# TERMINATING AUTHORIZED DEALERS IN CANADA: CONTRACT DISCIPLINE, NOTICE REASONABLENESS, AND THE COMPETITION ACT BACKSTOP

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**US Litigation and Dispute Resolution Alert**

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A pending motion in a recent dealer-termination dispute, filed before a Canadian court, offers a timely reminder for manufacturers and brand owners with Canadian-authorized dealer or distributor networks, and for the retailers and dealers who rely on them. While the facts below are drawn from allegations in a contested, unresolved motion for injunctive relief, the legal principles they raise have a well-established foundation in Canadian and Quebec law and warrant attention regardless of how this particular case is decided.

## THE DISPUTE

The retailer, a Montreal business that had been an authorized dealer of the brand for approximately 11 years, received a termination notice from the manufacturer citing only a “change in business strategy,” with an effective date timed to coincide with the season's first scheduled delivery of goods it had already ordered and, in part, paid for. The retailer alleges that after it demanded fulfillment of the pre-termination orders, the manufacturer raised new justifications for the first time, including quality concerns, in-store merchandising complaints, and payment history—grounds that the original notice did not mention. The retailer also alleges the termination coincides with the manufacturer's plans to open a competing, company-owned flagship store nearby.

Whatever the eventual outcome, the fact pattern highlights several recurring risk areas in terminating authorized dealer and distributor relationships, each of which merits separate consideration.

## TERMINATION OF THE RELATIONSHIP IS NOT THE SAME AS CANCELLATION OF ACCEPTED ORDERS

A notice terminating a dealer relationship and a decision to cancel specific, already-confirmed orders are legally distinct acts. Where a manufacturer has issued documents such as order acknowledgments confirming products, quantities, prices, and delivery dates, those confirmations may constitute binding sales contracts in their own right, obligations that can survive a general notice of termination unless the termination notice (or the underlying agreement) clearly addresses what happens to orders already in the pipeline. For this reason, distribution and dealer agreements should expressly address the treatment of accepted-but-undelivered orders on termination: whether the manufacturer must fulfill them, cancel them with compensation, or apply a wind-down mechanism.

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Silence invites exactly the kind of dispute described above, where a retailer argues that the manufacturer must honor accepted orders regardless of the timing or reason for the underlying relationship's termination.

## "REASONABLE NOTICE" IS A FACT-SPECIFIC INQUIRY, NOT A FIXED NUMBER OF DAYS

Under Quebec civil law, a party exercising the right to terminate a distribution or dealer relationship is subject to the duty of good faith codified in articles 6, 7, and 1375 of the Civil Code of Québec. Quebec courts have consistently held that this duty does not prevent a manufacturer from ending a relationship or from declining to renew a fixed-term agreement without cause, but it does inform the length and timing of the notice given, and a notice that abuses this standard or gives the dealer no genuine opportunity to transition may expose the manufacturer to damages.

Quebec civil law well establishes that a party may resiliate (i.e., unilaterally dissolve) a contract for an indeterminate term on reasonable notice, and courts assess the reasonableness of that notice through a fact-driven, contextual inquiry rather than a fixed formula.[1] Quebec courts assessing reasonableness have looked to factors including the duration and exclusivity of the relationship, the dealer's economic dependence on the supplier, the dealer's ability to find a replacement supplier or wind down its position, and the specific ordering and inventory cycle of the industry in question.[2] Quebec courts have found that notice that appears nominally lengthy but proves effectively meaningless—for example, where a dealer cannot reasonably keep ordering or promoting a product it knows the manufacturer will discontinue—amounts to no notice at all.

By contrast, Quebec appellate authority has upheld shorter notice periods, and even nonrenewal on short notice, where the manufacturer had a genuine, contemporaneously documented cause or where the dealer had breached an express contractual obligation, such as a noncompetition clause.[3] The core lesson: The seriousness and timing of the stated reason, and the length of notice relative to the dealer's actual ability to adjust, both matter. Before issuing a termination notice, manufacturers should therefore calibrate the notice period (and its effective date) against the realities of the dealer's ordering and inventory cycle, particularly in seasonal industries where preorder windows close months in advance, rather than defaulting to a standard contractual minimum without considering whether it is genuinely workable for the counterparty.

## CONSISTENCY BETWEEN STATED REASONS AND PRIOR CONDUCT

Quebec courts have recognized that a manufacturer need not justify a decision to terminate or decline to renew a dealer agreement, but that principle cuts both ways. As a matter of general principle under the good-faith and abuse-of-right framework codified in articles 6, 7, and 1375 of the Civil Code of Québec, where a manufacturer does offer a reason for termination and that reason contradicts its own conduct in the months beforehand (for example, having recently increased the dealer's allocation, elevated its status, or accepted substantial new orders), the inconsistency may tend to undermine the credibility of the stated justification and could support a finding of bad faith or abuse of right. As a general rule, Quebec courts have also shown reluctance, even where they find bad faith, to rewrite the parties' contract or compel continued dealing on the preexisting terms; the typical remedy for a bad-faith termination takes the form of damages rather than an order forcing the relationship to continue, although at least one Quebec court has flagged this question as unsettled in the specific context of an

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insolvency proceeding. This distinction matters in practice: A request to enforce specific orders the manufacturer already accepted before termination sits on firmer ground than a request to compel an ongoing or renewed dealership. Manufacturers should therefore build and preserve a complete, contemporaneous evidentiary record of any performance issues, quality escalations, or payment concerns as they arise, rather than assembling them retroactively after a dispute begins. A termination notice and the reasons the manufacturer later advances in litigation should tell one consistent story.

## THE COMPETITION ACT BACKSTOP

Beyond contract and civil law, Canadian competition law offers a further, narrower avenue relevant to network reorganizations: the refusal-to-deal provision in section 75 of the Competition Act. Under section 75, the Competition Tribunal (Tribunal) may order one or more suppliers to accept a person as a customer, on application by the Commissioner of Competition or by a private party granted leave to apply, where the Tribunal finds that specified statutory conditions are met, including that the applicant is substantially affected in its business due to an inability to obtain adequate supplies on usual trade terms because of insufficient competition among suppliers, that the applicant is willing and able to meet those usual trade terms, that the product is in ample supply, and that the refusal has or is likely to have an adverse effect on competition in a market.

Historically, private litigants have found this a difficult remedy to access: Applicants have filed only a small number of leave applications since Parliament of Cananda (Parliament) introduced private access in 2002, and the Tribunal has granted very few, in part because it has required applicants to show a substantial effect across their entire business, not merely a product line. Amendments to the Competition Act that came into force in June 2025 lower this bar significantly; applicants need now show a substantial effect on only part of their business, Parliament has introduced a new alternative public-interest test for leave, and, for the first time, successful private applicants may seek monetary relief (disgorgement of the benefit derived from the refusal) rather than only an order to supply. For retailers and dealers, refusal-to-deal relief therefore remains a demanding, secondary avenue rather than a substitute for a well-supported civil claim, but it now carries materially more consequence than it did before the 2025 amendments took effect. For manufacturers and brand owners, particularly those with a strong or dominant market position in a given product category, large-scale distribution network reorganizations, including the opening of company-owned, direct-to-consumer stores in markets served by existing dealers, now warrant a competition-law compliance check alongside the usual contract-law review, given the expanded scope for private enforcement and monetary exposure.[4]

## KEY TAKEAWAYS

Distribution and dealer agreements should expressly address the fate of accepted orders on termination, rather than leaving parties to litigate that question after the fact.

Manufacturers should test notice periods against the dealer's actual ordering and inventory cycle, not just against a contractual minimum.

Any stated reason for termination should align with the manufacturer's own contemporaneous conduct, and the manufacturer should document concerns as they arise rather than assembling them after a dispute begins.

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Parties undertaking significant network reorganizations, especially suppliers with strong market positions, should review their plans for Competition Act exposure in addition to ordinary contract-law risk, particularly in light of the 2025 amendments expanding private access and remedies under section 75.

The case described above is a pending, contested proceeding, and the allegations referenced are those of one party only. This alert is provided for general informational purposes and does not constitute legal advice on any specific matter.

## FOOTNOTES

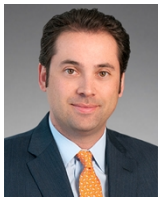
[1] *Uniprix Inc. v. Gestion Gosselin et Bérubé Inc.*, 2017 SCC 43.

[2] *See*, e.g., 9077-0801 *Québec inc. v. Société des loteries vidéo du Québec Inc.*, 2012 QCCA 885.

[3] *Bombardier Produits récréatifs inc. v. Christian Moto Sport Inc.*, 2012 QCCA 1670 (upholding a manufacturer's nonrenewal decision founded on a documented breach of an exclusivity clause).

[4] Budget Implementation Act, 2024, No. 1, S.C. 2024, c. 15, amending ss. 75 and 103.1 of the Competition Act, R.S.C. 1985, c. C-34.

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