

Legal Insights

Comprehensive Overview of Government Regulation of the Republic of Indonesia No. 35 of 2024 regarding Franchising

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In the current era of globalization, economic growth has become increasingly dynamic and complex, notably impacting international business collaborations. Among these collaborations, franchising has emerged as a prominent model, particularly with the influx of foreign businesses into Indonesia. Government Regulation of the Republic of Indonesia No. 35 of 2024 regarding Franchising (“GR 35/2024”) has been enacted to regulate and refine the franchising practices within Indonesia, reflecting its significance in trade and services.

According to Article 1 of GR 35/2024, franchising is defined as a specific right held by an individual or a legal entity over a business system with established criteria. This system is designed to market goods or services that have proven successful and can be utilized by others through a

franchising agreement. Essentially, franchising involves a business arrangement between the owner of a trademark, product, or operational system, and another party granted the right to use these elements in running a business.

This regulation classifies franchising into two categories under Article 3: (i) franchising granted by franchisors from abroad, and (ii) franchising provided by domestic franchisors. Each franchising activity must be governed by a clear agreement between the franchisor and the franchisee, covering both direct and sub-franchising arrangements. To qualify as a franchise, the franchisor must have a proven business system, register its intellectual property right, and provide ongoing support to the franchisee.

Article 7 of GR 35/2024 outlines the rights and obligations of both



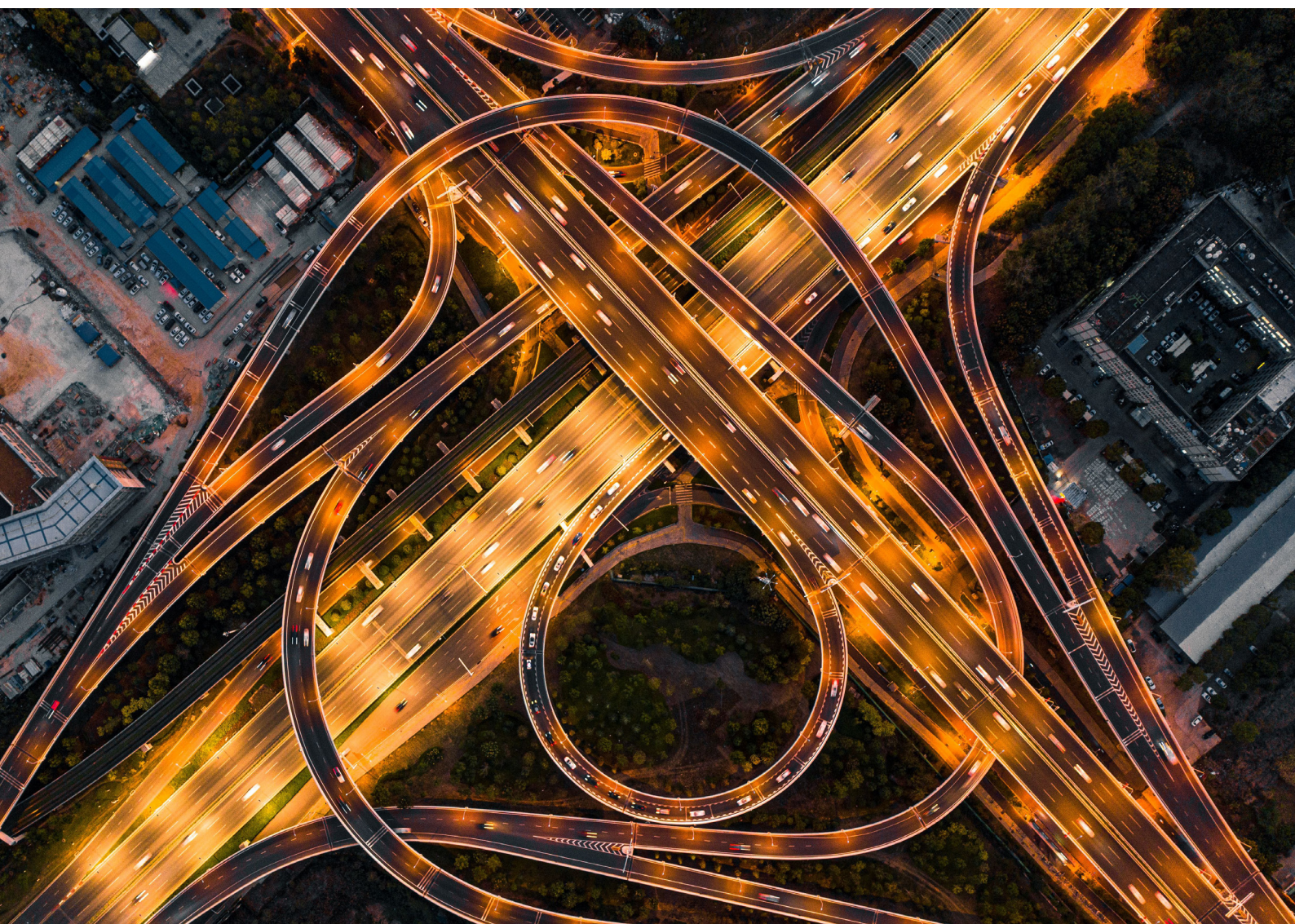
franchisors and franchisees. Franchisors are entitled to receive remuneration from franchisees and are obligated to provide continuous support. Conversely, franchisees are granted the right to use the franchisor's intellectual property right and are required to maintain the established quality standards and ethical codes. Failure of the franchisor to fulfill these obligations can result in administrative sanctions.

A critical component of the franchising process is the requirement for both franchisors and franchisees to obtain a Franchise Registration Certificate (Surat Tanda Pendaftaran Waralaba - "STPW"). Article 12 stipulates that STPW is an essential document for business licensing. Non-compliance with STPW registration or improper application can lead to administrative penalties, in accordance with the risk-based business licensing regulations.

Franchisees and franchisors must submit their applications for the STPW through the agency administering the Online Single Submission (OSS) system. The OSS Agency issues STPW on behalf of the Minister for franchisors, whether domestic or international, as well as for both domestic and international franchisors. For franchisees, whether domestic or international, the STPW is issued by the OSS Agency on behalf of the Governor of the Special Capital Region of Jakarta, regents, mayors, or the Head of the Nusantara Capital Authority. Franchisees and franchisors are required to report their franchising activities to the OSS Agency. This requirement applies to both domestic and international franchisors. Franchisees must also report to the relevant trade department or Capital City Authority via the OSS system. Non-compliance with these reporting requirements may result in administrative sanctions.

Disputes arising from franchising agreements can be resolved through litigation, mediation, or arbitration, as stipulated by Law of the Republic of Indonesia No. 30 of 1999 regarding Alternative Dispute Resolution and Arbitration. Legal sanctions for breaches of franchising agreements are detailed in Article 10 of GR 35/2024, which outlines administrative penalties including written warnings, fines, and/or the revocation of the Franchise Registration Certificate.

In conclusion, GR 35/2024 provides a comprehensive framework for franchising operations in Indonesia. This regulation aims to ensure that franchising practices are conducted in a transparent, fair, and standardized manner, ultimately benefiting all parties involved and supporting the sustainable development of the franchising industry.



Should you need more information about the topic, or you need support regarding legal matter, kindly contact our legal partners:

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