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ITALY: NO COUNTRY FOR ARBITRATORS?1

ITÁLIA: UM PAÍS PARA ÁRBITROS?

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ABSTRACT: This essay offers a few remarks on arbitration in Italy where arbitration is still a niche alternative to traditional litigation before the courts. The initiatives taken by arbitral institutions in the face of the challenges to the proper functioning of the courts brought about by the Covid-19 pandemic have kindled new interest in arbitration, and further reforms of the Code of Civil Procedure (expected by the end of 2022) could increase the appeal of arbitration in Italy. The research methodology applied to this essay is the traditional doctrinal methodology aimed at identifying the relevant legal rules, discussing their meanings and the principles supporting them, without overlooking their ambiguities and flaws. Special attention is paid to a few new trends emerged during the Covid-19 pandemic, as well as to a set of forthcoming reforms that should improve the quality of Italian civil justice. In conclusion, some proposals are presented to make arbitration more attractive in Italy. Firstly, the time has come to get rid of the distinction that is only known in Italy and that causes a lot of confusion, between true arbitration (arbitrato rituale), governed by the Code of Civil Procedure, and so-called "free arbitration" (arbitrato irrituale). Then, it is suggested the adoption of a fast-track arbitration, especially for the resolution of disputes in which the value at stake is modest and the legal issues in dispute are not highly complex.

KEYWORDS: Arbitration; institutional arbitration; Code of Civil Procedure; simplified arbitration; duty of disclosure; interim measures.

RESUMO: Este ensaio oferece algumas observações sobre a arbitragem na Itália, onde a arbitragem ainda é uma alternativa ao litígio tradicional perante os Tribunais. As iniciativas

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adotadas pelas instituições arbitrais diante dos desafios ao bom funcionamento decorrentes da pandemia de Covid-19 despertaram um novo interesse pela arbitragem e novas reformas ao Código de Processo Civil (previstas para o final de 2022) poderiam aumentar a utilização da arbitragem na Itália. A metodologia de pesquisa aplicada a este ensaio é a doutrinária identificar as normas jurídicas pertinentes, discutindo seus tradicional que visa a significados e os princípios que as sustentam, sem deixar de lado suas ambiguidades e falhas. Atenção especial é dada a algumas novas tendências surgidas durante a pandemia de Covid-19, bem como a um conjunto de reformas futuras que devem melhorar a qualidade da justiça civil italiana. Na conclusão são apresentadas algumas propostas para tornar a arbitragem mais atrativa na Itália. Em primeiro lugar, chegou a hora de se livrar da distinção que só é conhecida na Itália e que causa muita confusão, entre a arbitragem verdadeira (arbitrato rituale), regida pelo Código de Processo Civil e a chamada "arbitragem livre" (arbitrato irrituale). Em seguida, é sugerida a adoção de uma modalidade de arbitragem, sob um rito mais célere, sobretudo para a resolução de disputas em que o valor em jogo seja modesto e as questões jurídicas em controvérsia não sejam altamente complexas.

PALAVRAS-CHAVE: Arbitragem; arbitragem institucional; código de processo civil; arbitragem simplificada; dever de divulgação; medidas interinas.

1. INTRODUCTION

The title of this essay, besides being a play on the title of the Coen brothers film,³ makes it clear that Italy is not exactly the most hospitable environment when it comes to the popularity of arbitration. It is true that statistical data, when available, concern essentially institutional arbitration⁴ and can be considered misleading, at least to a certain degree, since

³ No Country for Old Men (Miramax Films, 2007).

⁴ The empirical data are not really updated. The only comprehensive survey of ADR in Italy concerns 2017. In that year, the total number of arbitration procedures carried out by private and public institutions was 582, a number notably lower that the numbers concerning 2016 (708 procedures) and 2015 (784 procedures): see V Bonsignore, 'La ricerca Isdaci sulla diffusione della giustizia alternativa in Italia nel 2017' in ISDACI-Istituto per l'arbitrato, la mediazione e il diritto commerciale, *Undicesimo rapporto sulla diffusione della giustizia alternativa in Italia* (ISDACI 2019), 27.

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nothing is officially known of the phenomenon of ad hoc arbitration, which, apparently, is very popular but escapes survey. In any event, my purpose here is to sketch out some of the reasons why arbitration is still an elitist method for resolving disputes, in general – as we will see – commercial disputes.

2. SOME THOUGHTS ON ITALIAN ARBITRATION LAW

The fact that arbitration is not popular in Italy may sound surprising in light of the fact that, notoriously, the Italian wheels of justice grind slowly. For example, according to the latest statistics (2017) released by the Ministry of Justice, the average length of a civil case before the courts of first instance is approximately three years;⁵ the average length of an arbitral procedure (before the Milan Chamber of Arbitration, which is the most important and reputable arbitral institution in Italy) is thirteen months,⁶ thus only a little more than one year. Yet, in spite of the obvious advantage an arbitral procedure has over a civil case in terms of a speedy disposition of a dispute, Italian litigants prefer to turn to the court system. Are we then a country of masochistic individuals? Not exactly. I would say that litigants shy away from arbitration for a variety of reasons. Let me identify two of them.

One reason has to do with the legislation on ADR that is in force in my country. The landscape of ADR methods other than arbitration includes mediation, assisted negotiation, special forms of conciliation, hybrid out-of-court procedures for particular matters (such as banking, investment and insurance disputes), consumer ADR established to implement European Directive 2013/11/EU on alternative dispute resolution for consumer disputes and —last but not least — online dispute resolution mechanisms. Some of these multifaceted ADR procedures are mandatory, and that fact already reduces the number of cases that could

⁵ The reader might find it interesting to hear that it takes approximately two years to complete a procedure in front of appellate courts and no less than one year to obtain a judgment from the Court of Cassation: therefore, a civil or commercial case can take no less than six years on average to exhaust all the available judicial tiers; see 'Monitoraggio nazionale della giustizia civile e penale – Nota metodologica' (February 9, 2022), at https://www.giustizia.it/giustizia/it/mg_2_9_13.page (last accessed March 13, 2022).

⁶ See Camera Arbitrale di Milano, 'Report Annuale-Arbitrato 2021', at https://www.camera-arbitrale.it/upload/documenti/statistiche/2022%20report%20dati%20arbitrato%20CAM.pdf (last accessed March 12, 2022).

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benefit from ending up before an arbitral tribunal. As I have written elsewhere,⁷ in Italy the conventional wisdom according to which too large an amount of a positive or useful thing can be harmful or excessive has gained new meaning with reference to the overabundance of ADR methods, none of which seems to be completely satisfactory or suitable as offering individuals a true and effective alternative to slow and cumbersome judicial procedures.

A second and, one may say, powerful reason preventing arbitration from becoming more popular is sociological. Many people feel intimidated not only by the high costs of arbitration procedures, but also, and most of all, by the aura surrounding arbitral tribunals, which are commonly perceived as venues inhospitable to ordinary people, the people who cannot afford to hire high-priced lawyers in fancy suits and pay their fees according to a billable-hours system. Is this fearfulness that arbitration instills in so many justified and, if so, is it possible to change litigants' attitudes? Honestly, I have no definite answers. I can only tell you that, at present, arbitration concerns essentially corporate disputes and disputes arising out of commercial contracts, and therefore it does not the typical garden-variety cases that crowd the courts' dockets. The average value of the disputes resolved through arbitration (again according to the statistics of the Milan Chamber of Arbitration) in 2021 was approximately €1,750,000, which is high enough to demonstrate that ordinary civil and commercial claims are not likely to be handled by arbitrators.⁸

Let us now consider the attitude of the Italian legal system as a whole towards arbitration. Arbitration is governed by a detailed set of rules in the fourth book of the Code of Civil Procedure. Keeping in mind that the Code was enacted in 1942, the rules on arbitration have been updated several times: in 1983, 1994 and 2006. A statute enacted in 2014 for the establishment of assisted negotiation tangentially concerned arbitration, too, but – as we will see – up to the present time the statute has remained a dead letter. Every reform

⁷ E Silvestri, 'Too Much of a Good Thing: Alternative Dispute Resolution in Italy' (2017) 21 Netherlands-Vlaams Tijschrift voor Mediation en Conflictmanagement, 29.

⁸ Camera Arbitrale di Milano, 'Report Annuale-Arbitrato 2021', *supra* note 4.

⁹ The literature on Italian arbitration law written in English is not extensive: see, for instance, E Zucconi Galli Fonseca, C Rasia, *Arbitration Law in Italy. Domestic and international perspectives* (Wolters Kluwer 2020); G Alpa, 'Arbitration and ADR Reforms in Italy' (2018) 29 European Bus L Rev 313; N Milone, 'Arbitration: The Italian Perspective and the Finality of the Award' (2011) 1 Oñati Socio-Legal Series, at https://ssrn.com/abstract=1986040 (last accessed November 25, 2019); U Draetta, 'Italy as a Place for International Arbitrations: The Myths of the Italian Torpedo, the Irritual Arbitration et Alia' (2013) Int'l Bus LJ 159.

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of the rules on arbitration has pursued the goal of modernizing the arbitral procedure with a view to increasing its appeal. Yet, one may truly say to no avail. All the same, examining the rules laid down by the Code, one is inclined to conclude that if the legislators intended to update the arbitral procedure, they have probably taken the wrong road. The terms of reference for the amendments have been the steps through which judicial procedures develop. In other words, the arbitral procedure has lost some of its most remarkable features, namely its informality and flexibility. In several aspects there is an extraordinary resemblance between the arbitral procedure and the judicial procedure. This is clear, for instance, if one looks at the many grounds for which the arbitral award can be challenged, not to mention the fact that arbitral awards (exactly like court judgments) can be subject to extraordinary appeals known as revocation and third-party opposition.

The same 2014 statute I mentioned that established assisted negotiation also provided for the so-called transfer of cases already pending before a court to an arbitral tribunal. ¹⁰ The convoluted procedure and the lack of any foreseeable advantages resulting from such a transfer have been received in a very negative way by the legal community, to the point that almost eight years have gone by since the entering into force of the statute and we are still waiting for the first recourse to the transfer procedure.

It is worth mentioning, though, that in the 2014 statute one can see an attempt at encouraging arbitration, which signals that Italian institutions today are not dead set against arbitration as they were in the past, when the state was not inclined to relinquish its monopoly in the resolution of disputes. Along the same lines, the Italian Constitutional Court has repeatedly stated that arbitral justice is the functional equivalent of state justice, so that an arbitral award is comparable to a court judgment as far as the type of relief granted and the effects of the holding that is the essence of the decision.

Be that as it may, I would now like to advance some modest proposals on how the appeal of arbitration could be reinforced. The first issue that comes to mind is the issue of arbitrability. According to the Code of Civil Procedure (Article 806, section 1), the only

¹⁰ The statute in question is statute no. 162 of 10 November 2014 (*Conversione in legge, con modificazioni, del decreto-legge 12 settembre 2014, n. 132, recante misure urgenti di degiurisdizionalizzazione ed altri interventi per la definizione dell'arretrato in materia di processo civile).*

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disputes that can be submitted to arbitration are those concerning rights that the parties can freely dispose of (diritti disponibili). Many legal systems recognize the distinction between disposable rights and non-disposable rights, the latter concerning, for instance, the status and capacity of individuals, and therefore I imagine that the idea is clear without elaboration. There are also disputes that cannot be arbitrated even though the rights involved are, in principle, rights that the bearer can dispose of. This is the case, for instance, with disputes in the field of labor relations for which special rules provide for particular forms of arbitration before specialized bodies.

One may advance the theory that, in order to encourage the development of arbitration, the concept of 'arbitrability' as it emerges from the Code should be softened, so as to include a wider array of cases. Areas that would benefit from a less stringent requirement of arbitrability would be intra-corporate disputes, consumer law and, most of all, family law. In recent years, Italy has embraced the idea that separation of spouses and divorce can be handled as private matters, at least when no minor children are involved. Nowadays, separation and divorce can be obtained via either private procedures in the form of negotiation assisted by attorneys or statements collected by public registrars. One may argue that if the dissolution of a marriage is not a judicial matter any longer, then there should be no obstacles to admitting that the economic aspects related to a separation or divorce fall within the category of 'disposable rights', so that disputes concerning, for instance, alimony or the division of assets between the spouses when community property is dissolved can be resolved through arbitration, without any necessity to resort to judicial procedures. 11

From a different angle, arbitration could benefit from some improvements in the way the arbitral procedure is regulated by the Code. I mentioned already the fact that a number of steps in the procedure are very similar to the corresponding steps in a judicial proceeding. Another aspect that seems almost at odds with what I just mentioned is that the freedom from strict forms that is supposed to be a particular trait of arbitration is more theoretical than practical. This is clear most of all in the evidence-taking stage of the arbitral proceeding, the stage at which it is quite unclear as to what extent arbitrators can take evidence ex officio.

11 See extensively E Zucconi Galli Fonseca, L'arbitrato nella crisi familiare-Una proposta applicativa (Pacini Giuridica 2021).

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Against the background of the rules governing arbitration, there is an ambivalent attitude on the part of the legislators: arbitration can substitute for adjudication, but certain powers pertaining to the courts – at least for the time being¹² – cannot be delegated to arbitrators. This is the case with regard to the power of issuing interim protective measures that can be obtained only by petitioning the appropriate court even though the application for an interim measure does not imply any stay of the arbitral proceeding.

3. ARBITRATION AND THE COVID-19 PANDEMIC

The unprecedented challenges brought about by the Covid-19 pandemic to the proper functioning of the courts have had a notable effect on arbitration, kindling new interest in a dispute resolution scheme that is more flexible than ordinary adjudication and whose features can be adapted to the present exceptional circumstances much more swiftly than the rules governing judicial procedures, most of all when the length of these very procedures is completely unpredictable.

An example of the evolution of the procedural features and practices adopted by arbitral institutions in response to the current climate is the procedure known as 'simplified arbitration' introduced by the Milan Chamber of Arbitration.¹³ Proceedings that began after July 1, 2020 can follow the rules of simplified arbitration when the value of the claim does not exceed €250,000, as long as all the parties to the arbitration agreement concur in this choice. If one of the parties dissents, the dispute will be diverted to the regular arbitral procedure.¹⁴ Regardless of the value of the claim, the rules of simplified arbitration can be applied if 'the parties have agreed to opt-in in the arbitration agreement or thereafter, until the filing of the reply to the request for arbitration'.¹⁵ On the other hand, the simplified arbitration procedure can be excluded by the Arbitral Council on its own motion or upon request of the arbitrator if the dispute is deemed overly complex.

¹² See below, sec. 4.

¹³ The Arbitration Rules of the Milan Chamber of Arbitration are available in English at https://www.camera-arbitrale.it/upload/documenti/arbitrato/ARBITRATION%20RULES%202020.pdf (last accessed March 13, 2022). The rules governing simplified arbitration can be found in ANNEXE 'D'. All the rules, which have been updated extensively, entered into force on July 1, 2020.

¹⁴ See ANNEXE 'D', Art. 1 – Scope of the application, sec. 1.

¹⁵ Ibid. sec. 2.

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The Arbitration Rules (meaning the rules governing ordinary arbitration) constitute the default rules for the simplified arbitration, too, when no special provisions are laid down for the simplified procedure. A remarkable difference is that ordinarily a sole arbitrator oversees simplified arbitration, regardless of the arbitration agreement, while under normal circumstances it is up to the parties to decide the number of arbitrators. If the parties fail to do so, the Arbitral Tribunal operates with a sole arbitrator or with a panel of three arbitrators if, according to the Arbitral Council, the complexity of the dispute or its economic value makes a three-arbitrator panel option more suitable.

Other interesting differences are worth mentioning. For instance, in the arbitration request filed by the claimant (as well as in the reply filed by the respondent) the evidence offered in support of the claim must be stated, but additionally it is mandatory that each piece of evidence expands on the factual circumstances to be proved by that very piece of evidence. Another notable difference concerns the sole arbitrator: this person is appointed by the Arbitral Council and the appointment can be challenged within a short time limit (five days), which is half the time normally allowed for any challenges to arbitrators.

As far as the development of the proceeding is concerned, the relevant rule¹⁶ emphasizes the broad case management powers bestowed on the sole arbitrator, against the backdrop of the general principle according to which 'the arbitrator, the parties and the counsels shall act in an expeditious manner'. In particular, the sole arbitrator is free to mold the procedure in the way best suited to arrive at a decision in the case. Therefore, the arbitrator, having heard the parties, can set limits on the length and scope of the briefs; the arbitrator can also limit the number of the documents to be produced and exclude one or more witnesses.

The parties are allowed to submit only one supplementary brief in addition to the request for arbitration and the reply, but no new claims can be made during the procedure. The development of the case is highly concentrated. In fact, the sole arbitrator can decide (even on his or her own motion) that only one hearing will be held for the taking of evidence and the closing statements of the parties, keeping in mind that the hearing can be conducted remotely, via videoconferencing or telephone call.

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¹⁶ ANNEXE 'D', Art. 5 – The proceedings.

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The rule governing the conduct of the proceeding is meaningful since the powers of case management that the sole arbitrator may exercise can make a real difference. The development of the case can be expedited, and so can its decision. In this regard, simplified arbitration has another desirable feature. In fact, the arbitral award must be issued within three months (instead of the normal six months, which can also be extended, as the case may be). Needless to say, if lockdown restrictions are in place, electronic-only filing of submissions are allowed, and so too remote hearings.

As far as fees are concerned, the Milan Chamber of Arbitration follows a system of calculating costs based on the value of the claim. For simplified arbitration procedures, fees are reduced by 30 percent on average, and this feature, in combination with the fact that the whole proceeding can last no more than three months, makes simplified arbitration very appealing, even to persons who would have never thought of arbitration as a viable, or hospitable, alternative to court procedures.

In 2021, thirty simplified arbitrations commenced out of a total of 123 arbitration requests filed with the Milan Chamber of Arbitration. The average value of the claims was approximately €112,000; the average length of the proceedings was 170 days, which means that simplified arbitration is definitely much faster than the ordinary arbitration procedure, whose average length in 2021 was thirteen months. As far as the subject matters of the disputes referred to simplified arbitration, they were procurement and commercial contracts of various kinds.¹⁷

4. FUTURE REFORMS

European Union institutions have passed a wide economic recovery package to aid Member States overcome the devastating effects of the Covid-19 pandemic. The so-called Next Generation EU (NGEU) fund will provide Italy extensive financial resources conditional upon the ability to reach a variety of goals in strategic economic and structural sectors, including the administration of justice. In this specific field, the goal to be reached

¹⁷ For these data, see Camera Arbitrale di Milano, 'Report Annuale-Arbitrato 2021', *supra* note 4.

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by 2026 is a drastic decrease in the backlog of civil cases and, most of all, a reduction by 40 percent in the length of civil proceedings.

A statute passed in November 2021 has enabled the government to adopt a number of statutory instruments for the reform of civil procedure and for a rationalization of alternative dispute resolution schemes, with a view to increasing the efficiency of civil justice. The measures envisioned by the statute are extensive and complex since they touch upon adjudication before the courts of first instance, but also the rules governing appeals, enforcement of judgments, mediation, and the restructuring of the judiciary and the establishment of a new specialized court in charge of family proceedings, as well as proceedings concerning minors and the status of individuals.

Arbitration, too, will be affected. Most measures are simply cosmetic, but two stand out and are worth mentioning.¹⁹ First of all, the reform will reinforce the guarantees of impartiality and independence of arbitrators by providing that arbitrators, when they accept their appointment, shall disclose formally (meaning, by a specific statement) all personal facts and circumstances that could reasonably call into question their impartiality. The arbitrators' duty of disclosure is already well known to the rules in force in many legal systems, and the academic literature on the multiple facets of this duty is extensive.²⁰ Therefore, it is long overdue that Italy begin to follow the global trend by laying down rules that, according to the explanatory memorandum prepared by the board of experts involved in the drafting of the statute for the reform of civil justice, aim at reinforcing public confidence in arbitration with a view to promoting its use as an alternative to instituting litigation before the courts. Along the same lines, another new rule will allow challenging

¹⁸ Statute no. 206 of November 1, 2021, 'Delega al Governo per l'efficienza del processo civile e per la revisione della disciplina degli strumenti di risoluzione alternativa delle controversie e misure urgenti di razionalizzazione dei procedimenti in materia di diritti delle persone e delle famiglie nonché in materia di esecuzione forzata.'

¹⁹ For a first-reading commentary of the future reforms of arbitration, see Angelo Danilo De Santis, 'L'arbitrato', in Giorgio Costantino (a cura di), *La riforma della giustizia civile. Prospettive di attuazione della legge 26 novembre 2021, n. 206* (Cacucci Editore 2022) 71–78.

²⁰ See, e.g., Hong-Lin Yu, 'Arbitrator's Implied Duty of Disclosure and Its Interaction with the Duty of Impartiality and the Duty of Confidentiality' (2021) 14 Contemp Asia Arb J 1; Dominique Hascher, 'Independence and Impartiality of Arbitrators: 3 Issues' (2012) 27 Am U Int'l L Rev 789; Anne K Haffmann, 'Duty of Disclosure and Challenge of Arbitrators: The Standards Applicable Under the New IBA Guidelines on Conflict of Interest and the German Approach' (2005) 21 Arb Int'l 427.

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arbitrators for 'serious reasons of convenience' (my translation): it should be interesting to see which meaning the case law will give to this open-ended provision.

A further reform that the Italian government is expected to implement is one which provides arbitrators with the power to issue interim measures, provided that the parties have manifestly agreed on this possibility in the arbitration agreement (or in a subsequent written statement). At the present time, Article 818 of the Code of Civil Procedure prevents arbitrators from granting attachment or any other protective measures, unless otherwise provided by law. In this regard too, the envisioned reform will align Italy with other jurisdictions (such as France and Germany) in which arbitrators already enjoy the power to grant interim measures, although to different extents.

5. CONCLUSIONS

In light of the problems affecting Italian civil justice, one may wonder which strategies could be put to work to increase the appeal of arbitration. First of all, I believe the time has come to get rid of a distinction that is only known in Italy and that causes a great deal of confusion, at least in the eyes of foreigners. I am making reference to the distinction between true arbitration (*arbitrato rituale*), the one that is governed by the Code of Civil Procedure and at the end of which the sole arbitrator (or the arbitral tribunal) issues an award producing the same *res judicata* effects as a court judgment, and so-called 'free arbitration' (*arbitrato irrituale*). Dispensing with the complex details, suffice it to say that free arbitration is not real arbitration, since it results not in an enforceable award but in a contract that is binding on the parties just as any other contract is. If a party does not comply with the award arrived at through free arbitration, the other party can bring to court an ordinary action for breach of contract.

Finally, I suggest that a good way to promote arbitration would be to devise a fast-track arbitration available most of all for the resolution of disputes in which the value at stake is modest and the legal issues in controversy are not highly complex. As we have learned from the experiences of several renowned arbitral institutions operating at the

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international level,²¹ fast-track arbitration is characterized by strict time limits that apply to the parties and the arbitrators equally, as well as by a significant limitation of procedural steps (meaning, for instance, restrictions on the number of written submissions, but also on the number of hearings). Fast-track arbitration also relies on the new communication tools made available by modern technology. What I envision is an expedited, flexible, truly informal and possibly inexpensive procedure that could realistically compete with ordinary adjudication.

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²¹ See, e.g., Javier Tarjuelo, 'Fast Track Procedures: A New Trend in Institutional Arbitration' (2017) 11 Disp Resol Int'l 105; Eva Müller, 'Fast-Track Arbitration – Meeting the Demands of the Next Millennium' (1998) 15 J Int'l Arb 5.

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