

FURTHER REGULATION OF FOOD AND BEVERAGE FRANCHISES

Apr 09, 2013

The Ministry of Trade issued another specific regulation on franchising on 11 February 2013, namely Regulation Number 07/M-DAG/PER/2/2013 on The Development of Partnerships in Franchising for Food and Beverages Services Business Activities (Regulation 07).

Regulation 07 applies to restaurants, food stores, bars and cafes. Franchisors and franchisees in this type of business may establish outlets which are franchised, self-managed/owned or operated through cooperation with capital participation. Regulation 07 limits the number of self-managed/owned outlets to 250. Any additional outlets must either be franchised or operated through cooperation with capital participation. The total capital participation percentage in the cooperation must be as follows:

for an investment value which is less than or equal to Rp.10,000,000,000 (ten billion Rupiah)(approximately US\$1,000,000), the total capital participation of the other party must be at least 40%; or for an investment value which is more than Rp.10,000,000,000 (ten billion rupiah), the total capital participation of the other party must be at least 30%.

Regulation 07 does not regulate further on the above cooperation scheme such as who may be the other party in the cooperation scheme or what the formal registration procedure is. It therefore remains uncertain how this scheme will be implemented in practice.

Regulation 07 provides a five year grace period (until 11 February 2018) for current franchisors or franchisees which already have more than 250 outlets, to comply. An annual compliance report must be submitted to the Minister of Trade during the grace period.