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Armenia
Franchise & Licensing

Contributor

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This country-specific Q&A provides an overview of franchise & licensing laws and regulations applicable in Armenia.

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Armenia: Franchise & Licensing

1. Is there a legal definition of a franchise and, if so, what is it?

Yes. The Civil Code of the Republic of Armenia regulates franchising under the concept of “authorisation for complex entrepreneurial activity":

Under a contract on authorisation for complex entrepreneurial activity (hereinafter referred to as “franchise contract”) one party (the franchisor) shall undertake the obligation to grant the other party (the franchisee) — in exchange for compensation, with or without indication of a term — the right to use in the entrepreneurial activity of the latter the complex of exclusive rights belonging to the franchisor, including the right to the trade name of the franchisor, to commercial information protected by law, and also to other objects of exclusive rights provided for by the contract such as the trademark, the service mark, etc.

The franchise contract shall provide for the use of certain amount (in particular with an establishment of a minimum and/or a maximum volume of use) of the complex of exclusive rights, business reputation and commercial experience of the franchisor, with or without indication of the territory of use in a certain sector of entrepreneurial activity (sales of goods received from the franchisor or produced by the franchisee, conduct of other commercial activity, performance of works, rendering of services).

2. Are there any structuring considerations for foreign franchisors (e.g. use of master franchisees, local presence requirements)?

Armenian legislation provides significant structural flexibility for foreign franchisors. Foreign entities are not required to establish a local presence, register a branch, or incorporate a domestic subsidiary; cross-border franchise agreements may be executed directly from an overseas organisation.

The master franchise model is explicitly recognised, enabling foreign franchisors to authorise a master franchisee in Armenia to enter into sub-franchise agreements with third parties. The primary statutory restriction regarding entity eligibility is that the parties to a franchise agreement must be registered commercial entities or individual entrepreneurs-citizens.

3. Are there any requirements that must be met prior to the offer and/or sale of a franchise? If so, please describe and include any potential consequences for failing to comply.

Armenian legislation does not impose specific mandatory requirements or pre-sale disclosure rules preceding the offer or sale of a franchise. There is no statutory Franchise Disclosure Document (FDD) system or specific pre-contractual information disclosure timeline required by law. Pre-contractual relations are governed by general civil contract rules: if a franchisor misleads a franchisee through fraud or by concealing material information, the franchisee may demand the invalidation of the agreement and compensation for damages.

4. Are there any registration requirements for franchisors and/or franchisees? If so, please describe them and include any potential consequences for failing to comply. Is there an obligation to update existing registrations? If so, please describe. Are there any practical or timing implications (e.g. typical registration timelines, delays in practice)?

Registration is required where transferring rights to protected intellectual property objects that require a patent or registration certificate (such as trademarks, inventions, industrial designs). Rights granted under such franchise agreements are subject to mandatory state registration with the Intellectual Property Office.

Failing to comply with registration renders the franchise agreement null and void from the outset. Additionally, the parties may rely on the franchise agreement in relations with third parties only after the relevant right has been registered.

The parties are required to update existing registrations. Material amendments to contractual terms (including changes to the parties' names or addresses, scope of rights, territorial validity, or duration), term extensions, and early terminations must be registered. The parties may rely on amendments to the franchise agreement

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against third parties only after registration, unless they can prove that the third party knew or should have known of the amendment.

Registration applications may be submitted by the franchisor, franchisee, or an authorised representative (such as a patent attorney). The applicable filing requirements and state fees vary depending on the intellectual property right concerned. For trademarks, the state fee is AMD 60,000 per trademark for registration and AMD 25,000 for registration of amendments or cancellation. For inventions, the state fee is AMD 60,000 per invention for registration and AMD 10,000 for registration of amendments or cancellation. For industrial designs, the state fee is AMD 60,000 for registration, plus AMD 45,000 for each additional industrial design, and AMD 10,000 for registration of amendments or cancellation. Compliant applications are generally processed within seven working days. Where deficiencies are identified, the applicable period for submitting missing or corrected materials is two months for trademark-related registrations and three months for inventions and industrial designs, calculated from receipt of the relevant request. In practice, delays may arise where the submitted documentation is incomplete or requires correction.

5. Are there any disclosure requirements (franchise specific or in general)? If so, please describe them (i.e. when and how must disclosure be made (is there a minimum disclosure period before signing or payment (e.g. cooling-off period)), is there a prescribed format, must it be in the local language, do they apply to sales to sub-franchisees) and include any potential consequences for failing to comply. Is there an obligation to update and/or repeat disclosure (for example in the event that the parties enter into an amendment to the franchise agreement or on renewal)? What are the consequences of late or incomplete disclosure?

Armenian law does not impose mandatory pre-sale franchise disclosure requirements or prescribe a disclosure system. There is no prescribed format or language for such disclosure, and no statutory cooling-off or waiting period is required before execution or payment. These rules apply equally to sub-franchise arrangements.

Post-execution, there is no obligation to update or repeat any pre-contractual disclosure. However, the franchisor remains subject to statutory obligations to provide necessary technical and commercial documentation and information and to instruct the franchisee and its personnel. Rather than franchise-specific statutory fines, remedies for false, late, or incomplete disclosure are governed by general civil law rules. If a franchisor intentionally conceals material facts or misleads a franchisee during pre-contractual negotiations, the aggrieved franchisee can seek judicial invalidation of the contract based on fraud or material error, as well as compensation for damages.

6. If the franchisee intends to use a special purpose vehicle (SPV) to operate each franchised outlet, is it sufficient to make disclosure to the SPVs' parent company or must disclosure be made to each individual SPV franchisee?

Armenian law does not prescribe mandatory pre-sale franchise disclosure rules or procedures and, consequently, does not require disclosure to be made individually to each SPV franchisee.

7. What actions can a franchisee take in the event of mis-selling by the franchisor? What are the main legal grounds for such claims (e.g. misrepresentation, statutory disclosure breaches, unfair commercial practices)? To what extent can liability be excluded or limited by non-reliance or entire agreement clauses or disclaimers in the franchise agreement, disclosure document or sales material?

Legal remedies for mis-selling by a franchisor rely on general civil law principles. If an agreement is executed under the influence of fraud or an essential mistake concerning the agreement's nature or core qualities, the franchisee may seek judicial invalidation of the contract. Upon invalidation, the franchisee may also claim compensation for damages.

Regarding limitations of liability, entire agreement, non-reliance, and disclaimer clauses may be agreed under the general principle of freedom of contract. However, the legal protection offered by such clauses is not absolute and they cannot override mandatory provisions of Armenian law. Under Armenian civil law, any prior agreement attempting to limit or eliminate liability for an intentional breach of an obligation is null and void.

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8. Would it be legal to issue a franchise agreement on a non-negotiable, "take it or leave it", basis?

Issuing a franchise agreement on a non-negotiable basis is fully permissible as a contract of adhesion, where standard terms are established by the franchisor and accepted in their entirety. In commercial transactions, a franchisee accepting a standard-form agreement generally cannot later seek to modify or set aside onerous terms if it knowingly agreed to them at the time of execution.

9. How are trademarks, know-how, trade secrets and copyright protected in your country? Are there any specific requirements or risks relating to the licensing of know-how and trade secrets in a franchise context?

In Armenia, trademarks are protected through four distinct regimes: state registration via a national application, recognition as a well-known mark, international registration under the Madrid Agreement or Protocol, or registration under the Eurasian Economic Union treaty. Copyright in works such as designs, software, and manual texts arises automatically upon creation in an objective form without requiring state registration.

Know-how and trade secrets are protected as undisclosed information without state registration or formalities, provided three cumulative conditions are met: the information is unknown to third parties, it holds actual or potential commercial value due to being unknown, and the holder has taken measures to maintain its secrecy.

Licensing know-how or trade secrets does not require state registration and becomes effective between the parties upon contract execution. After termination, the information remains protected for as long as it is kept secret, and a former franchisee that uses or discloses it without the franchisor's consent is liable for damages under the general rules on commercial secrets. The main risks are the loss of legal protection if the franchisee discloses the information, as protection exists only while secrecy is maintained, and the lawful use by third parties who independently obtain the information. To mitigate these risks, the franchisor should consider including appropriate non-disclosure provisions, penalties for breach, and individual confidentiality agreements for franchisee employees having access to the information.

10. Are there any franchise specific laws governing the ongoing relationship between franchisor and franchisee? If so, please describe them, including any terms that are required to be included within the franchise agreement.

Under Armenian law, a franchise agreement must provide for a defined complex of exclusive rights to be used by the franchisee and the scope or volume of the permitted use. The franchisee's remuneration may be determined in the agreement in various forms.

Franchising establishes a defined operational framework governing the ongoing commercial relationship, dividing the franchisor's responsibilities into non-negotiable requirements and default provisions. Non-negotiable duties require the franchisor to deliver technical and commercial documentation, provide operational guidance to the franchisee and its staff, and provide the licences specified in the agreement. Default provisions, which apply unless expressly modified by agreement, require the franchisor to ensure state registration of the right granted under the franchise agreement, where registration is required, maintain continuous technical and advisory support including staff training, and oversee the quality of goods, works, and services.

To preserve brand consistency and commercial reputation, the franchisee must adhere to strict operational standards. These include maintaining quality consistent with comparable goods, works and services provided by the franchisor, following franchisor directives regarding operations and facility design, and extending all standard auxiliary customer services. Additionally, the franchisee must prominently inform customers that it uses the franchisor's trade name, trademark, service mark or other means of individualisation under a franchise agreement and maintain strict confidentiality over all proprietary know-how and trade secrets received.

Agreements may incorporate specific restrictive covenants, such as territorial exclusivity that prevents the franchisor from operating directly or licensing third parties within a designated area, non-compete clauses preventing the franchisee from entering competing businesses, and requirements for the franchisee to agree with the franchisor on outlet locations and their external and internal design. Conversely, terms attempting to control resale prices by setting fixed amounts, price floors, or price ceilings are strictly invalid, as are clauses restricting sales to specific groups of customers or geographic regions.

Regarding consumer claims over product or service

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quality, the franchisor bears subsidiary liability alongside the franchisee. However, where claims are brought against the franchisee as the manufacturer of the franchisor's goods, the franchisor and franchisee are jointly and severally liable.

11. Are there any aspects of competition law that apply to the franchise transaction (i.e. is it permissible to prohibit online sales or use of online marketplaces (e.g. Amazon, third-party platforms), insist on exclusive supply, fix or set maximum retail prices, operate dual distribution/hybrid franchisor models)? If applicable, provide an overview of the relevant competition laws.

Armenian law prohibits anti-competitive agreements, i.e. agreements or concerted practices that lead or may lead to the prevention, restriction or prohibition of competition. The rules are set out in the Law "On Protection of Economic Competition and Consumer Interests" and enforced by the Competition and Consumer Protection Commission (the "Commission"). Cross-border markets within the Eurasian Economic Union are subject to common EAEU rules supervised by the Eurasian Economic Commission.

Types of agreements. The rules differ depending on whether an agreement is:

- horizontal: between actual or potential competitors in the same goods market;
- vertical: between a seller and a buyer in the same goods market who are not competitors; or
- other: between entities that are interrelated or operate in different goods markets, or any other agreement.

Exemptions. Vertical and other agreements are not anti-competitive where each party's market share does not exceed 20%. They are also exempt where their restrictions are necessary, do not open the possibility of restricting competition and are shown to bring efficiencies shared with consumers. These exemptions do not apply to horizontal agreements. Agreements between entities under common control are exempt in all cases.

Classification. This depends on how the Commission defines the relevant market and on the facts, and should be assessed case by case. As the parties are generally not competitors, a franchise agreement is usually vertical where the franchisor also supplies goods, and other where the parties operate in different markets, for example under a pure licence of the brand and know-how.

Vertical agreements. The following restrictions are prohibited regardless of effect, meaning that their mere presence in the agreement is enough:

- setting the buyer's resale price, except a maximum price. Fixed or minimum retail prices are therefore prohibited. Maximum prices are allowed under competition law, but, as explained in Question 9, the Civil Code voids them in franchise agreements, leaving only non-binding recommended prices;
- preventing the buyer from purchasing from the seller's competitors, unless the buyer operates under the seller's trademark. As a franchisee, as a rule, does so, exclusive supply clauses requiring it to buy only from the franchisor or its designated suppliers are generally permitted; and
- refusing others reasonable access to the parties' distribution networks or infrastructure where they cannot operate without it.

Other vertical restrictions, including on online sales and marketplaces, which are not specifically regulated, are prohibited only where they restrict competition. Requirements on approved platforms and brand presentation are easier to justify than a complete ban. However, the Civil Code voids franchise clauses limiting sales to certain customers or to customers in the franchisee's territory, which an online sales ban may amount to.

Other agreements. Typical examples of restrictions are territorial or price restrictions on sales, refusals to deal, discriminatory conditions and unrelated obligations. None is prohibited automatically: each is prohibited only where it restricts competition, and the exemptions above apply.

Horizontal agreements. Under a dual distribution or hybrid model, where the franchisor also runs its own outlets in the franchisee's market, the parties may be treated as competitors. The exemptions above then do not apply, and dividing markets by territory or customers, coordinating prices or trade terms and applying discriminatory conditions are prohibited regardless of effect. Territorial exclusivity and pricing or promotions between own and franchised outlets therefore need careful structuring.

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Dominant and strong bargaining positions. A franchisor holding a dominant position or a "strong bargaining position" (for example, where four or more outlets with significant turnover operate under its trademark) may not abuse it, for example by applying discriminatory conditions.

Consequences. Breaches may lead to administrative liability, an order to remedy the breach and, on the Commission's application, court invalidation of the agreement. The Civil Code also provides that restrictive conditions in a franchise agreement may be invalidated at the request of the Commission or any other interested body or person if they contradict competition and consumer protection legislation.

12. Are there any ESG, compliance or supply chain-related legal requirements impacting franchise systems?

Armenian law does not impose ESG or supply chain requirements specific to franchise systems. However, franchise networks must comply with the general rules on unfair competition and consumer protection. These were significantly strengthened in 2025–2026: unfair commercial practices towards consumers, misleading advertising and unfair terms in consumer contracts are now expressly regulated, and the Commission may impose fines calculated as a percentage of turnover. Since marketing materials, consumer terms and promotions are usually set centrally by the franchisor and applied throughout the network, franchise agreements should clearly allocate responsibility for compliance. In addition, franchisees of foreign franchisors may be bound contractually by the franchisor's home-country supply chain due diligence obligations.

13. Are in-term non-compete and non-solicitation clauses enforceable and are there any limitations on the franchisor's ability to impose and enforce them?

Non-compete. During the term of the franchise agreement, non-compete clauses are expressly permitted by the Civil Code. In particular, the agreement may oblige the franchisee not to compete with the franchisor in the territory covered by the agreement, and not to obtain similar franchise rights from the franchisor's actual or potential competitors. The statutory list of permitted restrictions is not exhaustive, so other in-term restrictions may also be agreed under the general principle of freedom of contract.

Competition law limits. These restrictions remain subject to competition law. The Civil Code expressly provides that restrictive conditions in a franchise agreement may be invalidated at the request of the Commission or any other interested body or person if they contradict competition and consumer protection legislation. As explained in Question 11, an obligation not to deal with the franchisor's competitors is generally permitted because the franchisee operates under the franchisor's trademark, while broader restrictions are assessed case by case.

Non-solicitation. Non-solicitation clauses are not specifically regulated and may be agreed by the parties, subject to two limits:

- a customer non-solicitation clause must not, in effect, allow the franchisee to sell only to a certain group of customers or only to customers located in its territory, as such restrictions are void under the Civil Code; and
- an employee non-solicitation (no-poach) clause binds only the franchisor and the franchisee and cannot prevent the employees themselves from changing employer.

Enforcement. Breaches may be remedied through damages, contractual penalties (see Question 18) and termination of the agreement. However, to the best of our knowledge, the enforcement of such provisions has not yet been tested in Armenian practice. Armenian law does not specifically regulate restrictions that apply after termination of the franchise agreement; these are addressed in Question 27.

14. Is there an obligation (express or implied) to deal in good faith in franchise relationships? If so, what practical effects does this have on the relationship between franchisor and franchisee?

Armenian law does not impose a general statutory duty of good faith on the parties to a franchise agreement. Its practical equivalent is the prohibition of abuse of rights: parties may not exercise their rights solely to cause damage to the other party or otherwise abuse them. Obligations must be performed properly, in accordance with the agreement and the law and, where these are silent, with customary business practices.

Much of what good faith achieves in other jurisdictions is covered in Armenia by the specific duties set out in the Civil Code for franchise agreements:

- the franchisor must provide technical and commercial documentation and instruct the

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franchisee and its staff, and, unless otherwise agreed, provide ongoing technical and advisory support and monitor the quality of the franchisee's goods and services; and
- the franchisee must meet the franchisor's quality standards, follow its instructions on the use of the franchise system, offer customers the same additional services as the franchisor and keep its confidential information secret.

Other obligations, such as reporting duties or sharing performance data, apply only if the franchise agreement provides for them. Similarly, the franchisor's inspection and control rights must be exercised for their legitimate purpose and not to obstruct or pressure the franchisee.

Consequences. If a court or arbitral tribunal finds that a party has abused its rights, it may refuse to protect the right in question, for example by rejecting a claim or a requested remedy.

15. Are there any employment or labour law considerations that are relevant to the franchise relationship? Is there a risk that the staff of the franchisee could be deemed to be the employees of the franchisor? What level of operational control may a franchisor exercise without creating employment or agency risk? What steps can be taken to mitigate this risk?

Employment risk. The risk of the franchisee's staff being treated as the franchisor's employees is low. Armenian law does not recognise a joint-employer concept: the employer is the party that concludes the employment contract with the employee. The franchisor and the franchisee remain separate, independent businesses.

Operational control. The franchisor may set and enforce system standards, for example through operating manuals, staff training and quality audits. To keep the separation clear, the franchisor should not take part in the franchisee's personnel decisions, such as hiring, dismissal, pay, working hours or discipline. The risk of the franchisee being treated as the franchisor's agent is addressed in Question 16.

Mitigation. The franchisee is required by law to inform customers, in the most visible way, that it uses the franchisor's trade name, trademark or other means of individualisation under a franchise agreement. This also makes the separation between the businesses clear to customers and staff. In addition, franchise agreements usually confirm the parties' independent status and include indemnities for labour claims.

Confidentiality. The franchisor cannot bind the franchisee's employees directly. The franchisee is responsible for keeping the franchisor's confidential information secret, and employees who disclose commercial secrets in breach of their employment contract are liable for the resulting damages.

Foreign staff. Where the franchisor sends its own staff to Armenia, for example for opening support, training or audits, they may require work and residence permits or may be required to travel to Armenia on a work visa under Armenian migration rules.

16. Is there a risk that a franchisee could be deemed to be the commercial agent of the franchisor? What steps can be taken to mitigate this risk?

The risk is low where the franchisee trades in its own name and at its own risk. Agency is an ordinary Civil Code contract, so recharacterisation would mainly affect who is bound by transactions with customers.

Agency and franchising compared. Under an agency contract, the agent, for remuneration and on the principal's instructions, performs legal or other actions either in its own name or in the principal's name, but always at the principal's expense. A franchisee, by contrast, runs its own business at its own expense and risk, and pays the franchisor for the right to use its franchise system.

Consequences of recharacterisation. If a franchisee were in substance acting in the franchisor's name and at its expense, its transactions with customers would bind the franchisor directly. If it acted in its own name but at the franchisor's expense, the franchisee would be bound towards customers, while the relationship between the parties would follow the rules on agency. Recharacterisation may also have tax implications.

Mitigation. Characterisation depends on the substance of the relationship rather than its label. The key safeguards are that the franchisee:

- contracts with customers in its own name and bears the commercial risk of its business;
- has no authority to bind the franchisor; and
- informs customers, as required by law, that it operates under a franchise agreement (see Question 15).

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A clause confirming that the franchisee is not the franchisor's agent and has no authority to bind it supports this position, but cannot replace it.

17. Are there any laws and regulations that affect the nature and payment of royalties to a foreign franchisor and/or how much interest can be charged? Are there any requirements for payments in connection with the franchise agreement to be made in the local currency? Are there any restrictions on structuring payments (e.g. royalties vs service fees vs mark-ups)?

All payments under a franchise agreement must be made by non-cash bank transfer, regardless of the amount. Currency requirements depend on the residence status of the parties. Where both the franchisor and the franchisee are residents, all obligations must be stated and paid in Armenian drams. Under an agreement between a non-resident franchisor and a resident franchisee (assuming both are legal entities), payments may be stated and made in foreign currency.

Armenia does not apply currency controls to payments abroad. Royalties and other payments to a foreign franchisor may be transferred freely, subject to banks' standard compliance checks. Withholding tax on royalties is addressed in Question 19.

Late payment remedies are enforceable but subject to statutory caps, depending on how they are structured. Contractual default interest may not exceed twice the bank interest calculation rate set by the Central Bank of Armenia (CBA) (currently 24% per year). A contractual penalty for late payment may not exceed four times the CBA calculation rate per year (currently 48%), and the total of all penalties may not exceed the outstanding principal debt. Contractual terms are unenforceable to the extent they exceed these caps. If the agreement does not provide for late payment interest, statutory interest at the CBA calculation rate applies.

Armenian civil law does not restrict how the parties structure the franchisee's payments. Remuneration may take the form of a percentage of revenue or profit, a fixed initial fee, a mark-up on goods supplied by the franchisor, separate fees for operational, technical or marketing support, or any combination of these. The tax treatment of each type of payment may differ (see Question 19).

18. Is it possible to impose contractual penalties on franchisees for breaches of restrictive covenants etc.? If so, what requirements must be met in order for such penalties to be enforceable?

Contractual penalties may be imposed for breaches of restrictive covenants or other franchise obligations. A key procedural advantage when demanding a contractual penalty is that the franchisor is only required to prove the occurrence of the breach itself, without needing to demonstrate actual financial harm or quantify damages. To be legally valid, penalty provisions must be executed strictly in writing; any unwritten agreement regarding penalties is legally void.

Imposing large lump-sum penalties for non-monetary breaches, such as violations of confidentiality, trademark misuse, or non-compete covenants, presents distinct legal risks. If a fixed penalty is manifestly disproportionate to the severity of the breach or the franchisor's actual injury, courts may reduce it to a reasonable amount, as the Civil Code expressly allows a court to reduce a penalty that is clearly disproportionate to the consequences of the breach. Because judicial precedent regarding high non-monetary penalties between commercial entities remains undeveloped, enforcement outcomes can be unpredictable.

To ensure lump-sum penalties for non-monetary breaches remain legally enforceable and resistant to judicial reduction, keep fine amounts strictly proportionate to the anticipated commercial impact of the violation.

19. What tax considerations are relevant to franchisors and franchisees? Are franchise royalties subject to withholding tax?

Withholding tax. Royalties paid by an Armenian franchisee to a non-resident franchisor with no permanent establishment in Armenia are subject to profit tax withheld at source. The franchisee acts as a tax agent: it calculates and withholds the tax from the payment and pays it to the state budget. Royalties are taxed as passive income at 10%. Other payments under the franchise agreement, such as fees for services, may be classified differently and taxed at a different rate, so the nature of each payment should be considered when structuring the agreement (see Question 17). The withholding tax may be reduced or eliminated under an applicable double tax treaty, subject to the documentation and procedure required by the Tax Code.

VAT. Where the franchisee is a VAT payer, it must

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calculate and pay VAT at 20% on rights and services received in Armenia from a non-resident franchisor with no place of business in Armenia.

Transfer pricing. Where the franchisor and the franchisee are related parties, the grant of the right to use intangible assets and the provision of services between a resident and a non-resident are controlled transactions subject to the arm's length principle. The transfer pricing rules apply where the total value of a taxpayer's controlled transactions in a tax year exceeds AMD 200 million. In that case, the franchisee must notify the tax authority of its controlled transactions and submit transfer pricing documentation on request. Advance pricing agreements with the tax authority are available for such transactions.

20. How is e-commerce regulated and does this have any specific implications on the relationship between franchisor and franchisee? For example, can franchisees be prohibited or restricted in any way from using e-commerce in their franchise businesses? Are there any rules regarding online sales within or outside a franchisee's territory?

Online sales restrictions. Armenian law does not specifically regulate restrictions on online sales by franchisees. As explained in Question 11, such restrictions are assessed case by case under competition law. Requirements on approved platforms and brand presentation are easier to justify than a complete ban, and the Civil Code voids clauses limiting the franchisee to selling only to certain customers or only to customers located in its territory.

Electronic trading platforms. The Civil Code contains specific rules for operators of websites or applications through which third parties conclude and perform contracts. The operator is not liable under contracts concluded between users of the platform, unless the law or its contract with the user provides otherwise, but loses this protection if it operates the platform in breach of the law. The operator must display the mandatory information about each seller required by law and keep it while the seller is registered on the platform and for at least one year afterwards. It is not obliged to monitor the content submitted by users, unless it knew or should have known that the content was manifestly unlawful, manifestly unreliable or manifestly contrary to Armenian law. For franchise networks, this means that:

- a franchisee selling through a third-party marketplace is itself responsible to its customers;
- a franchisor running a central platform through which customers buy from franchisees is generally not liable under the franchisees' contracts with customers, provided it operates the platform lawfully, including by displaying each franchisee's details as the seller; this does not affect the franchisor's subsidiary liability for the quality of the franchisees' goods and services (see Question 10); and
- franchisors can notify marketplaces of counterfeit or unauthorised listings of their brand, after which the marketplace can no longer rely on the absence of a duty to monitor.

Consumer protection. Online sales to consumers are subject to the consumer protection rules on distance contracts, which cannot be excluded or limited by the franchise agreement. Before the contract is concluded, the seller must give consumers clear information about itself, the goods or services and the full price. Consumers also have a mandatory 14-day right to withdraw from distance contracts. Franchisors therefore cannot require franchisees to apply “no return” policies or other network rules that limit these rights. The franchisee, as seller, is responsible towards consumers (see also Question 12).

21. What are the applicable data protection laws and do they have any specific implications for the franchisor/franchisee relationship? In particular, what are the key data protection considerations in a franchise relationship, including: (a) allocation of controller/processor roles; (b) use of customer databases; (c) cross-border data transfers; and (d) marketing and CRM activities?

Data protection in Armenia is governed by the Law “On Protection of Personal Data" and supervised by the Personal Data Protection Agency (PDPA). The Law applies to processing carried out in Armenia and by persons established and operating in Armenia. It is relevant to franchise networks because they typically collect customer data locally, keep central databases and transfer data to the franchisor abroad.

(a) Allocation of controller/processor roles

Armenian law uses its own terminology: the equivalent of a data controller is the “Data Processor”, and the equivalent of a data processor is the “Authorised Person". The allocation of roles in a franchise depends on who decides why and how data is processed. A franchisee

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collecting customer data for its own business will usually be a Data Processor in its own right. Where it collects data only on the franchisor's behalf and for the franchisor's purposes, it acts as the franchisor's Authorised Person.

In the latter case, the parties must conclude a written agreement setting out the legal grounds, conditions and purpose of processing, the data and data subjects concerned, the persons to whom the data may be transferred and the technical and organisational protection measures. The Authorised Person may process data only within this assignment, and the Data Processor remains responsible for that processing. If personal data leaks from electronic systems, the Data Processor must immediately publish an announcement and report the incident to the police and the PDPA, so the franchise agreement should allocate these steps clearly.

(b) Use of customer databases

Processing personal data generally requires the data subject's consent, unless the law provides otherwise or the data comes from publicly available sources. Consent is deemed given where the data is obtained under a contract with the customer and used for the purposes of that contract. When requesting consent, customers must be informed of, among other things, the purpose of processing, the data concerned, the persons to whom it may be transferred (such as the franchisor) and who is processing it. Data may only be used for the purposes covered by the consent: using a customer database for a new, incompatible purpose requires new consent. Where a franchisor receives customer data from franchisees rather than from the customers themselves, it must, as a rule, inform the customers of its identity, the purpose and legal basis of processing, the data concerned, the likely recipients and their rights before processing the data. Processing special category or biometric data requires prior notification to the PDPA.

(c) Cross-border data transfers

Personal data may be transferred abroad with the data subject's consent or where the transfer follows from, or is necessary for, the purposes of processing. No permission is required if the recipient country ensures an adequate level of protection, either under an applicable international agreement or because it is included in the PDPA's list. Transfers to other countries require the PDPA's prior permission and an agreement with safeguards approved by the PDPA as adequate. The Data Processor transferring the data must apply to the PDPA, which may permit or refuse the transfer or require additional safeguards within 30 days.

(d) Marketing and CRM activities

Armenian law has no specific rules on direct marketing, so marketing and CRM activities follow the general consent rules. The PDPA's guidance recommends consent-based opt-in and opt-out mechanisms. Customers may withdraw their consent in the cases and manner provided by law. Where consent was given in writing or electronically with an electronic signature and is withdrawn, the Data Processor must stop processing and destroy the data within ten working days, unless otherwise agreed with the customer or provided by law, and inform the customer of the destruction within three working days. In practice, franchise networks should ensure that opt-outs received locally are passed on promptly to the franchisor's central systems, and vice versa.

22. Is the franchisor permitted to restrict the transfer of (a) the franchisee's rights and obligations under the franchise agreement or (b) the ownership interests in the franchisee? Can the franchisor impose conditions on transfers (e.g. approval rights, fees, qualification criteria)?

(a) Transfer of rights and obligations. Armenian law limits the transfer of the franchisee's position under the franchise agreement. The franchisee's obligations may be transferred to another person only with the franchisor's consent. The franchisee's rights may generally be assigned, but not without the franchisor's consent where the franchisee's identity is essential to the franchisor, which is typically the case in a franchise. The agreement may also prohibit assignment or make it subject to the franchisor's prior consent.

(b) Transfer of ownership interests. Armenian law does not require the franchisor's consent to a change in the ownership or control of the franchisee. However, the parties may regulate this in the franchise agreement, for example by making share transfers or changes of control subject to the franchisor's prior approval and treating a breach as a ground for termination.

Conditions. Where the franchisor's consent is required, by law or under the agreement, the franchisor may make it subject to conditions such as approval of the transferee, qualification criteria or a transfer fee, provided these do not contradict the law.

23. To what extent can a franchisor impose audit

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rights, reporting obligations, and operational controls on a franchisee, and what legal limits apply?

Armenian law does not set specific limits on audit rights, reporting obligations or operational controls, which are left to the franchise agreement. The Civil Code itself supports such controls: the franchisee must follow the franchisor's instructions on the use of the franchise system, including on the design of its premises, and, unless otherwise agreed, the franchisor must monitor the quality of the franchisee's goods and services. The general rules on abuse of rights (Question 14), competition (Question 11) and data protection (Question 21) continue to apply.

24. Does a franchisee have a right to request a renewal on expiration of the initial term? In what circumstances can a franchisor refuse to renew a franchise agreement? If the franchise agreement is not renewed or it if it terminates or expires, is the franchisee entitled to compensation? If so, under what circumstances and how is the compensation payment calculated?

Upon expiration of the initial term, a franchisee who has consistently fulfilled its contractual obligations holds a preferential right to renew the agreement, provided the contract does not explicitly exclude this option. To exercise this preference, the franchisee must submit written notice within the timeframe specified in the contract or within a reasonable period prior to expiration. Once initiated, the renewal remains subject to mutual negotiation, allowing both parties to update commercial terms to reflect current market conditions.

This right to renew is not absolute, however, and a franchisor may legitimately decline a new term under specific circumstances. Non-renewal is justified if the franchisee has committed material contractual breaches, if the original agreement expressly waived preferential renewal, or if the parties cannot reach a consensus on updated commercial terms.

Should the relationship conclude through routine expiration or non-renewal, the exit does not automatically entitle the franchisee to financial compensation. Indemnity becomes payable only if explicitly promised in the contract or if the termination stems from an improper breach by the franchisor, such as an unlawful early cancellation or an unjustified denial of renewal rights. In cases where compensation is owed, the amount is determined either by pre-agreed contractual formulas or through monetary damages covering both actual losses and lost profits.

25. Are there any mandatory termination rights which may override any contractual termination rights? Is there a minimum notice period that the parties must adhere to? Are there any requirements regarding notice periods and opportunities to remedy breaches before termination?

Certain fundamental events override contractual terms to mandate contract termination, while others grant the aggrieved party the right to cancel the agreement. A franchise agreement automatically ends if the franchisor loses legal rights to its trade name, or if either party is declared bankrupt. Similarly, if an individual franchisor passes away and the heir fails to assume proper business registration within six months, the relationship automatically lapses. Furthermore, if the franchisor alters its trade name, the franchisee is granted the statutory right to immediately terminate the agreement and demand compensation for damages, unless the franchisee agrees to continue operating under the new name. Beyond these specific triggers, an agreement may be terminated if a party commits a material breach that substantially deprives the other of its expected commercial benefits, or if unforeseen, fundamental changes in circumstances alter the baseline of the contract.

Termination notice requirements depend heavily on the contract's term structure. For indefinite, open-ended franchise agreements, terminating without cause requires a mandatory minimum notice period of six months, though parties remain free to contractually agree on a longer duration. If a party seeks termination through formal dispute channels due to a breach, a prior 30-day written notice proposing resolution is generally required before initiating proceedings. Furthermore, any early termination is subject to state registration.

Armenian law does not set a general statutory period to remedy breaches, so cure periods should be agreed in the contract. Where an obligation has no fixed performance date, it must be performed within seven days of the creditor's demand.

26. Are there any intangible assets in the franchisee's business which the franchisee can

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claim ownership of on expiry or termination, e.g. customer data, local goodwill, etc.

Upon the expiration or termination of a franchise agreement, a franchisee cannot claim ownership over the franchisor's intellectual property and other proprietary intangible assets. The treatment of any local goodwill generated during the term will depend on the nature of the relevant rights and the terms of the franchise agreement. Consequently, upon exit, the franchisee must cease using the franchisor's trademarks and other network identifiers, unless otherwise authorised.

The ownership of customer records and operational data is determined by contractual terms and system governance. Where data is designated as proprietary or confidential, the franchisee must discontinue its use immediately upon termination.

Finally, the franchisor's proprietary business methodology, technical know-how, and operating processes remain protected following termination. Post-termination confidentiality obligations require the franchisee to cease any unauthorised use or disclosure of the franchisor's protected confidential information and know-how.

27. What post-termination obligations are typically enforceable (e.g. de-branding, return of confidential information, non-compete, non-solicitation) and how readily are such post-term restrictions enforced in practice?

De-branding. On termination, the franchisee's right to use the franchisor's trade name, trademarks and other means of individualisation ends, and any continued use may be challenged as an infringement of the franchisor's rights. Where the right granted under the franchise agreement was registered, early termination of a fixed-term agreement and termination of an agreement concluded for an indefinite term must also be registered (see Question 4).

Return of materials and confidential information. Franchise agreements may require the franchisee to return or destroy manuals, documents and other materials. The franchisor's know-how and other confidential business information remain protected after termination for as long as they are kept secret. A former franchisee that uses or discloses such information without the franchisor's consent is liable for damages, and this may also amount to unfair competition. Whether the former franchisee may continue to use customer data depends on the agreement and on data protection rules (see Questions 21 and 26).

Non-compete and non-solicitation. Armenian law does not specifically regulate post-termination restrictions. The Civil Code expressly permits non-compete obligations only during the term of the franchise agreement (see Question 13), so post-term non-compete and non-solicitation clauses rest on freedom of contract and remain subject to competition law (see Question 11). An employee non-solicitation clause binds only the franchisor and the former franchisee and cannot prevent employees themselves from changing employer.

Enforcement in practice. To the best of our knowledge, the enforcement of post-term non-compete and non-solicitation clauses has not yet been tested in Armenian practice. Franchisors therefore often back these obligations with contractual penalties (see Question 18).

28. Is there a national franchising association? Is membership required? If not, is membership commercially advisable? What are the additional obligations of the national franchising association?

Yes. The Franchising Association of Armenia operates as an industry association in Armenia. Membership is voluntary and is not a legal prerequisite for conducting franchise business. From a commercial standpoint, however, joining can be a valuable strategic move, offering direct access to industry networking and local market insights.

Participation creates no statutory or regulatory burdens. Any associated commitments remain strictly internal to the organisation, limited primarily to observing professional standards and adhering to internal bylaws.

29. Are foreign franchisors treated differently to domestic franchisors? Does national law/regulation impose any debt/equity restrictions? Are there any restrictions on the capital structure of a company incorporated in your country with a foreign parent (thin capitalisation rules)?

Armenian law is generally very favourable to foreign investors, and to foreign franchisors in particular. Foreign franchisors are not treated differently from domestic franchisors: they enjoy the same rights and protections and are not subject to any additional requirements.

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General corporate law does not impose debt/equity ratios on an Armenian company with a foreign parent, and the parties are free to finance a local subsidiary through debt or equity. The tax deductibility of interest on loans from a foreign parent may be subject to limits under the Tax Code.

30. Must the franchise agreement be governed by local law?

A franchise agreement does not need to be governed by local law. Choice-of-law principles allow parties freedom to select a foreign governing law for the entire contract or specific parts of it.

However, choosing a foreign legal framework does not bypass mandatory provisions of Armenian law. Most notably, where the franchise agreement covers protected intellectual property rights subject to registration under Armenian law, the applicable local registration requirements must still be complied with.

31. What dispute resolution procedures are available to franchisors and franchisees? Are there any advantages to out of court procedures such as arbitration versus litigation, in particular if the franchise agreement is subject to a foreign governing law?

Franchise disputes may be resolved either in the Armenian courts or by arbitration, and the parties may also use mediation. Although both litigation and arbitration are available, arbitration is generally the better choice where the franchise agreement is governed by foreign law, for two main reasons.

Applying foreign law. Armenian courts can apply foreign law, but establishing its content may be difficult. The court may need to request clarification of the relevant law from the competent authorities of the country concerned, which can materially delay and complicate the proceedings. In arbitration, the parties can appoint arbitrators with expertise in the chosen law. Arbitration can also be conducted in the language of the contract, whereas Armenian court proceedings are conducted in Armenian and all documents must be translated.

Enforcement. To enforce a foreign court judgment in Armenia, the applicant must prove reciprocity, unless an international treaty provides otherwise. No such proof is needed for arbitral awards from countries that are parties to the 1958 New York Convention. As Armenia is itself a party to the Convention, arbitral awards can be enforced in Armenia, and Armenian awards in other Convention countries, in a relatively straightforward way.

Arbitral awards are also final, with only limited grounds for challenge, and arbitration proceedings are confidential.

32. Must the franchise agreement and disclosure documents be in the local language?

Armenian law does not require a franchise agreement to be executed exclusively in Armenian. The parties may use a mutually acceptable foreign language; however, applicable Armenian-language requirements must also be observed. In particular, Armenian language requirements apply to the record-keeping of entities operating in Armenia, which covers contractual and commercial documentation. In addition, where the franchise agreement or related documents are submitted to the Intellectual Property Office for registration purposes, the applicable Armenian-language and translation requirements must be complied with.

There are no specific language requirements applicable to franchise disclosure documents, as Armenian law does not prescribe a formal statutory franchise disclosure framework. However, the general language requirements of Armenian law remain applicable where relevant.

33. Is it possible to sign the franchise agreement using an electronic signature (rather than a wet ink signature)?

Franchise agreements can be legally executed using electronic signatures instead of traditional wet-ink signatures. Electronic contracts hold full legal validity, carrying the same binding force as physical paper documents bearing handwritten signatures.

Commercial e-signature platforms and electronic signing methods are recognised, provided the signing parties can be reliably identified and the contract's contents remain verifiably unalterable after execution.

34. Do you foresee any significant commercial or legal developments that might impact on franchise relationships over the next year or so?

Franchising in Armenia is currently undergoing gradual maturation as the local commercial market aligns with global business standards. Because the sector is still developing, specialised legislative reforms or standalone

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franchise regulations are not on the immediate regulatory agenda.

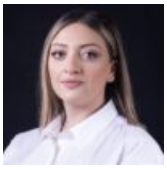
Commercial relationships will continue to be governed by the existing general provisions of the Civil Code. Over the next year or two, no major sector-specific legal shifts are anticipated, maintaining a stable regulatory environment for franchise operations.

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