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Navigating the Murky Waters of Admiralty and Bankruptcy Law

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Navigating the Murky Waters of Admiralty and Bankruptcy Law

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When U.S. bankruptcy law converges with federal admiralty law, complex jurisdictional conflicts and constitutional issues arise. This Article explores the history of how courts have treated the intersection of these two complex bodies of federal law, with a particular focus on Article III of the United States Constitution in the wake of the United States Supreme Court's decision Stern v. Marshall. *Because this fundamental issue regarding the power of bankruptcy courts to adjudicate admiralty matters may have a significant practical effect on maritime creditors, it is important that maritime practitioners be cognizant of the principles of bankruptcy jurisdiction. The Article further discusses certain aspects of complex commercial bankruptcy that are relevant to maritime practitioners, providing explanation of the impact of various bankruptcy issues in the maritime context.*

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I. INTRODUCTION

Throughout the history of the United States, the maritime industry has witnessed booms and then busts, which result in maritime insolvencies. The maritime practitioner needs to be aware of issues that arise in a maritime bankruptcy resulting from the interplay of maritime and bankruptcy law and should further be aware of the key aspects or stages in such bankruptcies affecting their client's interests. Maritime bankruptcies have generated numerous complex legal issues and jurisdictional conflicts that have perplexed the courts and implicated significant constitutional issues.[1]

II. HISTORY OF CONSTITUTIONAL INTERPLAY BETWEEN BANKRUPTCY AND ADMIRALTY JURISDICTION

Over the years courts have acknowledged a murky relationship between admiralty jurisdiction and bankruptcy jurisdiction.[2] This jurisdictional quandary stems from Article III of the United States Constitution, as well as the concurrent (and sometimes inconsistent) policies of U.S. maritime law and bankruptcy law. While U.S. maritime law provides uniform and harmonious laws for international and interstate relations,[3] U.S. bankruptcy law purports to establish national uniformity as to insolvency matters, rehabilitation of debtors, and fair and equitable distribution to creditors.[4]

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1. Universal Oil Ltd. v. Allfirst Bank (*In re* Millennium Seacarriers, Inc.), 419 F.3d 83, 87, 2005 AMC 1987, 1990 (2d Cir. 2005).

2. 1 THOMAS J. SCHOENBAUM, ADMIRALTY AND MARITIME LAW § 9-9 (5th ed. 2011).

3. *See* U.S. CONST. art. III, § 2, cl. l; Am. Dredging Co. v. Miller, 510 U.S. 443, 446, 1994 AMC 913, 915 (1994).

4. U.S. CONST. art. I, § 8, cl. 4 ("Congress shall have Power To . . . establish uniform Laws on the subject of Bankruptcies throughout the United States."); Marrama v. Citizens Bank of Mass., 549 U.S. 365, 367 (2007); McCafferty v. McCafferty, 96 F.3d 192, 196 (6th Cir. 1996).

Maritime practitioners need to be cognizant that thorny constitutional issues and competing national policies meet and intersect in a maritime bankruptcy. There may appear to be superficial congruity between bankruptcy and admiralty law, for example, because bankruptcy cases and admiralty foreclosure proceedings are both in rem proceedings.[5] Nevertheless, their coexistence is somewhat uncomfortable—while the Constitution provides that admiralty matters are to be heard by Article III judges, bankruptcy proceedings are most often heard by non-Article III bankruptcy judges pursuant to federal statute and the local rules of federal district courts.[6] A maritime practitioner who receives a notice of bankruptcy stay may simply want to ignore this conundrum and "go along for the ride," but for the unwary, this could result in their losing the right to have the client's claim heard by an Article III judge.

A. Admiralty and Bankruptcy Courts Generally

Article III of the Constitution vests jurisdiction over cases and controversies involving admiralty matters explicitly in those courts created by Congress.[7] Although jurisprudence over the years has recognized that exclusive jurisdiction to hear admiralty and maritime cases may not be the rule in *all* maritime cases and controversies, there are certain classes of these cases that are only cognizable by a federal admiralty court.[8] Specifically, courts in cases involving questions of acquiring title or enforcing or executing on maritime liens have held that such matters belong exclusively in admiralty and that only an Article III admiralty court has exclusive jurisdiction.[9]

Jurisdiction over admiralty cases was granted to the federal district courts pursuant to the Judiciary Act of 1789,[10] with the present iteration of that grant codified at 28 U.S.C. § 1333.[11] Section 1333 also provides, in what is called the savings-to-suitors clause, that in certain types of maritime cases, state courts may "adopt such remedies, and

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5. *See* 1 SCHOENBAUM, *supra* note 2, § 9-9 (discussing the similarities between an in rem proceeding and a bankruptcy court).

6. Tenn. Student Assistance Corp. v. Hood, 541 U.S. 440, 446 (2004).

7. U.S. CONST. art. III, § 1.

8. Universal Oil Ltd. v. Allfirst Bank (*In re* Millennium Seacarriers, Inc.), 419 F.3d 83, 92, 2005 AMC 1987, 1996 (2d Cir. 2005).

9. *See* Am. Dredging Co. v. Miller, 510 U.S. 443, 446-47, 1994 AMC 913, 915-16 (1994); *see also* The Moses Taylor, 71 U.S. (4 Wall.) 411, 415 (1866).

10. Judiciary Act of 1789, ch. 20, 1 Stat. 73.

11. 28 U.S.C. § 1333 (2006); Frank R. Kennedy, *Jurisdictional Problems Between Admiralty and Bankruptcy Courts*, 59 TUL. L. REV. 1182, 1183-84 (1985).

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