



12 November 2001

The WORLD FRANCHISE COUNCIL's Principles of Ethics

I – PREAMBLE

-These principles are based on the common principles and experience of 34 countries representing the 5 continents ;

- Each of the World Franchise Council's national franchise associations or federations has contributed to its formulation, and ensures its promotion and specific interpretation in their respective countries ;
- These principles are not intended to be a law. They describe good professional conduct amongst the actors in franchising around the world.

II – INTRODUCTION

- Franchising is a commercial development strategy based on an interdependent partnership between independent commercial entities, the franchisor and the franchisees ;
- The franchisor and the franchisee commit themselves reciprocally in view of their common and mutual success ;
- To attain this objective, the commitments of both parties, throughout their relationship, are based on fundamental ethical principles ;
- These principles apply to the relationship between franchisor and franchisee, as well as to the relationship between master-franchisee and sub-franchisee.

III –ACQUISITION OF THE FRANCHISE

- the franchisor must communicate to the prospective franchisee all the information necessary for the franchisee to engage himself in the franchise relationship in full knowledge of his

commitments and responsibilities. This information must be provided within a reasonable delay before the signing of the contract, delay which cannot be less than 7 days.

- the information provided must be objective, verifiable and devoid of delusion or deceit ;
- the contract must be communicated to the prospective franchisee as well as a copy of the national Code of Ethics, both in a language in which the franchisee is competent;
- the franchisor selects franchisees with the aim of achieving their common and mutual success. The franchisor's choice is not based on discrimination relating to race, religion, gender, etc... ;
- the prospective franchisee must be open and honest in the information he provides to his future franchisor on his experience, financial means, training, etc. in view of being selected as a franchisee;
- the franchisor encourages the prospective franchisee to seek professional advice before signing the franchise contract;
- the franchisor encourages the prospective franchisee to make contact and talk to the franchisees of the franchise network he is seeking to join;
- in case franchisor and prospective franchisee sign a "contract of reservation" before the franchise contract, the franchisor must specify the conditions under which he will reimburse the prospective franchisee's guarantee payment, if any;
- during the negotiation phase, the franchisor may ask the prospective franchisee to sign a legally binding "statement of confidentiality".

IV CONDUCT OF THE FRANCHISE

The franchisor's general commitments :

- the franchisors develops and maintains the commercial and technical know-how that supports the franchise network and favors a permanent and structured dialogue with the franchisees to aid the protection and development of the franchisor's know-how ;
- in case of non respect of the concept by the franchisee, the franchisor must allow when appropriate the franchisee a reasonable delay to conform to his obligations, after due notification ;
- the franchisor must ensure that each franchisee respects their obligations and commitments for the general interest of the network.

The franchisee's general commitments :

- the franchisee takes an active part in the life of the network and contributes to safeguarding its interests ;

- the franchisee cannot compete with the network, in particular by appropriating or diverting the know-how transmitted by the franchisor ;
- the franchisee provides the franchisor with the operational information concerning his franchise business ;
- the franchisee has a duty of confidentiality during and after the franchise contract.

Commitments common to franchisor and franchisee :

- franchisor and franchisee co-operate in all loyalty and in respect of their mutual obligations and commitments ;
- in case of litigation, the franchisor and/or the franchisee will seek, when appropriate, to resolve the conflict through mediation ;
- franchisor and franchisees commit themselves according to their responsibilities to protect the interests of the consumer.

The franchise contract :

- the contract defines the respective rights and obligations of the parties ;
- the provisions of the contract must be equitable for both of the parties ;
- the term of the contract must allow a return on investment for the franchisee ;
- the contract must specify the conditions of sales or transfer of the franchisee's business ;
- the contract must specify the conditions for any renewal and for termination ;
- the franchisor must not impose clauses which are not necessary to the protection of the concept ;
- the contract will be written in the language of the country in which it is to be applied ;
- the contract will respect the laws in force of the country in which the contract is to be executed.

V – TERMINATION OF THE FRANCHISE

The termination provisions should protect the franchisor's know-how through appropriate non compete restrictions on the franchisees.