

# The Principle of Division of Obligations and Consumer Protection in Product Distribution Agreements: A Study of Business Law and Its Practice in Indonesia

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## ABSTRACT

*This study discusses the legal aspects of product distribution agreements in Indonesia, focusing on the division of responsibilities between manufacturers and distributors and the implementation of consumer protection. Through a normative legal approach, it explains how distribution agreements are positioned as unnamed agreements that remain subject to general principles of contract and are subject to trade regulations and consumer protection. Manufacturers are obliged to guarantee quality, accuracy of information, after-sales service, and administrative compliance. Distributors are responsible for proper distribution, maintaining product integrity, and providing services in accordance with the principal's standards. Consumer protection is implemented through the fulfillment of the rights to safety, information, freedom of choice, and the right to complain and seek redress in the event of loss due to defective products. This study emphasizes the importance of harmonizing contract clauses with applicable regulations and encourages the renewal of consumer protection strategies, both normatively and practically. Synergy between authorities, business actors, and consumers is the foundation of a fair and sustainable product distribution ecosystem.*

## INTRODUCTION

In modern business practices, product distribution is one of the crucial points in a company's value chain. Manufacturers do not have direct access to the entire market, so they need third parties as intermediaries, namely distributors. The legal relationship between manufacturers and distributors is regulated through distribution agreements, which are essentially based on the principle of freedom of contract as stipulated in the Civil Code. The indirect interaction of the interests of manufacturers and distributors also forms a protective ecosystem for consumers, because the smoothness and clarity of distribution rules greatly determine the quality of goods, continuity of supply, and after-sales service at the end consumer level.

Distribution agreements create long-term legal relationships between manufacturers and distributors, in which each party has mutually binding rights and obligations (Sugeng, 2019). The development of the digital era and fierce market competition have encouraged manufacturers to

maximize efficiency, expand their distribution networks, and require distributors to implement certain service standards. This ultimately requires clarity of responsibility for both parties, especially in relation to mandatory provisions regarding consumer protection as regulated in Law Number 8 of 1999 concerning Consumer Protection (Rosmawati, 2017). The challenge of implementing the principles of clarity and enforcement of responsibilities is increasingly complex in the digital ecosystem, where the effectiveness of consumer protection regulations in e-commerce transactions is an important issue, as analyzed in the marketplace platform (Irfan & Negara, 2023). Inaccurate regulation of obligations between manufacturers and distributors has the potential to cause consumer losses and damage the reputation of both parties' businesses. The principles of clarity and enforcement of responsibility in the supply chain to protect consumers are universal, which is also reflected in studies on the legal responsibility of e-commerce platforms as business actors in the digital ecosystem (Anugroh et al., 2023).

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The description of business relationships in distribution agreements has become increasingly complex with the government implementing numerous sectoral regulations in the areas of trade, business competition, and consumer protection. The state actively demands responsibility from both parties through reporting obligations, certification, and the provision of adequate product information to consumers (Kristiyanti, 2022). In practice, disputes arising from distribution agreements can stem from unclear division of legal responsibilities, both in terms of products and consumer rights protection. This situation requires critical interpretation of distribution agreement regulations to maintain the principles of fairness and legal certainty. Therefore, efforts to prevent such disputes emphasize the importance of designing and implementing effective contractual instruments from the outset, which not only regulate commercial relationships but also anticipate regulatory requirements, as analyzed in a study on the effectiveness of contractual instruments in preventing business disputes and ensuring business legal stability (Wibowo et al., 2021).

Since the enactment of the Consumer Protection Law, the relationship between producers, distributors, and consumers has been regulated in greater detail, particularly with regard to replacement obligations, product quality standards, and after-sales guarantees. On the other hand, law enforcement against violations of distribution agreements has also been strengthened with the presence of out-of-court dispute resolution institutions, such as the Consumer Dispute Resolution Agency (BPSK). This situation has brought a new dimension to the dynamics of law enforcement in the field of business law.

Thus, product distribution agreements are not merely commercial manifestations between manufacturers and distributors, but also a means for the state to realize consumer protection while creating healthy business competition. The relevance of legal review of the obligations of the parties in distribution agreements has become increasingly significant in strengthening balance and accountability in national business practices.

In the development of distribution practices, a number of fundamental issues have arisen regarding the unclear division of obligations between manufacturers and distributors in distribution agreements. There are often shifts or overlaps in responsibility for product defects, product recalls, and customer service mechanisms (Sudjana, 2019). In some cases, regulatory uncertainty has led to businesses shifting responsibility onto each other,

thereby placing consumers at a disadvantage.

In addition to unclear obligations, gaps or weaknesses in contractual provisions regarding the allocation of risk of loss often create legal loopholes. For example, when consumer complaints arise regarding product safety, it is sometimes difficult to clearly identify the responsible party. This tends to create potential moral hazard loopholes among business actors (Azmani, 2023). Thus, the construction of an effective distribution agreement requires careful consideration of a proportionally regulated structure of obligations.

Another issue that has emerged is the material protection of consumers in distribution contracts. On the one hand, manufacturers tend to include exculpatory clauses in agreements. Meanwhile, distributors are often limited in their access to data or ability to inspect the quality of goods, making it difficult to prove their case in the event of a dispute (Azmani, 2023). The role of the state and the enforcement of the Consumer Protection Law are crucial to prevent excessive exculpatory practices that are detrimental to consumers.

Studies on the legal aspects of product distribution agreements have gained new relevance amid the dynamics of global trade and the continuous growth of digital transactions. Affirming the legal obligations of both manufacturers and distributors is essential to promote business ethics, strengthen public trust, and facilitate dispute resolution mechanisms in an increasingly competitive modern market. Furthermore, efforts to update legal norms and contractual practices related to distribution are important elements in strengthening legal protection for consumers and supporting the growth of a healthy business ecosystem.

This study aims to comprehensively analyses the legal regulations and implementation aspects related to the division of obligations between manufacturers and distributors in product distribution agreements, as well as to evaluate the effectiveness of consumer protection provided through such agreement schemes. The results of the analysis are expected to make a tangible contribution, both theoretically in the development of business law studies and practically in the drafting and implementation of distribution agreements in the national business environment.

## RESEARCH METHOD

This study uses a normative legal approach with a literature review method as the basis for analysis. Literature study was chosen to examine various applicable regulations, legal doctrines, and relevant previous research results in analyzing product

distribution agreements in Indonesia. The normative legal method focuses on tracing primary, secondary, and tertiary legal sources related to the obligations of producers, distributors, and consumer protection. The literature search was conducted systematically by referring to national legislation and reliable academic publications published in the last twenty years in order to obtain a comprehensive understanding and credible legal arguments (Soekanto & Mamudji, 2011).

Thematic synthesis was chosen as the data analysis strategy, by examining and grouping the results of the literature study based on the main themes corresponding to the problem formulation. The inclusion criteria for the analyzed literature were books and scientific journals from national and international publishers that discussed aspects of business law, particularly those containing studies on product distribution agreements, the legal obligations of the parties, and consumer protection. Literature whose originality and publication could not be verified was excluded. To maintain the credibility and accuracy of the data, each source used was cross-checked to ensure that no fictitious references were used.

Coding was done manually, by marking each documentation citation directly related to distribution agreements and consumer protection. Each main argument is included in an analysis matrix to identify patterns and avoid information redundancy. The validity of the results is analyzed through data triangulation, bringing together findings from various sources and comparing them with applicable positive legal regulations. The quality of the research results is guaranteed by referring to proven scientific principles and following the academic writing ethics required in the discipline of business law (Darmawan, 2015).

## **RESULT AND DISCUSSION**

### **Legal Obligations of Manufacturers and Distributors in Product Distribution Agreements**

The legal framework for product distribution in Indonesia cannot be separated from the integration between administrative regulations and contractual relationships between parties. Legal regulations concerning the obligations of manufacturers and distributors in product distribution agreements in Indonesia are contained within a regulatory structure that complements public and private law (Sugeng, 2019). Administratively, product distribution is governed by the Ministry of Trade's policy, which is explicitly set out in Minister of Trade Regulation No. 24 of 2021. This regulation clearly stipulates the mechanisms for appointment, contractual

relationships, business area boundaries, as well as guidance and supervision of each distribution line to create an accountable and transparent supply chain. Consequently, in practice, every principal relationship, in this case between the manufacturer or brand owner and the distributor, is required to have a clear written agreement that includes business territory boundaries, appointment, validity period, and marketing arrangements to avoid distribution conflicts and ensure compliance with business order. Administrative regulations serve as the initial foundation that guides and limits the freedom of the parties in establishing distribution relationships.

In addition to being based on administrative regulations, distribution relationships are also supported by civil law principles that provide room for contractual arrangements. From a civil law perspective, distribution agreements are categorized as unnamed agreements in accordance with Article 1319 of the Civil Code (Bustani & Wangsa, 2019). The parties in making a distribution agreement usually base it on the principle of freedom of contract as adopted by Article 1338 of the Civil Code (Moniung, 2015). This means that the parties are given the freedom to draft contract clauses, as long as they do not conflict with the law, public order, or morality. The freedom to formulate the contents of an agreement opens up opportunities to establish clauses on territorial exclusivity, after-sales service standards, and pricing systems, provided that they do not violate the principles of fair business competition or consumer protection provisions. The parties are still required to uphold the principle of freedom of contract and not to create clauses that could harm third parties, especially consumers. Therefore, contractual flexibility must always be balanced with legal restrictions that protect the interests of the public and consumers.

The division of obligations in distribution agreements is important to ensure the smooth circulation of products in the market. The main obligations of manufacturers, in addition to providing goods in accordance with the specifications and quality standards agreed upon in the agreement, also include the provision of all technical documents, such as user manuals, Indonesian National Standard (SNI) certificates, distribution permits, labels, and other requirements through mechanisms stipulated in regulations (Sumiyati, 2022). Manufacturers are required to provide accurate, clear, and non-misleading information about the product, including its composition, risks, warranty, and after-sales service. In addition, manufacturers have a responsibility to

develop distribution channels by providing training, legally compliant promotional materials, and ensuring that product distribution is carried out in accordance with the norms. Furthermore, manufacturers have an obligation to protect the agreed rights of distributors, such as territorial exclusivity, supply protection, and mechanisms for compensation in the event of defective products or recalls. Administrative aspects also require manufacturers to ensure compliance with sectoral legal provisions related to their products, such as food, pharmaceuticals, cosmetics, or medical devices, along with safety and quality guarantees and permits before they are widely distributed in the market. A concrete example of the implementation of this responsibility can be seen in pharmaceutical products, where the manufacturer's obligation to guarantee the safety and halal status of products is subject to special supervision by authorities such as the BPOM, as examined in its role in protecting Muslim consumers from non-halal medicines (Romli et al., 2023). Commitment to these sectoral regulations, particularly those related to accurate and informative labelling requirements, is a crucial instrument for protecting consumers while creating a healthy business competition climate, as analyzed in a study on the implementation of product labelling regulations (Purwanto et al., 2023). These obligations collectively demonstrate the strategic position of manufacturers as the primary parties responsible for the legality and safety of products.

Along with the responsibilities of manufacturers, distributors play an operational role that determines the effectiveness of distribution in the field. On the distributor side, their main obligation is to distribute products appropriately in accordance with the scope of the territory, segment, and provisions in the appointment agreement. Distributors are required to maintain the authenticity, integrity, and quality of products throughout the distribution chain, from storage and transportation to delivery to the end consumer. The provision of accurate product information and sales and promotional services that are not misleading are distributor obligations that must be clearly stipulated in the contract. Administrative obligations, such as handling related permits, reporting defective products, and actively participating in product recall processes, are an integral part of the distributor's role.

In civil law, distributors are required to fulfil obligations such as sales in accordance with contract targets, routine reporting, maintaining trade secrets and customer data, and complying with territorial exclusivity or valid non-competition provisions. Any

fundamental violation of these clauses may be classified as a breach of contract, entitling the manufacturer to claim damages or terminate the contract. In legal terms, a distributor is an independent trader or company and therefore acts on its own behalf and responsibility when signing a distribution agreement with a manufacturer or someone acting on behalf of the manufacturer (Nainggolan, 2020). A similar legal analysis emphasizing the legal responsibility of business actors for fulfilling their contractual obligations can be found in sales and purchase agreements, as reviewed by Aryanto, Darmawan et al. (2023) regarding consumer protection and the consequences of default. With their character as independent business actors, distributors bear the direct legal consequences of every performance of their obligations.

In order for the rights and obligations of the parties to be balanced, it is necessary to design a comprehensive distribution agreement. Distribution agreements require detailed and explicit contract substance in order to minimize the risk of legal conflicts. Essential clauses include the scope of appointment (territory, exclusivity), standards for the procurement of goods (minimum orders, delivery times, demand projections), pricing, discounts, and profit margins; compliance with product quality standards; after-sales service guarantees; reporting and auditing; and procedures for handling defective products or recalls. It is also important to include mechanisms for contract cancellation, force majeure, and dispute resolution, both through litigation and non-litigation, with the use of legal certainty and enforcement of decisions. The formulation of these detailed clauses aims to maintain the stability of the distribution relationship.

Outside of contractual relationships, consumer interests remain a focal point that needs to be considered. Consumer protection aspects have a central position in the entire product distribution scheme. Every business actor in the distribution chain, whether a manufacturer or distributor, is obliged to provide accurate information, prove efficacy and safety, and ensure that no part of the product or distribution activity misleads consumers. If losses are found to have resulted from defects in design, production or information, there is an obligation to provide compensation that cannot be reduced by the division of responsibility in the contract. Clauses in distribution agreements may regulate risk allocation and indemnity procedures, but they must not conflict with the absolute rights of consumers guaranteed by law. Consumer protection

also includes collaboration on labelling, product safety, and sectoral safety standards applicable to certain types of products. Thus, distribution contracts cannot be used as a tool to limit or eliminate consumer rights that are protected by law. The principle of the supremacy of consumer protection law over contractual clauses is also emphasized in a study of law implementation in the logistics services sector, which shows the obligation of business actors to take full responsibility for consumer losses (Supriyanto et al., 2023).

In addition to consumer protection, distribution practices are also monitored from a business competition perspective. In supervising distribution implementation, exclusivity clauses, price regulations and customer restrictions have become the subject of supervision by the business competition regime. The use of fixed price regulations, sales area restrictions, or the "most favored nation" system must be carefully measured so as not to cause unfair business competition. Regulators assess the proportionality and actual effects of these restrictions on market structure and dynamics, so that the provisions in distribution agreements must be flexible but based on principles of efficiency that can be objectively proven. This supervision emphasizes that freedom of contract is not absolute in market structures.

When the implementation of an agreement does not go as planned, a possible solution is through law enforcement mechanisms. In the event of a breach of a distribution agreement, the main enforcement mechanism is to utilize contractual instruments such as warnings, granting time for rectification, imposing fines/penalties, terminating the relationship, and proportional compensation rights. The dynamics and challenges in enforcing such contractual sanctions are issues that have also received attention in legal studies (Yunus et al., 2023), which reinforce the importance of this mechanism as a pillar in creating compliance. In some cases, violations can lead to administrative action by the government, revocation of licenses, or special sanctions if consumer protection is involved. The clarity of reporting clauses and forms of cooperation in coaching also strengthen distribution order and prevent distribution channel disputes that have a broad impact on the supply chain. Therefore, the effectiveness of enforcement is highly dependent on the clarity of the contract drawn up at the design stage.

The entire series of regulations ultimately aims at broader legal objectives. In general, all of the above regulations require compliance with the principles of legal certainty, fairness, and proportionality in the distribution of rights and obligations. With the

issuance of Law No. 8 of 1999 concerning Consumer Protection, it is hoped that this can be used as a valuable weapon for consumers to obtain legal certainty (Moertiono, 2020). Therefore, the drafting of detailed distribution agreements that comply with competition principles and consumer protection regulations, as well as orderly administration, are absolute requirements for a credible and sustainable product distribution ecosystem in Indonesia. With this applicable approach, distribution agreements not only function as a business tool but also as an instrument for ensuring legal order.

### **Implementation of Consumer Protection in Product Distribution Agreements in Indonesia**

In the practice of product distribution agreements, consumer protection must be placed first in the legal framework. Consumer protection in the practice of product distribution agreements in Indonesia is based on two legal foundations: the general principles of agreements in the Civil Code and the specific regulations set out in the consumer protection regime (Wahyuni, 2018). The first aspect of consumer protection is the issue of business actors' liability for consumer losses resulting from the sale and purchase of products. The priority in providing protection for consumers is the liability of producers and distributors for losses resulting from the products they produce (Latuperisa, 2023). At the level of contractual obligations or relationships, producers and distributors are bound by the obligation to act in good faith: to draft and implement agreements with due regard for consumer trust and interests. The provision of clear information, service quality, and complaint handling procedures are fundamental elements that directly affect consumer protection. Distribution contracts contain quality standards, promotion and sales provisions, and liability mechanisms in the event of product or service failure, with the aim of ensuring legal certainty for all parties in the distribution chain. On this basis, contractual relationships become an effort to realize consumer protection in distribution practices.

Beyond the general principles of agreements, consumer protection is strengthened through specific norms that explicitly regulate consumer rights. Specifically in the area of consumer protection, all business actors, including producers and distributors, have an absolute obligation to fulfil the basic rights of consumers as regulated by positive law: the right to safety, information, freedom of choice, and the right to submit complaints and obtain proportional resolution of complaints (Wibowo, 2020). The right to safety is realized by requiring the

distribution of products that meet relevant safety standards: from certification (e.g. SNI, distribution permits), labelling, to supply chain monitoring systems. Distribution contracts must regulate responsibility for product safety and handling of defects during the journey of goods to consumers. The right to information is realized by ensuring that product information is not misleading and is technically accountable; manufacturers and distributors must honestly and transparently disclose all product characteristics, risks, and warranty terms. The right to choose requires that goods be reasonably accessible without unreasonable restrictions, so that exclusivity clauses or vertical restrictions in agreements do not undermine consumers' opportunities to choose. The right to be heard relies on responsive and well-documented complaint channels, including service level agreement (SLA) systems, as well as thorough case handling. These rights collectively place consumers as the primary subjects who must be protected at every stage of distribution.

The fulfilment of consumer rights cannot be separated from responsible business practices throughout the distribution chain. The entire distribution chain is also required to implement business practices that do not distribute defective products, products that are not properly labelled, or promote products with unproven claims (Nurjanah & Paulus, 2022). Its implementation requires quality control, ongoing training for distribution channels, compliance audits, and neat documentation to maintain product traceability. In the event of a violation or consumer loss due to product defects or information, product liability must be actualized through repairs, replacements, product recalls, or compensation. This procedure is carried out through cooperation between producers, distributors, and, if necessary, supervisory authorities. With this mechanism, consumer protection does not stop at norms but can be realized through concrete corrective actions.

Consumer protection efforts are also supported by policies and programmed initiated by the government. Consumer protection in distribution practices is also strengthened by national strategies and government action plans that priorities improving the quality of complaint services, monitoring goods in circulation, and consumer education and literacy. Business actors are required to have adequate standard operating procedures for handling complaints, recalls, and transparency of price and quality information, so that the objectives of consumer rights protection are achieved

throughout the region. Improved access to consumer justice in consumer protection must be developed through effective dispute resolution institutions that can support the objectives of compensation, dispute resolution, behavioral change, and norm development, as well as provide confidence to consumers, business actors, and distributors (Matnuh, 2021). The role of this policy emphasizes that consumer protection is a shared responsibility between the state and business actors.

In the implementation of distribution agreements, consumer protection is reflected in the substance of the clauses agreed upon by the parties. In terms of contractual clause arrangements, distribution agreements must include provisions on quality, safety, labelling, promotion, after-sales service, and recall mechanisms that do not diminish consumers' legal rights. Pricing and exclusivity arrangements must not lead to anti-competitive practices, let alone mislead consumer segments or reduce access to relevant information. All references in the contract must be in line with corporate governance and business ethics that are industry standards and public policy. Thus, distribution contracts serve as a control instrument to ensure that business practices remain consumer-friendly.

The effectiveness of consumer protection clauses in distribution contracts is largely determined by the applicable law enforcement mechanisms. In enforcement, contractual mechanisms such as warnings, remediation, compensation, or termination are indeed the first line of defense. However, the effectiveness of consumer protection still depends heavily on a reliable and accessible dispute system. Consumers need to have access to reliable complaint services, open mediation opportunities, and fair remediation. To that end, harmonization between internal contracts and national complaint channels plays a key role in ensuring that consumer protection is not merely a formality, but is actually present in product distribution practices. The integration of these mechanisms ensures that consumer rights can be effectively enforced.

All consumer protection efforts require harmony between business interests and existing positive law. The core of the implementation of all consumer protection principles is the synchronization of business contract design with public law mandates. Consumer rights are used as parameters for drafting clauses, ranging from quality, labelling, promotion, to product recall procedures and compensation. The discipline of business actors in aligning operational standards with national consumer protection action plans ensures that

distribution does not only move goods, but also moves consumer safety and trust in the market. This approach emphasizes that consumer protection is an integral part of sound distribution governance.

In addition to formal legal mechanisms, community participation also plays a role in strengthening consumer protection. From a policy perspective, full support for consumer literacy and active participation in distribution oversight serves as a lever for social control outside of formal legal mechanisms. Community involvement in oversight, communication of aspirations, and education helps to close procedural gaps that may arise in an increasingly complex distribution system. Businesses that are adaptive to consumer legal protection demands also have the opportunity to maintain long-term loyalty and reputation. This condition shows that consumers are not only objects of protection, but also a priority in the market ecosystem.

In conclusion, consumer protection is the main benchmark for the quality of the national distribution system. Ultimately, sound distribution practices can only be realized if contracts, internal policies, and state oversight work together to promote safety, transparency, and fairness for consumers. The strategic role of producers and distributors in fulfilling their legal obligations while guaranteeing consumer rights is the foundation of a national distribution system oriented towards market protection and sustainability. Thus, product distribution is not merely an economic activity, but a means of creating a fair market.

## CONCLUSION

Consumer protection in product distribution agreements in Indonesia is based on two main layers,

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namely the general principles of agreements in the Civil Code and the consumer protection framework reinforced by sectoral laws and regulations. Both manufacturers and distributors have an obligation to ensure that the products and services provided to consumers meet safety, quality and information clarity standards. The implementation of product distribution not only concerns the legal transfer of goods, but also carries ethical and legal responsibilities to protect consumer rights, from the initial stage of contractual agreements to after-sales services and the handling of complaints and disputes.

The practice of drafting distribution agreements must be able to balance the interests of all parties: manufacturers, distributors, and consumers. Harmonization between contract clauses and public law provisions is an important tool for ensuring that distribution runs efficiently without compromising consumer protection. In the long term, the supremacy of consumer protection will strengthen public trust and encourage stability and growth in a competitive national business ecosystem.

The drafting and implementation of product distribution agreements in Indonesia requires a high level of discipline to uphold freedom of contract under the supervision of applicable regulations. Business actors are advised to proactively update their contracts to keep pace with legal developments, product standards, and consumer needs. The government and industry players need to strengthen education, legal literacy, distribution oversight, and access to consumer justice in order to maximize the achievement of protection objectives.

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