

A yellow right-angled triangle pointing towards the top-left corner.

BLOGS

Discrimination

First Circuit Affirms Lower Court's Decision That Franchisors Did Not Violate the PMPA

In *Santiago-Sepulveda v. Esso Standard Oil Co., Inc.*, 2011 U.S. App. LEXIS 8478 (1st Cir. Apr. 26, 2011), the First Circuit affirmed a lower court's decision in favor of franchisors Esso and Total Petroleum. Esso withdrew from the Puerto Rico market and sold its assets to Total. Total offered existing Esso franchisees its current form franchise agreements. Unhappy with those agreements, Esso franchisees sued for an injunction to prevent Esso from moving forward with the sale. They also argued that the terms offered by Total were not in good faith and discriminatory under the Petroleum Marketing Practices Act. The lower court ruled in Esso/Total's favor, holding that they complied with the PMPA. The court did, however, sever certain offending clauses in the Total franchise agreements that violated state law.

On appeal, the First Circuit noted that the franchisees' discrimination claim made at the trial court level differed factually from the one put forth on appeal. In the trial court, the franchisees claimed that the franchises being offered to them differed substantially from those of existing Total franchisees. On appeal, they alleged that the agreements varied among Esso franchisees. Some were required to put in a convenience store, while others were required to sign a non-compete agreement. Regardless, the appellate court ruled that Total's actions were not discriminatory under the PMPA: "'Congress did not intend 'not discriminatory' to mean that each service station operator must be offered a franchise with identical terms. A franchisor must be free to offer different terms at different franchise locations, depending on the economic conditions and forecast for that area.'" It further ruled that Total acted in good faith since the franchise agreements offered to Esso franchisees were Total's standard agreements.