

April 6, 2015

Opposition to HB 3162, Franchisee Bill of Rights, (-1) amendment

Dear Oregon House Committee on Business & Labor,

The International Franchise Association is opposed to the HB 3162 (-1) amendment, which has been proposed. The bill's stated purpose is to establish responsible franchise practices and protect franchisees from unfair practices in the sale and operation of franchised businesses. However, we are concerned the bill before you would accomplish the opposite of its intended effect. The bill would further complicate and undermine the regulatory system already in place that governs franchise relationship with vague language and unreasonable new regulations. If the measure were to pass, it would result in significant harm to the 10,000 franchise small businesses in Oregon, which generate over \$9.5 billion in economic output and employ over 114,000 workers.

Although we oppose the amendment in its entirety, we'd wish to mention some specific provisions that cause concern. Section 2(1)(a) of the proposed amendment provides an undefined requirement of "good faith" and "due care." This vague language would compound, rather than solve, the issues facing franchisors and franchisees when it comes to litigation, with the potential to damage a brand.

We'd like to bring several critical elements of the franchise business model to your attention for you to best understand our concerns. The franchise business model has provided many hard-working entrepreneurs with opportunities for success. One of the greatest advantages of the model is that it allows for system-wide standardization through the use of common suppliers. However, Section 2 (h)(C)(2)(c) of HB 3162 forbids franchisors from authorizing which suppliers their franchisees can use, undermining their ability to ensure that the products offered across their network meet the same standards of quality and consistency for consumers in Oregon. Furthermore, this lack of standardization would reduce franchisors' abilities to negotiate with suppliers for lower prices on bulk goods, potentially raising costs for both franchisors and franchisees.

Just as franchisors would be prevented from carrying out their responsibilities, franchisees would also be negatively impacted by this amendment. In Section 2(1)(e), franchisees would be barred from opening their business in a region with other franchisees if the new business might result in a reduction of sales by existing franchisees. Franchisees are small business owners. By barring these entrepreneurs from participating in a competitive marketplace, you not only limit their opportunity but also the opportunity of their customers to receive innovative, competitively priced, goods and services. Other provisions, like the requirement that a franchise must be renewed in perpetuity, would offer undue government interference into negotiations that should occur towards the end of a contract. The amendment also negates reasonable non-competition covenants that have always been enforced under Oregon law.

HB 3162 (-1) amendment's vague definitions and far-reaching regulations will create confusion, unnecessarily burden franchise small business owners and stifle growth, all while increasing the amount of franchise litigation in Oregon. We request your committee not move forward on this amendment.