

## BLOGS

State Franchise and Dealer Laws

# North Dakota District Court Enjoins Enforcement of Amended Farm Equipment Dealership Law

The U.S. District Court in Bismarck, North Dakota entered a preliminary injunction that enjoined the State of North Dakota from enforcing amendments to the North Dakota Farm Equipment Dealership Statute, which were enacted in Senate Bill 2289 (SB 2289) on March 16, 2017. *Association of Equipment Mfrs. v. Burgum*, No. 1:17-cv-151 (D.N.D. Dec. 14, 2017). The plaintiffs included several farm equipment manufacturers and the Association of Equipment Manufacturers. The defendants were the North Dakota Governor, and the dealer association that had drafted the legislation. The plaintiffs argued that SB 2289 violates the Contract Clause of the U.S. Constitution, the Federal Arbitration Act (FAA), and the Federal Trademark Act, among other violations, and that these claims warranted a preliminary injunction.

SB 2289 is the most oppressive dealer relationship legislation in the United States. It prohibits equipment manufacturers from: requiring a dealer to “unreasonably” remodel or relocate its facilities; imposing an “unreasonable, arbitrary, or unfair” service or performance standard on a dealer; or obligating a dealer to maintain certain stock or level of equipment. It also expressly permits dealers to transfer their dealer agreements without obtaining approval of their suppliers, so long as they provide notice to the manufacturer and the transferee meets the manufacturers’ “written, reasonable, and uniformly applied standards of qualification.” Restricting dealers from purchasing farm equipment from another manufacturer and requiring dealers to maintain exclusive facilities, personnel, or display space also is prohibited. Additionally, SB 2289 prohibits manufacturers from requiring either an out-of-state venue or arbitration in their dealer agreements, among other requirements. SB 2289 expressly states that these amendments would apply retroactively to pre-existing dealer agreements.

The court first held that the alleged Contract Clause violation was likely to succeed on the merits because SB 2289 substantially impairs existing contracts, was not foreseeable, and is “special interest legislation” that lacks a legitimate public purpose. The court further held that, because SB 2289 prohibits arbitration clauses and requires disputes to be resolved in courts in North Dakota, it is “unquestionably preempted” by the FAA. Because it determined that the plaintiffs were likely to succeed on their Contract Clause and FAA challenges, the court did not reach the Lanham Act claim. Finding that the remaining criteria for granting an injunction—irreparable harm and the balance of harms—were readily met, the court enjoined enforcement of SB 2289.

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