THE COMPARATIVE LAW OF FRANCHISE AGREEMENTS IN REALIZING PROTECTION BETWEEN PARTIES

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Abstract
Franchising as a business concept regarding the granting of the use of intellectual property rights and operational activity systems by franchisors to franchisees is a legal relationship between franchisors and franchisees regulated in a franchise agreement. The purpose of this research is to analyze the Regulations regarding franchising in Indonesia and Regulations regarding franchising in other countries to compare arrangements between Indonesia and other countries. This legal research uses normative juridical research methods. The approach used is a comparative approach that involves researcher activities that begin with identifying the effect of one variable on another. franchise is a relationship based on a contract between the franchisor and the franchisee. Franchisees operate using trade names, formats, or procedures owned and controlled by the franchisor. Legal regulations in other countries often provide global trademark protection, allowing trademark owners to protect their trademarks in several countries. In Indonesian legislation, the legal protection of franchises is limited to the territory of the Republic of Indonesia.

Keywords: Agreements; Comparative; Franchise; Protection.

A. INTRODUCTION
Trade is something that can strengthen the community’s economic sector. In addition, trade also has an important role for Indonesia because it can help the implementation of national development in order to carry out equitable development and can also help stabilize the national economy. According to Warren J. Keegen, the success or downfall of a business is largely determined by the marketing methodology carried out by promoting an item universally through import-export shipping, licensing, forming joint ventures, and full ownership by making direct business through consolidation, acquisition, or other progress that can be achieved to expand the business. Business development can be in various ways, one of which is franchising or franchising, these marketing activities are widely used at this time.1

The concept of a franchise business is in demand by business people because it is almost the same as opening a business branch.2 There are 3 types of franchises known, namely the First Tradename Franchising, which

1 Aidi Zil and Hasna Farida., Perlindungan Hukum Para Pihak Dalam Perjanjian Waralaba Makanan, Jurnal Cendikia Hukum, Vol. 4, No. 2, 2019, page. 15
is a franchise system where the franchise buyer gives the right to use the Franchisor's trade name without distributing certain products under the Franchisor's name. The Second Form of Product Distribution Franchising, which is a franchise system where the Franchise Seller grants the Franchise Buyer the right to sell its products under the franchisor's trade name through a selective and limited distribution network. The third form of franchise is pure franchising (business format franchising), where the franchisor provides a complete franchise format, starting from the use of trademarks and services for sale, management tools, quality control, distribution channels, and various other services. This type is widely developed, for example in the fastfood restaurant industry, educational services, car rental, home sales and other services.

Running a franchise business activity successfully and whether or not it really depends on good cooperation paying attention to the aspects of the franchisor and the franchisee on the power and obligations. In every legal relationship, including franchise agreements, there must be harmony and equal position between the two parties so that there are no problems of interest. However, the reality in the field is not sure to run smoothly, there must be a possibility that one of them will default in this franchise agreement because of the circumstances that allow one party to have a greedy desire to use the minimum capital in order to get the maximum profit. Making a franchise agreement definitely has a big risk of problems occurring, it is possible that there will be a franchise agreement default by the franchisee (recipient). It cannot be denied that if in the franchise agreement the recipient ignores the contents of the substance of the agreement that has been ratified by mutual agreement, it can result in losses to the franchisor.

Franchising as a business concept regarding the granting of the use of intellectual property rights and operational activity systems by the franchisor to the franchisee is a legal relationship between the franchisor and the franchisee which is regulated in a franchise agreement, which is an agreement that documents the legal relationship regarding the obligations that exist between the franchisor and the franchisee.

In Indonesia, franchising is regulated under Law number 7 of 2014 on trade. This provision governs the definition and provisions of Franchising, including trademark rights associated with Franchising. this business system also provides a process and regularity of work that is integrated in management, organization, administration, financial, human resources, and

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4 Sutrisno Iwantoro., Kiat Sukses Berwirausaha, Jakarta, Grasindo, 2006, page. 197-198
6 Kadek Suarkayasa., Akibat Hukum Terhadap Franchisee Yang Melakukan Wanprestasi Kepada Franchisor Dalam Perjanjian Franchise, Jurnal Kertha Wicara, Vol. 11, No. 1, Tahun 2021, page. 22-31
8 Norman Syahdar Idrus., Aspek Hukum Perjanjian Waralaba (Franchise) Dalam Perspektif Hukum Perdata Dan Hukum Islam, Jurnal Yuridis, Vol. 4, No. 1, Juni 2017, page. 28-45
marketing that produces outputs of products or services with maintained quality standards.\(^9\) Trademark rights used in franchising must be registered in accordance with the provisions of the Trademark and Geographical Indications Act. Trademark registration provides legal protection to the use of the mark in Indonesia, as well as granting the owner of the mark the exclusive right to use it in franchising operations.

In terms of protection of the trademark owner, both in Indonesia and internationally, the trademark owner is granted the exclusive right to use and protect the trademark. The mark owner has the right to prevent the use of identical or similar marks by other parties without authorization. However, differences may exist in the legal procedures and penalties associated with trademark infringement, as well as the time limit and effectiveness of such mark protection.\(^10\)

Based on research conducted by Agri Chairunisa Isradjuningtias with the title comparison of franchise offering circulars according to franchise law institutions in Indonesia and Australia. It was found that there were quite fundamental differences. The Australian Franchise Offering Circular is made in more detail than the Franchise Offering Circular regulated by Indonesian legal institutions. The advantage of this franchise arrangement in Australia is that the regulations made for making prospectuses are very detailed. This regulation provides a detailed description of the disclosure document known as good disclosure. The disadvantage of the Australian prospectus arrangement is that it is possible for payments to be made before entering into the agreement.\(^11\)

Then the research conducted by Reza Kurniawan Cahya Putra with the title comparative analysis of Indonesian and international law related to franchising on brand rights. There are differences in several aspects between Indonesian legal regulations and international legal regulations. These differences include the geographical scope of brand protection, provisions regarding brand licenses in franchising, brand registration requirements, and procedures for resolving brand disputes. International laws often provide global trademark protection and have more detailed provisions regarding trademark licenses in franchising. Meanwhile, Indonesian legislation limits trademark protection to the territory of the Republic of Indonesia and allows trademark licensing arrangements through an agreement between the trademark holder and the franchisor.\(^12\)

The findings in this study are that legal regulations in other countries often provide global trademark protection, allowing trademark owners to

protect their trademarks in several countries. In Indonesian legislation, the legal protection of franchises is only limited to the territory of the Republic of Indonesia. Then the difference lies in the provisions regarding the brand license in the franchise. The purpose of this research is to analyze the Regulations on franchising in Indonesia and Regulations on franchising in other countries to compare arrangements between Indonesia and other countries.

B. RESEARCH METHODS

This legal research uses normative juridical research methods, according to Peter Mahmud Marzuki, normative legal research is a process of finding legal rules, legal principles, and legal doctrines in order to answer the legal issues at hand also uses the Comparative Method, with the sub-specialty of Descriptive Comparative Law. A comparative approach that involves the researcher starting by identifying the effect of one variable on another, where the researcher collects materials about the legal system of various societies, in this case the choice is Indonesian Law and the Law of other countries, which is very emphasized is descriptive analysis. A comparative approach that involves the researcher starting by identifying the effect of one variable on another.

C. RESULTS AND DISCUSSION

1. Franchise regulations in Indonesia

Franchise is a business system that is already distinctive or has characteristics regarding business in the field of trade or services, in the form of the type of product and form being cultivated, corporate identity (logo, design, brand even including clothing and appearance of company employees), marketing plans and operational assistance.

It further states that a franchise is a contractual relationship between the franchisor and the franchisee. The franchisor is obliged to provide continuous attention to the business of the franchisee through the provision of knowledge and training. Franchisees operate using trade names, formats, or procedures owned and controlled by the franchisor. Franchisees make investments in the business they own.

As an agreement, a franchise is subject to the general provisions applicable to the validity of an agreement as stipulated in Book III of the Civil Code. Article 4 paragraph (2) of Government Regulation No. 42/2007 on Franchising states that franchise agreements, if in a foreign

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16 Ibid
language, must be translated into Indonesian in accordance with the laws governing them. Article 1319 of the Civil Code states "all agreements, whether they have a special name, or are not known by a certain name, are subject to the general rules contained in this chapter and the last chapter". 19

Franchise agreement is the granting of rights by the franchisor to the franchisee to use the uniqueness of the business or business identification characteristics in the franchisee. 20 Based on Article 1 of Government Regulation No. 42 of 2007 concerning Franchising, the definition of a franchise is a special right owned by an individual or business entity to a business system with business characteristics in order to market goods and/or services that have proven successful and can be utilized and/or used by other parties based on a franchise agreement.

Article 3 of Government Regulation No. 42 of 2007 on Franchising explains that a franchise has specific criteria, namely: Having business characteristics, namely a business that has advantages or differences that are not easily imitated compared to other similar businesses, and makes consumers always look for these characteristics. For example, management system, sales and service method, or arrangement or distribution method which is a special characteristic of the Franchisor; Proven to have provided profit, this refers to the experience of the Franchisor which has been owned for approximately 5 (five) years and has had business tips to overcome problems in the course of its business, and this is proven by the survival and development of the business profitably; Having standards for services and goods and/or services offered in writing, is a standard in writing so that Franchisees can carry out business in a clear and similar framework (Standard Operational Procedure); Easy to teach and apply, so that Franchisees who do not have experience or knowledge of similar businesses can carry it out properly in accordance with the continuous operational and management guidance provided by the Franchisor; There is continuous support from the Franchisor to the Franchisee on an ongoing basis such as operational guidance, training, and promotion; Registered Intellectual Property Rights, are business-related Intellectual Property Rights such as trademarks, copyrights, patents, and trade secrets, have been registered and have certificates or are in the process of registration at the competent authority.

Franchising is described as a mix of "big" and "small" businesses, namely a combination of energy and individual commitment with a large company's resources and strengths. Franchising is a business arrangement in which a company (Franchisor) gives the right to an independent party (Franchisee) to sell its products or services with the

19 Alwi Rany Mohamad., Pandangan Hukum mengenai Perjanjian Bisnis Waralaba di Indonesia, JIMPS: Jurnal Ilmiah Mahasiswa Pendidikan Sejarah, Vol. 8, No. 4, 2023, page. 3430-3436
Franchisor’s rules. Franchisees use the name, goodwill, products and services marketing procedures, expertise, operational procedure systems, and the franchisor company’s supporting facilities. In return, the Franchisee pays an initial fee and royalties (management service fee) to the franchisor company as stipulated in the franchise contract.\textsuperscript{21} Based on Article 4 paragraphs (1) and (2) of Government Regulation No. 42 of 2007 concerning Franchising, states that Franchising is organized based on a written agreement between the Franchisor and the Franchisee with due observance of Indonesian law. In the event that the agreement as referred to in paragraph (1) is written in a foreign language, the agreement must be translated into Indonesian.

Franchising is an effective way to expand business networks and respond to modern challenges, because the system does not require direct investment, but involves collaboration with other parties. In other words, franchising is a form of partnership based on a mutually beneficial relationship (mutualistic symbiosis) between the franchisor and the franchisee.\textsuperscript{22} Based on Article 2 paragraph (2) of MOT 71/2019 on Franchising, the criteria for franchising are as follows: Has special characteristics; Proven to have provided benefits; Has standards for the service of goods and / or services offered that are made in writing; Easy to teach and apply; There is continuous support; IPR that has been registered;

The prospectus in Indonesian contains written information about the franchise business, in accordance with Article 7 paragraph (2) of Indonesian Government Regulation No. 42 of 2007 concerning Franchising, regulates: Identity data of the franchisor; Business legality of the franchisor; History of its business activities; Organizational structure of the franchisor; Financial statements of the last 2 (two) years; Number of business premises; List of franchisees; Rights and obligations of the franchisor and franchisees.

The franchise offer prospectus is based on Article 1 point 7 of MOT 71/2019, "in the form of written information from the franchisor which at least explains the identity, legality, history of activities, organizational structure, financial statements, number of business premises, list of franchisees, rights and obligations of franchisees, intellectual property of the franchisor". Prospectus of franchise offer to prospective franchisees or prospective further franchisees no later than 2 weeks before the signing of the franchise agreement based on Article 5 paragraph (1) of MOT 71/2019.\textsuperscript{23}

2. Franchise arrangements in other countries

Art. 305 of the German CC, entitled “General conditions for the conclusion of agreements”, applies to a franchise agreement insofar as one party joins the terms of the agreement, established by the other party (Part 2, Article 305). The terms of the agreement must meet the criteria of reasonableness and fairness and should not place one of its parties in an extremely unfavourable position with respect to another, which violates the requirement of integrity. Otherwise, these provisions are invalidated and cancelled. For example, a franchisee who is not a limited liability company has the right to cancel the agreement within 14 days from the moment of its conclusion, if it contains an obligation to take delivery from the franchisor more than once, while the total amount of the franchisee’s contribution to the newly created company does not exceed 75 thousand euros.\(^{24}\)

The regulation of issues related to the conclusion of a franchise agreement is also governed by the Unfair Contract Terms Act (UCTA), adopted in 1977 by the United Kingdom Parliament (Unfair Contract Terms Act 1977). In accordance with this Law, any provision of the model agreement, which has not been discussed by its parties, is subject to verification of equity. If such a provision can cause infliction of loss to the franchisee, the franchisor is required to justify the need for it to be included in the agreement. In addition, according to the UCTA, the franchisee has the same security guarantees as the buyer.

Further legal relations between the franchisor and the franchisee, if the franchisee undertakes to continue to purchase the goods and equipment from the franchisor, are regulated mainly by the agency law, as well as by the antimonopoly law. As the German antimonopoly legislation was fully aligned with the EU provisions in 2005, issues such as restriction of competition, price control, conducting procurement, and determining the territory of the agreement are currently regulated by the European Competition Law. According to Art. 101 of the Treaty on the Functioning of the European Union (TFEU) (Treaty on the Functioning of the European Union), it is prohibited to conclude such agreements between enterprises that may affect trade between member states of the EU and which are aimed at preventing, restricting or distorting competition in the pan-European market.\(^{25}\)

Franchising has a rich history in the UK which can be traced to the Feudal practices in the 16th Century England when the feudal lords occasionally granted permission to peasants to use their lands in return for certain fees. At present, as shown in Table 1 above, the franchise industry plays a key role in improving the economy and national productivity of the UK.\(^{26}\)

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\(^{25}\) Ibid

In the UK, there are no specific laws guiding franchise business partnership. A part from the BFA Code of Ethics that guides the conduct of franchise business in the country, contracts in the industry are enforced according to the existing general business and commercial laws. The important commercial and business laws that are relevant to parties entering into franchise partnership in the UK include The Trading Scheme Act 1996, The Fair Trade Act 1973, The Marks Act 1994, The Data Protection Act 1998, and The Bribery Act 2010. Other issues on which proper legal counsel may be needed to conduct a successful franchise business especially for franchisors include pricing controls, exclusivity, tying practices and online sales by franchisees. Thus, the foregoing discussion has shown that the franchising is an important business model in the UK with the industry contributing meaningfully to enterprise promotion, job creation and GDP growth in the country.

The Malaysian Franchise (Amendment) Bill 2019 has been passed by the Dewan Rakyat (House of Representatives) on 3 December 2019 and The Bill received its Royal Assent on 20 February 2020 and published in the Gazette on 6 March 2020. The Bill seeks to amend the Franchise Act 1998 to be in line with the current developments of the franchise business in Malaysia. Under the new amendment, section 6 (1) of the Franchise Act 1998 requires a foreign franchisor to register himself under sections 6 and 54(1) of the Franchise Act 1998 separately. It means there will be double registration of franchise by foreign franchisor. However, it is unclear if the applications can be done simultaneously or consecutively.

It is important to note that a franchisor is obliged to make an application to register one franchise business with the Registrar of Companies prior to the operation of a franchise business to grant a prospective franchisee the right to operate a franchise failing which whatever franchise contract or agreement entered between the parties will deem to be illegal, ineffective and void. This can be seen in the case of Dr Premananthan Vasuthevan Permai Polyclinics Sdn Bhd, the High Court held that, if a franchise is not duly registered under Section 6 of the FA 1998, any franchise contract or agreement made under such circumstances will be in contravention of the said provision and thus illegal, ineffective and void.

From pre-contract disclosure requirements, registration and submission of key contractual documents, express provisions on parties’...
rights and obligations, renewal & termination, even upholding ‘restraint of trade’ clauses (during and post franchise term) which are disallowed under the Contracts Act, operation of a franchise is extensively regulated. As stated by the High Court in Noraimi bt Alias v Rangkaian Hotel Seri Malaysia, “the Franchise Agreement takes a dimension beyond the simple private business relationship between the contracting parties to one that includes the interests of the consumer and good business practices”. A franchisor must register the franchise with the Registrar of Franchises before he can operate the franchise business or make an offer to sell the franchise to any person. There is also an onerous list of disclosure documents to be submitted by the franchisor as part of the application for registration. 33

There are differences in several aspects between Indonesian legal regulations and those of other countries in franchise protection. First, the difference lies in the geographical scope of trademark protection. Legal regulations in other countries often provide global trademark protection, allowing trademark owners to protect their trademarks in several countries. Meanwhile, in Indonesian legislation, the legal protection of franchises is only limited to the territory of the Republic of Indonesia. Secondly, the difference lies in the provisions regarding brand licenses in the franchise. The laws of other countries may have more detailed provisions regarding licenses in the framework of franchising, while the licensing aspect in Indonesia can be regulated in the agreement between the brand owner and the franchisor.

D. CONCLUSION

Franchise is a contractual relationship between the franchisor and the franchisee. The franchisor is obliged to provide continuous attention to the business of the franchisee through the provision of knowledge and training. The criteria for franchising based on existing regulations in Indonesia are as follows: Has a special characteristic; Proven to provide profit; Has a standard for the service of goods and/or services offered that is made in writing; Easy to teach and apply; There is continuous support; IPR that has been registered. Art. 305 of the German CC, entitled "General conditions for the conclusion of agreements", applies to a franchise agreement insofar as one party joins the terms of the agreement, established by the other party. The terms of the agreement must meet the criteria of reasonableness and fairness and should not place one of its parties in an extremely unfavorable position with respect to another, which violates the requirement of integrity. In Malaysia requires a foreign franchisor to register himself under the regulation of the Franchise separately. It means there will be double registration of franchise by foreign franchisor. However, it is unclear if the applications can be done simultaneously or consecutively. In the UK, there is no specific legislation guiding franchise business partnerships. As part of the BFA Code of Conduct that guides the conduct of franchise business in the

33 Ibid
country, contracts in the industry are enforced in accordance with generally applicable business and commercial laws. The laws of other countries may have more detailed provisions regarding licenses in the framework of franchising, while the licensing aspect in Indonesia can be regulated in the agreement between the brand owner and the franchisor.

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