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Introduction to Middle East distribution and agency agreements

The laws governing foreign ownership of companies in Middle Eastern countries are complex. While there are greater options today to allow international companies to do business in the Middle East (including the opportunity to establish wholly owned subsidiaries in free zones), one popular option is to appoint a local agent to sell goods or services, or to appoint a distributor for the region, especially as they will understand the local market, be able to exploit their contacts and navigate the bureaucratic challenges of doing business in the region. Even where a foreign company has a footprint in the region with a free zone entity, an agent will still be required for distribution of goods beyond the free zone.

The laws governing either agency or distribution agreements will vary between Middle Eastern countries, but

this article seeks to highlight some common issues and the practical steps international companies can take to address these issues, with a particular focus on the intellectual property (IP) perspective.

What issues are posed by commercial agency laws in the Middle East?

The term ‘agent’ in most commercial agency laws will govern the traditional western understanding of a commercial agent contracting with third parties on your behalf, but may also cover distribution agreements and franchise arrangements in certain circumstances. We have therefore used the term ‘agent’ in this article to cover common issues that may arise both in traditional agency relationships and also in distribution or franchise arrangements.

These agents often enjoy great protection under local law, such as:

1. Protection from termination of the agreement without some justifiable reason (often, expiry of the term will not be a justifiable reason to terminate, but termination for breach will be justifiable).
2. Compensation for termination without a justifiable reason (this is calculated based on compensation for the investment made in the relationship, plus loss of profits for future years’ trading).
3. The right to request that Customs or law enforcement authorities detain genuine products imported into the territory, or offered for sale in the territory, by third parties without the agent’s consent. This may provide a way of tackling parallel imports, although it is the agent that has the power, rather than the principal. The right is often exercised against the principal as detailed in point 4 below.
4. The right to prevent the principal or a new agent dealing in the goods or services until the termination of the agreement has been resolved. This is a powerful right as it effectively prevents the principal doing business in the territory until the dispute is resolved.
5. The right to receive commission on all sales made in the territory, even if made directly by the principal.

To enjoy the above rights, an agent will often need to be the exclusive agent in terms of a specified territory and product line, and will usually need to register the agreement with the relevant government agency. Other requirements apply depending on the countries involved. Agents will therefore often insist that it is a legal requirement to register the agency agreement. This may be true in some countries (such as for any agents that import products in Iran), but in other countries, registration merely ensures that the agent enjoys greater protection against termination, or allows the agent to request that enforcement authorities take action against traders importing or dealing in genuine products without the registered agent’s consent (as is the case in the UAE).

The principal should always seek local advice on commercial agency laws as, in some countries, some or all of these rights arise even if the agreement is not registered. For instance, in Lebanon, the protection against termination and right to compensation may arguably apply even if the agreement is not registered (and if so, registration is then only relevant in terms of enforcing the agent’s rights against a third party). In the UAE, if the agreement is not registered, the agent may still be entitled to compensation for termination without a ‘serious and justified’ reason, or where no termination notice or ‘inconvenient notice’ is given, but the agent will still need to prove it has suffered some loss (under Article 214 of the UAE Commercial Transactions Code). The Commercial Transactions Code also provides for a range of protections for agents depending on the type of agency agreement, and depending on whether the parties have expressly opted out of the relevant article.

Choosing UK or US law in an attempt to avoid the agency laws is often ineffective. Most national courts in the region will ignore such an agreement if it means that the agent's rights under national law have been circumvented.

What are the common IP issues

that arise in agency and

distribution agreements?

While most Middle Eastern countries now have sufficient laws in place governing the protection and enforcement of IP rights, in practice enforcement of such laws can still be complex and it is best to plan agency and distribution relationships in the region carefully to minimise the potential for disputes arising in the future. This includes applying for all necessary trade mark and other relevant registrable IP rights in advance of entering into a market through such arrangements.

Disputes about IP issues can be dealt with in the contract and can often be resolved before the courts, but it also pays to explain the issues to the agent to avoid the problems arising in the first place. For instance, it is not unusual for agents to apply to register trade marks (whether in a misguided, but genuine attempt to safeguard the principal's rights, or for some less virtuous reason), or to continue to manufacture goods under the principal's mark and sell these in the territory after the agreement ends. It therefore helps to educate agents about the principal's IP rights and confidential information, the steps needed to maintain and protect those rights and how these rights must be safeguarded if the agreement comes to an end. Additionally, in event of a dispute threatened by a third party, it will most usually be the agent or distributor that is threatened and this can cause anxiety in the contractual relationship.

Further, in some countries it may be necessary to develop a broader IP protection than would be necessary for instance in the US or Europe. In Iran for instance, you may need to apply for trade marks covering distribution services and retail services, whereas in other countries, sufficient protection would be achieved by registering the marks in the normal goods classes.

Generally speaking, in the region, licences of IP rights need to be recorded to take effect against third parties.

The most important licence to record relates to the agent's licence to use the principal's trade marks. The principal's trade marks should already be registered in all relevant territories covered by the agreement. These registrations may then become vulnerable to cancellation if not used for a period of five years. Recording the trade mark licence against the registration will ensure the licensed use will count as 'genuine use' of the mark in the territory.

If other types of IP rights are being licensed, specific advice should be sought. There can be onerous requirements in the laws to enforce rights or to devolve rights of enforcement to local agents, which may not always be desirable.

To register any sort of IP licence, the agreement will usually need to be translated into Arabic, notarised and legalised. UAE Notary Publics tend to review the content of any agreement before agreeing to notarise it. They occasionally refuse to notarise a document if it is contrary to UAE law. For example, the UAE Trade Mark Law states that trade mark licences must not contain restrictions on a licensee that does not result from the rights being granted, or are unnecessary to preserve those rights. If there is a risk of a notary public refusing to notarise the agreement, the agreement can be notarised elsewhere, and then legalised by the UAE embassy and UAE Foreign Affairs department. However, the extent of any restrictions in the licence

will still need careful review to ensure the agreement remains enforceable.

Finally, if the relationship is such that the agent may be creating new IP based on the principal's original IP, then separate agreements covering such possibilities should be entered into. Ownership of IP, compensation due to the creator of IP and waiver of moral rights are complex areas. It is best to have a clear understanding of all issues before a dispute arises and to find a way to identify IP rights and assign ownership without incurring too great an administrative or financial burden.

How will IP rights be enforced

and IP threats managed?

Enforcing IP rights takes on even greater importance in the Middle East, due to its location as a transport hub, because registered agents potentially have the power to take action against grey market goods and because registered licensees may be able to enforce rights in certain circumstances. If a third party believes the principal's goods or services infringe their rights, they are also likely to take action against the locally based agent in the first instance.

Against this background, it is important to detail how infringements of rights, or threats of litigation, will be reported, who will be responsible for managing enforcement and managing litigation decisions, and who will bear the expense. The agent should also offer all reasonable assistance in enforcing the principal's rights or defending any threat of litigation. In practice, it is important to explain to the agent the reasons why certain action has been taken to encourage the agent to continue to assist and report valuable information picked up 'on the ground', and because the agent may not immediately appreciate the risks and costs associated with litigation.

Practical tips to avoid

commercial agency laws

The benefit of appointing an agent under the relevant commercial agency laws is that the principal has an agent who can request that the law enforcement bodies act against the importation, or offering for sale, of genuine product that has been placed on the market in the territory without the principal's consent. This may provide the principal with more control over the price it charges for its goods in each country in the region. However, this benefit will not usually outweigh the commercial risks (ie protection against termination and the associated risks) of appointing the agent on these terms for the particular territory. Although this may not assist for every country, to minimise the risk of an agent enjoying protection against termination (and the associated risks), the principal can:

1. appoint the agent on a non-exclusive basis;
2. choose a more beneficial governing law – this may not be accepted by a court in the Middle East, but it could be helpful from a defensive viewpoint if the agent seeks to enforce the court's decision in a western jurisdiction. This may also help to deal with issues of IP ownership;
3. expressly state in the contract that the contract must not be registered – again this might not be accepted by a court in the Middle East; and
4. in case the agent is able to register the agency without your permission, follow those general tips detailed below to increase your chances of lawfully terminating the contract without any major disputes arising.

General tips

Whether the principal works with a registered commercial agent or otherwise, the following points will apply:

1. Identify specific duties, obligations, performance and reporting criteria for the agent – this will make it easier to justify ending an agreement and will generally help to monitor the agent's performance from afar.
2. Identify the scope of the agent's authority and ability to delegate – without clear boundaries, it is likely to be assumed that the agent has wide powers to do whatever it considers is in the principal's best interests.
3. Consider whether and how the agent should be audited in terms of performance and financial issues.
4. Include detailed terms on IP and confidential information.
5. Specify precisely how the agent will be paid and the extent of any compensation due, or not, on termination.
6. Specify all key triggers to terminating the agreement, the consequences of terminating the agreement and those obligations that continue after the agreement. When ending the agreement, remind the agent of the next steps and on-going obligations.
7. Consider the most appropriate forum – it is difficult to avoid the jurisdiction of the place where the agreement will be performed, and the principal may need a local court to enforce the contract against the agent in any event. As an alternative, arbitration is increasingly recognised in most countries in the region. For example, the Dubai International Financial Centre has established, in partnership with the London Court of International Arbitration, an arbitration and mediation centre that will hear disputes in the English language and apply the law that the parties have agreed to be bound by.

Conclusion

It is important to identify all the risks before entering into an agency relationship, which is why local advice should always be sought and such advice may be required for more than one jurisdiction since many agreements apply across broader regional territories. Ultimately, similar principles apply to agency law in the region to those you will find in western jurisdictions, ie the success of any agency relationship will rest largely on identifying an agent the principal feels comfortable working with, and making sure the parties continue to communicate clearly and fully throughout the life of the relationship. Part of that communication will include entering into a clear, easy to understand agreement, specifying precisely what is expected of both parties throughout the relationship and the consequences if either party fails to meet its obligations.