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## Supreme Court Limits Punitive Damages in *Exxon Valdez* Lawsuits

Nearly 20 years ago, the *Exxon Valdez* ran aground off the Alaskan coast, spilling millions of gallons of crude oil into Prince William Sound. Thousands of commercial fishermen, property owners and businesses brought suit against Exxon to recover for economic losses related to the spill. At trial, a jury found the *Valdez*'s Captain and Exxon to have acted recklessly, and awarded \$507.5 million in compensatory damages and \$5 billion in punitive damages. The punitive damages were reduced to \$2.5 billion on appeal in 2006. Exxon again appealed in 2007, seeking to set aside the punitive damages award.

In *Exxon Shipping Co. v. Baker*, the Supreme Court addressed three separate questions: whether maritime law allows for corporate liability for punitive damages on the basis of acts of managerial agents, whether the Clean Water Act preempts punitive damages in maritime spill cases, and whether the punitive damages awarded against Exxon are excessive under maritime common law. On June 25, 2008, the Supreme Court vacated the punitive damages award and remanded the case, limiting recovery of punitive damages to \$507.5 million, an amount equal to the total compensatory damages awarded.

The trial court and Ninth Circuit initially held that Exxon would be liable for the actions of the master of the *Exxon Valdez*, whom the plaintiffs alleged was drunk at the time of the incident and had acted recklessly in causing the spill. Exxon argued that vessel owners should not be held liable for punitive damages based on the actions of a ship's master, unless the owner had directed, countenanced, or participated in the allegedly reckless action. The plaintiffs countered that corporations did not need to direct any actions of a master to be held liable, as was the law in many land-based tort regimes. The Supreme Court justices equally divided on this issue, as Justice Alito did not participate in this decision. The Ninth Circuit's decision, allowing for punitive damages against a vessel owner based upon the acts of the vessel's master, was thus upheld.

Also addressed in the opinion was whether the Clean Water Act, which creates civil penalties for companies involved in oil spills, displaces punitive damages in such cases. The Supreme Court rejected this preemption of punitive damages, finding that in passing the Clean Water Act, Congress did not intend to displace common law remedies for those damaged in oil pollution cases and that the act did not affect the outcome of this litigation.



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Finally, Exxon argued that the \$2.5 billion punitive damages award was excessive under maritime law. The Court reviewed the dual rationales for punitive damages – punishment and deterrence – and surveyed the various punitive damage laws in the United States and abroad. The Court noted that Exxon did not profit from its reckless actions, had paid significant civil penalties for the incident, and had not acted intentionally or maliciously in causing the oil spill. From these facts and a desire to create predictability in awarding punitive damages, the Court ruled that punitive damages should not exceed compensatory damages in this type of maritime case, creating an *upper-limit* ratio of punitive damages to compensatory damages of 1:1. The Supreme Court vacated the \$2.5 billion punitive damages award, and remanded the case for consideration of a new punitive damages award, not to exceed \$507.5 million.

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