Multiparty Arbitrations: The Italian Perspective

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Introduction

When multiple parties are involved in a controversy, it is usually preferable to address the issues in dispute in the same proceeding in order to limit costs and time, as well as to avoid potentially conflicting decisions. This is normally not an issue in court proceedings because judges are appointed by the state, not by the parties, the parties involved in the dispute can all be brought together in the same proceeding and can add additional parties, and state courts normally have the power to consolidate parallel proceedings.

When it comes to arbitration, however, things become more difficult since the arbitral process is consensual in nature. In the words of the ICC Commission on Arbitration's Task Force on Multiparty Arbitrations:

The difficulties of multi-party arbitrations all result from a single cause. Arbitration has a contractual basis; only the common will of the contracting parties can entitle a person to bring a proceeding before an arbitral tribunal against another person and oblige that other person to appear before it.\(^1\)

In recent years, the growing interdependency of commerce has led to a corresponding increase in complex contractual relations, which often involve more than two parties. As a result, the number of multiparty arbitrations has substantially increased.\(^2\)

Today, the arbitration rules of the most prominent institutions set forth specific provisions on multiparty arbitrations, and many countries, including Italy, have enacted legislation addressing the problems that typically arise in these proceedings.

This set of rules and statutory provisions are intended to ensure the operation of multiparty arbitrations, and a degree of certainty and predictability in the parties’ respective procedural positions, while still preserving the fundamental principle that arbitration is a consensual process.

These rules govern several aspects of multiparty arbitrations, including:

(i) the procedure for the appointment of arbitrators, which is aimed at ensuring that each party is treated equally and that one or more parties are not over-represented in the arbitral tribunal;
(ii) the ability to add third parties to the arbitration and to bring claims against them;
(iii) the procedure for adjudicating multiple claims in the same arbitral proceeding when the dispute arises out of separate contracts, each of which contains an arbitration agreement; and
(iv) the power of the arbitral tribunal or other institution (eg, the state court at the seat of the arbitration or the institution administering the arbitration) to consolidate parallel proceedings commenced under the same or separate agreements to arbitrate.

This article considers some of the most common multiparty arbitration scenarios, and addresses the problems that can typically arise in light of the Italian statutory provisions addressing multiparty arbitrations. It also touches upon the 2012 ICC Arbitration and ADR Rules (‘ICC Rules’) on the subject and their interplay with Italian arbitration law.

Multiparty v multi-polar arbitrations: a preliminary distinction

Multiparty arbitration is an umbrella term covering all disputes involving more than two parties in the same arbitral proceedings.

There are cases where, despite the nominal involvement of more than two parties, the dispute has a classic bipolar structure (ie, two or more parties have claims against one or more parties).

For instance, in a joint venture in which more than two parties are involved, some of the joint venture partners may have a claim against one or more of the other partners arising out of the joint venture agreement (eg, paying the joint venture's operational expenses). Another instance is when the joint venture partners have a claim against a third party which arises out of a separate contract (eg, a sale and purchase agreement entered into between the joint venture partners and a seller which has not fulfilled its part of the agreement).

In these and similar cases, the arbitration is deemed multiparty, because more than two parties are involved in the proceedings, even though there are only two interests at stake.

In contrast, in cases in which any party in the proceedings has claims against any other party, and there are more than two parties in the arbitration, the dispute may not be reduced to a classic bipolar structure, but rather to a more complex, multi-polar one.

This typically occurs in multiparty disputes relating to a single transaction involving multiple contracts. A classic example is a large international construction project, where the owner has entered into a procurement contract with the main contractor, which in turn has sub-contracted a portion of the work to several sub-contractors and suppliers, under separate sub-contracts. If the owner has a claim in connection with the work procured under the main contract, it will commence arbitral proceedings against the contractor based on the arbitration agreement contained in the contract. In turn, the contractor may bring claims under separate sub-contracts – each containing an arbitration clause – against the sub-contractors and suppliers, which, too, may have cross-claims against the contractor (eg, based on the contractor’s failure to make available to the sub-contractors or the suppliers the areas where the work is being carried out).

The distinction between multiparty arbitrations with a traditional bipolar structure and multi-polar arbitrations is critical for understanding the problems raised by multiparty arbitrations with respect to the appointment of arbitrators.

The appointment of arbitrators

One of the main difficulties of multiparty arbitrations is that the arbitral process and the rules governing it are modeled on disputes...
with a traditional bipolar structure. This is well-illustrated by the arbitration rules governing the appointment of arbitrators, which usually provide for a mechanism whereby:

«Each party shall nominate in the Request and the Answer, respectively, one arbitrator for confirmation. If a party fails to nominate an arbitrator, the appointment shall be made by the Court.»

Even in cases where the rules explicitly contemplate multiparty arbitrations, the default procedure for the appointment of arbitrators follows the logic of a two-party set-up:

Where there are multiple claimants or multiple respondents, and where the dispute is to be referred to three arbitrators, the multiple claimants, jointly, and the multiple respondents, jointly, shall nominate an arbitrator for confirmation.4

Historically, Italian courts have refused to uphold multiparty arbitration agreements on the grounds that each party should be entitled to appoint its own arbitrator, irrespective of the bipolar or multipolar structure of the dispute, while the exercise of that right could lead to the formation of arbitral tribunals composed of an even number of arbitrators (eg, in cases involving an uneven number of parties), which could result in deadlocks in the adjudication of the dispute, thereby making the arbitration agreement incapable of being performed.5

More recently, Italian courts have upheld multiparty arbitration agreements in bipolar dispute scenarios, if and to the extent that the parties comprising each of the two sides have been able to agree upon a joint nomination of the arbitrators.6

In contrast, in multi-polar arbitrations it is not possible to divide the multiple parties into two separate categories. Thus, the default procedure for the appointment of arbitrators in bipolar disputes (ie, the joint nomination of arbitrators by each side) would be to no avail in the formation of the arbitral tribunal if each party claimed to be entitled to nominate its own arbitrator, and there were no agreement on joint nominations.

In the well-known Dutco case, the French Cour de Cassation set aside an ICC award that had been rendered in a dispute where the two co-respondents had claimed that they were each entitled to nominate one arbitrator as they had conflicting interests. The ICC Court took a different view, and invited the co-respondents to agree on joint nominations.

The 2006 amendments to Italian arbitration law, in a multipolar arbitration with an Italian seat, parties’ failure to agree on joint nominations will not prevent the arbitral tribunal from being constituted, provided that the applicable rules defer the ‘power to appoint the arbitrators’ to a third party (as contemplated by the arbitration rules described above).

In contrast, if the arbitration agreement does not defer such power to a third party:

The arbitration commenced by one party against more than two parties is separated into as many arbitral proceedings as the number of parties against whom the arbitration was commenced.7

However, pursuant to article 816-quater(3) CCP, if all parties in the proceedings are necessary to the adjudication of the dispute (litisconsorzio necessario), then separation of the arbitration is not possible, and the arbitration ‘shall not proceed’.8 The parties will thus have no option but to commence state court proceedings.

Special rules apply to multiparty arbitrations arising out of a corporation’s articles of association containing an agreement to arbitrate.

In particular, pursuant to article 34(1) and (4) of Italian Law No. 5 of January 17, 2003 (Law No. 5), the articles of association of a corporation which is not listed on a regulated market may refer to arbitration all disputes among the corporation, its shareholders, directors and statutory auditors arising out of the implementation of the corporation’s articles of association, in which case:

The arbitration agreement must indicate the number and procedure for the appointment of arbitrators and, in any event, it must grant to a third party which is unrelated to the corporation, the power to appoint all the arbitrators; otherwise the arbitration agreement is null and void. If the third party fails to appoint the arbitrators, each party to the arbitration may request that the appointment be made by the President of the Tribunal where the corporation has its headquarters.9

Thus, unlike ordinary commercial arbitrations to which article 816-quater CCP applies, if the arbitration agreement included in the corporation’s articles of association does not grant the power to nominate arbitrators to a third, unrelated party, the arbitration agreement is null and void ab initio, even if the parties are able to agree on a joint nomination of the arbitrators after the arbitration has commenced.10

Joinder and intervention of third parties

So far, we have discussed proceedings that are multiparty from the outset of the arbitration.

However, sometimes it is only after an arbitration has commenced that the need to add additional parties becomes apparent.
(eg, a respondent may seek to join an additional party, raising an indemnity claim in connection with the claimant’s claim).

Likewise, a third party may intervene in arbitral proceedings that are already pending between other parties (eg, to assert its own right vis-à-vis one or all of the other parties).

Article 816-quinquies(1) CCP provides that:

[T]he voluntary intervention and the joinder of a third party in arbitration are allowed only if the third party and the other parties agree, and the arbitrators consent.

A literal interpretation of this provision suggests that its scope of application extends to all cases where a ‘third party’ intervenes in, or is added to, arbitral proceedings which are pending among ‘other parties’ irrespective of whether the ‘third party’ is also a party to the arbitration agreement from which the proceedings originate. According to this interpretation, a third party can intervene or be joined in arbitral proceedings only to the extent that all the parties and arbitrators explicitly consent to the intervention or the joinder. 15

In our view, however, the existence of a multiparty arbitration agreement between the ‘third party’ and ‘other parties’ should already constitute a sufficient basis to allow the intervention or the joinder of a third party, without requiring the specific consent of all the parties to such third-party intervention or joinder. Likewise, the consent of the arbitrators to act in proceedings arising out of a multiparty arbitration agreement should be deemed to include the arbitrators’ consent to act in proceedings where the ‘third party’ has intervened or was joined after the arbitration commenced. Thus, article 816-quinquies(1) CCP should only apply to those cases in which the ‘third party’ is not bound by an arbitration agreement entered into by the ‘other parties’.

This raises the question of whether and, if so, to what extent, a party who is not a signatory to the arbitration agreement could be deemed bound by that agreement (in which case, the third-party intervention or joinder would not be subject to the consent requirements set forth in article 816-quinquies(1) CCP). Leading international arbitration scholars have debated this topic at length, but it is beyond the scope of this paper. 16 For our purposes, it is sufficient to note that a non-signatory party may be deemed bound by an arbitration agreement entered into by other parties, inter alia, based on: (i) its ‘role in the conclusion, performance, or termination’ of the contract containing the arbitration clause; 17 or (ii) the existence of a guarantee or another relationship with one of the parties executing the arbitration agreement. 16

Insofar as third-party intervention is concerned, article 816-quinquies(1) CCP only addresses the intervention of a third party asserting its own right vis-à-vis one or all of the other, original parties to the proceedings, in cases where the third-party claim is related to, or dependent upon, the subject matter of the arbitration (known as ‘main intervention’; article 105(1) CCP).

In contrast, article 816-quinquies(2) addresses: (i) the intervention of a third party having an interest in supporting the claim of one of the original parties against other parties, without claiming to be entitled to any right vis-à-vis those other parties (known as ‘side intervention’; article 105(2) CCP); and (ii) the intervention of a third party that is necessary for the adjudication of the dispute (litisconsorzio necessario).

Unlike third-party intervention under article 816-quinquies(1) – which, as noted, is subject to all the parties and arbitrators consenting to it – the third-party interventions contemplated in article 816-quinquies(2) CCP do not require any consent by the other parties or the arbitrators. Specifically, article 816-quinquies(2) CCP provides that:

In any event, the intervention of a third party under Article 105(2) CCP and the intervention of a third party that is necessary for the adjudication of the dispute are always allowed.

The rationale underlying this provision is twofold.

First, a third party with standing to intervene as a side intervenor is a party whose rights could be adversely affected by the outcome of the arbitration (eg, because those rights are dependent upon the recognition of a right asserted by one of the original parties in the arbitration). Pursuant to articles 831(3) and 404 CCP that third party would be entitled to oppose any arbitral award affecting its rights, even if it has not taken part in the arbitration. By allowing the side intervenor to participate in the proceedings without obtaining the consent of the other parties or the arbitrators, the law offers to the side intervenor the opportunity to protect its rights with regard to disputes that essentially relate to other parties’ rights, without waiting for the outcome of the proceedings to oppose the award.

Second, allowing the participation of a party that is necessary for the adjudication of the dispute would ensure that basic due process requirements are met, and to avoid depriving the third party of the opportunity to defend its right vis-à-vis other parties.

The operation of the Italian arbitration law provisions dealing with third-party intervention and joinder in arbitral proceedings raises several issues with regard to the appointment of arbitrators.

First, if none of the arbitrators has been appointed as of the date of the third-party intervention or joinder, the third party will be able to participate in the appointment procedure.

Thus, for instance, in an ICC arbitration where both the claimant and the respondent have nominated their arbitrators, but the ICC Court has not yet confirmed those parties’ nominations, the third party that has been joined in the meantime should be able to participate in the process leading to the constitution of the arbitral tribunal.

Then, if the parties do not agree on a procedure for the appointment of the arbitrators, and the arbitration agreement does not defer the power to appoint the arbitrators to a third party, article 816-quad CCP applies by way of analogy, giving rise to two potential outcomes: (i) the separation of the arbitration in as many proceedings as the number of parties following the third-party intervention or joinder; or (ii) the inability of the arbitration to proceed if all parties are necessary to the adjudication of the dispute (litisconsorzio necessario).

Second, if the arbitral tribunal has already been constituted without the involvement of the third party (eg, because the third party intervened only after the arbitral tribunal was constituted), the third party will essentially have two options: to agree to the arbitrators that have already been chosen by the original parties (which is more likely to happen in cases where the third party acts as a side intervenor supporting the assertions of one party against the other(s)); or not to agree to the arbitrators appointed by the original parties (which is more likely to happen in third-party joinder cases).

In the event the third party does not agree to the arbitrators appointed by the original parties, two scenarios may arise: if the third party is a party necessary to the adjudication of the dispute, the arbitration will not proceed in analogy with article 816-quad
CCP; however, if the third party is not a necessary party to the proceedings, the arbitration will proceed among the original parties, and the third party may be summoned in, or will be entitled to commence, separate arbitral proceedings.

The ICC Rules provide for partially different solutions.

First, the Rules do not contemplate third-party intervention in pending arbitration, not even in cases where the prospective intervenor is a party to the arbitration agreement or a necessary party to the arbitral proceedings.

However, article 10(b) of the ICC Rules includes new provisions dealing with the consolidation of arbitrations whereby, if claims made in ‘two or more arbitrations pending under the Rules’ are ‘made under the same arbitration agreement,’ the ICC Court ‘may, at the request of a party,’ consolidate the proceedings. The prospective intervenor may thus commence separate arbitral proceedings against one or both of the original parties to the pending arbitration, thereafter seeking consolidation of the two parallel proceedings.

Second, article 7 of the ICC Rules contains specific provisions addressing the joinder of additional parties to the arbitration:

A party wishing to join an additional party to the arbitration shall submit its request for arbitration against the additional party (the ‘Request for Joinder’) to the Secretariat. [...] Any such joinder shall be subject to the provision of Articles 6(3)-(7) and 9.

Pursuant to article 6(3) and (4)(i) of the ICC Rules, an arbitration where there are more than two parties, including any additional party joined pursuant to Article 7, can proceed only insofar as ‘the Court is prima facie satisfied that an arbitration agreement under the Rules that binds them all may exist.’

Thus, the default provisions of the ICC Rules allow the joinder of additional parties that are bound to an arbitration agreement to which the original parties are also bound. Of course, this does not preclude the joinder of a third party (ie, a party not bound by any arbitration agreement), to the extent that such party, the other parties and the arbitrators all agree to the joinder in accordance with article 816-quinque(1).

To preserve the right of the joined party to participate in the formation of the arbitral tribunal, article 7(1) of the ICC Rules provides that:

No additional party may be joined after the confirmation or appointment of any arbitrator, unless all parties, including the additional party, otherwise agree.

Finally, as to the rules governing the procedure for the appointment of the arbitrators, these are virtually identical to those contemplated for proceedings that are multiparty from the outset: pursuant to article 12(7) of the ICC Rules, the additional party ‘may, jointly with the claimant(s) or with the respondent(s), nominate an arbitrator for confirmation,’ and in the absence of a joint nomination or an agreement as to the procedure for the appointment of the arbitrators, the ICC Court ‘may appoint each member of the Arbitral Tribunal and shall designate one of them to act as president’ in accordance with article 12(8) of the ICC Rules.

**Multiparty multi-contracts disputes**

When we illustrated one of the typical multi-polar arbitration scenarios, we referred to cases relating to a single transaction involving multiple parties and multiple contracts, each of which contains an arbitration clause.

Italian arbitration law does not seem to allow multiparty arbitrations arising out of multiple contracts, insofar as article 816-quater CCP contemplates multiparty proceedings only to the extent that they arise out of ‘the same arbitration agreement.’

In contrast, article 9 of the ICC Rules provides that:

Subject to the provisions of Articles 6(3)-(7) and 23(4), claims arising out of or in connection with more than one contract may be made in a single arbitration, irrespective of whether such claims are made under one or more than one arbitration agreement under the Rules.

The ‘same arbitration agreement’ rule laid down in article 816-quater(1) CCP does not appear to be a mandatory provision of Italian law. Thus, if the multiple arbitration agreements contemplate arbitration under the ICC Rules and indicate Italy as the seat of the arbitral proceedings, then multiparty arbitrations should be allowed, provided that the requirements set forth in articles 6(3)-(7) and 23(4) of the ICC Rules are met.

Specifically, pursuant to article 6(4)(ii) of the ICC Rules:

[W]here claims pursuant to Article 9 are made under more than one arbitration agreement, the arbitration shall proceed as to those claims with respect to which the Court is prima facie satisfied (a) that the arbitration agreements under which those claims are made may be compatible, and (b) that all parties to the arbitration may have agreed that those claims can be determined together in a single arbitration.

The compatibility of the arbitration agreements must be assessed, among other things, in light of the lex arbitri and the arbitration rules applicable to each of the agreements to arbitrate, as well as the provisions setting the number of arbitrators and the procedure for their appointment, the language of the proceedings, and any other specific circumstance to be considered on a case-by-case basis.

As for the parties’ consent, it will be necessary to establish that even though the parties have entered into more than one contract, each containing an arbitration clause, the parties intended their claims to be resolved within a single arbitration. Of course, this will be a question of fact, to be determined on the basis of the circumstances of each specific case and in light of the law applicable to the arbitration clauses which will govern the parties’ consent to arbitration.

Under the ICC Rules, the appointment of arbitrators in multiparty, multi-contracts disputes is governed by the same provisions discussed above for multi-polar disputes: in a three-member arbitral tribunal scenario, if the parties do not agree upon joint nominations or to a method to appoint the arbitrators, the ICC ‘Court may appoint each member of the Arbitral Tribunal’.

**Consolidation**

Finally, multiparty arbitral proceedings may arise out of the consolidation of two or more non-multiparty arbitrations.

Typical scenarios include parallel disputes, arising out of different contracts, entered into by different parties, which would be appropriate to treat together.

Unlike state courts in countries such as the Netherlands or Hong Kong, Italian courts have no power to consolidate two or more arbitral proceedings. 16

Parties to arbitration agreements with an Italian seat, however, may agree - either directly or by making reference to institutional rules such as the ICC Rules – that two or more parallel arbitrations may be consolidated.
Pursuant to article 10 of the ICC Rules, “[t]he Court may, at the request of a party, consolidate two or more arbitrations pending under the Rules into a single arbitration.”

Article 10 sets forth three alternative conditions under which the ICC Court may consolidate parallel proceedings, namely: the parties’ agreement to consolidation; or the existence of multiple claims under the same arbitration agreement; or the existence of a dispute arising in connection with the same legal relationship, but the claims in the arbitrations are made under separate arbitration agreements, provided that these agreements are compatible and the arbitrations are pending among the same parties.

Notes
3 Article 12(4) of the ICC Rules. See also article 8(4) of the 1998 ICC Rules.
4 Article 12(6) of the ICC Rules. See also article 10(1) of the 1998 ICC Rules.
5 See, eg, Court of Appeal of Turin, Judgments of January 4, 1951, and October 28, 1952.
6 See, eg, Supreme Court, Judgments Nos. 9022 and 14788 of June 24, 2007, and of July 6, 2000, respectively.
8 Article 12(8) of the ICC Rules. See also article 10(2) of the 1998 ICC Rules.
9 Article 816-quater(2) CCP
10 Article 816-quater(3) CCP
11 Article 34(2) of Law No. 5.
12 Id.
13 See, eg, M. GRADI, art. 816-quinquies, in BENEDETTI, CONSOLO, RADICATI DI BROZOLO, Commentario breve al diritto dell’arbitrato nazionale e internazionale, 2010, pp. 219-220.
17 Article 12(8) of the ICC Rules.
18 Pursuant to article 1046(1) of the 1986 Netherlands Arbitration Act, the President of the Amsterdam District Court may, on application of either party, order full or partial consolidation of two arbitral proceedings pending in the Netherlands concerning “connected” subject matters, in which case it must direct the parties to ‘appoint one arbitrator or an uneven number of arbitrators and determine the procedural rules which shall apply to the consolidated proceedings’ (article 1046(3); see also article 1046(4) for partial consolidation, in which case the President must also decide which disputes to consolidate).

Pursuant to article 2, Schedule 2, of the 2011 Hong Kong Arbitration Ordinance, the Hong Kong Court of First Instance of the High Court may, upon the application of either party, order that two or more arbitral proceedings be consolidated if ‘a common question of law or fact arises in both or all of them’ or ‘the rights to relief claimed in those arbitral proceedings are in respect of or arise out of the same transaction or series of transactions’ or ‘for any other reason it is desirable’ to order the consolidation. Like the Netherlands Arbitration Act, the Hong Kong Arbitration Ordinance defers to the competent court the appointment of the arbitral tribunal if the parties do not agree.
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