JURNAL HUKUM DAN KONSTITUSI JIC

https://anwarpublisher.com/index.php/jic Volume 2 Nomor 2 Tahun 2026, hal. 76-83

LEGAL ISSUES IN TRADEMARK LICENSING AGREEMENTS: DISPUTES AND ENFORCEMENT CHALLENGES

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Abstract

This paper will elaborate the problems of trademark license agreement. The goal of this research is to search what is the real problem in the contract agreement between licensor and licensee. To analyze this substantive, this work will apply normative legal research. At the end, this work offers some substantive and pragmatic approaches. The substantive approach will discuss and examine some theories, norms, and policies. The freedom of contract principle is the main principle of contract to legalize a trademark license agreement. Freedom of contract is applied in the manufacture of a trademark license agreement. According to the freedom of contract, the parties are free to formulate the license agreement including but not limited to royalty payment, dispute resolution, and the end of the license agreement. The other basic principle of contract covering a trademark license agreement is mutual benefit. This principle requires that the parties must obtain economic value (profit) on the agreement. Licensor is willing to obtain royalty payments from the licensee. To sump up the royalty belongs to economic rights which is transferable in order to maximize benefit of the trademark to the licensor. In addition, another principle is the principle of equality. Equality does not mean only the licensor who has a right to terminate the license agreement but also the licensee does.

Keywords*: license; trademark; royalty..*

Abstrak

Makalah ini akan menguraikan permasalahan perjanjian lisensi merek dagang. Tujuan utamanya adalah untuk mencari problem yang nyata antara pemberi lisensi dan penerima lisensi. Untuk menganalisis substansi ini, karya ini akan menerapkan penelitian hukum normatif. Pada akhirnya, karya ini menawarkan beberapa pendekatan substantif dan pragmatis. Pendekatan substantif akan membahas dan mengkaji beberapa teori, norma, dan kebijakan. Prinsip kebebasan kontrak adalah prinsip utama kontrak untuk melegalkan perjanjian lisensi merek dagang. Kebebasan kontrak diterapkan dalam pembuatan perjanjian lisensi merek dagang. Menurut kebebasan kontrak, para pihak bebas untuk merumuskan perjanjian lisensi termasuk tetapi tidak terbatas pada pembayaran royalti, penyelesaian sengketa, dan pengakhiran perjanjian lisensi. Prinsip dasar kontrak lainnya yang mencakup perjanjian lisensi merek dagang adalah saling menguntungkan. Prinsip ini mensyaratkan bahwa para pihak harus memperoleh nilai ekonomi (keuntungan) dari perjanjian tersebut. Pemberi lisensi bersedia memperoleh pembayaran royalti dari penerima lisensi. Sebagai kesimpulan, Royalti termasuk hak ekonomi yang dapat dialihkan untuk memaksimalkan manfaat merek dagang bagi pemberi lisensi. Selain itu, prinsip lain adalah prinsip kesetaraan. Kesetaraan tidak hanya berarti pemberi lisensi yang memiliki hak untuk mengakhiri perjanjian lisensi tetapi juga penerima lisensi.

Kata Kunci : lisensi, merek dagang, royalti.
Article Information: Received: 1 Maret2026 *Accepted:28 Maret 2026*
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1. Introduction

As one of the intangible property rights, trademark rights constitute part of property that can be transferred by their owner through various means, including inheritance, grants, wills, agreements, or other causes permitted by law[1]. In addition, trademark rights, which are exclusive in nature, may be used by parties other than the owner through a license, which must be made in writing between the trademark owner as the licensor and the recipient as the licensee. A trademark licensing agreement serves as a means of legal protection for ownership of (well-known) trademarks against acts leading to trademark infringement and crimes[2]. Through a licensing agreement, a well-known trademark may be used by another party in a safe and lawful manner [3] . This is because well-known trademarks are particularly vulnerable to infringement and criminal acts, in the form of the use of identical or substantially similar marks in whole or in part.[4]

Several issues arise in the implementation of trademark licensing agreements, mainly because the parties do not properly carry out their obligations. [5] These issues need to be identified so that they do not become obstacles to the implementation of such agreements. This paper discusses problems that frequently occur in trademark licensing agreements. This situation arises because the principle of good faith, which underlies the validity of trademark licensing agreements, cannot guarantee that such agreements will operate safely and smoothly. The principle of *pacta sunt servanda* as stipulated in Article 1338 paragraph (1) of the Civil Code (BW) explicitly states that "all agreements lawfully made shall apply as law to those who make them." This principle mandates that, as an agreement, a licensing contract constitutes a set of rules that must be obeyed by the parties who enter into it.[6] These rules are binding in nature, because failure to comply with them will give rise to legal disputes between the parties. This is further emphasized in Article 1338 paragraph (2) of the Civil Code (BW), which states that "such agreements may not be revoked other than by mutual consent of both parties, or for reasons deemed sufficient by law."

The principle that agreements apply as law to the parties who make them is sometimes ignored. The parties may commit acts that cause losses to the other party. Such acts occur due to intentional conduct triggered by various factors. These intentional breaches result in the neglect of the principle of good faith mandated by Article 1338 paragraph (3) of the Civil Code (BW). There are several factors that give

[1] Elvy Wiyono, Macvin Andreas Winata, and Yohanie Maretta, "Analisa Perlindungan Hukum Dan Penyelesaian Sengketa Dalam Perjanjian Atas Hak Merek (Studi Merek Dagang Tupperware Terhadap Tulipware)," *Anthology: Inside Intellectual Property Rights* 2, no. 1 (2024): 427–46.

[2] Adam L. Brookman, *Trademark Law: Protection, Enforcement, and Licensing* (Gaithersburg: Aspen Law & Business, 2014).

[3] Agung Sujatmiko et al., "Pierre Cardin and the Legal Battle for Well-Known Marks: Insights from Indonesia and the Netherlands," *Hasanuddin Law Review* 10, no. 3 (2024): 240–71.

[4] Agung Sujatmiko, Mochamad Kevin Romadhona, and Yuniar Rizky Saraswati, "Patents at the Crossroads: Legal Pathways for Advancing Technology Transfer in Indonesia," *LAW REFORM* 21, no. 1 (2025): 94–119.

[5] Rahmi Jened, *Hak Kekayaan Intelektual: Penyalahgunaan Hak Eksklusif* (Pusat Penerbitan dan percetakan Unair, 2010).

[6] Agung Sujatmiko et al., "The Legal Reform of Trademark Protection and Dispute Mitigation: Lessons from Licensing Well-Established Brands in Indonesia," *Journal of Law and Legal Reform* 5, no. 2 (2024): 459–94.

rise to problems in well-known trademark licensing agreements.

2. Research Methodology

All legal materials, supporting documents and methods must be stated clearly and briefly. The method used is not limited to normative juridical method. Method other than normative juridical method should mention time and place of the research (if applicable) and the focus of the research in first part.

3. Results and Discussion

Nature of the Trademark License Agreement

There are two types of licensing agreements, namely exclusive and non-exclusive licensing agreements. [7] Licensing agreements regulated under the Trademark Law (UUM) are non-exclusive in nature, as stipulated in Article 44, which provides that a registered trademark owner who has granted a license to another party remains entitled to use the trademark personally or to grant further licenses to other third parties, unless otherwise agreed.[8]

The non-exclusive nature of such agreements means that the trademark owner is not restricted from continuing to use the trademark or from granting additional licenses to third parties. [9] Through Article 44, the legislator intended licensing agreements to operate primarily on a non-exclusive basis. Nevertheless, the law does not prohibit exclusive licensing agreements, as licensing arrangements are essentially open and founded on the principle of freedom of contract. As noted by Rahmi Jened, the legislator fundamentally regulates licensing agreements as non-exclusive; therefore, if it is intended that other parties be excluded from using the trademark, an exclusive licensing agreement must be expressly stipulated.

An exclusive licensing agreement restricts the trademark owner's right to use the trademark and to grant further licenses to other parties.[10] This restriction potentially conflicts with the inherent exclusivity of trademark rights, which grant the owner exclusive authority to use the trademark in connection with goods and or services, as well as the right to authorize others to do so.

From an economic perspective, non-exclusive licensing agreements are more advantageous for trademark owners because they retain the right to use the trademark and to license it to additional parties. [11] The owner's own use of the trademark increases income, while granting licenses to third parties generates additional royalty revenue.

Pursuant to Article 45 of the UUM, licensees may, if agreed upon in the licensing agreement, grant further licenses to third parties. [12] This provision allows for sublicensing arrangements, which may increase income for both licensors and

[7] Agung Sujatmiko, Ghansham Anand, and Mochamad Kevin Romadhona, "Critical Legal Analysis on Medicine or Vaccine License for Strengthening Access to Justice in Indonesia: A Case of Corona Vaccine Licensing," *Jurnal IUS Kajian Hukum Dan Keadilan* 13, no. 3 (2025): 791–806.

[8] Trisadini Prasastinah Usanti and Fiska Silvia, "The Advantages of Pledge on Trademark Certification of Bank Credit in Indonesia," 6 (2020).

[9] Nurul Barizah, "Indonesian Patent Policy on Compulsory License and Access to Affordable Medicines," *European Journal of Molecular & Clinical Medicine* 7, no. 5 (2020): 467–75.

[10] Sujatmiko, Romadhona, and Saraswati, "Patents at the Crossroads: Legal Pathways for Advancing Technology Transfer in Indonesia."

[11] Tanya Aplin, Tanya Frances Aplin, and Jennifer Davis, *Intellectual Property Law: Text, Cases, and Materials* (Oxford University Press, USA, 2013).

[12] Rudi Bekkers, Bart Verspagen, and Jan Smits, "Intellectual Property Rights and Standardization: The Case of GSM," *Telecommunications Policy* 26, nos. 3–4 (April 2002): 171–88, https://doi.org/10.1016/S0308-5961(02)00007-1.

licensees, as royalties paid by sublicensees are shared between them.[13]

A fundamental requirement of trademark licensing is that the trademark must be lawfully registered with the Trademark Office.[14] Unregistered trademarks cannot be licensed, as a consequence of the constitutive system adopted by the UUM. Registered service trademarks, where the provision and outcome of services are closely related to the personal skills or abilities of the service provider, may also be licensed, provided that quality assurance mechanisms are in place.

Another important aspect is that Indonesian trademark law does not recognize compulsory licensing for trademarks. This absence is based on the principle that trademark ownership entails the obligation to produce goods or services. If a trademark is not used for three consecutive years or more from the date of registration or last use, it may be removed from the General Register of Trademarks by the Directorate General of Intellectual Property. The prohibition of compulsory trademark licensing is also reflected in Article 21 of the TRIPs Agreement, which allows member states to regulate trademark licensing and assignment while expressly prohibiting compulsory licensing of trademarks. Accordingly, each member state may determine trademark licensing requirements within its national legal framework.

Article 43 paragraph (1) of the UUM requires that the legal relationship between the parties in a licensing arrangement be formalized in a contract. Such contracts are governed by general contract law as set out in the Indonesian Civil Code, particularly Article 1320 concerning the validity of agreements. Other provisions relating to contracts also serve as the legal basis for the formation and implementation of licensing agreements.

With regard to form, the UUM does not specify whether licensing agreements must be executed as authentic deeds. However, legal scholars such as Yahya Harahap and Rahmi Jened argue that, given their legal significance, trademark licensing agreements should be made in the form of authentic deeds, typically before a notary. This view is consistent with the Draft Presidential Decree on Trademark Licensing, which requires licensing agreements to be executed in authentic deed form. In common law jurisdictions, licensing agreements are generally drafted by solicitors. The Draft Presidential Decree further specifies that licensing agreements should include the identities of the parties, details of the licensed trademark, the duration and scope of the license, royalty arrangements, provisions on sublicensing, quality control obligations, and territorial limitations.

More broadly, licensing agreements should regulate matters such as the identification of the parties and the licensed intellectual property, the scope and purpose of the license, exclusivity, territorial reach, reporting and inspection rights, confidentiality, non-competition obligations, protection against infringement, registration requirements, royalty payments, choice of law, dispute resolution mechanisms, and termination provisions. These elements align with international scholarly views on standard licensing practices.

Based on this discussion, several fundamental principles govern trademark licensing agreements. A trademark license does not transfer ownership but merely grants permission to use the trademark. Licensing

[13] Martin J Adelman, Randall Rader, and Gordon Klancnik, "Patent Law in a Nutshell," *Patent Law in a Nutshell, M. Adelman, R. Rader & G. Klancnik, Eds., Thomson*, 2008, 2013–67.

[14] Ika Atikah, Ahmad Zaini, and Iin Ratna Sumirat, "Intellectual Property Rights as the Resource for Creative Economic in Indonesia," *Jurnal Penelitian Hukum De Jure* 22, no. 4 (2022): 451.

applies only to registered trademarks. Licensing agreements should be executed in authentic deed form and must not contain clauses that harm Indonesia's economic interests or impede technological development. Furthermore, licensing agreements must be registered with the Directorate General of Intellectual Property.[15] Trademark licensing agreements offer both advantages and disadvantages to the parties involved. For licensors, licensing enables commercialization without direct production, allows ownership rights to be retained, facilitates market expansion, and may convert competitors or infringers into business partners. For licensees, licensing provides faster market access through established trademarks and access to technical knowledge without extensive research investment. However, licensors may earn lower returns compared to direct investment, face potential competition from licensees, and become dependent on licensees' capabilities. Licensees, on the other hand, may become overly dependent on the licensor's technology, which can limit future expansion.

Emerging Issues

First, issues may arise when one party terminates the licensing agreement prematurely. The primary problem associated with such circumstances is the likelihood of litigation initiated by the opposing party, as unilateral termination may cause significant losses, particularly when carried out by the licensor. Several grounds may be invoked by the licensor to justify unilateral termination of a licensing agreement, including the licensee's failure to pay royalties as agreed, production of goods beyond the agreed quantity, production outside the agreed territorial scope, or continued production of goods or services after the expiration of the licensing agreement. Conversely, the licensee may seek termination on grounds such as unilateral increases in royalty rates by the licensor, restrictions imposed by the licensor on production volume, or limitations on the territorial scope of the license.

When the licensor terminates the licensing agreement, the licensee often suffers substantial losses, having incurred significant expenses for establishing new production facilities and other operational costs. Investments made may be lost before any profit is realized. In addition to material losses, the licensee also suffers immaterial losses, particularly the loss of opportunity to use and produce goods and or services under the licensed trademark. Such immaterial losses are often greater in value than material losses, as the use of a well-known trademark carries a sense of prestige for the licensee that cannot be measured monetarily.

The Draft Presidential Decree on Trademark Licensing also regulates the licensee's right to seek termination of the licensing agreement where one party fails to perform its contractual obligations. This provision reflects formal equality between the licensor and licensee. In practice, however, terminations initiated by licensees are rare; most terminations are carried out by licensors. This demonstrates the strong dominance of licensors, which, when exercised, often results in significant losses for licensees.

These risks are highly likely to occur in practice and therefore must be anticipated by the parties. Such anticipation is essential to ensure that the licensing agreement operates smoothly and remains mutually beneficial. In the United States and European Union, for

[15] Rakesh Basant, "Intellectual Property Protection, Regulation and Innovation in Developing Economies: The Case of the Indian Pharmaceutical Industry," *Innovation and Development* 1, no. 1 (April 2011): 115–33, https://doi.org/10.1080/2157930X.2011.551050.

example, licensing agreements typically include clear provisions governing early termination so that both parties understand their rights and obligations. If a licensee intends to terminate the agreement during its term, prior notice must be given to the licensor, and vice versa. Termination usually becomes effective one month after notification, or in some cases 60 days later, to allow adequate time for operational adjustments and to minimize potential losses. This approach is particularly important given the substantial investments and large workforce typically involved in trademark licensing arrangements.[16]

Based on prevailing licensing contract practices in the United States and the European Union, unilateral termination may be justified on grounds such as inconsistent use of the licensed trademark, failure to pay royalties as agreed, or failure to maintain product quality.[17] Where termination is initiated by the licensee, prior notice must be given to the licensor, generally three months before termination takes effect. Once termination becomes effective, the licensee is prohibited from further use of the licensed trademark.

The second issue arises when, during the term of the license, the licensee introduces a new trademark of its own for business expansion purposes. The use of a new trademark on the same goods or services may reduce sales of products bearing the licensed trademark, thereby causing losses to the licensor. To address this issue, the licensing agreement should clearly regulate whether the licensee is permitted to use a new trademark. Because such situations are foreseeable, they must be anticipated by the parties. Some agreements require licensees to consult with and obtain approval from the licensor before using a new trademark. This requirement serves to protect the licensor's interests, as the licensor, as trademark owner, seeks to avoid actions by the licensee that may undermine the licensed trademark. A new trademark may pose a competitive threat to the licensed trademark and therefore must be subject to prior consultation and approval.[18]

The third potential issue concerns disputes arising when a former licensee produces goods or services under a different trademark but with identical quality to those previously produced under the licensed trademark. This situation may cause losses to the former licensor, as it reduces sales and effectively creates a new competitor in the form of the former licensee. To mitigate this risk, licensing agreements should include provisions prohibiting licensees from engaging in the same line of business as the trademark owner after the termination of the licensing agreement.

These potential problems demonstrate that licensing agreements are inherently vulnerable to disputes if they are not drafted comprehensively and transparently. Each party is required to fully understand the content and intent of the agreement and to perform it in good faith. To ensure that licensing agreements operate smoothly and do not disadvantage either party, such agreements must be drafted fairly, transparently, and based on voluntary consent without coercion.

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[16] Juan Martinez, "FRAND as Access to All versus License to All," *Journal of Intellectual Property Law & Practice* 14, no. 8 (August 2019): 642–51, https://doi.org/10.1093/jiplp/jpz075.

[17] Mochamad Kevin Romadhona, Bambang Sugeng Ariadi Subagyono, and Dwi Agustin, "Examining Sustainability Dimension in Corporate Social Responsibility of ExxonMobil Cepu: An Overview of Socio-Cultural and Economic Aspects," *Journal of Social Development Studies* 3, no. 2 (November 2022), https://doi.org/10.22146/jsds.5038.

[18] H Tomás Gómez-Arostegui and Sean Bottomley, "The Traditional Burdens for Final Injunctions in Patent Cases c. 1789 and Some Modern Implications," *Case Western Reserve Law Review* 71 (2020): 403.

Before entering into a licensing agreement, the parties should consider adopting a balanced and humane contractual approach that benefits all parties. This reflects the fundamental principle that licensing agreements are based on consensualism and good faith. Failure to adhere to these principles often results in disputes, as illustrated by the Good Year trademark case decided by the Supreme Court of Indonesia in Decision No. 019K/N/HaKI/2004 dated 15 February 2005. The Court held that a licensing agreement validly entered into by the parties constitutes the legal basis of their relationship and must therefore be complied with. The Commercial Court of Jakarta reached a similar conclusion in Decision No. 19/Merek/2004/PN.Niaga.

The core issue in that case arose from the absence of a clearly defined licensing term, which led to dispute. Because the agreement did not specify the duration of the license, the defendant continued to use the Good Year trademark without limitation, which the plaintiff later challenged. The plaintiff alleged trademark infringement, while the defendant argued that its use was lawful based on the licensing agreement and continuous payment of royalties. The court recognized that the agreement, although unusual and inconsistent with common licensing practice, allowed such use. Typically, licensing agreements explicitly define their duration. Therefore, to avoid disputes, trademark licensing agreements must be drafted comprehensively, clearly, and precisely to prevent multiple interpretations. If a licensing agreement contains ambiguities, each party may interpret it in its own favor, resulting in losses to the other party. Good faith alone is insufficient if the agreement itself contains loopholes that allow for conflicting interpretations. Accordingly, good faith must be supported by a well-drafted agreement that allows only a single interpretation and does not leave room for divergent readings by the parties.

4. Conclusion

A trademark licensing agreement is a reciprocal contract in which each party holds balanced rights and obligations. Problems that frequently arise in trademark licensing agreements stem from the parties' failure to perform the obligations stipulated in the contract. Such disputes must be resolved by the parties in accordance with the terms and conditions set out in the licensing agreement.

Ucapan Terima kasih (optional)

The author would like to express their gratitude toward Universitas Airlangga.

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