SAINT PAUL LEGAL LEDGER
MINNESOTA LAWYER
MINNLAWYER.COM Part of the BridgeTower Media network MONDAY | JULY 15, 2024

UNDERSTANDING THE SUPREME COURT'S LATEST DECISIONS ON THE FEDERAL ARBITRATION ACT: SMITH V. SPIZZIRRI


By Charles (C.J.) Schoenwetter and Eric D. Olson

To readers: Sponsored columns consist of paid content from companies and organizations that have information and opinions to share with the legal community. They do not represent the views of Minnesota Lawyer. Columns are accepted on a variety of topics and are subject to approval by Finance & Commerce management.

The Federal Arbitration Act ("FAA") broadly (but with narrow exceptions) requires arbitration of all disputes involving interstate commerce and generally is viewed with favor by the court—including a presumption of arbitrability—when parties' contracts reflect an agreement to arbitrate. The FAA is at the heart of arbitration law. This article provides insights and updates concerning the most recent decisions issued by the U.S. Supreme Court concerning the FAA.

The U.S. Supreme Court issued 4 decisions in the last 12 months featuring the FAA. Three of those four decisions were issued during a 41-day span between April 12 and May 23, 2024. Each of them has immediate and long-term ramifications with the net effect of reserving more power to the judiciary to oversee arbitration.

In this first of three articles discussing recent Supreme Court decisions involving the FAA, we focus on a recent decision involving stays pending arbitration. In Smith v. Spizzirri, 144 S. Ct. 1173 (2024), the court unanimously held that when a dispute is subject to arbitration and an application for a stay is made, then (with a notable exception) the FAA requires the entry of a stay, rather than dismissal without prejudice.

Relying on Section 3 of the FAA, the Supreme Court determined a court "does not have discretion to dismiss [a] suit on the basis that all claims are subject to arbitration." Instead, a stay is required. This is subject to a determination (1) that a dispute is subject to arbitration, and (2) that a party made an "application" for a stay. A third issue also arises because the Court limited its holding to allow dismissal "if there is a separate reason to dismiss, unrelated to the fact that an issue in the case is subject to arbitration." Each of these issues is discussed below.

Whether a Dispute is Subject to Arbitration

Generally, under case law interpreting the FAA, a dispute is subject to arbitration if there is a valid agreement to arbitrate and the scope of the arbitration agreement is broad enough to encompass the parties' dispute. Section 2 of the FAA provides that the FAA governs contracts and transactions involving interstate commerce, and that an arbitration agreement is enforceable except for reasons generally applicable to all contracts such as mistake or unconscionability. Thus, the FAA generally preempts conflicting state laws purporting to invalidate arbitration agreements.

Whether a Party Made an "Application" for a Stay

Whether an "application" for a stay is made is determined under Section 6 of the FAA which provides that an application "shall be made and heard in the manner provided by law for the making and hearing of motions." Accordingly, if a party seeking to compel arbitration does not affirmatively seek a stay in its motion papers, Spizzirri does not mandate the issuance of a stay. This, however, is subject to exceptions.

For example, a party opposing arbitration—usually the plaintiff or petitioner—could file a motion for a stay, which would be unusual. Section 3 of the FAA governing issuance of a stay when disputes are referrable to arbitration expressly provides that an application for a stay shall be granted—"providing the applicant for the stay is not in default in proceeding with such arbitration." Actively participating in a lawsuit or taking other actions inconsistent with a contractual obligation to arbitrate arguably qualifies as being "in default" under Section 3. Thus, filing a claim or lawsuit in court potentially nullifies the mandatory (i.e., "shall") language in Section 6 otherwise requiring issuance of a stay.

Additionally, cases interpreting Spizzirri suggest requesting a stay "in the alternative" does not satisfy the requirement of an "application." See Brown v. U.S. Xpress, Inc., 2024 WL 2700079, at *1 and n.1 (W.D. Mich. May 24, 2024). Accordingly, if a party moves to dismiss an action based on the existence of a valid arbitration agreement applying to the dispute—but does not seek to compel arbitration—any request for alternative relief in the form of a stay might not be viewed as an application satisfying the FAA's requirements if a court nonetheless compels arbitration.

The Exception to Spizzirri's General Holding

In a footnote, the Supreme Court explained that outright dismissal of a case with a valid arbitration agreement, regardless of whether a stay is sought, is permitted under the FAA "if there is a separate reason to dismiss, unrelated to the fact that an issue in the case is subject to arbitration."

The Supreme Court expressly noted that if "the court lacks jurisdiction," then the FAA "is no bar to dismissing on that basis." Accordingly, if a court does not possess jurisdiction over the parties or the subject matter, then dismissal rather than a stay remains possible.

Courts also lack jurisdiction where a plaintiff files a dispute in a court that is different from the forum agreed upon in the arbitration agreement. "When the agreement to arbitrate includes a forum selection clause, most courts have concluded that 'only a district court in that forum has jurisdiction to compel arbitration pursuant to Section 4 [of the FAA].'" St. Paul Fire & Marine Ins. Co. v. Courtney Enters., Inc., 270 F.3d 621, 624 (8th Cir. 2001) (citation omitted).

Spizzirri's Impact

The immediate and direct impact of Spizzirri is that it provides a fairly clear line of demarcation generally requiring cases to be stayed when the underlying disputes are subject to arbitration. Counsel representing parties in an action where arbitration is compelled should strongly consider making an application to stay, particularly where the statute of limitation continues to run—and especially if the arbitrator is determining only the threshold issue of arbitrability.

The Spizzirri decision also reflects what may be a trend in recent cases where the Supreme Court is signaling that courts will have a more important and ongoing role in cases subject to arbitration. As expressed by the Supreme Court in Spizzirri, its holding "comports with the supervisory role that the FAA envisions for the courts."

This theme will be further explored in the next two articles in this series discussing the Supreme Court's most recent decisions implicating the FAA.

Attorney C.J. Schoenwetter, with 30 years of litigation experience, concentrates his civil litigation practice in the areas of general commercial, construction, and premises liability litigation, with a special focus relating to Uniform Commercial Code, product liability, and tort claims.

Attorney Eric Olson defends manufacturers in complex product liability litigation. He has extensive experience developing strategies in complex commercial litigation, from filing a complaint through settlement, trial, or arbitration.

You can contact either at Boman and Brooke LLP - 612.339.8682

or by email at cj.schoenwetter@bowmanandbrooke.com or

eric.olson@bowmanandbrooke.com

https://minnlawyer.com/sponsored_content/understanding-the-supreme-courts-latest-decisions-on-the-federal-arbitration-act-smith-v-spizzirri/