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On 1 January 2014, the new ICC Rules of Mediation came into force. In the UK, there was a formal launch on 3 March 2014. These replaced the ICC ADR Rules which had been used for amicable dispute resolution worldwide since 2001. The change in title reflects that the majority of cases dealt with by the ICC ADR body are referred to mediation and not some other form of ADR. The Rules, which are currently available in eight languages, are accompanied by a new publication for users, the ICC Mediation Guidance Note.

Whilst the new Rules themselves might not be that different (they have been updated to reflect the experience at the ICC over the past 13 years), their introduction does provide a clear indication of increased support for mediation from the ICC which will continue to be provided by the ICC International Centre for ADR, the body administering the new Rules.

The ICC has noted that since 2001, the ICC International Centre for ADR has mediated cases worldwide involving more than 70 nationalities. Of these, over 75% of the cases transferred to the mediator concluded with a settlement. We do not know how many cases have been transferred to a mediator but the success rate is not a surprise. Indeed, it is lower than the success rates reported by CEDR, the pre-eminent mediation provider in the UK. CEDR noted in its most recent Mediation Audit (for 2012) that mediators had reported that just over 70% of their cases settled on the day, with another 20% settling shortly thereafter, giving an aggregate settlement rate of around 90%. This relates of course to all the mediations carried out under the auspices of CEDR.

Item 1 of the Guidance Notes explains what the ICC means by mediation:

“For the purpose of the ICC Mediation Rules (the “Rules”), mediation is a flexible settlement technique, conducted privately and confidentially, in which a mediator acts as a neutral facilitator to help the parties try to arrive at a negotiated settlement of their dispute. The parties have control over both the decision to settle and the terms of any settlement agreement.”

Chris Newmark, the incoming Chair of the ICC Commission on Arbitration and ADR, has commented that the Guidance Notes are meant to give:

“practical guidance, enabling users and their advisers to see how ICC mediation proceedings can be organized and conducted so as to maximize the chances of a successful resolution of the parties’ dispute”.

The Guidance Notes are divided into a number of different sections dealing with the mediation process: “What is mediation?”,” Why mediation?”, “Mediation sessions”, “Preparation for mediation sessions”, “Authority”, “Case summaries and documents”, “Relation between mediation and arbitration proceedings” and “Miscellaneous”.

In many respects, what is important here is not the revision of the Rules themselves but the support the ICC is giving to mediation by the promotion of the Rules. The ICC expects that the demand for mediation and other forms of ADR will continue to grow. Mediation is increasingly seen as a potentially effective way of resolving disputes which might otherwise be lengthy, time-consuming and costly. The continued recognition by the ICC of the potential benefits of mediation is to be welcomed.
Universal view:
International issues around the globe

China - trends for 2014

By David Toscano
Assistant, Fenwick Elliott

The year 2014 is the Lunar Year of the Horse which is traditionally thought to be a zodiac sign of high activity and energy. But what will this year hold for those working on projects in and with China? We look ahead at the key areas in construction, investment and arbitration.

Closer ties for China and the UK

In 2013, the UK government led a charm offensive in China with both the Chancellor and the London Mayor taking delegations to the Far East to improve high of over £40 billion in bilateral trade in 2013. With an increase in UK exports to China of almost 14% last year and China directly investing over £7 billion in the UK over 2012-13, it is clear that projects both here and in China will continue to be supported by both countries.

UK contractors and designers are leading large projects in China this year, such as the Atkins designed “Pearl of the North” 565m-tall skyscraper in Shenyang and the Suzhou sports and leisure complex being built by Mott Macdonald incorporating a 45,000-capacity stadium.

Equally, Chinese expertise and investment will be driving many 2014 UK projects. High-profile plans by the telecoms giant Huawei to open a £125m UK research and development centre and the 49% stake in the EDF Hinkley nuclear plant taken by the Chinese Nuclear Power Group have made headlines.

Perhaps less controversial but equally important is the Manchester “Airport City” project as it is set to create 16,000 jobs in the area and pave the way for direct flights to China. The project will be led by a joint venture of Manchester Airports Group, Beijing Construction Engineering Group, Carillion and the Greater Manchester Pension Fund, delivering a new 61-hectare business district featuring 465,000 square metres of offices, shops and green space.

EU-China bilateral investment treaty

The EU has also sought to cement its relations with China Sino-relations by announcing in November 2013 that it would begin talks on a bilateral investment treaty (“BIT”), the first ever stand-alone EU investment agreement.

Investment between the EU and China is starting from a low base as it accounted for less than 3% of each of their total overseas direct investment in 2012. However, China’s investment in the EU grew by over 100% in 2013 and it is expected that the figure will reach over £600 billion by 2020, from a base of less than £500 million prior to 2008.

Negotiations on the EU-China BIT will continue into 2014 with the key aim to seek broader access for investment in China for EU companies, particularly
In April 2012, the China International Economic and Trade Arbitration Commission (“CIETAC”) issued new arbitration rules which led to an open conflict between its Beijing, Shanghai and Shenzhen sub-commissions. The new 2012 rules provided that any cases arising under CIETAC’s standard arbitration clauses would be administered by CIETAC Beijing. This included clauses where parties specifically agreed to submit their dispute to arbitration in Shanghai or Shenzhen, and even if the arbitration clause was agreed before the 2012 rules came into force. In response, the Shanghai and Shenzhen offices initially announced they would refuse to implement the 2012 rules, and then that they would split from the CIETAC umbrella, leading to Beijing first suspending and then terminating their authority to accept and administer arbitration cases. This of course placed parties with CIETAC arbitration clauses in their contracts in a very uncertain position, particularly as to the enforceability of any award they might obtain through the Shanghai and Shenzhen offices.

Those sub-commissions countered by declaring themselves as independent arbitration institutions approved and established by the municipal governments of Shanghai and Shenzhen, and rebranding as the Shanghai International Arbitration Centre (“SHIAC”) and the Shenzhen Court of International Arbitration (“SCIA”).

This uncertainty gave rise to jurisdictional challenges in lower courts in China, with conflicting decisions being issued to add to the confusion. For example, in May 2013, the Intermediate People’s Court of Suzhou refused to enforce a SHIAC arbitral award following the Shanghai name change, while the High People’s Court of Zhejiang held that a SHIAC award was enforceable notwithstanding the change.

China’s highest court, the Supreme People’s Court of China (the “SPC”), sought

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Those in the construction, energy, telecommunications and rail sectors. The EU-China BIT will consolidate 27 existing EU member state BITs into a single comprehensive agreement and the hope is that it will provide a more secure and simpler framework for investment protection including Investor-to-State dispute settlement provisions.

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to control the situation by issuing a Notice in September 2013 that any lower court hearing a case arising out of the former CIETAC sub-commissions of Shanghai or Shenzhen must report to the SPC before making any decision. Lower courts in China are likely to be asked to review the validity of a CIETAC arbitration agreement or to hear an application to set aside or not enforce an award made by CIETAC, SHIAC or SCIA.

The SPC Notice directs the lower court to report its intended decision to the SPC on a “level by level” basis, i.e. to all court levels between the court where the application is made and the SPC. The SPC will then give its opinion which the lower courts will follow. Interestingly, it appears that this reporting will be required in all cases that arise out of the CIETAC split, not simply those where the court might be minded to nullify a CIETAC arbitration clause or a CIETAC, SHIAC or SCIA award.

Both SHIAC and SCIA now have their own arbitration rules with modern features such as allowing third-party participation in proceedings (SHIAC) and the joinder of additional parties (SCIA). Each forum employs large panels of arbitrators including over a third from outside China, showing a clear international focus.

The key point for parties contracting in China is to use the correct model arbitration clause for CIETAC, SHIAC or SCIA. All three institutions have published new model arbitration clauses which are available on their respective websites. If parties already have contracts with CIETAC arbitration clauses, they should consider amending the clause to minimise the risk of jurisdictional challenges in the Chinese courts.

With their cooperative at an end, it is expected that the three institutions will use 2014 to stamp their own mark on the international arbitration market by conveying the individual qualities they bring to resolving disputes. This is likely to increase competition for parties’ business which can only continue to improve China’s arbitration reputation.

The year 2014 certainly looks like another important year for China. Watch this space.

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What can you do if a Responding Party in an arbitration refuses to pay its share of the Advance on Costs?

By Jeremy Glover
Partner, Fenwick Elliott

A not uncommon problem in international arbitration is where a party declines to pay its share of the advance on costs. This can be particularly frustrating for a claiming party where the parties have agreed that arbitration is to be the default procedure for resolving disputes. This is what happened in the case of BDMS Ltd v Rafael Advanced Defence Systems [2014] EWHC 451 (Comm). The International Chamber of Commerce ("ICC") fixed an advance on costs, but Rafael refused to pay its share. It was given extra time to pay, but when it failed to do so the ICC deemed the claim withdrawn.

The underlying contract was subject to English law. BDMS argued that the failure to pay the advance amounted to a repudiatory breach of the arbitration agreement. BDMS further argued that this repudiatory breach rendered the arbitration agreement "inoperative" which meant that it could bring a claim against Rafael through the courts. In response, Rafael argued that the court had no jurisdiction and sought an order that the claim be dismissed or stayed to arbitration.

The dispute related to a claim for "success fees" under a consultancy agreement. The agreement provided for arbitration under the ICC Rules. Article 30 provides that the ICC Court shall fix the advance on costs in an amount likely to cover the fees and expenses of the arbitrators and the ICC administrative expenses for the claims which have been referred to it by the parties. The Rules specifically provide that any party shall be free to pay the whole of the advance on costs in respect of the principal claim or the counterclaim should the other fail to pay its share. When a request for an advance on costs has not been complied with the ICC can direct the Arbitral Tribunal to suspend its work and set a time limit on the expiry of which the relevant claims, or counterclaims, shall be considered as withdrawn.

That is what happened here. Both parties took part in the arbitration, with Rafael filing an Answer to the initial Request for Arbitration. Rafael's solicitors expressed concerns about BDMS' ability to meet any adverse costs order and said that until adequate security had been put in place, Rafael did not propose to pay the advance on costs. Rafael also noted that if BDMS wanted to take the referral forward without securing its costs, it would have to meet whatever demands the ICC made as to payment of the balance of the advance on costs.

Rafael maintained its position and the ICC duly gave notice that the claim would be withdrawn if neither party paid Rafael's share of the advance. In the interim, BDMS had started proceedings in the Commercial Court in England. It then wrote to Rafael indicating that it was accepting Rafael's failure to pay its share of the advance on costs as a repudiatory breach of the Rules and clause 7 of the arbitration agreement and would now pursue its claim in the High Court.

The Referring Party's case

BDMS said that under Article 30 payment of the advance on costs was a condition precedent for the arbitration taking place. If payment was not received by the ICC, then pursuant to Article 30(4), the proceedings would be withdrawn unless a request to object was received. BDMS had paid its share of the advance on costs in full. The failure by Rafael to pay any part of its share led first to the possibility of, then to the actual, withdrawal of the arbitration proceedings. This was a repudiatory breach of the arbitration agreement because the purpose of clause 7 of the arbitration agreement was to ensure that the arbitration agreement remained in force.

In summary, when a party refuses to pay its share of the advance on costs, the arbitration agreement can be deemed inoperative if the other party is willing to accept this failure as a repudiatory breach. This is what happened in this case. Rafael's refusal to pay its share of the advance on costs was deemed to have rendered the arbitration agreement inoperative, allowing BDMS to pursue its claim in the courts.
agreement was to ensure that arbitration could resolve the dispute and Rafael’s behaviour, in causing the withdrawal of the arbitral proceedings, prevented that purpose. Further, Rafael’s refusal to comply with Article 30 of the ICC Rules “paralysed” the arbitration proceedings and brought about their withdrawal. This amounted to a fundamental breach of the arbitration agreement.

Further, BDMS said that this repudiatory breach rendered the arbitration agreement “inoperative”, which meant that it was entitled to bring its claim in the court by virtue of section 9(4) of the 1996 Arbitration Act. Rafael said that there was no breach, still less any repudiatory breach of the arbitration agreement, and that accordingly a mandatory stay should therefore be granted under s.9 of the Arbitration Act 1996.

Was there a breach of the arbitration agreement?

First of all Hamblen J noted that there was a difference in view as to whether the requirement that an advance on costs be paid under Article 30(3) gave rise to a contractual obligation owed to the other party or merely to a procedural obligation owed to the ICC Court. On the latter view, the issue is one of procedure rather than substance and recourse is by way of interim measures. In other words, any decision by an arbitral tribunal ordering a party to pay an advance on costs is a procedural decision of an administrative nature and is therefore not subject to review by state courts. In the ICC system, the ICC Rules make the administration of all financial aspects, including in particular the advance on costs, the exclusive responsibility of the ICC Court of Arbitration. In contrast, the arbitral tribunal is only competent to decide which of the parties shall bear the costs of the arbitration (including the fees of the arbitrators as determined by the ICC Court) and in what proportion.

This contractual view was the one favoured by the Judge. Here, it was expressly agreed that the arbitration “shall take place under the rules of the International Chamber of Commerce” and that the parties would, as a matter of contract, comply with mandatory requirements imposed on the parties under the Rules. However, the Judge also noted that whichever approach is correct it appears to be well recognised that the arbitral tribunal can order the defaulting party to pay the advance, either by means of an interim award or by interim measure. Further, the unpaid portion of the advance owed by the defaulting party may be paid by posting a bank guarantee pursuant to Appendix III Article 1.6 of the Rules.

Under English law, for a breach to be repudiatory it must be shown that the party in breach has clearly and unequivocally evinced an intention not to perform its obligations under the arbitration agreement in some essential respect or has committed a breach of the arbitration agreement which went to the root of the contract.

The position in Canada

BDMS placed reliance upon a Canadian case of Resin Systems Inc v Industrial Service & Machine Inc where the ICC had required each party to make a payment of advance costs of $87,500. ISM refused to pay its share on various grounds. Resin was not prepared to pay ISM’s share, the claim was deemed withdrawn and court proceedings were issued. A stay of proceedings was sought under the Canadian equivalent of s.9. The court refused the stay, finding that the refusal to pay rendered the arbitration unworkable and thereby inoperative. Here the Court of Alberta found that the refusal to pay the advance on costs made the arbitration unworkable, and thereby inoperative; there being no obligation on the other party to fund the defaulting party’s share. The Court described ISM’s request that Resin be denied access to the courts because it did not choose to pay ISM’s share of arbitration costs, which ISM refused to pay in breach of the arbitration rules, as being “audacious”.

Although the court in the Resin case did not consider the issue of repudiatory breach, the reasoning was relevant to that issue. However, Hamblen J noted that if, as the court found, ISM’s refusal to pay made the arbitration unworkable, then if that refusal was a breach of contract it may well have been repudiatory. He further noted: “a breach of contract which renders a contract unworkable is a breach which may well go to the root of the contract and therefore be repudiatory”.

The position in France

BDMS also referred to a French Cour de Cassation decision in Société TRH Graphic v Offset Aubin (Cour de Cassation, 19 November 1991, 1992 REV.ARB 462) where the Cour de Cassation accepted jurisdiction where the claimant had declined to substitute payment for the defaulting respondent and instead sued
Rafael's breach was potentially repudiatory. However, ultimately the Judge held that the breach was not repudiatory. Rafael had not declined to participate in the arbitration. It was actively participating in the arbitration. It had taken part in settling the Terms of Reference in exchanges about the scope of the preliminary issue hearing. Rafael's refusal to “play by the rules” was limited to the issue of payment of its advance share on costs. This was a matter which was due to be addressed at the forthcoming preliminary issue hearing. Further, this refusal was not absolute, but was a refusal to pay unless security for costs was provided.

Importantly, the breach did not deprive BDMS of its right to arbitrate. It was at all times open to BDMS to proceed with the arbitration by posting a bank guarantee for Rafael’s share of the advance on costs and then seek an interim award or interim measure order that the advance be paid by Rafael. BDMS could also have objected against withdrawal to the ICC Court pursuant to Rule 30(4). Whilst strictly it was correct that BDMS had no obligation either to pay Rafael’s share of advance costs or to object to withdrawal, the Rules provide means whereby the arbitration could be proceeded with and the withdrawal of the claim avoided. For a breach to go to the root of the contract it is generally necessary to show that the innocent party has been deprived of substantially the whole benefit of the contract. In the view of the Judge it was difficult to see how BDMS was “deprived” here of that benefit when they had the means, expressly afforded to them by the Rules, to prevent that occurring and to seek recourse.

Further, whilst the arbitration reference had been withdrawn, there was no restriction on the same claim being brought to arbitration again. Therefore the arbitration agreement had not been repudiated. As the breach did not go to the root of the contract, it could not be said that the arbitration agreement was made unworkable and thereby inoperative.

Therefore whilst Rafael’s failure to pay its share of an advance on costs was a breach of the arbitration agreement, it was not a repudiatory breach and BDMS’ alternative approach failed. As the Judge said, there were a number of reasons why the breach by Rafael could not be characterised as repudiatory under English law; perhaps the most important was that the breach itself did not deprive BDMS of its right to arbitrate. The ICC Rules provided the means for the arbitration to continue despite the failure by Rafael to pay its share of the advance on costs.

The Judge's Decision

Hamblen J accepted that there was a clear and unequivocal refusal by Rafael to pay its share of costs. This was a continuing breach so that there is no question of affirmation. He accepted that a stage was reached where it was clear that the continued failure to pay the advance share of costs was going to lead to withdrawal of the arbitration claim. When Rafael initially failed and then refused to pay its share of advance costs there were a number of possibilities. One possibility was that its security for costs application would be heard before there was any possibility of withdrawal. If it had been so heard and the Tribunal had ruled in Rafael’s favour and security had been provided, Rafael had made it clear that the advance would be paid. Alternatively, the issue of the advance on costs would be dealt with as part of the preliminary issue hearing, as the Tribunal had ordered. That might have had the consequence that there was to be no question of withdrawal until that had occurred. Another possibility was that BDMS would pay Rafael’s share of the advance on costs. In practice this is what usually happens. However, it became clear that none of these possibilities were going to happen and that the consequence of continued non-payment was going to be withdrawal of the claim. In those circumstances, the Judge said,
BIM and the new EU Public Procurement Directives: an update

By Stacy Sinclair
Assistant, Fenwick Elliott

BIM is the process of creating and managing information concerning a building, typically in a three-dimensional computer model which embeds data relating to its construction. If employed to its full extent, it is a tool used as part of the design process, throughout construction and for maintenance and alteration of the completed project.

In the UK, the government’s construction strategy requires all government projects to utilise BIM in the form of a fully collaborative 3D computer model (Level 2) by 2016, with all project and asset information, documentation and data being electronic. Similarly, the other EU member states of the Netherlands, Denmark and Finland also require the use of BIM for publically funded building projects.

Now, with the reference to BIM in the EUPPD, all 28 member states have the opportunity to recommend or require the use of BIM on public projects. Furthermore, the use of electronic communications with regard to procurement procedures is now mandatory (unless an exemption applies). The EUPPD states: “For public works contracts and design contests, Member States may require the use of specific electronic tools, such as of building information electronic modelling tools or similar.” Clearly the use of BIM will not be mandatory, but the EUPPD does go some way in encouraging or pushing member states to recommend or specify the use of BIM.

When implementing the EUPPD, member states and contracting authorities must take care not to fall foul of the non-discriminatory requirement. The EUPPD is clear that the tools and devices to be used either in electronic communication or BIM must be non-discriminatory, generally available and interoperable with the ICT products in general use. The tools and devices must not restrict access to public procurement. If the tools and devices proposed are not generally available, the contracting authorities must offer an alternative means of access. Furthermore, public contracts must comply with the principles of the Treaty on the Functioning of the European Union: equal treatment, non-discrimination, proportionality and transparency.

Therefore, contracting authorities in each member state must consider the technical platforms/standards which they intend to use and ensure that they do not restrict access or competition between potential tenderers. Using an open and neutral data format (IFC) of course assists with interoperability and should therefore limit issues of discrimination.

Mandatory use of electronic communications

In addition to referencing BIM, the EUPPD also requires member states to ensure that all communication and information exchange in relation to procurement procedures are carried out electronically (unless an exemption applies).
are awarded by reference to MEAT. The EUPPD’s new award procedure has adopted criteria that allow contracting authorities to put more emphasis on quality, environmental considerations and social aspects while still taking into account price and life-cycle costs.

Abolition of the distinction between Part A and Part B services

Currently, Part A services are fully regulated by the procurement rules and Part B services (education, health, cultural and some transport services, for example) are regulated to a more limited extent. The new rules abolish this distinction and introduce a new “simplified regime” for particular social and other services, including social, health, cultural, legal, hotel, restaurant and catering services. These services only fall within the EUPPD if the contract meets a higher threshold of 750,000 euros. The EUPPD allows member states to determine the detailed requirements for the procurement of these services.

Subcontracting

The EUPPD includes tighter procedures regarding subcontracting. For tenders that appear “abnormally low” owing to technically, economically or legally unsound practices, if the tenderer cannot provide a sufficient explanation, the contracting authority should be entitled to reject the tender. Furthermore, the new rules require that contracting authorities must reject any bids which are deemed to be “abnormally low” and the evidence points to a violation of social, labour or environmental laws.

Conclusion

The aim of the new EUPPD is to modernise the existing EU public procurement rules by promoting the use of BIM and electronic communication, minimising red tape and enabling easier access for SMEs. The UK government has stated that it is aiming to implement the Directives quickly so that the UK can benefit as soon as possible from the improved flexibilities they offer. Clearly the new Directives will not resolve all of the complexities and ambiguities which have developed in UK public procurement; however, the new regime is certainly a step in the right direction.

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This edition

We hope that you have found this edition of International Quarterly informative and useful. We aim to keep you updated regarding legal and commercial developments in construction and energy sectors around the world. Fenwick Elliott’s team of specialist lawyers have advised on numerous major construction and energy projects worldwide, nurturing schemes to completion with a combination of careful planning, project support and risk assessment. From document preparation to dispute resolution, our services span every stage of the development process.

If you would like us to comment on a particular commercial issue or aspect of law that is affecting your business please contact Jeremy Glover - jglover@fenwickelliott.com

Fenwick Elliott speaking at Turkey and Middle East International Arbitration Summit - September 2014

Fenwick Elliott Partner, Nicholas Gould, will be joined by Heba Osman, Partner at Ibrahim Law Firm, UAE at the Turkey and Middle East International Arbitration Summit taking place in Istanbul on 3 September. The meeting organised by Wolters Kluwer will bring together practitioners and delegates from all over Asia to network, present and understand everything you need to on Arbitration, ADR and Mediation from the experts in this field.

Fenwick Elliott LLP has a well deserved reputation for handling large, complex, high-value construction and energy related international arbitrations. We regularly advise on and represent clients in arbitration conducted under all of the major institutional rules including LCIA, UNCITRAL, SIAC, DIAC, AAA, LMAA, ICSID and CIAS, with particular experience of ICC arbitration. The firm is very well known in international arbitration circles as a true specialist and a formidable opponent.

Nicholas Gould, is the Chairman of the Standing Sub-Committee of the International Chamber of Commerce’s (ICC) International Centre for Expertise (Le Centre international d'expertise de la CCI), (2007 onwards), and is a member of the Policy Sub-Committee of the CIArb. Nicholas also sat on the ICC Arbitration Committee responsible for the re-vision of the new ICC Rules launched in Oct 2011. He is appointed by or registered with ICC, LCIA, DIAC, and the DIFC as arbitrator and lectures on the CIArb’s diploma in International Commercial Arbitration at Keeble College, Oxford, United Kingdom.

Heba specialises in construction and engineering law. Heba also has considerable experience in engineering and construction arbitrations and represents clients in DIAC, ICC, ICSID, CRCICA and ad hoc arbitrations.

Next issue

Our next issue will include articles about determination and the service of notices when using the FIDC form of contract. If you have any questions regarding this particular topic please contact Jeremy.

About the editor, Jeremy Glover

Jeremy has specialised in construction energy and engineering law and related matters for most of his career. He advises on all aspects of projects both in the UK and abroad, from initial procurement to where necessary dispute avoidance and resolution.

Jeremy organises and regularly addresses Fenwick Elliott hosted seminars and provides bespoke in-house training to clients. He also edits Fenwick Elliott’s monthly legal bulletin, Dispatch.

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