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B2C  
ARBITRATION

Consumer Protection  
in Arbitration

Alexander J. Bělohlávek

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**B2C Arbitration:  
Consumer Protection in Arbitration**

**Alexander J. Bělohlávek**



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# CONTENTS

<b>Gratiarum – Acknowledgments</b> .....	xix
<b>Auctorium – About the Author</b> .....	xxi
<b>Index Compendiorum – List of Abbreviations</b> .....	xxiii
<b>I. Introduction</b> .....	1
I.1. Subject of this publication .....	1
I.2. Different national approaches and experience in the resolution of consumer disputes .....	1
I.3. Positive and negative aspects of litigation and arbitration in consumer disputes, fair trial, and efficiency of dispute resolution.....	2
I.4. Importance of consumer protection against the background of the dispute resolution mechanism .....	4
I.5. Risk of abuse of the special protection by the consumer.....	7
<b>II. Terminological and Conceptual Delimitation of Consumer Disputes with respect to Arbitration</b> .....	9
II.1. Consumer protection laws.....	9
II.2. Arbitration .....	9
II.3. <i>Public policy</i> and <i>public interest</i> .....	10
II.3.1. Inconsistent application of two materially different categories .....	10
II.3.2. <i>Public policy (ordre public)</i> .....	11
(a) <i>Domestic and international public policy</i> ( <i>ordre public</i> ) in legal cultures .....	11
(b) <i>Public policy</i> in arbitration.....	13
II.3.3. <i>Public interest</i> .....	14
(a) National basis for the historical delimitation of <i>public interest</i> .....	14
(b) Genesis and the constitution of <i>public interest</i> .....	16
(c) Delimitation of <i>public interest</i> .....	18
II.3.4. <i>Public policy</i> and <i>public interest</i> in EU law .....	21
(a) Autonomous interpretation of <i>public policy</i> and <i>public interest</i> ; an exception to the freedoms guaranteed by primary EU law.....	21
(b) Free movement of persons and protection of security .....	22
(c) Access to information.....	29
(d) Consumer protection.....	31
II.3.5. <i>Public interest</i> , overriding mandatory rules and comparison with <i>public policy</i> .....	33



## Contents

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II.4.	Issues common to consumer protection and arbitration.....	37
II.5.	Scope of consumer protection issues .....	38
II.5.1.	Weaker contracting party and the average consumer.....	38
II.5.2.	Claims made in consumer disputes.....	40
II.5.3.	Consumer contract.....	41
	(a) Consumer contract (contract concluded by a consumer) .....	41
	(b) Consumer and professional.....	45
	(c) The average consumer (connection with the essential and other terms of the contract and with arbitration agreements).....	46
	(d) Multilateral criteria defining a consumer contract.....	48
II.6.	Resolution of consumer issues.....	50
II.7.	Consumer arbitration .....	53
II.8.	Right to legal protection versus right to judicial protection and the importance of autonomy .....	58
II.9.	Role of courts with respect to consumer arbitration.....	65
II.9.1.	Appeals (review).....	65
II.9.2.	Court intervention at the stage of enforcement of arbitral awards.....	66
II.9.3.	Control and support exercised by the courts ( <i>juge d'appui</i> ) .....	67
<b>III.</b>	<b>Consumer Protection and Consumer Disputes under EU Law.....</b>	<b>69</b>
III.1.	Restrictive model under EU law .....	69
III.2.	Fundamental consumer rights.....	70
III.3.	Directive 93/13/EEC on unfair terms in consumer contracts (the " <i>Directive</i> ").....	71
III.3.1.	Identification of unfair terms in court rulings .....	71
III.3.2.	Annex to the <i>Directive</i> .....	72
III.3.3.	Application of the Annex to the <i>Directive</i> to consumer arbitration.....	75
III.3.4.	Obligation of the [arbitral] tribunal to decide according to the applicable laws and regulations.....	76
III.4.	EC Recommendation No. 98/257/EC of 30 March 1998, regarding the resolution of consumer disputes.....	81
III.5.	Other sources of EU law.....	84
III.5.1.	Directive 98/27/EC of the European Parliament and of the Council of 19 May 1998 .....	84
III.5.2.	Liability for defective products.....	85
III.5.3.	EU laws with no impact on consumer arbitration .....	87



III.6.	Concept of single European Contract Law (contractual framework) .....	88
III.6.1.	Genesis and development .....	88
III.6.2.	The <i>Green Paper</i> .....	89
III.6.3.	EP <i>Resolution</i> of 8 June 2011 (the " <i>Resolution</i> ") .....	90
	(a) Contents of the EP <i>Resolution</i> .....	90
	(b) Legal nature of the instrument of European Contract Law .....	91
	(c) Scope of application of the instrument .....	93
	(d) Application of the instrument in practice .....	95
	(e) Importance of the <i>Resolution</i> .....	96
III.6.4.	Influence of the EP's <i>Resolution</i> on arbitration .....	98
III.7.	Proposals of the European Commission regarding the alternative resolution of consumer disputes and regarding online consumer disputes of 29 November 2011.....	99
III.7.1.	Legal context of the <i>Commission's</i> legislative proposals .....	99
III.7.2.	Proposed legislative procedure .....	101
III.7.3.	<i>Commission</i> Communication on alternative dispute resolution for consumer disputes in the Single Market.....	101
III.7.4.	Proposal for a Directive on alternative dispute resolution for consumer disputes (" <i>ADR Directive</i> ").....	105
III.7.5.	Legal elements of the Proposal.....	105
III.8.	Proposal for a Regulation on online dispute resolution for consumer disputes (" <i>ODR Regulation</i> ").....	107
III.8.1.	Premises of the proposed Regulation.....	107
III.8.2.	Legal elements of the Proposal.....	108
III.8.3.	Implications of the proposed EU legislation for arbitration .....	109
III.8.4.	Assessment of the proposals presented by the <i>EU Commission</i> .....	111
III.9.	Case law of the ECJ concerning arbitration and interpretation of the <i>Directive</i> and other consumer protection instruments.....	112
III.9.1.	Case law of the ECJ in mutual comparison .....	112
III.9.2.	ECJ Judgment, Case C-168/05 of 26 October 2006 ( <i>Elisa María Mostaza Claro v. Centro Móvil Milenium SL</i> ) .....	119
	(a) Conclusions of the ECJ .....	119
	(b) Facts of the case .....	120
	(c) The ECJ's reasoning and conclusions.....	121
	(d) Notes on the judgment .....	123



## I. Introduction

### I.1. Subject of this publication

1. This book analyzes the interaction between the power exercised by public authorities (primarily in court proceedings) and the power of arbitration in the resolution of consumer disputes. It also focuses on the different arbitration regimes in consumer cases and analyzes certain issues related to their harmonization and the importance of their unification. It is necessary to emphasize that there are fundamental, albeit only apparently latent differences between the individual national laws.
2. The primary concentration is on the generalization of the country specific or regional models and, thus conversely, the importance of national laws, or even the rules adopted by certain permanent or other arbitral institutions was suppressed. No differences were made between domestic and international arbitration.
3. The mutual relationship between arbitration and consumer protection laws is also discussed with respect to the conflict between the perspective of the courts and the perspective of arbitrators and arbitration.

### I.2. Different national approaches and experience in the resolution of consumer disputes

4. Arbitration is usually classified as one of several alternative dispute resolution methods (ADR),<sup>1</sup> i.e. as different from litigation in courts. The other alternatives, apart from arbitration, may include mediation or mediation connected with arbitration, expert proceedings,<sup>2</sup> assisted conciliation, and procedures which could be labeled as arbitration but lack some of its features, such as voluntariness, the right to appoint an arbitrator, etc. Some of these procedures include online dispute resolution similar to mediation or government-promoted consumer dispute resolution regimes, such as those in Spain [ESP] or Portugal [PRT]. The United Kingdom [GBR] has adopted a specific consumer

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<sup>1</sup> Several passages will analyze the difference between common law and civil law; common law (as opposed to continental schools) classifies arbitration as one of the ADR methods. Conversely, civil law is closer to the jurisdictional (but mostly hybrid) approach, and it therefore separates arbitration from ADR as a special method of finding the law and resolving disputes.

<sup>2</sup> Cf. *Bělohávek, A. et Hótová, R. Znalci v mezinárodním prostředí (v soudním řízení civilním a trestním, v rozhodčím řízení a v investičních sporech)*. [Title in translation: Experts in the International Environment (in Civil and Criminal Court Proceedings, Arbitration and Investment Disputes)]. Prague: C. H. Beck, 2011 (also available in Polish – Warsaw: C. H. Beck, 2011, in Russian – Kiev: Taxon, 2011 and in Romanian – Bucharest: C. H. Beck, 2012).



dispute resolution system according to which all disputes from consumer credits are obligatorily resolved by the Financial Ombudsman in compliance with the Consumer Credit Act [GBR] (1974).<sup>3</sup> The formal aspects of these proceedings are significantly different from arbitration. The outcomes of these procedures (however authoritative the decision) cannot be enforced in international relations even under the *New York Convention*.

### 1.3. Positive and negative aspects of litigation and arbitration in consumer disputes, fair trial, and efficiency of dispute resolution

5. Arbitration is not a cure-all and is definitely not a method suitable for the resolution of every dispute. It has its proponents as well as opponents. Indeed, one would be hard put to claim that a particular type (class) of disputes is *a priori* fit to be resolved in arbitration, rather than through litigation, or vice versa. The same could be said of consumer disputes (disputes arising from consumer contracts). That consumers deserve some specific protection in cases where they are forced to enter into a particular contract and have no other option but to accept the conditions stipulated by the other party (the professional) is fairly indisputable. But neither can one principally claim that the resolution of these disputes in court would be more suitable than arbitration or any other alternative dispute resolution (ADR) method. The individual states, as well as the entire international community, realize with an ever increasing awareness that litigation is often unable to offer effective legal protection. Take as an example Germany [DEU]. The ECtHR has repeatedly held that the unreasonable length and procedural complexity of judicial proceedings have breached the right to a fair trial in a number of countries. Germany was the usual culprit, but on more than one occasion, similar complaints have been filed against other countries, too. Indeed, it was a series of complaints against Germany [DEU] which actually resulted in a resolution delivered by the Grand Chamber of the ECtHR—in which *Sümerli v. Germany* [DEU]<sup>4</sup> was used as a model

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<sup>3</sup> Consumer Credit Act (1974), as amended in 2006 – Consumer Credit Act (2006). The current version of the Consumer Credit Act (1974) is available at: <http://www.legislation.gov.uk/ukpga/1974/39/contents#485933> [last access 14 January 2012]. Amendments implemented in 2006 are also analyzed at the website of the Office of Fair Trading at: <http://www.offt.gov.uk/about-the-offt/legal-powers/legal/cca/CCA2006/> [last access 14 January 2012].

<sup>4</sup> Decision of the ECtHR, Case No. 75.529/01 of 8 June 2006 (*Sümerli v. Germany*). Indeed, German constitutional law fully adheres to the principle of the right to a speedy trial before an independent and impartial tribunal; this right is even explicitly incorporated in the constitutions of some of the federal states (for instance, Article 51(4) of the Brandenburg Constitution [DEU], etc.). Cf. the Council of Europe, the Venice Commission. *Can Excessive Length of Proceedings be Remedied?* (Science and Technique of Democracy), 2007, p. 164. This publication issued by the CoE contains a detailed analysis with national reports filed by the Member States of the ECHR. It is easy to see that most countries suffer from excessive length of proceedings, procedural obstacles, and other problems



case—and which even ruled that contemporary German procedural law does not safeguard effective instruments<sup>5</sup> for the protection of rights enshrined in the *European Convention on Human Rights* (ECHR). *Sümerli v. Germany* [DEU] (and other similar complaints filed with the ECtHR against various states) is notorious in many countries for the relationship between the factual and legal findings, but also for the procedural complications and delays, the repeated remanding of cases for a new trial in a lower court, delays in the drafting of expert appraisals and their discussion in court—all of which contributed to the fact that a basically simple dispute took many years to settle. The promotion of arbitration and alternative dispute resolution (ADR)<sup>6</sup> is therefore a logical solution.<sup>7</sup> On the other hand, as a method for finding the law and resolving disputes it entails many risks. Despite the existing role of the court (support and supervision), the decisions are rendered by private-law entities, i.e. outside the absolute control exercised by public authorities. The potential risks are therefore obvious. However, the just protection of the weaker parties in contractual relationships is not the only criterion; it is also in the *public interest* that such protection be effective, efficient, and expeditious. The present work focuses, inter alia, on the mutual contradictions [between these public and the private interests] from the perspective of consumer protection and arbitration. Naturally, it would be impossible to analyze their every aspect, but the attempt is here made to define and examine some of the most important.

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with the enforcement of rights in courts. These excesses are often repeated and extreme; what is even worse, these problems occur more and more frequently and the proceedings in developed countries with traditional democracy and a mature judiciary and infrastructure are taking longer and longer.

<sup>5</sup> As concerns this issue, see an interesting article by *Hájek, O.* Winning your case is good, effective remedy is better! Recognition of Foreign Judgments and Arbitral Awards in the Czech Republic. *Common Law Review*, 2008, No. 8.

<sup>6</sup> It is necessary to emphasize that the conceptual approach to ADR differs depending on the individual legal culture. While most jurisdictions based on common law principles classify arbitration among alternative dispute resolution methods (ADR), most civil law countries perceive arbitration as separate from ADR. This highlights the fact that arbitration is an alternative to litigation, as concerns both the nature, and especially the outcome of the proceedings. Arbitral awards are mostly equaled with court judgments. This is not to say that common law would not often arrive at the same conclusion. But the doctrinal reasons behind the solution are different. The reason is that the common law regime (depending on the individual country) is based on the presumption that even the judiciary (the exercise of judicial authority by courts as public authorities) has a contractual basis, similar to the exercise of any other public authority. Conversely, most civil law countries are more inclined towards the assumption that the power exercised by public authorities is derived from state sovereignty as an immanent component of the “state,” both under international law and from the perspective of national (domestic) law.

<sup>7</sup> *Bělohávek, A.* Arbitration from the Perspective of the Right to Legal Protection and the Right to Court Proceedings (the Right to have One’s Case Dealt with by a Court): Significance of Autonomy and Scope of the Right to a Fair Trial. In: *Bělohávek, A. et Rozehnalová, N.* CYArb - Czech (& Central European) Yearbook of Arbitration: The Relationship between Constitutional Values, Human Rights and Arbitration, Huntington (New York): JurisNet, 2011, Vol. I, pp. 47–70, here p. 47–49.