



The *InterConnect* FLASH!

Practical Bursts of Information Regarding Critical Independent Contractor Relationships

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FLASH NO. 71 INDEPENDENT CONTRACTOR/OWNER-OPERATORS: EXEMPT FROM ARBITRATION FOR DISPUTE RESOLUTION

On January 15, 2019, in a very disappointing decision for the trucking industry regarding the application of arbitration provisions in motor carrier-independent contractor service agreements, the U.S. Supreme Court unanimously determined that independent contractor/owner-operators are “transportation workers” engaged in interstate commerce and thus are exempt from the Federal Arbitration Act (“FAA”). *New Prime, Inc. v. Oliveira*¹

Section 1 of the FAA exempts the use of arbitration as a dispute resolution mechanism for “contracts of employment” of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce. Mr. Oliveira, as an individual, was a party to an independent contractor/owner-operator service agreement with New Prime, a motor carrier, and personally provided the services under the agreement. At some point in the relationship, he sought to challenge, in court, his classification as an independent contractor claiming he was actually an employee of New Prime. The agreement between Mr. Oliveira and New Prime contained an arbitration provision as the dispute resolution mechanism between the parties. Thus, after several years of litigation, two specific questions were presented and decided by the Court: (1) whether a dispute over the applicability of the Section 1 exemption must be resolved by an arbitrator or by a court and (2) whether the Section 1 exemption covers motor carrier-independent contractor/owner-operator service agreements.²

To the disappointment of the trucking industry, the Court unanimously held that courts should first determine whether the parties’ contract falls within the FAA’s scope or whether the Section 1 exemption applies, and as a result Mr. Oliveira may pursue his worker misclassification claim in the courts.³ The Court relied upon a very broad interpretation of the words contained in Section 1 of the FAA while reflecting on the intent of Congress in 1925 when the FAA was enacted, and determined that the exemption in the FAA for interstate transportation workers applies to all such workers whether they are classified as employees or independent contractors.

In explaining its decision, the Court indicated that when the FAA was enacted in 1925 a “contract of employment” meant nothing more than an agreement to perform work. The Court then concluded that, as a result, most people would have understood Section 1 to exclude not only agreements between employers and employees but also agreements that also require independent contractors to perform work. The Court also noted that use of the term “workers” in Section 1 and not “employees” or “servants” supports the Court’s broad interpretation. Thus, the Court’s position is that legal disputes between motor carriers and independent contractors cannot be forced into arbitration under federal

law even if the independent contractor's operating agreement includes an arbitration clause.

This conclusion was generally unexpected by the industry and has significant, far-reaching consequences for motor carriers that operate an independent contractor model and rely on arbitration, on an individual basis, for dispute resolution. Certain segments of the motor carrier industry that rely the most heavily on independent contractors, such as intermodal drayage carriers, will be acutely affected.

Fortunately, the Court did leave open the possibility that arbitration agreements could be enforceable under other "potential avenues" apart from the FAA. For instance, most states have enacted laws that favor enforcement of arbitration agreements. Moreover, these state laws do not necessarily contain the same broad exemption for transportation "workers" that exists under the FAA. Consequently, motor carriers that seek to use arbitration agreements as part of their independent contractor program should closely examine applicable state law.

In any event, this decision reflects a seeming trend in the legal landscape of court decisions that are affecting independent contractor programs where there is a one-on-one relationship between a motor carrier and an independent contractor/owner-operator who performs services personally. Earlier this year we saw the *Dynamex* decision (which also involved a one-on-one relationship between an individual and the motor carrier) produce a "sea change" for purposes of determining proper worker classification, and that line of cases has taken on a life of its own.⁴ In the *Oliveira* decision, where there was an individual independent contractor/owner-operator contracting with the motor carrier, the Supreme Court had little problem in finding that this putative self-employed business individual was a mere transportation worker under the FAA. Thus, motor carriers operating with independent contractor relationships would be well served to review such relationships and take the requisite steps to "elevate" them to bona fide arms-length business-to-business relationships.

The Benesch Transportation and Logistics group is well positioned to assist motor carriers who might be inclined to revisit their relationships with independent contractors and work toward a goal of avoiding not only the pitfalls of the *Oliveira* decision, but also the *Dynamex* cloud that is hovering over the landscape.

For more information, contact:

Marc S. Blubaugh at mblubaugh@beneschlaw.com or (614) 223-9382

Marc is a partner and Co-Chair of the firm's Transportation & Logistics Practice Group. Marc has litigated a wide variety of transportation and logistics-related cases in state and federal courts throughout the country. He also regularly consults with clients regarding contracting practices and operating procedures, helps clients navigate the changing regulatory landscape, manages regulatory investigations, advises regarding best supply-chain practices, and provides strategic and business advice to help clients not only minimize liability but, just as importantly, to grow their businesses.

Richard A. Plewacki at rplewacki@beneschlaw.com or (216) 363-4159

Richard is a partner with the firm's Litigation and Transportation & Logistics Practice Groups. He has been in the transportation and logistics industry, both as a businessman and an attorney, for over 45 years during which he has been heavily involved with the IC model within the trucking industry. His practice also includes advising and representing motor carriers, leasing companies, third party logistics providers, national shippers, large private fleets and water carriers in the domestic, non-contiguous trade lanes.

Matthew J. Selby at mjelby@beneschlaw.com or (216) 363-4458

Matt is Of Counsel in the firm's Transportation & Logistics Practice Group. He currently advises and represents a variety of transportation based organizations including motor carriers, leasing companies, third party logistics providers, regional and national shippers, large private fleets, both domestically and internationally. He has experience with independent contractor

issues/owner-operator issues, shipper/carrier matters, industry specific litigation, transportation related service agreements, freight claims, mergers and acquisitions, insurance, licensing and permitting.

Verlyn Suderman at vsuderman@beneschlaw.com or (312) 212-4962

Verlyn is Of Counsel in Benesch's Transportation & Logistics Practice Group. Before joining Benesch, he served for almost 20 years as in-house counsel for two third-party logistics providers, providing strategic direction and guidance as a key member of senior management. Verlyn brings a business person's perspective to the practice of law, having had responsibility not only for law and regulatory functions, but also for real estate, strategy, relationship management, pricing, and operations during those 20 years. He currently advises and represents a variety of transportation and contract logistics providers and supply chain functions, and has substantial experience with customer and supplier agreements, warehouse and transportation claims, and independent contractor/owner-operator issues.

¹ *New Prime, Inc. v. Oliveira*, No. 17-340, 586 U.S. ___, (Jan. 15, 2019) https://www.supremecourt.gov/opinions/18pdf/17-340_o7kq.pdf.

² Interestingly, the Supreme Court did not rule on the substantive worker misclassification issue as it merely focused on the procedural issue.

³ The vote was 8-0 as Justice Kavanaugh had not been appointed at the time of oral argument and, notably, Justice Ginsburg filed a concurring opinion.

⁴ *Dynamex Operations West, Inc. v. The Superior Court of Los Angeles County*, 4 Cal. 5th 903 (2018) (In choosing which standard should apply to determine the proper classification of workers in the Wage Order context, the California Supreme Court favored the bright-line "ABC Test" over the long recognized multifactor test. For more detail on this decision see: "The *Dynamex* Decision: Will It Be a Catalyst or Will It Be Contained?" *InterConnect*, www.beneschlaw.com (2018) <https://www.beneschlaw.com/Files/Publication/aa046948-9444-48b8-96b8-a477cb15c189/Presentation/PublicationAttachment/99bfd8a8-043c-4645-89a3-41030065639d/Benesch%20InterConnect%20Summer%202018.pdf>.

Additional Information

For additional information, please contact:

Transportation & Logistics Practice Group

Eric L. Zalud, *Chair* at (216) 363-4178 or ezalud@beneschlaw.com

Marc S. Blubaugh, *Co-Chair* at (614) 223-9382 or mblubaugh@beneschlaw.com

Michael J. Barrie at (302) 442-7068 or mbarrie@beneschlaw.com

Kevin M. Capuzzi at (302) 442-7063 or kcapuzzi@beneschlaw.com

Kristopher J. Chandler at (614) 223-9377 or kchandler@beneschlaw.com

Justin P. Clark at (216) 363-4616 or jclark@beneschlaw.com

John C. Gentile at (302) 442-7071 or jgentile@beneschlaw.com

Joseph N. Gross at (216) 363-4163 or jgross@beneschlaw.com

Matthew D. Gurbach at (216) 363-4413 or mgurbach@beneschlaw.com

Jennifer R. Hoover at (302) 442-7006 or jhoover@beneschlaw.com

Trevor J. Illes at (312) 212-4945 or tilles@beneschlaw.com

Thomas B. Kern at (614) 223-9369 or tkern@beneschlaw.com

Peter N. Kirsanow at (216) 363-4481 or pkirsanow@beneschlaw.com

David M. Krueger at (216) 363-4683 or dkrueger@beneschlaw.com

Charles B. Leuin at (312) 624-6344 or cleuin@beneschlaw.com

Michael J. Mozes at (614) 223-9376 or mmozes@beneschlaw.com

Kelly E. Mulrane at (614) 223-9318 or kmulrane@beneschlaw.com

Margo Wolf O'Donnell at (312) 212-4982 or modonnell@beneschlaw.com

Steven A. Oldham at (614) 223-9374 or soldham@beneschlaw.com

Lianzhong Pan at (86 21) 3222-0388 or lpan@beneschlaw.com

Martha J. Payne at (541) 764-2859 or mpayne@beneschlaw.com

Stephanie S. Penninger at (312) 212-4981 or spenninger@beneschlaw.com

Joel R. Pentz at (216) 363-4618 or jpentz@beneschlaw.com

Richard A. Plewacki at (216) 363-4159 or rplewacki@beneschlaw.com

Julie M. Price at (216) 363-4689 or jprice@beneschlaw.com

Matthew (Matt) J. Selby at (216) 363-4458 or mselby@beneschlaw.com

Peter K. Shelton at (216) 363-4169 or pshelton@beneschlaw.com

Verlyn Suderman at (312) 212-4962 or vsuderman@beneschlaw.com

Clare R. Taft at (216) 363-4435 or ctaft@beneschlaw.com

Jonathan Todd at (216) 363-4658 or jtodd@beneschlaw.com

www.beneschlaw.com

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