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BLOGS

Terminations

Manufacturer Cannot Use State Relationship Law to Trump Contract Provisions More Favorable to Dealer

In *Continental Cars, Inc. v. Mazda Motor of America, Inc.*, 2011 U.S. Dist. LEXIS 101888 (W.D. Wash. Sept. 9, 2011), a federal court in Washington held that state regulations did not trump contractual terms that were more favorable to a dealer. The case was triggered by the felony conviction of the dealership's principal owner. Mazda then terminated the dealership pursuant to Washington law regulating relations between auto manufacturers and dealers, which provides for termination of the dealership for "good cause." The dealership agreement, on the other hand, provided for immediate termination based on a felony conviction of an owner only if the conviction resulted in a significant adverse effect on the manufacturer's reputation. The agreement provided greater protection for the dealer than the Washington statute, and the dealership claimed that it was entitled to this protection. The dealership brought an action for injunctive relief based on Mazda's breach of contract and violation of Washington's consumer protection act. Mazda claimed in defense that the state regulatory scheme was intended to be the exclusive remedy for dealerships.

The district court analyzed the intent of the Washington auto dealer regulatory scheme, finding the intent to be fairness to dealers due to the disparity of bargaining power with large auto manufacturers. The court determined that the regulatory framework was not intended to abrogate a dealer's contractual rights or preempt other statutory remedies, but merely expressed an intention to provide a "baseline" set of requirements for agreements between manufacturers and dealers. In denying Mazda's motion for judgment on the pleadings, the court found no other basis for exclusivity of the regulations and allowed the dealership to protest its termination by other remedies, including causes of action under the dealership agreement.