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Who is Bound by an Arbitration Agreement? A Conflict of Laws Analysis in Lifestyle Equities v Hornby Street

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In *Lifestyle Equities CV v Hornby Street (MCR) Ltd* [2022] EWCA Civ 51, the English Court of Appeal (or the "**Court**") considered what law applied to the issue of whether a non-party to the arbitration agreement is bound by it.

According to the majority of the Court, the issue is one of the scope of the arbitration agreement, and should therefore be resolved by the proper law governing it. Snowden LJ (dissenting), however, characterised the issue differently, as "whether the assignment of certain trademarks from an original owner to the claimants have the effect of binding the claimants to an arbitration agreement contained in a contract (a "**Co-existence Agreement**") between the original owner and the defendants." That led him to conclude that it is the law governing the trademarks, rather than the law governing the arbitration agreement, that applies to the issue of whether a non-party to the arbitration agreement is bound by it.

This post will further analyse these views, arguing that the divergent reasoning highlights the fraught issue of characterisation under the English choice of law rules, and poses a question ripe for clarification from the Supreme Court: what are the limits on the application of the law governing the arbitration agreement?

Lifestyle Equities: Facts and Majority Opinion

The claimants own trademarks in the UK and the EU that protect the "Beverly Hills Polo Club" logo. The logo was originally owned by a Californian entity (the "**Original Owner**"), who subsequently assigned the trademarks to a different US entity, and eventually to one of the claimants.

Unbeknownst to the claimants at the time of the assignment, when the trademarks were still owned by the Original Owner, the latter had a dispute with one of the defendants, who uses the logo "Santa Barbara Polo & Racquet Club". To resolve that dispute, the Original Owner and the defendant in question (or the "**Club**") entered into a Co-existence Agreement in 1997 on the use of the two logos. The Original Owner consented to the use of the Santa Barbara logo by the Club, and to the Club registering the relevant marks as trademarks in any country in the world. The Club granted equivalent consent to the Original Owner to use and register the Beverly Hills logo. The

Co-existence Agreement also contained a choice of law clause for Californian law, and an arbitration clause for a California-seated arbitration under the rules of the American Arbitration Association.

The claimants brought the proceedings analysed in this post against the defendants before the English courts for infringement of the UK and EU Beverly Hills trademarks. The defendants applied for a stay under section 9 of the Arbitration Act 1996 on the grounds that the dispute should have been resolved in arbitration in California. In response, the claimants argued that they had no knowledge of the Co-existence Agreement, and that they were not bound by that agreement when they took assignment of the trademarks by virtue of Article 27(1) of Regulation 2017/1001 on the EU Trade Mark, and section 25(3)(a) of the Trade Marks Act 1994. These provisions provide that "An assignment of a UK (or EU, as appropriate) trade mark must be in writing, and until an application has been made to register the assignment, is ineffective against any person acquiring a conflicting interest in ignorance of it."

The defendants argued that under Californian law, the claimants were bound by the Co-existence Agreement as assignees of the trademarks, and that in any case the claimants were estopped from denying that they were bound, because the claimants had earlier relied upon the Co-existence Agreement to apply for a trademark in Mexico.

In deciding whether the proceedings should be stayed in favour of arbitration, the Court drew an important conceptual distinction: whether a person becomes a party to the arbitration agreement, as distinct from whether a non-party is bound in some way by the arbitration agreement.

In relation to the first issue, both the majority and Snowden LJ decided that the claimants had not become parties to the arbitration agreement. The question here is whether a contractual consensus existed between the claimants and the defendants, and the law that applies to the issue is Californian law, being the law governing the putative agreement. There had been no Californian law evidence on this matter, and the judge in the lower court had been wrong to consider the position on this issue under English law.

The Court's reasoning then diverged. The majority held that the issue of whether the claimants were bound by the arbitration agreement is governed also by Californian law, being the law applicable to the arbitration agreement. The majority considered that whether a party is bound by an arbitration agreement is an issue of the scope of that agreement. Since the law governing the arbitration agreement governs the issue of who becomes a party to it (as per the recent Supreme Court decision in *Kabab-Ji v Kout Food Group* [2021] UKSC 48, [18]) logically the same law must apply to the question of who is bound by it.

Dissenting Opinion

Snowden LJ, however, gave a powerful dissenting opinion. He considered that the issue should be characterised as whether the assignment of the trademarks have the effect that the claimants are bound by the arbitration agreement. The law applicable to this question is not the governing law of the arbitration agreement.

In support of this reasoning, he cited *Egiazaryan v OJSC OEK Finance* [2015] EWHC 3532 (Comm). There, C and R1, a Russian company, entered into a joint venture agreement, which

contained a London arbitration clause, and which was expressed to be governed by English law. R2, another Russian company, owned R1 but was not a signatory to the arbitration agreement. C initiated arbitration against both R1 and R2, and in response to R2's jurisdictional objection argued that R2 could be joined to the arbitration because under Russian law, R2, as the parent company, would be liable for the contractual obligations of R1. The judge agreed.

The judge accepted the conceptual distinction between who was party to the arbitration agreement and who could be joined to the arbitration. He went on to hold that:

> "…if the question is one as to whether a non-signatory of the agreement can be joined by virtue of a concept such as agency or, in this case, a principle that shareholders or parents are obliged to arbitrate on contracts entered into by the signatory, then it is not the proper law of the contract which gives the answer, but English conflicts rules would look to another law, in this case the law of incorporation of the signatory."

To Snowden LJ, Egiazaryan demonstrates the "limits on the application of the governing law of the arbitration agreement" and stands for the proposition that where the question is whether a non-party must be treated as being bound by the arbitration agreement, the law governing the arbitration agreement "would not be applicable". As he noted, "Where it is sought to treat a person who is not a party to an arbitration agreement as bound by it, the contractual consensus between the existing parties cannot provide an answer. There must be some other relevant factor to justify that conclusion." The other "relevant factor", here, is that the claimants took assignment of the trademarks (in Egiazaryan it was the corporate relationship between R1 and R2). Since the law governing the trademarks would apply to the underlying dispute as to whether the co-existence agreement bound the claimants, that law (English law for English trademarks, and EU law for EU trademarks) would apply to whether the claimants are bound by the arbitration clause.

The majority, on the other hand, thought that Egiazaryan merely showed that it was permissible, but not mandatory, to look outside the law governing the arbitration agreement (which in this case is Californian law) to determine whether a non-party is bound by it. In this case, there is no need to look outside Californian law. Here the issue is one of the Californian law of contract which take a broad view as to who is bound by it.

Clarification Needed

Regardless of whether Egiazaryan was correctly decided, and whether Snowden LJ's or the majority's interpretation of that decision is correct, all three justices in Lifestyle Equities acknowledged the limits of the law governing the arbitration agreement. It is at least permissible, if not mandatory, to look outside that law to determine whether a non-party is bound by the arbitration agreement in certain circumstances.

In Lifestyle Equities, what law applies to whether claimants are bound by the arbitration agreement partially boils down to a question of characterisation of that issue – whether the issue is one of the contractual scope of the arbitration agreement, or of the effect of the assignment of trademarks. The limits of the law governing the arbitration agreement, as well as how such limits apply in this

case, are ripe for clarification.

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