

Arbitration & ADR - USA

Court grants motion to compel made by parties that enjoined arbitration seated in India

Contributed by **K&L Gates**

November 06 2014

Underlying dispute

USPA licenses its marks to Indian licensee

Indian licensee demerges and transfers rights

RLC commences arbitration under settlement agreement

RLC commences suit in New York

USPA and Indian parent move to compel arbitration

New York court compels arbitration

Comment

In *Ralph Lauren Corporation v United States Polo Association, Inc* a US federal trial court compelled arbitration at the request of a party that had obtained an injunction in India to stay the same arbitration.

(1) The decision is significant for international arbitration practitioners because it reaffirms the lengths to which parties must go to waive their right to arbitration under US law.

Underlying dispute

The underlying dispute in *Ralph Lauren* arose out of longstanding trademark litigation between the Ralph Lauren Corporation (RLC) and its subsidiaries on the one hand, and United States Polo Association, Inc (USPA), and its subsidiaries on the other hand. The parties had been litigating their trademark issues before a federal court since 1984, and in 2003 decided to execute a settlement agreement that ostensibly resolved their differences.

USPA licenses its marks to Indian licensee

The settlement agreement provided that disputes arising out of or in connection with the agreement would be submitted to arbitration before the International Centre for Dispute Resolution (ICDR), with the seat being the principal place of business of the USPA licensee at issue in the dispute.

In 2007 USPA and a licensee that had its principal place of business in Bangalore, India, entered into a licence that allowed the licensee to sell apparel with USPA's marks in India. As part of that transaction, the licensee also agreed to be bound by the terms of the settlement agreement – including the arbitration clause.

Indian licensee demerges and transfers rights

In 2009 the licensee was demerged by its parent corporation into a new Indian company. The demerger was effected under Indian law and the *Ralph Lauren* court found that, as a result of that corporate transaction, all of the licensee's obligations and duties were passed to the transferee as a matter of Indian law. Accordingly, after the corporate demerger was completed, the transferee held all of the rights and obligations of the licensee.

RLC commences arbitration under settlement agreement

In 2013 RLC initiated an arbitration against both USPA and the licensee's parent company alleging that the Indian parent had infringed RLC's marks. Neither the licensee nor the transferee was named as a respondent.

In response to the request for arbitration, the Indian parent and the transferee commenced an action in the courts of Bangalore – seat of the arbitration – alleging that the arbitration was improper on various grounds, including assertions that the Indian parent had no obligation to arbitrate RLC's claims and that the claims violated Indian public policy. The Bangalore court subsequently issued an interim injunction which enjoined RLC from pursuing the arbitration that it had commenced. The ICDR thereafter stayed the arbitration.

RLC commences suit in New York

After the Indian parent and transferee successfully obtained an order in Bangalore enjoining the

Authors

JP Duffy



Erica R Iverson



Priya Chadha



arbitration, RLC commenced suit in federal district court in New York against USPA and the Indian parent, asserting claims for fraudulent inducement, breach of contract and unjust enrichment. After the New York litigation was commenced, USPA, the Indian parent and the transferee sent RLC correspondence in which all three parties expressed their commitment to arbitrate RLC's claims.

Additionally, the transferee agreed to raise any jurisdictional objections it had within the arbitration. RLC responded to that consent by maintaining its right to litigate its claims.

USPA and Indian parent move to compel arbitration

After the exchange of correspondence set forth above, USPA and the Indian parent moved in the New York litigation to compel arbitration. RLC responded by claiming that USPA and the Indian parent had waived their right to arbitrate by commencing the Bangalore court action that had enjoined the arbitration that RLC had originally commenced.

New York court compels arbitration

After considering the Indian parent and USPA's motion, the New York court compelled arbitration and effectively required RLC to re-start the arbitration it had originally commenced.

In reaching its decision to compel arbitration, the *Ralph Lauren* court made two significant rulings:

- First, the court determined that it was the proper body to decide whether USPA and the Indian parent had waived their right to arbitrate and that the question should not be left to the arbitral tribunal.
- Second, the court determined that USPA and the Indian parent had not waived that right. The rationale for each conclusion is discussed below.

Court has power to decide waiver issues

The question of which body – courts or arbitral tribunals – should decide threshold questions of jurisdiction or arbitrability was recently taken up by the US Supreme Court in the seminal decision of *BG Group v Argentina*.⁽²⁾

In *BG Group*, the US Supreme Court held that when an arbitration clause does not specifically delegate authority to decide threshold issues of arbitrability to arbitrators:

- Courts are to decide substantive threshold issues, such as whether parties are required to arbitrate and whether the arbitration clause extends to particular subject matters; and
- Arbitrators are to decide threshold procedural issues, such as "waiver, delay . . . time limits, notice, laches, estoppel and 'other conditions precedent to an obligation to arbitrate.'"⁽³⁾

The Supreme Court further held that the selection of arbitral rules that enshrine the competence-competence principle suggest that the arbitration clause contains an express choice by the parties to delegate all threshold jurisdictional questions to the arbitrators.⁽⁴⁾

The *Ralph Lauren* court did not engage in a *BG Group* analysis, but instead relied on appellate precedent holding that courts should decide waiver defences that are predicated on a claim that the party seeking arbitration previously resorted to litigation. The court therefore determined that it - and not the arbitral tribunal - was the proper body to decide the waiver question.

Right to arbitrate not waived

After determining that it had the right to decide the waiver question, the *Ralph Lauren* court found that neither the Indian parent nor USPA had waived its right to arbitration. The court reached that conclusion because USPA and the Indian parent had agreed to be bound by the arbitration clause found in the settlement agreement, albeit after RLC had commenced the New York litigation.

In reaching its conclusion, the court examined whether RLC had suffered any procedural or substantive prejudice from the Indian parent's prior efforts to stop the arbitration and concluded that it had not. In short, the court concluded that RLC was in no way damaged by the interim injunction issued by the Bangalore court that had originally enjoined the arbitration.

Comment

The *Ralph Lauren* decision is significant because it reaffirms the pro-arbitration stance that US federal courts have generally adopted. First, the court refused to find that the Indian parent and USPA had waived their right to arbitration by having the Indian parent and the Transferee enjoin the arbitration through litigation at the seat. Second, the court found the RLC had suffered no substantive or procedural prejudice as a result of the Indian parent and transferee's initial efforts to avoid arbitration.

Consequently, the court ultimately ceded jurisdiction to the arbitral tribunal to decide not only the merits of the dispute, but any jurisdictional objections that might be raised as well.

For further information on this topic please contact *JP Duffy, Erica R Iverson or Priya Chadha* at K&L Gates by telephone (+1 212 536 3900), fax (+1 212 536 3901) or email (*JP.Duffy@klgates.com* , *erica.iverson@klgates.com* or *priya.chadha@klgates.com*). The K&L Gates website can be accessed at www.klgates.com.

Endnotes

(1) *Ralph Lauren Corporation v United States Polo Association, Inc* No 13 Civ 7147, 2014 US Dist LEXIS 123968 (SDNY September 4, 2014).

(2) For further details, please see "[Supreme Court clarifies competence-competence principle](#)".

(3) *BG Group plc v Republic of Argentina*, 134 S Ct 1198, 1207 (2014).

(4) *Id* at 1210 (citing Article 41(1) of the ICSID Rules and Article 23(1) of the UNCITRAL Rules as probative of the express delegation of threshold issues to arbitrators).

The materials contained on this website are for general information purposes only and are subject to the [disclaimer](#).

ILO is a premium online legal update service for major companies and law firms worldwide. In-house corporate counsel and other users of legal services, as well as law firm partners, qualify for a free subscription. Register at www.iloinfo.com.

Online Media Partners



© Copyright 1997-2014
Globe Business Publishing Ltd