

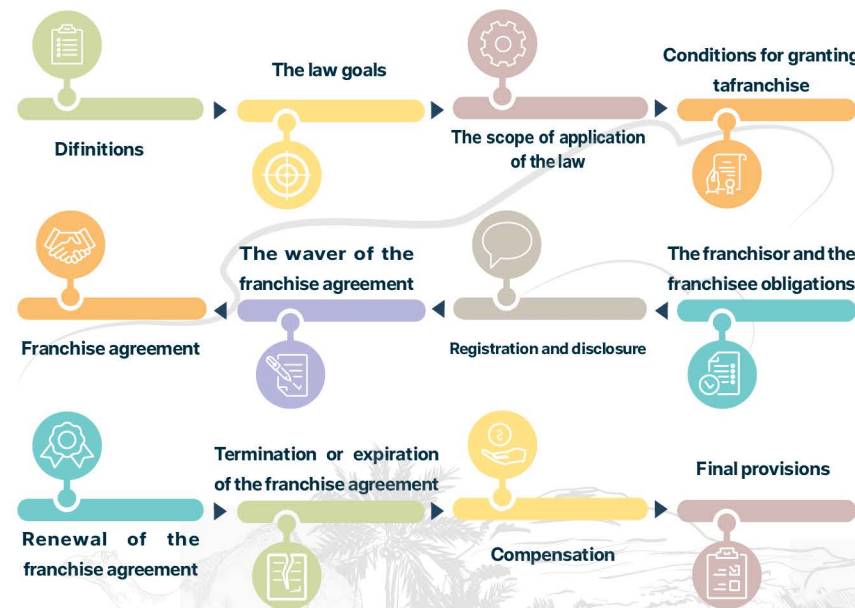
Franchise Law Background

- ☒ The Kingdom of Saudi Arabia is going through major economic transformations on several levels, including the legal ones, which included the issuance of a number of new regulations relates to and affects economic affairs in general and the commercial sector in particular. The legal transformation included the issuance of the Commercial Franchise Law ("the law") which was published in Umm Al-Qura newspaper No. (4802) dated 24 Safar 1441 H according to the Royal Decree No. (M / 22) dated 09 Safar 1441H, which will enter into force after one hundred and eighty days of the publishing date. Provided that the Executive Regulations of the Law are issued within one hundred and eighty days from the date of issuance of the Law.
- ☒ The Law was made up of (27) Articles, the Law excluded the franchise agreements that are signed before the Law is enacted from applying some of its provisions, especially those related to the registration of the agreement and the conditions to be met in the franchise agreements, the disclosure restrictions and the consequences thereof.

What does the issuance of the Commercial Franchise Law mean?

- ☒ The practice of commercial franchising in the Kingdom of Saudi Arabia is comparable to that in other economically developed countries. Commercial franchise in the Kingdom has wide applications, but it was not under an independent law and was limited to a few articles in the Commercial Agencies Law.
- ☒ In view of the economic impact of commercial franchise and the size of its applications in the Kingdom, the Kingdom sensed - in light of the economic transformations and the adoption of Vision 2030 - the need to issue an independent law dealing with the regulation of commercial franchise issues.
- ☒ Accordingly, the Law came to regulate the relationship between the parties of the franchise agreements, shows the important rights of its parties, and encourages transparency, which positively reflects on the franchise business environment in terms of enhancing confidence and encouraging investing in the Kingdom.

The Law



Entities Supporting the Implementation of the Law

- ☒ The committee concerned with inflicting the penalties stated in the law.
- ☒ The Center for Commercial Franchises, which carries out educational and outreach tasks and settle disputes resulting and related to the Law.

The Law application

- ☒ Franchise agreements to be concluded in the future are subject to the provisions of the articles related to registration of the franchise agreement with the competent authority in the Ministry of Commerce and Investment, and the conditions that must be met in both: the franchisor, the franchise agreement and the compensation resulting from the violation of these conditions.

The exception to the Law

- ☒ The franchise agreements in effect before the entry into force of the Law are not subject to the provisions of the articles relating to the registration of the franchise agreement with the competent authority of is the Ministry of Commerce and Investment, and the conditions that must be met in both: the franchisor, the franchise agreement and the compensation resulting from the violation of these conditions.

what is the franchisee right's that law articles confirm?

Obligation of franchisor

By repurchasing the physical assets used exclusively in the franchise works that the franchisee has purchased from franchisor or from others, according to his directions, within (sixty) days from the date of the franchisee request. The repurchase shall be at a price not less than the price paid by the franchisee, minus the amount of consumption of any equipment from these assets, and the amount of depreciation is calculated according to the accepted accounting standards and previous accounting practices of the franchisee. **in two cases:**

First/

Unwillingness to renew or extend the contract for a reason not stated in the law.

The second/

Terminating the franchise agreement for an unlawful reason.

Obligation of the franchisor

To compensate the franchisee for any loss he incurred to establish, acquire or operate the franchise business in the Kingdom, and any other damage suffered by him due to the termination of the franchise agreement for an unlawful reason. This is with the presence of the so-called statute of limitations, which means setting a period of time in which the lawsuit is not heard from the plaintiff after its passage, which is three years from the date of termination of the franchise agreement for an unlawful reason.

Franchisee rights

The law articles guaranteeing the franchisee rights came in a peremptory form, i.e. it is not permissible to agree to violate them partially or completely, even with the franchisee's approval. An exception to this is agreement to a final settlement with the franchisor.

Law provisions highlights

Waiver of the franchise agreement

The waver of the franchise agreement is a right of the franchisee after obtaining the consent of the franchisor, who may not object to that except in specific cases, as follows:

- ☒ Likely insufficient financial resources to implement the franchise agreement obligations.
- ☒ The assignor's inability to fulfill the waver requirements or the criteria approved by the franchisor.
- ☒ If the assignee does not agree, in writing, to bear the obligations of the franchisee under the franchise agreement From the date waiver.
- ☒ If the franchisee does not pay any consideration due to the franchisor.
- ☒ Any other case specified by the regulation.

Extension or renewal

Unless the concession agreement provides for a renewal or extension mechanism, the desire to renew or extend the agreement must be in writing one hundred and eighty days before the date of the end of the original or renewed agreement. Thus, the franchise agreement is considered to be extended by the same terms and conditions unless the parties agree to renew it with new terms and conditions. The franchisor may reject the renewal or extension in the following cases:

- ☒ One of the cases stated in Article (Eighteen) of the Law, regarding the legitimate reasons for termination, is fulfilled.
- ☒ Failure of the franchisee to pay the consideration due under the franchise agreement.
- ☒ Waver of the franchise before the franchise agreement expires to a person who meets the criteria approved for franchise.
- ☒ The franchisor has ceased operating in the Kingdom.
- ☒ Failure to fulfill renewal or extension requirements.

Termination of the franchise agreement

The law articles protect the franchisee from the termination of the franchise agreement except for legitimate reasons, such as:

- ☒ The franchisee breaching of the essential commitments of the franchise agreement.
- ☒ The franchisee Voluntary liquidation, waiving the franchise agreement, or the waiving the assets related to franchise business to a third part.
- ☒ If the franchisee leave, or Voluntary stop practice the franchise business.
- ☒ If the practice of the franchise business threatening public health and safety.
- ☒ If the franchisee violet the in force laws in the kingdom, resulting in effect the franchiser reputation.
- ☒ Any other reason specified by the regulation.

Expiration of the franchise agreement

Expiration means termination of the franchise agreement for reasons beyond the control of both parties, unless the franchise agreement provides otherwise, and these reasons are:

If the franchisee is a natural person, the agreement shall expire

- ☒ Opening of any bankruptcy procedure.
- ☒ Loss of capacity.
- ☒ Death, unless the agreement stipulates that it will be transferred to the inheritors.
- ☒ If the franchisee has a health blocker to implement the franchise agreement.

If the franchisee is a legal person, the agreement shall expire with

- ☒ Voluntary liquidation.
- ☒ Opening of any bankruptcy procedure.
- ☒ The expiry of the legal person except in cases of transformation or merger.