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Legal Implications of the Assignment of Trademark Ownership in Franchise Agreements

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Abstract: Franchising is a business model that heavily relies on trademarks as the primary identity and asset in the relationship between franchisors and franchisees. One of the legal issues that frequently arise in practice is the change or transfer of trademark ownership, which can significantly impact the continuity of franchise agreements. The transfer of ownership without clear regulations can create legal uncertainty for franchisees, particularly concerning their rights to use the trademark and the sustainability of their businesses. Therefore, this study aims to analyze the legal implications of trademark ownership transfers in franchise agreements based on the regulations applicable in Indonesia, such as Law No. 20 of 2016 on Trademarks and Geographical Indications and Government Regulation No. 42 of 2007 on Franchising. This research employs a normative legal research method using a statutory and conceptual approach. The findings indicate that the lack of clear regulations regarding the transfer of trademark ownership in franchise agreements can lead to various issues, including changes in business policies by the new owner, unilateral termination of the franchise relationship, or even the loss of franchisees' rights to use the developed trademark. These issues pose financial risks and business uncertainty for franchisees. To mitigate these problems, franchise agreements must include explicit clauses governing the mechanism for trademark ownership transfer to protect franchisee rights and interests. This study recommends strengthening franchising regulations with more specific provisions regarding trademark ownership transfer and encouraging stricter supervision by the Directorate General of Intellectual Property (DJKI). By ensuring greater legal certainty, it is expected that the franchise system in Indonesia can develop more transparently and fairly while providing optimal protection for all parties involved in franchise agreements.

Keyword: Franchising, Trademark Ownership, Franchise Agreement

INTRODUCTION

The franchise business model has become one of the rapidly developing systems in various countries, including Indonesia. With this system, franchisors have the opportunity to expand their business networks without having to manage the operations of every branch directly, while franchisees benefit from using a widely recognized trademark and a proven business system. A franchise agreement serves as the legal basis for the relationship between

franchisor and franchisee, in which one of the most important aspects is the right to use the trademark. In the franchise business, a trademark is not just a corporate identity symbol—it is also an asset with high economic value and a key attraction for consumers. Therefore, the continuity of trademark rights for the franchisee becomes a critical factor in maintaining the stability and success of the franchise business.

In practice, ownership of trademarks can change hands for various reasons, such as company acquisition, merger, sale of trademark rights, or legal disputes that result in a change of the trademark's lawful owner. Such changes can have significant legal implications for existing franchise agreements. If a franchise agreement does not explicitly regulate the mechanisms and legal consequences of transferring trademark ownership, the franchisee may face various issues, including the potential unilateral termination of the franchise relationship by the new trademark owner. This can lead to legal uncertainty and harm the franchisee, particularly if they have invested significant capital in developing the franchise business. Moreover, a change in trademark ownership may also lead to shifts in business policies that could alter the rights and obligations of the franchisee, thereby affecting their operational continuity.

In Indonesia, trademark regulation is governed by Law No. 20 of 2016 on Trademarks and Geographical Indications. This law mandates that any change in trademark ownership must be officially registered with the Directorate General of Intellectual Property (DGIP) to obtain legal certainty. Furthermore, franchise business regulations are set forth in Government Regulation No. 42 of 2007 on Franchising, which provides guidelines regarding the rights and obligations of the parties in a franchise agreement. However, despite these two regulations covering their respective domains, there is currently no specific rule that governs the mechanism for transferring trademark ownership within franchise agreements. As a result, legal gaps remain that can create uncertainty for both franchisees and franchisors when trademark ownership hands.

This study aims to further analyze the legal implications of transferring trademark ownership in franchise agreements in Indonesia. The study will explore how existing regulations govern the mechanism for transferring trademark rights and the impact on the parties involved in a franchise agreement. By gaining a deeper understanding of the legal aspects of trademark ownership transfer, the research hopes to identify solutions that provide legal certainty for both franchisors and franchisees and prevent potential disputes that could hinder the growth of the franchise industry in Indonesia. Additionally, this study aims to offer recommendations for strengthening more specific regulations on the transfer of trademark ownership in franchise agreements to create a more stable, transparent, and equitable business climate for all stakeholders.

Based on the background outlined above, the author is interested in conducting research titled **“Legal Implications of the Transfer of Trademark Ownership in Franchise Agreements”** with the following research questions:

- a. What are the legal provisions that regulate the transfer of trademark ownership in franchise agreements in Indonesia?
- b. What are the legal consequences for franchisors and franchisees arising from the transfer of trademark ownership in franchise agreements?

METHOD

This research is conducted using a normative legal method, an approach that focuses on the study of prevailing norms and regulations without involving empirical or field research. Two main approaches are employed in this study: the statute approach and **the** conceptual approach.

The statute approach is utilized to analyze various legal provisions related to the ownership and transfer of trademarks within franchise agreements, particularly regarding the rights and obligations of the parties involved in a franchising system. The foundational regulations examined **include** Law No. 20 of 2016 on Trademarks and Geographical Indications, which governs trademark protection in Indonesia, and Government Regulation No. 42 of 2007 on Franchising, which outlines the legal aspects of the relationship between franchisor and franchisee. Additionally, other relevant regulations concerning intellectual property ownership and business contracts are reviewed to gain deeper insight into the legal aspects of trademark ownership transfers in franchising.

The conceptual approach involves studying legal theories related to trademark ownership, intellectual property rights, and the legal relationships inherent in franchise agreements. This approach aims to understand how transfers of trademark ownership can affect the continuity of the business relationship between franchisor and franchisee, as well as how existing regulations may offer legal protection for the parties involved.

The research uses secondary data, comprising primary, secondary, and tertiary legal materials. Primary legal materials include the applicable laws and regulations concerning trademark protection and the franchising system in Indonesia. Secondary legal materials consist of scholarly journals, legal textbooks, and expert opinions discussing the legal aspects of franchise agreements and trademark protection. Meanwhile, tertiary materials encompass legal dictionaries, encyclopedias, and other reference sources that support understanding of relevant legal concepts.

Data collection is carried out through library research, involving a review of legal documents and academic literature that discuss the legal aspects of trademark ownership transfers within franchise agreements. This review covers regulatory documents, legal textbooks, journal articles, and other scholarly sources to obtain a comprehensive overview of the legal under investigation.

The collected data is analyzed using a qualitative descriptive-analytical method. In this method, the gathered information is systematically organized, analyzed, and connected with existing legal norms. This aims to deepen understanding of the legal impact of trademark ownership transfers on the sustainability of franchise relationships and the rights of franchisees. The results of this analysis will be used to construct robust legal arguments and propose policy recommendations to address potential legal issues arising from the transfer of trademark ownership in franchising systems.

Furthermore, this research takes into account actual practices within Indonesia's franchise business landscape, including case studies and analysis of court decisions related to franchise disputes and trademark ownership. Through this approach, the study not only examines prevailing legal theories but also how those regulations are applied in practice and their legal implications for the parties involved in franchise agreements.

By employing this comprehensive approach, the research is expected to provide deeper insights into the need for more specific legal regulation regarding the transfer of trademark ownership in franchise agreements. With clearer regulation and adequate legal protection, it is hoped that Indonesia's franchising system can evolve in a more transparent, equitable manner, while offering legal certainty to all stakeholders involved.

RESULTS AND DISCUSSION

Legal Provisions Governing the Transfer of Trademark Ownership in Franchise Agreements in Indonesia

The legal provisions regarding the transfer of trademark ownership in franchise agreements in Indonesia are regulated by various applicable regulations. Trademarks play a crucial role in the franchise system as they serve as the business identity used by the franchisee

in accordance with the agreement with the franchisor. Therefore, the process of changing trademark ownership must be carried out in compliance with the applicable legal procedures to avoid potential disputes in the future.

The main regulation governing the transfer of trademark ownership is Law Number 20 of 2016 on Trademarks and Geographical Indications. Article 41 states that rights to a trademark may be transferred through various means, such as inheritance, grants, endowments, agreements, or other legally recognized reasons. To ensure the legal validity of such a transfer, registration with the Directorate General of Intellectual Property (DGIP) is a mandatory step. In addition, Government Regulation Number 42 of 2007 on Franchises stipulates that a franchisor must have lawful rights to the trademark used in the franchise system. If there is a change in ownership, the franchise agreement must be updated to ensure the franchisee still retains the right to use the trademark. Furthermore, Minister of Trade Regulation Number 71 of 2019 on the Implementation of Franchises emphasizes that every franchise agreement must include rights and obligations related to trademark usage, including the procedures to be followed in the event of a change in ownership.

The process of transferring trademark ownership in a franchise agreement must go through several stages to ensure its legal validity. First, the trademark owner must ensure that the trademark rights have been officially registered with the DGIP. Second, the transfer of ownership must be set out in a written agreement containing important information, such as the parties involved, the rights and obligations of each, and dispute resolution mechanisms. Third, once the transfer process is complete, the change must be promptly recorded with the DGIP to obtain strong legal standing and ensure continued use within the franchise system.

A transfer of trademark ownership may affect the continuity of an ongoing franchise agreement. If the previous trademark owner transfers ownership to another party, the new owner must ensure that the franchisee still retains the right to use the trademark as previously agreed. In some cases, a change in trademark ownership may require a revision or renewal of the franchise agreement to align with the policies of the new owner. Therefore, it is important for all parties in a franchise agreement to understand the legal implications of trademark transfers and to ensure that their contract includes provisions anticipating possible changes in ownership.

For franchisees, maintaining the continuity of trademark usage rights is essential, especially if the ownership of the trademark changes hands. Therefore, the franchise agreement must contain provisions guaranteeing that the right to use the trademark remains valid even if ownership changes. This aims to provide legal certainty to franchisees so they can continue operating their businesses without disruption caused by a change in trademark ownership. Furthermore, if the new owner has different policies, the franchisee must be assured that such changes will not negatively impact their business operations.

If the transfer of trademark ownership is not carried out in accordance with legal provisions, various issues may arise. For example, if the transfer is not recorded with the DGIP, the new owner will not have exclusive rights to the trademark, potentially triggering legal disputes in the future. Moreover, a franchisee who continues to use a trademark without updating the agreement with the new owner may be deemed to be infringing intellectual property rights, which could lead to legal sanctions. Therefore, recording changes in ownership and maintaining transparency in every stage of the transfer are key factors in preventing legal issues that could disrupt the continuity of a franchise business.

In conclusion, the transfer of trademark ownership in a franchise agreement must comply with applicable regulations to prevent legal issues in the future. The franchisor and franchisee must ensure that their agreement contains provisions regarding changes in trademark ownership, covering both legal aspects and the impact on business continuity. With official registration at the DGIP and a clearly and transparently drafted agreement, the process of

transferring trademark ownership can proceed smoothly without significant obstacles. Strong legal protection at every stage of the transfer is essential to ensure that the franchise business in Indonesia remains stable and grows sustainably.

Legal Implications for Franchisors and Franchisees Resulting from the Transfer of Trademark Ownership in Franchise Agreements

The transfer of trademark ownership in a franchise system has significant legal implications for both the franchisor and the franchisee. A trademark in a franchise is not merely a business symbol but also the main element that determines the competitiveness and identity of the business. Therefore, the process of transferring trademark ownership must comply with applicable legal procedures to avoid problems for both parties. Changes in trademark ownership may occur for various reasons, such as the sale of business assets, corporate acquisitions, mergers, or inheritance. Each of these changes carries different legal consequences, depending on the terms stated in the franchise agreement previously agreed upon.

From the franchisor's perspective, the transfer of trademark ownership may affect contractual relationships with franchisees who have been granted the right to use the trademark in operating their businesses. If the change of ownership is made without proper coordination or is not clearly regulated in the franchise agreement, legal uncertainty may arise regarding the continuity of the cooperation between the franchisor and the franchisee. The new trademark owner may have business policies different from the previous owner, such as changing the terms of cooperation, increasing royalty fees, or even revoking the franchisee's right to use the trademark. This could potentially lead to legal disputes if the franchise agreement does not clearly address the consequences of ownership changes. Therefore, franchisors should ensure that the franchise contract contains clauses regulating the mechanism for trademark ownership changes and their impact on franchisees.

Franchisors also have an obligation to record the change of trademark ownership with the Directorate General of Intellectual Property (DGIP). This registration process is essential to provide legal certainty for the new owner's exclusive rights to the trademark. If registration is not carried out, the legal status of the trademark ownership may become unclear and potentially lead to disputes over trademark usage rights. This situation not only affects the franchisor but also the franchisees who rely on the trademark's legality in their business operations. Therefore, recording ownership changes and maintaining transparent communication with all parties involved are crucial steps to prevent future legal conflicts.

For franchisees, a change in trademark ownership can directly impact their business continuity. If the new owner respects the existing franchise agreement, the franchisee can continue operating under the trademark without significant obstacles. However, in some situations, the new owner may wish to implement different policies, such as rebranding or altering the business model. If such changes are not in line with the original agreement, the franchisee may face challenges in maintaining business continuity, whether in terms of operations, marketing strategies, or relationships with customers who are accustomed to the existing trademark.

Another legal consequence that may arise is when the new trademark owner does not recognize the franchise agreement made by the previous owner. In such cases, the franchisee risks losing the right to use the trademark, which could result in the sudden termination of business operations. If the franchisee continues using the trademark without the new owner's consent, they may be deemed to have infringed intellectual property rights and could face legal action. Therefore, franchisees must ensure that the franchise agreement they sign includes provisions guaranteeing that their rights remain valid even if trademark ownership changes.

Changes in ownership can also affect the franchisee's financial obligations. The new owner may impose royalty or franchise fee policies different from those previously agreed upon. If these changes are made unilaterally and place an undue burden on the franchisee, disputes may arise that require resolution through legal mechanisms such as mediation, arbitration, or even litigation in court. Therefore, franchisees should thoroughly understand the franchise agreement before signing and ensure it contains provisions protecting their rights in the event of future ownership changes.

Both franchisors and franchisees must ensure that the franchise agreement is drafted with consideration for possible future scenarios. Franchisors should include mechanisms for trademark ownership transfers as well as the rights and obligations of the new owner toward existing franchisees. Meanwhile, franchisees must ensure that the contracts they sign provide sufficient legal protection to guarantee their rights in the event of a change in trademark ownership. Additionally, transparency in the trademark transfer process is a key factor in preventing legal disputes. The previous trademark owner should provide formal notification to franchisees before transferring ownership and ensure that the new owner understands their obligations toward franchisees bound by the franchise agreement. With open and clear communication, the risk of conflicts due to trademark ownership changes can be minimized, allowing the franchise business to continue operating stably and profitably for all parties.

In conclusion, the transfer of trademark ownership in a franchise agreement brings complex legal consequences that may affect business continuity for both franchisors and franchisees. Therefore, the process must be carried out carefully and in compliance with applicable regulations to avoid future legal problems. With a clear agreement, official registration, and transparent communication, legal risks from ownership changes can be minimized, enabling the franchise business to grow steadily with strong legal certainty.

CONCLUSION

The legal provisions concerning the transfer of trademark ownership in franchise agreements in Indonesia are regulated under Law No. 20 of 2016 on Trademarks and Geographical Indications, which mandates official registration of trademark transfers with the Directorate General of Intellectual Property (DGIP) to ensure legal validity. In addition, Government Regulation No. 42 of 2007 and Minister of Trade Regulation No. 71 of 2019 on the Implementation of Franchising require that the franchisor holds valid rights to the trademark and stipulate mechanisms for ownership changes within franchise agreements. The transfer of trademark ownership affects both franchisor and franchisee. Franchisors must ensure that ownership transitions do not disrupt the franchise agreement, while franchisees need assurance that their right to use the trademark remains enforceable even if the owner changes. If such matters are not properly regulated, these transfers can lead to legal conflicts. To avoid disputes, franchise agreements should specify procedures for trademark ownership transfer and safeguards for franchisee rights. Official registration with the DGIP and compliance with applicable regulations are essential steps to maintaining stability in Indonesia's franchise business system.

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