

BLOGS

Franchise Associations

Third Circuit Reverses Dismissal of Franchise Association Claims, Concluding it Did Not Lack Standing

The Third Circuit Court of Appeals reversed a judgment dismissing claims brought by the New Jersey Coalition of Automotive Retailers against Mazda Motor of America under the New Jersey Franchise Practices Act. *N.J. Coal. of Auto. Retailers, Inc. v. Mazda Motor of Am., Inc.*, 957 F.3d 390 (3d Cir. 2020). In the underlying action, the Coalition (a trade association whose members consist of franchised new car dealerships in New Jersey, including 16 Mazda dealers) alleged Mazda's incentive program for its franchised dealers violates the New Jersey Franchise Practices Act in that it creates unfair competitive advantages for dealers who qualify for incentives. Based on a tiered system, Mazda's incentive program provides vehicle discounts and rebates to dealers that make certain capital investments in their facilities and/or exclusively sell Mazda vehicles. Three of the 16 Mazda dealers qualified for the highest tier of incentives and eight others qualified for some lower tier of incentives. The trial court granted Mazda's motion to dismiss on the grounds that the Coalition lacked association standing to bring the action because only five of the 16 Mazda dealers would benefit from the lawsuit. The Third Circuit reversed the judgment reasoning the trial court construed the Coalition's complaint too narrowly.

The trial court had concluded that, if the Coalition was granted the relief, 11 of the 16 Mazda dealers would lose the incentives they currently enjoy under the incentive program; therefore, the lawsuit is in conflict with the interests of those 11 dealers. Thus, the trial court held that the Coalition does not meet association standing requirements mandating an action to be in the interest of the majority of a trade association's members. The Third Circuit disagreed, finding it plausible that some members of the Coalition currently receiving incentives from Mazda may not be in favor of the incentive program. The Third Circuit posited that (1) the eight dealers receiving a lower tier of incentives may be opposed to the three dealers receiving the highest tier of incentives; and (2) many of the dealers, even those receiving the highest tier of incentives, may be opposed to the financial commitments required under the incentive program, but nevertheless feel pressured to participate in order to compete. Further, although Mazda provided declarations of five dealers in opposition to the lawsuit, the Third Circuit noted that five does not constitute a majority of the 16 Mazda dealers. In reversing the trial court's dismissal, the Third Circuit explicitly noted it was expressing no opinion as to the merits of this case or whether the complaint sufficiently stated a

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valid claim; rather, it was simply reversing the lower court's dismissal as to standing and remanding for further proceedings.