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Supreme Court Reaffirms *Stolt-Nielsen* And Holds That Class Arbitration Requires The Parties' Unambiguous Consent

***Lamps Plus, Inc. v. Varela*, No. 17-988**

Decided April 24, 2019

Today, the Supreme Court held 5-4 that the Federal Arbitration Act (FAA) preempts state laws that require class arbitration where an arbitration agreement is ambiguous as to whether the parties consented to such a procedure.

Background:

In *Stolt-Nielsen S.A.* v. *AnimalFeeds International Corp.*, 559 U.S. 662 (2010), the Supreme Court held that a party may not be compelled to submit to class arbitration if the parties' agreement does not clearly evidence that the party agreed to do so. Here, the parties disputed whether their agreement could be read to allow class arbitration. The defendant argued that the agreement required individual arbitration because it provided that the plaintiff must arbitrate claims or controversies that "I may have against the Company." The plaintiff argued that the agreement was ambiguous because it provided that "arbitration shall be in lieu of any and all lawsuits or other civil legal proceedings." Agreeing with the plaintiff, the Ninth Circuit found the agreement ambiguous. And because the agreement was governed by California law, the Ninth Circuit applied the state-law principle that contractual ambiguities are resolved against the drafter to hold that the agreement should be interpreted to require the defendant to submit to class arbitration.

Issue:

Whether the Federal Arbitration Act forecloses a state-law interpretation of an arbitration agreement that would authorize class arbitration based solely on general language commonly used in arbitration.

"The [Federal Arbitration Act] requires more than ambiguity to ensure that the parties actually agreed to arbitrate on a classwide basis."

Chief Justice Roberts, writing for the majority

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Court's Holding:

Yes. The FAA preempts state laws that would "impose class arbitration in the absence of the parties' consent," and courts may not rely on state contract law to "infer from an ambiguous agreement that the parties have consented to arbitrate on a classwide basis."

What It Means:

- The Court's opinion reaffirms *Stolt-Nielsen*'s observation that class arbitration is fundamentally different from bilateral arbitration, and that bilateral arbitration is the default mode of arbitrating under the FAA. If parties wish to resolve disputes in arbitration on a classwide basis, their arbitration agreement must unambiguously so provide. As the Court noted, "[l]ike silence, ambiguity does not provide a sufficient basis to conclude that parties to an arbitration agreement agreed to 'sacrifice[] the principal advantage of arbitration'" by agreeing to classwide arbitration.
- The Court's decision also makes clear that the FAA preempts state laws that conflict with the strong federal policy favoring bilateral arbitration. Courts "may not rely on state contract principles to 'reshape traditional individualized arbitration by mandating classwide arbitration procedures without the parties' consent.'"
- The Court's decision is a victory for defendants who are party to an arbitration agreement that is silent or ambiguous as to class arbitration. The decision should help to ensure that defendants cannot be forced into unfair or inefficient class arbitration proceedings against their will.

Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding developments at the Supreme Court. Please feel free to contact the following practice leaders:

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