

STUDIES IN PRIVATE INTERNATIONAL LAW

THE
GOVERNING LAW
OF COMPANIES
IN EU LAW

Justin Borg-Barthet



• HART •
PUBLISHING

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OXFORD AND PORTLAND, OREGON

2012

Published in the United Kingdom by Hart Publishing Ltd
16C Worcester Place, Oxford, OX1 2JW
Telephone: +44 (0)1865 517530
Fax: +44 (0)1865 510710
E-mail: mail@hartpub.co.uk
Website: <http://www.hartpub.co.uk>

Published in North America (US and Canada) by
Hart Publishing
c/o International Specialized Book Services
920 NE 58th Avenue, Suite 300
Portland, OR 97213-3786
USA
Tel: +1 503 287 3093 or toll-free: (1) 800 944 6190
Fax: +1 503 280 8832
E-mail: orders@isbs.com
Website: <http://www.isbs.com>

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British Library Cataloguing in Publication Data
Data Available

ISBN: 978-1-84946-296-9

Typeset by Hope Services, Abingdon
Printed and bound in Great Britain by
TJ International Ltd, Padstow, Cornwall



THE GOVERNING LAW OF COMPANIES IN EU LAW

The manner in which the governing law of companies is determined has attracted much attention from academics and practitioners alike ever since the European Court of Justice began receiving references for preliminary rulings regarding the compatibility of protective conflict of corporate law norms with the EC Treaty provisions concerning freedom of establishment. Although recent developments have been less controversial than the ground-breaking judgment in *Centros*, they have not only consolidated the general thrust of liberalisation occasioned by the Court of Justice, but have added new dimensions to the regulatory landscape. These developments include amendments to the European constitutional order enshrined in the Lisbon Treaty, European legislation on cross-border mergers, the proposed statute for a European Private Company, the judgment of the Court of Justice in *Cartesio* and a Commission communication that contemplates the introduction of legislation on the governing law of companies.

This book examines these recent developments and appraises the current law, as well as the foreseeable trajectory of the law, within a theoretical setting that addresses the socio-economic and legal-theoretical concerns associated with choices of the governing law of companies. In addition to considering the present and probable future state of EU law, the book also develops new theoretical perspectives and proposes novel solutions to long-standing dilemmas. In particular, it suggests that the use of information technology may render possible previously impossible compromises between party autonomy and the proper locus of prescriptive sovereignty.

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Volume 9: The Governing Law of Companies in EU Law
Justin Borg-Barthet

SERIES EDITORS' PREFACE

Private international law of companies is an important topic that is in danger of being neglected by private international lawyers – witness its omission from the latest edition of *Cheshire, North and Fawcett, Private International Law* 14th edn (Oxford, Oxford University Press, 2008) by James Fawcett and Janeen Carruthers. Justin Borg-Barthet's book helps to avoid this neglect. It does so not by writing a doctrinal work but rather by writing a more theoretical, yet practical, book. The author immersed himself in theories of corporate governance in order to be able to analyse how far it is appropriate to extend the principle of party autonomy in the field of private international law of corporations. Not surprisingly he rejects a simplistic unlimited party autonomy model in favour of a more nuanced and limited application of that principle.

The practical outworking of the author's theoretical analysis of what private international law of companies should be is set in the particular context of the European Union. The author does not make the mistake of confusing the 'is' and the 'ought'. Instead he devotes the second part of the book to a careful explanation of the current law on private international law of companies at the European Union level. The author skilfully guides the reader through the relevant secondary legislation affecting companies in the EU, including optional supranational business vehicles. He then provides a pathway through the Court of Justice of the European Union's case law on the freedom of establishment of companies and how this limits the room for manoeuvre of national private international law of companies in the EU. The Court's case law is divided into three parts: (1) the conservatism of the *Daily Mail* case (ie little or no interference with national private international law); (2) the radical case law from *Centros* to *Sevic Systems* that seemed to be moving towards the Court of Justice occupying the field of private international law of companies by its deregulatory case law on the Treaty right to freedom of establishment; and (3) the acknowledgment in the *Cartesio* case that there are limits to what the Court of Justice is willing to regulate through its case law on freedom of establishment in relation to private international law of companies.

In the last part of the book Justin invites the various branches of the EU legislature to consider a series of ideas rooted in the theoretical analysis from the first part of the book as to appropriate EU legislation on private international law of companies. Given that the Stockholm programme acknowledges the 'need to explore whether common rules determining the law applicable to matters of company law . . . could be devised' it is a good time to be offering constructive and detailed ideas for new EU legislation on the private international law of companies.

This book should be of interest to a wide range of people. Apart from specialists in private international law it should be read by company lawyers, those with an interest in corporate governance, and European Union lawyers and policy makers with an interest in freedom of establishment, civil justice, the internal market and company law.

Paul Beaumont

Jonathan Harris

PREFACE

The laws that regulate companies, both nationally and transnationally, require technical analysis. This book engages with this need and sets out to diagnose the current state of EU law concerning the governing law of companies. However, there is a lot more to corporate law and the governing law of companies. The way that societies organise companies says much about how they wish to organise power and wealth. This is especially challenging in a transnational context. European company law also concerns questions about the balance to be struck between the rights of states and the politics within those states on the one hand, and the economic freedoms upon which the internal market is built on the other.

The writing of this book began prior to the financial crisis. It is tempting to suggest that the crisis vindicates the book's challenge to contractarian approaches to transnational company law; but that temptation must be resisted. The history of corporate law suggests that current economic conditions are often used as a pretext to justify given approaches to the corporate form. Still, the financial crisis invites us to reconsider the basis upon which we organise our social and economic life through the law. This book suggests alternatives to unbridled economic liberalism.

The book is based on a PhD thesis that was completed at the University of Aberdeen in 2011. I am thankful to Aude Fiorini (University of Dundee) who supervised me in the earlier stages, when guidance was paramount and confidence was realistically low. Aude continues to read much of my work and to offer intellectual rigour, and I am thankful for her selfless guidance and support. Professor Paul Beaumont took over as lead supervisor when Aude moved to the University of Dundee, and Professor John Paterson provided continuity as second supervisor. Their insight and varied expertise helped me to develop ideas and to communicate them better.

Professor Beaumont's confidence in the thesis enabled me to think of the work as a publishable monograph. I am thankful to him and his co-editor, Professor Jonathan Harris (King's College London), for the opportunity to present this work to a wider audience, as well as for the helpful conversations about aspects of the thesis. Mel Hamill, Tom Adams, Richard Hart (Hart Publishing) and two anonymous reviewers have also been tremendously helpful and patient.

The examiners of my PhD, Professor Janet Dine (Queen Mary, University of London) and Dr Sophia Tang (University of Aberdeen) made helpful suggestions regarding changes that could be made between PhD and monograph. They also made the day of my viva voce examination memorable for all the right reasons. Professor Janet McLean (University of Auckland), Dr Daniel Carr (University of

Edinburgh) and Professor Peter McEleavy (University of Dundee) also read parts of this work. Their encouraging comments and advice about style and substance were invaluable.

My fiancée Catriona Mallia proofread several chapters of the thesis. Her attention to detail was particularly helpful, as was her boundless patience, care and encouragement during the completion of my PhD and this book. The book is dedicated to her, with thanks and love.

Dr Adrian Mallia's authoritative instruction on the classification of property in corporate restructuring provided unexpected, extensive ideas – *kollox ghallimtni*.

Finally, I am also thankful to my parents, Carmen and Tony Borg Barthet, and family. 'Last but not least' is a clichéd phrase, but certainly a pertinent addition to the previous sentence. They endured and encouraged throughout the long gestation of an unlikely academic career.

Justin Borg-Barthet

TABLE OF CASES

Court of Justice of the European Union

Case 8-74 <i>Procureur du Roi v Benoît and Gustave Dassonville</i> [1974] ECR 837	124
Case 120/78 <i>Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein</i> [1979] ECR 649	113, 138
Case 270/83 <i>Commission v France</i> [1986] ECR 273	105
Case 79/85 <i>DHM Segers v Bestuur van de Bedrijfsvereniging voor Bank- en Verzekeringswezen, Groothandel en Vrije Beroepen</i> [1986] ECR 2375	105
Case 218/86 <i>SAR Schotte GmbH v Parfums Rothschild Sarl</i> [1987] ECR 4905	60
Case 81/87 <i>The Queen v HM Treasury and Commissioners of Inland Revenue, ex parte Daily Mail and General Trust plc</i> [1988] ECR 5483	8, 76, 105, 153
Case C-214/89 <i>Powell Duffryn plc v Petereit</i> [1992] ECR I-01745	19, 78, 164
Case C-55/94 <i>Reinhard Gebhard v Consiglio dell'Ordine degli Avvocati e Procuratori di Milano</i> [1995] ECR I-4565	76, 116
Case C-212/97 <i>Centros Ltd v Erhvervs-og Selskabsstyrelsen</i> [1999] ECR I-01459	1, 8, 49, 56, 64, 74, 76–77, 104, 110, 113–16, 121–22, 132, 136–37, 151–53, 155, 163
Case C-86/00 <i>HSB-Wohnbau Ltd</i> [2001] ECR I-5353	117
Case C-447/00 (<i>Reference for a preliminary ruling from the Landesgericht Salzburg</i>): <i>Holto Ltd</i> [2002] ECR I-735	117
Case C-208/00 <i>Überseering BV v Nordic Construction Company Baumanagement GmbH (NCC)</i> [2002] ECR I-9919	8, 15, 74, 76–77, 104, 114–15, 118–19, 132, 136–37, 152–54
Case C-167/01 <i>Kamer van Koophandel en Fabrieken voor Amsterdam v Inspire Art Ltd</i> [2003] ECR I-10155	8, 56, 74, 104, 155
Case C-9/02 <i>Hughes de Lasteyrie du Saillant v Ministère de l'Économie, des Finances et de l'Industrie</i> [2004] ECR I-2409	123, 153
Case C-442/02 <i>CaixaBank France v Ministère de l'Économie</i> [2004] ECR I8961	135
Case C-446/03 <i>Marks & Spencer plc v David Halsey (Her Majesty's Inspector of Taxes)</i> [2005] ECR I-10837	123–25, 153
Case C-196/04 <i>Cadbury Schweppes plc, Cadbury Schweppes Overseas Ltd v Commissioners of Inland Revenue</i> [2006] I-7995	123, 125, 153
Case C-411/03 <i>Sevic Systems AG</i> [2005] ECR I-10805	8, 74, 76–77, 87, 104, 125–27, 134, 136–37, 143, 153

Case C-341/05 <i>Laval un Partneri Ltd v Svenska Byggnadsarbetareförbundet</i> [2007] ECR I-11767	76
Case C-438/05 <i>International Transport Workers' Federation v Viking Line</i> ABP [2007] ECR I-10779.....	76, 135
Case C-210/06 <i>Cartesio Oktató és Szolgáltató bt</i> [2008] ECR I-9641	1, 8, 27, 29, 50, 73–78, 82, 88, 93–94, 98, 104–06, 110, 123–25, 127–37, 140, 143, 145, 153–54
Case C-258/08 <i>Ladbrokes Betting & Gaming Ltd, Ladbrokes International</i> <i>Ltd v Stichting de Nationale Sporttotalisator</i> [2010] ECR I-0000.....	140
AG Tesaro in Case C-214/89 <i>Powell Duffryn plc v Petereit</i> [1992] ECR I-01745.....	19–21, 23, 78, 164
AG La Pergola in Case C-212/97 <i>Centros Ltd v Erhvervs-og Selskabsstyrelsen</i> [1999] ECR I-01459.....	15, 76, 115, 151, 153–54
AG Colomer in Case C-208/00 <i>Überseering BV v Nordic Construction</i> <i>Company Baumanagement GmbH (NCC)</i> [2002] ECR I-9919.....	114–15, 119, 132
AG Mischo in Case C-9/02 <i>Hughes de Lasteyrie du Saillant v Ministère de</i> <i>l'Économie, des Finances et de l'Industrie</i> [2004] ECR I-2409	123
AG Tizzano in Case C-411/03 <i>Sevic Systems AG</i> [2005] ECR I-10805.....	126
AG Maduro in Case C-210/06 <i>Cartesio Oktató és Szolgáltató bt</i> [2008] ECR I-9641	94, 98, 124–25, 128, 131, 134

United Kingdom

<i>Borland's Trustee v Steel Brothers & Co Limited</i> [1901] 1 Ch 279	37
<i>Macaura v Northern Assurance Company</i> [1925] AC 619	37
<i>Lazard Bros. & Co v Midland Bank Ltd.</i> [1933] AC 289	5
<i>Kuenigl v Donnersmarck</i> [1955] 1 QB 515	5
<i>Gasque v Inland Revenue Commissioners</i> [1940] 2 KB 80	5
<i>DHN Food Distributors v Tower Hamlets LBC</i> [1976] 1 WLR 852	60
<i>Arab Monetary Fund Appellants v Hashim and Others Respondents</i> (No 3) [1991] 2 AC 114	5
<i>Westland Helicopters Ltd v Arab Organisation for Industrialisation</i> [1995] QB 282.....	5
<i>Macmillan Inc v Bishopgate Investment Trust plc and others (No 3)</i> [1996] 1 WLR 387.....	38
<i>Lubbe et al v Cape Industries plc</i> [1997] 4 All ER 335	60, 70

Other Jurisdictions

<i>Paramount Communications, Inc v Time, Inc</i> , Delaware Supreme Court 571 A.2d 1140.....	11
<i>Liechtenstein AG BGH</i> 21 March 1986, BGHZ 97	45, 167
<i>Chilon Valeurs Inc c Financial Construction Company Inc</i> ATF 117 II 497	68

TABLE OF LEGISLATION

Treaties and Conventions

Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007 [2007] OJ C306/1.....	1, 150
Treaty on the Functioning of the European Union (TFEU).....	3, 7, 73, 74, 78, 80, 82, 84, 87, 95, 104, 106, 109–15, 120–22, 125, 128, 132–33, 136–8, 140, 151, 153, 155, 172
EC Treaty	3, 104, 114, 117, 119, 122, 150
Hague Convention of 1 June 1956 concerning the recognition of the legal personality of foreign companies, associations and institutions.....	6
Hague Convention on Choice of Court Agreements 2005	17, 27
EC Convention on the Mutual Recognition of Companies and Bodies Corporate of 29 February 1968, Bulletin of the European Communities, Supplement 2/69, 7–18	7, 106–08, 141
Hague Convention of 23 November 2007 on the International Recovery of Child Support and Other Forms of Family Maintenance	158
Hague Protocol of 23 November 2007 on the Law Applicable to Maintenance Obligations.....	17
Protocol Concerning the Interpretation by the Court of Justice of the Convention of 29 February 1968 on the Mutual Recognition of Companies and Legal Persons (signed at Luxembourg on 3 June 1971), Bulletin of the European Communities, Supplement 4/71, 6–16	108

Secondary Legislation of the European Union

Council Directive (EEC) 1968/151 of 9 March 1968 on co-ordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community [1968] OJ L 065/8	80, 85
Council Directive (EEC) 1977/91 of 13 December 1976 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration	

of their capital, with a view to making such safeguards equivalent [1977] OJ L26/1	63, 80, 85
Council Directive (EEC) 1978/855 of 9 October 1978 based on Article 54 (3) (g) of the Treaty concerning mergers of public limited liability companies [1978] OJ L-295/36.....	127
Council Directive (EEC) 1978/660 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies [1978] OJ L222/11	163
Council Directive (EEC) 1983/349 based on the Article 54 (3) (g) of the Treaty on consolidated accounts [1983] OJ L193/1	60, 163
Council Directive (EEC) 1984/253 based on Article 54 (3) (g) of the Treaty on the approval of persons responsible for carrying out the statutory audits of accounting documents [1984] OJ L126/20	163
Council Directive (EEC) 1989/666 concerning disclosure requirements in respect of branches opened in a Member State by certain types of company governed by the law of another State [1989] OJ L395/36.....	163
Council Directive (EEC) 1993/13 on unfair terms in consumer contracts [1993] OJ L095/29	22, 27
Council Directive (EC) 1994/45 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community- scale groups of undertakings for the purposes of informing and consulting employees [1994] OJ L254	3, 10, 85, 90, 144
Council Regulation (EC) 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters [2001] OJ L12/1	17, 158
Council Directive (EC) 2001/86 supplementing the Statute for a European company with regard to the involvement of employees [2001] OJ L 284/22 ...	95
Council Regulation (EC) 2157/2001 on the statute for a European company (SE) [2001] OJ L294/1	3, 10, 95, 130, 145
Council Regulation (EC) 2201/2003 concerning jurisdiction and the recognition and enforcement of judgments in matrimonial matters and the matters of parental responsibility, repealing Regulation (EC) No 1347/2000 [2003] OJ L 338/1	17
Directive (EC) 2005/56 of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies [2005] OJ L310/1	1, 3, 10, 56, 65, 68, 85, 87, 125, 141, 144, 145, 151, 164
Directive (EC) 2007/36 of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies [2007] OJ L184/17.....	3, 10, 57, 85
Directive of the European Parliament and of the Council (EC) 101/2009 on coordination of safeguards which, for the protection of the interests of members and third parties, are required by Member States of companies within the meaning of the second paragraph of Article 48 of the Treaty, with a view to making such safeguards equivalent [2009] OJ L258/11	163

Regulation of the European Parliament and the Council (EC) 864/2007 on the law applicable to non-contractual obligations (Rome II) [2007] OJ L 199/40	17
Regulation (EC) 593/2008 of the European Parliament and of the Council on the Law Applicable to Contractual Obligations (Rome I) [2008] OJ L177/6)	16
Council Regulation (EC) 4/2009 on jurisdiction, applicable law, recognition and enforcement of decisions and cooperation in matters relating to maintenance obligations [2009] OJ L 7/1.....	17
Directive (EC) 2009/38 of the European Parliament and of the Council of 6 May 2009 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees (recast) [2009] OJ L122/28.....	85, 90

State Legislation

L. 31 maggio 1995, n218 (Italy).....	6, 50
Testo Unico della Finanza (Italy)	154
Codice Civile (Italy)	164
Gesetzes zur Modernisierung des GmbH-Rechts und zur Bekämpfung von Missbräuchen (MoMiG) (Germany).....	10, 63, 82
Loi n°2003-721 du 1 août 2003 pour l'initiative économique (France)....	10, 63, 82
Loi fédérale du 18 décembre 1987 (Switzerland)	65
Companies Act 2006 (UK)	11, 66, 161, 164
Ley Orgánica 3/2007, de 22 de marzo, para la igualdad efectiva de mujeres y hombres (Spain)	11
California Corporations Code.....	47, 54, 58, 68
New York Business Corporation Law.....	55

Reports and Legislative Proposals

Draft Fifth Directive on the structure of public limited companies and the powers and obligations of their Organs [1972] OJ C 131	92
Draft Ninth Directive on links between undertakings and in particular on groups. Not published	92
Commission (EC) Proposal for a Council Regulation on the statute for a European private company COM (2008) 396/3.....	1, 10, 15, 20, 99, 100–02, 145
Commission (EC), “Think Small First”: A “Small Business Act” for Europe’ (Communication) COM (2008) 394, 19 June 2008.....	99, 102
Commission (EC), ‘An area of freedom, security and justice serving the citizen’ (Communication) COM (09) 262 final, 10 June 2009	1, 8, 94, 107, 124, 142
Commission (EC), ‘Green Paper: The interconnection of business registers’ (Communication) COM (09) 614 final, 04 November 2009	158

Council of the European Union, 'The Stockholm Programme – An open and secure Europe serving and protecting the citizens' Document 17024/09	142
Commission (EC) Proposal for a Regulation of the European Parliament and of the Council on jurisdiction, applicable law, recognition and enforcement of decisions and authentic instruments in matters of succession and the creation of a European Certificate of Succession COM (2009) 154 final	17
Commission (EU) Proposal for a Council Regulation implementing enhanced cooperation in the area of the law applicable to divorce and legal separation COM (2010) 104 final	17
Council of the European Union, 'Proposal for a Council Regulation on a European private company – Political agreement' 1061/11 DRS 84 SOC 432.....	99, 145, 154
M Giuliano and P Lagarde, 'Report on the Convention on the law applicable to contractual obligations' [1980] OJ C282/01	21
Permanent Bureau of the Hague Conference on Private International Law, 'Preliminary Document No 5 – Draft Business Plan for the Development of iSupport' (2009) < http://www.hcch.net/upload/wop/maint_pd05e2009.pdf > accessed 30 August 2011	158–59, 166
Restatement (Second) of Conflict of Laws	122
Conseil allemand pour le droit international privé, 'Proposition du Deutscher Rat für Internationales Privatrecht en vue de l'adoption d'une réglementation du droit international des sociétés au niveau européen/national' (2006) <i>Révue Critique</i> 712	149
Proposition de loi (No 2140) relative à la représentation équilibrée des femmes et des hommes au sein des conseils d'administration et de surveillance et à l'égalité professionnelle.....	11
Projet de Loi Pour l'Initiative Économique < http://www.assemblee-nationale.fr/12/pdf/projets/pl0507.pdf > accessed 30 August 2011	64
Entwurf eines Gesetzes zur Modernisierung des GmbH-Rechts und zur Bekämpfung von Missbräuchen (MoMiG), 23 May 2007	10, 63, 82
Treasury Committee, 'Women in the City' HC (2009-10) 482.....	11
Message concernant une loi fédérale sur le droit international privé, du 10 novembre 1982 (no 294.2) per B Dutoit, <i>Commentaire de la loi fédérale du 18 décembre 1987</i> (Helbing und Lichtenhahn Frankfurt-sur-le-Main 1996) ...	16

CONTENTS

<i>Series Editors' Preface</i>	vii
<i>Preface</i>	ix
<i>Table of Cases</i>	xv
<i>Table of Legislation</i>	xvii
1 <i>Introduction</i>	1
1.1 Aims	1
1.2 Scope	3
1.3 A History in Brief	4
1.3.1 International and Regional Unification	6
1.4 Are Conflicts of Corporate Laws Still Relevant?	8
1.5 Provisional Conclusions	12
2 <i>The Principle of Party Autonomy</i>	13
2.1 Introduction	13
2.2 A Global Movement Towards Party Autonomy?	16
2.3 Analogies with Contract Law	19
2.3.1 <i>Lex Societatis</i> or <i>Lex Contractus</i> ?	20
2.3.2 Displacing Contractual Covenants – Protection of the Weaker Party	21
2.3.3 A Standard Form Contract?	25
2.3.4 Reincorporation as Novation	27
2.3.5 Provisional Conclusions	29
2.4 Economic Analyses of the Conflict of Corporate Laws	30
2.4.1 The Authority of Entrepreneurs: Direction, and Monitoring of Team Production	30
2.4.2 The Firm as a Nexus of Contracts, or a Nexus of Specific Investments	33
2.4.3 Property Rights and the Nature of Shareholding	36
2.4.4 Efficiency: Choice of the Best Law	39
2.4.5 Efficiency: Legal Certainty	41
2.5 Conclusions	48
3 <i>The Plural Aims of Conflict of Corporate Laws</i>	49
3.1 Introduction	49
3.1.1 The Real Seat Theory	50