Admiralty Practicum

May 1983 Article 4

CTI-Container Leasing Corporation v. Oceanic Operations Corporation, United States Court of Appeals, Second Circuit, 28 June 1982, 682 F.2d 377

CTI-CONTAINER LEASING CORPORATION v. OCEANIC OPERATIONS CORPORATION
United States Court of Appeals, Second Circuit, 28 June 1982
682 F.2d 377

A lease that contemplates shipboard use of cargo containers that are also suitable for overland transportation is a maritime contract subject to the admiralty jurisdiction of the federal courts.

FACTS: CTI-Container Leasing Corporation ("CTI") and Oceanic Operations Corporation ("Oceanic") entered into a written lease agreement in November 1977. Neither party owns or operates ships: CTI leases cargo shipping containers and Oceanic is an agent for several steamship lines. The containers were to be delivered by CTI in Norfolk, Virginia and were to be returned to CTI by Oceanic in Manilla, Philippines. In July 1978 the containers were seized by the Philippine government because the Philippine consignee failed to pay custom duties. The containers were held by the Philippine government for almost three years. During the Philippine government's retention of the containers, Oceanic paid the agreed rental only until May 1980 (the containers were not returned to CTI until April 1981).

CTI brought the present action against Oceanic to recover unpaid rental, 1980-1981. CTI also sought repair charges stemming from Oceanic's alleged failure to return the containers in undamaged condition. Oceanic protested admiralty jurisdiction on the grounds that the lease was not a maritime contract. Additionally, Oceanic disclaimed liability, since they had been acting solely as an agent for Ocean Transport Lines, Inc. ("Ocean Transport"). CTI was granted a partial summary judgment on the issue of liability. Oceanic's motion for dismissal for lack of subject matter jurisdiction was denied. Oceanic appealed, renewing its contention that the agreement sued upon was not a maritime contract. Oceanic argued that there were disputed questions of material fact regarding liability.

ISSUE: Is a contract for the lease of cargo shipping containers maritime, so that a suit for breach is properly within admiralty jurisdiction?

ANALYSIS: The court of appeals concluded that a contract for the lease of cargo shipping containers is a maritime contract. The court of appeals stated the Supreme Court's definition, traced its application, and applied it to the present case.

In ***Kossick v. United Fruit Co.,*** 365 U.S. 731, the Supreme Court adopted Benedict's definition of a maritime contract as one that "relates to a ship in its use as such, or to commerce or to navigable waters, or to transportation by sea or to maritime employment, or as one for the furnishing of services, supplies or facilities to vessels ... in maritime commerce or navigation." ***CTI.*** 682 F.2d at 379. The court maintained that if "the transaction relates to ships and vessels, masters and mariners, as agents of commerce..." the contract can be maritime. ***Kossick,*** 365 U.S. at 736.

The court commented on the ability of shipping containers to be used in two or more modes of transportation (air, rail, marine and motor). The court also analyzed how the containers have been characterized as a modern substitute for the hold of the vessel, functionally equivalent to a part of the ship. Noting that a shipowner's lease of containers has been held to be a maritime contract in ***Integrated Container Service v. Starlines Container Shipping Ltd.,*** 476 F.Supp. 119 (S.D.N.Y. 1979), the Second Circuit agreed that a lease of cargo containers for use on a ship is a maritime contract.

Oceanic argued that since containers may be used in other modes of transport, such as by freighter airplane or truck or train, the containers could have been used for purposes other than ocean transport. Therefore the lease had no inherently maritime attribute. Upon examining the record, the court of appeals decided that the district court properly viewed the lease as indicating that the containers would be transported by ship.

Noting that the lease called for delivery of the containers by the lessor in the U.S. and return of them to the Philippines, the court of appeals concluded that overseas transport was contemplated. Further, the court noted that clause 12 of the lease refers to "points or ports" of original delivery and redelivery. ***CTI,*** 682 F.2d at 381. This reference implies sea transport. Otherwise, the clause would have referred to air terminals. The court also mentioned that clause 8 of the lease refers to "particular average and general averages," *Id.* These concepts have special applicability to sea ventures. The fact that the leasee was an agent for several steamship lines at all relevant times, with no indication that it acted as an agent for railroads, trucking companies, or airlines, further aided the decision that the containers would be transported by ship.

Oceanic attempted to avoid liability on the ground that it disclosed in the lease negotiations that the real lessee of the containers, a commercial shipowner, was to be its principal. The court of appeals rejected this defense and affirmed the district court's decision not to admit oral disclosures by the lessee. However, the court did examine the lessee's statements on the nature of the contract. Since the lessee correctly conceded that a lease of containers to its principal would have been a maritime contract, the court stated that "it sees no basis in logic to conclude that the present lease was not a maritime contract merely because the principal chose to acquire the containers through an agent." ***CTI,*** 682 F.2d at 381.

Peter A. McLauchlan '85