The Law of Cross-Border Business Transactions

Principles, Concepts, Skills

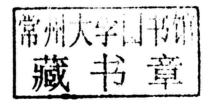
LUTZ-CHRISTIAN WOLFF



The Law of Cross-Border Business Transactions

Principles, Concepts, Skills

Lutz-Christian Wolff





Published by: Kluwer Law International PO Box 316 2400 AH Alphen aan den Rijn The Netherlands Website: www.kluwerlaw.com

Sold and distributed in North, Central and South America by:
Aspen Publishers, Inc.
7201 McKinney Circle
Frederick, MD 21704
United States of America
Email: customer.service@aspenpublishers.com

Sold and distributed in all other countries by: Turpin Distribution Services Ltd Stratton Business Park Pegasus Drive, Biggleswade Bedfordshire SG18 8TQ United Kingdom Email: kluwerlaw@turpin-distribution.com

Printed on acid-free paper.

ISBN 978-90-411-4001-2

© 2013 Kluwer Law International BV, The Netherlands

DISCLAIMER: The material in this publication is in the nature of general comment only. It is not offered as advice on any particular matter and should not be taken as such. The authors expressly disclaim all liability to any person with regard to anything done or omitted to be done, and with respect to the consequences of anything done or omitted to be done wholly or partly in reliance on the basis of any matter contained in this volume without first obtaining professional advice regarding the particular facts and circumstances at issue. Any and all opinions expressed herein are those of the particular author, they are not necessarily those of the publisher of this volume and they do not reflect the views of any institution or organization.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without written permission from the publisher.

Permission to use this content must be obtained from the copyright owner. Please apply to: Permissions Department, Wolters Kluwer Legal, 76 Ninth Avenue, 7th Floor, New York, NY 10011-5201, USA. Email: permissions@kluwerlaw.com

Printed and Bound by CPI Group (UK) Ltd, Croydon, CR0 4YY.

The Law of Cross-Border Business Transactions

About the Author

Professor Dr Lutz-Christian Wolff is admitted to practice as German attorney-at-law and also as solicitor in England and Wales. He works on a regular basis with companies, government entities and law firms on international business transactions. He has authored numerous books and articles and is a frequent speaker at international conferences, professional development courses and in-house seminars.

Professor Wolff has been based in Hong Kong since 1999 after several years in Shanghai, Taipei, Düsseldorf, Beijing, New York and Frankfurt. He is a Professor of Law at the Faculty of Law of The Chinese University of Hong Kong.

For more information please visit: wolff.wolff-hk.com.

Preface

In times of globalization, cross-border business transactions are conducted by many enterprises on a regular basis. Related legal aspects are consequently becoming increasingly important. While there is no single body of law governing the different forms of cross-border business transactions, similar legal questions often arise in the context of different transaction types and the answers of the law to these questions as well as the responses of legal practice have to be based on similar concepts and principles. This book attempts to make these concepts and principles transparent by giving a structured introduction to the law and practice of cross-border business transactions with the ultimate goal to consolidate transferable practical knowledge which can be applied across jurisdictions.

I am most grateful that I was able to rely on many valuable materials prepared by others and I have tried to quote primary and secondary sources comprehensively to allow for easy access to additional information. The contents of this book, including substantive information, sample clauses and contract contents as well as online links, have been checked for accuracy to the best my knowledge until the end of 2012. They should, however, not be relied upon without independent verification against the backdrop of the facts of any particular case and in light of the governing law. In particular, online links are provided for convenience only and no responsibility can be accepted for the innocuousness of the links or for information available on the referenced sites.

This book is based on my experience as practicing lawyer in the field of international business law over more than twenty years. I wish to express special thanks in this regard to Dr Norbert Knittlmayer and his team, Düsseldorf, Germany. The numerous transactions on which we have worked together have inspired the structure and the contents of many of the chapters of this book.

Hong Kong, March 2013 Lutz-Christian Wolff

Table of Contents

About	the Author	V	
Preface			
Chapte Introdu		1	
§1.01	General	1	
§1.02	Types of Cross-Border Business Transactions	2	
§1.03	Cross-Border Business Transactions in Numbers	4	
Снарте	R 2		
Interna	tional Lawyering and Cultural Diversity	9	
§2.01 General			
§2.02	The Impact of Culture	10	
§2.03	How to Deal with Cultural Diversity?	13	
	[A] International Law Firms	13	
	[B] Cross-Cultural Lawyering	15	
	[C] In Particular: Negotiating Cross-Culturally	16	
Снарте	R 3		
Source	s of the Law Governing Cross-Border Business Transactions	19	
§3.01	General	19	
	[A] Introduction	19	
	[B] Hard-Law versus Soft-Law	19	
§3.02	Public International Law	21	
	[A] Sources	21	
	[1] Introduction	21	
	[2] International Conventions	21	
	[3] International Practice	2.2	

		[4]	General Principles	22 22		
	fml	[5]	Judicial Decisions and Teachings			
§3.03	[B]		Applicability of Public International Law to Private Parties	23		
			nal Commercial Law/Lex Mercatoria	23 24		
§3.04	National Law [A] Sources					
	[A]	Conflict of Laws				
	[B]			24		
		[1]	Introduction	24		
		[2]	Characterization	27		
		[3]	Public Policy	27		
		[4]	Renvoi	28		
		[5]	Connecting Factors	30		
		[6]	Conflict of Contract Laws	30		
			[a] Party Autonomy	30		
			[b] Connection Requirement	31		
			[c] Choosing Non-state Law	31		
			[d] Transnational Commercial Law/Lex Mercatoria	32		
			[e] Opting out of Mandatory Law	33		
			[f] Dépeçage	33		
			[g] Floating Law Clauses	34		
			[h] International Conventions	35		
			[i] Failure to Choose the Applicable Law	35		
			[j] Public Policy	37		
		[7]	Conflict of Tort Laws	37		
		[8]	Conflict of Property Laws	40		
			[a] Property Types	40		
			[b] Immovables	41		
			[c] Movables	41		
			[d] Intangibles	41		
		[9]	Conflict of Company Laws	41		
§3.05	Cont	racts		42		
Снарте						
Practic	e of In	terna	tional Contract Law	45		
§4.01	Gene	eral		45		
§4.02	Com	parati	ive Contract Law	45		
	[A]	Intro	oduction	45		
	[B]	Offe	er, Acceptance and Consideration	46		
	[C]	Forr	n	47		
	[D]	Spec	cific Performance	48		
§4.03	E-Co	ntrac		48		
§4.04	Pre-	contra	actual Documents and Agreements	50		
			oduction	50		

	[B]	Confidentiality Agreements	51		
	[C]	Exclusivity Agreements	54		
	[D]	Letters of Intent	54		
	[E]	Memoranda of Understanding	55		
	[F]	Position Papers	56		
	[G]	Term Sheets	56		
	[H]	Heads of Agreement	56		
	[I]	Instructions to Proceed	57		
	[J]	Combinations	57		
§4.05	Struc	ture and Contents of International Contracts	57		
	[A]	Introduction	57		
	[B]	Cover Page	59		
	[C]	Table of Contents	60		
	[D]	Parties	60		
	[E]	Preamble	60		
	[F]	Definitions	62		
	[G]	Breach of Contract	64		
	[H]	Force Majeure	68		
	[I]	Term and Termination	69		
	[J]	Tax	72		
	[K]	Confidentiality	73		
	[L]	Non-competition	74		
	[M]	Applicable Law	75		
	[N]	Dispute Settlement	79		
	[0]	Contract Language	79		
	[P]	Notices	80		
	[Q]	Miscellaneous	81		
	[R]	Date and Place of Signing, Signatures and Closing	84		
§4.06	Draft	ting	86		
	[A]	Introduction	86		
	[B]	Guiding Principles	86		
	[C]	Layout	88		
	[D]	Numbering	89		
	[E]	Articles, Sections, Paragraphs, Clauses or Plain Numbering?	90		
	[F]	Headers	90		
	[G]	Punctuation	90		
	[H]	Passives	91		
	[1]	Other Drafting Issues	92		
CHAPTER					
Trade a	nd Co	puntertrade	97		
§5.01	Gene	eral	97		
§5.02	Forn	ns of Cross-Border Trade	97		
	[A] Trade and Countertrade 9				

	[B]	Barter Trade and Compensation Trade	98
	[C]	Co-production	98
	[D]	Processing Trade	98
	[E]	Offset	99
	[F]	Switch Trading and Evidence Accounts	100
	[G]	Structuring and Contract Practice	100
§5.03	B	ces of International Trade Law	102
	[A]	International and Regional Trade Regimes	102
		[1] Introduction	102
		[2] WTO	102
		[3] OECD	104
		[4] ASEAN	105
		[5] APEC	106
		[6] NAFTA	107
		[7] CACM, CAFTA, SELA, The Andean Pact, MERCOSUR and	
		ALADI	107
		[8] EU	108
		[9] EFTA	109
		[10] African Trade Organizations	110
	[B]	Domestic Trade Law Systems	110
	[C]	Conflict of Trade Laws	110
§5.04	In P	articular: The CISG	111
	[A]	Introduction	111
	[B]	Applicability	112
	[C]	Interpretation	115
	[D]	Form	116
	[E]	Conclusion of Contracts	117
	[F]	Obligations of the Seller and Remedies	117
	[G]	Duty of the Buyer to Examine Goods and Notification	
		Requirement	117
	[H]	Obligations of the Buyer and Remedies	118
	[1]	Other Provisions	118
§5.05	Inco	iterms	118
§5.06	Trai	asportation of Export Goods	124
	[A]	Introduction	124
	[B]	Sea Transport	126
		[1] Significance and Possible Transaction Sequence	126
		[2] Bills of Lading	128
		[3] Sea Waybills	131
		[4] Charterparties	132
		[5] International Conventions	133
	[C]	Inland Waterway Transport	136
	[D]	Rail Transport	137
	[F]	Road Transport	141

	[F]	Air Transport	144
	[G]	Multimodal Transport	153
§5.07	Fina	ncing International Trade Activities	154
	[A]	Introduction	154
	[B]	Factoring	155
	[C]	Forfaiting	158
	[D]	Financial Leasing	160
	[E]	Hire Purchase	162
§5.08	Tern	ns of Payment	162
	[A]	Introduction	162
	[B]	Letters of Credit	163
		[1] General Principle	163
		[2] L/C Documents	165
		[3] Types of Letters of Credit	168
		[4] Autonomy of Letters of Credit	170
		[5] Doctrine of Strict Compliance	170
		[6] UCP 600	171
		[7] Contract Practice	172
	[C]	Collections	172
		[1] General Principle	172
		[2] Collection Modes	174
		[3] Collection Documents	175
		[4] URC 522	175
		[5] Contract Practice	175
	[D]	Other Payment Methods	176
§5.09	Trar	nsfer of Title in International Trade	178
	[A]	Introduction	178
	[B]	Transfer of Title and Risk Transfer	179
	[C]	Title Transfer Concepts	181
	[D]	Documents of Title	185
	[E]	Retention of Title	186
§5.10	Brea	ach of International Sales Contracts	188
§5.11	Insu	192	
	[A]	Introduction	192
	[B]	Transport Insurance	192
		[1] Basic Concept	192
		[2] Insurance Policy	193
		[3] Types of Transport Insurance Policies	194
		[4] Insurance Documents	195
		[5] Risk Cover: Institute Cargo Clauses	196
		[6] The Insurable Interest	199
	[C]	Products Liability Insurance	199
		[1] Basic Concept	199
		[2] Cross-Border Products Liability	200

		[3]	Insuring Products Liability Risks	202
	[D]	Expo	t Credit Guarantees	204
§5.12	Agen	cy and	Distributorship	205
	[A]	Intro	duction	205
	[B]	Agen	су	205
		[1]	Basic Concept	205
		[2]	Agent's Authority	207
		[3]	Disclosed Agency and Undisclosed Agency	208
		[4]	Exclusive and Non-exclusive Agency	211
		[5]	Del Credere Agency	211
		[6]	Confirming Houses	212
		[7]	Contract Practice	212
			[a] Appointment as Agent	213
			[b] Rights and Obligations of Agent	213
			[c] Rights and Obligations of Principal	215
			[d] Marketing and After-sales Service	217
			[e] Agency Fee, Service Fee, Reimbursemen	
	1.01		and Expenses, Payment Terms	218
	[C]		ibutorship	218
		[1]	Basic Concept	218 220
		[2]	Exclusive and Non-Exclusive Distributorship	
		[3]	Contract Practice [a] Distribution Rights	220 221
			[b] Distributor's and Supplier's Duties	222
			[c] Orders	222
			[d] Product Prices and Terms of Payment	223
§5.13	Anti	dumr	ing Law	225
33.13	[A]		duction	225
	[B]		Anti-Dumping Rules	226
§5.14			ntal Im- and Export Restrictions and Promotion	
30144	COT	CILLIA		
CHAPTER	6			
Internat	ional	Tech	nology Transfer	231
4.00.000				0.2.1
§6.01	Gen		22 - 17 - 12 - 25 - 17 - 17	231
§6.02			of Intellectual Property Rights and Know-how	234
			duction estic Law	234
	[B]	235		
			ractual Protection	238
			rcement	238 239
	[E]		rnative Options	240
SG 02	[F]		national Law y Transfer	246
§6.03			duction	246
	1/3	111111	RELEGIOUS	240

		[1] [2]	Definition Assignments	246 248 249	
		[3] [4]	Licensing R&D	249	
		[5]	Franchising	250	
	[B]	-	estic Law and Technology Transfer	251	
	[C]		national Law and Technology Transfer	258	
	[D]		ract Practice	260	
Снарте				2.50	
Cross-E	Border	Servic	es	267	
§7.01	Gene			267	
§7.02	Dom	estic L	Law and Trade in Services	269	
§7.03			al Law and Trade in Services	270	
	[A]	Intro	duction	270	
	.9	GAT		270	
			D 'Sub-global' Instruments	271	
			onal and Sector-specific Systems	273	
	[E]		erential Trade Agreements	273	
	[F]		national Investment Agreements	273	
§7.04	Con	ract P	ractice	274	
Снарте					
Cross-I	Border	Inves	tments	275	
§8.01	General				
	[A] Introduction				
	[B]		s-Border Investments in Numbers	279	
		[1]	Overall Developments	279	
		[2]		281	
		[3]	Transnational Corporations, State-Owned Enterprises and		
			Sovereign Wealth Funds	283	
§8.02			Investment Law	285	
			oduction	285	
	[B]		rnational Investment Law	286	
			Multilateral Investment Regimes	286	
		[2]	Bilateral Investment Treaties and other International		
			Investment Agreements	289	
	[C]		nestic Investment Law	292	
		[1]	General Trend	292	
		[2]	Conflict of (Investment) Laws	292	
§8.03			isk and Political Risk Insurance	293	
§8.04			g Investment Projects	301	
	[A]	Intro	oduction	301	

	[B]	Investment Modes	302	
		[1] Greenfield Investments and Quasi-Asset Deals	302	
		[2] Acquisitions	304	
		[a] Overview	304	
		[b] Share Deals	305	
		[c] Asset Deals	306	
		[d] Takeovers	309	
		[3] Mergers	312	
		[4] Combined and Alternative Options	313	
	[C]	Investment Vehicles	313	
		[1] Introduction	313	
		[2] Representative Offices	314	
		[3] Branches	314	
		[4] Subsidiaries: Companies	314	
		[5] Associate Companies	315	
		[6] Regional Headquarters	315	
		[7] Joint Ventures	316	
		[8] Sole Proprietorships	316	
		[9] Partnerships	316	
	[D]	Organizational Structuring	317	
	[E]	Holding Structures	321	
8.05	Priva	ate Equity Investments	323	
88.06	The	Different Stages of Investment Projects	327	
	[A]	Introduction	327	
	[B]	Greenfield Investments	328	
	[C]	Acquisitions	331	
	[D]	In Particular: Due Diligence	335	
		[1] Definition	335	
		[2] Goals	336	
		[3] Vendor Due Diligence	337	
		[4] Due Diligence Stages	337	
		[5] Due Diligence Report	340	
		[6] Problems Discovered During Due Diligence	345	
		[7] Practical Difficulties	345	
	[E]	Post-closing Issues	346	
§8.07	Fina	ncing Investment Projects	347	
	[A]	Introduction	347	
	[B]	Equity Financing	347	
	[C]	Debt Financing	348	
	[D]	Mezzanine Financing	350	
	[E]	Foreign Exchange Control and Other Restrictions on Money		
		Transfers	351	
\$8.08		estor Liability	353	
\$8.09	Employment Law and Cross-border Investments			

	[A]	Introduction	358			
	[B]	Local Staff and Workers	361			
	[C]	Expatriates	364			
§8.10	Com	petition Law and Cross-Border Investments	369			
	[A] Introduction					
	[B]	Merger Control	372			
		[1] Notification Requirement	372			
		[2] Which Transaction Types Fall within the Scope of Merger				
		Control Rules?	374			
		[3] Notification Thresholds	376			
		[4] Extraterritorial Effect	377			
		[5] Merger Review	378			
		[6] Sanctions in Case of Non-compliance	380			
	[C]	Anti-competitive Agreements or Arrangements and Abuse of				
		Market Power	380			
§8.11	Liqu	idation and Dissolution of Investment Projects	382			
	[A]	Introduction	382			
	[B]	Non-insolvency related Liquidation and Dissolution	383			
	[C]	Insolvency Related Liquidation and Dissolution	384			
		[1] Domestic Insolvency Regimes	384			
		[2] Cross-Border Insolvency	386 389			
§8.12	Restructuring Investment Projects					
	[A]	Reasons	389			
	[B]	Restructuring Options	391			
§8.13		ernmental Investment Promotion and Restrictions	393			
	[A]	Introduction	393			
	[B]					
		Investment Restrictions	395			
energy v	[D]	In Particular: National Security Review	396			
§8.14		porate Social Responsibility and Cross-Border Investments	403			
	[A]	Definition and Practical Significance	403			
	[B]	In Particular: Corruption	407			
	[C]	Reasons for CSR Compliance	414			
CO 15	[D]	Achieving CSR Compliance	415			
§8.15		tract Practice	417			
		Introduction	417			
	[B]	Particular Contract Types	418			
		[1] Articles of Association	418			
		[2] Shareholders' Agreements	418			
		[3] Joint Venture Contracts	418			
		[4] Share Purchase Agreements	419			
		[5] Asset Purchase Agreements	420			
	[0]	[6] Supplemental Agreements	420			
	[C]	Particular Types of Contract Clauses	421			

		[1] [2]	Share and Asset Purchase Clauses Clauses on Purchase Price and Payment Mode	421 422		
		[3]	Representations and Warranties, Disclosure	424		
		[4]	Closing Conditions	429		
		[5]	Material Adverse Change Clauses	430		
Снартег	2 9					
Taxatio	n of C	ross-l	Border Business Transactions	431		
§9.01	General					
	[A]		nitions	431		
	[B]	Sour	rces of Tax Law	433		
		[1]		433		
		[2]		433		
		[3]	International Tax Treaties	434		
		[4]	Domestic Tax Law	437		
	[C]	Dou	ble Taxation	439		
		[1]	Introduction	439		
		[2]	Dual Residence	440		
		[3]	Dual Source	442		
		[4]	Foreign-Source Income of Residents	442		
	[D]	Tax	Evasion and Tax Avoidance	446		
		[1]	Introduction	446		
		[2]	General Anti-avoidance Rules and Doctrines	447		
		[3]	CFC Rules	447		
		[4]	Tax Havens	448		
		[5]	Transfer Pricing	451		
		[6]	Thin Capitalization	453		
		[7]	Treaty Shopping	454		
§9,02	The '	Taxat	tion of Non-investment Projects	454		
	[A]	Intr	oduction	454		
	[B]	Trac	de	454		
	[C]	Tec	hnology Transfer	455		
	[D]		vices	456		
§9.03	The	Taxa	tion of Investment Projects	457		
			enfield Investments	457		
	[B]	Acq	quisitions	460		
			ancing	462		
			al and Expatriate Personnel	462		
			tructuring and Exit	463		
§9.04		oms		464		
\$9.05			Practice	470		

CHAPTER	10				
Dispute	Settlement and Cross-Border Enforcement of Awards	473			
§10.01	General				
§10.02	Avoiding Disputes	474			
§10.03					
§10.04	Court Proceedings	475			
	[A] Introduction	475			
	[B] Jurisdiction	476			
	[C] Procedure	480			
	[D] Cross-Border Service of Judicial Documents	481			
	[E] Cross-Border Taking of Evidence	484			
	[F] Legal Representation	486			
	[G] Costs	487			
§10.05	Arbitration	487			
	[A] Introduction	487			
	[B] Jurisdiction	490			
	[C] Ad hoc Arbitration versus Institutional Arbitration	490			
	[D] Arbitration Institutions	491			
	[E] Procedure	498			
	[F] Legal Representation	499			
	[G] Costs	499			
§10.06	Mediation, Conciliation and Adjudication	499			
	[A] Mediation	499			
	[B] Conciliation	501			
	[C] Adjudication	501			
§10.07	The Cross-Border Enforcement of Awards	502			
	[A] Introduction	502			
	[B] Judgments	502			
	[C] Arbitral Awards	505			
§10.08	In Particular: Investor – State Disputes	510			
§10.09	Contract Practice	513			
	[A] Introduction	513			
	[B] Jurisdiction Clauses	515			
	[C] Arbitration Clauses	516			
Bibliog	raphy	523			
N. I		el 184			
Index		547			