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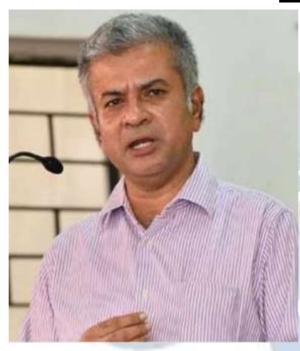
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ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and

refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

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"DETERMINING GOVERNING LAW IN INTERNATIONAL COMMERCIAL ARBITRATION: A CASE STUDY OF UNDEFINED GOVERNING LAW IN CROSS-BORDER CONTRACTS"

AUTHORED BY: - ADARSHA SARDA

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ABSTRACT:

Controlling law is crucial when coming to the application, implementation, and settlement of international contract disputes in arbitration agreements. Lack of governing legislation results in either party being in confusion, dragging out procedures, and problem of enforcement of rules. In this paper, the author focuses on without governing law cross-border agreements and the difficulties that arise in cases of dispute resolution, as well as the extent to which arbitral tribunals have to determine the proper governances' law. Should legal grounds not exist in this regard, the arbitrators may proceed by applying principles of general international commercial legislation or in accordance with the law of the place where arbitration takes place, which may not be in the best interest of the parties. Specificity of such standards may be used in a way that has adverse effects on fairness and certainty in arbitration. Using anonymised sample case scenarios and a doctrinal method of analysing principles of law in this study, it is explored how potentially different laws may yield extremely dissimilar meanings and outcomes. The study therefore finds that to avoid these pitfalls and to get international contract arbitration to be as efficient as the parties intended it should be, the governing law in those contracts must be as certain as possible.

<u>KEYWORDS:</u> The governing law, Article for international contracts, The Arbitration body, Uncertainty, Analysis between the two legal systems

INTRODUCTION:

Any time there are two parties from different countries, it is important to determine the law applicable to the parties' contract. The governing law mandates the applicability of rules covering the process of interpretation, and enforcement, as well as the method of resolving the contract dispute. In our case, there isn't a clause in the building contract between Company X

from Germany and Company Y from South Korea that sets the controlling law. This has resulted to a controversy since each company wanted the national law of their country of origin to apply. Such circumstances clearly demonstrate how various cross-border enterprise commitments are unsteady and sophisticated where the appropriate rule of law to be used is not defined.

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The primary question then becomes: This paper aims to answer the following research question: What are the consequences of international arbitration that does not have a governing law? When this happens, each of the parties to the contract may apply his or her nation's law to the terms of the contract hence resulting to vast differences that could complicate the solution to the contract dispute. Arbitration tribunals, which are usually expected to address such issues, do so by identifying the governing law according to the nature of the contract to the relationship between the parties as well as the standard practice in the sector. Nevertheless, this discretion creates uncertainty as to the final decision the tribunal would make over their client and over the respondent, thus the issues of predictability and fairness can be raised.

Introducing this choice in international contracts is the focus of this research, particularly with reference to the question of governing law to minimise such problems during international business transactions. A specified governing law is advantageous for contractual interpretation, for the interest of both parties and for easing the burden on the arbitral tribunal that would have otherwise been involved in deciding the governing law. Through considering the function of the governing law and the effects of its lack, this work intends to recognize the main lessons for the cross-border contracts, emphasizing that an accurate definition of the governing law clause is the governing law clause that defines the principles of a proper and rational dispute resolution in the framework of the international arbitration.

LITERATURE REVIEW:

SR.N	NATURE OF	NAME OF	COVERED/	RESEARCH	INTENDED
O	LITERATURE	LITERATURE	REVIEW	GAP	RESEARCH
1.	Journal Article	Neither express nor	Using	The article	In order to
		implied: rethinking	information	ignores	suggest a more
		governing law of	from arbitral	changing	flexible
		the arbitration	organizations,	trends in	framework for

	agreement ¹	surveys, and	party	regulating legal
		SEC filings,	autonomy,	decisions in
		the article	does not	arbitration
		evaluates three	evaluate	agreements, this
		methods for	long-term	study will
		identifying the	effects on	compare
		governing law	arbitration	jurisdictions,
	- 60	in arbitration	outcomes,	investigate the
		agreements	and does not	long-term impacts
		that lack an	compare	of each strategy
On	- 1	express choice	various legal	on arbitration, and
X.		and evaluates	systems	take into account
1.7	- 4	how well they	(common vs.	contemporary
.// /	. 41	correlate with	civil law).	developments in
7	V	business		party autonomy.
-	- AL	practices.	-	
		V	-	

SR.N	NATURE OF	NAME OF	COVERED/	RESEARCH	INTENDED
0	LITERATURE	LITERATURE	REVIEW	GAP	RESEARCH
2.	Journal Article	Establishing the	The paper	National laws	A unified method
- 1	VHI	Content of the	investigates	do not	for determining
145	an ana a	Applicable Law in	the many	adequately	the content of
		International	methods and	regulate the	relevant law in
		Arbitration ²	theoretical	content-of-	international
			underpinnings	laws inquiry	arbitration, model
			of determining	in	clauses and
			the subject	international	regulations for
			matter of	arbitration.	arbitral tribunals,
			relevant law in	Additionally,	and suggestions

 $^1\, Yuliya\, Chernykh, \textit{Neither Express nor Implied: Rethinking Governing Law of the Arbitration Agreement}, 40\, J.$

INT'L ARB. 1 (2023). ² Loizou, Soterios. "Establishing the Content of the Applicable Law in International Arbitration." European International Arbitration Review 10, no. 2 (2023): 55 pages.

		international	there is little	for national law
		arbitration. It	advice on a	provisions should
		looks at the	uniform	be the goals of
		developing	approach that	future research.
		tendency of	national	To maintain
		the	courts and	clarity and
		"facultative"	arbitral	predictability, it
		jura novit	tribunals	should be stressed
		arbitrator	should use	that parties and
		principle and	when	arbitrators consult
		compares the	addressing	continuously
Os		legal systems	this matter.	during the
. A.		and	A.	processes.
/ /		jurisprudence	12	
	· //	in significant	1	
/	\	arbitration		
		venues.	07	
		1	-	

SR.N	NATURE OF	NAME OF	COVERED/	RESEARCH	INTENDED
O	LITERATURE	LITERATURE	REVIEW	GAP	RESEARCH
3.	Journal Article	How to Determine	focuses on the	primarily	Extend studies to
- 1	V III I	the Law Governing	rulings made	focused on	examine how
		an Arbitration	by the UK	the UK and	other
		Agreement ³	Supreme	ignores how	jurisdictions,
		200	Court in the	the Enka v.	particularly civil
			Enka v. Chubb	Chubb	law nations,
			case regarding	principles are	follow or depart
			the applicable	used or	from the Enka v.
			law for	construed in	Chubb principles.
			arbitration	other	Determine
			agreements	common law	whether the

 $^{^3}$ Mary Campbell, How to Determine the Law Governing an Arbitration Agreement, 37 ARB. INT'L 1 (2021).

	when there	e and civil law	ruling's
	isn't a clea	r jurisdictions.	methodology is
	choice.	The potential	being embraced
	examines	how impact of this	internationally or
	this ruling	will decision on	encounters
	affect	global	opposition in
	arbitration	practices and	various legal
	procedures	s in whether other	systems.
	the United	courts may	
	Kingdom.	follow suit	
		are not	
0		discussed.	
A	1	- A	

SR.N	NATURE OF	NAME OF	COVERED/	RESEARCH	INTENDED
0	LITERATURE	LITERATURE	REVIEW	GAP	RESEARCH
4.	Journal Article	The Law	Investigates the	There is a dearth	Analyse the
		Governing the	challenges of	of empirical	advantages and
		Arbitration	determining the	information in	disadvantages
		Agreement: A	applicable law for	the study about	of using a
		Transnational	arbitration	the practical	global
V	77 LT 1	Solution? ⁴	agreements and	application of a	approach to
- 3	V 111	1 1	offers a	transnational	arbitration
		1 1	transnational way	approach in	agreements
		1.0	to reconcile the	different	through
			disparities in	countries with	empirical
			national laws.	different legal	study. Assess
			investigates the	and cultural	how the
			conflict between	traditions. does	viability of a
			the necessity for a	not examine	global strategy
			uniform legal	how a	in actual

⁴ Gary Born, *The Law Governing the Arbitration Agreement: A Transnational Solution?* in *International Commercial Arbitration: Commentary and Materials* (3d ed. 2021).

framework and	transnational	arbitration
the parties'	strategy may be	cases is
autonomy. The	used in practice	impacted by
intricacies of	when dealing	cultural,
international	with conflicts	jurisdictional,
accords and the	involving	and legal
possibility of a	different legal	system
unified strategy	systems (such as	variations.
are discussed	common vs civil	
theoretically.	law).	
	=20	

SR.N	NATURE OF	NAME OF	COVERED/	RESEARCH	INTENDED
O	LITERATURE	LITERATURE	REVIEW	GAP	RESEARCH
5.	Journal Article	The Law	Focuses on the	Focuses mostly	Test this
	1	Governing	validation	on the validation	flexible
		International	principle to	principle	approach on
		Arbitration	improve	without going	actual
		Agreements: An	enforceability	into great detail	arbitration
	1.5	International	while discussing	about other	cases to
		Perspective ⁵	the laws	strategies or	measure its
V	V7 1-1 1	TE	regulating	how the theory	utility and
- 3	V 1:1 1	1 1	international	relates to other	effectiveness.
		1 1	arbitration	legal traditions	Consider
		1.0	agreements.	around the	whether a
			examines how the	world. does not	purely case-
			validation	examine the	specific
			principle might	impact of this	approach adds
			help close	principle on	uncertainty to
			jurisdictional gaps	arbitration	arbitration
			and improve the	procedures in	outcomes or

 $^{^5}$ Gary Born, The Law Governing International Arbitration Agreements: An International Perspective , 26 SAcLJ 815 (2014).

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chances that	nations with	enhances
arbitration awards	non-common	fairness and
will be upheld.	law.	adaptability.

RESEARCH METHODOLOGY:

This research uses doctrinal analysis to explore legal rules and concepts related to governing law in international arbitration. Legal research also known as doctrinal research entail, conducting research in legislation and published case laws and legal theories to gain a background or a general understanding of the issue in regards to the law. In this study, doctrinal analysis will be used in dissecting the subject matter: governing law, by looking at how different jurisdictions handle the case of governing law that has not been specified in international contracts. This approach puts light on the legal discovery with primary and secondary research materials like the arbitration and the contract laws and the international arbitration regulations; the implications arising from the circumstance of the nonexistence of the controlling law. This analysis is crucial in understanding the reference nods for fundamental rules in international commercial contracts and arbitration agreements.

In addition to doctrinal research, this study also analyses other similar cases in international arbitration to understand how the tribunals deal with scenarios where there is uncertainty regarding the governing law. Comparative analysis entails consideration of other cases in other jurisdictions to determine how tribunals have dealt with similar issues and this shows typical practice, difficulty and discretion. This research compares contracts that are governed by different laws and where tribunals have employed different approaches to contract interpretation, enforcement, and resolution. This paper is a result of carrying out a theoretical analysis of an empirical review that seeks to explain the implications of an undefined governing law in international arbitration.

ANALYSIS AND CONTENT:

GOVERNING LAW IN ARBITRATION CONTRACTS

The applicable law in arbitration contracts defines how contract terms will be interpreted and what actions the legislature may enforce. Resolving disputes becomes challenging without a relevant governing law, as parties might rely on their own national laws and associated

expectations. The landmark decision in *Sulamérica Cia Nacional de Seguros SA v. Enesa Engenharia SA* (2012)⁶ addressed this issue of guiding law. The English Court of Appeal ruled that, if a contract is silent on the governing law, courts may consider the system of law closest and most directly connected to the contract and arbitration agreement. This ruling underscore the importance of clearly defining the law governing an arbitration agreement to reduce reliance on court interpretation, which might not align with the parties' intentions.

CONSEQUENCES OF UNDEFINED GOVERNING LAW

An ambiguous governing law can create serious issues in contract interpretation and enforcement. The 2020 UK Supreme Court case of *Enka Insaat ve Sanayi AS v. OOO Insurance Company Chubb*⁷ highlights this issue by resolving a dispute over an unclear law governing an arbitration clause. The Court ruled that, if a contract does not specify the governing law but places an arbitration clause in a particular jurisdiction, then the law of the seat—in this case, English law—applies to the arbitration agreement. This decision underscores the challenges that arise when the governing law is unclear, as courts or arbitral tribunals may need to infer the relevant statute, potentially resulting in extended disputes.

Each side could contend that its national law should apply in the case of Companies X and Y, leading to divergent interpretations. This ambiguity, particularly if each side insists on their home legal norms, might increase expenses and prolong the resolution of disputes. Because arbitral tribunals could not always render verdicts that meet the expectations of both parties, such circumstances highlight the need of include a controlling law language in international treaties.

ROLE OF ARBITRAL TRIBUNAL IN ABSENCE OF GOVERNING LAW

Arbitral tribunals have the authority to choose the applicable law in cases when a contract does not specify which law applies. The International Chamber of Commerce (ICC) Rules and the UNCITRAL Model Law are two examples of international arbitration rules that provide tribunals the power to apply any laws or regulations they see fit. This idea was highlighted in the Fiona Trust & Holding Corp v. Privalov (2007) case⁸, which upheld tribunals' authority to apply the law in light of the "real and substantial connection" to the dispute. In this case, the

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⁶ Sulamérica Cia Nacional de Seguros SA v. Enesa Engenharia SA (2012) EWCA Civ 638 (Eng.).

⁷ Enka Insaat ve Sanayi AS v. OOO Insurance Company Chubb, [2020] UKSC 38.

⁸ Fiona Trust & Holding Corp v. Privalov, [2007] UKHL 40.

House of Lords emphasized the importance of respecting the parties' intent to resolve disputes fairly and amicably. Arbitral courts may rely on objective criteria, such as the nature of the contract, the parties' principal places of business, or the location of contract performance, to determine the appropriate legal system.

Additionally, tribunals often turn to international standards, such as the UNIDROIT Principles or lex mercatoria (general business law), for a neutral framework. However, while these general principles may roughly align with the parties' expectations or intended contractual obligations, they are unlikely to precisely match either, adding complexity.

COMPARATIVE ANALYSIS OF GERMAN AND SOUTH KOREAN LAWS

Whether South Korean or German law applies could significantly impact the outcome of the dispute between Company X and Company Y. German law, rooted in civil law traditions, emphasizes written terms and contract language. The Federal Court of Justice of Germany (BGH NJW 1981, 1603) held that contract terms must be interpreted literally unless there is compelling evidence otherwise, offering predictability by enforcing a strict text-based interpretation of agreements.

On the other hand, the South Korean legal system, which also has its roots in civil law, puts the accent on equity and bust specifies the principle of fairness and justice referring to the circumstances and the goal behind an act. Nevertheless, in the 2011 Da22092 case the supreme court of South Korea accepted the concept of a broad and somewhat a contextual approach. This contextual approach can provide tribunals a better way to determine the parties' rights and duties in a better manner.

The decision of the tribunal between selecting the German or the South Korean law therefore could make or mar the case. A literal application of the law under German law may be particularly beneficial for the party which wants to rely on the contract as literally as possible; On the other hand, application of the South Korean principals effectively makes give a fair, albeit more uncertain, result which takes context and justice into consideration. Reading through this comparative analysis, it becomes realis clear that great emphasis should be placed on defining the governing law of contracts in international contracts in order to minimize risks and enhance the ease of arbitration.

Finally, the choice of either South Korean or Germany law by the tribunal could affect the case in some way. German law would most probably support the letter, while South Korean law might be more favourable to the spirit of the fairness. This comparison shows the huge differences that various legal systems can lead to, and shows why the identifying of a correct governing law clause in an international contract is paramount.

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CASE LAWS:

O ICC CASE NO. 11122 (2013)9

- <u>Summary:</u> In the subject case, the German corporation and a South Korean company were opposing each other and there was no express provision in the arbitration clause regarding the legislation to be followed. This way, the tribunal was able to determine which legal system was most closely connected to the transaction and from there set the proper law. There are many factors which have been taken into consideration by the tribunal, the main factors consist of location of the primary contractual obligations along with the domicile of the main parties, finally tribunal adopted the German law.
- <u>Significance</u>: It is interesting that, in general, the choice of law is not at issue unless it has been delegated to the parties to make the selection; the case underlines that this is the role of the tribunal. It underlines how important it is to include a governing law clause in case this is the only way to avoid uncertainty and ensure that beloved settlement provisions will be effective.

O UNCITRAL CASE NO. 2018-01 (2018)¹⁰

- **Synopsis:** The tribunal was capable of choosing the right law taking into consideration the intention of the parties to the transaction and the nature of the transaction in question. The tribunal having taken into consideration the elements while choosing the legal framework essentials included norms.
- <u>Significance:</u> This case supports a premise that arbitral tribunals enjoy broad non-statutory discretion where no governing law has been chosen. It also shows how important it is the use of codes of conduct to help the tribunals to reach for fairness.

⁹ International Chamber of Commerce, Case No. 11122, Award (2013).

¹⁰ United Nations Commission on International Trade Law, Case No. 2018-01, Award (2018).

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o ICC CASE NO. 23077/GR (2017-2020)¹¹

• **Synopsis:** Since arbitration was sited in Geneva, the tribunal use Swiss law in a contractual dispute between an Austrian and Mauritanian company; the use of neutral and reputable legal system grants credibility to the solution.

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• <u>Significance:</u> The case shows that when arbitration takes place in a jurisdiction with a strong legal regime the tribunal might be inclined to opt for a middle legal regime. This also underlines the role of the arbitration seat with regard to the question of the law governing the contract.

o ICC Case No. 15022 (2015)¹²

- **Synopsis:** As a contract matter and due to economic risks, the tribunal used English law which, despite its change as the contract law, has stable and known predictability in international business.
- <u>Significance:</u> English law provides a blanket and certain legal regulation devised for international business stressing the importance of a chosen governing law that is most responsive to business laws.

o UNCITRAL CASE NO. 2012-01 (2012)¹³

- <u>Synopsis:</u> In a case between Brazilian and Chinese companies, the tribunal relied on the UNCITRAL model on dealing with contracts' loopholes and for fairness.
- <u>Significance:</u> This particular case serves to show how generic principles such as the UNIDROIT Principles in solving international contractual relations disputes are accepted internationally. This connotes the importance of these principles as govern tools that enhance on the002predictability or enforcement of the arbitral awards.

CONCLUSION:

That, increasingly, underlines the significance of the governing law clause in international arbitration agreements. The contingencies should also be sufficiently specific to afford clear guidance to resolve contract interpretations or enforcement problems, thus constituting the

¹³ United Nations Commission on International Trade Law, Case No. 2012-01, Award (2012).

¹¹ International Chamber of Commerce, Case No. 23077/GR, Award (2017-2020).

¹² International Chamber of Commerce, Case No. 15022, Award (2015).

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foundation for effective, predictable, and practical dispute resolution. In the case of contractual relations between Company X and Company Y, both of them demand that their national law applies to the relation, resulting in intricate legal problems because of the lack of a single governing law. This case exemplifies the implications of ambiguity, also the additional expenses and time researchers are doomed for confusion of the rule of law. The legal gap is filled here by the arbitral tribunal, which applies international norm neutral to the conflict or determines the most suitable law; however, the result will not necessarily conform to the latter's expectations.

It is noteworthy that both ICC and UNCITRAL rules allow tribunals to rely on the parties' discretion when the governing law remains unspecified. This discretion, however, adds considerable variability because tribunals may rely, for example, on lex mercatoria or the nature of the transaction even if it does not reflect the parties' intention. Although tribunal discretion is at times appropriate, they are no substitute for the stability and certainty that a clearly recognized governing law affords a contract.

In order to avoid similar problems in the course of future conclusion of the international agreements, the parties should focus on the critical approach as to the formulation of the provisions on the governing law. Since the nature of the governing law defines the type of forum, defining the governing law narrows down the uncertainty, restrain the discretion of the tribunal and makes the process of dispute resolution more efficient and fairer. Substantial governing law provisions further improve contractual bifurcation, and contribute to the interests of both the parties involved in the international arbitration and fair arbitration.

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