Trademark franchising in Nigeria: the impact of the NOTAP Act and what brands need to know

Ifeanyi E Okonkwo and Munirah Yaqoub
Jackson, Etti & Edu
24 January 2022

In an exclusive guest post, experts from Jackson, Etti & Edu reveal how franchising in Nigeria has evolved in recent years and what foreign brand owners should know when entering Africa's most populous jurisdiction.

There are various reasons why foreign brand owners may be interested in the Nigerian market. First is the significant population of Nigeria, which stands at over 200 million people. Second is the fact that Nigeria is a large nation of consumers, and third is the fact that fast-moving consumer goods are highly successful there. At present, there are over 100 franchises in Nigeria ranging from food to construction, health and other industries.

One law that regulates franchising is the National Office for Technology Acquisition and Promotion (NOTAP) Act. The NOTAP Act is the primary legislation on the transfer of technology in Nigeria. It establishes the National Office as the body responsible for overseeing its implementation and is primarily concerned with examining the quality of imported technology and the registration of contracts that deal with the transfer and acquisition of foreign technology. However, the NOTAP Act also carries certain provisions that affect foreign direct investment and foreign trade participation in Nigeria. These provisions affect trademark franchising and licensing, as well as the repatriation of profits.

Salient provisions affecting trademark franchising

Under Section 4(d) of the NOTAP Act, one of the National Office's functions is the registration of all contracts or agreements for the transfer of foreign technology to Nigerian parties. It states that "every such contract or agreement shall be so registrable if its purpose or intent is, in the opinion of the National Office, wholly or partly for or in connection with... the use of trademarks", as well as patents, technology plants and technical expertise. The act further stipulates that foreign franchise agreements, which include the right to use the franchisor's trademarks, must be registered under the act.

According to the act, a contract for the use of another's trademarks constitutes a contract for the transfer of technology. As franchise agreements relate to the use of trademarks, they are therefore contracts for the transfer of technology. Hence, trademark franchising falls within the scope of registration with the National Office.

While non-registration with the National Office has no criminal liability attached, the practical importance of registration is almost unavoidable. The consequences of non-registration with the office are outlined in Section 7 of the NOTAP Act, which provides:

> “
>
> *Subject to section 8 of this Act [Director’s power of cancellation], no payment shall be made in Nigeria to the credit of any person outside Nigeria by or on the authority of the Federal Ministry of Finance, the Central Bank of Nigeria, or any other licensed bank in Nigeria in respect of any payments due under a contract or agreement mentioned in section 4(d) of this Act, unless a certificate of registration issued under the Act is presented by the party or parties concerned together with a copy of the contract or agreement certified by the National Office in that behalf.*
>
> ”

Thus, for a foreign franchisor to receive any payment from a franchise, both parties would have to register the contract with the National Office since payment will be made from Nigeria through bank channels.

Moreover, Section 6(2)(l) of the NOTAP Act provides that: “The Director shall not register any contract or agreement where he is satisfied that it falls within any of the following specification, that is to say – where the contract or agreement is expressed to exceed a period of ten years or other unreasonable term where this is less than ten years.”

The maximum period of 10 years is couched in fixed terms. The rationale behind this provision is to foster and enable technology transfer into Nigeria. This fixed provision is further strengthened by the fact that the drafter omitted ‘unreasonable term’ with respect to a period beyond 10 years, showing that the act does not intend for such a contract to last more than 10 years.

Section 6(3), however, makes room for an exception where ‘national interest’ is envisaged. As such, the director may issue certificates for a trademark franchising contract beyond 10 years only where it is in the national interest to do so. That said, the term ‘national interest’ and the duration period raise problems that must be addressed.

Consequences for foreign brand owners

The first major problem that a foreign brand owner will encounter when dealing with a Nigerian franchisee is that non-registration of franchise contracts with the National Office precludes the franchisor the right to receive royalties or licensing fees from the franchisee.

The Court of Appeal in *Stanbic IBTC Holding Plc v Financial Reporting Council* (2018) LPELR-46507 (CA) upheld this position when the respondents argued that the non-registration of the transfer of banking software from a foreign company rendered the contract invalid. The court rejected the argument and held that, under Sections (4)(d) and 5 of the NOTAP Act, non-registration of transfer of technology contracts does not render the contract invalid; it merely prohibits the credit of royalties by the local company to the foreign company until registration is made.

The second major problem that a foreign brand owner will encounter, assuming that there is a contract to be registered, is the incapacity to earn franchise fees after 10 years. According to the NOTAP Act, the 10-year period cannot be circumvented by the director unless a case is made for consideration based on ‘national interest’. What, then, is ‘national interest’? Sadly, neither the act nor the laid down requirements/guidelines from the National Office explain what ‘national interest’ actually means.

Globally, the term ‘national interest’ is not aligned among states or political scientists, jurists or scholars. The term has been nothing but an appellation used at the whims and caprice of many. Indeed, the Brooking Institute defines 'national interest' as “the general and continuing ends for which a nation acts”.

The term ‘national interest’ is therefore a poor choice of language by the drafter. An alternative would have been ‘public interest’ or ‘public purpose’. For instance, *Black’s Law Dictionary* (7th Edition) defines 'public interest' as: "(1) The general welfare of the public that warrants recognition and protection. (2) Some things in which the public as a whole put in stake; esp., an interest that justifies governmental regulation."

Without a yardstick for determining what a national interest entails, it is impracticable to say what the director may or may not allow as an exception. Besides, it is difficult to see how a foreign trademark would translate to a national interest. It can be argued that since franchising leads to development and economic growth, every franchise is a contribution towards the national interest of, in this case, the economy. However, the argument is weak.

Finding the balance

In the absence of an available exception, foreign brand owners may find the 10-year period too short to forgo the remuneration that could have been made. In practice, the National Office will refuse a franchise agreement beyond the initial 10 years. However, it allows clients to renew their agreements/certificates. Renewal can be made for further periods beyond the 10-year expiration. This renewal activity, although practical and fair, goes against the stipulations of the NOTAP Act in the absence of a clear case of 'national interest'.

The third problem is whether a foreign owner's trademark and goodwill should be transferred perpetually to the Nigerian franchisee contrary to the intent behind trademark protection and the minimum standards established under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In practical terms, where the NOTAP refuses to renew a trademark franchising contract due to the 10-year lifespan, the foreign owner will be unable to repatriate profits due to the incapacity of the Nigerian franchisee to pay franchise fees. Without a valid certificate from the NOTAP, the bank channels will not assist the franchisee to make payment offshore, nor will the franchisee be able to access foreign exchange at an official rate.

There is also the issue of being a law-abiding franchisee. The franchisee will be violating the NOTAP Act and the Central Bank of Nigeria Regulations when making payments offshore without a certificate.

Further, limiting technology transfer contracts to 10 years affects the perpetual commercialisation right inherent in the minimum standard provisions agreed under the TRIPS Agreement. More importantly, a contradiction is created between the NOTAP Act and the Trademarks Act. Although the provisions of the Trademarks Act should prevail, the operational activities of the franchise obligation will be practically affected.

Finally, where a franchisee stops paying royalties to a foreign franchisor, the franchisor cannot legally compel the franchisee to resume doing so since it is a matter of law. The best that the franchisor can do is to terminate the franchise since the NOTAP Act does not stipulate that the technology will be automatically owned by, or transferred to, the franchisee. This omission in the act works against the goal of realising technology transfer.

When a trademark owner decides to register a trademark in another jurisdiction of interest or to register a distributor or partner of a franchisee as a registered user of the trademark in that jurisdiction, the idea is not to forfeit the goodwill or source indication, but rather to exclude the licensee from infringement, grant the licensee a right to thrive exclusively in that jurisdiction and protect the owner's trademark and interests in that jurisdiction. The strategy can be likened to the Machiavellian principle of establishing a base through trusted allies. One way to achieve this is through a franchise.

'Technology transfer' refers to the conveyance of new technology (including trademarks) from an originator to a secondary user. The rationale behind technology transfer provisions is to allow for the development and advancement of a country. However, equating technology transfer with trademarks is erroneous because trademarks are primarily indicators of the source of a product or service and are often tied to the owner as a going concern.

The Nigeria Trademarks Act protects famous and registered foreign trademarks in Nigeria. In fact, the act provides for priority registration in line with the fulfilment of the minimum threshold under the TRIPS Agreement. Moreover, trademarks are perpetually renewable provided that they remain distinctive and in use. It is therefore clear that foreign brands and trademarks are allowed to retain their ownership by law. The Trademarks Act makes no provision for absolute transfer or a maximum expiration period for foreign marks via franchising or licensing. Provided that a foreign mark remains distinctive and in use, the owner will continue to enjoy protection.

It is thus a contradiction that the NOTAP Act should recognise trademark use by a foreign and local partner as a technology transfer while indirectly putting an end to the payment of licensing or franchise fees after 10 years.

Conversely, the rationale behind trademark technology transfer registration and the refusal to renew after 10 years is useless since the franchisor may choose to open the same business with the same trademark in Nigeria after 10 years. The franchisee would be unable to stop the franchisor from using the trademark since it is the Trademarks Act that deals with trademark use, removal and cancellation, not the NOTAP Act. Moreover, the NOTAP Act does not expressly prohibit the further use of the technology by the owner.

Recommendations for foreign brands

The lucrativeness of doing business in Nigeria cannot be ignored by any serious brand. The franchise business model cuts through several regulatory roadblocks in Nigeria. In turn, the problems created by the NOTAP Act can be legally navigated in the following ways:

- The franchise agreement should be limited to the use of the business model, rather than the trademark. Since a business model is not ‘an intent to use trademarks’, it may be excluded from NOTAP registration provided that it is not described as a patent, technological plant or technical expertise.
- Where including the trademark is inevitable, the owner may consider an equity investment or a shareholding structure whereby Nigerian citizens are part of the company that owns the trademark. That way, there would be

no need to register under the NOTAP since one cannot transfer to itself what it already owns.
- Finally, the Nigerian entity may be employed as a distributor or an agent of the principal, while the owner is treated as a foreign company carrying on business in Nigeria. Here, the Immigration Act and the repatriation of profits rules will apply.

The legislature needs to revisit the NOTAP Act to allow for a more favourable environment for foreign franchises in Nigeria. One solution would be to amend the relevant sections, rather than an outright repeal. The 10-year limit on trademark use should be replaced with a provision that allows for the extensive duration of technology transfer contracts subject to the Trademarks Act and other relevant laws.

The Franchise Bill that is currently being pushed should be fast-tracked and adopted as law by Nigerian legislative houses. For Nigeria to fully leverage franchising as a tool for economic development, the necessity of specific laws to guide franchise transactions cannot be overemphasised. Franchising holds significant promise for economic growth through the building up of entrepreneurial capacity among local business people, increases in foreign investment and indigenising the economy. Thus, it should receive institutional support. General contract law cannot fully embrace the peculiarities and challenges of franchise transactions. Hence, a law that is comprehensive enough to accommodate the franchise market and reflect the IP implications must be enacted.

Nigeria currently lacks the proper framework to accommodate franchising. The NOTAP Act creates problems for the sector due to its limitation period for trademark franchising. The basic problem with the NOTAP regulating foreign franchises is that it does not take into consideration the demands and dynamics of the franchise industry or the intent behind the Trademarks Act and the TRIPS Agreement. Pending the enactment of the Franchise Bill, foreign brand owners, franchisees, legal advisers and business managers can take advantage of the navigations proffered above.

Ifeanyi E Okonkwo

Author | Associate

ifeanyi.okonkwo@jee.africa

Jackson, Etti & Edu

Munirah Yaqoub

Author | Intellectual Property and Research

Jackson, Etti & Edu

Copyright © Law Business Research   Company Number: 03281866 VAT: GB 160 7529 10