Marshall Legal

Technology + Branding Lawyers

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Presentation

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Biography

Tim Marshall is the founder and director of Marshall Legal (www.marshall-legal.com.au). Marshall Legal acts for a variety of clients in relation to a broad range of commercial, intellectual property and information technology matters. Its principal client is SAI Global Limited, for which Marshall Legal has carriage of the protection of SAI Global Limited's brands, including its certification trade marks, and provides commercial, IT legal and intellectual property advice in relation to SAI Global's licensing and transactions in relation to its software and "software as a service" products.

Tim's career began at the patent and trade mark attorneys, Spruson & Ferguson, and then progressed to Freehills. He then moved to London in 1999, where he worked in the information technology/intellectual property department of Clifford Chance during the UK's "Dot Com Boom" where he acted for multinational corporations in relation to numerous "IP heavy" corporate transactions. After a stint at Herbert Smith in London he then established his own London based IP/IT law practice until returning to Australia in 2011 whereupon Marshall Legal was founded.

In its short history, Marshall Legal has become the leading and premier IP/IT firm in the Illawarra region of Australia (100km south of Sydney) and has developed close links and associations with the University of Wollongong's Start-Up Incubator programs, iAccelerate and StartPad.

Tim's recent work with and for SAI Global has involved the negotiation of a number of technology agreements with international companies including international companies located in Southeast Asia. As such, issues of enforcement across boarders have become major issues for SAI Global in the negotiation and risk-management strategies in relation to those agreements.

Tim is currently studying for a Masters in Intellectual Property Law at the University of Technology, Sydney. He has a first class honors degree in Molecular Biology and an LLB from Sydney University. He is admitted to practice as a solicitor in England and Wales and New South Wales, Australia.

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Introduction

How often is it that parties to the negotiation of a cross boarder technology contract go to great lengths making it internally consistent and encapsulating the commercial terms of the parties to arrive at the last clause of the document (usually) – Choice of Law and Jurisdiction. Each party reaches out for the comfort and familiarity of the law of their "home" country or state and deadlock results. As a compromise, the parties agree a "neutral" country or state; one that has no connection to either party. The rationale appears to be that neither party will be more or less advantaged or disadvantaged by choice of a "neutral" country or state. Bearing in mind the parties have spent considerable time (not to mention cost) finely balancing the risk in the substantive provisions of the agreement, negotiating obligations, exclusions of liability and limits of liability only to agree to stare into the abyss of the unknown - a system of law with which neither is familiar. The assumption is that the risk in terms of the effect of the choice of law is equal for both parties. But how can this be. It is a clear fiction. If you do not know what the law of the neutral jurisdiction is how can the parties assess whether or not the risk is equal. The obligations of the parties in an agreement are necessarily very different. For example, one may have the obligation to pay and the other to perform/provide goods or services. The law of the neutral jurisdiction may favour, the customer over the supplier or vice versa. The ostensible "equal" and "neutral" choice is far from either.

For the lawyers in such cross boarder negotiations, it is necessary to disclaim their advice and drafting thus: "The advice that we have provided in relation to this agreement is that which we would have given were the Agreement governed by the laws of home jurisdiction". We are, after all, licensed to practice only within the laws of our own jurisdiction and not that of any other jurisdiction. So, now the client is also without any redress in terms of the lawyers Professional Indemnity insurance - your PI policy will not underwrite advice given by you in relation to, for example, a Swedish law agreement. Sweden is often chosen as such a "neutral" jurisdiction.

We (the lawyers) are now put in the position of trying to persuade our clients of the need to spend yet more money on more lawyers and legal advice. In all likelihood, seeking foreign law advice is likely to kick off another round of negotiations between the parties' foreign counsels.

In this paper we discuss some practical difficulties with choice of law clauses, review at a high level (due to time constraints) some of the International instruments relevant to the choice of law in international commercial agreements and provide a list of those clauses in relation to which specific foreign law advice should be sought.

Threshold Issues – Jurisdiction

The threshold question in relation to the enforcement or interpretation of any international agreement is the jurisdiction of the court. This comes before considerations about which law will govern the interpretation of the contract.

Irrespective of what the parties have agreed as to the jurisdiction, the parties may commence proceedings anywhere they choose.

Often parties will try to limit the jurisdiction that they may use in resolution of disputes by stating that a particular country's courts or a particular city's courts are to have exclusive jurisdiction over the interpretation of the agreement, but it will be a question for the law of the country in which the proceedings were commenced as to whether the express agreement of the parties as to jurisdiction will effect a dismissal or stay of proceedings.

However, if there is no exclusive jurisdiction clause, it is likely that a court will hear the matter and apply its own rules (*lex fori*) to determine if it has jurisdiction or dismiss or stay the action on application by the defendant.

The choice of law clause and whether that will be effective/enforceable will, generally speaking, be a procedural question to be answered/dealt with in accordance with the law of jurisdiction (*lex fori*) in which the proceedings have been commenced. You cannot assume that the court (where ever it is) will respect the choice of law of the parties and it may chose to apply another law according to its rules, such as the *lex loci contractus* – (where the contract was made), the proper law of the contract, the *lex loci solutions* (where the contract is to be performed), or the *lex domicili*. You cannot therefore be entirely certain which country's law will govern the contract as this will be governed by the rules relating to choice of law clause of the *lex fori*.

However, whilst forum shopping does occur, the likelihood is that a party to an International agreement will either commence enforcement proceedings within its home jurisdiction, or another jurisdiction related to the contract or the other party; so, practically speaking, you can seek to narrow down the likely *lex fori* to a couple of likely jurisdictions.

Arbitration and International Instruments

One way to limit this uncertainty is for the parties to agree to resolve any and all disputes through alternative dispute resolution methods. Many technology contracts contain arbitration clauses that oblige parties to an escalating cascade of ADR – negotiation – escalation to senior management - mediation – arbitration. Such clauses are generally viewed as a separate agreement to the agreement in which they are contained. The result is that they survive termination of the agreement so as to resolve disputes relating to termination or wrongful termination.

International Instruments

Not surprisingly, there may be "arbitration-unfriendly" jurisdictions that may not respect the parties' choice of arbitration. Accordingly, the enforceability of arbitration clauses should also be confirmed with foreign counsel in the jurisdictions in which the parties are most likely to commence action.

Model Law - UNCITRAL

In arbitration clauses, it is important for the parties to agree the rules governing the arbitration. The Model Law under UNCITRAL is a common choice, and good choice in so far as the choice of law is concerned.

If selected, the UNCITRAL Model Law rules will govern the procedural aspects of the arbitration. They will not determine the interpretation of the agreement being arbitrated – that will be the law chosen by the parties in the choice of law clause in the agreement. Article 35 of UNCITRAL Model Law provides that "the tribunal shall apply the rules of law designated by the parties as applicable to the substance of the dispute". Therefore, if the Model Law under UNCITRAL is agreed as the rules of arbitration, then the parties can have a high level of comfort that their choice of law will be respected and/or enforced.

New York Convention

Backing the awards made under arbitration is the New York Convention 1958. It obliges the contracting states to recognise submission of the parties in an International agreement to arbitrate any differences which may arise from a defined legal relationship, including a contract.[1] The term "agreement" in this

[1] Article II (1) *New York Convention 1958*

context is defined as an "arbitral clause in a contract…signed by the parties.[2] Article II(3) obliges the courts of a contracting state to, "at the request of one of the parties, refer the parties to arbitration,".[3]

The New York Convention and the signatory countries thus provides parties with reassurance that the parties' choice of arbitration as the final and binding dispute resolution will be respected by the courts of the Convention signatory states. If the UNCITRAL Model Law is chosen, then the parties' choice of law will also be respected and enforced.

However, in terms of enforcement and recognition of awards made under arbitration in a contracting state, signatories to the New York Convention may limit their recognition and enforcement to arbitral awards made only in the territories of other contracting states (the "reciprocity limitation"). Therefore, if you are arbitrating in a non-New York Convention country hoping to enforce the resulting award in a New York Convention country, you will need to check if the New York Convention country that you are seeking to enforce the judgment in has claimed the reciprocity limitation.

In terms of APAC, Australia applied the Convention without exception, as did Cambodia, Myanmar, Thailand, Laos, Sweden and Switzerland. The latter two are included as they are often chosen as "neutral" choices of law and jurisdiction. China, India, Indonesia, Malaysia, The Philippines, Singapore, Viet Nam and New Zealand all claim the reciprocal limitation. China, Indonesia, India, Malaysia, The Philippines and Viet Nam also limit the application of the Convention to arbitral awards that are commercial in nature according to the law of those countries.

Therefore, if the states in which a party is likely to commence proceedings are all parties to the New York Convention, then the issue of jurisdiction would appear to be resolved and the arbitration agreement enforceable under Article II(2). Of the 193 members of the United Nations, 149 are a party to the New York Convention.

Vienna Convention on the International Sale of Goods or "CISG"

A further choice of law issue that may be relevant in technology agreements is the Vienna Convention on the International Sale of Goods or "CISG". Clearly, if the technology agreement relates to the sale of products embodying the software, then the CISG would apply, although whether it applies to "software only" products is not clear and there are differing views.

The effect of the CISG is to apply its terms to various aspects of contracts for sale of goods between parties whose places of business are in different contracting states,[4] thereby supplanting those of the law of the contract chosen by the parties in relation to the issues covered by the CISG. Furthermore, if conflict of law rules of a jurisdiction lead to the application of the laws of a contracting state, then the CISG will also apply, even if the parties are not contracting between the contracting states.[5] The CISG governs the formation of the contract of sale and the rights and obligations of the seller and buyer, but is not concerned with the validity of the contract or the effect that the contract may have on the property in the goods.[6] The operation of the CISG may however be excluded or varied by the parties.[7]

Its adoption in APAC has been moderate. Australia, New Zealand, Japan, China, Korea and Singapore are all signatories; but other regional majors such as Indonesia, Thailand and Malaysia are not. However be mindful of the "long-arm" nature of Article I(b). Notably absent from the CISG is the UK, but the United States is a party. It is reported that Viet Nam is considering signing the CISG as well.

[2] Article II (2) *New York Convention 1958*
[3] Article II (3) *New York Convention 1958*
[4] CISG, Article 1 and Article 1(a).
[5] CISG, Article 1(b).
[6] CISG, Article 4.
[7] CISG, Article 6.

Draft Hague Principle or Choice of Law in International Contracts

In addition to the international instruments discussed above the Hague Conference on Private International Law is also working on the "Draft Hague Principles on Choice of Law in International Contracts". This is a non-binding instrument, the aim of which is to "assist legal practitioners in drafting choice of law clauses, judges and arbitrators in resolving choice of law issues, and legislators in modernising or complementing their domestic law".[8]

The "Principles" comprise only 12 Articles and affirm the principle of party autonomy with limited exceptions.[9]

The exceptions provide that the Principles shall not prevent a court from applying overriding mandatory provisions of the law of the forum, which apply irrespective of the law chosen by the parties.[10] They do not apply to consumer contracts or employment contracts,[11] or matters relating to choice of jurisdiction and arbitration.[12]

What to ask your foreign law counsel

If the agreement is to be interpreted by anything other than your "home" law, you will need to seek foreign law advice. Because the obligations of the customer and supplier are very different, the foreign advice required will differ depending on whether you are representing the customer or the supplier.

For the Supplier

If acting for the supplier, your primary interests are that your client gets paid for completing the work, and that the limitation of liability clauses are effective.

Failure of a customer to pay is likely to be a fundamental term of the contract throughout the world and likely to be actionable under most systems of law. Enforceability and choice of law is therefore unlikely to be such a crucial issue in relation to payment objections. However, what may be more relevant in terms of enforcing payment is the jurisdiction in which the proceedings are commenced and pursued. Clearly, the jurisdiction in which the customer has significant assets is to be preferred. In addition if the state in which the customer has its assets is not a New York Convention country then further investigation into the enforceability of foreign judgments in that country may be necessary.

Exclusion clauses and limitation of liability clauses are, unlike payment clauses, likely to differ under the laws of different countries and different drafting may be required depending on the law of the jurisdiction chosen. Clearly, you want to be sure that:

(a) exclusions of liability (blanket or otherwise);
(b) exclusion of indirect, consequential or special damages; and
(c) limitations of total aggregate liability,

will not be ruled invalid, result in severance of such clauses from the agreement leading to unlimited or increased exposure to liability, or worse, that such clauses void the contract entirely.

[8] Draft commentary on the Draft Hague Principles on Choices of Law in International Contracts; Number 2013, p4, Hague Conference on Private International Law.
[9] Draft Hague Principles, Art 2(1).
[10] Draft Hague Principles, Art 11(1).
[11] Draft Hague Principles, Art 1(1).
[12] Draft Hague Principles, Art 1(5)(a).

For the Customer

If acting for the customer, you will be focused on timely progress and completion of the project, conformance with the promised specification, IP indemnities and data storage/security. Such matters are more difficult to adjudicate, compared with the main concerns of the supplier, as set out above. Also, the customer may require a wider variety of remedies, such as specific performance, as well as compensatory damages. In Australia, the former is an equitable remedy and comes with all the additional requirements of such remedies as embodied in various equitable maxims – clean hands, balance of convenience, damages not a suitable remedy, etc.

Failure of a supplier to meet deadlines and delivery dates may not give rise to significant damages under the law chosen, or a right to terminate, and alternative methods of redress such as liquidated damages may or may not be enforceable under the law chosen or require careful drafting in order to be effectively actionable under the chosen law.

Indemnities and hold harmless clauses are also matters of law that are likely to differ from jurisdiction to jurisdiction. For example, there are differences in jurisdiction as to whether the indemnified must mitigate its loss under an indemnity clause or not.

As more and more software becomes cloud based, the supplier, rather than the customer, becomes responsible for the collection, storage and security of the data processed by the software. This raises very difficult jurisdictional and often multi-party questions. For example, a customer may need to comply with data privacy/protection provisions of a particular country/region. Often these provisions prevent export of data for processing to other countries or countries with less stringent data protection laws, or require data be processed in accordance with the laws of the jurisdiction from where it has been obtained. Provisions in the technology agreement may seek to impose obligations on the supplier to comply with all relevant data privacy/protection laws. This then becomes a contractual obligation on the supplier to comply with the data privacy/protection laws of a jurisdiction that are not the same as those of the law chosen to govern the contract or the "home" law of the supplier.

General foreign advice

In addition to the specific clauses referred to above, you may need clarity on more general issues. These include understanding the type of breach that will lead to a right to terminate. Is it any breach, breach of a condition only or serious breach of an intermediate term, or some other formulation? What are the underlying concepts relating to the remedies available under the chosen law? Is it like Australia where the overarching principle is to put the plaintiff in the position that it expected to be in had the contract been performed.

In addition, your foreign counsel will need to advise on whether any of the terms of the agreement contain any vitiating factors such as anti-trust/competition provisions that may void the agreement *ab initio*, rendering it unenforceable.

Jurisdiction

As foreshadowed above, even if the parties have agreed on a particular law to govern the contract, the laws of the jurisdiction in which the proceedings are commenced could overturn the parties' choice. Recall that generally speaking, choice of law is not a substantive issue, to be governed by the law chosen by the parties, but a matter for the jurisdiction in which the proceedings are commenced. It is therefore well worthwhile having your foreign counsel advise on the enforceability (or lack of) a choice of law clause in an agreement in the likely jurisdiction where a claim is likely to be commenced, either by your client or the other party.

Conclusion

Practically speaking, it is difficult to determine if a court in particular jurisdiction will uphold the parties' choice of law and it will depend on the laws of the jurisdiction in which the proceedings are commenced. For this reason, agreeing to binding arbitration under the UNCITRAL Model Law and agreeing to exclusive jurisdiction of the court of a New York Convention country, and excluding the CISG should go a significant way to ensuring that the law chosen by the parties will be enforceable. Where the choice of law is that of another jurisdiction foreign law advice should be sought, and attention paid to specific provisions, depending on who you are acting for – customer or supplier.