



Nafta Traders v. Quinn

The Texas Supreme Court Permits Expanded Judicial Review of Arbitration Awards

By: Susan Kidwell

In a May 13, 2011, opinion, the Supreme Court of Texas held that the Texas Arbitration Act (“TAA”) permits arbitration agreements for expanded judicial review of arbitration awards. *Nafta Traders, Inc. v. Quinn*, No. 08-0613, 2011 WL 1820875 (Tex. May 13, 2011). In so holding, the Court declined to follow U.S. Supreme Court precedent reaching the opposite conclusion in construing the Federal Arbitration Act (“FAA”). The decision has significant implications for parties entering into arbitration agreements governed by Texas law.

The statutory grounds for reviewing and vacating arbitration awards are exceedingly narrow and do not permit courts to review arbitration awards for errors of law or fact. Attempting to expand the scope of judicial review otherwise provided by the FAA and the TAA, the parties in *Nafta Traders* agreed that “[t]he arbitrator does not have authority (i) to render a decision which contains a *reversible error of state or federal law*, or (ii) to apply a cause of action or remedy not expressly provided for under existing state or federal law.” However, after the district court confirmed an arbitration award in Quinn’s favor, the U.S. Supreme Court issued an opinion holding that the FAA’s grounds for vacating an arbitration award “are exclusive” and may not be “supplemented by contract.” See *Hall Street Associates, L.L.C. v. Mattel, Inc.*, 552 U.S. 576, 578 (2008). Although the Texas Supreme Court recognized that it must follow *Hall Street* in applying the FAA, it was not persuaded by the U.S. Supreme Court’s reasoning. After providing a detailed critique of the analysis in *Hall Street*, the Texas Supreme Court held that (i) the TAA permits parties to agree to expanded judicial review of arbitration awards and (ii) the FAA does not preempt state law permitting such expanded review. Texas thus joins Alabama, California, and New Jersey in permitting expanded judicial review of arbitration awards under state statutes.

Nafta Traders will likely have a significant impact on parties drafting and entering into arbitration agreements governed by the TAA. Parties no longer have to choose between the risk of an erroneous – and unreviewable – arbitration award or the burden of litigating their dispute entirely in the civil justice system. Texas now recognizes a third option – arbitration with an expanded scope of judicial review. This third option will enable parties to enjoy the benefits of arbitration without giving up their right to have an adverse arbitration award reviewed by the courts.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact the author:

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