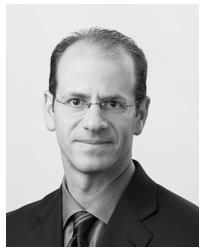
Enforcing Arbitration Awards in International Franchising

Ronald A. Giller, Sarah L. Wieselgren, and Lynette Gladdis



Mr. Giller

Ms. Wieselgren

Ms. Gladdis

In an increasingly global franchising market, it is imperative for franchisors to be able to enforce their agreements and protect their intellectual property in every market they enter. Regardless of how franchisors structure their international partnerships, whether through master franchising or otherwise, many franchise systems use arbitration to resolve international disputes.[1] This article takes a closer look at enforceability through the arbitration process, including challenges relating to the extraterritorial application of the Lanham Act, and focuses on how courts in certain emerging markets have dealt with U.S. awards and what obstacles franchisors may face. Because the law is not well-settled in this area in many countries, the authors also consulted with legal experts from the emerging markets discussed in this article—Russia, China, India, South Africa, and Brazil.

With the expanding franchise market comes an increasing number of international disputes among franchisors, master franchisees, and franchisees. "Among franchisors, there is a strong trend toward contractual arbitration of

1. *See generally* Williams G. Edwards, *Border Crossing: Navigating the Waters of International Expansion*, FRANCHISING.COM, *available at* http://www.franchising.com/articles/border_crossing_navigating_the_waters_of_international_expansion.html.

Ronald A. Giller (rgiller@gordonrees.com) is a partner and Sarah L. Wieselgren (swieselgren@gordonrees.com) is an associate in the Florham Park, New Jersey, office of Gordon & Rees LLP. Mr. Giller is co-chair of the firm's Franchise Practice Group and a member of its Commercial Litigation Group. Lynette Gladdis (lynette.gladdis@realogy.com) is the Senior Vice President, Litigation and Regulatory Affairs, at Realogy Holdings Corp. *The authors extend their thanks to Emma Xiao, an associate with Gordon & Rees, for her research assistance.* *The views expressed in this article are those of the authors and do not necessarily represent the views of Gordon & Rees LLP, the firm's clients, or the views of Realogy Holdings Corp.*

all disputes arising from the franchise agreement or the relationship,"[2] and arbitration is a viable and, at times, cost-effective alternative to litigation. Because there is no inherent right to arbitrate, if a franchisor wishes to resolve disputes through arbitration, it must include an arbitration clause in the franchise agreement.

The arbitration clause should be carefully crafted and include specific provisions as to both procedural and substantive matters. It should be broad enough to encompass all issues that may need enforcement on foreign soil. Beyond the typical provisions, the franchisor may want to include language that addresses arbitration issues specific to the foreign jurisdiction.[3] To do that, it is important that franchisors (or their counsel) become knowledgeable about foreign laws or rules that may cause the arbitration clause to be unenforceable or prevent the parties from arbitrating certain issues. Franchisors should also determine the foreign court system's requirements for the recognition and enforcement of foreign arbitral awards and incorporate those provisions into the arbitration clause.

Extraterritorial Application of the Lanham Act

One issue that can arise in the domestic arbitration of an international agreement providing for the application of U.S. law is whether the franchisor can rely on the Lanham Act to obtain damages resulting from a former franchisee's continued use of the franchisor's trademarks outside of the United States after termination of the franchise agreement. Although such relief is routinely granted against U.S. citizens, jurisdictional issues may arise when attempting to obtain Lanham Act relief as a result of wrongful conduct outside of the United States or against a non-U.S. citizen or foreign entity.

The Supreme Court considered the Lanham Act's extraterritorial application in *Steele v. Bulova Watch Co.*[4] In that seminal case, the defendant, an American citizen, sold watches with the "Bulova" mark in Mexico. The parts for the watches were manufactured in the United States and Switzerland, but the watches themselves were assembled and sold only in Mexico.[5] The products did, however, ultimately end up in the United States via American tourists who purchased the watches while in Mexico.[6] The Court construed the Lanham Act broadly and rejected the defendant's argument that his activities did not fall within the jurisdictional scope of the Act, finding

2. 1 Harold Brown et al., Franchising: Realities and Remedies §§ 5.03A[2], 5-88 (2011).

3. The following issues should be spelled out: (1) the location where the arbitration will take place, (2) the applicable laws, (3) time limits for each step of the process, (4) how many arbitrators and the selection process, (5) the arbiter's powers, and (6) the court or courts in which the final determination will be entered for confirmation. Additionally, a confidentiality clause should also be included if the parties wish to avoid disclosure of the arbitration; however, it should be noted that it is not certain that such clauses would be enforceable. *See id.* §§ 5.03A[10], 5-138.

4. 344 U.S. 280 (1952).

5. *Id.* at 285.

6. *Id.* at 286.

that the defendant's purchase of parts in the United States was an "essential step" in the course of his business and that the infiltration of counterfeit watches into the United States could have an adverse effect on the plaintiff's reputation both domestically and abroad.[7]

Following the Supreme Court's decision in *Bulova*, the Second Circuit in *Vanity Fair Mills, Inc. v. T. Eaton Co.*[8] established a three-factor test to determine whether the Lanham Act should apply extraterritorially against a foreign entity. In *Vanity Fair*, the defendant, a Canadian corporation, successfully registered the plaintiff's trademark in Canada after the plaintiff, a Pennsylvania corporation, registered the trademark in the United States.[9] The defendant then ceased using its trademark and instead purchased and sold the plaintiff's products in Canada for approximately nine years.[10] Thereafter, the defendant resumed use of its trademark and sold products of inferior quality, while at the same time continuing to sell plaintiff's products in Canada.[11] The plaintiff sued seeking declaratory and injunctive relief.[12] Relying on *Bulova*, the court enumerated three factors to be considered: (1) whether the defendant's conduct had a substantial effect on U.S. commerce; (2) whether the defendant was a U.S. citizen; and (3) whether a conflict existed as to trademark rights established under the foreign law.[13] The court found that while the defendant's conduct had a substantial effect on U.S. commerce, the second two factors were not present. Noting that "the absence of one of the above factors might well be determinative and that the absence of both is certainly fatal," the court further concluded that the remedies available under the Lanham Act, with the exception of those provided for in § 44,[14] "should not be given extraterritorial application against foreign citizens acting under presumably valid trade-marks in a foreign country."[15]

After *Vanity Fair*, a number of circuits adopted the Second Circuit's three-factor test or a variation.[16] For example, the Fourth Circuit requires a balancing of the three factors, with no one factor being dispositive, but modified the first factor to require a "significant" effect as opposed to a "substantial effect on U.S. commerce."[17] The First Circuit likewise uses the

7. *Id.* at 286–87.
8. 234 F.2d 633 (2d Cir. 1956).
9. *Id.* at 637.
10. *Id.*
11. *Id.*
12. *Id.*
13. *Id.* at 642.
14. Section 44 affords U.S. citizens protection against unfair competition by foreigners who are nationals of international convention countries.
15. *Id.* at 642–43.
16. *See* Lawrence R. Robins & Kelly Donahue, *Extraterritorial Reach of the Lanham Act: A Viable Option*, WORLD TRADEMARK REV., Oct./Nov. 2013, at 106, *available at* http://www.edwards-wildman.com/edwards-wildmans-larry-robins-and-kelly-donahue-examine-the-extraterritorial-reach-of-the-lanham-act-in-world-trademark-review-magazine-09-05-2013/.
17. Nintendo of Am. v. Aeropower Co., 34 F.3d 246, 250 (4th Cir. 1994).

three-factor *Vanity Fair* test, but has disaggregated the factors and first determines whether the defendant is an American citizen.[18] If the defendant is not an American citizen, the court will then use the substantial effects test as the "sole touchstone to determine jurisdiction," and only thereafter will consider comity.[19] On the other hand, the Fifth Circuit has incorporated both the *Vanity Fair* three-factor analysis and part of the analysis used in *Bulova*.[20] In *American Rice, Inc. v. Arkansas Rice Growers Cooperative Association*,[21] the court determined that the Lanham Act could be applied to prevent conduct of the defendant U.S. corporation, even though the sale of the products bearing the allegedly infringing marks occurred in a foreign country.[22] This decision was based on the court's findings that the defendant's activities, i.e., the processing and packaging, transportation, and distribution of products, had "more than an insignificant effect on United States Commerce" and that while these activities, in isolation, were not unlawful, they were "essential steps in the course of business consummated abroad."[23]

Unlike the aforementioned circuit courts, the Ninth Circuit has adopted a much more involved, but less restrictive, analysis to determine whether the extraterritorial application of the Lanham Act is appropriate.[24]

> For the Lanham Act to apply extraterritorially: (1) the alleged violations must create some effect on American foreign commerce; (2) the effect must be sufficiently great to present a cognizable injury to the plaintiffs under the Lanham Act; and (3) the interests of and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.[25]

The third element, however, requires a balancing of seven factors:

> the degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.[26]

18. McBee v. Delica Co., Ltd, 417 F.3d 107, 121 (1st Cir. 2005).
19. *Id.* at 121; *see also* Robins & Donahue, *supra* note 16, at 107.
20. Am. Rice, Inc. v. Ark. Rice Growers Cooperative Ass'n, 701 F.2d 408, 414–15 (5th Cir. 1983).
21. *See id.*
22. *See id.*
23. *Id.* at 414.
24. Star-Kist Foods, Inc. v. P.J. Rhodes & Co., 769 F.2d 1393, 1395 (9th Cir. 1985); *see also* Robins & Donahue, *supra* note 16, at 107.
25. *Star-Kist Foods*, 769 F.2d at 1395 (9th Cir. 1985), citing Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406, 427–28 (9th Cir. 1977).
26. *Id.* at 1394 (9th Cir. 1985), quoting Timberlane Lumber Co. v. Bank of Am., N.T. & S.A., 549 F.2d 597, 614 (9th Cir. 1976).

This broader test, which requires only "some" effect on U.S. foreign commerce and weighs citizenship and conflicts of law issues against five other factors, enables the court to apply the Lanham Act extraterritorially where such application would not otherwise be permissible under the *Vanity Fair* test.[27]

Overall, whether the Lanham Act will be applied exterritorialy to provide relief for infringing conduct is a fact-sensitive inquiry. It should be noted, however, that the majority of cases cited above involved disputes concerning goods bearing registered trademarks as opposed to suits related to the franchise or service industries. Thus, it is also questionable to what extent the Lanham Act would be applied extraterritorially to provide relief for a former franchisee's violations outside of the United States.

Enforcing Arbitration Awards under the New York Convention

As any franchisor that has litigated against a foreign franchisee is aware, obtaining an award is only half the battle. The award must also be enforced in the country in which the franchisee resides or has assets that can be garnished or attached. The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, known as the New York Convention, was implemented in 1959, during a United Nations conference, to promote the use of arbitration on an international scale. The New York Convention provides that signatories, or Contracting States, will "recognize arbitral awards as binding and enforce them in accordance with the rules of procedure of the territory where the award is relied upon."[28] A Contracting State, when signing the Convention, may indicate that it will recognize and enforce awards made only within other Contracting States.[29] As of 2013, the number of Contracting States has grown to 149, which includes the United States.[30]

The New York Convention further provides for the referral of a dispute to arbitration by a court in a Contracting State. Article II of the Convention states that Contracting States must recognize agreements between the parties to resolve legal disputes through arbitration whether such agreement is in the form of an arbitration agreement or an arbitral clause in a contract.[31] Unless a court of a Contracting State finds an agreement is "null and void, inoperative, or incapable of being performed," at the request of one of the parties, such court must refer the parties to arbitration.[32]

27. *See* Robins & Donahue, *supra* note 16, at 107.

28. Convention on the Recognition and Enforcement of Foreign Arbitral Awards, art. III, June 10 1958, 21 U.S.T. 2517, 330 U.N.T.S. 38 [hereinafter New York Convention].

29. *Id.* at art. I.

30. New York Arbitration Convention, Contracting States, www.newyorkconvention.org, Contracting States, http://www.newyorkconvention.org/contracting-states (last visited Apr. 18, 2014).

31. New York Convention, *supra* note 28, at art. II(1), (2).

32. *Id.* at art. II(3). There is little guidance in the legislative history for the meaning of "null and void" and when it should be applied. Several courts, especially in the United States, have

Article IV of the Convention sets forth the procedure to obtain the recognition and enforcement of an arbitral award in a Contracting State. The party making the application must submit, to the appropriate court in the Contracting State in which it seeks to enforce the award, the authenticated original award or a certified copy and the original agreement to arbitrate or a certified copy.[33] Furthermore, if either of these documents is not in the official language of the county in which enforcement is sought, the application must include a translation, which must be "certified by an official or sworn translator or by a diplomatic or consular agent."[34]

Obstacles to the Enforcement of Foreign Arbitral Awards

While the purpose of the New York Convention is to promote arbitration as an effective international dispute resolution mechanism, there are a number of exceptions upon which a party seeking to avoid enforcement of an award may rely. The exceptions enumerated under Subsection 1 of Article V include circumstances where:

(1) the agreement is not valid under the governing law or under the law of the country where the award was made;
(2) insufficient notice of the proceedings is provided to the party against whom the award is invoked;
(3) the arbitration resolves disputes not covered by the agreement's arbitration provision, the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration;
(4) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or, failing such agreement, was not in accordance with the laws of the country where the arbitration took place;
(5) the award has not yet become binding on the parties, or has been set aside by a competent authority of the country in which, or under the law of which, that award was made;
(6) the subject matter of the dispute is not capable of settlement by arbitration under the laws of that country; and
(7) the recognition of enforcement of the award would be contrary to the public policy of that country.[35]

held that, having regard to the 'pro-enforcement-bias' of the Convention, the words should be construed narrowly and the invalidity of the arbitration agreement should be accepted in manifest cases only." *See* Albert Jan van den Berg, NEW YORK CONVENTION OF 1958: TOWARDS A UNIFORM JUDICIAL INTERPRETATION 24 (Klewer 1981).

33. New York Convention, *supra* note 28, at art. IV(1).
34. *Id.* at art. IV(2).
35. *Id.* at art. V.

Although the exceptions enumerated in 1 through 5 are capable of being applied more uniformly by Contracting States, whether an exception provided for in 6 or 7 will enable a party to avoid enforcement of an arbitral award is a fact-sensitive inquiry. Depending on the country in which enforcement is sought, this inquiry may require a review of an arbitrator's decision on liability as well as consideration of the relief sought in light of the Contracting State's public policy.

To best illustrate the enforceability of such awards, we have focused on their enforcement in some of the world's emerging franchise markets, notably Russia, China, India, South Africa, and Brazil. Specifically, we have surveyed the procedural aspects of enforcing awards in these countries and have examined the issues that may arise as related to the enforcement of awards providing for relief typically sought by franchisors, as a result of a former franchisee's breach of the franchise agreement, i.e., damages that are provided for under the Lanham Act, including liquidated damages, treble damages, injunctive relief, and attorney fees. Because of the lack of relevant published case law in these countries, we also consulted with local experts in arbitration and/or franchising and reported their conclusions.

Russia[36]

In 2013, the Russian Federation had a GDP of $2.55 trillion and had received $502.5 billion in foreign investments.[37] The USSR acceded to the New York Convention in 1960 through the Decree of the Presidium of the Supreme Soviet dated August 10, 1960. Following the collapse of the Soviet Union, the Russian Federation declared itself a successor to the USSR, meaning that Russia would be bound by all international treaties to which the USSR was a party, including the New York Convention.

To enforce an arbitral award in Russia the party seeking enforcement (we will presume here the franchisor) must initiate enforcement proceedings within three years of the date of the award.[38] The franchisor has to file an application with a state commercial court (arbitrazh court) in the franchisee's domicile or where its assets are located.[39] An original or certified copy of the arbitral award and the arbitration agreement must be included with the application, and all documents are required to be translated into Russian and notarized.[40] Enforcement proceedings generally take between six to twenty

36. The authors consulted with attorneys Alexey Barnashov and Konstantin Ryabinin, counsel and associate, respectively, in the Moscow office of Mannheimer Swartling.

37. *See* International Franchise Association, Country Fact Sheet: Russia, *available at* http://www.franchise.org/IndustrySecondary.aspx?id=45656.

38. Patricia Nacimiento & Alexey Barnashov, *Recognition and Enforcement of Arbitral Awards in Russia*, 27(3) J. INT'L ARBITRATION 295 (2010), *available at* http://www.whitecase.com/articles-09202010/.

39. *See id.*

40. *See id.*

months; if the arbitrazh court denies the application, the decision may be appealed to the court of cassation.[41]

Because Russia is a signatory to the New York Convention, in theory, arbitral awards should be enforceable once they are recognized by the arbitrazh court, provided they do not include relief, such as trademark ownership, that is subject to the exclusive jurisdiction of the Russian court system. Within the franchising context, awards that include a monetary component or injunctive relief for infringement of a recognized trademark generally are enforceable, provided none of the exceptions to the New York Convention are applicable and there is no dispute over the rights to a trademark. It should be noted, however, that as part of ongoing judicial reform, in August 2014, the Supreme Court, which previously was the highest court only for the courts of general jurisdiction, in a sense "acquired" the Supreme Arbitrazh Court and assumed the additional function of reviewing decisions rendered by the lower arbitrazh courts. As such, it is uncertain whether the previous case law set by the Supreme Arbitrazh Court will be followed by the court going forward.

While arbitral awards are enforceable in Russia, notwithstanding the exceptions of Article V, the abuse of the public policy exception to enforcement is commonly used as the basis for Russian courts to deny enforcement of an award. While the determination as to whether an award will be enforced is a fact-specific inquiry, there are certain categories of relief (described below) that may not be enforced in a Russian court.

Like the Lanham Act, Russian law provides for damages where a party's rights have been violated. Russian courts will enforce awards for actual damages. However, if an arbitral award exceeds the damages actually suffered by the franchisor, the Russian court may decline to enforce the award as contrary to public policy. Thus, while liquidated damages are achievable, liquidated damages must be calculated in a manner that compensates the franchisor for its loss, as opposed to punishing the franchisee. For example, in a recent case, the Supreme Arbitrazh Court, reversing all the lower court judgments denying enforcement, enforced a Swedish arbitral award for recovery of liquidated damages under contracts governed by Swedish law. In doing so, the court was effectively saying that although, strictly speaking, the concept of liquidated damages does not exist in Russian law, it bears similarity with certain Russian regulation.[42] This arbitral award ended up in Russian bankruptcy proceedings where the Russian higher courts considered the legal nature of the liquidated damages, finding them to be compensatory (rather than punitive) and thus gave them certain priority in the bankruptcy proceedings.[43]

By contrast, a Russian court will likely not enforce an award of treble damages, due to public policy concerns, since such damages are seen as an

41. *See id.*

42. Resolution of the Presidium of the RF Supreme Arbitrazh Court, 2011, No. 9899/09.

43. Resolution of the Federal Arbitrazh Court of the North-Western Okrug, 2014, No. A56-47238.

extreme penalty against the wrongdoer. Under Russian law, while a claimant can obtain compensation for wrongful use of a trademark, the court will, in its discretion, award only a marginal amount, typically amounting to only a few thousand dollars, as compared to an award of treble damages under the Lanham Act. Additionally, it is unlikely that a Russian court would enforce an award that includes the profit that the former franchisee made as a result of its continued wrongful use of the franchisor's trademark following the termination of the franchise agreement. Moreover, interest may be viewed by Russian courts as a penalty. Thus, if an arbitral award includes an interest component based upon what is deemed to be an excessive interest rate amounting to a penalty, the court may decrease the allowable interest in accordance with Article 333 of the Civil Code of the Russian Federation.[44]

While the Russian legislature has implemented no specific rule or statute dealing with attorney fees, they are likely recoverable. Thus, if an arbitral award includes an award of fees in addition to monetary relief for damages suffered, the award will likely be enforced, unless the court makes a determination that one of the exceptions of Article V of the New York Convention applies and provides a reason to deny enforcement. It should be noted that it is not necessarily a requirement that an individual or entity be a prevailing party to obtain an award of attorney fees. In a recent case, the Supreme Arbitrazh Court confirmed the lower courts' enforcement of a Swiss arbitral award that dealt exclusively with arbitration costs and attorney fees without resolving the dispute on the merits and terminating the arbitration proceedings on jurisdictional grounds.[45]

China[46]

The People's Republic of China, with a population of 1.34 billion, is the world's most populated country.[47] It has received $1.344 trillion in foreign investments.[48] China also has a GDP of $12.61 trillion. As of 2010, franchises accounted for 3 percent of China's total retail sales; approximately fifty U.S. based franchisors are doing business in China.[49] In 2012, the number of franchises exceeded 180,000 units.[50] The New York Convention was adopted by China in 1987 pursuant to the Decision of the Standing

44. Elena Frolovskaya & Natalya Babenkova, *Russia*, *in* FRANCHISE IN 32 JURISDICTIONS WORLDWIDE: GETTING THE DEAL THROUGH 155–56 (Philip F. Zeidman ed., 2011).

45. Resolution of the Presidium of the RF Supreme Arbitrazh Court, 2013, No. VAS-11513/13.

46. The authors consulted with attorneys Henry Chen of MWE China Law Offices in Shanghai and Matthew Murphy, a partner in the Beijing office of the MMLC Group.

47. *See* International Franchise Association, Country Fact Sheet: China, *available at* http://www.franchise.org/IndustrySecondary.aspx?id=45316.

48. *See id.*

49. *See* Philip F. Zeidman, *China: 2010 and Beyond*, FRANCHISING WORLD, Jan. 2010, *available at* http://www.franchise.org/Franchise-Industry-News-Detail.aspx?id=49348.

50. *See Building an Empire Internationally*, FRANCHISING WORLD, Sept. 1, 2013, http://franchisingworld.com/building-empire-internationally/.

Committee of the National People's Congress on China Joining the Convention on the Recognition and Enforcement of Foreign Awards.

To enforce an arbitration award in China, a foreign company must retain a Chinese attorney to file in a court in the jurisdiction in which the Chinese defendant is located. The court will then conduct a hearing to determine if the foreign arbitration award is enforceable. If the award does not violate the New York Convention, the local court will likely issue a decision to enforce the award. It typically takes six months to get an award enforced in China. The Chinese defendant may, however, attempt to block the enforcement of the award. Although it is unlikely that there would be any legal issues that would block enforcement, local protectionism could be a problem, and political connections to the judge or bribery could impact the decision. If that were to happen, however, and the foreign award was not enforced, the local court's decision could be set aside by the Supreme People's Court of China (SPC), which is likely to uphold such awards absent a violation of the New York Convention.

If an arbitral award was rendered outside of mainland China, it can only be set aside on the limited grounds set forth in the Convention. When an award has been rendered in mainland China, however, the award can be reversed by the Chinese courts, which can review the arbitrator's finding of facts and application of the law.[51] As such, it is important that a non-Chinese franchisor doing business in China include an arbitration clause that provides for arbitration to be conducted outside of mainland China. As to the type of relief that is enforceable in China, the perception that the Chinese courts tend to interpret the "public policy" exception loosely to avoid the enforcement of foreign awards appears to be changing.[52] On April 17, 2000, the SPC implemented a process under which it automatically reviews any lower Chinese court's refusal to enforce a foreign arbitral award.[53] This, at least in theory, adds a layer of protection for non-Chinese businesses seeking to enforce awards against Chinese individuals and entities.

In the franchise context, enforcement of relief that is typically sought and obtained by franchisors generally should not be a problem. As a result, a franchisor can enforce an award that includes liquidated damages, injunctive relief, trademark damages, and attorney fees.

India[54]

The Republic of India, with 1.22 billion people, is the second most populated country.[55] India's GDP is $4.761 trillion and it received $229.2 billion

51. Henry (Litong) Chen & B. Ted Howes, *The Enforcement of Foreign Arbitration Awards in China*, 2(6) Bloomberg Law Rep.–Asia Pacific 2009, at 1, *available at* http://www.mwe.com/info/pubs/BLR_1109.pdf.

52. *See id.* at 2.

53. *See id.*

54. The authors consulted with attorney Shwetasree Majumder of Fidus Law Chambers in Noida, India.

55. *See* International Franchise Association, Country Fact Sheet: India, *available at* http://www.franchise.org/IndustrySecondary.aspx?id=45436.

in foreign investments.[56] Its franchising sector is growing approximately 30 percent per year.[57] India became a signatory to the New York Convention in 1958 and ratified the Convention through the Foreign Awards (Recognition and Enforcement) Act of 1961.

To enforce a foreign arbitral award in India, the party seeking enforcement must file an application to the court of competent jurisdiction. India's Arbitration & Conciliation Act of 1996 (Conciliation Act) provides as follows:

> (1) The party applying for the enforcement of a foreign award shall, at the time of the application, produce before the court—
> (a) The original award or a copy thereof, duly authenticated in the manner required by the law of the country in which it was made;
> (b) The original agreement for arbitration or a duly certified copy thereof, and
> (c) Such evidence as may be necessary to prove that the award is a foreign award.[58]

Additionally, this law further requires that if the award or agreement is in a foreign language, the party seeking enforcement must also submit a translation into English which has been "certified as correct by a diplomatic or consular agent of the country to which that party belongs or certified as correct in such other manner as may be sufficient according to the law in force in India."[59] If the court determines that the arbitral award is enforceable under Chapter I of the Conciliation Act, the award will be deemed to be a decree of that court.[60]

Arbitration awards are enforceable in India in accordance with the Act, which is the governing arbitration statute in India. The circumstances under which a court may refuse to enforce an award are almost a mirror image of those set forth in the New York Convention and are also set forth in Section 48 of the Conciliation Act.[61] As to the exception providing that enforcement will not be required in the event it is contrary to the public policy of India, the Act specifically states that "[w]ithout prejudice to the generality of clause [48(2)](b), it is hereby declared, for the avoidance of any doubt, that an award is in conflict with the public policy of India if the making of the award was induced or affected by fraud or corruption."[62] In *Renusagar Power Co. Ltd vs General Electric Co.*, the Indian Supreme Court held that the enforcement of foreign awards in India would be refused only if enforcement is contrary to public policy, further defined as

56. *See id.*
57. *See* Kristin Houson, *U.S. Commercial Service to Franchisors: Seize the Trends and Grow Globally*, FRANCHISING WORLD Mar. 2011, *available at* http://www.franchise.org/Franchise-Industry-News-Detail.aspx?id=53749.
58. Arbitration and Conciliation Act § 47, 1996, No. 26, Acts of Parliament, 1996, *available at* http://indiacode.nic.in/.
59. *See id.* § 47(2).
60. *See id.* § 49.
61. *See id.* § 48.
62. *See id.*

(1) fundamental policy of Indian law, or (2) the interests of India, or (3) justice or morality.[63]

However, like in Russia, typically only monetary awards are enforceable, and an arbitral award that has an effect of superseding the jurisdiction vested in an Indian court would be considered contrary to public policy. For example, a foreign arbitral award that decides the validity of a trademark in India would not be enforceable because such determinations must be made based upon Indian laws by an Indian civil court.

Courts in India generally allow liquidated damages and the inclusion of this type of damages in an arbitral award will not prevent enforcement. Treble damages will not be barred as contrary to public policy. While there are no reported instances of treble damages being awarded in India, a court enforcing the monetary component of an arbitral award will enforce it in its entirety. A court will not review or modify the amount of a monetary award.

Notably, a foreign arbitral award that includes preliminary or permanent injunctive relief would not be enforceable because the power to grant injunctive relief is a power vested solely in Indian courts. An arbitral tribunal is not considered a competent authority to enter an injunction under Indian civil laws. However, if an arbitral award contains factual findings necessitating an injunction, the party seeking such relief in India would be able to make a separate application in a civil court based upon those findings. A civil court would consider an arbitral tribunal's findings to be persuasive and would give such findings weight in rendering its decision as to whether injunctive relief is warranted.

Lastly, attorney fees are considered "costs" in Indian jurisprudence and are general paid by the losing party. Regardless, the award of fees is not contrary to the public policy of India and will be enforced if included in an arbitral award.

South Africa[64]

Africa is another attractive development area for franchisors because of the growing consumer purchasing power. "It is estimated that African consumers will spend $2.2 trillion on goods and services by 2030."[65] The Republic of South Africa has a GDP of $592 billion and has received $139.7 billion in foreign investments.[66] South Africa adopted the New York Convention through the promulgation of the Recognition and Enforcement of Foreign Arbitral Awards Act of 1977 (Recognition Act).

63. Renusagar Power Co. Ltd vs Gen. Elec. Co., AIR 1994 SC 860; *see also* Shri Lal Mahal Ltd. v. Progetto Grano Spa, 2013 (3) ARBLR 1 (SC).

64. The authors consulted with Darryl Bernstein, a partner in the Johannesburg office of Baker & McKenzie, and Darren Band, a director with the law firm ENSafrica, also in Johannesburg.

65. *Franchising in Africa*, FRANCHISING WORLD, Aug. 1, 2013, http://franchisingworld.com/franchising-africa/.

66. *See* International Franchise Association, Country Fact Sheet: South Africa, *available at* http://www.franchise.org/IndustrySecondary.aspx?id=45592

The Recognition Act provides that parties seeking to enforce an arbitral award may file an application with the appropriate South African High Court. If the application is granted, the arbitral award will be made an order of that court and can be enforced as such. An application for an order of the court must include either the original foreign arbitral award and arbitration agreement, "authenticated in the manner in which foreign documents may be authenticated to enable them to be produced in any court," or a certified copy of the award and the agreement.[67] Additionally, if the award or the agreement is in any language other than one of the official languages of the Republic (of which English is one), the party seeking enforcement must submit a sworn translation into one of the official languages that has been properly authenticated. The process to enforce an award generally takes between one and six months, depending on whether the award is opposed. If unopposed, the process to enforce the award will likely cost approximately ZAE 50000, or roughly $5,000.

South African courts recognize a number of defenses to the enforcement of a foreign arbitral award. These exceptions are provided for in Section 4 of the Recognition Act and are essentially identical to the exceptions set forth in the New York Convention noted earlier in this article. In addition to these exceptions, it should further be noted that a defendant attempting to avoid enforcement of an arbitral award may argue that the absence of the consent of the minister of trade and industry precludes enforcement if the underlying transaction between the parties falls within the scope of Section 1(3) of the Protection of Businesses Act 99 of 1978. The Protection of Businesses Act, however, has been interpreted narrowly by the courts, and the requirement of obtaining ministerial consent is limited to acts or transactions involving raw materials or substances used to manufacture goods and excludes the manufactured goods themselves; thus, it is unlikely that the Act would impact the enforcement of an arbitral award obtained in the franchising context. Furthermore, the counsel we consulted was not aware of any recorded instance in South African case law in which a defendant successfully avoided the enforcement of an arbitral award based upon the Protection of Businesses Act.

With regard to franchisees attempting to avoid the enforcement of foreign arbitral awards, there are no specific exceptions to the New York Convention upon which they may rely. There is, however, consumer protection legislation that applies to franchise agreements, which arguably include distribution, licensing, and agency agreements in this context. The Consumer Protection Act of 1998 applies to every transaction occurring in South Africa, unless exempted by the minister, and provides comprehensive requirements to which franchise agreements must conform. Accordingly, where an award does not meet or negates these requirements, there may be grounds to raise opposition to enforcement on the basis of public policy. The success of

67. Recognition and Enforcement of Foreign Arbitral Awards Act 40 of 1977 s. 3(a)(i).

such an argument would depend on the facts and the extent of deviation from South Africa's public policy.

Public policy in South Africa does not prevent a party from enforcing a foreign arbitral award of liquidated damages. Any foreign award for liquidated damages enforced by a South African court will be converted into local currency (South African Rand) at the prevailing exchange rate as of the date of the award. Treble and punitive damages, however, are generally not recognized under South African law, and an injured party is entitled to no more than compensation for actual damages. The quantum of damages awarded is in no way dependent upon the reprehensible behavior of the defendant. Thus, punitive or multiplied damages have, for the most part, been regarded as contrary to South African public policy.

The courts have made allowances for the enforcement of foreign judgments which include punitive damages, but only on a case-by-case basis. As an example, in the case of *Jones v Krok* 1996(1) SA 504 (T), an American plaintiff sought to enforce a judgment from the Superior Court of the State of California in a South African court against a South African defendant. The foreign judgment was for $13 million in compensatory damages and $12 million in punitive or exemplary damages. The defendant argued that recognizing and enforcing an award of punitive damages, being alien to South African law, would be contrary to South African public policy. The court held that the mere fact that foreign awards are made on a basis not recognized in South Africa does not necessarily mean they are contrary to public policy. Whether a foreign judgment is contrary to South African policy depends on the facts in each case. Ultimately, the award for punitive damages was so exorbitant that the court held that to enforce it would be contrary to South African public policy. However, this holding suggests that the South African courts have not foreclosed upon the possibility of enforcing an award which provides for treble or punitive damages. Generally speaking, however, it is unlikely that an arbitration award providing for treble damages pursuant to the Lanham Act would be recognized by a High Court of South Africa without a comprehensive justification.

Public policy in South Africa would not prevent the enforcement of an arbitral award that included preliminary injunctive relief, permanent injunctive relief, or a determination as to the validity of a trademark. While the determination as to whether to enforce is proper would need to be made on a case-by-case basis, such relief would appear to be compatible with national legislation, including the Trade Marks Act of 1993, which recognizes and protects well-known international trademarks under the Paris Convention. To the extent that an arbitral award falls out of line with the Paris Convention, the issue would be determined in accordance with public policy.

Finally, attorney fees and the cost of proceedings generally "follow the cause" and are awarded to a successful litigant. As such, it is unlikely that a reasonable award of fees would offend public policy in South Africa. Excessive fees, however, might be subject to a challenge.

Brazil[68]

The Federative Republic of Brazil has a population of approximately 201 million and has received $595.7 billion in foreign investments.[69] Franchises in Brazil generated $44 billion in profits in 2011.[70] Brazil acceded to the Convention in 2002 through the passage of Legislative Decree No. 4.311/2002. However, prior to Brazil's adoption of the Convention, arbitration had already been increasingly utilized as an alternative to litigation largely as a result of the passing of Brazil's arbitration law, Law No. 9.307/1996 (Arbitration Act).[71] Subsequent to the passage of the Convention, the legislature amended the Arbitration Act to include Articles 37 through 39, which essentially replicate Articles IV and V of the New York Convention.[72]

For an arbitral award to be enforceable in Brazil, it must be approved by the Superior Court of Justice, the highest court in Brazil for non-constitutional questions of law. When examining a party's application for the ratification of a foreign arbitral award, the court will not review the merits of the award, but rather will only conduct an analysis to determine whether the formal requirements of the Convention and the analogous provisions of the Arbitration Act have been satisfied. Once ratified, an arbitral award is fully enforceable in any court in Brazil. As a general rule, the Brazilian courts during both the ratification of an award and its execution respect and embrace the decisions rendered by arbitrators in foreign arbitration proceedings.

The Superior Court of Justice will ratify an award which contains relief in the form of liquidated damages. Article 210 of Brazilian Law No. 9.279 (Industrial Property Law) provides for a similar form of relief. Specifically, it provides as follows:

> Loss of profits shall be determined using the most favorable criterion to the aggrieved party, which include:
>
> I. the benefits that the aggrieved party would have made if the violation had not occurred;
> II. the benefits made by the perpetrator of the violation of the right; or
> III. the remuneration that the perpetrator of the violation would have paid to the titleholder of the violated right through the granting of a license that would have allowed him to lawfully exploit the property.[73]

68. The authors consulted with attorneys Luiz Henrique Oliveira do Amaral and Rodrigo Torres, members of Dannemann Siemsen in Rio de Janeiro.

69. *See* International Franchise Association, Country Fact Sheet: Brazil, *available at* http://www.franchise.org/IndustrySecondary.aspx?id=45346.

70. *See* Ricardo Geromel, *Franchising: The Best Way of Investing in Brazil*, FORBES, July 27, 2012, http://www.forbes.com/sites/ricardogeromel/2012/07/27/franchising-the-best-way-of-investing-in-brazil/.

71. *See* André Abbud, *Fifty Years in Five? The Brazilian Approach to the New York Convention* 3, *available at* http://www.bmalaw.com.br/nova_internet/arquivos/Artigos/AAA.pdf.

72. *Id.*

73. Lei da Propriedade Industrial [Industrial Property Law] No. 9.279 § 210 de 14 de Maio de 1996, *available at* http://www.wipo.int/wipolex/en/text.jsp?file_id=125397.

As such, Brazil seemingly has implemented a legislative scheme providing for relief similar to liquidated damages permitted under the Lanham Act.

Arbitral awards which provide for treble damages are likewise enforceable in Brazil. However, the award should note that the treble damages amount to a penalty so that the Brazilian Court understands why such damages are higher than the actual damages suffered by the party seeking ratification and enforcement. Provided that it does not fall within one of the exceptions set forth under Article V of the Convention, the Superior Court of Justice will ratify a foreign arbitral award which includes preliminary or permanent injunctive relief, thereby rendering it enforceable. Finally, attorney fees are recoverable in Brazil, and thus, an arbitral award providing for the imposition of fees would be enforceable. Like awards for treble damages, the arbitral award should specify the portion of the amount attributable to attorney fees.

Moving Forward

Franchisors seeking to expand into an international market should be aware of issues that may arise in connection with the enforcement of an arbitral award obtained in the United States. While these issues cannot be avoided, franchisors should take certain steps to better safeguard themselves, even before the franchise relationship begins and during the drafting and negotiation process. Here are some practical considerations and recommendation when preparing an agreement:

- Most importantly, there must be an express arbitration clause in the franchise agreement because certain arbitration organizations like the AAA and JAMS require a provision allowing them to arbitrate the matter.
- State the venue of the arbitration.
- Specify the choice of law that will govern the franchise agreement. AAA and other organizations also have their own set of rules. In addition, keep in mind that if the franchisee is a foreign citizen or company, the Ninth Circuit looks at the exterritorial application of the Lanham Act more favorably than other jurisdictions.
- Because the exterritorial application of the Lanham Act may be an issue, the franchise agreement should not only provide that U.S. law (including the Lanham Act) applies, it should spell out compensatory and liquidated damages as well as injunctive relief. If Lanham Act damages are not awarded, the franchisor may still be able to receive other forms of recovery.
- The parties should provide for a formula for calculating any liquidated damages and should state that it would be difficult to otherwise predict and calculate liquidated damages. In addition, the parties should agree that liquidated damages are not a penalty, but merely a reasonable calculation of what the franchisor would have received in royalties had the franchise agreement not been terminated prematurely.

- Provide a provision for the award of attorney fees and costs to the franchisor should it be forced to bring an arbitration proceeding against the franchisee.
- Because it may take some time to arbitrate and enforce an award, the franchisor may wish to provide for the calculation of interest from the time a royalty payment is overdue.
- Even if a country is a member to the New York Convention, it may have its own particular rules for domesticating and enforcing the arbitral award. Public policy issues unique to each country also could potentially present problems. Thus, if possible, franchisors should consult local counsel even before considering expansion to that market. Certainly, franchisors should consult such counsel prior to concluding an arbitration to make sure the actual award is written and positioned for optimal enforcement.