



Arbitration Newsletter Switzerland

Action for Annulment against Procedural Orders?

On November 26, 2008, the Federal Supreme Court put under 4A_210/2008 a decision on its website which is interesting, both by the underlying facts and the conclusions derived therefrom.

The Facts of the Case

Professor A¹ entered on June 7, 1989 into a know-how licence agreement ("Agreement") with a Swiss Company X ("Licensee"). The Agreement provided, amongst other, for application of Swiss Law and ICC arbitration in Geneva. Subsequently there were two amendments to the Agreement, whereby the second, in 1992, modified the licence fees and their duration. Soon thereafter, Professor A transferred his rights and obligations under the Agreement to Company Y Limited ("Licensor").

As difficulties arose for the calculation of the licence fees Licensor initiated on January 31, 2005 arbitration proceedings according to the Agreement with a panel of three arbitrators in Geneva ("Arbitral Tribunal"). Licensee then filed a counterclaim with the argument that Professor A had failed to transfer his know-how in accordance with the terms of the Agreement and, in so far as licence fees for Japan and US were claimed, no such fees were payable since the second amendment to the Agreement tied the duration of the licence fee obligation to the term of the underlying patents, which had lapsed in the meantime in Japan and the US.

In a partial award rendered on November 17, 2007 the Arbitral Tribunal ruled that Licensor be awarded with licence fees for ten years, including Japan and US, and left the quantum open to the final award. In

the same partial award the Arbitral Tribunal dismissed the counterclaim.

On January 15, 2008, Licensee sent a letter to Licensor, stating that the Arbitral Tribunal had interpreted the second amendment to the Agreement different to its intention at the time it signed the Agreement. Licensee therefore declared the Agreement to be invalid due to a fundamental error in the sense of Article 24 CO. On the next day Licensee filed new arbitration proceedings at the ICC, with the request to invalidate the second amendment of the Agreement. Two days later Licensor asked the Arbitral Tribunal to continue proceedings in the first case as to the quantum and on January 21, 2008 Licensee informed the Arbitral Tribunal of its filing of separate arbitration proceedings. On January 28, 2008, the Chairman of the Arbitral Tribunal asked Licensor to file its submission as to the quantum of its claim which it then fixed at 33 Mio. Euro plus interest. On February 8, 2008, Licensee requested the Arbitral Tribunal to stay its proceedings until the second arbitral tribunal had rendered its decision as to the requested invalidation of the second amendment of the Agreement. Licensor objected to such request.

On March 31, 2008, the Arbitral Tribunal rendered its Procedural Order No. 4, rejecting Licensee's request for a stay of the proceedings and asked, at the same time, Licensee to submit a brief within 30 days, addressing the quantum and the invalidation of the second amendment.

On April 15, 2008, Licensee filed a request at the ICC Court for revocation of all three members of the Arbitral Tribunal, which request was then rejected by the ICC Court on May 30, 2008. In the meantime Licensee had filed its submission as to the quantum on April 30, 2008.

¹ As always the decisions of the Federal Supreme Court are rendered in anonymised form only, (a fact which has been reconfirmed by the Federal Supreme Court in consideration 6, page 10, of its decision.)



Finally, on April 29, 2008, Licensee filed its action for annulment of the "Procedural Order No. 4", at the Federal Supreme Court.

The issues in dispute at the Federal Supreme Court

Licensee's arguments in its action for annulment of the "Procedural Order No. 4" were that the Arbitral Tribunal

- had no jurisdiction to decide on the invalidation of the second amendment of the Agreement;
- was not regularly composed to decide on the invalidation of the second amendment of the Agreement and, therefore, the Federal Supreme Court should recuse all three members of the Arbitral Tribunal;
- alternatively Licensee motioned that Procedural Order No. 4 be revoked and the matter be sent back to the Arbitral Tribunal for a new decision on its jurisdiction and to decide also on the question whether the Arbitral Tribunal was regularly composed.

Action for annulment against a procedural order?

In order to decide on its jurisdiction the Federal Supreme Court had first to analyse Procedural Order No. 4. In doing so it stated that Procedural Order No. 4 was undoubtedly not only of procedural nature but, in deciding on the suspension of the proceedings, had the weight of a partial award.² Because, in rejecting Licensee's request for a suspension, the Arbitral Tribunal accepted to be the competent arbitral tribunal to decide on Licensee's request for invalidation of the second amendment of the Agreement. In doing so the Arbitral Tribunal rendered a decision as to its jurisdiction, which could be challenged by Licensee based on Art. 190 (2) (b) PILA.

As to the format of the decision rendered by the Arbitral Tribunal (procedural order) Licensee also argued that such format did disregard the ICC Rules, in par-

ticular Article 27 (scrutiny of the award by the ICC Court). But the Federal Supreme Court made it very clear that a potential violation of institutional arbitral rules would not justify an annulment of such decision under Article 190 (2) PILA.³

Did the Arbitral Tribunal also have jurisdiction to decide on the invalidation of the second amendment?

Based on its full cognition in matters of jurisdiction the Federal Supreme Court first analysed the arbitration clause of the Agreement, containing the standard terms "any dispute arising under, or in connection with this agreement" which clearly indicates a broad area of jurisdiction.⁴ It then noted that also the terms of reference did not provide for any restrictions of the above clause. The case between the parties is a claim where Licensee should be ordered to pay licence fees based on the Agreement and its two amendments. Licensee objected to this claim in its entirety and filed even a counterclaim for repayment of licence fees already paid, because such licence fees were, based on its own interpretation of the Agreement and the second amendment, no longer due in Japan and the US. Only when the Arbitral Tribunal rendered its Procedural Order No. 4, rejecting Licensee's arguments, did Licensee raise the argument that the second amendment should be invalidated due to a fundamental error on its side. According to the Federal Supreme Court this chronological order clearly reveals the close link between one of the questions submitted to the Arbitral Tribunal, namely the interpretation of the second amendment, and the question raised by Licensee in the second arbitral proceedings, namely the invalidation of the second amendment due to a fundamental error. Therefore, the Federal Supreme Court concluded that the question whether Licensee was in a fundamental error in signing the second amendment was an issue clearly covered by the arbitration clause contained in the Agreement and consequently the Arbitral Tribunal had jurisdiction on this aspect of the case as well.

² BGE 123 III 414, consideration 1, page 417.

³ BGE 129 III 445, consideration 4.2.2., page 464

⁴ 4A_452/2007, February 29, 2008, consideration 2.5.1.



In doing so the Arbitral Tribunal recalled also the provision of Article 186 (1) (bis) PILA⁵ and, because of the close link of the question whether the second amendment of the Agreement should be invalidated with all the other issues in dispute, the Arbitral Tribunal had no "serious reasons", also in the view of the Federal Supreme Court, to stay the proceedings.

***Ultra petita* by the Arbitral Tribunal?**

Licensee apparently argued that Article 19 of the ICC rules would prevent it from raising new claims beyond the terms of reference and it could not introduce its new claim as to the invalidation of the second amendment to the Arbitral Tribunal and therefore was entitled to start separate arbitral proceedings. But Licensee found now no hearing by the Federal Supreme Court on that argument as well.

Irregular composition of the Arbitral Tribunal?

In dealing with Licensee's argument that the Arbitral Tribunal was now irregularly composed the Federal Supreme Court first stated that it does not feel bound to the decision of the ICC, rejecting the request for revocation of all three members of the Arbitral Tribunal.⁶ After having recalled the general principles for impartiality and independence of a judge respectively an arbitrator the Federal Supreme Court then analysed the reproaches made by Licensee as to that issue. It seems that the Arbitral Tribunal in its Procedural Order No. 4 in an *obiter dictum* stated that a invalidation of the Agreement itself based either on a fundamental error or wilful deception would be time-barred anyway. The Licensee then concluded from this *obiter dictum* that the members of the Arbitral Tribunal would no longer be independent to decide on an invalidation of the second amendment to the Agreement. The Federal Supreme Court held that Licensee's argument lacked of specification and was just a subjective feeling. Furthermore, the Federal Supreme Court outlined that whilst Licensee could not reasonably argue now that Professor A did not prop-

erly transfer his knowhow in 1989, at the time the Agreement was concluded, things were entirely different as to the invalidation required now for the second amendment, bearing in mind that Licensee raised its argument just two months after the Procedural Order No. 4 had been issued. Therefore, the remark made by the Arbitral Tribunal in its Procedural Order No. 4 as to the statute of limitation for the argument that Professor A did not properly transfer his knowhow did in no way prevent the Arbitral Tribunal to form a different view as to the second amendment of the Agreement.

For the second arbitral tribunal Licensee nominated also the same arbitrator it did for the first proceedings but such arbitrator then refused to accept this new mandate and informed ICC accordingly. His argument was apparently that the second proceedings were actually an appeal against Procedural Order No. 4 and that he would not want to participate in such proceedings. The Federal Supreme Court did not draw any negative inference from this refusal of the arbitrator nominated by Licensee to participate in the second proceedings and stated that this position taken by such arbitrator would not tamper his independence or impartiality to decide on the requested invalidation of the second amendment in the first proceedings before the Arbitral Tribunal. Therefore, the Federal Supreme Court rejected also this argument and, consequently, dismissed the action for annulment of Licensee in its entirety.

Conclusion

1. The efficiency of the Federal Supreme Court in handling actions for annulment of arbitral awards is again striking. The action for annulment was filed on April 29, 2008. Subsequently Licensor filed its reply and, as an exception to the rule, there was a second exchange of briefs (on September 10, 2008, and October 17, 2008, respectively) and already on October 29, 2008, the Federal Supreme Court rendered its decision, which then was published on November 26, 2008, seven months only after the action for annulment had been filed.
2. The decision of the Federal Supreme Court had to deal with a variety of arguments raised by Licensee to avoid jurisdiction of the Arbitral Tribunal on the requested invalidation of the second amend-

⁵ "It [the arbitral tribunal] shall decide on its jurisdiction notwithstanding an action on the same matter between the same parties already pending before a State Court or an other arbitral tribunal, unless there are serious reasons to stay the proceedings."

⁶ BGE 128 III 330, consideration 2.2., page 332.



ment of the Agreement. None of these arguments prevailed and for good reasons.

3. Finally, Licensee had to pay court fees of CHF 50'000 to the Federal Supreme Court and had to compensate Licensor for its lawyers costs at the Federal Supreme Court with CHF 60'000 - a rather expensive lesson!

December 3, 2008

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