Stewart Organization, Inc. v. Ricoh Corporation

487 US 22 (1988)

Justice MARSHALL delivered the opinion of the Court.

This case presents the issue whether a federal court sitting in diversity should apply state or federal law in adjudicating a motion to transfer a case to a venue provided in a contractual forum-selection clause.

I

The dispute underlying this case grew out of a dealership agreement that obligated petitioner company, an Alabama corporation, to market copier products of respondent, a nationwide manufacturer with its principal place of business in New Jersey. The agreement contained a forum-selection clause providing that any dispute arising out of the contract could be brought only in a court located in Manhattan.[1] Business relations between the parties soured under circumstances that are not relevant here. In September 1984, petitioner brought a complaint in the United States District Court for the Northern District of Alabama. The core of the complaint was an allegation that respondent had breached the dealership agreement, but petitioner also included claims for breach of warranty, fraud, and antitrust violations.

Relying on the contractual forum-selection clause, respondent moved the District Court either to transfer the case to the Southern District of New York under 28 U.S.C. § 1404(a) or to dismiss the case for improper venue under 28 U.S.C. § 1406. The District Court denied the motion. It reasoned that the transfer motion was controlled by Alabama law and that Alabama looks unfavorably upon contractual forum-selection clauses. The court certified its ruling for interlocutory appeal, see 28 U.S.C. § 1292(b), and the Court of Appeals for the Eleventh Circuit accepted jurisdiction.

On appeal, a divided panel of the Eleventh Circuit reversed the District Court. The panel concluded that questions of venue in diversity actions are governed by federal law, and that the parties' forum-selection clause was enforceable as a matter of federal law. 779 F.2d 643 (1986). … After petitioner successfully moved for rehearing en banc, 785 F.2d 896 (1986), the full Court of Appeals proceeded to adopt the result, and much of the reasoning, of the panel opinion. 810 F.2d 1066 (1987).[2] The en banc court, citing Congress' enactment or approval of several rules to govern venue determinations in diversity actions, first determined that "[v]enue is a matter of federal procedure." *Id.*, at 1068. The Court of Appeals then applied the standards articulated in the admiralty case of *The Bremen v. Zapata Off–Shore Co.*, 407 U.S. 1 (1972), to conclude that "the choice of forum clause in this contract is in all respects enforceable generally as a matter of federal law...." 810 F.2d, at 1071. We now affirm under somewhat different reasoning.

II

Both the panel opinion and the opinion of the full Court of Appeals referred to the difficulties that often attend "the sticky question of which law, state or federal, will govern various aspects of the decisions of federal courts sitting in diversity." 779 F.2d,

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[1] Specifically, the forum-selection clause read: "Dealer and Ricoh agree that any appropriate state or federal district court located in the Borough of Manhattan, New York City, New York, shall have exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and shall be a proper forum in which to adjudicate such case or controversy."

[2] Judge Tjoflat … argued that the District Court should have taken account of, and ultimately should have enforced, the forum-selection clause in its evaluation of the factors of justice and convenience that govern the transfer of cases under 28 U.S.C. § 1404(a). There also was a dissenting opinion by five members of the Eleventh Circuit, who argued that state law should govern the dispute and warned that the application of federal law would encourage forum shopping and improperly undermine Alabama policy.

at 645. A district court's decision whether to apply a federal statute such as § 1404(a) in a diversity action,[3] however, involves a considerably less intricate analysis than that which governs the "relatively unguided *Erie* choice." *Hanna v. Plumer*, 380 U.S. 460, 471 (1965) (referring to *Erie R. Co. v. Tompkins*, 304 U.S. 64 (1938)). Our cases indicate that when the federal law sought to be applied is a congressional statute, the first and chief question for the district court's determination is whether the statute is "sufficiently broad to control the issue before the Court." *Walker v. Armco Steel Corp.*, 446 U.S. 740, 749–750 (1980); *Burlington Northern R. Co. v. Woods*, 480 U.S. 1, 4–5 (1987). This question involves a straightforward exercise in statutory interpretation to determine if the statute covers the point in dispute. See *Walker v. Armco Steel Corp., supra*, 446 U.S., at 750, and n. 9.[4] See also *Burlington Northern R. Co. v. Woods, supra,* at 7 (identifying inquiry as whether a Federal Rule "occupies [a state rule's] field of operation").

If the district court determines that a federal statute covers the point in dispute, it proceeds to inquire whether the statute represents a valid exercise of Congress' authority under the Constitution. See *Hanna v. Plumer, supra,* 380 U.S., at 471.[5] If Congress intended to reach the issue before the District Court, and if it enacted its intention into law in a manner that abides with the Constitution, that is the end of the matter; "[f]ederal courts are bound to apply rules enacted by Congress with respect to matters ... over which it has legislative power." *Prima Paint Corp. v. Flood & Conklin Mfg. Co.,* 388 U.S. 395, 406 (1967); cf. *Hanna v. Plumer, supra,* 380 U.S., at 471 ("When a situation is covered by one of the Federal Rules ... the court has been instructed to apply the Federal Rule, and can refuse to do so only if the Advisory Committee, this Court, and Congress erred in their prima facie judgment that the Rule in question transgresses neither the terms of the Enabling Act nor constitutional restrictions").[6] Thus, a district court sitting in diversity must apply a federal statute that controls the issue before the court and that represents a valid exercise of Congress' constitutional powers.

III

Applying the above analysis to this case persuades us that federal law, specifically 28 U.S.C. § 1404(a), governs the parties' venue dispute.

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[3] [footnote omitted]

[4] Our cases at times have referred to the question at this stage of the analysis as an inquiry into whether there is a "direct collision" between state and federal law. See, e.g., *Walker v. Armco Steel Corp.*, 446 U.S., at 749; *Hanna v. Plumer*, 380 U.S. 460, 472 (1965). Logic indicates, however, and a careful reading of the relevant passages confirms, that this language is not meant to mandate that federal law and state law be perfectly coextensive and equally applicable to the issue at hand; rather, the "direct collision" language, at least where the applicability of a federal statute is at issue, expresses the requirement that the federal statute be sufficiently broad to cover the point in dispute. See *Hanna v. Plumer*, *supra*, at 470. It would make no sense for the supremacy of federal law to wane precisely because there is no state law directly on point.

[5] *Hanna v. Plumer, supra,* identifies an additional inquiry where the applicability of a Federal Rule of Civil Procedure is in question. Federal Rules must be measured against the statutory requirement of the Rules Enabling Act that they not "abridge, enlarge or modify any substantive right...." 28 U.S.C. § 2072.

[6] If no federal statute or Rule covers the point in dispute, the district court then proceeds to evaluate whether application of federal judge-made law would disserve the so-called "twin aims of the Erie rule: discouragement of forum-shopping and avoidance of inequitable administration of the laws." *Hanna v. Plumer, supra,* at 468. If application of federal judge-made law would disserve these two policies, the district court should apply state law. See *Walker v. Armco Steel Corp., supra,* 446 U.S., at 752–753.

A

At the outset we underscore a methodological difference in our approach to the question from that taken by the Court of Appeals. The en banc court determined that federal law controlled the issue based on a survey of different statutes and judicial decisions that together revealed a significant federal interest in questions of venue in general, and in choice-of-forum clauses in particular. The Court of Appeals then proceeded to apply the standards announced in our opinion in *The Bremen v. Zapata Off–Shore Co.*, 407 U.S. 1,[7] to determine that the forum-selection clause in this case was enforceable. But the immediate issue before the District Court was whether to grant respondent's motion to transfer the action under § 1404(a),[8] and … the immediate issue before the Court of Appeals was whether the District Court's denial of the § 1404(a) motion constituted an abuse of discretion. Although we agree with the Court of Appeals that the *Bremen* case may prove "instructive" in resolving the parties' dispute … we disagree with the court's articulation of the relevant inquiry as "whether the forum selection clause in this case is unenforceable under the standards set forth in *The Bremen*." 810 F.2d, at 1069. Rather, the first question for consideration should have been whether § 1404(a) itself controls respondent's request to give effect to the parties' contractual choice of venue and transfer this case to a Manhattan court. For the reasons that follow, we hold that it does.

B

Section 1404(a) provides: "For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought." Under the analysis outlined above, we first consider whether this provision is sufficiently broad to control the issue before the court. That issue is whether to transfer the case to a court in Manhattan in accordance with the forum-selection clause. We believe that the statute, fairly construed, does cover the point in dispute.

Section 1404(a) is intended to place discretion in the district court to adjudicate motions for transfer according to an "individualized, case-by-case consideration of convenience and fairness." *Van Dusen v. Barrack,* 376 U.S. 612, 622 (1964). A motion to transfer under § 1404(a) thus calls on the district court to weigh in the balance a number of case-specific factors. The presence of a forum-selection clause such as the parties entered into in this case will be a significant factor that figures centrally in the district court's calculus. In its resolution of the § 1404(a) motion in this case, for example, the District Court will be called on to address such issues as the convenience of a Manhattan forum given the parties' expressed preference for that venue, and the fairness of transfer in light of the forum-selection clause and the parties' relative bargaining power. The flexible and individualized analysis Congress prescribed in § 1404(a) thus encompasses consideration of the parties' private expression of their venue preferences.

Section 1404(a) may not be the only potential source of guidance for the District Court to consult in weighing the parties' private designation of a suitable forum. The premise of the dispute between the parties is that Alabama law may refuse to enforce forum-selection clauses providing for out-of-state venues as a matter of state public

[7] In *The Bremen*, this Court held that federal courts sitting in admiralty generally should enforce forum-selection clauses absent a showing that to do so "would be unreasonable and unjust, or that the clause was invalid for such reasons as fraud or overreaching." 407 U.S. at 15.

[8] The parties do not dispute that the District Court properly denied the motion to dismiss the case for improper venue under 28 U.S.C. § 1406(a) because respondent apparently does business in the Northern District of Alabama. See 28 U.S.C. § 1391(c) (venue proper in judicial district in which corporation is doing business).

policy.[9] If that is so, the District Court will have either to integrate the factor of the forum-selection clause into its weighing of considerations as prescribed by Congress, or else to apply, as it did in this case, Alabama's categorical policy disfavoring forum-selection clauses. Our cases make clear that, as between these two choices in a single "field of operation," *Burlington Northern R. Co. v. Woods,* 480 U.S., at 7, the instructions of Congress are supreme. Cf. *ibid.* (where federal law's "discretionary mode of operation" conflicts with the nondiscretionary provision of Alabama law, federal law applies in diversity).

It is true that § 1404(a) and Alabama's putative policy regarding forum-selection clauses are not perfectly coextensive. Section 1404(a) directs a district court to take account of factors other than those that bear solely on the parties' private ordering of their affairs. The district court also must weigh in the balance the convenience of the witnesses and those public-interest factors of systemic integrity and fairness that, in addition to private concerns, come under the heading of "the interest of justice." It is conceivable in a particular case, for example, that because of these factors a district court acting under § 1404(a) would refuse to transfer a case notwithstanding the counterweight of a forum-selection clause, whereas the coordinate state rule might dictate the opposite result.[10] ... But this potential conflict in fact frames an additional argument for the supremacy of federal law. Congress has directed that multiple considerations govern transfer within the federal court system, and a state policy focusing on a single concern or a subset of the factors identified in § 1404(a) would defeat that command. Its application would impoverish the flexible and multifaceted analysis that Congress intended to govern motions to transfer within the federal system. The forum-selection clause, which represents the parties' agreement as to the most proper forum, should receive neither dispositive consideration (as respondent might have it) nor no consideration (as Alabama law might have it), but rather the consideration for which Congress provided in § 1404(a). Cf. *Norwood v. Kirkpatrick,* 349 U.S. 29, 32 (1955) (§ 1404(a) accords broad discretion to district court, and plaintiff's choice of forum is only one relevant factor for its consideration). This is thus not a case in which state and federal rules "can exist side by side ... each controlling its own intended sphere of coverage without conflict." *Walker v. Armco Steel Corp.,* 446 U.S., at 752.

Because § 1404(a) controls the issue before the District Court, it must be applied if it represents a valid exercise of Congress' authority under the Constitution. The constitutional authority of Congress to enact § 1404(a) is not subject to serious question. ... Section 1404(a) is doubtless capable of classification as a procedural rule, and indeed, we have so classified it in holding that a transfer pursuant to § 1404(a) does not carry with it a change in the applicable law. See *Van Dusen v. Barrack,* 376 U.S., at 636–637 ("[B]oth the history and purposes of § 1404(a) indicate that it should be regarded as a federal judicial housekeeping measure"). It therefore falls comfortably within Congress' powers under Article III as augmented by the Necessary and Proper Clause. See *Burlington Northern R. Co. v. Woods,* supra, at 5, n. 3.

We hold that federal law, specifically 28 U.S.C. § 1404(a), governs the District Court's decision whether to give effect to the parties' forum-selection clause and transfer this case

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[9] [footnote omitted]

[10] The dissent does not dispute this point, but rather argues that if the forum-selection clause would be unenforceable under state law, then the clause cannot be accorded any weight by a federal court. … Not the least of the problems with the dissent's analysis is that it makes the applicability of a federal statute depend on the content of state law. See n. 4, *supra*. If a State cannot pre-empt a district court's consideration of a forum-selection clause by holding that the clause is automatically enforceable, it makes no sense for it to be able to do so by holding the clause automatically void.

to a court in Manhattan.[11] We therefore affirm the Eleventh Circuit order reversing the District Court's application of Alabama law. The case is remanded so that the District Court may determine in the first instance the appropriate effect under federal law of the parties' forum-selection clause on respondent's § 1404(a) motion.

It is so ordered.

Justice KENNEDY, with whom Justice O'CONNOR joins, concurring.

I concur in full. I write separately only to observe that enforcement of valid forum-selection clauses, bargained for by the parties, protects their legitimate expectations and furthers vital interests of the justice system. Although our opinion in *The Bremen v. Zapata Off–Shore Co.*, 407 U.S. 1, 10 (1972), involved a Federal District Court sitting in admiralty, its reasoning applies with much force to federal courts sitting in diversity. The justifications we noted in *The Bremen* to counter the historical disfavor forum-selection clauses had received in American courts, *id.*, at 9, should be understood to guide the District Court's analysis under § 1404(a). …

Justice SCALIA, dissenting [on the basis that there is no "direct collision" between Alabama's anti-forum selection clause policy and § 1404, and that a federal judge-made rule would, under *Erie*, be an improper encroachment on state law on the validity of forum-selection clauses]

[11] [footnote omitted]