Ukraine

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Introduction

Government Attitude Towards Foreign-Owned Enterprise

The Law of Ukraine on Regime of Foreign Investments[1] (the "Foreign Investment Law") stipulates a legal regime of investment activities for foreign investors as equivalent to that for domestic investors, with exceptions provided by national laws and international treaties.

Privileged regimes may be set up for entities carrying out investment under state programs of development of certain industrial branches, the social sphere, and certain territories. The Foreign Investment Law[2] lists guarantees provided by Ukraine regarding foreign investment. The guarantees include:

- A guarantee against change of legislation;
- A guarantee regarding compulsory withdrawal as well as illegal actions of state bodies and officials;
- A guarantee to compensate for and reimburse damages to foreign investors;
- A guarantee in case of termination of the investment activities; and
- A guarantee for transfer profits and monetary means from investment activities.

Bilateral treaties on promotion and mutual protection of the investments (BITs) provide that each contracting state in its territory must render to investments and profits of investors of another contracting state a regime that is fair and equitable but not less favorable than a regime rendered to investments and profits of the national investors or investors of any other third state (depending on which regime is more favorable). According to United Nations Conference on Trade and Development (UNCTAD) statistics, Ukraine has concluded 79 BITs.[3] These, in most cases, conform to international standards. The main purpose of the treaties is to create the favorable conditions to improve economic cooperation between Ukraine and other countries, including the sphere of capital investments.

1 Law Number 93/96-BP of 19 March 1991, as amended.
2 Foreign Investment Law, chapter II.
3 *See* http://investmentpolicyhub.unctad.org/IIA/CountryBits/219.

Ukraine is a party to the Energy Charter Treaty that, in its section 3, provides a comprehensive regime (just and equal treatment) for the protection of investments in the energy sector.[4] Under the Ukrainian Constitution,[5] international treaties are *ipso jure* integral parts of the Ukrainian legal system and are directly applicable. They supersede the Foreign Investment Law and prevail over it in case of conflict.

Under the Law of Ukraine on Investment Activities, Ukraine guarantees stability for investment activities.[6] There is no discrimination as to foreign investors in Ukraine. Ukraine provides fair and equitable treatment to investors, irrespective of their nationality or volume of the invested capital.

There is a restriction as to land ownership. Foreign-owned or joint ventures may purchase only non-agricultural land if an immovable is located there. The purchase of land may be made only with approval of the Cabinet of Ministers of Ukraine if the land is owned by a local community. If the land is state-owned, the sale is made by the Cabinet of Ministers under the Ukrainian Parliament's approval.

Freedom of Operation

Any person, including a foreigner, has the right to be engaged in any business activities both through registration as private entrepreneur or through setting up an enterprise. Along with establishing the rights and freedom of enterprise activity, the law provides some limitations, such as:

- The eligibility to carry out some activities only by state-owned enterprises (*e.g.*, production and sale of drugs and weapons); and
- The licensing of some kinds of activities, such as medical services, insurance activities, transportation, and maintenance of communication networks.

Exchange Controls and Taxes

Fundamental normative acts in the field of currency relationships regulation in Ukraine are the Law on Currency and Currency Operations.[7] According to the regime provided by the Law, the following principles of the currency regime can be formulated:

- the freedom to carry out foreign exchange transactions, which provides:
  - the right of natural and legal persons-residents to enter into agreements with residents and/or non-residents and to fulfill obligations related to these agreements in national currency or in foreign currency, including opening accounts in financial institutions of other countries;

4 Energy Charter Treaty, part 1, article 10.
5 Constitution, article 9.
6 Constitution, article 18.
7 Law Number 2473-VIII of 21 June 2018.

  - the right of individuals and legal entities-residents to acquire foreign currency values, assets abroad, to transfer currency values through the customs border of Ukraine;
  - introduction of restrictions and protection measures solely to ensure the stability of the financial system and the balance of payments of Ukraine;
  - prevention of unlawful and unjustified interference of the state in foreign exchange transactions;
- risk-orientation, transparency, adequacy, and effectiveness of currency regulation, implemented through:
  - the focus on ensuring financial stability, and economic and social development;
  - the compliance of measures of protection, the timing of their introduction, and the scope of their associated currency constraints to the scale and structure of systemic risks that threaten financial stability;
  - the justification for the introduction and extension of the protection measures;
  - temporary nature of the measures of protection;
  - accountability and publicity of the National Bank of Ukraine during the introduction of protection measures, extension of their term of validity, and evaluation of the effectiveness of the application of protection measures;
  - the priority of less discriminatory instruments of exchange regulation over the more discriminatory and proportionate application of such instruments;
  - the priority of market instruments of currency regulation over administrative ones;
- autonomy and market orientation of currency regulation, which includes:
  - currency exchange rate flexibility;
  - the independence of the National Bank of Ukraine in the formation and implementation of monetary and monetary policy within the limits specified by law.

Royalty or license agreements concluded with foreign entities are subject to the currency control made by local banks acted as tax agents. Local banks check whether withholding tax is being paid. Under the Tax Code of Ukraine,[8] for the purpose of taxation, royalty and licensed payments obtained by an investor are treated as taxable income. A resident company which makes a royalty or license payment in favor of a foreign licensor must deduct from the payment and additionally pay tax on repatriation of profits in the amount of 15 per cent for the account of payment, unless otherwise stipulated by international treaties.

As a result, the rate of withholding tax may be decreased if the franchisor is registered in the country with which such a treaty is signed. The Ukraine has concluded a number of bilateral treaties on the avoidance of double taxation with

8 Tax Code, article 141.4.

countries such as Austria, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Great Britain, Greece, Hungary, India, Indonesia, Iran, Italy, Lebanon, Macedonia, Malaysia, The Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Sweden, Switzerland, Turkey, United States, and Vietnam. Ukraine also has concluded bilateral treaties on the avoidance of double taxation with all 14 former Soviet republics.

Withholding tax is paid on the money to be transferred. To receive the benefits under a double-taxation treaty, the franchisee, when transmitting payment, must have evidence that the franchisor does not have a residence in Ukraine and that it has a permanent residence in the foreign country in question according to the terms of the corresponding double-taxation treaty.

Import Control Requirements

Article 75 of the Customs Code of Ukraine (the "Customs Code") stipulates the conditions for importation of goods. It requires submission to the fiscal service authority that performs release of goods, and documents for such goods; payment of duties that are imposed upon the goods in the course of their importing into the customs territory, according to the laws of Ukraine; and compliance with requirements on non-tariff regulation measures of international business activity.

Franchising

In General

Though franchising is used in Ukraine for quite a long time, there is no reliable statistics on it. Just recently, the head of Franchise Association in Ukraine stated that there are more than 23,000 franchise units and approximately 700 franchisors, 65 per cent of which are Ukrainians. Franchising is mostly used in food service (15 per cent), retail (60 per cent), and consumer services (25 per cent).[9] Another expert opinion states lower digits — 361 franchisors with 16,136 outlets.[10]

The fall in the value of local currency which happened three years ago impacted negatively on franchising as equipment produced abroad became three times more expensive, while prices for sold goods changed only by 40 to 50 per cent. Though some Ukrainian banks are ready to loan to business development, in general, Ukrainian banks are still not open to franchising, as banks still do not consider a franchise as a security as there are no methods of franchise evaluation.

9 https://ffc.expert/ffc-blog/franchayzingovyy-rynok-ukrainy/.
10 https://www.export.gov/article?id=Ukraine-Franchising.

Substantive Legal Issues

Competition

The Law of Ukraine on the Protection of Economic Competition (the "Competition Law") defines the legal grounds for the maintenance and protection of economic competition. The list of prohibited (concerted) practices stated in article 6 of the Competition Law (the "article 6 List") includes:

- Setting prices or other conditions with respect to the purchase or sale of products;
- Restricting production, product markets, technical and technological development, and investments or establishing control over them;
- Distributing markets or sources of supply in accordance with the territorial principle, the assortment of products, or the volume of their sale or purchase, in accordance with the circle of sellers, buyers, or consumers;
- Results of distortion of bids, auctions, competitions, and tenders;
- Removing other economic entities, buyers, or sellers from the market or limiting their entry into (or exit from) the market;
- Applying different conditions to equivalent agreements concluded with other economic entities, which results in the creation of a disadvantage for these economic entities in terms of competition;
- Concluding agreements providing that other economic entities assume additional obligations whose content or which in terms of customs in trade and other fair customs in entrepreneurial activities have nothing in common with the subject of these agreements; and
- Substantially limiting the competitiveness of economic entities on the market without objectively justified cause.

The provisions of the article 6 List are not applied to voluntary concerted actions of small and medium-sized entrepreneurs[11] if the joint purchase of products does not result in the substantial restriction of competition and facilitates raising the competitiveness of the small and medium-sized entrepreneurs.[12] In addition, the Law is not applied[13] to agreements on the assignment (transfer) of intellectual property rights, or on granting the right to use intellectual property objects, if these limitations are within intellectual property franchisors' rights. The Competition Law states that limitations are allowed if they concern the volume of intellectual property use, term and territory, activities, and minimum volume of production.

The Civil Code of Ukraine (the "Code") provides exemption from the Competition Law, including a right to exclusive territories.[14] In the case of granting an exclusive

11 The total income (proceeds) from the sale of products (goods, work, and services) in the last financial year or the total assets that do not exceed a sum equivalent to €500,000.
12 Competition Law, article 7.
13 Competition Law, article 9.
14 Civil Code, article 1116.

territory to a franchisee, the franchisor must preserve the exclusivity and is prohibited from using it himself or rendering it to other persons.[15] This exemption in fact is based on the civil law provision describing the scope of the exclusive rights of a trade mark owner whose intellectual property rights to the trade mark[16] include:

- The right to use the trade mark;
- An exclusive right to permit the use of the trade mark;
- An exclusive right to prevent unlawful use of the trade mark, including prohibition of such use; and
- Other property rights of intellectual property granted by law.

Irrespective of the allowance of an exclusivity clause, an absolute territorial protection is prohibited.[17] This prohibition implies the franchisee's obligation to satisfy orders of final consumers irrespective of whether such orders arise from the franchisee's territory or beyond it. Although the article 6 List prohibits price maintenance, the exemption is given[18] by the Competition Law to concerted actions relating to the supply and use of products if these restrictions are imposed on:

- The use of products supplied by the franchisor or on the use of products of other suppliers;
- The purchase of other products from other suppliers or on the sale of other products to other economic entities or consumers;
- The purchase of such products that, due to their nature or in terms of customs in trade and other fair customs in entrepreneurial activities, have nothing in common with the subject of the franchise agreement; and
- The setting of prices or other contractual conditions for selling a supplied product to other economic entities or consumers.

Irrespective of this exemption, the Code clearly states that the franchise agreement provision fixing a price ceiling is void.[19] Thus, there is a conflict of legal provisions. Although there is no court practice on the issue, it is obvious that a franchisor is not allowed to dictate the price but only to recommend it to the franchisee. Tying arrangements are allowed if they have commonality with the subject of the franchise agreements and relate to the supply and use of products supplied by the franchisor or the use of products of other suppliers, the purchase of other products from other economic entities, or the sale of other products to other economic entities or consumers. One of the franchisee's special obligations under the Code is his obligation not to compete with the franchisor in the territory covered by the franchise agreement during the term of the agreement. A

15 Civil Code, article 1122.
16 Civil Code, article 495.
17 Civil Code, article 1122.
18 Civil Code, article 8.
19 Civil Code, article 1122.

similar obligation is a franchisee's obligation not to obtain identical rights from the franchisor's competitors.

The Competition Law prohibits economic entities from having substantial market power to create barriers to economic activities of small or medium-sized entrepreneurs, which usually are licensees, distributors, and franchisees, to establish restrictions that, as a rule, are not applied to the relevant activities of other licensees, distributors, and franchisees of the franchisor, or to apply, without objectively justified causes, different approaches to different licensees, distributors, and franchisees. It is prohibited for franchisors to induce other economic entities to provide, without objectively justified causes, advantageous conditions for only selected licensees, distributors, and franchisees.[20]

Horizontal practices[21] are allowed and do not need notification if the general share of all participants in the horizontal practices do not exceed five per cent of the market. If no participant in the horizontal restriction has a monopoly position in the market, the total share of the market may reach 20 per cent. If these limits are exceeded, the parties need to apply to the Antimonopoly Committee of Ukraine for permission to enter into horizontal practices.[22]

Distributors and Agents

Ukrainian law does not define distributors or distributor agreements as separate types of contracts. Usually, the general norms of purchase and sale contracts are applied to distributor agreements. Purchase and sale contract norms are applied to franchise agreements relative to the franchisee's liability to purchase stock or equipment from the franchisor.

The agency relationship is regulated by the Commercial Code of Ukraine,[23] which treats agency activities as business activities that envisage services to be provided by commercial agents to business entities by way of mediation on behalf, for the benefit, and under the control, of the entity represented. Agency agreements may include provisions with regard to the territory where the commercial agent exercises his activities. If such territory is not specified, it will be deemed that the agent acts within all of Ukraine. In addition, agency agreements must specify the sphere, nature, and procedure of the mediation services provided by the agent.

20 Competition Law, articles 19 and 20.

21 Defined by the Typical Requirements for Agreed Practices of Economic Entities for General Exemption from Preliminary Allowance of the Antimonopoly Committee of Ukraine Bodies for Such Concerted Practices, Number 27-p of 12 February 2002, as amended, as an agreement (or restriction) between undertakings operating at the same level of supply in the market, such as between two or more manufacturers or two or more retailers.

22 Order Number 26-p of 12 February 2002.

23 Commercial Code, chapter 31.

According to the agency agreement, one party (the commercial agent) is obligated to provide services to another party (the entity represented by the agent) with regard to the conclusion of agreements or facilitation thereof (provision of actual services) on behalf and at the cost of the entity. Under franchise agreements, one party (a franchisor) is obliged to grant to another party (a franchisee), for a fee, the right of use of a franchise aimed at the manufacturing and/or sale of a specific type of goods and/or providing services.

Specific Legislation

The Civil Code and the Commercial Code of Ukraine regulate commercial concession agreements,[24] which are treated as analogous to the franchise agreements. As the Codes regulate franchise agreements similarly, this chapter refers only to the Civil Code.

Ukrainian entities may refer to agreements either as franchise or commercial concession agreements. If a franchisor is a foreign entity, the agreement is usually called a franchise agreement. If both parties are Ukrainian companies, they will prefer to call the agreement a commercial concession. If a franchise agreement is executed in a foreign language and called a franchise agreement, the parties need to decide which term to use in Ukrainian translation.

Under a franchise agreement, a franchisor grants, and a franchisee accepts, for payment, the right to use a certain complex of rights[25] owned by the grantor for the production and/or sale of goods and services. The complex of rights includes "intellectual property rights for trade and service marks, inventions, industrial samples, copyright, commercial experience, and business reputation".[26]

Although the Code provides that the franchisor must supply the franchisee with his business reputation among other components of the "scope of rights", in reality a business reputation cannot be handed over. In accordance with the Code, article 201, a business reputation belongs to the category of the personal intangible rights of an individual. However, legal entities may have a business reputation, which will be considered as the intangible right of such a legal entity. Legal intangible rights are unalienable rights under Ukrainian legislation, and these rights may not be handed over to another person.

As the basic franchise agreement is a single-unit franchise agreement, it is the single-unit franchise agreement which is encompassed by the Code. The Code notes two types of agreements, *i.e.*, the franchise agreement itself and the agreement of commercial sub-concession ("sub-franchise agreements"). The Code provides

24 Although the Civil Code designates franchise agreements as commercial concessions, they have nothing in common with concession agreements regulated by the Law of Ukraine on Concessions, Number 997-XIV of 16 July 1999.

25 The Code does not apply the notion of franchise that is named as a certain complex of rights. As there is no definition of franchise, there is no threat for it to be treated as "securities" and to be subject to securities regulation.

26 Civil Code, article 1116.

that, under sub-franchise agreements, "the right to use the scope or part of the scope of rights granted" may be granted to a sub-franchisee.

If the franchisee is entitled to make contracts with third parties (sub-franchisees) with the right to hand over for further use the rights granted by the franchisor, the agreement with the franchisor may be considered as either the franchise agreement or the master franchise agreement, although there is no separate notion of the master franchise agreement in the Code. Absent the nomination of a certain kind of agreement does not mean a prohibition to enter into such agreement. Under the Code,[27] civil rights and obligations arise from the actions of persons, prescribed by civil legal acts, as well as from actions of persons not prescribed by these acts, arising by analogy.

To the extent that, under franchise agreements, the objects of intellectual property rights are granted, franchise relations will be regulated not only by the provisions of the Code directly governing franchise agreements, but also by other chapters of the Code[28] and special legislation on protection of intellectual property rights, *i.e.*, the Law of Ukraine on Protection of Rights to Trade Marks for Goods and Services[29] (the "Trade Mark Law"), the Law of Ukraine on Protection of Rights to Inventions and Utility Models,[30] the Law of Ukraine on Protection of Rights to Industrial Designs,[31] and the Law of Ukraine on Copyright and Associated Rights.[32] As stated above, franchise agreements are governed by the Competition Law and the respective instructions issued by the Antimonopoly Committee of Ukraine for the enforcement of this law.

There is no requirement for the parties to govern the franchise agreement only with Ukrainian law. The concept of "contract freedom" is fundamental both for the Code and the Law of Ukraine on international Private Law. Thus, the parties are free to choose any foreign law and such choice will be valid and enforceable in any Ukrainian court. The parties may decide to choose the Ukrainian law but withdraw from the regulation provided for franchise agreements in the Code.[33] Such withdrawal will be clearly expressed in the franchise agreement.

In addition, the parties are free to choose a court authorized to settle disputes between them. Within such choosing, the franchisor must remember that a judgment obtained in a foreign court may be recognized or accepted for execution by the courts of Ukraine only if there is an international treaty providing such recognition and execution[34] or under the reciprocity principle that is treated as existing. Ukraine has bilateral treaties providing recognition and enforcement of foreign

27 Civil Code, article 11.
28 Civil Code, chapters 35, 36, 38–44, and 46.
29 Law Number 3689-XII of 15 December 1993, with amendments and supplements.
30 The new edition was adopted by the Law of Ukraine on 1 June 2000, Number 1771-III, with respective amendments and supplements.
31 Law Number 3688-XII of 15 December 1993.
32 The new edition was adopted by the Law of Ukraine on 11 July 2001, Number 2627-III.
33 The permission to withdraw is given by article 6 of the Code.
34 Civil Procedural Code, article 462.

court judgments with countries such as the former Soviet republics and some countries which formerly had socialistic orientation (such as Poland and Vietnam). However, there are no similar treaties with western developed counties, such as the United Kingdom and the United States.

The execution of foreign judicial decisions under international treaties that are valid for and binding on Ukraine is accepted by Ukrainian courts without retrial or examination of the merits of the case. Foreign arbitral awards will be recognized and accepted for execution by the courts of Ukraine. Ukraine has been a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards since 1961. Recognition and enforcement of the award may be refused, at the request of the party against whom it is invoked (in our case franchisee), only if that party furnishes to the Ukrainian court a proof that:

- The parties to the arbitration agreement were, under the law applicable to them, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made;
- The party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case;
- 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, provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be recognized and enforced;
- 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 law of the country where the arbitration took place; or
- The award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made.

Recognition and enforcement of an arbitral award also may be refused if the Ukrainian court finds that:

- The subject matter of the difference is not capable of settlement by arbitration under the Law of Ukraine; or
- The recognition or enforcement of the award would be contrary to the public policy of Ukraine.[35]

The Code determines a specific requirement for the parties to the franchise agreement, namely, that they are to be entrepreneurs to conclude the franchise

35 New York Convention, article V.

agreements.[36] The Code[37] allows a successor of the franchisor to continue the performance of the franchise agreement only if he is registered as entrepreneur. We consider that similar requirement under the law analogy to be applied to a successor of the franchisee.

The Code prescribes the franchise agreement to be made in writing. The Code[38] envisages that the franchise agreement is made in writing if the subject-matter of the agreement is fixed in one or some documents, letters, telegrams exchanged by the parties, or if the parties' will is expressed by teletype, electronic, or any other technical type of communication.[39]

Neither the Code nor any other law provides for a required language of the franchise agreement. Based on article 3 of the Code, which declares freedom of an agreement and entrepreneurial activities, a franchise agreement may be executed in any language, including a foreign language. At the same time, the franchisor should take into consideration that the agreement must be translated into Ukrainian or Russian for a Ukrainian bank to read it, exercise control over currency settlements, and make any payments provided for by the franchise agreement.

There is no requirement as to registration of Codes in the franchise agreement in any executive body.

Regulation stipulated for franchise agreements in the Code does not impose on a grantor the responsibility to disclose any special information at the pre-contractual stage. Thus, it has been decided that Ukrainian law does not provide for disclosure requirements for a franchisor. At the same time, special attention must be paid to general norms on agreement execution. Article 203 of the Code provides for general requirements necessary to treat an executed transaction as valid. Article 229 of the Code provides a party the right to ask a court to declare an agreement void if the agreement was concluded under mistake as to its essential circumstances. The Code provides that a party which, due to his imprudent actions, contributes to the mistake must compensate the other party for losses.

Another article of the Code[40] concerns legal consequences of a transaction executed under deception or fraud. The Code states that a party who used fraud is liable to compensate another party for double damages and moral damage caused by the transaction. If a franchisor is regarded as a seasoned businessman, the court may

36 Under article 1117, a physical person may be a party to the agreement only if he is registered as an entrepreneur. The Commercial Code of Ukraine does not contain such a direct requirement within the chapter governing franchise agreements; however, it may be argued that, under the Commercial Code of Ukraine, only business entities may be parties to the franchise agreement. The Commercial Code of Ukraine, article 55, defines business entities as citizens of Ukraine, foreigners, or stateless persons who maintain entrepreneurial activity and are registered as entrepreneurs in accordance with legislation.

37 Commercial Code, article 1127.

38 Commercial Code, article 207.

39 The Commercial Code of Ukraine stipulates that a franchise agreement should be made as a single document. Non-compliance with this requirement will result in annulment.

40 Civil Code, article 230.

emphasize his obligation to warn a franchisee as to possible risks in franchise activities and other matters peculiar to the franchise business.

Therefore, it is desirable for the franchisor to disclose certain information about the franchise before execution of the franchise agreement. The franchisor should decide on the scope of disclosure. Foreign franchisors from countries with developed disclosure regulations may use disclosure circulars used on their own markets. Their use gives no possibility to a Ukrainian franchisee to invoke any of the above articles of the Code to void the franchise agreement.

The franchise agreement belongs to the category of payable and consensual agreements, *i.e.*, the rights and obligations of the parties arise at the moment of adjustment of all essentials. In general, the Code[41] prescribes that the essentials of an agreement are the conditions as to the subject and other conditions defined by the legislation as substantive or necessary for the agreement of the respective type, as well as other conditions, which at least one of the parties to the agreement considers necessary to be adjusted. There are a number of issues, which either party to the agreement may ask for adjustment, such as:

- The price—The adjustment of the price implies the determination of franchise payments or royalties for use of intellectual property objects, the amount of the franchisee's investment in a franchise unit, the amount of payment for services rendered by the franchisor, and the amount of his contribution to the advertising activities carried out by the franchisor;
- The term—Under the franchise agreement, the franchisor grants the franchisee intellectual property objects, including trade marks (usually, the term of the franchise agreement is equal or less than the term left for trade mark protection);
- The intellectual property regime—The regime sets out the nature of the use of intellectual property objects, *e.g.*, exclusive, non-exclusive, or single;
- The territory—The territory specifies the geographic area for use of franchise use; and
- The limitations—The list of limitations sets out restrictions on the parties' rights under the agreement and the term of such limitations.

As envisaged by the Code,[42] the obligation of a franchisor to submit the complex of rights, including the right to use the intellectual property objects, to the franchisee is one of the key obligations of the franchisor. It is implied that intellectual property objects (trade marks, designs, and inventions) should be duly registered with the patent authority of Ukraine. The franchisor should duly register the intellectual property objects as well as hold certificates and patents for them in accordance with the requirements of the legislation of Ukraine.

41 Civil Code, article 638.
42 Civil Code, article 1115.

In accordance with the Code, commercial secrets belong to the objects of the intellectual property rights that constitute the franchisor's complex of rights to be granted. Reference to commercial secrets (which are analogous to know-how) among intellectual property objects is an innovation in the civil legislation that has no requirements as to the form for granting the franchisee commercial secrets; this enables the franchisor to execute them in accordance with his own standards. Requirements as to the content of commercial secrets are prescribed by the Code.[43]

The franchisor must set out in the franchise agreement information as to what the commercial secret contains and whether this information will be submitted to the franchisee. Otherwise, it may happen that the parties to the franchise agreement will be involved in a dispute as to the scope of the information granted and whether this scope enables the franchisee to exercise his rights properly, in as much as "information necessary for exercise of rights"[44] is a matter of opinion.

As the lawmakers did not prescribe definite requirements as to the form of granting commercial secrets, they may be granted both orally through explanation and interpretation in training and in writing and through written commercial secrets (know-how) fixed in a handbook to be used by the franchisee during the term of the franchise agreement. The notion "writings" in the Code[45] implies the aforementioned handbook, the right to use being granted by the franchisor. Commercial secrets executed in the form of a handbook become an intellectual property object protected by copyright.

In addition to know-how executed in form of the handbook, the franchisor may conduct training for the franchisee's staff. During training, the franchisee's staff is instructed in some elements of know-how and typical communicative situations with final consumers. Training for the franchisee's staff may not be prescribed by franchise agreement. The Code does not prescribe requirements as to the franchisor's obligation to conduct training courses.

In accordance with the Code, the franchisor is obliged to grant the franchisee his business experience. Business experience is not an object of legal civil rights, and the Code does not specify such an object. Know-how as an intellectual property object is formed on the basis of the franchisor's business experience.

Another obligation of the franchisor is the determination of the location and size of the premises where the franchisee will use the scope of rights—franchise—granted by the franchisor. The criteria should be objective. The premises chosen in accordance with such criteria must be coordinated with the franchisor. The coordination of the location of premises between the franchisee and the franchisor is considered as a peculiar term of the agreement in accordance with the Code.[46]

43 Civil Code, article 505.
44 The definition of a scope of a franchisor's liability as to operation of the franchise.
45 Civil Code, article 1116.
46 Civil Code, article 1122.

The franchisor is interested in supporting the image of his trade mark and business reputation. That is why the franchisor is entitled to maintain permanent control over the quality of services rendered by the franchisee, works fulfilled, or goods produced, and provide consultations aimed at eliminating drawbacks in franchise use and carrying out business by the franchisee.

The franchisor must provide consultations to the franchisee on various matters, starting with recommendations as to how to make a decision on the final prices of goods or services provided; objective qualification requirements of the staff; matters on acquiring equipment, inventory, and spare parts; and up to specific consultations on management, control over the trading stock, and quality control.

Taking into consideration the diversity of possible consultations, the franchisor and the franchisee must define which consultations are covered by the initial franchise fee and which should be paid separately. Franchisor control implies periodic, previously agreed inspections of the franchisee's activities when the franchisor may discover improper use of know-how granted, as well as sudden inspections by "secret" inspectors who pass themselves off as customers.

Having executed control, the franchisor inspects the quality of services, works, and goods provided by the franchisee and gives permanent consultations on technical and other aspects, including maintenance for professional education to the employees of the latter.[47]

The franchisor's obligation to control the quality of goods or services is a derivative one from the obligation of a party which grants the other party the right to use his trade mark to control the quality of goods sold under this trade mark. The rights of the franchisor correspond to his obligations stated above. One of his rights is to receive a fee for the scope of rights it grants, including know-how, intellectual property objects, and compensation for consultations provided by the franchisor. The fee received from the franchisee under the franchise agreement may be separated into the following groups:

- Initial (entrance) fee, which is usually a lump sum;
- Royalties (periodical payments) for use of intellectual property rights objects;
- Services rendered;
- Inventory or equipment provided by the franchisor; and
- Collective advertising.

The entrance fee is set out by the franchisor, and its amount depends on the reputation of the trade mark of the franchise system and the term of the franchise granted. Periodic payments are similar to license payments and may be fixed as a part of the total franchisee's income or profit received.

Payments for services, for inventory, and for advertising also belong to the franchise payments. These payments may be paid by the franchisee both under the provisions

47 Civil Code, article 1120.

of the franchise agreement or under separate agreements (*e.g.*, agreement on provision of services, agreement on joint advertising activities, and agreements on sale of inventory) that are made in execution of the franchise agreement.

Although Ukrainian law has no clear provision on a franchisor's right to agree or decline the franchisee's possibility to transfer his shares to third parties, the issue is usually decided in the franchise agreement. The franchisor as a creditor is entitled to agree the assignment of rights and obligations of the franchisee under the franchise agreement. If a new potential franchisee meets the objective qualification requirements fixed by the franchisor and, if it is able to continue the fulfillment of the franchise agreement, the franchisor must, as a rule, agree to the change of the franchisee in the franchise agreement.

Rights and obligations of the franchisee correspond to the obligations and rights of the franchisor, respectively. First, the franchisee is obliged to carry on business under the trade mark of the franchisor, the right for the use of which is granted under the franchise agreement, in the manner prescribed by the franchisor. The obligation of the franchisee is two-fold.

First, the franchisee is obliged to use the means of individualization of the franchisor, as far as the franchise agreement is aimed at the establishment and enlargement of the franchisor's marketing network. Second, the means may be used only in the order and manner prescribed by the franchise agreement.

The Code prescribes the franchisee's obligation to use "other symbols" of the franchisor. Neither the Code nor the Trade Mark Law recognizes the concept of "symbol" as an intellectual property object. At the same time, along with trade marks, the trade symbols and specific signboards of the franchisor are used in franchising.

The laws of Ukraine do not provide a definition of "symbol"; it is recommended to define this term in the franchise agreement and determine whether the symbols should be transferred, with the purpose to prevent possible disputes as to this matter between the parties to the agreement.

Transfer of know-how from a franchisor to a franchisee implies the obligation of the latter to keep the know-how confidential. The Code prescribes the franchisee's obligation "not to disclose the franchisor's secrets of production and other received confidential information". As concerns "secrets of production", the current Ukrainian legislation does not provide a definition of this term. Thus, if a franchisor grants a franchisee any secrets of production, it is expedient to agree as to the definition of this term and prescribe a list of secrets which are transferred to the franchisee.

The Law of Ukraine on Information[48] does not distinguish confidential information from other forms of information. The Law envisages that, as concerns the conditions of access, information is divided into open and limited access. Information with

48 Law Number 2657-XII of 2 October 1992 (with amendments and supplements).

limited access is divided into confidential, secret, and official categories. Confidential information is data that is in the possession, use, or disposal of the respective individuals or legal entities and may be disseminated in accordance with circumstances determined by them.

Individuals and legal entities who own information of professional, business, production, banking, commercial, and other types obtained for their use or as the subject of their professional, business, banking, commercial, and other interests, and not infringing the secrets envisaged by legislation, may independently determine the conditions of access to such information and establish a suitable system of protection.

Thus, a franchisor may transfer both commercial secrets and confidential information. In case of transfer of commercial secrets, the franchisor will determine the conditions of their use by the franchisee. In case of transfer of "confidential information", the franchisor will establish a system of protection of such information. In the absence of the above conditions, the franchisor will not be able to demand the proper fulfillment from the franchisee of his obligation as to the preservation of commercial secrets and confidential information transferred.

The franchisee is liable to observe the franchisor's instructions and guidance as to the nature, means, and circumstances of the use of rights transferred within the terms of the franchise agreement.[49] Instructions and indications of the franchisor on any matters, except for the determination of the price for the sale of goods (works and services) to the final consumer and the determination of the category of final consumers, are binding for the franchisee.

As the franchisee's enterprise becomes part of a network of enterprises, it must maintain uniformity with the other enterprises. The premises of the enterprise must be equipped and styled according to the franchisor's indications.[50] In some cases, fulfillment of the franchisor's indications may imply an obligation of the franchisee to acquire equipment, inventory, and instruments from persons indicated by the franchisor.

This obligation arises only where failure to do so would prevent the requirements of the franchisor as to appearance of premises and provision of services or fulfillment of works being met. In any other cases, the franchisee may propose to the franchisor other providers of equipment, inventory, and instruments if the qualifying requirements of the franchisor are met and it does not affect the uniformity of the enterprise.

For the franchisee's staff to learn the franchisor's know-how, they should undergo training at courses and seminars according to the requirements of the franchisor.[51] Such courses may be both one-off and periodic. In practice, the parties to the agreement share the costs for carrying out such courses. For example, the expenses

49 Civil Code, article 1121.
50 Civil Code, article 1122.
51 Civil Code, article 1120.

for carrying out primary courses will be borne, as a rule, by the franchisor. Costs of further study by the franchisee's staff will be paid by the franchisee.

Practice shows that franchise agreements executed in Ukraine impose upon the franchisee an obligation to inform the franchisor about possible improvements of his know-how and its application which are more suitable for the place where the franchisee conducts his entrepreneurial activity. As the law does not contain any restrictions as to such obligations, the parties are free to decide the issue.

Pursuance of indications and recommendations of the franchisor implies that the franchisee will render services, undertake works, or produce goods of the same quality as possessed by the services, works, or goods of the franchisor. Breach of this obligation may result in negative consequences to not only the franchisee's enterprise, but also to the whole network. This group of the franchisee's obligations also contains an obligation to provide the final consumers with the same complex of services that consumers may receive from the franchisor.[52] A separate group of the franchisee's obligations comprises an obligation to inform consumers that the franchisee's enterprise is an independent legal entity and uses the franchisor's trade mark under franchise conditions.[53]

The Code prescribes that the franchisee is obliged to inform consumers about the use of the trade mark and identification of the franchisor by "the means most evident to customers". This definition is very subjective and imprecise. It may be assumed that the most evident means to customers is a note in large type. However, under the terms of franchise agreements, the franchisee is obliged to carry out instructions of the franchisor, including those relating to the interior of premises. Often, the interior of premises is registered as an industrial design and the franchisee is not authorized to modify it.

To avoid disputes, it is recommended to determine in the agreement what means may be used by the franchisee to inform consumers as to the existence of the franchise.

The franchisee also has rights to fulfill his obligations. These include the right to receive from the franchisor the respective licenses to intellectual property objects. The franchisee has the right to receive commercial secrets from the franchisor in a form that makes them understandable and applicable in entrepreneurial activity. For comprehension of methods to carry out the franchisor's business activities, the franchisee has the right to receive explanations of such methods.

Although the franchisee in his activity is guided by the franchisor's instructions, it remains an independent legal entity.[54] This independence permits the franchisee to determine the price of goods or services. The franchisor may recommend a price to the franchisee and the franchisee will have the right to follow the recommendations or determine the price himself. Any dictate of the franchisor

52 Civil Code, article 1121.
53 Civil Code, article 1121.
54 Thus, there is no threat for a franchisee to be treated as the franchisor's employee.

as to the determination of final prices of goods or services and such provisions of the agreement are null and void in accordance with the Code.[55]

The independence of the franchisee includes his right to employ workers. Although the franchisor may determine qualification criteria for staff, the final decision about employment will be made by the franchisee. The Code fixes preference for the franchisee in comparison with other entrepreneurs as to the possibility to conclude franchise agreements for a new term; if the franchisee duly fulfills his obligations under the agreement, he should have the right to renew the agreement for a new term. This right of the franchisee implies the franchisor's obligation to conclude a franchise agreement with this franchisee for a new term upon the same conditions.

The question whether, in case of its prolongation, the parties to the agreement should conduct a second registration[56] of the agreement is open. It would appear that such registration is not necessary as the agreement is made upon the same conditions. The Code prescribes that, upon the respective conditions which should be envisaged by the special law on franchising, the franchisor will be able to compound the conclusion of an agreement for a new term. The law may provide the franchisor's obligation to compensate the franchisee for release from obligation.

In accordance with the Code, a franchise agreement may be amended upon general grounds by agreement of the parties and under a court judgment. It is necessary to consider in a special way a ground for amendment or termination of the agreement in the case of material breach of the agreement by any of the parties and in the case of essential changes of circumstances.

In case of material breach of obligations by any of the parties to the franchise agreement and non-cure of this breach, the other party may claim termination of the agreement. A material breach of the franchise agreement by the franchisor may be his refusal to transfer all or any part of intellectual property objects, including know-how, that are components of the franchise.

Material breach of a franchisee's obligations may be arrears or refusal to pay compensation for franchise use, other payments in favor of the franchisor, refusal of the franchisee to follow the franchisor's instructions as to use of know-how and means of conducting business activity, or independently and without the agreement of the franchisor to make changes to the interior and exterior of premises where goods are sold.

Upon the request of the franchisor, the franchise agreement must, as a rule, contain a list of circumstances upon which the franchisor is entitled to claim amendment or termination of the agreement. If such a list is available and circumstances occur, the agreement may be amended in the manner prescribed by the agreement. It is necessary to consider in a special clause a ground for termination or amendment of the franchise agreement in the event of essential changes of circumstances.

55 Civil Code, article 1122.
56 If such registration will be enforced by a special law, as it is stated above.

Non-receipt of profits by the franchisee may be considered as an essential change of circumstances. The Code[57] cites four special grounds when a party may claim termination or amendment of an agreement under a judgment of the court if these grounds exist simultaneously:

- While concluding the agreement, the parties thought that such a change of circumstances would not occur;
- A change of circumstances is due to the conditions which the concerned party failed to remove after their emergence in spite of all his diligence and prudence;
- The fulfillment of the agreement would disturb the balance of the parties' property interests and would deprive the concerned party of everything it expected to gain while concluding the agreement; and
- The essence of the agreement or business practices does not result in the risk of the change of circumstances to be borne by the concerned party.

The law[58] clearly determines absence of necessity either to register the franchise agreements or any amendment or termination of franchise agreements. Although, in practice, franchise agreements are made, as a rule, for a definite term, the legislator prescribes the possibility of the conclusion of an open-ended contract. In concluding open-ended contracts by parties, the legislator prescribes a mandatory minimum term for primary notification about repudiation of the agreement of six months, unless a longer term is provided for by the agreement.

In addition to the general grounds for termination of contracts, the legislation provides for additional grounds for termination of franchise agreements, *i.e.*, termination of right to a trade mark (termination of right to designations is not considered as it is not an object of intellectual property rights) and declaring one of the parties insolvent or bankrupt. Termination of the franchisor's right to a trade mark without its substitution by another mark is considered by the legislator as an essential change of circumstances.

By introducing this requirement, the legislator protects the franchisee under the franchise agreement. However, in case of the franchisee's will to continue use of other franchisor intellectual property objects, the parties are entitled to conclude a new franchise agreement with new conditions of its fulfillment.

Liability to Third Parties

The legislator prescribes[59] two different liability systems for franchisor and franchisee for the produced goods, rendered services, and performed works,

57 Civil Code, article 652.

58 Article 1118 of the Civil Code was amended, *i.e.*, reference to potential adoption of a special law on the registration of the franchise agreements has been cancelled. The current version of article 1118 of the Code provides that a franchise agreement is valid if made in writing.

59 Civil Code, article 1123.

namely, for goods and services made or rendered by the franchisee, the subsidiary responsibility of the franchisor is envisaged and, for goods produced by the franchisee, the joint and several liability of the franchisor.

By this second requirement, a franchisor's discretionary obligation to control the quality of goods (services and works) which is envisaged in the Code is transformed to a mandatory one. This means that the franchisor is obliged to control the quality of goods (services or works) and this control should have positive results, namely, the goods (services or works) should be of the same quality as the franchisor's goods (services or works).

The Code requires that the franchisor bear subsidiary responsibility for demands made in respect of the franchisee in relation to non-conformity of quality of goods (services or works) sold (rendered or fulfilled) by the franchisee. In view of the Code's provisions, it is presumed that goods sold by the franchisee are those supplied by the franchisor and sold by the franchisee. If this is correct, it is strange that a subsidiary responsibility of the franchisor is prescribed as, in such a case, necessary so as to impose a joint responsibility of franchisee and franchisor.

Establishment of joint responsibility of the franchisor and the franchisee for claims of consumers in case of resale by the franchisee of goods which are produced by the franchisor could be considered as duplication of the provision of the Law of Ukraine on protection of consumers' rights,[60] which directly envisages the joint responsibility of the seller and the manufacturer of goods. As far as the provision establishes the joint responsibility of the seller and the manufacturer of goods, it is possible for the consumer to lay claims as to defects in goods purchased against both franchisee and franchisor.

Court Practice

Before 2015, when unclear requirements as to franchise agreements registration was deleted from the Civil Code, the court practice might be conventionally divided into two groups:

- Formal consideration, where one of the parties to the dispute referred to the absence of the franchise agreement registration; and
- Consideration of the essence of the dispute, where the parties argued on the drawbacks of the franchise agreement fulfillment.

The first group of disputes was based on unclear legal definition. The Code[61] provided that the procedure of registration and maintenance of the respective registry will be regulated by a separate law, which has never been adopted. For transactions to be registered, the Code[62] prescribed the parties' right to refer to the agreement in relation to third parties but not to relation of each other only

60 Law Number 1023-XII of 12.05.1991 (with respective amendments and supplements).
61 Civil Code, article 210.
62 Civil Code, article 210.

from the moment of registration. The same rule was repeated in the Code[63] section regulating franchise agreements. Uncertainty was broken by the Ministry of Justice of Ukraine who, having exceeded its authority, issued an order by which it established a procedure of state registration of the franchise agreements.[64] As the possibility to exceed the authority was dictated by unclear provisions of the Codes, those provisions have been deleted by law directed to deregulation of business activities in Ukraine.[65] Being guided by the deletion, the Ministry of Justice has cancelled its procedure as well.[66]

The study of the second group of franchise dispute considerations that concerned the essence of franchisor-franchisee relationships proved that:

- the court applied Civil Code provisions on commercial concession agreements unless parties clearly refused from them; and
- franchisor claims might not be satisfied if he failed to prove transfer of the franchise or its parts (trade names, trade marks, or other objects of intellectual property) to the franchisee.

Trade Marks

Ukraine law defines several categories of trade marks with distinct legal effects, including those for goods,[67] services, well-known marks,[68] and collective, certification, and guarantee trade marks,[69] and legal protection is granted to a mark that does not contradict public order, principles of humanity, and morality. An object of the mark may be any sign or combination of signs. Such signs may be words, including newly made words,[70] personal names, letters, numerals, pictorial elements, colors and combinations of colors, as well as any combination of such signs.[71]

63 Commercial Code, article 1118.

64 Order Number 1601/5 of 29 September 2014.

65 Law Number 191-VIII of 12 February 2015, as amended.

66 Order Number 842/5 of 4 June 2015.

67 The regulation in the Trade Mark Law concerns marks for goods and services, and separation of the marks depends on the class of goods which are covered by trade mark.

68 The Trade Mark Law provides the right to protect well-known marks, as well as basic principles of recognition of well-known trade marks. The protection of well-known marks in Ukraine is maintained on the basis of article 6 *bis* of the Paris Convention, which provides for the protection of trade marks relating to products only. The Paris Convention on protection of well-known marks is extended to service marks by article 16(2) of the TRIPS Agreement. Notwithstanding that the Trade Mark Law does not contain direct reference to TRIPS, the procedure of recognition of the trade mark as well-known applies to service marks as well.

69 The concept of collective, certification, and guarantee trade marks is known in Ukraine, although the Trade Mark Law does not provide for the possibility to register such kinds of marks in Ukraine.

70 Shmonina, Patents and Licenses, Number 4, 1999, at pp. 15–19.

71 Dubinsky, "Some theoretical and practical aspects to protect colors as signs of the trade marks. Legal protection of trade names in Ukraine: problems of theory and practice", Shemshuchenko and Bogutskiy (eds.), Legal Thought, 2006, at pp. 148–179.

A Draft Civil Code of Ukraine recognized a sound as an element to be used in a mark. Smell was never considered as a possible element of a mark.[72] The Code has no reference to sound and elements of a sign. According to accepted practice, a mark may contain some information about features and merits of goods if the information is given indirectly through analogies or created images of certain consumer features of goods.[73]

The mark should have distinctive features. Generic definitions and terms may not be registered as marks. Marks defining kind, quality, value, and time of manufacturing may not be registered as trade marks. Use of alphabet letters, digits, or geometrical forms without their combination with other elements may be a reason for refusal to register a trade mark.

The object of the sign cannot be the names and aliases of persons occupying senior positions in the Communist party (as Secretary of the District Committee and above), senior government and administration of the USSR, the Ukrainian SSR (SSR), or other Union or autonomous Soviet republics (except associated with the development of Ukrainian science and culture) that worked in the Soviet state security organs; the name of the USSR, the Ukrainian SSR (SSR), or other allied Soviet republics and their derivatives; or names associated with the activities of the Communist party, the establishment of Soviet power in Ukraine, or in certain administrative-territorial units harassed participants in the struggle for the independence of Ukraine in the 20th Century.

A name or surname may be registered as an element of the trade mark only if it possesses distinctive function. If the name or surname is widely used, the mark will not be registered. The name "Ukraine" may be used as an element in the trade mark only with the consent of the Ukrainian authorized body.[74]

The scope of the granted legal protection is defined by the image of the mark and by a list of goods and services entered in the Register and is evidenced by the certificate that contains a copy of the mark image entered in the Registry and the list of goods and services. Signs may not be registered as marks if they are identical or misleadingly similar to such an extent that they can be confused with:

- Marks that have been earlier registered or filed for the registration in Ukraine on behalf of another person for identical or similar goods and services;
- Marks of other persons if these marks are protected without registration according to the international agreements to which Ukraine is a party, in particular, marks recognized as well-known marks according to article 6 *bis* of the Paris Convention for the Protection of Industrial Property;

72 Melnikov, "Protection of signs: sound, smell, and color", Intellectual Property, Number 5-6, 1997, at pp.18–21.

73 Melnikov, "Expertise of descriptive marks", Intellectual Property, Number 11-12, 1997, at pp. 47–52.

74 Under the Rules on Approval of a Possibility to Use the Official Name of the Country "Ukraine" in a Trade Mark, Number 175 of 4 March 2004.

- Trade names that are known in Ukraine and belong to other persons who have acquired the right to the said names before the date of filing an application to the Ministry with respect to identical or similar goods and services;[75]
- Qualified indications of the origin of goods (including alcohol and alcohol drinks) that are protected according to the Law of Ukraine on the Protection of Rights to Indication of the Goods Origin. The signs may be used only as non-protected elements of marks of the persons who have the right to use such indications; and
- Conformity marks (certification marks) that have been registered under specified procedure.

Signs may not be registered if they reproduce:

- Industrial designs, the rights to which in Ukraine belong to other persons;
- Titles of scientific, literary, and artistic works known in Ukraine or quotations and characters from the said works as well as the artistic works and their fragments without the consent of copyright holders or their legal successors; and
- Surnames, first names, pseudonyms and their derivatives, portraits, and facsimiles of persons known in Ukraine without their consent.

The title to a trade mark may arise on:

- An application for a trade mark;
- An international registration of the trade mark;
- The recognition of the trade mark as well-known;
- A transfer (assignment) of the trade mark;
- A successorship to the trade mark in event of a franchisor's liquidation or death; and
- A court judgment as to defining of an owner of the trade mark.

To obtain a certificate for a trade mark to be used in Ukraine, a franchisor, through his patent attorney,[76] must file an application at the Department of Intellectual Property at the Ministry of Education and Science of Ukraine (the "Office").[77]

75 Review Letter N 01-8/847 on the practice of application by commercial courts of the law on protection of intellectual property rights for trade marks issued by the Highest Commercial Court of Ukraine on 17 April 2006.

76 Foreign and stateless persons domiciled outside the Ukraine may deal with the Department of Intellectual Property Protection only through patent attorneys who are duly registered at the Office.

77 Franchisors from the countries member of the Madrid Agreement Concerning the International Registration of Marks (with effect in Ukraine on 25 December 1991) or Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (ratified by Law of Ukraine Number 1763-III of 1 June 2000 with later amendments introduced by Law Number 941-IV as of 5 June 2003) may use mechanisms provided by these international instruments and legislation at their location.

The application must relate to one mark, be presented in Ukrainian, and contain a request for registration; a reproduction of the mark made either in black and white or in color; a list of goods and services, for which the applicant requests to register the mark, that are grouped according to the Nice Classification; the address of the applicant(s); and a declaration on protection of a color or combination of colors as a distinguishing feature of the mark.

The filing of the application is subject to payment of an appropriate fee, the amount being determined in consideration of the quantity of the Nice Classification classes that cover the goods and services indicated in the application. The payment document must be received by the Office together with the application not later than two months after the date of the application filing. This period may be extended, but for no more than six months, provided that the relevant request is submitted before the expiry of the period and the respective fee for the request filing has been paid. The date of the application filing is the date when the Office has received the documents that contain at least:

- A statement drawn up in any form for registration of the mark, written in Ukrainian;
- Information on the franchisor and his address, written in Ukrainian;
- A sufficiently clear reproduction of the mark that is claimed; and
- A list of goods and services for which the mark is claimed.

A franchisor has the right to claim the priority of an earlier application on the same mark within six months from the date of the earlier application filing at the Office or at the relevant body of a State which is a member of the Paris Convention, provided that the priority was not claimed on the earlier application.

The priority of a mark which was used in the exhibit shown at official or officially recognized international exhibitions in a State which is a member of the Paris Convention may be determined by the date of opening of an exhibition, provided that the Office has received the application within six months from the date.

The franchisor who wishes to use the priority right must file a priority declaration, with the reference to the date of the earlier application filing and the application number, and a copy of the application in Ukrainian or a document that confirms the demonstration of the mark at an exhibition within three months from the date of the application filing at the Office, provided that this application has been filed or the exhibition was held in a foreign State which is a member of the Paris Convention.

The documents may be changed within the period. If the documents were submitted untimely, the right to the application priority is considered to be lost, and the franchisor will be notified accordingly. Examination of an application has the status of scientific and technical examination and consists of the formal and qualifying (by substance) examinations.

A franchisor has the right to divide the application into two or more applications (divisional applications) by dividing the goods and services listed in the application

so that each of the divisional applications may not contain the goods and services that relate to the goods and services listed in the other divisional applications.

The division of the application will be accomplished by filing the applicant's request on making relevant changes in the application and the divisional application (applications), provided that the respective fees are paid for filing the request and the application. The date of filing the divisional application must be the same as the date of filing the divided application. The priority date of the divisional application must be the same as the priority date of the divided application if there is a reason for that.

On the basis of a decision on registration of a mark and provided that the documents confirming payment of the fee for granting a certificate and the fee for publication on granting a certificate are available, data concerning granting a certificate is published in the *Official Bulletin of Proyslova Vlastnist.* The franchisor must pay the fees after the date of receiving the decision on registration of the mark. If, within three months after the date of receiving the decision on registration of the mark, the documents for the payment of stated fees were not submitted to the institution of expert examination, publication will not be provided, and the application will be considered withdrawn.

The period for submitting the documents may be extended for no more than six months, provided that the relevant request is submitted and the fee in connection with the request is paid before the date of the expiration of this period. This period, if missed due to valid reasons, may be renewed, provided that the relevant request is submitted and the fee is paid within six months from the expiration of this period.

The rights deriving from the certificate of the trade mark registration are effective from the date of the application filing. The validity period of the certificate may be extended, provided that the respective fee has been paid. A franchisor has the right to use the mark and exercise all rights provided by the Trade Mark Law and international treaties to which Ukraine is a party. Proprietary intellectual property rights to the trade mark are valid for ten years from the date following the date of the filing of the trade mark application. The term can be extended every ten years. Only the previous owner of the certificate has the right to re-register the mark within three years after the date of termination of the certificate validity.[78]

If the mark is not used in Ukraine fully or with respect to a part of goods and services listed in the certificate within three years from the date of publishing the information on granting the certificate or from another date after the publication, any person has the right to appeal to a court with a declaration for full or partial pre-term termination of the certificate validity. In this case, the certificate's validity may be terminated fully or partially unless the franchisor gives valid reasons for non-use. Valid reasons are the following:

78 Trade Mark Law, article 22.

- There are conditions that block the use of the mark independently of the will of the franchisor, such as the limitation of goods import, or other requirements for goods and services that are determined by the legislation; and
- There is a possibility of deception with respect to the person manufacturing the goods or rendering services, while the person that appealed to the court or another person uses the mark for the goods and services in connection with which the demand for terminating the certificate validity was made.

The use of the mark by another person (franchisee) is considered as use of the mark by the franchisor if he provides control over the use of the mark. The following will be considered to be use of the mark:

- Applying the mark on any goods for which the mark is registered, the package containing the goods, the signboard connected with the goods, or a label, tab, tag, or another item attached to the goods;
- Storing such goods with the mentioned application of the mark for the following offering for selling;
- Offering the goods for sale, import, and export;
- Using the mark while offering or rendering any service for which the mark is registered; and
- Using the mark in business documentation or in advertising, and in the Internet network, including the use of the mark in domain names.

The mark is considered to be used if it was presented in the form of the registered mark or in the form that differs from the registered mark only by minor elements if such a presentation does not change the features of the mark in the whole. Proprietary intellectual property rights to the trade mark are:

- The right to use a trade mark;
- An exclusive right to permit the use of a trade mark;
- An exclusive right to prevent unlawful use of a trade mark, including prohibition of such use; and
- Another proprietary intellectual property right established by law.[79]

The franchisor, as certificate owner for the trade mark, has the exclusive right to prohibit other persons to use:

- The registered mark with respect to the goods and services listed in the certificate;
- The registered mark with respect to the goods and services concerning the goods and services listed in the certificate if such use may result in a deception in relation to the person manufacturing the goods or rendering services;

79 Civil Code, article 495.

- A sign that is similar to the registered mark with respect to the goods and services listed in the certificate if the result of such a use is a risk of confusing the said sign with the mark; and
- A sign that is similar to the registered mark with respect to the goods and services that are akin to those listed in the certificate if the result of such a use is a risk of the deception in relation to the person manufacturing the goods or rendering services or a confusion of the said sign with the mark.

The exclusive right of the franchisor to prohibit the use of the registered mark by other persons without his permission does not extend to:

- Exercising any right acquired before the date of the application filing or, if the application priority was claimed, before the priority date;
- Using the mark for goods introduced into commercial circulation with the mark by the certificate owner or by his permission, provided that the certificate owner has no essential reason to prohibit such use in connection with the subsequent sale of the goods, in particular when the condition of goods changed or the quality of the goods lowered after its introduction into the commercial circuit;
- Making non-commercial use of the mark;
- Using the mark in all forms of news broadcasting and commentary; and
- Making fair use of relevant names or addresses.

A person who, before the date of the application filing for a trade mark or, in the case of a priority declaration, before the priority date, for the sake of his operation, used a trade mark in good faith in Ukraine or made considerable and major preparation for such use will be entitled to continue such use at no cost or to use it as envisaged by the preparation (the previous user's right).[80]

The franchisor may transfer (assign) the property right to the mark to any person fully or partially with respect to a part of the goods and services listed in the certificate. Transfer of an exclusive right for the trade mark determined by the franchise agreement from the franchisor to another person will not be a ground for amending or breaking the franchise agreement. Transfer of the property right to the mark is not allowed if it may cause a deception of a consumer with respect to goods and services or to the person manufacturing the goods or rendering services.[81]

The franchisor has the right to grant permission (license) to use the mark to any person. The Trade Mark Law declares that a license for a trade mark may be issued under a licensing agreement without reference to a franchise agreement. The Trade Mark Law provides that a licensing agreement must contain a provision

80 Regulation of the Plenum of the Highest Commercial Court of Ukraine, Number 12 of 17 October 2012, paragraph 91.
81 Trade Mark Law, article 16.

according to which the quality of goods or services manufactured or rendered according to the licensing agreement will not be lower than the quality of goods and services provided by the certificate owner and that the certificate owner will provide the control as to fulfillment of the requirement. The Code[82] provides quality control as a dispositive, but not obligatory, liability of the franchisor.

An agreement for transferring (assignment) the trade mark and a licensing agreement (license) are valid if concluded in writing and signed by the contracting parties. Each contracting party has the right to notify an indefinite circle of persons about transferring the property right to the mark or granting a license for using the mark. Such notification is provided by publishing the information in the *Official Bulletin* of the Office with simultaneous entering this data in the Trade Mark Register. Publication of the information about transferring the property right to the mark completely and about granting a license to use the mark, as well as of the changes to the data proposed by the contracting party, is subject to the payment of a fee.

The franchisor may transfer (assign) the property right to a mark, registered in Ukraine, as his contribution to a capital of a business society[83] if the franchisor has decided to set up a subsidiary or a joint venture. The franchisor and the franchisee have the right to put a precautionary marking alongside of the mark to indicate that the mark is registered in Ukraine.

In the case of a franchisor's bankruptcy, proprietary rights for the trade mark are evaluated alongside with other assets of the bankrupt.[84] Early termination of the exclusive proprietary intellectual property rights to the trade mark results in early termination of the franchise agreement, if the terminated trade mark is not replaced by another trade mark. The validity of an early-terminated trade mark can be restored upon the application of the franchisor who held the certificate at the time of termination.[85]

A franchisor as a certificate owner may renounce the certificate fully or partially based on a declaration submitted to the Office. The renunciation will be effective from the date of publishing of the relevant information in the *Official Bulletin* of the Office.

The certificate validity is terminated in the case of default of the fee payment for extending the certificate validity period. The Office, before the expiry of the current certificate validity period, must receive the document for the payment of the fee for each extension, provided that the payment was made within the last six months of such period. The fee for extension of the certificate validity period may be paid and the payment document may be submitted to the Office within six months after the expiry of the specified period. In this case, the amount of the fee is increased by 50 per cent. The certificate validity is terminated from the first day

82 Civil Code, article 1120.
83 Civil Code, article 157.
84 Civil Code, article 157.
85 Civil Code, article 498.

of the validity period for which the fee has not been paid. The certificate validity will be terminated by the court in the following cases:

- The mark has been transformed into a sign that became commonly used as a sign for goods and services of a certain type after the date of the application filing;
- The registered mark does not meet the requirements for granting the legal protection;
- The certificate contains elements of the mark reproduction and the list of goods and services that were not presented in the filed application; and
- The certificate was granted as a result of filing an application with the infringements of rights of other persons.

The general rule provides that any person is entitled to apply to a court for the protection of his private non-property or property rights and interests.[86] Civil rights and interests remedies may include:

- Recognition of the right;
- Declaration of a legal action as invalid;
- Termination of an action violating the right;
- Restoration of pre-violation position;
- Compulsory enforcement of an obligation in kind;
- Modification of legal relationship;
- Termination of legal relationship;
- Indemnification for losses and other means of property damage indemnification;
- Indemnification for moral (non-material) damages; and
- Recognition of decisions, actions, or inactivity of state authorities as well as their officials and employees as unlawful.

The Trade Mark Law states that the protection of rights to the mark is provided in the courts. The jurisdiction of courts covers all legal relations arising in connection with the use of the Trade Mark Law, including:

- Determination of the certificate owner;
- Conclusion and execution of licensing agreements; and
- Infringement of the certificate owner's rights.[87]

An offense against the rights of a franchisor as certificate owner, including actions to be agreed with the franchisor but carried out without his consent, as well as a preparation for such actions, is considered to be an infringement of a franchisor's

86 Civil Code, article 16.
87 Trade Mark Law, article 21.

rights. The use of marks and designations similar to the mark in domain names without the franchisor's consent also will be considered an infringement of his rights.

On the request of the franchisor, the infringement will be terminated, and the infringer must indemnify the actual damage to the franchisor. The franchisor also may request to remove from the goods or the goods' package the illegally used mark or a sign which is so similar to the mark that the mark and the sign may be confused, or to liquidate the produced reproductions of the mark or the sign which is so much similar to it that they may be confused. The franchisee as a person who has received a license to use the trade mark also has the right to demand the restoration of the affected rights of the franchisor.[88]

The protection of the franchisor's right is carried out in civil[89] or commercial[90] courts under claim procedures with possibility to use injunctive measures like the abdomen to perform certain actions or establishing a duty to perform certain actions.

If a franchisor has grounds to assume that presenting of evidence will be subsequently inconvenienced or impossible, as well as grounds to believe that his rights are violated or there is a real threat of its violation, he has the right to apply to the court for preventive measures. A franchisee may act in the interests of a franchisor only if he has a notarized and apostilled power of attorney that contains a clear authorization.

Business Organizations

Ukrainian law does not provide any incentive or requirement as to business organization of a franchising network. The issue is decided by the franchisor. It may set up a representative office or subsidiary in Ukraine or set up a joint venture with a local partner.

A franchisor in Ukraine may perform activities through his representative offices, which are very close to a branch office in its functions. A franchisor may delegate some of his own functions to the representative office. A representative office has an official stamp and bank account and the right to employ staff.

A representative office with a right of commercial activity can release payments for goods and services of third parties and receive payments from local customers. A representative office without a right of commercial activity has the right only to use money at its Ukrainian bank account to maintain the activities of the representative office; funds from the sale of the products must benefit the account of the head office.

To register a franchisor's representative office in Ukraine, the head of the office should be appointed. The position may be held by a foreign or a Ukrainian citizen.

88 Trade Mark Law, article 20.
89 Civil common courts consider disputes where at least one party is a natural person.
90 Commercial courts consider disputes between entrepreneurs.

The head of representative office governs current activities and ensures fulfillment of instructions received from the franchisor's head office. The head of the representative office acts on the basis of a proxy registered by a notary public and apostilled in the country of issuance (if such apostile is required). A foreigner who is the head of a representative office will not receive a work permit for employment in Ukraine.

A representative office is registered at the Ministry of Economic Development and Trade of Ukraine[91] (the "Ministry") based on the documents submitted, which should be recent (no later than six months since the date of issue in the country of the company location), and accompanied by a fee of US $2,500. Documents required for registration of a representative office include:

- A written request in free manner for registration made with the franchisor's letterhead, signed by the franchisor's official who has binding authorities and sealed, with the franchisor's name and address, and telephone and telefax numbers; the city where the representative office is being opened with reference to future address, a list of the cities with branch offices, and the number of foreign citizens who will work at the representative office; the date the franchisor was established in the home country, the bank and account used, the field of the company's business, and the purpose of opening and field of representative office activities (only representative functions), information about business relations with Ukrainian partners, and outlook for development of cooperation;
- The record from the trade register of the country where the franchisor is officially registered;
- The record from the bank where the franchisor's account is opened, with account number; and
- A proxy (for the head) for performance of representative functions in Ukraine, with listing of representative powers.

The documents should be notarized and apostilled and accompanied with translation into Ukrainian, and the translation should be authorized by the interpreter and notarized. The documents are considered by the Ministry for 60 days and result in the representative office certificate of registration, which gives the right to import equipment and instruments necessary for the representative office without payment of customs duties and taxes as well as authority to open bank accounts in Ukrainian banks.[92]

91 Instruction on Registration of Foreign Representative Offices in Ukraine Approved by Order of the Ministry of Economy of Ukraine, Number 179 of 15 June 2007.

92 Instruction on the Procedure to Open, Operate and Close Bank Accounts in National and Foreign Currencies Adopted by Regulation of the National Bank of Ukraine, Number 492 of 12 November 2003, as amended.

Common provisions for creation of enterprises (companies) and their state registration are stipulated by the Code and the Law on State Registration of Legal Persons, Natural Persons – Entrepreneur and public formations.[93] A subsidiary is registered at a local state registrator where the future office of the subsidiary will be located[94] or at the home address of a person[95] who will act on behalf of the subsidiary as a director. Submission of the documents for subsidiary registration is made electronically or by an authorized representative who has due written powers for that. They are:

- The application in a prescribed form to set up the subsidiary;
- The application in a prescribed form as to the chosen regime of taxation;
- The original or notarized copy of the decision of the franchisor to create the subsidiary (minutes);
- The charter duly signed and certified by a notary; and
- The record from the trade register of the country where the franchisor is officially registered, notarized, legalized, and translated into Ukrainian language.

The procedure for a limited-liability company registration is the same as that for a subsidiary. Ukrainian law does not have a definition of joint venture. If parties want to create a joint venture, they must define it in an organizational form provided by Ukrainian law. It can be a limited-liability, public, or private joint-stock company. The Commercial Code states that, "if the share of foreign investment in an enterprise capital is at least 10 per cent, it will be deemed an enterprise with foreign investment". There is no prescription as to minimum capital.

Public or private joint-stock companies are not used by franchisors to establish their presence in Ukraine due to heavy regulation of the securities turnover. The minimum requirement for the capital of a joint-stock company is UAH 5,2-million.

Directors and other officials of the company shall have no right to disclose trade secrets and confidential information about the activities of the company. They must act in the interests of the company and comply with the requirements of the law, the provisions of the charter, and other inner documents of the company. They are liable for losses incurred to the company by their actions (inaction).

93 Law Number 755-IV of 15 May 2003, as amended.
94 There is no requirement to submit written confirmation of that future address.
95 A Ukrainian citizen only.