

SUPREME COURT OF TEXAS

Forest Oil Corporation and Daniel B. Worden v. James Argyle McAllen, El Rucio Land and Cattle Company, Inc., San Juanito Land Partnership, and McAllen Trust Partnership

Forest Oil Corp. v. McAllen, 268 S.W.3d 51 (Tex. 2008) · No. No. 06-0178 · Decided August 29, 2008

SUMMARY

The Supreme Court of Texas held that a clear and broad waiver-of-reliance provision in a settlement agreement barred a fraudulent-inducement challenge to the agreement's arbitration requirement. The Court reversed and remanded for the trial court to compel arbitration, with arbitrators to determine the scope of arbitrable issues before the trial court addressed severance of claims brought by nonsignatories. Two justices dissented, arguing that the disclaimer did not preclude a fraudulent-inducement claim concerning matters outside the settled dispute.

CASE DETAILS

COURT	Supreme Court of Texas
WRITING FOR THE COURT	Justice Willett; Chief Justice Jefferson; Justice Hecht; Justice O'Neill; Justice Wainwright; Justice Brister; Justice Green; Justice Johnson; Justice Medina
JURISDICTION	Texas
DECIDED	August 29, 2008
DOCKET	No. 06-0178
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Interlocutory appeal from an order denying Forest Oil's motion to compel arbitration. The trial court denied the motion after an evidentiary hearing, and the court of appeals affirmed under a no-evidence standard of review.
STANDARD OF REVIEW	De novo review of the legal question whether the contractual disclaimer of reliance negated the fraudulent-inducement claim as a matter of law.
PRECEDENTIAL VALUE	published binding precedent
PARTIES	Forest Oil Corporation, Daniel B. Worden v. James Argyle McAllen, El Rucio Land and Cattle Company, Inc., San Juanito Land

TOPICS

arbitration fraudulent inducement contract interpretation commercial litigation oil and gas

PRACTICE AREAS

contracts arbitration commercial litigation fraudulent inducement oil and gas environmental law

QUESTIONS PRESENTED

1. Whether the settlement agreement's clear and broad waiver-of-reliance provision conclusively negated the reliance element of McAllen's fraudulent-inducement claim.
2. Whether McAllen's claims fell within an arbitration provision that delegated scope determinations to the arbitrators.
3. How the trial court should handle claims brought by nonsignatory plaintiffs after arbitration is compelled.

HOLDINGS

1. A clear and broad waiver-of-reliance provision in a negotiated settlement agreement precluded McAllen from establishing reliance, as a matter of law, on alleged extra-contractual representations concerning the commitment to arbitrate future environmental and personal-injury disputes.
2. Once a valid arbitration agreement was established and the fraudulent-inducement challenge failed, the trial court had no discretion but to compel arbitration and stay the litigation.
3. The arbitrators must determine the scope of the arbitration clause before the trial court determines whether and how to sever the nonsignatory plaintiffs' nonarbitrable claims.

KEY QUOTATIONS

“We decline to adopt a per se rule that a disclaimer automatically precludes a fraudulent-inducement claim, but we hold today, as in Schlumberger, that “on this record,” the disclaimer of reliance refutes the required element of reliance.” (268 S.W.3d at 61)

“Accordingly, the trial court, in order to make an informed severance decision, should defer its decision until the arbitrators decide which issues are arbitrable.” (268 S.W.3d at 62)

FACTUAL BACKGROUND

In 1999, Forest Oil and parties with interests in the McAllen Ranch settled a long-running dispute concerning oil-and-gas royalties and leasehold development. The settlement contained a broad release, a waiver-of-reliance provision, and an arbitration clause reserving environmental, surface-damage, personal-injury, and wrongful-death claims relating to the McAllen Ranch Leases. In 2004, McAllen sued, alleging that Forest Oil had buried mercury-contaminated material and moved radioactive-contaminated pipe, and argued that the arbitration provision was fraudulently induced by assurances that there were no environmental or surface issues.

PROCEDURAL HISTORY

McAllen and related parties sued Forest Oil and others over alleged environmental contamination and personal injuries. Forest Oil moved to compel arbitration under a 1999 settlement agreement; the trial court denied the motion, and the court of appeals affirmed. The Supreme Court of Texas reversed and remanded for the trial court to compel arbitration and address severance of claims by nonsignatory plaintiffs after the arbitrators determine the scope of the arbitration clause.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Reverse the court of appeals' judgment. Remand to the trial court to compel arbitration and stay McAllen's litigation. The arbitrators must first determine the scope of the arbitration clause; afterward, the trial court must determine the severability and treatment of the nonsignatory plaintiffs' claims.

CASES CITED

- Schlumberger Technology Corp. v. Swanson, 959 S.W.2d 171 (Tex. 1997)
- J.M. Davidson, Inc. v. Webster, 128 S.W.3d 223, 227 (Tex. 2003)
- In re D. Wilson Construction Co., 196 S.W.3d 774, 781 (Tex. 2006)
- Doctor's Associates, Inc. v. Casarotto, 517 U.S. 681, 687 (1996)
- In re Kellogg Brown & Root, Inc., 166 S.W.3d 732, 738 (Tex. 2005)
- Prima Paint Corp. v. Flood & Conklin Manufacturing Co., 388 U.S. 395, 403-04 (1967)
- In re FirstMerit Bank, N.A., 52 S.W.3d 749, 753-54, 758 (Tex. 2001)
- Ramos v. Richardson, 228 S.W.3d 671, 673 (Tex. 2007)
- Prudential Insurance Co. of America v. Jefferson Associates, 896 S.W.2d 156, 162 (Tex. 1995)
- Weitzel v. Barnes, 691 S.W.2d 598, 600 (Tex. 1985)
- McCamish, Martin, Brown & Loeffler v. F.E. Appling Interests, 991 S.W.2d 787, 794-95 (Tex. 1999)
- In re Prudential Insurance Co. of America, 148 S.W.3d 124, 129-30 (Tex. 2004)
- Fairfield Insurance Co. v. Stephens Martin Paving, LP, 246 S.W.3d 653, 663-64 (Tex. 2008)
- In re Oakwood Mobile Homes, Inc., 987 S.W.2d 571, 573 (Tex. 1999)
- Certain Underwriters at Lloyd's of London v. Celebrity, Inc., 988 S.W.2d 731, 733 (Tex. 1998)
- Prudential Securities Inc. v. Marshall, 909 S.W.2d 896, 898 (Tex. 1995)
- Transportation Insurance Co. v. Faircloth, 898 S.W.2d 269, 280 (Tex. 1995)
- Bocanegra v. Aetna Life Insurance Co., 605 S.W.2d 848, 855 (Tex. 1980) (Campbell, J., concurring)
- Warehouse Associates Corporate Center II, Inc. v. Celotex Corp., 192 S.W.3d 225, 230-34 (Tex. App.—Houston [14th Dist.] 2006, pet. filed)

- Coastal Bank SSB v. Chase Bank of Texas, N.A., 135 S.W.3d 840, 844 (Tex. App.—Houston [1st Dist.] 2004, no pet.)
- IKON Office Solutions, Inc. v. Eifert, 125 S.W.3d 113, 124-28 (Tex. App.—Houston [14th Dist.] 2003, pet. denied)
- John v. Marshall Health Services, Inc., 91 S.W.3d 446, 450 (Tex. App.—Texarkana 2002, pet. denied)

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