If such was not present already, the clauses should be altered. Efficient lawyers can point out the loopholes in existing contracts and find out avenues for amending the contract. For a brand like KFC it could be their Colonel's secret spice mix, for Coca-Cola their secret formula of the syrup, for some others it could be the client database that amounts to their

trade secret. From these facts it can be inferred that a potential disclosure or leak of trade secrets without the company's control or consent can lead to the fall of their business.

The business owners are not comfortable with the idea of post-breach court sanctioned remedies since the trade secret is getting out anyway and the remedy from the court takes a long time to be realised. Thus, an alternative way to protect trade secrets is to have an elaborate plan of control which is required to be comprehensively laid down on the contract with the franchisee, if breached creating legal liabilities. The confidential information should be defined (for instance, the recipes of a dish, ingredients of a product etc.), and then clauses of exclusion from access must be provided. It is completely upon the franchisor's shoulder on how they want to control the information as against the franchisees, which can be done through the well-drafted legal agreements. There are no limitations on the restrictions a franchisor can put to protect their trade secret, which can also entail direct control over franchisee's

RIGHTS ADVOCACY

Resolving disputes without involving the court

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Mediation is one of the alternative ways of dispute settlement without taking resort to legal actions, whereby the parties select their mediator(s) and resolve disputes maintaining utmost confidentiality. The rules of mediation make it clear that information gathered, and documents exchanged during the mediation, are kept confidential and are not shared unless the parties give express permission to that effect. They remain under the protection of law as well as the code of professional conduct and etiquette for the mediators, provided no exception arises. It is worth mentioning here that anything admitted or confessed by the parties during mediation are inadmissible in legal proceedings and therefore, cannot be presented before the court or tribunal in any subsequent legal contests. These elements ensure the privacy of the parties and enable them to solve the disputes while saving both time and money as well as leaving room for the improvement of mutual relationship.

There are ways of settlement enforcement procedures including formation of a contract of settlement, court order, arbitration order etc. However, the list is not exhaustive. In case of absence of an agreement, the parties are free to go for other methods of ADR, for example pursuing arbitration or even contesting the matter in the court.

However, the court proceedings may not seem convenient and suitable for all family disputes when the matter involves, among others, divorce, custody of child, and related issues. Once the matter is before the court, the privacy of a family becomes open to the world. Moreover, the court proceedings might consume a lot of time and the minor children affected by their parents' dispute may even attain the age of majority by the time the issues get resolved.

The world of business is getting expanded day by day across borders. The recent pandemic has urged the mediators and lawyers to use the virtual meeting platforms equipped with modern features to resolve disputes remotely. Since the pandemic started, the practice of mediation, in the developed nation has been the 'new normal' way of settling disputes via using both virtual and actual platforms. The whole world including countries most notably like Singapore, Hong Kong, Malaysia, India, China, the UK, the UAE, the USA and many more are taking resort to mediation facilities and resolving their disputes without seeking direct involvement of the courts.

In the context of Bangladesh, the concept of mediation is not alien to our legal system, and there are several provisions of mediation in our domestic laws. For example, as per section 89A of the Code of Civil Procedure, 1908, the court may order the parties to participate in mediation. Section 89C of the same law confirms that the parties can participate in mediation even at the appellate stage. The Family Courts Ordinance, 1985 introduced the concept of mediation long time ago. Besides, the Village Court Act, 2006; the Artha Rin Adalat Ain, 2003; the Arbitration Act, 2001; and the Labour Act, 2006 also recognise mediation.

In August 2021, the Supreme Court's Judicial Reform Committee issued a set of comprehensive guidelines on mediation, which stresses on the use of mediation. It was directed that the copy of the Guidelines is to be handed over to the disputing parties and circulated among the lawyers as well. This indicates that Bangladesh is getting prepared to enter the domain of

ease to invest in any country if they get the assurance of the protection mechanisms from the host country including any dispute settlement mechanisms capable of avoiding extra burden of contesting litigation, involving the waste of time, money, and energy.

Therefore, the expansive use of mediation facilities will be an added benefit to our economy as this would accelerate our trade and investment. The recent studies show that mediation is the right tool for settlement of cross-border disputes since the process of mediation is able to consider the needs of the stakeholders, mitigate the gap between the dissimilarities between and among laws of different countries, reckon social values and culture of the parties, among many others. As a result, the process of mediation will alleviate the huge backlog of cases that stays with the judiciary by resolving many disputes outside court upholding our country's reputation by resolving disputes easily and speedily, specially during this



wider use of mediation in order to reduce the backlog of cases pending with the courts.

However, very few disputants are encouraged to participate in mediation. There are people who are not even aware of the benefits of mediation whereas the rest of the world has already enacted and implemented relevant laws.

The businessmen, entrepreneurs, companies, stakeholders of financial institutions, foreign investors and joint ventures will be more confident in their business relationships, if they know for sure that there is scope of mediation in case any disagreement ever arises. Several international institutions such as Singapore International Mediation Institution (SIMI), as well as judges and lawyers of Bangladesh believe that foreign investors will be at

pandemic.

There are few organisations in Bangladesh who are providing services of mediation, namely Bangladesh International Arbitration Centre (BIAC), Bangladesh International Mediation Society (BDIMS). The NGOs such as Madaripur Legal Aid Association (MLAA), Bangladesh Legal Aid and Services Trust (BLAST), Ain-o-Salish Kendra and Nagorik Uddayog, are also providing mediation services. Many International mediation providers also keep list of licensed mediators capable of mediating anywhere in the world including Bangladesh, for example International Mediation Institute (IMI), Singapore International Mediation Institute (SIMI) etc.

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LAW OPINION

Bangladesh Bank's rules of export documents require an amendment

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The open account trade means international trade against contract without any Letter of Credit (LC), which is mostly common in developed countries. Bangladesh was far behind from the open account trade transaction scheme in export. Our main competitors in readymade garments (RMG) export get competitive advantage of open account payment method in export.

Under section 23 of the Foreign Exchange Regulation Act (FERA), non-repatriation or partial repatriation is the responsibility of the exporter and failure is a punishable offence. The Bangladesh Bank (BB) also has the legal authority to exempt the affected exporters from the liability to repatriate the foreign proceeds by exercising the powers under section 12(2)(b) of the FERA, but the process is quite complicated. Another option is the BB's powers under section 12(3) of the FERA, to permit the affected exporters to sell the exported goods from the port of the buyer's country and procure the sale proceeds accordingly. However, the exporter can never realise the full value of the consignment for such consignment laying in the buyer's port. The process also involves port charges, demurrage, and container charges etc., and exporters usually do not get fair price for the exported materials.

In order to facilitate the export deal, two important transfers of ownership of consignment and payment rights are taken into consideration. One transfer is for consignment and the other is for payment or as consideration of the contract for export. The major concern of these contracts is transfer to document, which gives ownership of consignment and terms and methods of payment.

The BB has filled up this legal gap by issuing a circular no. 43 (dated November 17, 2019) titled "Discounting of direct or deemed export bills – transfer of right". It has granted general permission for assigning rights to dues at maturity of a usage bill of export from Bangladesh in favour of a license bank/financial institution abroad by paying usage bill in full, final, and without recourse.

The circular was issued in absence of Bangladeshi laws and policies in relation to such transfer of ownership on invoice. There is no interpretation of whether invoice or bill receivables is considered actionable claim, although under section 3 of the Transfer of Property Act, 1882, an actionable claim includes a claim to an unsecured debt.

According to paragraph 10(iii), chapter 8 of the Guidelines for Foreign Exchange Transactions (GFET), 2018, Vol. I, the Authorised Dealers (ADs) are required to pass all shipping documents covering exports from Bangladesh.

The BB circular no. 43 (dated November

17, 2019) has referred to instruction at para. 25, chapter 8 of the GFET, which also allowed the overseas correspondent institutions under subsection (b) stating that the ADs may arrange fund against the discounting of usage bills in foreign exchange through their own offshore banking units/correspondent banks, financial institutions abroad or international financing institutions. The circular has tried to get the coverage of payment repatriation against export under open account scheme. Under the open account method, goods are shipped on credit terms with payment commitments from banks/financial institutions abroad.

However, a FE circular no. 32 (dated October 03, 2021) authorised the ADs to allow exporters to dispatch export documents (excluding original transport document of title to cargo) directly to importers or their agents abroad through secured media, subject to observance of following instructions: (a) the underlying sales contracts/letters of credit provide for such direct dispatch of export documents; (b) the ADs shall be satisfied with the arrangement of realisation of export proceeds within statutory period; (c) the ADs shall endorse original transport document retained with them "on receipt of payment against relevant export"; (d) the ADs shall, within 14 days from the date of shipment, obtain EXP Form from exporters to comply with regulatory instructions including reporting routine to Bangladesh Bank; and (e) the exporters' account with the ADs is fully compliant with KYC/AML/CFT guidelines in force.

Although, the BB circular no. 43 (dated November 17, 2019) allowed the transfer of export documents to the bank or even export finance company such as Factoring companies, but the circular no. 32 (dated October 03, 2021) restricted the sending documents (i.e. Bill of Lading) without payment as the AD banks will have to retain the original shipping documents and endorse those on receipt of payments against the exports. It seems the BB is trying to facilitate the smooth transaction through open account – particularly the condition of pre-payment to release the Bill of Lading of the consignments.

Recently, the BB has allowed Factoring service with some conditions. Through international factoring, the exporters are guaranteed of payment of their goods and services instantly after shipment of the same. The Factoring services provide security of payment and financing through transfer of shipping documents along with ownership and rights over the payments. The circular no. 32 (dated October 03, 2021) restricting transfer of document will hamper smooth service of Factoring and export financing by trade finance companies. The BB should revisit the circular addressing the embargo over transfer of full set of documents.

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