BLOGS

Contracts

Michigan Federal Court Dismisses Claims that Brewer Breached Requirements Contract by Reducing Purchases to Zero

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A federal court in Michigan recently dismissed a distributor's four-count complaint alleging that a brewer's drastic reduction of beer sales was in breach of a requirements contract. *Silver Foam Distr. v. Labatt Brewing Trading Co.*, 2021 WL 859043 (E.D. Mich. Mar. 8, 2021). Defendant SABMiller Canada (Miller) entered into a five-year service agreement with Plaintiff Silver Foam Distributing Company (Silver Foam) to ship Miller's beer from the United States to Canada. Silver Foam spent roughly $1 million on equipment, hired and trained employees, and signed a lease in order to perform under the agreement — a significant investment for which certain protections were built into the contract in case of termination. The parties operated under the agreement for approximately three years until Miller's parent company sold the beer brands being shipped under the agreement. As a result, Miller stopped using Silver Foam's shipping services. Silver Foam brought suit alleging that the service agreement was a requirements contract that required Miller to perform in good faith, and that Miller breached the agreement because it acted in bad faith when it reduced its requirement to zero. The court assumed without deciding that the agreement was a requirements contract but concluded that Miller did not act in bad faith because the sale of the brands was a legitimate business decision, and the court noted a well-established rule on good faith in the context of a requirements contract that allowed a business to drastically reduce its purchases, even to zero. The court also reasoned that Silver Foam's significant investment in equipment for this contract did not impact the good-faith standard because Silver Foam had been free to negotiate for a minimum monthly purchase, but the agreement lacked any such requirement.

The court also dismissed the remaining counts. Count II alleged that Miller terminated the agreement because it rendered itself unable to perform under the agreement yet failed to provide written notice of termination. The court determined that a written notice was required to terminate the agreement but that Miller had not terminated the agreement by setting its requirement to zero. As to Count III, the court rejected Silver Foam's argument that Miller breached the agreement by failing to pay amounts provided by the penalty clause. The court determined that, because the contract was never actually terminated, the penalty clauses were never triggered. Lastly, the court dismissed a claim for promissory estoppel because it concluded that the parties had an enforceable agreement that governed the dispute, and an
enforceable agreement barred a promissory estoppel claim.

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