Report on the ERA conference of 29-30 October 2020 on 'Recent Developments in the European Law of Civil Procedure'

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On 29-30 October 2020, ERA – the Academy of European Law – organized a conference on "Recent Developments in the European Law of Civil Procedure", offering a comprehensive overview of civil procedural matters at the European and global level. The program proved very successful in conveying the status quo of, but also a prospective outlook on, the topics that currently characterise the debates on cross-border civil procedure, including the Brussels I-bis Regulation and 2019 HCCH Judgments Convention, the digitalisation of access to justice, the recent developments on cross-border service of documents and taking of evidence, and judicial cooperation in civil and commercial matters in the aftermath of Brexit.

For those who did not have the opportunity to attend this fruitful conference, this report offers a succinct overview of the topics and ideas exchanged over this two-day event.

Day 1: The Brussels I (Recast) and Beyond

The Brussels regime, its core notions and the recent contributions by the CJEU via its jurisprudence were the focus of the first panel. In this framework, Cristina M. Mariottini (Max Planck Institute Luxembourg) tackled the core notion of civil and commercial matters (Art. 1(1)) under the Brussels I-bis Regulation. Relying, in particular, on recent CJEU judgments, among which C-551/15, *Pula Parking*; C-308/17, *Kuhn*; C-186/19, *Supreme Site Services*, she reconstructed the functional test elaborated by the CJEU in this area of the law, shedding the light on the impact of recent developments in the jurisprudence of the Court, i.a., with respect to immunity claims raised by international organizations.

Marta Pertegás Sender (Maastricht University and University of Antwerp) proceeded then with a comprehensive overview of the choice-of-court agreement regimes under the Brussels I-bis Regulation and the 2005 Hague Convention on choice of court agreements. Relying, inter alia, on the CJEU case law on Article 25 of the Brussels I-bis Regulation (C-352/13, *CDC Hydrogen*; C-595/17, *Apple Sales*; C-803/18, *Balta*; C-500/18, *AU v. Reliantco*; C-59/19, *Wikingerhof* (pending)), she highlighted the theoretical and practical benefits of party autonomy in the field of civil and commercial matters.

The interface between the Brussels I-bis Regulation and arbitration, and the boundaries of the arbitration exclusion in the Regulation, were the focus of Patrick Thieffry (International Arbitrator; Member of the Paris and New York Bars) in his presentation. In doing so he analysed several seminal cases in that subject area (C-190/89, *Marc Rich*; C-391/95, *Van Uden*; C-185/07, *West Tankers*; C?536/13, *Gazprom*), exploring whether possible changes were brought about by the Brussels I-bis Regulation.

The evolution of the CJEU's jurisprudence vis-à-vis the notions of contractual and non-contractual obligations were at the heart of the presentation delivered by Alexander Layton (Barrister, Twenty Essex; Visiting Professor at King's College, London). As Mr Layton effectively illustrated, the CJEU's jurisprudence in this field is characterized by two periods marking different interpretative patterns: while, until 2017, the CJEU tended to interpret the concept of contractual matters restrictively, holding that "all actions which seek to establish the liability of a defendant and which are not related to a contract" fall within the concept of tort (C-189/87, *Kalfelis*), the Court interpretation subsequently steered towards an increased flexibility in the concept of "matters relating to a contract" (C-249/16, *Kareda*; C-200/19, *INA*).

The principle of mutual trust of the European Area of Freedom, Security and Justice vis-à-vis the recent Polish judicial reform (and its consequential backlash on the rule of law) was the object of the presentation delivered by Agnieszka Fr?ckowiak-Adamska (University of Wroc?aw). Shedding the light on the complex status quo, which is characterized by several infringement actions initiated by the European Commission (C?192/18, *Commission v Poland*; C?619/18, *Commission v Poland*; C?791/19 R, Commission v Poland (provisional measures)) as well as

CJEU case law (e.g. C?216/18 PPU, *Minister for Justice and Equality v LM*), Ms Fr?ckowiak-Adamska also expounded on the decentralised remedies that may be pursued by national courts in accordance with the EU civil procedural instruments, among which public policy, where available, and refusal by national courts to qualify Polish judgments as "judgments" pursuant to those instruments.

The second half of the first day was dedicated to the 2019 HCCH Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters. In this context, it is of note that the EU, among others, has opened a Public Consultation into a possible accession to the Convention (see, esp., Thomas John's posting announcing the EU's public consultation). While Ning Zhao (Senior Legal Officer, HCCH) gave an overview of the *travaux preparatoires* of the 2019 HCCH Convention and of the main features of this instrument, Matthias Weller (University of Bonn) delved into the system for the global circulation of judgments implemented with the Convention, highlighting its traditional but also innovative features and its potential contributions, in particular to cross-border dealings.

The roundtable that followed offered the opportunity to further expound on the 2019 HCCH Judgments Convention. Namely, Norel Rosner (Legal and Policy Officer, Civil Justice, DG for Justice and Consumers, European Commission) explained that the EU has a positive position towards the Convention, notably because it facilitates the recognition and enforcement of EU judgments in third countries and because it will help create a more coherent system of recognition and enforcement in the EU Member States of judgments rendered in other (of course, non-EU) Contracting States. The roundtable also examined the features and objectives of Article 29, which puts forth an "opt-out" mechanism that allows Contracting States to mutually exclude treaty obligations with those Contracting States with which they are reluctant to entertain the relations that would otherwise arise from the Convention. As Ms Mariottini observed, this provision – which combines established and unique characters compared to the systems put forth under the previous HCCH Conventions – contributes to defining the "territorial geometry" of the Convention: it enshrines a mechanism that counterbalances the unrestricted openness that would otherwise stem from the universality of the Convention, and is a valuable means to increase the likelihood of adherence to the Convention. Matthias Weller proceeded then to explore the consequences of limiting a Contracting State's objection window to 12 months from adherence to the Convention by the other Contracting State and raised the case of a Contracting State whose circumstances change so dramatically, beyond the 12-month window, that it is no longer possible to assure judicial independence of its judiciary. In his view, solutions as the ones proposed by Ms Fr?ckowiak-Adamska for the EU civil procedural instruments may also apply in such circumstances.

Day 2: European Civil Procedure 4.0.

Georg Haibach (Legal and Policy Officer, Civil Justice, DG for Justice and Consumers, European Commission), opened the second day of the conference with a detailed presentation on the ongoing recast of the Service Regulation (Regulation (EC) No 1393/2007). Emphasizing that the main objective of this reform focuses on digitalization – including the fact that the proposed recast prioritises the electronic transmission of documents – Mr Haibach also shed the light on other notable innovations, such as the possibility of investigating the defendant's address.

The Evidence Regulation (Council Regulation No. 1206/2001), which is also in the process of being reformed, was at the core of the presentation delivered by Pavel Simon (Judge at the Supreme Court of the Czech Republic, Brno) who focuses not only on the status quo of the Regulation as interpreted by the CJEU (C-283/09, Wery?ski; C-332/11, ProRail; C-170/11, Lippens), but also tackled the current proposals for a reform: while such proposals do not appear to bring major substantive changes to the Regulation, they do suggest technological improvements, for instance favouring the use of videoconference.

In her presentation, Xandra Kramer (University of Rotterdam and Utrecht University) analysed thoroughly two of the CJEU judgments on "satellite" instruments of the Brussels I-bis Regulation: the EAPO Regulation (Regulation No. 655/2014); and the EPO Regulation (Regulation No. 1896/2006). C-555/18, was the very first judgment that the CJEU rendered on the EAPO Regulation. Xandra Kramer remarked the underuse of this instrument. In the second part of her lecture, she identified two trends in the judgments on the EPO Regulation (C?21/17, Caitlin Europe; Joined Cases C?119/13 and C?120/13, ecosmetics; Joined Cases C?453/18 and C?494/18, Bondora), observing that the CJEU tries, on the one hand, to preserve the efficiency of the EPO Regulation, while at the same time seeking to assure an adequate protection of the debtor's position.

In the last presentation of the second day, Helena Raulus (Head of Brussels Office, UK Law Societies) explored the future judicial cooperation in civil matters between the EU and the United Kingdom in the post-Brexit scenario. Ms Raulus foresaw two potential long-term solutions for the relationship: namely, relying either on the 2019 Hague Convention, or on the Lugano Convention. In her view, the 2019 Hague Convention would not fully answer the future challenges of potential cross-border claims between EU Member States and the UK: it only covers recognition and enforcement, while several critical subject areas are excluded (e.g. IP-rights claims); and above all, from a more practical perspective, it is still an untested instrument. Ms Raulus affirmed that the UK's possible adherence to the Lugano Convention is the most welcomed solution among English practitioners. Whereas this solution has already received the green light from the non-EU Contracting States to the Lugano Convention (Iceland, Norway, and Switzerland), she remarked that to date the EU has not adopted a position in this regard.

The conference closed with a second roundtable, which resumed the discussions on the future relations between the EU and the UK on judicial cooperation in civil law matters. Christophe Bernasconi (Secretary General, HCCH) offered an exhaustive review on the impact of the UK withdrawal from the EU on all the existing HCCH Conventions. From his side, Alexander Layton wondered if it might be possible to apply the pre-existing bilateral treaties between some EU Member States and the UK: in his view, those treaties still have a vestigial existence in those matters non-covered by the Brussels I-bis Regulation, and thus they were not fully succeeded. In Helena Raulus's view, such treaties would raise competence issues, since the negotiating of such treaties falls exclusively with the EU (as the CJEU found in its Opinion 1/03). As Ms Raulus observed, eventually attempts to re-establish bilateral treaties between the Member States and the UK might trigger infringement proceedings by the Commission against those Member States. The discussion concluded by addressing the 2005 Hague Convention and it is applicability to the UK after the end of the transition period.

Overall, this two-day event was characterized by a thematic and systematic approach to the major issues that characterize the current debate in the area of judicial cooperation in civil and commercial matters, both at the EU and global level. By providing the opportunity to hear, from renowned experts, on both the theoretical and practical questions that arise in this context, it offered its audience direct access to highly qualified insight and knowledge.

Cross Border Dispute Resolution under AfCFTA: A Call for the Establishment of a Pan-African Harmonised Private International Legal Regime to Actualise Agenda 2063*

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Introduction

Over three score and ten years ago, Professor G. C. Cheshire, then Vinerian Professor of Law at the University of Oxford, issued a clarion call for the wider study of private international law in general and the renaissance of English private international law in particular.[1] As explored below, it is pertinent for African States to respond to that call today, especially within the context of the need to actualise the Agenda 2063 of the African Union, which aims for the establishment of a continental market with the free movement of persons, goods and services which are crucial for deepening economic integration and promoting economic development in Africa.

The Agreement establishing African Continental Free Trade Area

In January 2012, the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, which held in Addis Ababa – Ethiopia, adopted a decision to establish an Africa wide Continental Free Trade Area. On 30th May 2019, the Agreement establishing the African Continental Free Trade Area ("AfCFTA"), entered into force.[2] With an expected participation of 55 countries, a combined population in excess of 1.3 billion people and a combined Gross Domestic Product (GDP) of over $2.5 trillion, the AfCFTA will be the largest trade area since the formation of the World Trade Organisation (WTO) in 1995.

Despite the benefits that the AfCFTA is widely expected to bring, Nigeria curiously delayed at first in signing the Agreement. Thankfully, reason ultimately prevailed and Nigerian signed the agreement at the 12th Extraordinary Session of the African Union (AU) Heads of State and Government held in Niamey, Niger. Very recently, the Federal Executive Council of Nigeria has also taken the decision to ratify the AfCFTA. What is now left is for the Nigerian National Assembly to domesticate the Agreement as required by the Nigerian Constitution.

It is pertinent to note that although the AfCFTA has justifiably received – and continues to receive – wide publicity, what is seldom talked about is that the Agreement is only a part of a larger long term plan, christened Agenda 2063, to ultimately establish an African Economic Community with a single Custom Union and a single common market to "accelerate the political and socio-economic integration of the continent" in accordance with Article 3 of the AU's Constitutive Act.[3]

The case for Harmonisation

The economic integration and the concomitant growth in international relationships that are sure to result from these integration efforts will undoubtedly lead to a rise in cross border disputes, which call for resolution using the instrumentality of private international law. When, not if, these disputes arise, questions such as what courts have jurisdiction, what law(s) should apply, and whether a judgment of the courts of one member State will be recognised and enforced by the courts of the other member States, are just some of the key questions that will arise.[4]In the words of Professor Richard Frimpong Oppong, a well-developed and harmonised private international law regime is an indispensable element in any economic community.[5]Curiously however, the role of private international law in facilitating and sustaining the on-going African economic integration efforts is conspicuously missing.[6]

It is against this backdrop that this writer joins others in calling for the establishment of a pan-African harmonised private international legal regime as an instrument of economic development in general and as part of the modalities for the actualisation of Agenda 2063 in particular. Incidentally, one of the first of such calls predates the adoption of the decision to establish the AfCFTA. As far back as 2006, Professor Oppong had argued that given the significant divergence in the approaches to the subject of private international law in Africa, if the idea of a common market is to materialise, African countries must embark on a comprehensive look at, and reform of, the regime of private international law.[7]He specifically stressed the need for harmonised private international law rules to govern the operation of the divergent national substantive rules.[8]Very recently, Lise Theunissen has stated, and rightly too, that the non-harmonised state of private international law in Africa forms an important obstacle to international trade and to cross-border economic transactions and that for this reason, it is crucial for the African economic integration to strive for a harmonisation of private international law.[9]Beyond these, harmonisation has other benefits.

It has been argued that harmonisation helps promote equal treatment and protection of citizens of an economic community as well as other economic actors transacting or litigating in the internal market by subjecting them to a uniform and certain legal regime.[10]As the learned authors of *Dicey, Morris and Collins, The Conflict of Laws* observed, part of the rationale behind the EU Judgments Regulation and its predecessor Convention is, “to avoid as far as possible the multiplication of the bases of jurisdiction in relation to the same legal relationship and to reinforce legal protection by allowing the plaintiff easily to identify the court before which he may bring an action and the defendant reasonably to foresee the court before which he may be sued".[11]Accordingly, it has been said that harmonisation boosts certainty in the law, thus reducing transaction and litigation costs for economic actors within the Community.[12]Africa is in dire need of this certainty.

Potential Challenges to Harmonisation

This writer is not unmindful of the challenges that such a project will pose especially having regard to the diverse legal traditions in Africa; the underdeveloped nature of the subject of private international law in Africa;[13]and the diversity of approach to the question.[14]These challenges are however not insurmountable. Thankfully, there are precedents and successful examples that the relevant actors can point to, for inspiration. And the first that readily comes to mind is the well-established harmonised private international law system applicable within the European Union. There are also other examples like the Organisation of American States with its Inter-American Conference on Private International Law. Similarly, within the Common Market of the Southern Cone (MECOSUR) [comprising Argentina, Brazil, Uruguay, and Paraguay] Article 1 of the Asuncion Treaty 1991 expressly recognises the 'harmonization of legislation in relevant areas' as cardinal to the strengthening of their stated integration process.

Recommendation on the Modalities for Harmonisation

In considering the above examples, however, the question must be asked whether it is desirable to import, for instance, the tried and tested European Union private international law model into Africa or whether it is necessary to develop an autochthonous private international law system that responds to the socio-economic, cultural, and political interests of countries in Africa. In my view, the answer is in the question. It is pertinent to state at this juncture that what this writer advocates at this stage is the harmonisation of the private international law rules of the various member states in the African Union as opposed to the unification of the substantive laws which is the subject of other efforts, a case in point being the Organisation for the Harmonization of Commercial Law in Africa

(OHADA).

Lise Theunissen[15]has very helpfully recommended a four-pronged approach to tackling the issue of the underdeveloped and non-harmonised state of private international law in the African Union as follows – (i) sensitization of national courts and the enlargement of regional economic community courts to ensure a harmonised and authoritative interpretation to relevant private international law legislation; (ii) a methodical continent wide engagement effort including the establishment of a private international law orientated body under the African Economic Community; (iii) the ratification of international conventions by African Union member states for instance the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards or the Hague Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters; and (iv) the exploration of a potential collaboration with non-State actors for instance the Research Centre for Private International Law in Emerging Countries at the University of Johannesburg. At the very least, these suggestions deserve to be accorded close consideration.

Before now, Oppong had equally suggested the establishment of a specialised body with the specific mandate to deal with private international law regime. He also advocated for the establishment of a court empowered to provide authoritative and final interpretation of the unified rules of private international law and the entrenchment of the principle of mutual trust and respect by all African Union member states of each other's national judicial competence.[16]Above all, urgent steps must be taken to elicit the requisite political will and obtain the institutional support necessary to actualise the harmonised rules of private international law in Africa. As a starting point, however, this paper calls for the immediate convocation of an Inter-African Conference on Private International Law.

Conclusion

Despite the enormous challenges that is sure to militate against the harmonisation of the private international law rules in a divergent community like Africa, the general belief is that the African Union and the people of Africa stand a better chance to actualise the aims of establishing a common market, deepening economic integration and promoting economic development in Africa with a harmonised private international legal regime. Since Professor Cheshire issued his clarion call in 1947, European courts, lawyers and academics have largely heeded the call, but the same cannot be said of their African counterparts. The best time to have heeded the call was in 1947, the next best time is now.

*This Paper was first published in Law Digest Journal Spring 2020

[1]G. C. Cheshire 'Plea for a Wider Study of Private International Law' (1947) Intl L Q 14.

[2]African Union, Agreement establishing the African Continental Free Trade Area, available at https://au.int/en/treaties/agreement–establishing–african–continental–free–trade–arealast accessed on 14 February 2020.

[3]African Union, Constitutive Act of the African Union, available at https://au.int/en/treaties/constitutive–act–african–unionlast accessed on 14 February 2020.

[4]Chukwuma Okoli, 'Private International Law in Africa: Comparative Lessons' available at https://conflictoflaws.net/2019/private–international–law–in–africa–comparative–lessons/last accessed on 15 February 2020.

[5]Richard Frimpong Oppong, 'Private International Law and the African Economic Community: A Plea for Greater Attention' The International and Comparative Law Quarterly, Vol. 55, No. 4 (Oct., 2006), Cambridge University Press pp.911-928 available at https://www.jstor.org/stable/4092623

[6]Richard Frimpong Oppong, (n 5 above).

[7] Richard Frimpong Oppong, (n 5 above).

[8]Richard Frimpong Oppong, (n 5 above).

[9]Lise Theunissen, 'Harmonisation of Private International Law in the African Union' available at https://www.afronomicslaw.org/2020/02/08/harmonisation–of–private–international–law–in–theafrican–union/accessed on 15 February 2020.

[10]Richard Frimpong Oppong, (n 5 above). See also A. Dickinson, "Legal Certainty and the Brussels Convention Too Much of a Good Thing?" in Pascal de Vareilles-Sommieres (ed), *Forum Shopping in the European Judicial Area* (Oxford, Hart Publishing, 2007), ch 6.

[11]L Collins (gen ed), *Dicey, Morris and Collins, The Conflict of Laws* (London, Sweet and Maxwell, 14thedn, 2006), observed at para 11-062.

[12]Richard Frimpong Oppong, (n 5 above).

[13]Chukwuma Okoli on his part believes that there has been significant progress and that is a growing interest in the study of private international law in Africa. See Chukwuma Okoli, 'Private International Law in Africa: Comparative Lessons' available at https://conflictoflaws.net/2019/private–internationallaw–in–africa–comparative–lessons/accessed on 15 February 2020. While this is true, he must however acknowledge that there is still a lot of room for improvement.

[14]In this regard, Lise Theunissen, (n 8 above) has lamented the lack of any efforts to establish a private international law orientated body under the African Economic Community, despite the necessity and urgent need for same.

[15]Lise Theunissen, (n 8 above).

[16]Richard Frimpong Oppong, (n 5 above).

How Chinese Courts Tackle Parallel Proceeding Issues When Offshore Arbitration Proceeding Is Involved?

(The following case comment is written by Chen Zhi, a PhD candidate at the University of Macau?

The parallel proceeding is a long-debated issue in International Private Law, by which parties to one dispute file two or more separate dispute resolution proceedings regarding the same or similar problems. Such parallel proceedings will increase the cost and burdensome of dispute resolution, and probably result in the risk of conflicting judgements, undermining the certainty and integrity of it. In the field of international civil and commercial litigation, parallel proceeding issue is always subject to domestic civil procedure rules or principles like lis pendens, res judicata and forum non-convenience, while the problem may be complicated when arbitration proceeding is involved. According to the New York Convention, state court which seizes the dispute has an obligation to refer the case to arbitration at the party's request, except in case the arbitration agreement is void, inoperable or unable to be performed. Nonetheless, the New York Convention does not address the standards for the validity of arbitration agreement nor the scope of judicial review on such agreement. In particular, it is silent on the scenario where the validity of the same arbitration agreement is filed before the judges and arbitrators simultaneously. This problem can be exacerbated when the court seizure of the issue concerning validity of arbitration agreement is not the court in the place of the seat of arbitration, which in principle does not have the power to put final words on this issue.i
Some jurisdictions are inclined to employ an arbitration-friendly approach called prima facies review, by which the court will constrain from conducting a full review on the substantive facts and legal matters of the case before the tribunal decide on the jurisdictional issues, and grant a stay of litigation proceeding

accordingly. This approach derives from a widely accepted principle across the world called "competence-competence" which endows the tribunal with the power to decide on its jurisdiction.ii Admittedly, prima facies review is not a corollary of the competence-competence principle. Still, it was instead thought to maximize the utility of competence-competence and enhance the efficiency of arbitration by minimizing the judicial intervention beforehand.

However, some jurisdictions like Mainland China do not employ a prima facies review, and they are reluctant to acknowledge tribunal's priority in deciding jurisdiction issue, irrespective of the fact that the seat is outside their territories. This article aims to give a brief introduction on the most recent case decided by the Supreme People's Court (hereinafter as SPC), and discuss how Chinese courts would like to tackle parallel proceeding.

Case Information

Keep Bright Limited?Appellant?v. SuperAuto Investments Limited and others 2013 Min Zhong Zi No. 3 (hereinafter as Keep Bright Case), decided on 20 December 2018.

Facts and background

The dispute regards four parties, among which two major ones are companies both incorporated in the British Virgin Islands: Keep Bright Limited and SuperAuto Investments Limited (hereinafter as K and S respectively). All parties signed a Letter of Intent (LOI) on 12 April 2006 regarding a complicated transaction which involved two main parts; the first part is the transfer all share of S's Hong Kong based 100% subsidiary to K, the second part is the transfer of title of a real estate located in Zhuhai, Guangdong Province. The LOI stipulated that it shall be governed by and construed according to the Hong Kong law, while the dispute resolution clause provided that any dispute arises from the LOI can be referred to either arbitration in Hong Kong or litigation in the location of the asset.

Following the conclusion of the contract, both K and S were dissatisfied with the performance of the LOI and commenced separate dispute resolution proceedings. K initiated an arbitration before the Hong Kong International Arbitration Center (HKIAC) in March of 2010, while S filed a lawsuit against H and other parties before the Guangdong Provincial Court in April of the same year. Following two partial awards in 2011 and 2012, the HKIAC tribunal concluded the proceeding through rendering a final award in 2014, and K subsequently sought for enforcement of the awards which was granted by the Hong Kong Court of First Instance in 2015.

The litigation proceeding in Guangdong Court, instead, was still ongoing during the arbitration in Hong Kong, and for this reason, in 2011 K applied for a stay of litigation proceeding due to ongoing arbitration concerning the same matter in Hong Kong before the court, but the latter dismissed such request. The Guangdong Court issued its judgment on August 2012 which was contradictory with the awards given by the HKIAC, by using laws of Mainland China as the governing law by reason of failure to identify relating Hong Kong laws under the choice-of-law clause of LOI. The case was then appealed to the SPC, leaving two main issues to be decided: first, whether the Guangdong Court's rejection to the stay of proceeding constituted a procedural error, and second, whether the Guangdong Court has wrongfully applied the law of Mainland China instead of the Hong Kong law.

The decision of the SPC

As for the first issue, SPC decided that parallel proceeding phenomenon shall not prejudice the jurisdiction of courts in Mainland China, except in case the arbitration awards rendered offshore has been recognized in China already. Therefore, it is proper for the Guangdong Court to continue litigation proceeding irrespective of the ongoing arbitration in Hong Kong. The SPC also noted in its final decision that H did not raise an objection to jurisdiction before the court based on the arbitration agreement.

As for the second issue, the SPC found that Guangdong Court was in error in the application of law and overturned the substantive part of the Guangdong Court's decision, making the judgment in line with awards in Hong Kong.

Comment

By the above decision of the SPC, it's clear that courts are in no position to decide on the stay of proceeding despite a pending arbitration outside the territory of Mainland China, with one exception that is the case of arbitration proceeding concluded, recognized and ready to be or already under enforced by Chinese courts. This approach is in line with the stipulation of the SPC's Judicial Interpretation on Civil Procedural Law in 2015 which tackle parallel proceedings where parties have filed other litigation proceeding before courts other than Mainland China regarding the same or identical dispute. iii Though the Judicial Interpretation does not cover parallel proceeding involving arbitration, the Keep Bright Case reveals that it makes no difference. There is no comity obligation for arbitration.

Moreover, though no objection to jurisdiction was raised in Keep Bright, it is safe to conclude that Chinese courts would likely grant arbitration tribunals the priority to decide on the jurisdiction issue, even when they are not the court in the place as the seat of arbitration, which, per the New York Convention, should have no power to put the final word on the effectiveness of arbitral agreement or award. As per another case ruled in 2019, a court in Hubei Province refused to recognize and enforce a Hong Kong seated arbitral award based on the reason that court in Mainland China had decided otherwise on the jurisdictional issue, by which the recognition of such an award would constitute a breach of public policy.iv

In a nutshell, Chinese courts' approach to coping with parallel proceeding is far from pro-arbitration, contrary to other arbitration-friendly jurisdictions like England, Singapore, France and Hong Kong SAR. Admittedly, effective negative approach is not a standard fits for all circumstances, and it may cause prejudice to the parties when the enforcement of arbitration agreement is burdensome (in particular, boiler-plate arbitration clauses in consumer agreement which are intendedly designed by the party with more substantial bargain power for circumvention of judicial proceeding). Nonetheless, in the circumstances like the Keep Bright, proceeding with two parallel processes at the same time could be oppressive to the parties' rights. It could likely create uncertainty through conflicting results (which occurred in Keep Bright itself). With this respect, the negative effective approach seems to be the best approach to keep dispute resolutions cost and time-efficient.

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i, As per Article 5.1(a) of New York Convention, which stipulates that validity of arbitration agreement shall be subject to the law chosen by parties, failing which shall be subject to the law of the country where the award was made (arbitration seat), see also Article 6 of New York Convention which said that the enforcing court may stay the enforcement proceeding if the setting aside application is seized by competent court.

ii, For instance, English Court of Appeal stated in landmark Fiona Turst that: "[…]that it is contemplated by the Act that it will, in general, be right for the arbitrators to be the first tribunal to consider whether they have jurisdiction to determine the dispute". Fiona Trust & Holding Corp v Privalov [2007] EWCA Civ 20, at 34. See also judicial opinions by court of Singapore in Tomolugen Holdings Ltd and another v Silica Investors Ltd and other appeals [2015] SGCA 57 , court of Hong Kong PCCW Global Ltd v Interactive Communications Service Ltd [2007]

1 HKLRD 309, and France court in Société Coprodag et autre c Dame Bohin, Cour de Cassation, 10 May 1995 (1995?

iii, See the controversial Article 533 of SPC's Interpretation on Application of Civil Procedure Law(adopted in 2015) ,which stipulates that: "Where both the courts of the People's Republic of China and the courts of a foreign country have jurisdiction, the People's Court may accept a case in which one party files a lawsuit in a foreign court and the other party files a lawsuit in a court of the People's Republic of China. After the judgment has been rendered, no application by a foreign court or request by a party to the case to the People's Court for recognition and enforcement of the judgment or ruling made by a foreign court in the case shall be granted, unless otherwise provided in an international treaty to which both parties are parties or to which they are parties. If the judgment or ruling of a foreign court has been recognized by the people's court, the people's court shall not accept the case if the parties concerned have filed a lawsuit with the people's court in respect of the same dispute."

iv, See the decision of Yichang Intermediate Court on Automotive Gate FZCO's application for recognition and enforcement of arbitral award in Hong Kong SAR, 2015 E Yi Zhong Min Ren No. 00002, in which the court rejected to enforce a HKIAC award on the basis that the award rendered in 2013 is contradictory with Shijiazhuang Intermediate Court's ruling on the invalidity of arbitration agreement, which amounted to a breach of public policy in Mainland China, though the ruling was made five year later than the disputed award.

Nigeria and AfCFTA: What Role has Private International Law to Play?

Written by Abubakri Yekini, Lecturer at Lagos State University, Nigeria.

The idea of economic integration is not new to Africa. It is a phenomenon that has been conceived as far back as the 1960s when many African countries gained independence. In 1980, the Organisation of African Unity (now African Union) came up a blueprint for the progressive development of Africa: the Lagos Plan of Action for the Economic Development of Africa, 1980–2000. However, the first concrete step towards achieving this objective was taken in 1991 when the African Heads of State and Government (AHSG) signed the treaty establishing the African Economic Community (AEC) (Abuja Treaty) in Nigeria. One of the operational stages of the AEC was the creation of a Continental Free Trade Area by 2028. In 2013, the AHSG further signed a Solemn Declaration during the 50th anniversary of the African Union. The Declaration sets another blueprint for a 50-year development trajectory for Africa (Agenda 2068). Item C of that Declaration is a commitment from the Member States to the speedy implementation of the Continental Free Trade Area. At last, this is now a reality.

The AfCFTA was adopted 5 years later on 21st March 2018 and it became effective on 30th May 2019. It was expected that trading activities under this framework would commence in July 2020. The ongoing global pandemic and shutdown of national economies frustrated the plan. The Agreement is now scheduled to take effect from 1st January 2021.

Africa seems to be showing some seriousness with the AfCFTA compared to previous attempts. Concerns were initially expressed when Nigeria was reluctant to sign the Agreement (Ghana Ports and Harbours Authority, 2020; Mizner, 2019; Financial Times, 2019). Such concerns cannot be dismissed considering that Nigeria is the biggest economy in Africa and has a population of about 200 million people. Happily, the Nigerian Federal Executive Council formally approved the ratification of the Agreement on 11th November 2020(Government of Nigeria, 2020). As at today, all the African countries are members of the AfCFTA except Eritrea. We can safely say that AfCFTA has come to stay.

According to the United Nations Economic Commission for Africa, the AfCFTA will be the biggest single market, with a GDP of $2.5 trillion and a whooping population of 2.5 billion people across 55 countries (UNECA, 2020). By 2050, it is also projected that Africa's population will be 2.5 billion; contributing about 26% of the world's working-age population (UNECA, 2020). As expected, AfCFTA has been generating interesting debates. Some legal commentators have penned some thoughts on the Agreement largely from international economic/trade law perspectives (Magwape, 2018; Onyejekwe and Ekhator, 2020; Akinkugbe 2019). Only a few private international scholars have written on the framework (Theunissen, 2020; Uka, 2020).

Nigeria's ratification of AfCFTA indicates that AfCFTA will become effective in Nigeria from next year, although Nigerian law requires AfCFTA to be domesticated (Abacha v. Fawehinmi [2000] 6 NWLR (Pt 660) 228). AfCFTA is projected to have significant impacts on the Nigerian economy. Although Nigeria's trade in goods and services to other African countries stands at 19.6% (export) and 2.13% (import) as indicated in the Q4 2019 statistic (National Bureau of Statistics, 2019), it is expected that this should witness a significant growth when AfCFTA becomes effective. More intra-African trading activities would potentially lead to the increase in cross border litigation in Africa generally and Nigeria in particular. The relevant question is to what extent does Nigerian private international law support trade liberalisation agenda of AfCFTA?

The AfCFTA has a dispute settlement mechanism modelled along the WTO system. This affects only disputes between the Member States. The Agreement is conspicuously silent on cross-border disputes amongst private citizens and the divergent systems of law operating in the Member States. It thus appears that for the meantime, the divergent national private international rules which are obsolete in many Member States will continue to govern cross-border disputes. To what extent this can support the objective of intra-African trade facilitation is left to be seen.

For Nigeria, it is time we revamped the Nigerian private international law. As a prominent member of AfCFTA, Nigeria should take a special interest in the progressive development of private international law through multilateral platforms both under the AfCFTA and other global bodies such as the Hague Conference. The current lackadaisical attitude to multilateral private international rules needs to change. For instance, Nigeria has neither joined the Hague Conference nor acceded to any of its conventions. The Evidence and Service Conventions would have delivered a more efficient international civil procedure for Nigeria. Also, the 2005 Choice of Court Convention (and hopefully the 2019 Judgments Convention) would give Nigerian judgments wider circulation and respect. At the Commonwealth level, Nigeria did not pay any significant role in the making of the 2017 Commonwealth Model Law on Judgments and has no intention of domesticating it. The point we are making is that Nigeria needs to be responsive to international calls for the development of private international law, not just from AfCFTA when such is made, but also ongoing global private international law projects.

To reap the benefit of AfCFTA, the Nigerian justice system must be made to be attractive to foreign businesspersons. No doubt, foreign litigants will be more interested in doing business in countries that have in place an efficient, effective and credible legal system that enforce contracts and dispose of cases timeously. Nigeria will be competing with countries such as South Africa, Egypt, Rwanda and Ghana. In one recent empirical research carried out by Prof Yemi Osibajo, the current Vice President of Nigeria, on the length of trial time in civil cases in Lagos State, it takes an average of 3.4 years to resolve a civil and commercial transaction in Nigeria. A further period of 2.5 and 4.5 years is required if the matter proceeded to the Court of Appeal and the Supreme Court respectively (Osinbajo, 2011). Excessive delays in dispute resolution may make Nigeria unattractive for resolving business disputes. The other side of the coin is the enforcement of contracts, especially jurisdiction agreements. Foreign litigants may be persuaded to trade with Nigeria if they are assured that foreign jurisdiction clauses will be respected by Nigerian courts. The current approach is not too satisfactory as there are some appellate court decisions which suggest that parties’ choice may not be enforced in certain situations (Okoli, 2020b). Some of the local statutes like the Admiralty Jurisdiction Act which grants exclusive jurisdiction over a wide range of commercial matters may equally need to be reviewed.

Jurisdiction and judgments are inextricably linked together. Nigerian litigants should now be concerned about how Nigerian judgments would fare in other African countries. Our jurisdictional laws need to be standardised to work in harmony with those of foreign countries. Recent decisions indicate that Nigerian courts still apply local venue rules – designed to determine which judicial division should hear a matter (for geographical and administrative convenience) within a State in Nigeria – to determine jurisdiction in matters involving foreign element; consider taking steps to release property as submission; may even exercise jurisdiction based on temporary presence (Okoli, 2020a; Okoli, 2020b; Bamodu, 1995; Olaniyan, 2012; Yekini, 2013). It is doubtful if judgments from these jurisdictional grounds will be respected in other African countries, the majority of whose legal systems are not rooted in common law. In the same vein, Nigerian courts will recognise and enforce judgments from other African countries notwithstanding that Nigeria has not extended its statutory enforcement scheme to most African countries (Yekini, 2017). Nigerian judgments may not receive similar treatment in other African states as our reciprocal statute can be misconstrued to mean that their judgments are not enforceable in Nigeria without a treaty. Nigerian government should either discard the reciprocity requirement or conclude a treaty with other African states to guarantee the enforcement of Nigerian judgments abroad.

Boosting investors' confidence requires some assurances from the Nigerian government for the respect of rule of law. The government's rating is not too encouraging in this regard. In its 2020 Rule of Law Index, the World Justice Project ranked Nigeria 108 out of 128 countries surveyed (World Justice Project, 2020). This should not surprise practitioners from Nigeria. For instance, the Nigerian government does have regard for ECOWAS judgments although court sits in Abuja, Nigeria's Federal Capital Territory. Such judgments are hardly recognised and enforced thereby contravening art 15(4) of the ECOWAS Revised Treaty which stipulates that judgments of the court shall be binding on Member States (Adigun, 2019).

Lastly, AfCFTA should spark the interest of Nigerian practitioners, judges, academia, policymakers and other stakeholders in private international law matters. Nigeria cannot afford to be a spectator in the scheme of things. It should leverage on its status in Africa to drive an Afrocentric and global private international law agenda. More awareness should be created for the subject in the universities. Government and the business community should fund various programmes and research on the impact of AfCFTA, and subsequent frameworks that will be rolled out to drive AfCFTA, on the Nigerian legal system, its economy and people.

Determining the applicable law of an arbitration agreement when there is no express choice of a governing law – Enka Insaat Ve

Sanayi A.S. v OOO Insurance Company Chubb [2020] UKSC 38.

This brief note considers aspects of the recent litigation over the identification of an unspecified applicable law of an arbitration agreement having an English seat. Though the UK Supreme Court concluded that the applicable law of the arbitration agreement itself was, if unspecified, usually to be the same as that of the contract to which the arbitration agreement refers, there was an interesting division between the judges on the method of determining the applicable law of the arbitration agreement from either the law of the arbitral seat (the view favoured by the majority) or from the applicable law of the underlying contract (the view favoured by the minority). As will become clear, the author of this note finds the views of the minority to be more compelling than those of the majority.

In a simplified form the facts were that, in February 2016, a Russian power station was damaged by an internal fire. ‘Chubb’, insurer of the owners of the power station, faced a claim on its policy. In May 2019, Chubb sought to sue ‘Enka’ (a Turkish subcontractor) in Russia to recover subrogated losses. Enka objected to these Russian proceedings claiming that under the terms of its contract of engagement any such dispute was to be arbitrated via the ICC in England: in September 2019, it sought declaratory orders from the English High Court that the matter should be arbitrated in England, that the applicable law of the arbitration agreement was English, and requested an English anti-suit injunction to restrain Chubb from continuing the Russian litigation.

Neither the arbitration agreement nor the contract by which Chubb had originally engaged Enka contained a clear provision specifically and unambiguously selecting an applicable law. Though it was plain that the applicable law of the underlying contract would, by the application of the provisions of the Rome I Regulation, eventually be determined to be Russian, the applicable law of the arbitration agreement itself could not be determined as directly in this manner because Art. 1(2)(e) of the Regulation excludes arbitration agreements from its scope and leaves the matter to the default applicable law rules of the forum.

After an unsuccessful interim application in September 2019, Enka’s case came before Baker J in December 2019 in the High Court. It seems from Baker J’s judgment that Enka appeared to him to be somewhat reticent in proceeding to resolve the dispute by seeking to commence an arbitration; this, coupled with the important finding that the material facts were opposite to those that had justified judicial intervention in *The Angelic Grace* [1995] 1 Lloyd's Rep 87, may explain Enka's lack of success before the High Court which concluded that the correct forum was Russia and that there was no basis upon which it should grant an anti-suit injunction in this case.

In January 2020, Enka notified Chubb of a dispute and, by March 2020, had filed a request for an ICC arbitration in London. Enka also however appealed the decision of Baker J to the Court of Appeal and duly received its requested declaratory relief plus an anti-suit injunction. The Court of Appeal sought to clarify the means by which the applicable law of an arbitration agreement should be determined if an applicable law was not identified expressly to govern the arbitration agreement itself. The means to resolve this matter, according to the court, was that without an express choice of an applicable law for the arbitration agreement itself, the curial law of the arbitral seat should be presumed to be the applicable law of the arbitration agreement. Thus, though the applicable law of the underlying contract was seemingly Russian, the applicable law of the arbitration agreement was to be presumed to be English due to the lack of an express choice of Russian law and due to the fact of the English arbitral seat. Hence English law (seemingly wider than the Russian law on a number of important issues) would determine the scope of the matters and claims encompassed by the arbitration agreement and the extent to which they were defensible with the assistance of an English court.

In May 2020, Chubb made a final appeal to the UK Supreme Court seeking the discharge of the anti-suit injunction and opposing the conclusion that the applicable law of the arbitration agreement should be English (due to the seat of the arbitration) rather than Russian law as per the deduced applicable law of the contract to which the arbitration agreement related. The UK Supreme Court was thus presented with an opportunity to resolve the thorny question of whether in such circumstances the curial law of the arbitral seat or the applicable law of the agreement being arbitrated should be determinative of the applicable law of the arbitration agreement. Though the Supreme Court was united on the point that an express or implied choice of applicable law for the underlying contract usually determines the applicable law of the arbitration agreement, it was split three to two on the issue of how to proceed in the absence of such an express choice.

The majority of three (Lords Kerr, Hamblen and Leggatt) favoured the location of the seat as determinative in this case. This reasoning did not proceed from the strong presumption approach of the Court of Appeal (which was rejected) but rather from the conclusion that since there had been no choice of applicable law for either the contract or for the arbitration agreement, the law with the closest connection to the arbitration agreement was the curial law of the arbitral seat. As will be seen, the minority (Lords Burrows and Sales) regarded there to have been a choice of applicable law for the contract to be arbitrated and proceeded from this to determine the applicable law of the arbitration agreement.

The majority (for the benefit of non-UK readers, when there is a majority the law is to be understood to be stated on this matter by that majority in a manner as authoritative as if there had been unanimity across all five judges) considered that there was no choice of an applicable law pertinent to Art.3 of Rome I in the underlying contract by which Enka's services had been engaged. It is true that this contract did not contain a helpful statement drawn from drafting precedents that the contract was to be governed by any given applicable law; it did however make many references to Russian law and to specific Russian legal provisions in a manner that had disposed both Baker J and the minority in the Supreme Court to conclude that there was indeed an Art.3 choice, albeit of an implied form. This minority view was based on a different interpretation of the facts and on the Giuliano and Lagarde Report on the Convention on the law applicable to contractual obligations (OJ EU No C 282-1). The majority took the view that the absence of an express choice of applicable law for the contract must mean that the parties were unable to agree on the identity of such a law and hence 'chose' not to make one. The minority took the view that such a conclusion was not clear from the facts and that the terms of the contract and its references to Russian law did indicate an implied choice of Russian law. As the majority was however unconvinced on this point, they proceeded from Art.3 to Art.4 of Rome I and concluded that, in what they regarded as the absence of an express or implied choice of applicable law for the contract, Russian law was the applicable law for the contract.

For the applicable law of the arbitration agreement itself, the majority resisted the idea that on these facts their conclusion re the applicable law of the contract should also be determinative for the applicable law of the arbitration agreement.

Instead, due to the Art.1(2)(e) exclusion of arbitration agreements from the scope of the Regulation, the applicable law of the arbitration agreement fell to be determined by the English common law. This required the identification of the law with which the arbitration agreement was ‘most closely connected’. Possibly reading too much into abstract notions of international arbitral practice, the majority concluded that, in this case, the applicable law of the arbitration agreement should be regarded as most closely connected to the curial law of the arbitral seat. Hence English law was the applicable law of the arbitration agreement despite the earlier conclusion that the applicable law of the contract at issue was Russian.

As indicated, the minority disagreed on the fundamental issue of whether or not there had been an Art.3 implied choice of an applicable law in the underlying contract. In a masterful dissenting judgment that is a model of logic, law and clarity, Lord Burrows, with whom Lord Sales agreed, concluded that this contract contained what for Art.3 of Rome I could be regarded as an implied choice of Russian law as ‘… clearly demonstrated by the terms of the contract or the circumstances of the case’. This determination led to the conclusion that the parties’ implied intentions as to the applicable law of the arbitration agreement were aligned determinatively with the other factors that implied Russian law as the applicable law for the contract. Russian law was (for the minority) thus the applicable law of the underlying contract and the applicable law of the ICC arbitration (that, by March, 2020 Enka had acted to commence) was to take place within the English arbitral seat in accordance its English curial law. Lord Burrows also made plain that if had he concluded that there was no implied choice of Russian law for the contract, he would still have concluded that the law of the arbitration agreement itself was Russian as he considered that the closest and most substantial connection of the arbitration agreement was with Russian law.

Though the views of the minority are of no direct legal significance at present, it is suggested that the minority’s approach to Art.3 of the Rome I Regulation was more accurate than that of the majority and, further, that the approach set out by Lord Burrows at paras 257-8 offers a more logical and pragmatic means of settling any such controversies between the law of the seat and the law of the associated contract. It is further suggested that the minority views may become relevant in later cases in which parties seek a supposed advantage connected with the identity of the applicable law of the arbitration. When such a matter will re-occur is unclear, however, though the Rome I Regulation ceases to be directly applicable in the UK on 31 December 2020, the UK plans to introduce a domestic analogue of this Regulation thereafter. It may be that a future applicant with different facts will seek to re-adjust the majority view that in the case of an unexpressed applicable law for the contract and arbitration agreement that the law of the seat of the arbitration determines the applicable law of the arbitration agreement.

As for the anti-suit injunction, it will surprise few that the attitude of the Court of Appeal was broadly echoed by the Supreme Court albeit in a more nuanced form. The Supreme Court clarified that there was no compelling reason to refuse to consider issuing an anti-suit injunction to any arbitral party who an English judge (or his successors on any appeal) has concluded can benefit from such relief. They clarified further that the issuance of an anti-suit injunction in such circumstances does not require that the selected arbitral seat is English. The anti-suit injunction was re-instated to restrain Chubb's involvement in the Russian litigation proceedings and to protect the belatedly commenced ICC arbitration.

The enforcement of Chinese money judgments in common law courts

By Jack Wass (Stout Street Chambers, Wellington, New Zealand)

In the recent decision of *Hebei Huaneng Industrial Development Co Ltd v Shi*,[1] the High Court of New Zealand was faced with an argument that a money judgment of the Higher People's Court of Hebei should not be enforced because the courts of China are not independent of the political arms of government and therefore do not qualify as "courts" for the purpose of New Zealand's rules on the enforcement of foreign judgments.

The High Court rejected that argument: complaints of political interference may be relevant if a judgment debtor can demonstrate a failure to accord natural justice in the individual case, or another recognized defence to enforcement, but there was no basis for concluding that Chinese courts were not courts at all.

As the court noted, complaints about the independence or impartiality of foreign courts might arise in two circumstances. Where the court was deciding whether to decline jurisdiction in favour of a foreign court, it would treat allegations that justice could not be obtained in the foreign jurisdiction with great wariness and caution.[2] Where the issue arose on an application to enforce a foreign judgment, the enforcement court has the benefit of seeing what actually happened in the foreign proceeding, and can assess whether the standards of natural justice in particular were met. Simply refusing to recognize an entire foreign court system would give rise to serious practical problems,[3] as well as risk violating Cardozo J's famous dictum that courts "are not so provincial as to say that every solution of a problem is wrong because we deal with it otherwise at home."[4]

The judge found that Chinese courts were distinct from the legislative and administrative bodies of the state, and that although there was evidence to suggest that Chinese judges sometimes felt the need to meet the expectations of the local people's congress or branch of the Communist Party, this did not justify refusing to recognize the court system as a whole. In a commercial case resolved according to recognizably judicial processes, where there was no suggestion of actual political interference, the judgment could be recognized.

[1] *Hebei Huaneng Industrial Development Co Ltd v Shi* [2020] NZHC 2992. The decision arose on an application to stay or dismiss the enforcement proceeding at the jurisdictional stage.

[2] *Altimo Holdings and Investment Ltd v Kyrgyz Mobil Tel Ltd* [2011] UKPC 7, [2012] 1 WLR 1804.

[3] The judge noted that the House of Lords had rejected the argument that it should not recognize the courts of the German Democratic Republic (*Carl Zeiss Stiftung v Rayner & Keeler Ltd (No 2)* [1967] 1 AC 853), and the Second Circuit Court of Appeals was not persuaded that justice could not be done in Venezuela

(*Blanco v Banco Industrial de Venezuela* 997 F 2d 974 (2nd Cir 1993)). By contrast, a Liberian judgment was refused recognition in *Bridgeway Corp v Citibank* 45 F Supp 2d 276 (SDNY 1999), 201 F 3d 134 (2nd Cir 2000) where there was effectively no functioning court system.

[4] *Loucks v Standard Oil Co* 224 NY 99 (1918).

Changzhou Sinotype Technology Co., Ltd, Hague Service Convention and Judgment Enforcement in China

Jie (Jeanne) Huang, University of Sydney Law School, Australia

Changzhou Sinotype Technology Co, Ltd. v. Rockefeller Technology Investments (Asia) VII is a recent case decided by the Supreme Court of California on April 2, 2020. The *certiorari* to the Supreme Court of the US was denied on 5 October 2020. It is a controversial case concerning the interpretation of the Convention on the Service Abroad of Judicial and Extra Judicial Documents in Civil or Commercial Matters of November 15, 1965 (the "Hague Service Convention") for service of process in China.

1. **Facts:**

Changzhou SinoType Technology Co. (SinoType) is based in China. Rockefeller Technology Investments (Asia) VII (Rockefeller) is an American investment firm. In February 2008, they signed a memorandum of understanding (MOU) which provided that:

> *"6. The parties shall provide notice in the English language to each other at the addresses set forth in the Agreement via Federal Express or similar courier, with copies via facsimile or email, and shall be deemed received 3 business days after deposit with the courier.*
>
> *7. The Parties hereby submit to the jurisdiction of the Federal and State courts in California and consent to service of process in accord with the notice provisions above.*
>
> *8. In the event of any disputes arising between the Parties to this Agreement, either Party may submit the dispute to the Judicial Arbitration & Mediation Service in Los Angeles for exclusive and final resolution pursuant to according to [sic] its streamlined procedures before a single arbitrator who shall have ten years judicial service at the appellate level, pursuant to California law, and who shall issue a written, reasoned award. The Parties shall share equally the cost of the arbitration. Disputes shall include failure of the Parties to come to Agreement as required by this Agreement in a timely fashion."*

Due to disputes between the parties, in February 2012, Rockefeller brought an arbitration against SinoType. SinoType was defaulted in the arbitration proceeding. According to the arbitrator, SinoType was served by email and Federal Express to the Chinese address listed for it in the MOU. In November 2013, the arbitrator found favorably for Rockefeller.

Instead of enforcing the award in China according to the New York Convention,[1] Rockefeller petitioned to confirm the award in State courts in California. Cal. Civ. Proc. Code § 1290.4(a) provides that a petition to confirm an arbitral award "shall be served in the manner provided in the arbitration agreement for the service of such petition and notice." Therefore, Rockefeller transmitted the summons and its petition to SinoType again through FedEx and email according to paragraph 7 of the MOU. SinoType did not appear and the award was confirmed in October 2014. SinoType then appeared specially and applied to set aside the judgment. It argued that the service of the Californian court proceeding did not comply with the Hague Service Convention; therefore, it had not been duly served and the judgment was void.

2. **Decision**

The California Supreme Court rejected SinoType's argument.

The Court discerned three principles for the application of the Hague Service Convention. First, the Convention applies only to "service of process in the technical sense" involving "a formal delivery of documents". The Court distinguished "service" and "notice" by referring to the Practical Handbook on the Operation of the Service Convention, published by the Permanent Bureau of the Hague Conference on Private International Law ('Handbook'). The Court cited that

> *"the Convention cannot—and does not—determine which documents need to be served. It is a matter for the lex fori to decide if a document needs to be served and which document needs to be served. Thus, if the law of the forum states that a notice is to be somehow directed to one or several addressee(s), without requiring service, the Convention does not have to be applied."[2]*

Second, the law of the sending forum (i.e. the law of California) should be applied to determine whether "there is occasion to transmit a judicial or extrajudicial document for service abroad."

Third, if formal service of process is required under the law of the sending forum, the Hague Convention must be complied for international transmission of service documents.

The court held that the parties have waived the formal service of process, so the Hague Service Convention was not applicable in this case.[3]

3. **Comments**

The *Changzhou Sinotype Technology Co, Ltd* has a number of interesting aspects and has been commented such as here, here and here.

First, the Hague Service Convention is widely considered as 'non-mandatory' but 'exclusive'.[4] Addressing the non-mandatory nature of the Convention, the Handbook states that "the Convention can not—and does not—determine which documents need to be served. It is a matter for the lex fori to decide if a document needs to be served and which document needs to be served."[5] However, this statement does not necessarily mean, *when judicial documents are indeed transmitted from a member state to another to charge a defendant with notice of* *a pending lawsuit*, a member state can opt out of the Convention by unilaterally excluding the transmission from the concept of service. *Volkswagen Aktiengesellschaft v Schlunk* decided by the Supreme Court of the US and *Segers and Rufa BV v. Mabanaft GmbH* decided by the Supreme Court of the Netherlands (Hoge Raad) are the two most important cases on the non-mandatory nature of the Convention. Both cases concentrate on which law should be applied to whether a document needed to be transmitted abroad for service.[6] However, *Rockefeller* is different because it is about which law should be applied to determine the concept of service when the transmission of judicial documents takes place in the soil of another member state. The Handbook provides that the basic criterion for the Convention to apply is "transmission abroad" and "place of service is determining factor".[7] When judicial documents are physically transmitted in the soil of a member state, allowing another member state to unilaterally determine the concept of service in order to exclude the application of the Convention will inappropriately expand the non-mandatory character of the Convention. This will inevitably narrow the scope of the application of the Convention and damage the principle of reciprocity as the foundation of the Convention. The Hague Convention should be applied to *Rockefeller* because the summons and petitions were transmitted across border for service in China.

Second, as part of its accession to the Hague Convention, China expressly stated that it does not agree to service by mail. Indeed, the official PRC declarations and reservations to the Hague Convention make it clear that, with the limited exception of voluntary service on a foreign national living in China by his country's own embassy or consulate, the ***only*** acceptable method of service on China is through the Chinese Central Authority. Therefore, although China has recognized monetary judgments issued in the US according to the principle of reciprocity, the judgment of *Changzhou Sinotype Technology Co, Ltd* probably cannot be recognized and enforced in China.

The California Supreme Court decision has important implications. For Chinese parties who have assets outside of China, they should be more careful in drafting their contracts because *Changzhou Sinotype Technology Co, Ltd* shows that a US court may consider their agreement on service by post is a waiver of China's reservation under the Hague Service Convention. For US parties, if Chinese defendants only have assets in China for enforcement, *Changzhou Sinotype Technology Co, Ltd* is not a good case to follow because the judgment probably cannot be enforced in China.

[1] China is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, Jun. 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 38 ("New York Convention").

[2] Practical Handbook on the Operation of the Service Convention (4th ed. 2016) par. 54, p. 23, fn. Omitted.

[3] The Court emphasized that their conclusions should be limited to Section 1290.4, subdivision (a): "Our conclusions as to California law are narrow. When parties agree to California arbitration, they consent to submit to the personal jurisdiction of California courts to enforce the agreement and any judgment under section 1293. When the agreement also specifies the manner in which the parties "shall be served," consistent with section 1290.4, subdivision (a), that agreement supplants statutory service requirements and constitutes a waiver of formal service in favor of the agreed-upon method of notification. If an arbitration agreement fails to specify a method of service, the statutory service requirements of section 1290.4, subdivisions (b) or (c) would apply, and those statutory requirements *would* constitute formal service of process. We express no view with respect to service of process in other contexts."

[4] Martin Davies et al., Nygh's Conflict of Laws in Australia 36 (10th ed. 2020).

[5] Paragraph 54 of the Handbook.

[6] Ibid., paragraphs 31-45, and 47.

[7] Ibid., paragraph 16.

Chris Thomale on the EP Draft Report on Corporate Due Diligence

Professor Chris Thomale, University of Vienna and Roma Tre University, has kindly provided us with his thoughts on the recent EP Draft Report on corporate due diligence and corporate accountability.

In recent years, debate on Corporate Social Responsibility (CSR) has picked up speed, finally reaching the EU. The Draft Report first and foremost contains a draft Directive on corporate due diligence and corporate accountability, which seems a logical step ahead from the status quo developed since 2014, which so far only consists of reporting obligations (see the Non-Financial Reporting Directive) and sector specific due diligence (see the Regulations on Timber and Conflict Minerals). The date itself speaks volumes: Precisely, to the very day (!), 8 years after the devastating fire in the factory of Ali Enterprises in Pakistan, which attracted much international attention through its follow-up litigation against the KiK company in Germany, the EU is taking the initiative to coordinate Member State national action plans as required under the Ruggie Principles. Much could be said about this new Directive in terms of company law and business law: The balancing exercise of on the one hand, assuring effective transparency of due diligence strategies and, on the other hand, avoiding overregulation in particular with regard to SMEs still appears somewhat rough and ready and hence should see some refinement in due course. The same applies to the private enforcement of those due diligence duties: By leaving the availability and degree of private enforcement entirely to the Member States (Art. 20), the Directive seems to gloss over one of the most pressing topics of comparative legal debate. The question of availability, conditions and extent of private liability imposed on parent companies for human rights violations committed in their value chains abroad, must be addressed by the EU eventually.

To this forum, however, the private international implications of the Draft Report would appear even more important:

As regards the conflicts of laws solution, the proposed Art. 6a Rome II Regulation seeks to make available, at the claimant's choice, several substantive laws as conveniently summarized by Geert van Calster in the terms of lex loci damni, lex loci delicti commissi, lex loci incorporationis and lex loci activitatis. Despite my continuous call for a choice between the first two de regulatione lata, to be reached by applying a purposive reading of Art. 4 para 1 and 3 Rome II (see JZ 2017 and ZGR 2017), the latter two, lex loci incorporationis and lex loci activitatis, seem very odd to me. *First*, they are supported, to my humble knowledge, by no existing Private International Law Code or judicial practice. *Second*, the lex loci incorporationis has no convincing rationale, why it should in any way be connected with the legal *relationship* as created by the corporate perpetrator's tort. Lex loci activitatis is excessively vague and will create threshold questions as well as legal uncertainty. *Third*, I would most emphatically concur with Jan von Hein's opinion of a quadrupled choice being excessive and impractical in and of itself.

The solution proposed in terms of international jurisdiction, I will readily admit, looks puzzling to me. I fail to see, which cases the proposed Art. 8 para 5 Brussels Ibis Regulation is supposed to cover: As far as international jurisdiction is awarded to the courts of the "Member State where it has its domicile", this adds nothing to Art. 4, 63 Brussels Ibis Regulation. In fact, it will create unnecessary confusion as to whether this venue of general jurisdiction is good even when there is no "damage caused in a third country [which] can be imputed to a subsidiary or another undertaking with which the parent company has a business relationship." Thus, we are left with the courts of "a Member State […] in which [the undertaking] operates." As already pointed out, this term itself will trigger a lot of controversy regarding certain threshold issues. But there is more: Oftentimes this locus activitatis will coincide with the locus delicti commissi, e.g., when claimants want to rely on an omission of oversight by the European parent company. In that case, Art. 7 No. 2 Brussels Ibis Regulation offers a venue at the very place, i.e. both in terms of international and local jurisdiction, where that omission was committed. How does the new rule relate to the old one? And, again, which cases exactly are supposed to be captured by this provision? In my view, this is a phantom paragraph that, if anything, can only do harm to the fragile semantic and systematic architecture built up by the Brussels Ibis Regulation and CJEU case law.

The same seems true of the proposed Art. 26a Brussels Ibis: *First*, there is no evident need for such a *forum necessitatis*, rendering Member State courts competent to hear foreign-cubed cases with no connection to the EU whatsoever. To the contrary, recent development of the US Alien Torts Statute point in the opposite direction. *Second*, the EU might be overreaching its legislative jurisdiction: Brussels Ibis Regulation is based on the EU's competence to legislate on judicial cooperation in civil matters (Art. 81 para 2 TFEU). Such a global long-arm statute may not be covered by that competence, if it is legal at all under the public international confines incumbent upon civil jurisdiction (for details, see here). *Third*, it will be virtually anybody's guess what a court seized with a politicised and likely emotional case like the ones we are talking about will deem a "reasonable" Third State venue. In fact, this would be a forum non conveniens test with inverted colours, i.e. the very test the CJEU, in 2005, deemed irreconcilable with the exigencies of foreseeability and legal certainty within the Brussels Ibis Regulation.

A step in the right direction, but nothing more – A critical note on the Draft Directive on mandatory Human Rights Due Diligence

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In April of 2020, EU Commissioner Didier Reynders announced plans for a legislative initiative that would introduce EU-wide mandatory human rights due diligence requirements for businesses. Only recently, Reynders reiterated his intentions during a conference regarding “Human Rights and Decent Work in Global Supply Chains” which was hosted by the German Federal Ministry of Labour and Social Affairs on the 6. October, and asseverated the launch of public consultations within the next few weeks. A draft report, which was prepared by MEP Lara Wolters (S&D) for the European Parliament Committee on Legal Affairs, illustrates what the prospective EU legal framework for corporate due diligence could potentially look like. The draft aims to facilitate access to legal remedies in cases of corporate human rights abuses by amending the Brussels *Ibis* Regulation as well as the Rome II Regulation. However, as these amendments have already inspired a comments by Geert van Calster, Giesela Rühl, and Jan von Hein, I won’t delve into them once more. Instead, I will focus on the centre piece of the draft report – a proposal for a Directive that would establish mandatory human rights due diligence obligations for businesses. If adopted, the Directive would embody a milestone for the international protection of human rights. As is, the timing could simply not be better, since the UN Guiding Principles (UNGPs) celebrate their 10th anniversary in 2021. The EU should take this opportunity to present John Ruggie, the author of the UNGPs, with a special legislative gift. However, I’m not entirely sure if Ruggie would actually enjoy this particular present, as the Directive has obvious flaws. The following passages aim to accentuate possible improvements, that would lead to the release of an appropriate legal framework next year. I will not address every detail but will rather focus on the issues I consider the most controversial – namely the scope of application and the question of effective enforcement.

General Comments

To begin with a disclaimer, I believe the task of drafting a legal document on the issue of business and human rights to be a huge challenge. Not only does one have to reconcile the many conflicting interests of business, politics, and civil society, moreover, it is an impossible task to find the correct degree of regulation for every company and situation. If the regulation is too weak, it does not help protect human rights, but only generates higher costs. If it is too strict, it runs the risk of companies withdrawing from developing and emerging markets, and –

because free trade and investment ensure worldwide freedom, growth, and prosperity – of possibly inducing an even worse human rights situation. This being said, the current regulatory approach should first and foremost be recognised as a first step in the right direction.

I would also like to praise the idea of including environmental and governance risks in the due diligence standard (see Article 4(1)) because these issues are closely related to each other. Practically speaking, the conduct of companies is not only judged based on their human rights performance but rather holistically using ESG or PPP criteria. All the same, I am not sure whether or not this holistic approach will be accepted in the regulatory process: Putting human rights due diligence requirements into law is difficult enough, so maybe it would just be easier to limit the proposal to human rights. Nonetheless, it is certainly worth a try.

Moving on to my criticism.

Firstly, the draft is supposed to be a Directive, not a Regulation. As such, it cannot impose any direct obligations on companies but must first be transposed into national law. However, the proposal contains a colourful mix of provisions, some of which are addressed to the Member States, while others impose direct obligations on companies. For example, Article 4(1) calls upon Member States to introduce due diligence obligations, whereas all other provisions of the same article directly address companies. In my eyes, this is inconsistent.

Secondly, the Directive uses definitions that diverge from those of the UNGPs. For example, the UNGPs define "due diligence" as a process whereby companies "identify, prevent, mitigate and account for" adverse human rights impacts. This seems very comprehensive, doesn't it? Due diligence, as stipulated in the Directive, goes beyond that by asking companies to identify, cease, prevent, mitigate, monitor, disclose, account for, address, and remediate human rights risks. Of course, one could argue that the UNGP is incomplete and the Directive fills its gaps, but I believe some of these “tasks” simply redundant. Of course, this is not a big deal by itself. But in my opinion, one should try to align the prospective mechanism with the UNGPs as much as possible, since the latter are the recognised international standard and its due diligence concept has already been adopted in various frameworks, such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the ISO 26000. An alignment with the UNGP, therefore, allows and promotes coherence within international policies.

Before turning to more specific issues, I would like to make one last general remark that goes in the same direction as the previous one. While the UNGP ask companies to respect “at minimum” the “international recognized human rights”, meaning the international bill of rights (UDHR, ICCPR, ICESCR) and the ILO Core Labour Standards, the Directive requires companies to respect literally every human rights catalogue in existence. These include not only international human rights documents of the UN and the ILO, but also instruments that are not applicable in the EU, such as the African Charter of Human and People’s Rights, the American Convention of Human Rights, and (all?) “national constitutions and laws recognising or implementing human rights”. This benchmark neither guides companies nor can it be monitored effectively by the authorities. It is just too ill-defined to serve as a proper basis for civil liability claims or criminal sanctions and it will probably lower the political acceptance of the proposal.

Scope of Application

The scope of application is delineated in Article 2 of the Directive. It states that the Directive shall apply to all undertakings governed by the law of a Member State or established in the territory of the EU. It shall also apply to limited liability undertakings governed by the law of a non-Member State and not established within EU-territory if they operate in the internal market by selling goods or providing services. As one can see, the scope is conceivably broad, which gives rise to a number of questions.

First off, the Directive does not define the term “undertaking”. Given the factual connection, we could understand it in the same way as the Non-Financial Reporting Directive (2014/95/EU) does. However, an “undertaking” within the scope of the Non-Financial Reporting Directive refers to the provisions of the Accounting Directive (2013/34/EU), which has another purpose, i.e. investor and creditor protection, and is, therefore, restricted to certain types of limited liability companies. Such a narrow understanding would run counter to the purpose of the proposed Directive because it excludes partnerships and foreign companies. On the other hand, “undertaking” probably does mean something different than in EU competition law. There, the concept covers “any entity engaged in an economic activity, regardless of its legal status” and must be understood as “designating an economic unit even if in law that economic unit consists of several persons, natural or legal” (see e.g. CJEU, Akzo Nobel, C-97/08 P, para 54 ff.). Under EU competition law, the concept is, therefore, not limited to legal entities, but also encompasses groups of companies (as “single economic units”). This concept of “undertaking”, if applied to the Directive, would correspond with the term “business enterprises” as used in the UNGP (see the Interpretive Guide, Q. 17). However, it would ignore the fact that the parent company and its subsidiaries are distinct legal entities, and that the parent company’s legal power to influence the activities of its subsidiaries may be limited under the applicable corporate law. It would also lead to follow-up questions regarding the precise legal requirements under which a corporate group would have to be included. Finally, non-economic activities and, hence, non-profit organisations would be excluded from the scope, which possibly leads to significant protection gaps (just think about FIFA, Oxfam, or WWF). In order to not jeopardise the objective – ensuring “harmonization, legal certainty and the securing of a level playing field” (see Recital 9 of the Directive) – the Directive should not leave the term “undertaking” open to interpretation by the Member States. A clear and comprehensive definition should definitely be included in the Directive, clarifying that “undertaking” refers to any legal entity (natural or legal person), that provide goods or services on the market, including non-profit services.

Secondly, the scope of application is not coherent for several reasons. One being that the chosen form of the proposal is a Directive, rather than a Regulation, thus providing for minimum harmonisation only. It is left to the Member States to lay down the specific rules that ensure companies carrying out proper human rights due diligence (Article 4(1)). This approach can lead to slightly diverging due diligence requirements within the EU. Hence, the question of which requirements a company must comply with arises. From a regulatory law's perspective alone, this question is not satisfactorily answered. According to Article 2(1), "the Directive" (i.e. the respective Member States' implementation acts) applies to any company which has its registered office in a Member State or is established in the EU. However, the two different connecting factors of Article 2(1) have no hierarchy, so a company must probably comply with the due diligence requirements of any Member State where it has an establishment (agency, branch, or office). Making matters worse (at least from the company's perspective), in the event of a human rights lawsuit, due diligence would have to be characterised as a matter relating to non-contractual obligations and thus fall within the scope of the new Art. 6a Rome II. The provisions of this Article potentially require a company to comply with the due diligence obligations of three additional jurisdictions, namely lex loci damni, lex loci delicti commissi, and either the law of the country in which the parent company has its domicile (in this regard, I agree with Jan von Hein who proposes the use not of the company's domicile but its habitual residence as a connecting factor according to Article 23 Rome II) or, where it does not have a domicile (or habitual residence) in a Member State, the law of the country where it operates.

That leads us to the next set of questions: When does a company "operate" in a country? According to Article 2(2), the Directive applies to non-EU companies which are not established in the EU if they "operate" in the internal market by selling goods or providing services. But does that mean, for example, that a Chinese company selling goods to European customers over Amazon must comply fully with European due diligence requirements? And is Amazon, therefore, obliged to conduct a comprehensive human rights impact assessment for every retailer on its marketplace? Finally, are states obliged to impose fines and criminal sanctions (see Article 19) on Amazon or the Chinese seller if they do not meet the due diligence requirements, and if so, how? I believe that all this could potentially strain international trade relations and result in serious foreign policy conflicts.

Finally, and perhaps most controversially in regard to the scope, the requirements shall apply to all companies regardless of their size. While Article 2(3) allows the exemption of micro-enterprises, small companies with at least ten employees and a net turnover of EUR 700,000 or a balance sheet total of EUR 350,000 would have to comply fully with the new requirements. In contrast, the French duty of vigilance only applies to large stock corporations which, including their French subsidiaries and sub-subsidiaries, employ at least 5,000 employees, or including their worldwide subsidiaries and sub-subsidiaries, employ at least 10,000 employees. The Non-Financial Reporting Directive only applies to companies with at least 500 employees. And the due diligence law currently being discussed in Germany, will with utmost certainty exempt companies with fewer than 500 employees from its scope and could perhaps even align itself with the French law's scope. Therefore, I doubt that the Member States will accept any direct legal obligations for their SMEs. Nonetheless, because the Directive requires companies to conduct value chain due diligence, SMEs will still be indirectly affected by the law.

Value Chain Due Diligence

Value chain due diligence, another controversial issue, is considered to be anything but an easy task by the Directive. To illustrate the dimensions: BMW has more than 12,000 suppliers, BASF even 70,000. And these are all just Tier 1 suppliers. Many, if not all, multinational companies probably do not even know how long and broad their value chain actually is. The Directive targets this problem by requiring companies to "make all reasonable efforts to identify subcontractors and suppliers in their entire value chain" (Article 4(5)). This task cannot be completed overnight but should not be impossible either. For example, VF Corporation, a multinational apparel and footwear company, with brands such as Eastpack, Napapijri, or The North Face in its portfolio, has already disclosed the (sub?)suppliers for some of its products and has announced their attempt to map the complete supply chain of its 140 products by 2021. BASF and BMW will probably need more time, but that shouldn't deter them from trying in the first place.

Mapping the complete supply chain is one thing; conducting extensive human rights impact assessments is another. Even if a company knows its chain, this does not yet mean that it comprehends every potential human rights risk linked to its remote business operations. And even if a potential human rights risk comes to its attention, the tasks of “ceasing, preventing, mitigating, monitoring, disclosing, accounting for, addressing, and remediating” (see Article 3) it is not yet fulfilled. These difficulties call up to consider limiting the obligation to conduct supply chain due diligence to Tier 1 suppliers. However, this would not only be a divergence from the UNGP (see Principle 13) but would also run counter to the Directive’s objective. In fact, limiting due diligence to Tier 1 suppliers makes it ridiculously easy to circumvent the requirements of the Directive by simply outsourcing procurement to a third party. Hence, the Directive takes a different approach by including the entire supply chain in the due diligence obligations while adjusting the required due diligence processes to the circumstances of the individual case. Accordingly, Article 2(8) states that “[u]ndertakings shall carry out value chain due diligence which is proportionate and commensurate to their specific circumstances, particularly their sector of activity, the size and length of their supply chain, the size of the undertaking, its capacity, resources and leverage”. I consider this an adequate provision because it balances the interests of both companies and human rights subjects. However, as soon as it comes to enforcing it, it burdens the judge with a lot of responsibility.

Enforcement

The question of enforcement is of paramount importance. Without effective enforcement mechanisms, the law will be nothing more than a bureaucratic and toothless monster. We should, therefore, expect the Directive – being a political appeal to the EU Commission after all – to contain ambitious proposals for the effective implementation of human rights due diligence. Unfortunately, we were disappointed.

The Directive provides for three different ways to enforce its due diligence obligations. Firstly, the Directive requires companies to establish grievance mechanisms as low-threshold access to remedy (Articles 9 and 10). Secondly, the Directive introduces transparency and disclosure requirements. For example, companies should publish a due diligence strategy (Article 6(1)) which, inter alia, specifies identified human rights risks and indicates the policies and measures that the company intends to adopt in order to cease, prevent, or mitigate those risks (see Article 4(4)). Companies shall also publish concerns raised through their grievance mechanisms as well as remediation efforts, and regularly report on progress made in those instances (Article 9(4)). With these disclosure requirements, the Directive aims to enable the civil society (customers, investors and activist shareholders, NGOs etc.) to enforce it. Thirdly, the Directive postulates public enforcement mechanisms. Each Member State shall designate one or more competent national authorities that will be responsible for the supervision of the application of the Directive (Article 14). The competent authorities shall have the power to investigate any concerns, making sure that companies comply with the due diligence obligations (Article 15). If the authority identifies shortcomings, it shall set the respective company a time limit to take remedial action. It may then, in case the company does not fulfil the respective order, impose penalties (especially penalty payments and fines, but also criminal sanctions, see Article 19). Where immediate action is necessary to prevent the occurrence of irreparable harm, the competent authorities may also order the adoption of interim measures, including the temporary suspension of business activities.

At first glance, public enforcement through inspections, interim measures, and penalties appear as quite convincing. However, the effectiveness of these mechanisms may be questioned, as demonstrated by the Wirecard scandal in Germany. Wirecard was Germany’s largest payment service provider and part of the DAX stock market index from September 2018 to August 2020. In June of 2020, Wirecard filed for insolvency after it was revealed that the company had cooked its books and that EUR 1.9 billion were “missing”. In 2015 and 2019, the Financial Times already reported on irregularities in the company’s accounting practices. Until February 2019, the competent supervisory authority BaFin did not intervene, but only commissioned the FREP to review the falsified balance sheet, assigning only a single employee to do so. This took more than 16 months and did not yield any results before the insolvency application. While it is true that the Wirecard scandal is unique, it showcased that investigating malpractices of large multinational companies through a single employee is a crappy idea. Public enforcement mechanisms only work if the competent authority has sufficient financial and human resources to monitor all the enterprises covered by the Directive. So how much manpower does it need? Even if the Directive were to apply to companies with more than 500 employees, in Germany alone one would have to monitor more than 7.000 entities and their respective value chains. We would, therefore, need a whole division of public inspectors in a gigantic public agency. In my opinion, that sounds daunting. That does not mean that public enforcement mechanisms are completely dispensable. As Ruggie used to say, there is no single silver bullet solution to business and human rights challenges. But it is also important to consider decentralised enforcement mechanisms such as civil liability. In contrast to public enforcement mechanisms, civil liability offers victims of human rights violations "access to effective remedy", which, according to Principle 25, is one of the main concerns of the UNGP.

So, what does the Directive say about civil liability? Just about nothing. Article 20 only states that "[t]he fact that an undertaking has carried out due diligence in compliance with the requirements set out in this Directive shall not absolve the undertaking of any civil liability which it may incur pursuant to national law." Alright, so there shouldn't be a safe harbour for companies. But that does not yet mean that companies are liable for human rights violations at all. And even if it were so, the conditions for asserting a civil claim can differ considerably between the jurisdictions of the Member States. The Directive fails to achieve EU-wide harmonisation on the issue of liability. That's not a level playing field. This problem could be avoided by passing an inclusive Regulation containing both rules concerning human rights due diligence and a uniform liability regime in case of violations of said rules. However, such an attempt would probably encounter political resistance from the Member States and result in an undesirable delay of the legislative process. A possible solution could be to only lay down minimum requirements for civil liability but to leave the ultimate drafting and implementation of liability rules to the Member States. Alternatively, the Directive could stipulate that the obligations set out in Articles 4 to 12 are intended to determine the due care without regard to the law applicable to non-contractual obligations. At least, both options would ensure that companies are liable for any violation of their human rights due diligence obligations. Is that too much to ask?

Forward to the Past: A Critical Note on the European Parliament's Approach to Artificial Intelligence in Private International Law

On 20 October 2020, the European Parliament adopted – with a large margin – a resolution with recommendations to the Commission on a civil liability regime for artificial intelligence (AI). The text of this resolution is available here; on other issues of AI that are part of a larger regulatory package, see the Parliament's press release here. The draft regulation (DR) proposed in the resolution is noteworthy from a choice-of-law perspective because it introduces new, specific conflicts rules for artificial intelligence (AI) (on the general issues of AI and PIL, see the conference report by Stefan Arnold here). With regard to substantive law, the draft regulation distinguishes between legally defined high-risk AI systems (Art. 4 DR) and other AI systems involving a lower risk (Art. 8 DR). For high-risk AI systems, the draft regulation would introduce an independent set of substantive rules providing for strict liability of the system's operator (Art. 4 DR). Further provisions deal with the amount of compensation (Art. 5 DR), the extent of compensation (Art. 6 DR) and the limitation period (Art. 7 DR). The spatial scope of those autonomous rules on strict liability for high-risk AI systems is determined by Article 2 DR, which reads as follows:

“1. This Regulation applies on the territory of the Union where a physical or virtual activity, device or process driven by an AI-system has caused harm or damage to the life, health, physical integrity of a natural person, to the property of a natural or legal person or has caused significant immaterial harm resulting in a verifiable economic loss.

2. Any agreement between an operator of an AI-system and a natural or legal person who suffers harm or damage because of the AI-system, which circumvents or limits the rights and obligations set out in this Regulation, concluded before or after the harm or damage occurred, shall be deemed null and void as regards the rights and obligations laid down in this Regulation.
3. This Regulation is without prejudice to any additional liability claims resulting from contractual relationships, as well as from regulations on product liability, consumer protection, anti-discrimination, labour and environmental protection between the operator and the natural or legal person who suffered harm or damage because of the AI-system and that may be brought against the operator under Union or national law.”

The unilateral conflicts rule found in Art. 2(1) DR would prevail over the Rome II Regulation on the law applicable to non-contractual relations pursuant to Art. 27 Rome II, which states that the Rome II Regulation shall not prejudice the application of provisions of EU law which, in relation to particular matters, lay down conflict-of-law rules relating to non-contractual obligations. Insofar, it must be noted that Art. 2(1) DR deviates considerably from the choice-of-law framework of Rome II. While Art. 2(1) DR reflects the lex loci damni approach enshrined as the general conflicts rule in the Rome II Regulation (Art. 4 Rome II), one must not overlook the fact that product liability is subject to a special conflicts rule, i.e. Art. 5 Rome II, which is considerably friendlier to the victim of a tort than the general conflicts rule. Recital 20 Rome II states that “[t]he conflict-of-law rule in matters of product liability should meet the objectives of fairly spreading the risks inherent in a modern high-technology society, protecting consumers’ health, stimulating innovation, securing undistorted competition and facilitating trade”. In order to achieve these purposes, the Rome II Regulation opts for a cascade of connections, starting with the law of the country in which the person sustaining the damage has his or her habitual residence when the damage occurred, provided that the product was marketed in that country (Art.

5(1)(a) Rome II). If that connection fails because the product was not marketed there, the law of the country in which the product was acquired governs, again provided that the product was marketed in this state (Art. 5(1)(b) Rome II). Finally, if that fails as well, the Regulation returns to the lex loci damni under Art. 5(1)(c) Rome II, if the product was marketed there. This cascade of connections is evidently influenced by the desire to protect the mobile consumer from being confronted with a law that may be purely accidental from his point of view because it has neither a relationship with the legal environment that he is accustomed to (his habitual residence) nor to the place where he decided to expose himself to the danger possibly emanating from the product (place of acquisition). The rule reflects the presumption that most consumers will be affected by a defective product in the country where they are habitually resident. Insofar, Art. 2(1) DR is, in comparison with the Rome II Regulation, friendlier to the *operator* of a high-risk AI system than to the *consumer*.

Even if one limits the comparison between Art. 2(1) DR and the Rome II Regulation to the latter's general rule (Art. 4 Rome II), it is striking that the DR does not adopt familiar approaches that allow for deviating from a strict adherence to lex loci damni. Contrary to Art. 4(2) Rome II, where the person claimed to be liable and the person sustaining damage both have their habitual residence in the same country at the time when the damage occurs, Art. 2 DR does not allow to apply the law of that country. Moreover, an escape clause such as Art. 4(3) or Art. 5(2) Rome II is missing in Art. 2 DR. Finally yet importantly, Art. 2(2) DR bars any party autonomy with regard to strict liability for a high-risk AI system, which deviates strongly from the liberal approach found in Art. 14 Rome II.

Apart from the operator's strict liability for high-risk AI systems, the draft regulation would introduce a fault-based liability rule for other AI systems (Art. 8 DR). In principle, the spatial scope of the latter liability rule would also be determined by Art. 2 DR as already described. However, unlike the comprehensive set of rules on strict liability for high-risk systems, the draft regulation's model of fault-based liability is not completely autonomous. Rather, the latter type of liability contains important carve-outs regarding the amounts and the extent of compensation as well as the statute of limitations. Pursuant to Art. 9 DR, those issues are left to the domestic laws of the Member States. More precisely, Art. 9 DR provides that

“Civil liability claims brought in accordance with Article 8(1) shall be subject, in relation to limitation periods as well as the amounts and the extent of compensation, to the laws of the Member State in which the harm or damage occurred.”

Thus, we find a lex loci damni approach with regard to fault-based liability as well. Again, all the modern approaches codified in the Rome II Regulation – the cascade of connecting factors for product liability claims, the common habitual residence rule, the escape clause, and party autonomy – are strikingly absent from the draft regulation.

Moreover, the draft regulation, in principle, limits its personal scope to the liability of the operator alone (as legally defined in Art. 3(d)–(f) DR). Recital 9 of the resolution explains that the European Parliament “[c]onsiders that the existing fault-based tort law of the Member States offers in most cases a sufficient level of protection for persons that suffer harm caused by an interfering third party like a hacker or for persons whose property is damaged by such a third party, as the interference regularly constitutes a fault-based action; notes that only for specific cases, including those where the third party is untraceable or impecunious, does the addition of liability rules to complement existing national tort law seem necessary”. Thus, for third parties, the conflicts rules of Rome II would continue to apply.

At first impression, it seems rather strange that a regulation on a very modern technology – artificial intelligence – should deploy a conflicts approach that seems to have more in common with Joseph Beale’s First Restatement of the 1930’s than with the modern and differentiated set of conflicts rules codified by the EU itself at the beginning of the 21st century, i.e. the Rome II Regulation. While the European Parliament’s resolution, in its usual introductory part, diligently enumerates all EU regulations and directives dealing with substantive issues of liability, the Rome II Regulation is not mentioned *once* in the Recitals. One wonders whether the members of Parliament were aware of the European Union’s acquis in the field of private international law all. In sum, compared with Rome II, the conflicts approach of the draft regulation would be a regrettable step backwards. It remains to be seen how the relationship between the draft regulation and Rome II will be designed and fine-tuned in the further course of legislation.