

Juridical Review of Trade Secret Violations in Franchise Business Activities

(Case Study of North Jakarta District Court Decision Number
413/PDT.G/2014/PN.JKT.UTR)

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Abstract

There are many companies engaged in various industrial fields carry out business activities using the franchise business method. In running a franchise business, the brand owner or the Franchisor grants the right to the Franchisee, either an individual or a company, to carry out business activities by utilizing intellectual property rights in the form of a brand, name, system, procedure, or trade secret belonging to the Franchise grantor (Franchisor) in limited capacity under the franchise agreement. The purpose of this paper is to analyze the legal protection of trade secrets and dispute resolution against trade secret violations. The writing of this journal uses juridical-normative as a type of legal research using several approaches, i.e., legislation, conceptual and case. The analysis results show that legal protection of trade secrets is obtained as long as the information is kept confidential and has economic value, and there is a license agreement for franchise business activities. On the other hand, related to dispute resolution regarding trade secret violations, it can be resolved based on an agreement between the two parties related to the choice of law and place to resolve occurring disputes. Although it is very unfortunate that the North Jakarta District Court did not provide the protection expected, it instead decided that the court was not authorized to examine and hear the case.

Keywords

Franchise; legal protection; and trade secret

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Introduction

Presently, numerous companies engaged in various industrial fields have adopted and implemented a franchise system to run their business. This franchise business concept has become part of the daily life consumers globally in various countries; as a result, consumers today tend to make transactions such as purchasing clothes, food and beverages and using services such as car repairs and others through franchise company (Blair, 2005).

The franchise itself originates from the French language, which means honesty and freedom. IFA (International Franchise Association) defines that Franchising as method of doing business between the Franchise Receiver who is then called the Franchisee which guarantees the right to bid, distribute goods and services a marketing method that has been designed by the Franchise grantor who is then referred to as the Franchisor (Liewin & Genoveva, 2020). In this case, the Franchisee, be it an individual or a company, is granted rights by the Franchisor to carry out business activities by utilizing the system, brand, name, procedures and methods that have previously been implemented and determined by the Franchisor which is limited to certain period and also a certain area.

Dependence on the increasing consumption by consumers of a brand makes franchises have played a role in developing businesses such as retail and other chains to earn profit. The format in carrying out franchise business activities is considered capable of advancing economic development and a system that can realize equal distribution of business opportunities. The method applied can lead to the development of distribution channels without requiring a large-scale investment from the parent company by using its intellectual property rights in exchange for the provisions stipulated to provide or sell goods and services.

The franchise business activities carried out by the Franchisee, and the Franchisor are based on a franchise agreement where the agreement is a license to grant rights to the Franchisee in carrying out business activities by using or utilizing the methods and procedures owned by the Franchisor. In running a franchise business activity, the Franchisee certainly will obtain all kinds of information and data about the business from the Franchisor. In this case, one of them is about trade secrets, intellectual property rights protected by confidentiality.

Trade secret, in general, are information of economic value and are not published or known to the public. Various system, procedures and also tools used in carrying out and developing a business activity are the scope of trade secrets. The clause contained in the franchise agreement always states that the parties, both the Franchisee and the Franchisor, are prohibited from distributing or disclosing trade secrets to other parties or third parties who do not have business interest that is being carried out (Idris, 2010).

Confidential information, i.e., Trade secrets, must be protected from unauthorized use. The acquisition of such confidential information can be obtained through a breach of contract or other actions contrary to honest commercial practice (Organization, 2021).

The protection of such confidential information depends on the confidentiality of information that has commercial value and reasonable steps that the owner has taken to maintain the confidential information.

The importance of protecting trade secrets, because trade secrets contain information that is commercial in nature. It is considered to have a commercial nature because it is used to carry out business activities that provide economic benefits for business actors.

A franchise agreement is needed in a franchise business activity to maintain trade confidentiality, which is an obligation between the parties, especially the Franchisee. With a franchise agreement, the parties are required to comply with the agreement; it also concerns the return or termination of the use of trade secrets containing the business methods of the Franchise grantor or Franchisor at the end of the franchise agreement.

Meanwhile, a case that occurred that was related to trade secrets between Komala's International Pte, Ltd (Franchisor) and PT. Graha Bakti Sentos (Franchisee) in franchise business activities in the food and beverage sector of "Komala Restaurant". This was also initiated by the parties who entered into a franchise agreement based on the Multiple Unit Franchise Agreement in August 2, 2003. Komala's International Pte, Ltd granted a license to PT. Graha Bakti Sentosa to open and run a Komala franchise restaurant business in the territory of Indonesia.

Based on the franchise agreement, the validity period of franchise agreement is ten years since it was signed on August 2, 2003. On August 1, 2013, the franchise agreements between Komala's International Pte, Ltd and PT. Graha Bakti Sentosa has ended and PT. Graha Bakti Sentosa, as Franchisee, did not renew or extend the franchise agreements. The end of the franchise agreement causes the Franchisee to no longer be able to use the intellectual property right previously granted by the Franchisor, one of which is the Komala's Restaurant (KR) System, a business method used by the Franchisor to run its business. In addition, with the expiration of the franchise agreement, the Franchisee may not establish the same business or compete in the same business for 24 months or two years from the end of the franchise agreement.

In this case, the Franchisee is suspected of having taken actions that are considered to have violated the franchise agreement, i.e., not stopping the operation of the Komala restaurant outlet using the KR System from Komala's International Pte, Ltd., even though it was acknowledged that the franchise agreement had expired and soon changed the name from Komala Restaurants to "Vegetarian Restaurant".

As a result of the Franchisee's action, the Franchisor finally filed a lawsuit against the Franchisee through the North Jakarta District Court, where the Franchisee is domiciled from now on referred to as the Defendant. The case was then decided in judgement No. 413/Pdt.G/2014/PN.Jkt.Utr, the ruling stated that it rejected the Provisional claim submitted by Plaintiff, namely Komala's International Pte, Ltd and granted Defendant's exception and stated that the North Jakarta District Court not authorized to examine and adjudicate the case.

This research will discuss the legal protection of trade secrets in a franchise business and dispute resolution of trade secret violations.

Research Methods

The research was conducted using a normative juridical research type, particularly research that refers to legal materials such as legislation and literature to solve legal facts or problems, obtain legal material and analyze them, i.e, by conducting a literature study.

Discussion

Legal Provisionson Trade Secrets According to Indonesian National Law (Law Number 30 of 2000 Concerning Trade Secrets)

Indonesia's ratification of the TRIPs Agreement through Law Number 7 of 1994 concerning Ratification of the Establishment of ther World Trade Organization, with the ratification of the agreement, Indonesia has adopted and perfected provisions on intellectual property rights. Regulations of trade secrets, in this case, have been regulated in Law Number 30 of 2000 concerning Trade Secrets.

According to Article 1 Number 1 jo. Article 2 of Law Number 30 of 2000 concerning Trade Secrets stipulates that trade secrets are unknow information, including production, processing and sales methods of information of economic value in the field of technology and business. The Trade Secret Act not only limits the object of information in the technical field but also includes non-technical information. As long as the information is kept confidential, there is no need for a registration procedure to obtain trade secret protection automatically.

The Trade Secrets Act provides rules on how such information can be confidential, i.e., the use and access of the information is very strict and the confidentiality of the information is maintained. Several ways are carried out to maintain the confidentiality of the information, such as making strong communications, making notes that can be in the form of warnings, or making an agreement by applying various kinds of sanctions for those who violate it (Jened, 2007). Proper and appropriate measures are implemented by the owner or parties who control the information based on the rules regulated in Article 3 of the Trade Secrets Act.

Furthermore, the trade secret owners have the right to their trade secret, i.e., they can use their trade secret or grant a license to another party for commercial interests. This is regulated in Article 4 of the Trade Secrets Act. The transfer of trade secret rights can be caused by legal events such as through a written agreement process, grant, inheritance or will and other matters regulated by laws and regulations. Such action is regulated in Article 5 paragraphs (1) and (2) of the Trade Secrets Act.

Concerning licenses, Article 6 stipulates that the owner of the trade secret right may grant a license to another party to carry out commercial business activities by using the trade secret right owned by the trade secret owner. This is done based on a license

agreement in which the agreement contains the granting of rights to the recipient of the trade secret on a limited basis and with a limited period.

In this regard, Article 13 of the Trade Secrets Act regulates the violation of trade secrets, which stipulates that a person intentionally disseminates or discloses a trade secret, violating the obligations in a written or unwritten agreement to maintain trade secrets. In this case, a person is considered to have violated the provisions of a trade secret, i.e., obtaining and using the trade secret against the law.

Furthermore, restrictions on trade secrets are also regulated in Article 15, which refers to Article 13 which determines that the actions taken do not include violations of trade secrets if:

- a. There are interest of defense, security, health and public safety that make the trade secrets disclosed and used.
- b. For development purposes, re-engineering of products resulting from the use of trade secrets is carried out.

This rule prioritizes the existence of public interest, which requires disclosure of confidential information if there is a general public interest such as security or health.

The criminal provisions under the Trade Secrets Act are also provided for the infringement of trade secrets. Article 17 explains that criminal sanctions can be in imprisonment and fines if someone has violated the provisions stipulated in Articles 13 or Article 14 of the trade Secrets Act. In Article 17 the Trade Secrets Act, the crime is a complaint offense in which the offense can only be prosecuted if there is a complaint from the injured party.

Legal Protection of Trade Secrets in Franchising

A franchise is an instant business where business actors or franchisees only need to run their business without considering detailed business knowledge. In franchise business activities, facilities have been provided that can assist franchise receivers or franchisees in running their business, i.e., by using various technical instruction such as marketing, system and production previously set by the Franchisor (Idris, 2010).

Government Regulation Number 42 of 2007 concerning Franchising is a provision that regulates franchise business activities or franchises in Indonesia. Based on Article 1, the definition of franchise is a kind of special right owned by an individual or a business entity over a business system that is operational in the context of marketing goods and services that are proven successful and can be utilized by other parties following an agreement or understanding.

The franchise method that utilizes intellectual property for economic purposes must pay attention to the legal protection of existing intellectual property rights. The license in the franchise agreement made in writing is a form of the legal protection of intellectual property rights, such as trademark rights, copyrights, patents and trade secrets. The agreement is the basis of the understanding between the parties, which states that the

Franchisor as the owner and grantor of the franchise imposes an obligation on the Franchisee not to violate the rules or divulge the intellectual property rights of the Franchisor, which are confidential and protected. (Yanuarsi, 2019).

Arrangements regarding the contents of the franchise agreement are regulated based on Article 5 Government Regulation Number 42 of 2007 concerning Franchising, in this case, determines that the clauses in the franchise agreement made and agreed upon by the parties must contain at least the types of intellectual property rights, the existence of rights and obligations, the term of the franchise agreement, dispute resolution if a dispute arises and others.

The object of the franchise agreement is a cooperation agreement in which the Franchisor grants license of intellectual property rights to the Franchisee with the aim of marketing and selling products from business activities that the Franchisor has previously carried out. Intellectual property rights such as brand rights, trade secrets and others have been given legal protections, referring to the franchise agreement described above. Currently, the Ministry of Justice and Human Rights, the Directorate General of Intellectual Property Rights, has been appointed by the government to provide services and manage the administration of trade secrets in the field of Intellectual Property Rights.

Based on Article 10 and 11 of Government Regulations Number 42 of 2007 stipulates that, before entering into a franchise agreement with a Franchisee, the Franchisor is required to register a franchise offer prospectus in which the franchise prospectus is a written statement from the Franchisor which includes identity or profile, organizational structure, activities, history, legality, number of places of business, list of Franchisees, financial statement, rights and obligations of Franchisor and Franchisees, and intellectual property rights of Franchisor. After the Franchisor registers the franchise prospectus, the franchise receiver or Franchisee is obliged to register a franchise agreement. The registration of franchise prospectus or franchise agreement is also carried out by other parties of franchise authorized to run it.

The Multiple Unit Franchise Agreement of Komala International franchise and PT. Graha Bakti Sentosa includes several Franchisee obligations regarding trade secrets; in this case, the trade secret in question is the KR System (Komala's Restaurant System) as a reality that needs to get legal protection and become a shared commitment between the parties.

Article 25 paragraphs (1) and (2) of the franchise agreement (Multiple Unit Franchise Agreement) states that based on this agreement, in the event of termination or expiration of this agreement, all rights granted to the Franchisee or the Franchisee ends, in this case, the Franchisee is obliged to immediately stop operating the outlet using the KR System or the business method provided by the Franchisor.

Article 25 paragraph (9) stipulates that after the expiration of the franchise agreement, the Franchisee is required to submit all copies of the manual, including translated copies of the manual and other copies.

In addition, Article 22 paragraph (4) of the franchise agreement (Multiple Unit Franchise Agreement), when the franchise agreement has been terminated by Komala's International Pte, Ltd, PT. Graha Bakti Sentosa, as Franchisee, is not allowed to conduct business activities that are competitive with the Franchisor for twenty-four months or two years.

Following Article 2 of the Trade Secrets Act, related to processing, production methods, sales, or economic values information in the technical and business fields, are objects of trade secrets. In the franchise agreement, the protected trade secret is the KR System (Komala's Restaurant System) which contains information on business methods, including production, marketing and promotion. The Franchisee, in this case, has an obligation not to share all or part of the trade secret and to use the concept of a trade secret which is confidential information without the permission of the franchise owner or the Franchisor.

In this case, there are two kinds of acts of using information without permission, i.e.: (Kesewo, 1995)

- a. Permission is not granted by the creator of the information to the user;
- b. The creator of the information grants permission to the recipient of the information to use the information for a specific purpose, yet the information granted is used for other purposes by the information's recipient.

The use of confidential information without the consent or permission of the party who has the right to the information provides an explanation that any use or disclosure made will be considered unauthorized. On the other hand, if the consent of the information has been obtained from the owner, the confidential information can be disclosed and used. However, it should also be noted that only the interested party can disclose such information. Not everyone is free to use it and be done following what has been agreed or disclosed for a limited purpose.

In addition, the act or action that is considered not to be an act that violates the provisions of trade secrets, which is following Article 15 of Trade Secrets Act, i.e., that the action is carried out because of the interests related to issues of defense, security, health and safety of the public that enforce the trade secrets to be disclosed and used. Re-engineering of products resulting from the use of trade secrets is also carried out for development purposes.

Such confidential information imposes an obligation on the recipient of the information to store and maintain its confidentiality. The obligation to maintain the confidentiality of such information is carried out as long as the relationship lasts, as stated in the franchise agreement. As the receiver of a franchise, the Franchisee must understand their obligation to the confidential information given and disclosed for a limited purpose.

Dispute Resolution Related to Trade Secret Violations in Franchise Business Activities

The agreement or understanding made by the parties has a relationship or attachment that exists. The relationship does not just arise directly, but the relationship exists because of legal actions that give rise to legal relationship and give birth to rights and obligations to the parties. In other words, the parties bound in an engagement must fulfill their achievement (Harahap, 1986). In carrying out a business activity, no doubt that there is the possibility of dispute arising between the parties due to the non-fulfillment of achievement or obligation of one of the parties.

It is defined in Article 1234 of the Civil Code (KUHPerdota), granting something, doing something, or not doing something; if the achievement that have been agreed upon by the parties are not fulfilled, then it is declared in default. Default itself is the non-fulfillment of the achievement that have been required and stipulated in an agreement or commitment (Muhammad, 1990). Fulfillment of achievement that have been previously agreed upon yet not carried out by one of the parties can lead to disputes between the parties.

Article 1338 of the Civil Code (KUHPerdota) stipulates that an agreement made legally following the law is valid and binding for the parties as a law. The settlement related to disputes between the parties can be resolved based on what is stated in the agreement. In general, the first dispute resolution is through deliberation. If the dispute cannot be resolved by deliberation, then the parties can submit it through the judiciary, in this case through the Court, to resolve the dispute. In resolving disputes, the parties can choose a settlement outside the court, particularly through arbitration or Alternative Dispute Resolution (ADR) through consultation, negotiation, mediation, conciliation, or expert judgement.

In this case of a trade secret violation of PT. Graha Bakti Sentosa, when the franchise agreement between the parties has expired, the Franchisee does not carry out its obligation, i.e., to discontinue all business activities using the license or intellectual property rights granted, especially the KR System as a trade secret previously used by the Franchisee. In addition, the franchise agreement provides that the Franchisee is prohibited from establishing the same business or competing in the same business as the Franchisor for twentyfour months or two years. However, after the end of the franchise agreement, the Franchisee remained to use the KR System. It changed the restaurant's name, originally called Komala Restaurant to "Vegetarian Restaurant".

The actions taken by the Franchisee have violated the provisions of Article 25 paragraph (1) and (2) and Article 22 paragraph (4) of the Multiple Unit Franchise Agreement, which causes a dispute between the two parties. Referring to the franchise agreement between Komala's International Pte, Ltd and PT. Graha Bakti Sentosa, which has provided provisions regarding dispute resolution, particularly in Article 31 of the Multiple Unit Franchise Agreement, stipulates that both parties agree that dispute resolution is carried out using Singapore Law and the Singapore Court. However, on the clause states that

“Provided that the Franchisor expressly reserves the right to bring the proceeding in any other jurisdiction or jurisdictions whether concurrently or not....” which provides an explanation that the Franchise grantor or Franchisor can choose to file legal proceeding in other jurisdictions.

In this case, the dispute resolution proposed by Komala's International Pte, Ltd as the Franchisor determined to proceed with the problem through the legal process of the Indonesian jurisdiction. Therefore, in this case, the Indonesian procedural law applies in which the lawsuit is submitted to the District Court where the Defedent is domiciled, i.e., the North Jakarta District Court. In judgement No.413/Pdt.G/2014/PN.Jkt.Utr when referring to Article 31 of the franchise agreement, the North Jakarta District Court has the authority to examine and adjudicate the case. It is very unfortunate that the Nort Jakarta District Court did not provide the protection that was expected, but instead decided that the court was not authorized to examine and hear the case. So of course this goes against the Article 11 paragraph (1), which stipulates that regarding filing a lawsuit regarding compensation and the termination of all actions regulated in the Article 4 of the Trade Secret Act, the claim can be filed by the Franchisor to the Districy Court. While for dispute resolution outside the court, it is further regulated in Article 12, stipulating that the parties can settle the dispute outside the court or non-litigation.

The imposition of criminal sanctions is based on article 61 TRIPs Agreement on Criminal Procedurs, which regulates the authority to impose criminal sanctions applied by member countries (Kartadjoemana, 1997). Article 61 of the TRIPs Agreement stipulates that member states can regulate criminal procedures and penalties to be applied in infringement of trademark counterfeiting or copyright piracy on a commercial scale. In addition, matters relating to other intellectual property rights may also be subject to criminal sanctions, especially those carried out intentionally and on a commercial scale.

The provisions of Indonesian national law have regulated the imposition of criminal sanctions for trade secrets violations as regulated in Article 17 jo. Article 13 of the Trade Secret Act. The criminal penalty charge applied is a complaint offense, in which the Franchisor, as the aggrieved party, can either file a claim or not against the Franchisee who has violated a written unwritten agreement that requires the Franchisee to maintain the relevant trade secret. Suppose the Franchisee may be sentenced to a criminal sanction in the form of imprisonment for a maximum of 2 (two) years and a fine of a maximum of Rp. 300.000.000 (three hundred million rupiahs) (Kumendog, 2017).

Conclusion

Information that is confidential and has economic value, or which is a trade secrets are protected by law. Therefore there is no need for a registration procedures as long the information is kept confidential. In franchise business activities, protection of trade secrets can be through a previously agreed franchise agreement. The franchise agreement between Komala International and PT. Graha Bakti Sentosa contains provisions that provide legal protections for trade secret. Several provisions are regulated, such as after the end of the franchise agreement. The Franchisee is required

to end all business activities previously using KR System, which contained information or methods to run business set by the Franchisor. In addition, the Franchisee has an obligation not to establish the same business or compete in the same business as the Franchisor for twentyfour years or two years the expiration of the franchise agreement.

Dispute settlement concerning trade secrets in franchise business activities can be determined based on a previously agreed franchise agreement-mentwhile, the case of Komala's International Pte, Ltd with PT. Graha Bakti Sentosa, both the parties agree that if there is a dispute due to non-fulfillment of achievement, it will be resolved using Singapore law and the Singapore Court. However, the clause in the franchise agreement also states that the Franchisor can bring legal proceedings in the jurisdiction of another country. When referring to these provisions, Komala's International Pte, Ltd as Franchisor can settle dispute related to trade secrets in Indonesia. The District Court of the Defedent's territory, i.e., the North Jakarta District Court, is authorized to examine the case. It is very unfortunate that the Nort Jakarta District Court in its decision stated that it was not authorized to examine and try the case. In addition, the Franchisor can sue criminally for the actions of the Franchisee who reneged on a written agreement or obligation.

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