

Legal Protection for Franchise Businesses in Indonesia Based on Civil Law

Yuris Tri Naili

Universitas Harapan Bangsa, Indonesia

Email: yurist.uhb.ac.id

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Abstract

Franchise businesses are a rapidly growing form of enterprise that significantly contribute to the national economy. However, in practice, various legal issues arise, such as unclear contractual clauses, intellectual property rights violations, and disputes between franchisors and franchisees. This study aims to analyze the legal protection of franchise businesses in Indonesia based on civil law. It employs a normative juridical approach, analyzing relevant regulations, including Government Regulation No. 42 of 2007, Minister of Trade Regulation No. 53/M-DAG/PER/8/2012, and the Indonesian Civil Code. The findings reveal that franchise agreements in Indonesia are clearly regulated under Government Regulation No. 42 of 2007, providing legal certainty for both franchisors and franchisees through written contracts. These contracts detail the rights, obligations, and responsibilities of each party, including critical aspects such as intellectual property rights (IPR), training, operational support, and the franchisee's obligation to operate the business according to established standards. Legal protection for franchise businesses is rooted in various regulations, including the Civil Code, which recognizes franchise agreements as reciprocal obligations. IPRs, such as trademark rights, patents, copyrights, and trade secrets, play a crucial role in protecting business elements that enhance competitiveness, including brands, technical innovations, and business concepts. Challenges in legal protection for franchise agreements in Indonesia involve several issues. One such issue is the failure to register franchise agreements, which can render them legally invalid. Additionally, unilateral termination by franchisors can harm franchisees. Trademark violations, such as unauthorized use, may also cause losses for both parties. Imbalances in bargaining positions between franchisors and franchisees often result in unfair contracts, potentially undermining the principle of freedom of contract in civil law

A. INTRODUCTION

One effective way to improve the community's economy is through entrepreneurship, which provides opportunities for individuals to create new jobs and optimize local economic potential. Entrepreneurship can be pursued in various ways, such as establishing innovative new businesses tailored to market needs or leveraging existing business systems like franchising (Riva'i, 2012). Building a new

business allows entrepreneurs to explore creative ideas and develop unique products or services with competitive advantages. On the other hand, purchasing an established business system, such as a franchise, offers benefits such as a proven business model, training, and support from the brand owner, thus reducing the risk of failure (Widodo, 2017).

Franchising is a business method that provides significant opportunities for entrepreneurs to engage in economic activities using the intellectual property rights owned by the franchisor. In this relationship, the franchisor grants the franchisee permission to use its trademarks, operational systems, and proven business methods (Effendi, 2021). This process is based on a franchise agreement that governs the rights and obligations of both parties, covering essential aspects such as profit sharing, training, operational support, and intellectual property protection. Moreover, the franchise prospectus, a document prepared by the franchisor, serves as a transparency measure for potential franchisees, providing detailed information about the business system, potential profits, and possible risks (Putra et al., 2021).

The franchise concept reflects a mutually beneficial business relationship between the franchisee and the franchisor, where the franchisee is obligated to operate according to the guidelines and operational standards set by the franchisor (Hasuti, 2016). In this context, the franchisee has exclusive rights to utilize the franchisor's intellectual property, including trademarks, service marks, logos, product designs, and trade secrets encompassing recipes, methods, or specific technologies that form the franchise system's competitive advantage. In return, the franchisor receives periodic royalties as compensation for using the intellectual property and for ongoing support, such as training, quality monitoring, and marketing strategies (Umami & Kustanto, 2020). This system not only enables franchisees to start businesses with lower risks compared to starting from scratch but also allows franchisors to expand their market reach, fostering rapid and consistent business growth (Putri, 2020).

The regulation of franchising in Indonesia has undergone significant development since it was first established through Government Regulation Number 16 of 1997 on Franchising. This regulation provided a foundational framework for franchise operations, including franchise business registration requirements further elaborated in Minister of Industry and Trade Decree Number 259/MPP/Kep/7/1997. Over time, this regulation was updated with the issuance of Government Regulation Number 42 of 2007 on Franchising, strengthening the governance of relationships between franchisors and franchisees, intellectual property rights, and the mandatory registration of franchise agreements. To clarify the technical implementation of franchising, the government subsequently issued Minister of Trade Regulation Number 53/M-DAG/PER/8/2012 on Franchising Operations, which addresses aspects

such as the obligation to use domestic products, limitations on the number of outlets a franchisee can own, and franchise registration procedures (Widodo, 2017).

Legal protection for franchise businesses is critical due to the complexity of relationships between franchisors and franchisees, which involve aspects such as intellectual property use, profit sharing, and business operations in accordance with standards. Without adequate legal protection, these relationships are vulnerable to conflicts such as contract violations, misuse of intellectual property rights, or discrepancies between expectations and the actual implementation of cooperation (Aidi & Farida, 2019). A clear legal framework, as stipulated in government regulations and ministerial decrees, enables parties to understand their rights and obligations better, thereby minimizing potential disputes. Legal protection also instills greater confidence in franchisees to invest in proven business systems while protecting franchisors from risks such as operational standard violations by franchisees (Sumiyati & Rani, 2022).

Additionally, legal protection serves to ensure fairness and transparency in franchise business relationships. In many cases, franchisees are often in a weaker economic and informational position compared to franchisors, necessitating regulations to protect their interests from potential exploitation (Kartika & Senastri, 2021). Conversely, franchisors require legal certainty to ensure that their business systems, including trademarks and trade secrets, are not misused by franchisees. With comprehensive regulations and consistent government oversight, franchising businesses can thrive in a healthy and competitive environment, ultimately contributing positively to the national economy (Supit, 2016).

The objective of this research is to analyze legal protection for franchise businesses in Indonesia based on applicable laws and regulations and to identify challenges in implementing such protection. This study is expected to provide a deeper understanding of the legal relationship between franchisors and franchisees, particularly in intellectual property use, franchise agreements, and registration obligations. The benefits of this research include theoretical contributions to the development of legal studies related to franchising and practical benefits for business actors and policymakers in creating a fairer, more transparent, and sustainable legal framework. Thus, the research results are expected to help create a conducive franchise business climate, support economic growth, and protect the rights and obligations of both parties in the business relationship.

B. METHODS

This research employs a normative legal method, which bases its analysis on existing legislation relevant to legal issues surrounding the protection of franchise

businesses in Indonesia (Diantha, 2016). The method aims to delve deeply into the legal framework regulating franchises, including the rights and obligations of parties in franchise agreements, the use of intellectual property rights, and the mandatory registration requirements as stipulated by applicable regulations. Secondary data serves as the primary source for this research, encompassing positive law such as Government Regulation Number 42 of 2007 and Minister of Trade Regulation Number 53/M-DAG/PER/8/2012, as well as an analysis of their application in business practices in Indonesia. The study also examines legal practices related to disputes that may arise between franchisors and franchisees, providing insights into the effectiveness of regulations in ensuring legal protection. Through this approach, the research aims to identify weaknesses in the existing legal framework and propose solutions to strengthen legal protection for franchise businesses, which are a critical instrument in driving national economic growth.

C. RESULTS AND DISCUSSION

Implementation of Franchise Agreements in Indonesia

According to Article 1, point 1 of Government Regulation Number 42 of 2007 on Franchises, a franchise is defined as a special right owned by an individual or business entity to use a specific business system that meets success criteria. This system is designed to market goods or services that have been proven successful in the market, providing the franchisee with confidence that the business has potential for sustainability. This right is granted through a franchise agreement, which regulates the legal relationship between the franchisor and the franchisee, including the use of trademarks, operational systems, and quality standards. Franchising allows franchisees to leverage a proven business system, reducing business risks and accelerating growth. This regulation provides a legal basis that ensures certainty and protection for franchise business relationships, fostering a conducive business climate and supporting national economic growth (Rahmad & Zubaedah, 2022).

Due to the mutual obligations involved in franchising, the relationship between the franchisor and the franchisee is governed by an agreement that establishes clear legal ties. This agreement outlines the rights and obligations of both parties, such as the franchisee's obligation to comply with the operational standards set by the franchisor and the franchisee's right to use the franchisor's business system and intellectual property (Atmoko, 2019). In return, the franchisor receives royalties as compensation for the use of their business system, trademark, and support services provided. This relationship requires legal certainty so that both parties understand the legal consequences of any breach of the agreement (Gunawan & Urbanisasi, 2023).

One of the main benefits for franchisees is the specialized training provided by

franchisors. This training includes not only technical aspects such as financial management, operations, and marketing but also the development of managerial and customer service skills. Franchisors typically provide detailed guidelines designed to help franchisees operate their businesses with consistent quality standards. This is particularly crucial for franchisees with no prior experience in the field, enabling them to start their businesses more confidently and reduce the risk of failure (Yusuf, 2022). Beyond initial training, franchisors often provide ongoing support, including business system updates, new product development, joint promotions, and consultations for addressing business challenges. This continuous support allows franchisees to focus on day-to-day operations without worrying about innovation and broader strategies. This mutually supportive relationship enables both parties to grow together, with the franchisor expanding their business network and the franchisee benefiting from an established system.

Franchise implementation in Indonesia is based on a written agreement between the franchisor and the franchisee, adhering to applicable Indonesian laws. This agreement aims to provide legal certainty for both parties while ensuring legal protection in their business relationship. Written contracts in franchise businesses play a crucial role as they regulate the rights and obligations of each party and serve as the foundation for fair dispute resolution in the event of a breach (Katrinasari & Hadi, 2017). For a franchise agreement to have binding legal force, it must comply with statutory provisions and official regulations. A legally compliant written contract allows both franchisors and franchisees to collaborate with greater confidence, knowing their rights are protected and disputes can be resolved through available legal mechanisms (Fauziah & Hermono, 2022).

Before signing a franchise agreement, the franchisor is required to provide clear and comprehensive written information to the franchisee so the franchisee can make informed decisions. Key information includes the franchisor's identity, a description of the business, a business plan, and financial reports such as profit and loss statements from the past two years. This information is essential to provide insights into the business's success and prospects, helping the franchisee assess the feasibility of the venture (Oktavi, 2013).

Furthermore, the franchisor must provide information about intellectual property rights (IPR) or the unique features of the franchise business. This includes the use of trademarks, designs, technology, and operational methods that have been proven successful and can be utilized by the franchisee. The franchisee needs a detailed understanding of the rights they will receive, including access to an established business system and the right to use the intellectual property associated with the brand or product (Sitompul et al., 2010). Additionally, the franchisor must

specify the requirements the franchisee must meet, such as operational standards, product quality, and procedures to ensure consistency and maintain the franchise's reputation. The franchisor is also obligated to provide information on the support available to franchisees, including training, marketing, operational management, and managerial systems to facilitate business operations (Amelia & Ansari, 2024).

The franchise agreement must also define the rights and obligations of both parties. The franchisor should clearly outline the franchisee's rights, such as the right to use the existing brand, products, and systems, as well as the franchisor's obligation to support smooth operations. Conversely, the franchisee is required to fulfill specific obligations, such as paying royalties and adhering to the standards set by the franchisor (Kogin, 2014). The agreement should also include provisions for terminating the contract, ending the business relationship, or renewing the franchise agreement. The franchisee must understand the termination procedures and the potential consequences of prematurely ending the agreement. Lastly, other terms related to contract implementation should be thoroughly communicated to avoid misunderstandings that could harm either party in the future. Clear and detailed information fosters transparency and minimizes potential legal disputes between the franchisor and franchisee (Agrianto, 2021).

Article 1320 of the Indonesian Civil Code stipulates that a contract must meet four main requirements to be considered valid and legally binding (Kumalasari & Ningsih, 2018). First, there must be mutual agreement between the parties involved. This means both parties must consent to the contract's terms without coercion, fraud, or misunderstanding regarding the subject matter. Such agreement reflects good faith on the part of both parties to fulfill their rights and obligations as outlined in the contract. Second, the parties entering into the contract must have legal capacity. Legal capacity refers to the ability of individuals to act under the law, typically determined by age (legal adulthood) and sound mental health. If one party is deemed legally incompetent, such as being underage or mentally incapacitated, the contract may be considered null and void.

Third, the contract must pertain to a specific subject matter. This means the object or purpose of the contract must be clear and specific to avoid ambiguity in the future. The object may include goods, services, or rights forming the core of the contractual relationship. Clarity regarding the object ensures that the agreement can be effectively executed as intended. Fourth, the contract must have a lawful cause. The cause refers to the purpose or reason behind the agreement, which must align with the law, morality, and public order. Contracts with purposes that violate legal or social norms, such as agreements for illegal activities, are not recognized and are deemed invalid. By meeting these four requirements, a contract not only gains legal

validity but also provides legal protection and certainty for the parties involved. This is crucial for maintaining business relationships or other legal engagements, ensuring smooth operations, and avoiding potential disputes in the future.

According to Government Regulation No. 42 of 2007 on franchising, specific elements must be included in a franchise contract to ensure legal certainty and define the relationship between the franchisor and franchisee (Amalia & Prasetyawati, 2019). First, the contract must include the names and addresses of the companies involved to establish clear and official identities for both the franchisor and franchisee. Second, the contract should specify the name and type of Intellectual Property Rights (IPR) forming the basis and core value of the franchise business, such as trademarks, patents, or legally protected designs. Additionally, the contract must define the business activities constituting the scope of cooperation between the parties to prevent misunderstandings. The rights and obligations of each party must also be detailed, including the franchisor's responsibilities to provide assistance, facilities, operational guidance, training, and marketing support to the franchisee. This ensures the franchisee receives adequate support to run the business in line with established standards.

The franchise contract must also specify the business territory, defining the geographic boundaries where the franchisee can operate, and the agreement's duration, which determines the contractual relationship's timeframe. Payment mechanisms, such as royalties or other forms of compensation, must be transparently outlined to prevent future disputes (Setiawan, 2010). Other essential elements include provisions for ownership, changes in ownership, and inheritance rights, which clarify the legal framework in case of changes in business structure. Additionally, the contract should address dispute resolution mechanisms, providing a framework for handling potential conflicts between the parties. Finally, the contract must regulate procedures for renewal, termination, and cancellation of the agreement to ensure any changes to the contract's status are executed as per agreed-upon procedures. By incorporating these elements, a franchise contract not only complies with legal requirements but also serves as a critical instrument for establishing professional and trust-based business relationships (Awaluddin, 2013). This ensures that the franchise business operates effectively, efficiently, and in a mutually beneficial manner for both parties.

Legal Protection for Franchise Businesses in Indonesia According to Civil Law

Legal protection for franchise businesses in Indonesia is regulated under Book III of the Civil Code, which governs obligations and contracts in general. In the context of franchising, a franchise agreement is a reciprocal legal obligation where the franchisor grants the franchisee the right to use their Intellectual Property Rights (IPR)

as part of a tested business system. The IPRs often involved in franchise agreements include trademarks, patents, copyrights, and trade secrets, all of which add significant value to the franchisee's business operations (Adilman, 2010). Trademarks provide protection for the unique identity of a business, allowing the franchisee to use a widely recognized brand name in the market. Patents, on the other hand, cover technical innovations or processes used within the franchise, granting a legitimate competitive advantage. Trade secrets, such as specific recipes or proprietary operational methods, are critical elements that ensure the uniqueness and success of the business model. These provisions impose legal obligations on franchisees to utilize these IPRs in accordance with the agreement and to avoid misuse.

In the diversification process of Intellectual Property Rights (IPR), or when a business leverages a specific name or brand, elements such as visual appearance, design, and operational systems become key attractions that draw customer attention. A strong brand name or trademark often determines business success, even if its application is limited in scale. Additionally, the integration of various business elements—such as interior design, branding, and bundling of products or services—creates additional value that appeals to consumers (Hakim, 2021). To ensure the lawful and ethical use of these IPRs, guidelines and regulations govern their management and utilization. These guidelines aim to protect the intellectual property rights of brand owners while ensuring that their use does not harm other parties. Thus, IPR diversification not only enhances business competitiveness but also establishes a transparent and fair framework for all involved parties (Susilowati, 2023).

Law Number 15 of 2001 on Trademarks serves as one form of legal protection for franchises related to Intellectual Property Rights (IPR) in Indonesia, particularly in terms of trademarks. A trademark, as defined in this law, is a sign that may consist of images, names, words, letters, numbers, color arrangements, or combinations of these elements with distinctive characteristics. Trademarks are used in trade activities involving goods and services as an identification tool to differentiate one product or service from another. For legal protection, trademarks must be registered with the Directorate General of Intellectual Property under the Ministry of Law and Human Rights of the Republic of Indonesia. The registration process ensures exclusive rights over the trademark, safeguarding against potential infringement and unauthorized use.

Article 40, paragraph (1) of the Trademark Law states that trademark rights can be acquired through several methods, including registration, inheritance, donation, or a will. The primary means of obtaining exclusive rights to a trademark is through an official registration process accompanied by the owner's approval for its use. These

exclusive rights provide legal protection to the trademark owner in cases of infringement, such as unauthorized use by another party. If a trademark is used without approval, the owner has the right to take legal action against the violator, both in civil and criminal courts. Articles 76 to 77 of the Trademark Law regulate civil dispute resolution mechanisms, while Articles 90 to 93 outline criminal sanctions for trademark violations.

Furthermore, the law emphasizes the importance of respecting exclusive trademark rights as part of a fair legal system. Through this regulation, trademark owners are provided with a solid legal foundation to protect their product identity from counterfeiting and intellectual theft, which could harm the brand's image and economic value. Conversely, this legal protection also assures business actors that they can innovate without fear of unintended violations. Therefore, Law Number 15 of 2001 on Trademarks not only protects individual rights but also fosters a healthy, competitive, and integrity-driven business ecosystem in Indonesia.

Ministerial Regulation Number 14 of 2021, which amends Ministerial Regulation Number 30 of 2019 on Mandatory Patent Licenses, provides a legal framework for broader and fairer utilization of patents. A license, in this context, is defined as a special right granted by the state to patent holders for their creations in the field of innovation. This right gives patent holders the authority to develop, utilize, and distribute their creations, either directly or through collaboration with others. Licenses also serve as tools to encourage collaboration in innovation, as they allow patent holders to grant rights to others to use the patent under agreed-upon terms. This becomes especially important in the context of technology transfer, where licenses facilitate the dissemination of knowledge and innovation across various sectors.

In practice, licenses may encompass a variety of activities, including the production cycle, development of creations, strengthening interaction in the innovation process, improving the quality of works, and optimizing the creation process. With this broad scope, licenses not only provide economic benefits to patent holders but also drive technological progress and enhance national competitiveness. This regulation also establishes oversight mechanisms to ensure that the use of mandatory licenses remains aligned with public interests, including supporting the development of priority industrial sectors. Through this regulation, the government aims to balance the protection of patent holders' rights with the utilization of patents for broader societal benefits, such as providing medicines, environmentally friendly technologies, or other innovations with significant public impact.

Legal protection for franchise businesses is also regulated under Indonesia's Law Number 19 of 2002 on Copyright, which provides a solid foundation for

safeguarding intellectual property—a critical element in franchise operations. Copyright is an exclusive right granted to creators or copyright holders to use, reproduce, or authorize others to utilize their works. This protection covers original creations in fields such as science, arts, literature, and other forms of expression, as stipulated in Article 1, Point 1 of the law. In the franchise context, copyright protection is essential since many elements in this business, such as logos, promotional materials, designs, or business concepts, are works protected by copyright.

Copyright protects the originality of a creation produced by its creator, as outlined in Article 1, Paragraph 3 of the Copyright Law. This protection is not only limited to the creator but can also be transferred to other parties through agreements or rights transfers. Copyright holders have exclusive control over the use of their creations, including granting or denying permission to others seeking to use their works. For instance, in a franchise agreement, the franchisor may grant a license to the franchisee to use copyrighted assets such as trademarks, logos, or product designs. This illustrates that copyright is not only a legal protection asset but also a strategic component in franchise businesses.

Using someone else's creations without the copyright holder's consent is considered a legal violation and may be subject to criminal penalties, as regulated in Articles 72 to 73 of the Copyright Law. These penalties include imprisonment and fines for offenders, whether individuals or business entities. In the franchise business, actions such as imitating logos, interior designs, or marketing concepts without the franchisor's permission may lead to legal actions. Therefore, copyright protection is crucial not only for safeguarding the franchisor's intellectual property but also for fostering fair and healthy competition in the business sector.

The importance of copyright in franchise businesses is also reflected in the necessity of ensuring that all creative elements used are registered and legally protected. The copyright registration process provides legal clarity for the owners and facilitates enforcement in case of infringement. Moreover, having legally valid copyrights enhances the franchise's business value, demonstrating the franchisor's commitment to maintaining the quality and originality of their brand. Thus, the Copyright Law serves not only as legal protection but also as an essential instrument in supporting the sustainability and reputation of franchise businesses.

Challenges in Legal Protection of Franchise Agreements Under Civil Law

Legal protection of franchise agreements faces several challenges, including: First, unregistered franchise agreements can face serious legal issues, as per applicable regulations, such agreements can be annulled by law. This requirement refers to administrative provisions mandating the registration of every franchise agreement with the relevant authority. Without valid registration, the franchise

agreement lacks legal enforceability in court. Consequently, if registration is not conducted, the franchise agreement will be considered invalid, and both parties will be returned to their original positions as if no agreement had ever existed.

Although an annulled franchise agreement is void by law, franchisees who suffer losses due to the invalid agreement are entitled to claim compensation from the franchisor. This applies if the franchisee has incurred expenses or financial losses resulting from the franchisor's negligence in fulfilling registration obligations or contract implementation. In this case, the franchisee is entitled to seek compensation for damages arising from the void agreement, as stipulated under civil law provisions on compensation.

Second, if the franchisor unilaterally terminates the agreement before the contract period ends, it may have severe consequences for the franchisee. One impact is that the franchisee loses the right to use the franchisor's intellectual property (IP) rights. These IP rights can include trademarks, patents, industrial designs, or trade secrets that form a vital part of the franchise business system. In such cases, the franchisee must cease all activities related to the use of the trademark and business system previously agreed upon, potentially causing financial losses for the franchisee.

Unilateral contract termination can also lead to legal disputes, where the franchisee has the right to demand compensation for damages caused by the termination. For example, if the franchisee has made significant investments in the business, such as renovating business premises or purchasing equipment required for operations, the contract termination may result in substantial losses. Under these circumstances, the franchisee can claim compensation for the investments made and losses incurred due to the loss of rights to use the franchisor's IP. Moreover, unilateral termination may damage the business relationship and the franchisor's reputation, which could also impact the franchisor's business continuity.

Third, if the franchisee violates the franchisor's trademark rights, the franchisor may take decisive action, including unilaterally terminating the agreement. Violations of trademark rights, such as unauthorized use of the trademark or using a similar mark to deceive consumers or harm the brand's image, constitute serious breaches in the franchise agreement context. In such cases, the franchisor is entitled to cancel the agreement and terminate the business relationship with the franchisee, as such actions can harm the brand's integrity and reputation.

Additionally, the franchisor has the right to seek compensation for losses incurred due to the violation. Compensation may include material damages suffered by the franchisor, such as a decline in brand value or lost profits resulting from the franchisee's trademark violation. The franchisor can demand reimbursement for brand image damage, reduced revenue, or other costs arising from the trademark

violation. Such actions are essential to ensure all parties in the franchise agreement comply with the agreed terms to maintain business continuity and protect the franchisor's intellectual property rights.

Fourth, implementing legal protection for franchisees in Indonesia still faces challenges that hinder its effectiveness. One key reason is the lack of understanding or oversight regarding unfair practices in franchise agreements. Although laws and regulations governing the franchise business exist, franchisees are often in a weaker position than franchisors, particularly concerning access to necessary information or limited bargaining power. This can result in franchisees being bound by unfair or unfavorable contracts, where their rights are inadequately protected.

Furthermore, many franchisees are unaware of their rights under the law, whether related to trademark use, product quality, or their right to receive support and training from the franchisor. Franchisees who experience losses due to contract breaches or unmet rights often struggle to obtain effective legal assistance, either due to high costs or limited knowledge of available legal mechanisms. Consequently, despite existing regulations, legal protection for franchisees remains suboptimal, necessitating improvements in legal education, stricter oversight, and stronger enforcement to safeguard franchisees' rights.

Fifth, the imbalance of bargaining power between franchisors and franchisees often disadvantages the latter. Franchisors with well-known brands or business systems typically have significant bargaining power, while franchisees, mostly individuals or small enterprises with limited capital, are in a weaker position. In many cases, franchisors impose terms in agreements that heavily favor them, such as high royalties, burdensome obligations, or stringent restrictions on franchisees. These terms often reduce franchisees' profit margins and operational flexibility, diminishing their business success potential.

This imbalance may violate the principle of freedom of contract, which should allow both parties to agree on contract terms based on mutual consent. Under civil law, contracts that fail to accommodate fairness principles or coerce one party into accepting unfair terms can be deemed invalid or void by law. Therefore, in franchise relationships, inequities in contract drafting not only reduce franchisee satisfaction and success but also undermine the core principles of civil law that prioritize equality and freedom of contract. This calls for stricter regulations and more rigorous oversight to ensure franchise agreements reflect fairness principles and provide equal protection for both parties.

D. CONCLUSION

The implementation of franchise agreements in Indonesia is clearly regulated by Government Regulation Number 35 of 2024, which provides legal certainty for franchisors and franchisees through written contracts that outline the rights, obligations, and responsibilities of each party. These contracts govern various important aspects, such as intellectual property rights, training, operational support, and the obligations of franchisees to run their businesses in accordance with established standards. Additionally, the agreement includes provisions regarding business territories, the duration of the agreement, royalty payments, dispute resolution, and contract termination. Legal protection for franchise businesses in Indonesia is regulated under various laws, including the Civil Code, which addresses franchise agreements as reciprocal engagements between franchisors and franchisees. In this context, intellectual property rights, such as trademarks, patents, copyrights, and trade secrets, play a crucial role in protecting business elements that enhance competitiveness, such as brand names, technical innovations, and business concepts. Law Number 15 of 2001 on Trademarks and Law Number 19 of 2002 on Copyright provide a legal basis for the protection of trademarks and creations in franchise businesses, where trademark and copyright registration are essential requirements for obtaining exclusive rights. Furthermore, Ministerial Regulation Number 14 of 2021 regulates mandatory patent licensing, which enables broader utilization of patents, while the Copyright Law offers protection for original works used in franchise businesses, such as logos, promotional materials, and product designs. Violations of these rights, such as unauthorized use, can result in civil or criminal penalties, ensuring a healthy and fair business environment. Challenges in the legal protection of franchise agreements in Indonesia involve several critical aspects, such as the non-registration of franchise agreements, which may render them legally invalid, unilateral termination by franchisors that harms franchisees, trademark infringements that can cause losses to both parties, and the suboptimal legal protection for franchisees, who are often in a weaker position. Additionally, the imbalance in bargaining power between franchisors and franchisees exacerbates contractual injustices, potentially undermining the principle of freedom of contract in civil law.

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