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BLOGS

Application of Franchise and Dealer Protection Laws

Third Circuit Holds PMPA Does Not Protect Dealer That Has No Direct Contractual Relationship

In *Kehm Oil Company v. Texaco, Inc.*, 2008 WL 2924954 (3d Cir. July 31, 2008), the Third Circuit held that Texaco, Inc. did not violate the Petroleum Marketing Practices Act because it no longer was in a franchise relationship with the dealers who operated Texaco branded gas stations. This decision is significant because it upholds the notion that a dealer cannot claim a “franchise relationship” exists when no contractual relationship with the franchisor has existed for many years.

In this case, the dealerships, owned by the same individual, entered into numerous franchise agreements with Texaco-owned entities starting in the 1960s. The final franchise agreement was signed with Motiva Enterprises, LLC, a joint venture between Texaco and the Shell Oil Company. Shortly thereafter, Texaco merged with Chevron Corporation and, as a condition of approval for the merger, Texaco divested its interest in Motiva and licensed its brand to Motiva through June of 2006. Motiva sent a letter to the dealers in 2002 notifying them that after June of 2006 it would no longer have a license in the Texaco brand. The dealers brought suit in June of 2006, and Texaco and other defendants were granted summary judgment on the grounds that the dealers failed to sue within the PMPA’s one-year limitations period. The court also granted defendant Chevron’s motion to dismiss for lack of personal jurisdiction.

The Third Circuit upheld the district court’s decision, finding that the dealers’ claims were untimely, because the final franchise agreement expired in 2003. Further, the court did not agree with the dealers who argued that a franchise relationship existed with Texaco until June of 2006. The court found that no franchise relationship existed because the last franchise agreement the dealers entered with Texaco expired in the 1980s. The court cited the U.S. Senate Report on the PMPA discussing what is covered by a “franchise relationship.” The court found that the Senate contemplated two specific scenarios encompassed by the term “franchise relationship,” including a scenario when a franchise agreement expires but must be renewed because the franchisee has satisfied certain conditions. The court differentiated this case from such a scenario holding that the franchise agreement did not simply expire because the last franchise agreement with Texaco had ended over 18 years ago.