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Preliminary Injunctions

Eighth Circuit Affirms Preliminary Injunction Barring North Dakota from Implementing Amendments to its Farm Equipment Dealer Statute

In a 2-1 decision, the Eighth Circuit affirmed entry of an order enjoining enforcement of amendments to a North Dakota law governing contracts between dealers and manufacturers, finding that the amendments violated the rarely invoked Contracts Clause of the U.S. Constitution. *Ass'n of Equip. Mfrs. v. Burgum*, 2019 WL 3520578 (8th Cir. Aug. 2, 2019). The statutory amendments at issue prohibited manufacturers from imposing various contractual obligations, regulating dealership transfers, and imposing new requirements with respect to reimbursements to dealers for warranty repair. The amendments were retroactive, meaning they applied to existing contracts. A group of farm equipment manufacturers and their trade association sued in federal court in North Dakota seeking to enjoin enforcement of the amendments. The district court granted a preliminary injunction, holding that the manufacturers were likely to succeed on their argument that the amendments violated the Contract Clause because the law impaired existing contracts and constituted special-interest legislation unsupported by a significant and legitimate public purpose.

On appeal, the Eighth Circuit agreed that the law substantially impaired pre-existing manufacturer-dealer contracts and did not reasonably advance a significant and legitimate public purpose. The majority focused on the fact that the state bore the burden of proof in showing a significant and legitimate public purpose underlying the amendments, and concluded that the state's reliance on statements of individual legislators, lobbyists, and advocates was insufficient to carry the state's burden. While conceding that the amendments impaired existing contracts, the dissenting judge concluded that the record was sufficient to find that the legislature was pursuing a broad societal interest in enacting the law, and that the state thus met its burden of showing a significant and legitimate public purpose underlying the legislation.

This decision may signal renewed viability of Contracts Clause arguments by manufacturers and franchisors if and when legislation with similar retroactive effects is enacted in other states. On appeal, the IFA submitted an *amicus* brief in support of the manufacturers. While the preliminary injunction has been affirmed, the manufacturers' victory is not final because the case continues to be litigated on the merits.

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