ARBITRATION

FEDERAL COURTS MAY NOT CREATE ARBITRATION-SPECIFIC VARIANTS OF FEDERAL PROCEDURAL RULES, LIKE THOSE CONCERNING WAIVER, BASED ON THE FAA'S "POLICY FAVORING ARBITRATION"

Morgan v. Sundance, Inc., 596 U.S. ___ (2022).
https://www.supremecourt.gov/opinions/21pdf/21-328_m6ho.pdf

FACTS: Petitioner Robyn Morgan worked as an hourly employee at a Taco Bell franchise owned by respondent Sundance, Inc.. As part of her employment, Morgan was a party to an arbitration agreement for any employment disputes. Nevertheless, Morgan brought a nationwide collective action against Sundance in federal court for violations of the Fair Labor Standards Act, alleging Sundance circumvented paying mandatory overtime by recording hours worked in one week as instead worked in another to prevent exceeding a total of forty hours.

Sundance initially defended Morgan's suit as if no arbitration agreement existed. Sundance moved to dismiss the suit, but was denied by the district court. Sundance answered Morgan's complaint with 14 defenses with no reference to the arbitration agreement. Sundance moved to stay the litigation and compel arbitration under Sections 3 and 4 of the FAA. The district court found that Sundance had waived its right to arbitration. The court of appeals disagreed and sent Morgan's case to arbitration.
HOLDING: Vacated and remanded.
REASONING: Morgan argued that Sundance waived its right to arbitrate by litigating for so long. The district court applied a test that finds waiver of arbitration when a party knowingly acts inconsistently with its right to arbitrate, therefore prejudicing the other party with its inconsistent actions. The circuit court adopted this prejudice requirement based on the FAA's federal policy favoring arbitration. Waiver outside of the arbitration context does not involve an inquiry into prejudice. The rule that prejudice be a condition to waiver of arbitration is not found in other circuit courts.

The Court held that federal courts may not create arbitration-specific variants of federal procedural rules based on the FAA's policy favoring arbitration. The circuit court was wrong to condition a waiver of the right to arbitrate on a showing of prejudice. Finally, the FAA bars the use of custom-made rules to tilt the playing field in favor of, or against, arbitration. It instructs that prejudice is not a condition of finding that a party, by litigating too long, waived its right to stay litigation or compel arbitration under the FAA.

SUPREME COURT RULES WORKERS WHO LOAD AND UNLOAD CARGO ARE "ENGAGED IN FOREIGN OR INTERSTATE COMMERCE," AND FEDERAL ARBITRAION ACT DOES NOT APPLY

Southwest Airlines Co. v. Saxon, 596 U.S. ___ (2022).
https://www.supremecourt.gov/opinions/21pdf/21-309_o758.pdf

FACTS: Respondent, Latrice Saxon ("Saxon"), is a ramp supervisor for Plaintiff, Southwest Airlines ("Southwest"). Southwest employs "ramp agents" that physically load and unload baggage, along with "ramp supervisors," who train and supervise ramp agents. Ramp supervisors also frequently load and unload cargo alongside the ramp agents. As part of Saxon's employment contract, she agreed to arbitration for wage disputes individually. Saxon brought a putative class action against Southwest under the Fair Labor Standards Act of 1938. Southwest moved to dismiss by enforcing the employment agreement arbitration provision under the Federal Arbitration Act ("FAA"). Saxon responded by claiming that ramp supervisors were a "class of workers engaged in foreign or interstate commerce" and, therefore, were exempt from the FAA's coverage.

The Court found that any class of workers directly involved in transporting goods across state or international borders fell within the exemption.

The district court held that only those involved in actual transportation, rather than just the mere handling of goods, fell within the exemption. The court of appeals reversed, holding that at the time of the FAA's enactment it was understood that loading cargo onto a vehicle to be transported interstate was itself commerce. Because the Seventh Circuit's decision conflicted with a previous decision of the Fifth Circuit, the Supreme Court granted certiorari.
HOLDING: Affirmed.
REASONING: Saxon argued that ramp supervisors were exempt from the FAA because they fell within a "class of workers engaged in foreign or interstate commerce." 9 U.S.C. § 1.

The Court utilized a plain meaning interpretation of 9 U.S.C. § 1. The Court found that the phrase "class of workers" was to be based upon what Saxon did at Southwest, rather than what Southwest did as a whole. They found that Saxon, as a ramp supervisor, belonged to a class of workers who physically load and unload cargo, since Southwest did not meaningfully contest that ramp supervisors did this.

The Court found that airplane cargo loaders were engaged in foreign or interstate commerce. In determining this issue, it deployed a statutory interpretation that equated "engaged in" with "occupied," "employed," or "involved in." The Court interpreted "commerce" to mean, among other things, "the transportation of. . . goods, both by land and by sea." Thus, the Court found that any class of workers directly involved in transporting goods across state or international borders fell within the exemption. Because Saxon frequently loaded and unloaded cargo on and off airplanes that traveled in interstate commerce, she belonged to a "class of workers engaged in foreign or interstate commerce." Thus, the FAA did not apply, and the Court affirmed the judgment of the court of appeals.

DETERMINING WHETHER A CLAIM INVOLVING A NONSIGNATORY MUST BE ARBITRATED IS A GATEWAY MATTER FOR THE TRIAL COURT

DIRECT BENEFITS ESTOPPEL APPLIES TO PARTIES WHO SEEK TO DERIVE A DIRECT BENEFIT FROM A CONTRACT WITH AN ARBITRATION AGREEMENT

TO INVOKE DIRECT BENEFITS ESTOPPEL BASED ON A NONSIGNATORY'S ACTIONS APART FROM THE LITIGATION, A PARTY MUST SHOW THAT THE NONSIGNATORY "DELIBERATELY S[OUGHT] AND OBTAIN[ED] SUBSTANTIAL BENEFITS FROM THE CONTRACT"

Travelers Indem. Co. v. Alto ISD, ___ S.W.3d ___ (Tex. App. 2022).
https://casetext.com/case/travelers-indem-co-v-alto-isd

FACTS: Plaintiff-Appellee Alto ISD ("Alto ISD") entered into a property insurance policy ("Policy") with Texas Rural Education Association Risk Management Cooperation ("TREA"). TREA subsequently obtained reinsurance from Defendant-Appellant, Travelers Indemnity Company ("Travelers"). The contract ("Reinsurance Contract") between TREA and Travelers conditioned any right of action under the contract to compelled arbitration. The insured property of Alto ISD was damaged and after Alto ISD received what they deemed to be inadequate funds from Travelers, it filed claims against Travelers and TREA. Alto ISD claimed against Travelers common law fraud, conspiracy to commit fraud, misrepresentation, negligence, and violation of the Texas Unfair Compensation and Unfair Practices Act and the DTPA. The trial court denied Travelers' motion to dismiss or stay the litigation. Travelers appealed.
HOLDING: Affirmed.
REASONING: Travelers argued that Alto ISD's claims were subject to arbitration per the Reinsurance Contract because direct benefits estoppel applied and the claims arose out of the Reinsurance Contract. The court deferred to the trial court's factual determinations but reviewed the legal determinations de novo because "determining whether a claim involving a nonsignatory must be arbitrated is a gateway matter for the trial court." This means the determination is reviewed de novo.

Generally, no party may be compelled to arbitrate unless they assented to arbitration. However, under direct benefits estoppel, arbitration is compelled on a nonsignatory who (1) sought to derive a direct benefit from the contract through the lawsuit or (2) deliberately s[ought] and obtain[ed] substantial direct benefit from the contract[.]" Here, because all of Alto ISD's claims were rooted in extracontractual statutory and common law torts committed by Travelers under the Policy, the court held Alto ISD did not seek to derive direct benefit from the Reinsurance Contract through the lawsuit. Further, the court held that Alto ISD did not deliberately seek and obtain substantial benefits from the Reinsurance Contract because prior to receiving Travelers Funds pursuant to the Policy Alto ISD had not sought direct benefits from the Reinsurance Contract. Therefore, direct benefits estoppel could not be invoked.

INTRASTATE DELIVERY DRIVERS BOUND BY THEIR ARBITRATION AGREEMENTS

Archer v. GrubHub, Inc., 596 U.S. ___ (2022).
https://casetext.com/case/archer-v-grubhub-inc

FACTS: Grubhub, Inc., ("Defendant") distributed an arbitration agreement to its delivery drivers ("Plaintiffs") through an online portal. The arbitration agreement included a provision requiring Plaintiffs to submit all past and present disputes related to employment or separation of employment, including claims of retaliation and wages or other compensation, to final and binding arbitration. The arbitration agreement provided that the terms of the agreement were governed by the FAA and included a class action waiver.

Plaintiffs filed suit against Defendant in the Massachusetts Superior Court, alleging violations of the Wage Act, the Tips Act, and the Minimum Wage Act, and that Defendant unlawfully retaliated against drivers who complained about their wages. Defendant filed a motion to compel arbitration and to dismiss the complaint. The court denied Defendant's motions. The court found that Plaintiffs entered into the arbitration agreement, but concluded that Plaintiffs, by virtue of their transportation and delivery of prepackaged food items, some of which were manufactured outside Massachusetts, fell within the definition of "any other class of workers engaged in foreign or interstate commerce" who are exempt from arbitration under § 1 of the FAA. Defendant appealed and the court, sua sponte, transferred the case from the Appeals court to the United States Supreme Court.

The Court reasoned that the subsequent journey of the goods in the hands of Defendant's drivers was not part of the ongoing and continuous interstate flow of such goods.

HOLDING: Reversed and remanded.
REASONING: Plaintiffs argued they were within the residual category of §1 of the FAA because they are transportation workers who transport and deliver goods, such as prepackaged chips or soda, in the flow of interstate commerce. The Court rejected both arguments.

One is engaged in interstate commerce when actively engaged in the transportation of goods across borders via the channels of foreign or interstate commerce. Here, Plaintiffs transported goods that had already completed the interstate journey by the time the goods arrived at the restaurant, delicatessen, or convenience store to which they were sent. The Court reasoned that the subsequent journey of the goods in the hands of Defendant's drivers was not part of the ongoing and continuous interstate flow of such goods. As such, Plaintiffs do not fall within the exclusion of §1 of the FAA.

ARBITRATOR DID NOT "MANIFESTLY DISREGARDED" THE LAW OR THE PARTIES' AGREEMENT, AND DID NOT EXCEED HIS POWERS

Bayside Constr. LLC v. Smith, ____ F.3d ____ (3d Cir. 2022).
https://cases.justia.com/federal/appellate-courts/ca3/21-2716/21-2716-2022-07-08.pdf

FACTS: Defendants-Appellants John and Sarah Smith owned a house in the U.S. Virgin Islands and hired Plaintiff-Appellee Bayside Construction LLC ("Bayside") to repair hurricane damage on their home. Their contract ("Agreement") obligated Bayside to provide labor, material, and equipment for the repair work in exchange for the Smiths' progress payments. After Bayside began the work and collected the first two progress payments, the Smiths expressed their dissatisfaction with the work and refused to pay Bayside the remaining progress payments. Bayside filed a contractor's lien for the balance of the contract price. The Smiths alleged Bayside was in default for defective work and did not allow Bayside to cure the default, as required by the Agreement.

Bayside filed an arbitration demand, claiming damages for the termination of the Agreement and the arbitrator concluded the Smiths breached the Agreement and awarded Bayside damages. Bayside petitioned the district court to confirm the award while the Smiths moved to vacate it. The court granted Bayside's petition and denied the Smiths' motion. The Smiths appealed.
HOLDING: Affirmed.
REASONING: The Smiths claimed that the arbitrator manifestly disregarded Virgin Islands law and exceeded his powers by awarding Bayside damages. The Smiths asserted that the award did not cite Virgin Islands law. Virgin Islands law would excuse the Smiths' duty to pay the award to Bayside because Bayside's partial breach affected the entirety of the work contemplated in the Agreement.

The court disagreed, identifying two reasons why the arbitrator correctly awarded Bayside damages, although the award did not cite Virgin Islands law. First, under Virgin Islands law, Bayside's partial breach did not justify the non-performance of the Smiths' remaining duty because the breach was not material and Bayside was not allowed to cure the purported default.

Second, the arbitrator did not exceed his power to issue an award because the Agreement allowed Bayside to be made whole for its completed work, even if some of the work was substandard. The arbitrator appropriately deducted the costs the Smiths would incur to redo the "shoddy" work. The award was consistent with the authority of the Virgin Islands and rationally derived from the Agreement.

PRO SE PLAINTIFF IS REQUIRED TO ARBITRATE

Fayez-Olabi v. Credit Acceptance Corp., ____ F. Supp.3d____ (E.D.N.Y. 2022).
https://law.justia.com/cases/federal/district-courts/new-york/nyedce/2:2021cv05443/470132/10/

FACTS: Pro se plaintiff Donovan Fayez-Olabi ("Plaintiff") bought a used vehicle from the Credit Acceptance Corporation ("Defendant"). Plaintiff made a $3,000 down payment and signed a contract with Defendant to establish a payment plan for the remaining balance. The contract included an arbitration clause that had been expressly ratified by Plaintiff. Plaintiff failed to follow the payment schedule in the contract and as a result of its past-due status, Defendant closed Plaintiff's account.

Plaintiff filed claims against Defendant under the FDCPA and the Fair Credit Reporting ("FCRA"). The case was transferred to the district court. Defendant moved to enforce the arbitration clause.
HOLDING: Granted.
REASONING: Plaintiff did not file a response to Defendant's motion to enforce arbitration, so there was no clear objection to the arbitration. However, the court had to determine if the claims brought by Plaintiff were appropriate for arbitration as a legal matter, or if they must be litigated in front of the court. The court considered three questions: (1) did the parties agree to arbitrate, (2) was the dispute within the scope of the arbitration agreement, and (3) did Congress carve out an exception for the dispute, excluding it from arbitration?

The court determined that Plaintiff's claims were within the scope of the arbitration clause because the plain language used by the parties conveyed their intent.

First, the court found that the parties did have an agreement to arbitrate. Defendant's compelling of arbitration met the required preponderance of evidence standard under New York law in providing a signed copy of the agreement to arbitrate. Second, the court determined that Plaintiff's claims were within the scope of the arbitration clause because the plain language used by the parties conveyed their intent. The court found that the expansive language in the arbitration clause encompassed Plaintiff's FDCPA and FCRA claims. The court additionally found that there was no legislative preemption for Plaintiff's claims to prevent arbitration because Congress had not exempted FDCPA and FCRA claims from arbitration. Third, the court found that the arbitration clause was not invalidated by Plaintiff's fraud allegations. The fraud-in-the-inducement claim did not prevent arbitration because the contract allowed for claims against the validity of the contract to be solved in arbitration. The fraud-in-the-factum claim did not prevent arbitration because Plaintiff failed to sufficiently allege an issue of material fact about the existence of the contract.