

California Public Policy Invalidates Parties' Choice-of-Law Agreement, Federal Appeals Court Holds

March 22, 2012

Practices

Litigation

A Georgia choice-of-law provision in a contract entitled, “Independent Truckman’s Agreement,” between California truck drivers and a Georgia company was unenforceable based on California public policy, the federal appeals court in San Francisco has held. *Ruiz v. Affinity Logistics Corp.*, 667 F.3d 1318 (9th Cir. 2012). The Court also ruled that California law applied in determining whether the drivers were employees or independent contractors. Vacating the lower court’s judgment in favor of a Georgia transportation company in a wage-hour class action suit, the Court remanded the case to the lower court for further proceedings to determine whether the drivers were employees or independent contractors.

Background

Affinity Logistics Corporation provides home delivery and logistics services to various home furnishing retailers. To work as an Affinity driver, individuals must enter into an “Independent Truckman’s Agreement and Equipment Lease Agreement” with the company. The agreement provided that drivers were independent contractors and that Georgia law applied to the agreement and any disputes arising from it.

Truck driver Fernando Ruiz entered into such an agreement with Affinity to work as a driver for the company in California. He subsequently filed a class action suit against Affinity for, among other things, unpaid wages and overtime in violation of the Fair Labor Standards Act and the California Labor Code.

The district court held that, under California’s choice-of-law rules, Georgia law applied to determine whether the drivers were employees of Affinity. Georgia law recognized a presumption of independent contractor status, which Ruiz did not rebut. Thus, the court determined that Ruiz properly was classified as an independent contractor. Ruiz appealed, arguing that the district court erred in concluding that Georgia law applied.

California’s Choice-of-Law Rules

When analyzing contract choice-of-law provisions in California, a court first must determine “whether the chosen state has a substantial relationship to the parties or their transaction, or ... whether there is any other reasonable basis for the parties’ choice of law.” *Nedlloyd Lines B.V. v. Superior Court*, 834 P.2d 1148, 1152 (Cal. 1992). Next, the court must consider whether applying another jurisdiction’s law is contrary to a fundamental policy of California and whether California had a materially greater interest in resolution of the issue.

California Law vs. Georgia Law

Although Georgia had a substantial relationship to the parties because Affinity was incorporated in Georgia and had its principal office there, the appeals court pointed out that Georgia law was contrary to California’s fundamental policy of protecting its workers. In this case, under Georgia law, unless rebutted by the drivers, the drivers were presumed to be independent contractors. Under California law, however, once the employees show that they have provided services, they have established an employment relationship. The burden then shifts to the employer to prove that the employees are independent contractors. According to the Court, the conflict between Georgia and California law created vastly different “starting points” for the drivers and they are at a disadvantage under Georgia law.

The California Supreme Court has instructed that when determining employment status, courts must defer to “the remedial statutory purpose” behind the statute the plaintiff seeks to enforce. *S.G. Borello & Sons, Inc. v. Dep’t of Indus. Rel.*, 769 P.2d 399, 404-05 (Cal. 1989).

Under California law, a court must consider (and give deference to) the protective legislation designed to aid employees in determining employment status. No such consideration was required under Georgia law. Thus, the Court concluded that applying Georgia law would contravene California’s public policy of

protecting its workers.

In addition, California had a materially greater interest than Georgia in the outcome of the case, the Court ruled. The drivers contracted with Affinity in California, made deliveries for Affinity in California, and resided in California. The company did not produce any evidence suggesting Georgia had a material interest in the case's resolution. The Court concluded the Georgia choice-of-law provision was unenforceable and that, under California's choice-of-law rules, California law applied. Accordingly, it vacated the district court judgment, remanded the case, and ordered the court to apply California law to determine whether the drivers were employees or independent contractors.

Implications

Choice-of-law agreements are difficult to enforce in California, particularly in cases involving workers' rights under the state Labor Code and where the connection to the other state is limited. Businesses should weigh the risks and costs of non-compliance with California's labor and employment laws against other factors, such as the need for uniform treatment of workers across state lines, industry-wide practices, and potential litigation in other jurisdictions, before using a non-California choice-of-law provision.

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