Effectiveness of Arbitration Agreements

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Over the years, trial courts have demonstrated a notable willingness to lighten their dockets by enforcing arbitration agreements between parties. On March 6, 2009, the Honorable James P. Jones of the U.S. District Court in Big Stone Gap, Virginia handed down an opinion enforcing arbitration over the objection of the plaintiffs who argued that the underlying contract containing the arbitration clause was never effective and could not be enforced. The case is A&G Coal Corp. v. Integrity Coal Sales, Inc.

Beginning in November 2006 and continuing through early 2008, Integrity purchased coal on several occasions from plaintiffs A&G and Meg-Lynn Land Company. Each sale and delivery was pursuant to a written purchase order signed by Integrity and one or both of the two plaintiffs. The dispute arose from a September 2007 purchase order that was to govern sales and shipments for calendar 2008 (the “2008 PO”). All Parties signed the 2008 PO.

In February 2008, A&D advised Integrity that they would no longer do business with Integrity due to Integrity’s alleged breaches of the purchase order governing the 2007 shipments (“2007 PO”). When Integrity demanded deliver of coal under the 2008 PO, plaintiffs asked the federal court to declare that they were not obligated to provide it. Integrity responded by moving to dismiss or, in the alternative, compel arbitration, asserting that the dispute was subject to binding arbitration pursuant to the agreement between the parties embodied in the purchase orders.

The 2008 PO, like all other purchase orders between the parties, contained, as part of the general terms, an agreement to arbitrate “any dispute or controversy arising from or relating to the parties to this agreement.” However A&G and Meg-Lynn argued that they were not obligated to arbitrate disputes arising from the 2008 PO because two specific conditions precedent to the enforceability of the 2008 PO had not been met: the prior purchase order had not been completed, and plaintiffs had not commenced the delivery of coal under the 2008 PO. Plaintiffs argued that since the dispute before the bar dealt exclusively with 2008 deliver obligations and since 2008 PO was unenforceable, Integrity could not rely on the arbitration clause contained among its terms.

The court agreed with plaintiffs that the condition precedent issue could be dispositive if this were the only agreement between the parties, but hesitated to rule on the enforceability of the 2008 PO, because to rule in plaintiff’s favor would be to effectively decide the case without arbitration. Relying on case law establishing that “any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration,” Judge Jones noted that all prior POs between the parties contained identical language, requiring arbitration of any dispute. The court relied on this broad language, ruling that whether or not the 2008 PO was enforceable, the prior agreements required
arbitration. Presumably, this would have required arbitration of a dispute unrelated to the contract, such as a tort claim between the parties.

While not incorrect on the law, the court's ruling in A&G demonstrates the strength of the presumption on favor of arbitration. If it's possible to move a case to arbitration, a trial court usually will. Before signing a contract, both parties should carefully consider not only whether they'd prefer arbitration, but precisely what issues and what circumstances should be arbitrated. In doing so, the parties should presume that a reviewing court will give the provision a broad reading.