Franchise Law Alert
Recent developments in franchise law
A publication of Nixon Peabody LLP

FEBRUARY 26, 2013

The Ministry of Trade of Indonesia limits growth of food and beverage franchises

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On February 15, 2013, the Ministry of Trade of Indonesia issued a new regulation limiting the growth of food and beverage franchises in the country. The Minister of Trade Regulation No. 07/M-DAG/PER/2/2013 on the Development of Partnership in Food and Beverages Franchise Business aims to prevent monopolies in the market and to encourage the growth of small- and medium-size enterprises (SMEs).

Under the new regulation, a single master franchisee will be limited to owning 250 operating outlets. Those master franchisees, currently with more than 250 operating outlets, must comply with the regulation within 5 years. In order to expand beyond this cap, they must either agree to open an outlet in certain remote locations to be determined later, or to invite a local third-party to become a partner and acquire an equity stake of 40 percent of a restaurant outlet worth less than or equal to Rp 10 billion (US $1.03 million), or 30 percent of an outlet worth more than Rp 10 billion.

This new regulation comes on the heels of two franchise regulations released last year that also limit the expansion of franchises in the country. The first regulation required foreign franchisors to have more than one local franchisee operator, again to prevent monopolies and to give local third-parties more opportunities to buy franchise licenses from successful franchise systems. The second regulation, aimed at the number of company-owned outlets operated by a franchisor, capped the number of such stores to 150 outlets. Expansion beyond 150 outlets requires 40 percent of any additional outlets to be operated by their local franchisees. In addition, this regulation required franchisors and franchisees to use domestically produced goods and/or services for at least 80% of their raw materials, business equipment, and sales.

As the world's fourth most populous nation with an ever-growing middle class, Indonesia has increasingly become a magnet for foreign company expansion. But in an effort to promote greater involvement and access for local businesses, particularly SMEs, the government has decided to cap growth unless ownership is divested. The Ministry has made clear that there will be subsequent changes to franchise regulation in Indonesia. "We will continue to make adjustments as in accordance with the prevailing laws and regulations so that a healthy business environment can be created with a franchising system that is more conducive, especially for the development of small and medium enterprises," stated Indonesian Minister of Trade, Gita Wirjawan, at a press conference on February 15, 2013.