Anthropic’s Fable 5 Directive: Overnight Export Control Authority and Its Implications for the Commercial Space Industry

June 16, 2026

On the evening of June 12, 2026, Anthropic received a directive from the United States government at 5:21 p.m. Eastern Time. The instruction was unambiguous: suspend all access to Fable 5 and Mythos 5 for any foreign national, whether residing inside or outside the United States, including Anthropic’s own employees who are non-U.S. citizens. Within hours, both models went offline for every customer worldwide. No advance notice. No transitional period. No grandfathering of existing contracts. A commercial product generating active revenue was switched off overnight.

The government’s stated rationale was the discovery of a jailbreak technique capable of bypassing Fable 5’s safeguards and, in particular, those designed to prevent access to the advanced cybersecurity capabilities embedded in Mythos, the underlying frontier model. The directive cited national security authorities but provided no further specifics. Anthropic responded with transparency, publicly noting that its own review of the demonstrated jailbreak found only minor, previously known vulnerabilities discoverable through other publicly available models. The company characterized the shutdown as a misunderstanding and committed to restoring access promptly.

The legal mechanism at work here is not novel. What is

remarkable is its application at this scale and speed to a consumer-facing AI platform.

Legal Architecture

The Export Administration Regulations ("EAR") have for decades governed the transfer of dual-use technology which are items with both civilian and military applications. Under the EAR, the release of controlled technology or source code to a foreign national within the United States constitutes a deemed export to that person's home country. This means that domestic access, not merely cross-border transfer, can trigger export control obligations.

The regulatory landscape governing advanced AI specifically has been in considerable flux. In January 2025, the Commerce Department's Bureau of Industry and Security issued an interim final rule called the Framework for Artificial Intelligence Diffusion. The rule would have introduced new controls and extended U.S. export control jurisdiction to foreign-made items that are the direct product of U.S. technology, regardless of where they are accessed. That rule never took effect and was rescinded on grounds that it was overly bureaucratic, stifled American innovation, and undermined U.S. diplomatic relations. Whilst a replacement rule has yet to be promulgated, the EAR framework, including its longstanding dual-use technology controls and deemed export provisions, remains operative.

What the Fable 5 episode illustrates is that the legal architecture already in place, without any frontier-specific AI rule, is sufficient for the government to suspend access to a commercial AI product overnight. The authority does not depend on a new regulation tailored to AI. It derives from the broad scope of existing national security authorities. The Fable 5 directive is a demonstration of what that authority can do.

A Lesson for Commercial Space Industry

The commercial space industry operates under an analogous, and in some respects more demanding, regulatory framework. Space-related technologies sit at the intersection of the EAR and the International Traffic in Arms Regulations ("ITAR"). The U.S. Munitions List, against which ITAR is enforced, has historically encompassed satellites, launch vehicles, propulsion systems, guidance technologies, and related software.

A commercial space operator providing satellite imagery services, orbital data relay, or launch support to an international customer base is, structurally, in the same position as Anthropic was before June 12. Whilst the service is U.S.-origin technology, it is accessible to foreign nationals and the government retains plenary authority to suspend that access, unilaterally, upon a determination of national security concern.

History has already furnished a sobering illustration of how swiftly that authority can reshape an industry. In the mid-1990s, Hughes Electronics and Loral Space & Communications both faced severe legal consequences after sharing technical analysis with Chinese engineers following the catastrophic failure of Chinese rockets carrying their satellites during launches. The State Department alleged that both companies had transferred sensitive technical data to Chinese engineers without prior government authorization and U.S. officials concluded the data could be used to improve the accuracy and reliability of Chinese ballistic missiles. The charges against Hughes and Boeing Satellite Systems (which had acquired Hughes' satellite division in 2000) were issued in a 2002 letter alleging 123 violations of the Arms Export Control Act and the ITAR. Hughes and Boeing ultimately settled for $32 million.

The political and regulatory fallout from this instance was

substantial and enduring. Congress enacted a new national defense authorization related act, which transferred jurisdiction over all satellite exports from the Department of Commerce back to the Department of State, placing them squarely under the U.S. Munitions List and the more restrictive ITAR licensing regime. This restructuring remained in force for over a decade, constraining the commercial satellite industry's competitiveness until Congress repealed the relevant provisions in the National Defense Authorization Act for Fiscal Year 2013. Comparably, whilst that episode unfolded over months of investigation, the Fable 5 directive unfolded in hours.

Takeaway

What June 12, 2026, demonstrated is that the U.S. government has both the legal authority and the operational willingness to issue a technology access suspension directive without advance notice, without detailed justification, and without a transitional framework. Moreover, a commercial technology company has no practical mechanism to resist compliance before acting. Anthropic had no meaningful avenue to contest the directive before complying. Its customers had no recourse. Its foreign national employees could not continue working with the affected models.

For commercial space operators, this scenario should prompt an honest inventory of risk. A satellite imagery company serving defense-adjacent customers in mixed-nationality jurisdictions. A launch service provider whose operations involve foreign nationals at mission control. An on-orbit servicing company whose telemetry systems constitute controlled technology. Any of these entities could, upon a government determination, find their operational licenses suspended, their services cut off, and their revenue interrupted with no more notice than Anthropic received. Advanced technology sectors operating at the frontier are, in the eyes of U.S. national security law, custodians of controlled capabilities. The government's

authority to restrict access to those capabilities is broad and immediate, and not dependent on commercial inconvenience. Commercial space companies would be wise to internalize that reality now, before a directive arrives at 5:21 in the afternoon with no advance notice and no specific explanation.

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Congress Introduces Legislation for Orbital Data Centers: Analyzing the Cruz–Hickenlooper NEW HORIZON Act

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Senator Ted Cruz, joined by Senator John Hickenlooper, has introduced the Nodes, Enterprise Workloads, and Hybrid Operations, Resilience, Integration, Zero-Trust, Orbital Networks Act (the "NEW HORIZON Act"). The Act would, for the first time, statutorily direct the Department of Defense ("DoD") to operationally evaluate commercially available orbital data center services and space-based cloud computing capabilities. While the bill is modest in length, its implications for the commercial space industry are anything but. It signals that Congress now views in-orbit computing not as a speculative technology, but as prospective national

security infrastructure.

What the Bill Is

The NEW HORIZON Act is a pilot program authorization. It directs the Secretary of Defense, acting through the Director of the Defense Innovation Unit ("DIU"), to carry out an operational pilot program under the existing Hybrid Space Architecture initiative within one year of enactment. The program's mandate is to evaluate the use of commercially available orbital data center services relevant to national security space and joint mission requirements, with the authority sunsetting five years after enactment.

The congressional findings underpinning the bill articulate a problem the industry has long understood: modern national security space missions generate ever-increasing volumes of sensor and platform data, while reliance on ground-based processing introduces latency, bandwidth constraints, and vulnerabilities that degrade operational effectiveness in contested environments. Congress finds that commercial industry is developing the in-space processing, storage, and analytics capabilities that may resolve this bottleneck and an operational pilot is necessary to test military utility through real-world mission use cases before any broader adoption or sustained acquisition.

Notably, the bill also supplies a statutory definition for orbital data centers, something the sector has lacked. An "orbital data center" is defined as a space-based computing, data storage, or networking capability — whether a single spacecraft, hosted payload, or distributed orbital architecture — designed primarily to provide persistent, scalable, or shared in-orbit processing as a distinct operational capability, rather than as a function ancillary to a spacecraft's primary mission. That distinction between dedicated capability and ancillary function will matter considerably as agencies, insurers, and contracting parties

begin referencing the term.

What the Bill Outlines

The pilot program is built around seven enumerated purposes, spanning the assessment of military utility, operational integration into existing and planned DoD architectures, and the resilience, latency, security, and mission assurance benefits of in-space data processing. Two purposes warrant particular attention. First, the program must evaluate concepts of operations for the protection and defense of orbital data center assets against kinetic, non-kinetic, and cyber threats. This is an ostensible acknowledgment from the DoD that commercial compute infrastructure in orbit may become a target. Second, it must evaluate interoperable, commercially provided infrastructure sourced from multiple vendors, a clear congressional preference against single-provider lock-in.

In scope, the Secretary may employ commercial orbital data center services in support of real-world mission scenarios — including intelligence, space domain awareness, command and control, and data transport — and may conduct testing, demonstration, and limited operational employment. The Secretary is directed to encourage competitive participation from non-traditional defense contractors and commercial space providers.

The most consequential provisions for industry are the security requirements. Any orbital data center service processing, storing, or transmitting sensitive or classified information must implement zero-trust architecture, encryption, identity and access management, and insider threat protections; risk-management measures addressing supply chain vulnerabilities and foreign ownership, control, or influence ("FOCI"); redundancy, failover, and rapid reconstitution capabilities; secured telemetry, tracking, and command links with anti-spoofing and anti-jamming protections; hardened ground segments and software supply chains; and workload

isolation, tenant separation, and data sovereignty safeguards against cross-tenant or provider access.

The Secretary must consult with the Assistant Secretary of Defense for Space Policy, the service acquisition executives, the Space Force, the National Reconnaissance Office, and the National Geospatial-Intelligence Agency, and must brief the congressional defense committees by December 31, 2028, including recommendations regarding future acquisition and the security requirements for any future program of record.

What It Could Mean for the Industry

For commercial operators, the bill is a door and a filter. The door is that DIU becomes a statutory front-of-house for orbital compute providers, with congressional direction to draw in non-traditional contractors and an explicit pathway toward programs of record. Whereas the filter is that the security provisions will function as de facto market standards. Providers whose architectures cannot demonstrate zero-trust compliance, FOCI-clean supply chains, and verifiable tenant separation will be structurally excluded from the defense market and, given the gravitational pull of defense requirements on commercial contracting, likely disadvantaged in adjacent commercial markets as well.

Counsel advising orbital infrastructure companies should treat the bill as a compliance roadmap now, not upon enactment. Capital structures should be reviewed for FOCI exposure, vendor agreements for supply chain attestations, and service-level architectures for the isolation and reconstitution capabilities Congress has signaled it expects. The NEW HORIZON Act is a pilot but, in defense acquisition, pilots are how markets are made.

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The Advocate Next Door Podcast: Mahmoud Abuwasel on the Future of Crypto Dispute Resolution

June 16, 2026

In a recent episode of *The Advocate Next Door*, Mahmoud Abuwasel, Partner at Wasel & Wasel, joined hosts Kelby Ballena and Margarita Rosa Arango to discuss the intersection of cryptocurrency, cross-border fraud, and dispute resolution. With the UAE serving as a global hub for digital asset adoption, Mahmoud shares exclusive insights into the region's crypto litigation landscape and introduces his latest book, *UAE Crypto Litigation*; a first-of-its-kind resource for understanding how local courts are adjudicating complex digital asset disputes. Listen to the podcast at this link and read the full transcript of their conversation below.

Kelby Ballena: Have you tried these on like a video call?

Mahmoud Abuwasel: Well, I have, but I would have to have the entire thing connected and then from here go into a video call. But I have, and it sounds amazing, but the problem with really good audio is that whoever doesn't have it, it sounds

terrible.

Margarita Rosa Arango: How are you? Nice to meet you.

Mahmoud Abuwasel: It’s a pleasure to meet you.

Margarita Rosa Arango: Margarita.

Mahmoud Abuwasel: Hello. I was just enthralled by the crispness of the sound. I’ve never heard myself…

Margarita Rosa Arango: Please tell me that you have it.

Kelby Ballena: I, I…

Margarita Rosa Arango: We’re trying to be professionals here.

Kelby Ballena: I don’t know if you’ve ever been on a phone call where the audio is bad or you can’t hear them and after a while you, it gets frustrating.

Margarita Rosa Arango: You just stop trying.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: You do.

Margarita Rosa Arango: Okay.

Kelby Ballena: Okay. So we’re just checking levels, making sure you’re okay.

Margarita Rosa Arango: Yes, I am.

Kelby Ballena: Okay. Perfect. Thank you. All right, so we’ll go ahead and start.

Margarita Rosa Arango: Sure. Yes.

Kelby Ballena: Perfect.

Introduction & Guest Welcome

Kelby Ballena: All right, welcome back to another episode of **The Advocate Next Door**. My name is Kelby Ballena. We have a very special guest… and I'm here with my wonderful co-host.

Margarita Rosa Arango: Hello everybody. Welcome back to the show. My name is Margarita Arango.

Kelby Ballena: In the audience today, we have Mahmoud Abuwasel. Am I saying your name correctly? Am I pronouncing…

Mahmoud Abuwasel: Yes. Yes.

Kelby Ballena: So right now you're a partner at Wasel & Wasel.

Mahmoud Abuwasel: That's correct.

Kelby Ballena: You handle a lot of litigation, you're an arbitrator, you've been an expert witness, and you're in many different fields, but one of the fascinating areas that you're a thought leader in is cryptocurrency. Now, for a general audience who may not have any idea what cryptocurrency is because not everybody does have a crypto account or even realizes what this is, how would you kind of explain cryptocurrencies?

Understanding Cryptocurrency & Bitcoin

Mahmoud Abuwasel: As a firm, we decided to focus on crypto disputes 5, 6 years ago when crypto became mainstream. And the reason is that we saw a lot of talk in the market by industry professionals on the crypto industry and where it's going and so on, with no clear government guidance. This is back in 2020, 2021.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: Even before COVID even. And I thought well that, that is unforeseeable. But what's foreseeable is the disputes, right? What forums they will be held in and the issues people will be looking at, what the evidence trail will

likely facilitate or need to facilitate, and so on. I mean look, I can tell you, my exposure to crypto, back in 2012, 2013, I was messing around on the dark web.

Kelby Ballena: As we all like to do at night.

Mahmoud Abuwasel: And I'm seeing all this stuff happening. And I'm thinking how are these people transacting? And Bitcoin kept coming up. What the hell is this? What's Bitcoin? And I think after a few weeks of, you know, dark web it got too strange, too fast. I never used it again.

Margarita Rosa Arango: Too scary.

Mahmoud Abuwasel: Yeah, I mean it's just it's not natural to look at daily. Or anytime. But then I looked into Bitcoin and I started looking at mining capabilities and hash rates mean and all that. And I ordered a mining rig end of 2013. I was supposed to get it in a month or two. And it ended up getting delayed and I got it in mid 2014 and by that time, operating it would have been at a loss because the hash rates increased. I don't know if this makes any sense. But the more Bitcoin is mined, the more facilities you need to mine it so that it's worthwhile. Because the hash rates increase. And that company that sold me the miner back then was closed by the Federal Trade Commission.

Kelby Ballena: Okay.

Mahmoud Abuwasel: They were shut down. Because I guess a lot of people complained they weren't sending out their products in time. It was like 6, 7 months late.

Kelby Ballena: So the way I understand it then, Bitcoin is a type of cryptocurrency. It's one of… but you were talking about mining it. So is it like gold that has a value?

Mahmoud Abuwasel: The value of cryptocurrency increases with more transactions taking place because when you transact, the

crypto doesn’t move from A to B like on a bus. It dissolves in the sender’s control and then a new set is created in the recipient’s control. And so the more transactions, the more codes are created, let’s say.

Kelby Ballena: Okay.

Mahmoud Abuwasel: As opposed to gold where if you’re trading gold on paper, maybe some similarity there. But the crux of a gold trade would be me giving you gold and you giving me its amount, right?

Kelby Ballena: Yeah.

Mahmoud Abuwasel: And also for gold, geopolicy plays a part there and with respect to who protects the gold as opposed to crypto where that question is not so clear, who protects the crypto, right?

Kelby Ballena: That’s true because it’s not locked away.

Mahmoud Abuwasel: Well it’s not so much protecting it and fencing it, but protecting its value. So there’s a story during the Roman Empire, the Indus region in modern day India, would manufacture their gold and stamp it with the then current Roman emperor’s visage. And the interesting question is well why would they do that? Because it’s the same gold, it’s the same value.

Kelby Ballena: Yeah. Why wouldn’t you use your own…

Mahmoud Abuwasel: Well the reason was, is the value isn’t so much inherent in the critical mineral itself. It’s inherent in being able to protect its supply chain and flow and so on. Right. And so gold with the visage of the current empire at the time may be more stable, may have more continuity, and so would be more reliable for circulation. Now that question is a much more difficult question with crypto.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: Who can protect its circulation and so on. And then you say, well, we don't need to protect its circulation because the whole point of it is that it's decentralized. Right, it's outside the banking system. It's outside any centralized system of control or protection. And that's where the disputes get complicated.

The Complexities of Crypto Litigation

Kelby Ballena: Yeah, so that was my next question then this is where crypto litigation happens or dispute happens.

Mahmoud Abuwasel: Well that's where they get difficult to navigate by methods of standard practice because you're taking this item from supposedly outside the ecosystem and you want to bring it into the ecosystem to resolve your dispute, right? You want to bring it into the courts or into the arbitration forums and you want to utilize whatever legislation you want to utilize, the litigation act, the civil procedures law, the arbitration law, whatever it is. And then you get a judgment and you want to utilize the enforcement systems and the bank systems and so on to collect what you're owed. And so it's really interesting to see how different forums around the world have addressed many, many questions. There's been a recent judgment out of the UK in respect of servicing a party through NFT.

Kelby Ballena: Like giving service or like servicing them like court summons?

Mahmoud Abuwasel: Like a court summons.

Kelby Ballena: Yes. Via NFT?

Mahmoud Abuwasel: Yes.

Kelby Ballena: Wow. I'm trying to imagine what that must be like. Okay.

Mahmoud Abuwasel: You wouldn't manifest these questions until

you’re put into a situation, right? You’re put into a situation while you’re pursuing a dispute and you look at all the options and suddenly the Overton Window expands and you have these new options coming from this system that’s been historically outside the standard ecosystem.

Discussing the Book: UAE Crypto Litigation

Kelby Ballena: So turning then to a book that just has been released, you wrote a book **UAE Crypto Litigation**. What was your inspiration to put this book together?

Mahmoud Abuwasel: Well, we’ve been covering crypto judgments from different jurisdictions since, like I said, when we started working on this five, six years ago, or when we started investing into crypto dispute practice. And the UAE, the United Arab Emirates, particularly Dubai and Abu Dhabi and their financial free zones, the Dubai International Financial Centre and the Abu Dhabi Global Market, they’ve had an exponential adoption of cryptocurrency. And right now the UAE is at the latest statistics, we’re at 32 or 33% adoption rate. The highest in the world.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: Almost double or more than double of the United States. And so there’s a lot of economic activity that ends up in the courts with a lot of interesting questions. And every time we’ve covered a particular item, a development in the courts or so on, a lot of times it goes viral or has more viewership and interest than some of the other items that we’re covering. And so you have this jurisdiction that acts as a sort of gap analysis, as a case study for other jurisdictions to look at. But the information isn’t that accessible. Either language wise or because you need to have the law research tools. Your general person, your layman does not have.

Kelby Ballena: Right.

Mahmoud Abuwasel: And so is there enough information out there that it could be read intelligibly as a whole? And so the first thing I did was I took out all the crypto judgments I can find, not all, but let's say 90%. And the really difficult part was seeing if that information could be parameterized into a particular journey for someone looking at the information or whether it's haphazard; is the only way to read it in a silo, each information item has to be read on its own or can it be read in a holistic manner? And that's really what took a lot of work is structuring the information for someone reading these, and ended up with over 100 judgments, but the difficult part was whether someone reading these 100 plus judgments can do so in a way where if they go from start to finish, they have a holistic view of a particular journey.

And then the question is well what is that journey? And the journey, for being thematic for the book is the litigation journey, right?

First you want to characterize what you're bartering, what you're trading with.

Then you want to characterize the underlying agreement, right? I bartered this or I traded this, is it actually an agreement? Is there an agreement at all? Is it a partnership agreement, a management agreement, an investment agreement?

And then looking at the appropriate forum, then looking at liability, establishing who could be liable and then the evidence to establish that liability.

And then enforcement and collection, and then if there's any fraud and so on.

And so that made sense and the judgments and the subject matter and the court rationale and so on could be distributed in a way that it's the life cycle of a dispute, you journey through the dispute through these chapters and so you could read it holistically in that manner. But then there was

another problem. The first problem is can you read this as a journey, right?

Kelby Ballena: Yeah.

Mahmoud Abuwasel: You want to read a book, you want to go from start to finish. The second problem was well if you don't, what if you don't want to? Right? You got 600 pages here. You're a busy professional. Maybe you don't have time to sit down and read…

Margarita Rosa Arango: As much as we would want to. Everyone wants to, but you know…

Mahmoud Abuwasel: Yes. Time is a finite resource. And so well maybe they want to use this as a resource model, right? And so is there enough variation in the issues brought to courts and the courts rationale and so on that it could be topically variable enough that you would look at it for different sets of problems and then it would be worth the money to buy. Because you may buy it and put it on the shelf, not read it immediately and say, there's enough there that I can have this on the shelf for a year or two or three and refer to it every now and then because there's enough topical variation in there. And so if you go through the chapter titles you'll get an idea of how everything's in there.

Margarita Rosa Arango: But that will make it very helpful for students and professionals. Like for you to be able to have this source where you can get everything you need from, you know, that makes it easier to teach a class, to learn… I mean either students that want to learn about crypto or professors that want to teach about crypto and don't have cases or might need ideas.

Kelby Ballena: Or even a lawyer. I mean you should you should hear some of these chapters. We have like the burden of proof for wallet ownership. There's already so many questions I would have there on what enforcing unlicensed management

agreements, theft, innovation in crypto trading. I mean you're going into very interesting topics and cases. Coercion and robbery using crypto assets.

Margarita Rosa Arango: Cases that are also not easy to find.

Kelby Ballena: I think this would be relevant and helpful to us. I would like to know malicious prosecution in mining disputes. That'd be really fascinating to know more about all of these topics. So I think there's a lot of great areas, a lot of great things that you've covered in this book so I hope that some people find something that they're actually interested in. And not only that like learn a little bit more about this type of litigation because up until I had met you, I didn't even know there was crypto litigation that was out there.

Mahmoud Abuwasel: It's a growing market. Many disputes are resolved in arbitration.

Kelby Ballena: Are most of these disputes though in the UAE or are other countries handling these kind of disputes?

Mahmoud Abuwasel: Oh well no, they're all over. I mean Singapore, Hong Kong, London. The UAE is unique because of the high adoption rate.

Kelby Ballena: Okay.

Margarita Rosa Arango: And that's why you chose the UAE for your book?

Mahmoud Abuwasel: Well, that's one of the reasons, right? The other reason is if someone else wanted to look at the information, then it's not as accessible because of the language barrier or the usual tools. Like I mean if you have a Westlaw subscription in the US, you can easily expand it to include the UK. You can easily expand it to include Australia, right? Westlaw may not do that for UAE court judgments.

They're issued differently. LexisNexis has a system. Now I'm promoting others. But, but the point is, it's a different resource database and they're even better ones that are grassroots from the country or the region for that information. So for the outsider, even if you're a practitioner on the outside, it's not as easy to extract the information. And then there's the actual subjective understanding of these judgments. This is civil law jurisdiction and so you need to understand the predisposition of the adjudicator, of the judge. When reading the judgment, dozens or hundreds of pages long, there's a philosophical explanation to the rationale. And these are civil law based on the statutes. So you need to know what the statutes mean. To know what the statutes mean, you need to know the legislator's legislative intent behind the statutes and so on. So you need also to have that market experience to be able to translate the information for the average reader.

Margarita Rosa Arango: That's very interesting. Because he's translating civil law, UAE civil law to common law. That makes it easier for people who are commonly working in common law to get access to that information.

Kelby Ballena: Yeah. Yeah, I think I see some great value in it. Um so congratulations on releasing this book.

Mahmoud Abuwasel: Thank you.

Kelby Ballena: I'm sure it's going to be very useful.

Career Background & Technology

Margarita Rosa Arango: When you were younger, what did you want to be? A lawyer?

Mahmoud Abuwasel: I don't, I can't remember. I don't think I… I thought things would work themselves out.

Margarita Rosa Arango: Sometimes it's even better not to have

a plan. Let life go its course.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: Yeah, I mean I had fun, I was having a good time and things would work out. I did well in school, right? I did well.

Kelby Ballena: You went to school in Canada?

Mahmoud Abuwasel: Oh different places.

Kelby Ballena: Yeah.

Mahmoud Abuwasel: But when I started practicing, I had a good feel for TMT at the time. I don't know if that's still the common practice area name. Technology, media, telecommunications. I think now it's a lot more diverse. Now you have AI practice areas and Web 3.0 practice areas and so on. But 15 years ago TMT did a lot of work, did work for Snapchat, for Amazon, for unique things like geolocation and geotagging and all the social media apps.

Margarita Rosa Arango: So you've always been very involved with technology?

Mahmoud Abuwasel: At the time, I wasn't a decision maker, but I had a feel for this. I would bill good hours and clients were happy and so I did more of that work.

Tracing Crypto Frauds & "Pig Butchering"

Margarita Rosa Arango: My understanding is that crypto, it's untraceable. Then if it's untraceable, how do you claim, like how do you know who to pay what it's owed?

Mahmoud Abuwasel: If you want to talk about arbitration, traceability wouldn't overlap with arbitration. Right. If you know who you're suing, because you have an arbitration agreement, then it's about proving your right. The

traceability issue comes in scam, fraud, cross-border crime. Traceability in an arbitration dispute, there could be a situation where you are a user of one of the large exchanges and by virtue of being a user, you have an arbitration agreement. And aside from that fact, separately, you get scammed from someone completely unrelated. But then you trace the funds and coincidentally they're at the exchange that you are a user of, right? And so I imagine that would be a situation where there would be an overlap between scam and tracing and arbitration. Whether that situation would fall within the arbitration agreement, that's a different question. It's a fantastic question because you've identified the two sort of verticals in crypto disputes. One is quasi crime, right? Scams and fraud. And now in the US, the nomenclature for what's happening is pig butchering.

Margarita Rosa Arango: That's a terrible name.

Mahmoud Abuwasel: It's used by the judges and the courts. I have judgments that say pig butchering.

Kelby Ballena: Really? Pig butchering?

Mahmoud Abuwasel: Yeah.

Kelby Ballena: Interesting.

Mahmoud Abuwasel: That's in the judgments. Everyone knows what the judge is talking about. What it is is when a victim is lured into making a minor investment and then they get a little bit back, they make a little bit more, they get a little bit more back and so on. So someone is asked to, told if you put a thousand, it's a great investment. They put a thousand, they get 2000 back. Then they say, well, you did it, it was great. You put 5,000, they put 5, they get 10 back. And then they're told, well, how about you put 50? Right? They put 50 and the money disappears. And it's done, and it's done through different mediums. I've got one of these cases in the book by the way, in the UAE, the United Arab Emirates. A case

that happened in that sense where someone is told send money through WhatsApp and then do a YouTube tutorial, pay for it this much and then invest money here. And usually the end platform is some sort of fraud website, right? It's a website that looks completely legitimate and so on, but the money goes into a black hole and the asset never shows up again. So there's a lot of that happening. There are a lot of victims making their claims, winning their claims, because the defendants never show up. And the crypto technical experts who we work with a lot are able to trace those funds and find where they landed and at which exchange.

Kelby Ballena: Like a bank?

Mahmoud Abuwasel: No. It's like crypto.com or Binance. So these are exchanges.

Margarita Rosa Arango: Yes, yes, yes, yes.

Mahmoud Abuwasel: Binance has like 300 million users. It's like, it's like the stock market exchange, but for crypto.

Margarita Rosa Arango: Yes, exactly. Exactly.

Mahmoud Abuwasel: But anyway, the crypto is traced and it's found at a particular exchange or somewhere else. And an American judge in whatever district issues a judgment and says this victim has been scammed of a million dollars and we know the assets have landed here at this exchange or this company and you're instructed to either hold them in a constructive trust is established or to return the money. But the entity that's received the crypto assets, they're not in the US. They're somewhere abroad. And that's where a lot of the difficulty is in the cross border stuff. Now I haven't seen an ISDS claim related to crypto so far.

Margarita Rosa Arango: No, I haven't heard about it.

Kelby Ballena: I think it's never too late.

Margarita Rosa Arango: Yeah, well, I'm sure we will. We will find eventually.

Kelby Ballena: Yeah, I think so too.

Margarita Rosa Arango: Yeah. This crypto topic makes me think a lot. I have a lot of questions. I'm definitely reading your book by the way.

Navigating International Treaties

Kelby Ballena: Yeah. But I'm thinking, do you think there's any BIT that talks about crypto or understands crypto per se as an investment? I haven't seen one.

Mahmoud Abuwasel: They're making their way into tax treaties.

Margarita Rosa Arango: Ah, you see? Interesting.

Mahmoud Abuwasel: Information sharing or double taxation and so on, you will find language coming up more and more that addresses digital assets. Governments are looking at how they tax digital assets, whether it's crypto or whether it's NFTs or whichever. And so a lot of treaties are being renegotiated. As you know. Right. Netherlands is renegotiating everything. India as well.

Margarita Rosa Arango: Yes.

Mahmoud Abuwasel: And so language is making its way into, from a tax perspective. Right. Not, not so much, not so much as a standard investment protocol, but investment perspectives, cover everything. But from a tax perspective, they are trying to identify or governments are trying to identify digital assets within the tax framework.

Advice for Students

Kelby Ballena: Generally, what advice would you give students who are interested in crypto litigation?

Mahmoud Abuwasel: The vernacular around the crypto industry is very noisy and the language is not very sophisticated most of the time. And so I would advise students to watch hearings, read transcripts and judgments from common law jurisdictions, London, the DIFC. That's the Dubai International Financial Centre. Their hearings are recorded and students can watch them. There was a recent five-day hearing in which my book was referenced. A student has five days worth of hearings where they can watch these very senior English barristers, King's Counsel, advocate before a very intelligent judge. And you can see there the vernacular being used in the crypto industry. It's very serious, very sophisticated. And that should be what populates a student's mind. As a student, that should be what populates your mind to help you create an inner monologue or an introspect towards the crypto industry. So that when you speak of it or think of it, you do so in a serious and intelligible manner. So there are live recorded hearings, there are transcripts, you have all the court set transcripts here. The judgments and so on. And from the common law jurisdictions as well, across the board. That should be the resource model. And because the discussions are advocacy, everyone's philosophizing. You bring your own philosophy into it, the judges bring their own philosophy into it, and so on. But what that does is for a student, it helps them create their own frame of reference. Not parrot what is being said or written or so on. But when that's the resource to an extent, it helps a student to develop their own unique perspective on things. To have their own voice and from there have their own clients and their own business and so on.

Kelby Ballena: Which case in your book would you say that someone like me who is new to crypto can read and have a good understanding on how crypto disputes work?

Mahmoud Abuwasel: If there was an answer to that question, the book would be one case. Right? There are seven years worth of cases here. Right? And so you're looking at the evolutionary

life cycle. And we're still in the evolutionary life cycle. But then there are things that are topical. I mean now, there's a case where someone tried to get out of a crypto deal because of the Russia Ukraine war. And now we have much more severe geopolitical instability. And so we have some foresight into, well if you have some crypto transaction taking place and it's disrupted, what do you expect the court to say? What's your evidentiary threshold? How do you have standing? What grounds can you rely on and so on? So things are topical. And it could be either a macroeconomic issue that's topical or it could be micro. Just in your industry or in your particular service line and so on.

Conclusion & Where to Find the Book

Kelby Ballena: That's great. So anyone who's interested in the book, where could they actually find your book now?

Mahmoud Abuwasel: It's available on uaecryptolitigation.com and you can see a preview of the book. See a couple of chapters, you can order it, access the companion podcast for the book through the website as well. We have quizzes that will be available soon. And the purchase or delivery is available worldwide.

Margarita Rosa Arango: Thank you so much for coming Mahmoud. It was a pleasure to have you.

Kelby Ballena: Thank you for being a raw voice at this podcast.

Mahmoud Abuwasel: You're very welcome. Thank you.

Kelby Ballena: Thank you.

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Environmental Liability in Commercial Space Launches: Examining the South Texas Mass Tort Case Against SpaceX

June 16, 2026

On April 30, 2026, eighty plaintiffs filed a federal complaint in the U.S. District Court for the Southern District of Texas against Space Exploration Technologies Corp. ("SpaceX"). The case, *Aguilar et al. v. Space Exploration Technologies Corp.*, No. 1:26-cv-00485, alleges that repeated Starship launch and landing operations at the Starbase facility in Cameron County have caused structural damage to homes across Port Isabel, South Padre Island, and Laguna Vista. Asserting claims of negligence, gross negligence, and trespass under the exclusive federal jurisdiction of the Commercial Space Launch Act ("CSLA"), the case has the potential to reshape the legal relationship between commercial launch operators and neighboring communities.

The Complaint

The plaintiffs are homeowners residing roughly six to twenty-two miles from Starbase's launch pads. The complaint alleges that eleven Starship/Super Heavy test flights between April 2023 and October 2025, together with earlier sub-orbital tests and static firings, subjected their properties to intense acoustic energy. The complaint relies on peer-reviewed research by Brigham Young University scientists whose field measurements during the fifth and sixth test flights recorded

maximum unweighted sound levels exceeding a threshold that SpaceX's own assessments and FAA environmental reviews recognize as the onset of structural damage risk. Sonic boom overpressures near and exceeding such a threshold were recorded at the closest locations, which is generally associated with windows shattering and superficial structural damage.

Critically, the complaint draws on SpaceX's own regulatory submissions, including a 2024 corporate statement acknowledging a "gap in data" regarding acoustic prediction for its Raptor engines. The plaintiffs frame this as evidence that SpaceX has been operating at the frontier of acoustic science while conducting the most powerful rocket launches in history, establishing both foreseeability and conscious indifference to risk.

Legal Claims and Statutory Framework

The complaint asserts three causes of action. First, the negligence claim alleges that SpaceX failed to conduct adequate pre- and post-launch studies and proceeded despite a high likelihood of property damage. Second, the gross negligence claim seeks exemplary damages, arguing that SpaceX had actual awareness of acoustic risks, especially after the inaugural April 2023 test destroyed its own launch pad, yet continued with conscious indifference. Lastly, the trespass claim contends that SpaceX intentionally caused acoustic energy to enter the plaintiffs' properties without consent, resulting in physical harm.

Jurisdiction rests on 51 U.S.C. § 50914(g), which grants federal courts exclusive jurisdiction over third-party property damage claims arising from licensed launch activities. This provision confirms that the CSLA contemplates such suits but does not immunize the licensee. SpaceX is required under the statute to carry up to $500 million in third-party liability insurance, and the FAA's 2022

environmental assessment explicitly stated that SpaceX would be responsible for resolving structural damages caused by sonic booms.

Potential Legal Consequences

The outcome will turn on causation: whether the plaintiffs can demonstrate that launch-generated acoustic energy, rather than pre-existing deficiencies or other factors, caused their alleged damages. The complaint does not itemize specific harm to each property, which will demand expert engineering and acoustic testimony. SpaceX may challenge the causal link and argue for regulatory compliance.

However, regulatory compliance is not typically a complete defense to tort claims under Texas law; an FAA launch license does not, by itself, insulate a licensee from negligence or trespass liability. The gross negligence claim, if successful, could expose SpaceX to exemplary damages well beyond compensatory relief. The plaintiffs' strategy of grounding their case in SpaceX's own admissions and peer-reviewed acoustic data gives it a scientific credibility that may prove difficult to overcome at summary judgment.

Industry Implications

The ripple effects of this case will likely extend well beyond South Texas. The FAA authorized up to 25 Starship launches per year from Boca Chica in 2025, and similar acoustic concerns have been flagged at Cape Canaveral, Florida, where SpaceX is building another Starship launch site. A substantial damages award or a judicially imposed constraint could prompt a reassessment of how launch site proximity to residential communities is evaluated during environmental review.

The case also exposes a gap in the CSLA framework: while the statute requires insurance and channels claims to federal court, it does not establish a dedicated compensation mechanism for communities chronically affected by launch

operations (e.g., like airport regimes or military installations). As vehicles grow more powerful and cadences increase, policymakers may need to reconsider whether this framework adequately balances interest in space access with the existing property rights of neighboring populations. For operators planning new or expanded sites, this lawsuit is a timely reminder to integrate acoustic modeling and community engagement from the outset.

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War Series: Can War Set Aside an Arbitration Award? Applying the Dubai Cassation Court's Afghan Precedent to the 2026 Iran War

June 16, 2026

Introduction: Procedural Defenses in the Context of Regional Conflict

The 2026 Iran War introduces logistical and administrative challenges for commercial operations across the Middle East. As contracting parties address contract performance and supply chain disruptions in various sectors, disputes are frequently referred to international arbitration in accordance with

standard commercial agreements.

In the context of regional instability, a relevant procedural issue arises when a party attempts to challenge the validity of arbitration proceedings or seeks the annulment of a resulting award by citing the conflict. Respondents may argue that wartime disruptions constitute a procedural force majeure, asserting that conditions prevented them from appointing representatives, receiving proper notification, or participating in hearings.

For parties seeking to enforce or defend arbitral awards in Gulf Cooperation Council (GCC) jurisdictions, understanding how local courts evaluate these annulment requests provides necessary context. Dubai Court of Cassation Judgment No. 483 of 2024 (Commercial), issued on February 12, 2025, analyzed an annulment dispute stemming from the 2020 conflict in Afghanistan, offering legal principles applicable to arbitrations conducted during the 2026 Iran War.

The Factual Matrix: The Afghan Conflict and Annulment Proceedings

The dispute in Dubai Cassation Judgment No. 483/2024 originated from a 2018 contract concerning the Afghan National Airports project. Following the change in government and the outbreak of conflict in Afghanistan in 2020, the claimant initiated arbitration before the Permanent Court of Arbitration (PCA). When the respondent did not appoint an arbitrator within the contractual timeframe, the PCA appointed a sole arbitrator who eventually issued an award.

The respondent subsequently filed an annulment action in the Dubai courts. The respondent argued that the Afghan conflict constituted a force majeure event that prevented the formation of a government, hindered the appointment of authorized legal representatives, and restricted their ability to present a defense. Additionally, they claimed the arbitrator violated

due process by sending procedural orders to an unauthorized employee's email address rather than an official representative. Finally, the respondent argued the arbitrator failed to correctly apply the agreed-upon Afghan law, specifically contesting the award of interest, which they asserted was not permitted under that legal framework.

The Court's Ruling: Digital Participation and Procedural Due Process

The Dubai Court of Cassation dismissed the annulment action, establishing that the physical constraints of a regional conflict do not automatically invalidate arbitration proceedings if the party had practical means to participate.

The Court examined the procedural record and observed that, despite the ongoing war, the respondent was aware of the proceedings and engaged with the tribunal. The evidentiary record demonstrated that the respondent had requested extensions of time, submitted documents, and paid their share of the arbitration advance on costs (amounting to 145,625 AED). Furthermore, representatives for the respondent had appeared before the arbitrator and corresponded via email.

Crucially, the Court noted that the arbitration hearings were conducted via video conferencing technology. The Court concluded that the use of video technology enabled direct participation, and therefore the claims regarding the war did not constitute a sufficient reason for the failure to present a defense.

This precedent indicates that GCC courts review the factual record of a party's engagement. Administrative interactions, such as paying fees, sending email correspondence, or accessing virtual hearings, are weighed against claims that wartime conditions precluded participation.

Scope of Review and the Burden of Proving Foreign Law

The Court also addressed the respondent's claim that the arbitrator misapplied the substantive Afghan law regarding the awarding of interest.

The Dubai Court of Cassation reaffirmed a standard principle of the UAE arbitration framework: an annulment action is a procedural review, not an appeal on the substantive merits. The judiciary's supervisory role does not extend to reassessing the arbitrator's evaluation of evidence or their interpretation of the law.

Furthermore, under UAE evidentiary principles, foreign law is treated as a material fact. The party asserting that a foreign law was misapplied bears the burden of proving its existence and content. Because the respondent alleged that interest was prohibited under Afghan law but failed to submit formal proof that the provisions applied by the arbitrator were invalid or contrary to Afghan law, the Court rejected the argument.

Procedural Considerations for Arbitration in the 2026 Context

For commercial entities and legal practitioners managing arbitrations and subsequent enforcement proceedings during the 2026 Iran War, the Dubai Court of Cassation precedent highlights several practical considerations:

- **Documenting Engagement:** Tribunals and claimants should maintain comprehensive records of interactions with the respondent. Routine administrative actions, such as the payment of institutional fees, email correspondence, or requests for procedural extensions, can serve as evidence of notification and capacity to participate, addressing subsequent annulment claims based on wartime disruption.
- **Utilizing Virtual Proceedings:** Conducting proceedings via video conferencing addresses logistical constraints. As demonstrated in the judgment, the availability of digital hearing options provides an accessible venue and

mitigates claims that regional instability prevented a party from presenting their case.

- **Evidentiary Requirements for Foreign Law:** When challenging or defending an award based on the application of a foreign substantive law before GCC courts, parties must adhere to evidentiary standards. Assertions regarding foreign legal principles must be supported by submitting authenticated texts of the relevant foreign legislation to meet the burden of proof.

Conclusion

As regional operations adjust to the logistical challenges of the 2026 Iran War, disputes concerning the validity of arbitration proceedings are evaluated on procedural grounds by local courts. Dubai Court of Cassation Judgment No. 483/2024 demonstrates that GCC courts maintain a defined scope for annulment. The logistical difficulties associated with regional conflict do not inherently justify a failure to participate, particularly when virtual proceedings are utilized and administrative engagement is documented. For parties enforcing contractual rights, adherence to procedural requirements and evidentiary standards remains standard practice for securing and defending arbitral awards.

Wasel & Wasel advises on commercial disputes, international arbitration, and cross-border award enforcement within the UAE courts and the broader GCC. The firm represents international contractors and commercial entities in proceedings before the UAE Federal and Emirate-level Courts, handling the execution of arbitral awards and advising on annulment actions. Their practice includes advising entities on procedural requirements, managing multi-jurisdictional arbitrations under institutional rules, and addressing jurisdictional matters in international dispute resolution.

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Artificial Intelligence Hallucinations in Arbitration: Analyzing the Landmark Award Annulment in ARIHQ c. Santé Québec

June 16, 2026

The advent of generative artificial intelligence (AI) has brought unprecedented capabilities and efficiencies to the legal profession. However, alongside its benefits come profound risks, particularly when AI is employed in adjudicative decision-making. The recent landmark ruling by the Quebec Superior Court in *Association des ressources intermédiaires d'hébergement du Québec (ARIHQ) c. Santé Québec* (2026 QCCS 1360) serves as a stark warning to the international and domestic arbitration communities. In an unprecedented move, the Court annulled an arbitral award after finding that the sole arbitrator had implicitly delegated his decision-making authority to a generative AI tool, which resulted in the inclusion of "hallucinated" jurisprudence and legal doctrine.

This article unpacks the *ARIHQ* judgment, explores the comparative international grounds for setting aside such awards under the New York Convention and the UNCITRAL Model

Law, surveys the growing global judicial consensus on AI, and proposes practical safeguards for inclusion in arbitration agreements and Terms of Reference.

The Judgment: *ARIHQ c. Santé Québec*

The dispute originated from an unpaid retroactive remuneration claim between a healthcare intermediary resource (Osman) and a Montreal health authority (CCSMTL, now Santé Québec). An arbitrator dismissed the claim on preliminary grounds, ruling that the contractual notice periods had expired. The claimants sought to annul the award before the Quebec Superior Court, relying on two grounds: first, that the award violated public policy by modifying statutory prescription periods; and second, that the arbitral procedure was not respected because the arbitrator relied on non-existent legal authorities, strongly suggesting the use of generative AI.

The Honourable Martin F. Sheehan swiftly dismissed the public policy argument, affirming the well-established principle that a mere error of law—even concerning public policy provisions—does not justify setting aside an arbitral award unless the outcome itself is fundamentally repugnant to public order.

However, the Court decisively upheld the procedural challenge. Reviewing the award, the Court verified that the central doctrinal and jurisprudential authorities cited by the arbitrator to support the validity of the forfeiture clause simply did not exist. The arbitrator had referenced a fabricated doctrinal article by a real author and hallucinated judgments ostensibly from the Quebec Court of Appeal and the Superior Court (e.g., fictitious citations for *Ville de Montréal c. Syndicat des cols bleus* and *Tremblay c. Commission scolaire de la Jonquière*).

The Court emphasized the *intuitu personae* nature of arbitration—the principle that an arbitrator is chosen for

their personal expertise, judgment, and authority. Relying on an AI tool to formulate the substantive reasoning without verifying the output violated the fundamental maxim *delegatus non potest delegare* (a delegate cannot delegate) and breached the secrecy of deliberations.

Translating the crucial analytical and operative parts of the judgment, Justice Sheehan concluded:

"The preponderance of the evidence therefore leads to the conclusion that the Arbitrator's authority was delegated and that he abdicated his role to review the result. This conclusion is inevitable given that all of the doctrinal and jurisprudential references on which the Arbitrator relies are non-existent and 'hallucinated'. For this reason, the Award must be annulled."

The Court, however, added a critical caveat: not every use of AI will automatically lead to annulment. If the AI usage is minimal, or if the hallucinated references do not form the crux of the reasoning, the award might survive if the breach did not fundamentally taint the proceedings. But in this case, the breach struck at the very heart of the arbitrator's reasoning and affected the confidence of the parties in the arbitration regime.

The operative part (*dispositif*) reads:

"FOR THESE REASONS, THE COURT: ANNULS the arbitral award rendered on August 8, 2025, by the impleaded party, Mr. Michel A. Jeanniot; ORDERS the parties to choose a new arbitrator within 60 days of this judgment; THE WHOLE, with legal costs."

Domestic Set-Aside Grounds and Comparative International Frameworks

The Quebec Code of Civil Procedure (C.C.P.) is deeply influenced by the UNCITRAL Model Law, making this judgment highly instructive for international practitioners. The Court

annulled the award under Article 646(3) of the C.C.P., which allows set-aside where “the applicable arbitral procedure was not respected.”

The UNCITRAL Model Law and the New York Convention

Under Article 34(2)(a)(iv) of the UNCITRAL Model Law, and identically under Article V(1)(d) of the New York Convention, an award may be set aside or refused enforcement if “the arbitral procedure was not in accordance with the agreement of the parties.”

When parties agree to arbitrate, they contract for a bespoke dispute resolution process wherein a specific human tribunal exercises independent intellectual judgment. The use of an unverified Large Language Model (LLM) to draft the award’s substantive reasoning is a structural deviation from this agreed procedure. Furthermore, feeding confidential submissions into a public AI tool violates the confidentiality and secrecy of deliberations inherent in arbitration.

The Public Policy Exception

While the Quebec Court dismissed the substantive public policy argument, an award heavily reliant on AI hallucinations could trigger the procedural public policy exception under Article 34(2)(b)(ii) of the Model Law and Article V(2)(b) of the New York Convention. An award anchored in fabricated law deprives the losing party of the right to a fair hearing and the opportunity to present its case (*audi alteram partem*). The parties cannot possibly address or distinguish phantom precedents during the proceedings. Enforcement courts in major hubs like London, New York, or Singapore would view the abdication of the adjudicative function to a “black box” algorithm as a severe affront to fundamental notions of justice, procedural fairness, and due process.

Global Court Directions on AI Usage in Proceedings

The *ARIHQ* judgment resonates with an emerging global judicial consensus that demands strict guardrails around the use of generative AI in dispute resolution. Courts and tribunals worldwide have recently confronted the consequences of "AI hallucinations" and have responded with firm directives.

United States

The U.S. has been ground zero for AI in litigation, notably following the infamous *Mata v. Avianca* case, where lawyers were sanctioned for submitting AI-generated fictitious case law. Consequently, numerous federal and state judges have issued standing orders. These orders typically mandate that counsel file a certificate attesting that no generative AI was used in drafting, or that if it was, a human attorney rigorously verified the accuracy of all citations and legal propositions. The focus is squarely on human accountability and preventing the waste of judicial resources on fabricated jurisprudence.

United Kingdom

In late 2023, the UK Courts and Tribunals Judiciary issued official guidance for judicial office holders. While acknowledging the utility of AI for administrative tasks, the guidance explicitly warns judges about the severe risks of hallucinations and deepfakes. The UK Master of the Rolls has emphasized that judges remain personally responsible for their judgments and must not delegate legal analysis or substantive drafting to AI tools, safeguarding the integrity of the "judicial mind." Furthermore, it firmly warns against entering any confidential case information into public AI chatbots.

Middle East (QFC and ADGM)

Progressive commercial courts in the Middle East have taken decisive action against AI misuse. In the Qatar Financial Centre (QFC), the Civil and Commercial Court's late-2025 judgment in *Sheppard v Jillion LLC* found a lawyer in contempt

for repeatedly citing AI-generated fake cases. This prompted the QICDRC to issue Practice Direction No. 1 of 2026, which established a comprehensive framework requiring lawyers to independently verify AI-generated submissions. Similarly, in the Abu Dhabi Global Market (ADGM), the Court in *Arabyads v Gulrez Alam* [2025] ADGMCFI 0032 ordered severe wasted costs against a legal team that submitted a defense riddled with false, AI-generated legal authorities, concluding that unverified AI use amounts to reckless professional conduct.

Proposed Directions for Terms of Reference and Arbitration Agreements

The *ARIHQ* decision underscores a critical vulnerability: waiting for a court to set aside a tainted award means the parties have already suffered the immense costs and delays of a compromised arbitration. To proactively mitigate these risks, parties should expressly regulate the use of AI in their Arbitration Agreements, or more practically, in the Terms of Reference (ToR) and Procedural Order No. 1 (PO1).

Practitioners should consider integrating the following AI protocols:

- **Explicit Prohibition of Delegation:** The ToR should clearly state that the arbitral tribunal must not delegate its adjudicative, analytical, or substantive decision-making functions to any generative AI tool. The arbitrator must assume full, personal responsibility for the reasoning, legal research, and drafting of the award.
- **Permitted Uses and Mandatory Verification (Human-in-the-Loop):** Parties can define acceptable AI use, such as utilizing AI for translation, formatting, or document summarization, provided it does not replace substantive analysis. PO1 should include an affirmative obligation for both the tribunal and counsel to strictly verify any AI-assisted output against primary legal sources. The

tribunal could be required to issue a “Statement of Human Authorship” within the final award confirming that all citations and factual references have been manually verified.

- **Confidentiality and Data Security Guardrails:** To protect the secrecy of deliberations and party confidentiality, the ToR must prohibit the uploading of confidential case information, pleadings, or evidence into open-source or publicly accessible generative AI models (e.g., public versions of ChatGPT). Only secure, closed-loop enterprise AI systems that do not retain data for model training should be permitted.
- **Transparency and Disclosure:** If a party intends to rely on materials or legal submissions substantially generated by AI, they should be required to disclose this fact to the tribunal and opposing counsel. Likewise, the tribunal should disclose if AI tools were used for any significant administrative or drafting assistance.

Conclusion

The Quebec Superior Court’s annulment of the award in *ARIHQ c. Santé Québec* serves as a defining precedent in the modern era of dispute resolution. It establishes a clear boundary: while technology can enhance the efficiency of the arbitral process, it cannot usurp the human judgment that parties contractually bargained for. As generative AI tools become ubiquitous, the international arbitration community must proactively regulate their use. By embedding robust AI guidelines into Terms of Reference, parties can protect the integrity of their proceedings, safeguard confidentiality, and insulate their awards from the devastating consequences of digital hallucinations.

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Misappropriated Mining Hardware and Newly Minted Tokens: Analysis of Yimiao v 3V (Supreme Court of Victoria) – Opportunity Loss, Unjust Enrichment, and Constructive Trusts

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Introduction

The Supreme Court of Victoria's judgment in *Yimiao Australia Pty Ltd v 3V Development Australia Pty Ltd* [2026] VSC 133 provides a detailed examination of how established common law and equitable doctrines apply to the unauthorized retention of cryptocurrency mining hardware and the subsequent generation of digital assets. Delivered by Justice Attiwill, the decision addresses the quantification of damages in volatile digital asset markets, the application of unjust enrichment to misappropriated infrastructure, and the equitable classification of newly minted cryptocurrency.

This article objectively outlines the facts and legal findings

of the judgment, and it compares the Victorian Supreme Court's approach with the legal frameworks in the United Kingdom (UK), Hong Kong (HK), the Dubai International Financial Centre (DIFC), and the Abu Dhabi Global Market (ADGM), focusing on global hot topics such as digital asset valuation and equitable tracing.

The Factual Matrix

The plaintiff, Yimiao Australia Pty Ltd, purchased 1,598 Bitmain L7 Antminer machines, configured to mine Litecoin and Dogecoin. These machines were hosted at a site in Victoria owned by the defendant, 3V Development Australia Pty Ltd (3V).

The Court found that on 25 July 2022, 3V excluded Yimiao's agents from the premises. The Court stated that "3V voluntarily took possession of the Yimiao Machines without any legal right to do so" [987]. Subsequently, 3V disconnected the hardware from Yimiao's designated mining pool and connected a portion of the machines to F2Pool and ViaBTC mining pool accounts linked to 3V personnel, including its sole director, Dajian Li. The Court found that 3V utilized the hardware to mine 8,850,529 Dogecoin and 4,806 Litecoin [1010].

Yimiao initiated proceedings claiming bailment, detinue, conversion, trespass to goods, restitution, and knowing receipt of trust property against 3V and Dajian Li.

Quantification of Damages and Loss of Commercial Opportunity

A primary issue before the Court was the quantification of damages for Yimiao's "loss of a commercial opportunity" to mine cryptocurrency over the hardware's four-year lifespan. Yimiao sought over AUD $26 million, relying on expert evidence projecting future network hashrates (mining difficulty), token issuance, and a realization strategy where tokens would be held until reaching specific fiat values.

Justice Attiwill confirmed the availability of damages for a

lost commercial opportunity but rejected Yimiao's calculation. Applying principles from *Sellars v Adelaide Petroleum NL* and quoting the High Court in *Cessnock City Council v 123 259 932 Pty Ltd*, the Court noted that a plaintiff is given a "'fair wind' but not a 'free ride'" [541] when a defendant's wrongdoing causes uncertainty.

The Court found the expert's methodology unreliable, observing that it failed to properly account for the mathematical hard caps on token issuance and abandoned historical average pricing when updating forecasts. Justice Attiwill held:

"In my view, the value of the opportunity that Yimiao lost cannot be ascertained by reference to the degree of possibilities and probabilities. There is insufficient evidence of what the value of that opportunity might have been. Yimiao did not adduce important evidence of value, despite being able to do so. In addition, important evidence of Mr McNew is not cogent and is unreliable. As a result, there are substantial and important gaps in the evidence concerning value. In these circumstances, it is not for the Court to use uninformed guesswork to determine the issue of damages." [653]

Consequently, the Court awarded nominal damages of $100 for the torts of conversion and detinue regarding the lost profits [917].

The insistence on objective, non-speculative evidence when claiming damages in volatile digital asset markets is consistent across major common law jurisdictions. In the UK and Hong Kong, courts demand rigorous economic models to establish quantum in digital asset disputes. For example, in the UK (*B2C2 Ltd v Quoine Pte Ltd* [2020] SGCA(I) 02, applying common law), courts have rejected retrospective, hypothetical trading strategies for volatile assets. Similarly, the DIFC Digital Assets Law (DIFC Law No. 3 of 2024) expressly defines digital assets as property but relies on standard common law

principles of foreseeability and certainty for damages. The ADGM, applying English common law via the Application of English Law Regulations 2015, mirrors this approach, aligning with the Victorian Court's refusal to engage in "uninformed guesswork."

Restitution and Unjust Enrichment: Objective Valuation of Hardware

While the claim for future crypto profits failed due to evidentiary deficiencies, Yimiao successfully recovered AUD $14,850,066.72 under the doctrine of restitution for unjust enrichment.

The Court determined that 3V was unjustly enriched by obtaining possession of the machines. Quoting the High Court in *Redland City Council v Kozik*, Justice Attiwill noted:

"A claim for restitution of unjust enrichment requires a defendant to have received some benefit for which restitution must be made. Unlike compensation or loss, and unlike the prophylactic principle of accounting for and disgorging a defendant's net profits, restitution of unjust enrichment focuses upon the benefit of the transaction between the plaintiff and the defendant." [936]

The Court categorized the relevant benefit not as the actual cryptocurrency generated, but as the "opportunity to use the machines." The Court observed:

"Where a person obtains property of another person without the authority or consent of that person, and obtains a benefit in doing so (ie the opportunity to use it), this may give rise to a claim for restitution of an unjust enrichment." [942]

To value this benefit, the Court utilized the objective replacement cost of the hardware at the time of the misappropriation. Relying on expert evidence that a new L7 Antminer was valued at $19,310.88 AUD on 25 July 2022, the

Court awarded restitution based on the 769 unreturned machines:

“The missing Yimiao Machines were received by 3V, and have never been returned to Yimiao. On and from 25 July 2022, 3V received the benefit of the opportunity to use the Yimiao Machines… In these circumstances, the replacement value as at 25 July 2022 is an appropriate measure of the objective value of the missing Yimiao Machines… It is the amount of $14,850,066.72. This is the value of the benefit retained by 3V at the expense of Yimiao.” [964-965]

The treatment of digital asset infrastructure as property subject to objective restitution aligns with approaches in the UK, HK, DIFC, and ADGM. Under English law, unjust enrichment requires that a defendant be enriched at the claimant’s expense without a juristic reason. Courts frequently grant restitutionary remedies for the objective value of misappropriated property, often assessed via a hypothetical “reasonable hiring fee” or replacement cost (*Attorney General v Blake* [2001] 1 AC 268). The DIFC and ADGM Courts apply similar tests derived from English equity. By anchoring the unjust enrichment claim to the physical hardware’s replacement cost rather than the volatile digital tokens it produced, the Victorian Court utilized a valuation mechanism widely accepted across these international jurisdictions.

Constructive Trusts and Knowing Receipt: Hardware vs. Newly Minted Tokens

A central legal issue was whether the newly minted Dogecoin and Litecoin constituted trust property, which would trigger third-party liability for Dajian Li under the “knowing receipt” doctrine (*Barnes v Addy*), as the mined tokens were deposited into his F2Pool accounts.

The Court bifurcated its analysis between the physical hardware and the newly minted tokens. For the physical

hardware, the Court applied the principle from *Black v S Freedman & Co*:

"Where money has been stolen, it is trust money in the hands of the thief, and he cannot divest it of that character." [980]

Justice Attiwill concluded:

"I find that 3V held the Yimiao Machines on constructive trust (institutional) for Yimiao upon the principles in *Black v S Freedman & Co* on and from 25 July 2022. 3V misappropriated the Yimiao Machines." [982]

However, the Court reached a different conclusion regarding the newly minted Dogecoin and Litecoin. While 3V breached its fiduciary duty as a constructive trustee by using the machines for its own profit, the resulting cryptocurrency was not trust property at the exact moment of its creation.

Quoting *Grimaldi v Chameleon Mining NL [No 2]* and *Hospital Products Ltd v United States Surgical Corporation*, the Court explained that under Australian law, the trust imposed over profits generated in breach of fiduciary duty is a *remedial* constructive trust, which only comes into existence upon a court order:

"The imposition of such a constructive trust is remedial, not institutional. In *King v Fister*, the Queensland Court of Appeal stated that a 'remedial constructive trust is, as its name suggests, one imposed by way of remedy in order to do equity. It is a trust imposed by the court and arises at the time of the making of the order'." [1007]

Consequently, because the cryptocurrency was not classified as institutional trust property at the time it was received by Dajian Li's wallet, the cause of action for knowing receipt failed:

"As a result, any receipt of the cryptocurrency by Mr Dajian Li did not involve the receipt by him of trust property. The cryptocurrency was not trust property when it was misappropriated by 3V or when it may have been subsequently received by Mr Dajian Li… To the extent the cryptocurrency may be the subject of a constructive trust, that constructive trust would be remedial rather than institutional, and thus would not apply to the cryptocurrency until the time of this Court making an order to that effect. The claim against Mr Dajian Li must be dismissed." [1008]

The distinction between institutional and remedial constructive trusts highlights a notable divergence between Australian equity and English law. English courts have rejected the concept of the remedial constructive trust. In *FHR European Ventures LLP v Cedar Capital Partners LLC* [2014] UKSC 45, the UK Supreme Court held that unauthorized profits or bribes obtained by a fiduciary are held on an *institutional* constructive trust from the moment of receipt.

If the *Yimiao* facts were adjudicated in the UK, or in jurisdictions that strictly follow English equity such as Hong Kong, the DIFC, or the ADGM, a court would likely determine that the newly minted cryptocurrency was held on an institutional constructive trust immediately upon generation. Under that framework, the tokens would constitute "trust property" upon deposit, potentially satisfying the necessary elements for a "knowing receipt" claim against the director. The Australian retention of the remedial constructive trust for fiduciary profits creates a temporal gap that limits third-party recipient liability prior to a court order, a framework that contrasts with the approaches in the UK, HK, DIFC, and ADGM.

Conclusion

As digital asset operations mature, *Yimiao Australia v 3V Development* outlines the application of common law frameworks

to hardware misappropriation and cryptocurrency generation. The Victorian Supreme Court’s rigorous approach to the quantification of damages, combined with the jurisdictional variances identified in equitable tracing and trust doctrines across the UK, DIFC, ADGM, and Hong Kong, confirms that digital asset recovery requires a jurisdictionally tailored strategy.

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Contractor Withholding Your Tax Invoice? How UAE Courts Are Protecting Tax Refunds (Abu Dhabi Cassation Judgment No. 289 of 2026)

June 16, 2026

In the evolving legal landscape of the United Arab Emirates (UAE), the intersection between commercial construction disputes and tax compliance presents unique challenges for property owners. Often, contractors withhold essential documentation, particularly tax invoices, as leverage during payment disputes. However, these invoices are strictly required by the Federal Tax Authority (FTA) for taxpayers seeking Value Added Tax (VAT) refunds. A landmark ruling by the Abu Dhabi Court of Cassation in **Judgment No. 289 of 2026**

(Commercial), issued on April 14, 2026, provides a masterclass on how UAE courts utilize the civil doctrine of specific performance to mandate the delivery of tax invoices, empowering taxpayers to strictly comply with FTA regulations.

The Factual Matrix and The Court's Ruling

The dispute in Judgment No. 289 of 2026 arose from a construction contract for a residential villa. The contractor (the Respondent) initiated a lawsuit against the project owner (the First Defendant), the financing bank (the Appellant), and the consultant.

The Court summarized the facts, noting that the contractor sought the remaining value of the project works and compensation after a breakdown in the relationship:

("By virtue of a contracting contract dated 20/07/2020 for the construction, completion, and maintenance of a residential villa… against a lump sum of 2,000,000 dirhams… however, following the connection of electricity… the first defendant, the employer, took possession of the villa and lived in it, and prevented the respondent's workers from entering the site to complete the remaining works and final finishes, in addition to retaining equipment, machinery, and cables belonging to the respondent inside the villa.")

During the proceedings, an engineering expert was appointed. Crucially, the expert assessed not only the financial dues but also the documentation necessary for tax compliance. The Court of Cassation highlighted this vital finding:

("The supervising judge appointed an engineering expert who deposited a report concluding that the remaining amount for the respondent is 360,577 dirhams… and that it is incumbent upon the contractor (the respondent) to deliver to the first defendant (the owner) the tax invoices in the amount of 85,577 dirhams so that he can recover the value-added tax.")

Recognizing the statutory necessity of these documents, the Court applied the principle of specific performance, upholding the lower court's ruling which strictly ordered:

("Compelling the respondent to deliver to the first defendant (the owner) all invoices and documents related to the project…")

The FTA's Position on Holding Compliant Tax Invoices

The project owner's demand for the tax invoices via a court order highlights the uncompromising administrative position of the Federal Tax Authority (FTA). Under UAE Federal Decree-Law No. 8 of 2017 on Value Added Tax, recovering input tax or claiming a refund, such as the special scheme for UAE Nationals building new residences under Article 61, is strictly conditional upon the taxpayer holding a valid, compliant tax invoice.

The FTA operates on strict documentary compliance. It mandates that a tax invoice must meet all rigorous requirements set out in Article 59 of the Executive Regulations (e.g., displaying the words "Tax Invoice," the supplier's Tax Registration Number, a description of the goods or services, and the exact tax amount). A mere bank transfer receipt, a payment certificate, a contract, or even a court-appointed expert's report establishing that VAT was paid is legally insufficient for the FTA.

Because the FTA acts as a strict gatekeeper, withholding refunds if compliant invoices are absent, a contractor's refusal to issue or hand over a tax invoice causes direct, quantifiable financial harm. In this case, the owner stood to lose 85,577 AED in VAT refunds solely due to the lack of compliant invoices. Consequently, taxpayers must rely on specific performance to force counterparties to produce these mandatory documents.

Legal Principles Applied by the Court

The judgment is rich in its application of procedural and substantive legal principles. Beyond specific performance, the Court of Cassation addressed **Capacity or Legal Standing**.

The financing bank appealed the judgment, arguing it lacked capacity as it was merely a funder:

("That its role was limited to financing the project only, without there being any direct or indirect relationship with the respondent…")

The Court decisively rejected this, laying out a foundational legal principle regarding capacity:

("A lawsuit is the right to resort to the judiciary to protect a claimed right or legal position; hence, substantive capacity must exist for both parties… Capacity is met in the defendant if the right claimed in the lawsuit exists against him, considering him a concerned party and responsible for it if the plaintiff's entitlement is proven.")

Furthermore, the bank argued it could not disburse funds without the owner's written instructions. The Court established the vital principle of **Judicial Supremacy over Contractual Restraints**, stating:

("And that the judgment issued by the court to liquidate the account serves in place of the owner's written instructions and supersedes them, rendering unnecessary the existence of written instructions from the owner to the appellant to disburse the respondent's dues…")

Conclusion

Abu Dhabi Court of Cassation Judgment No. 289 of 2026 serves as an essential precedent for taxpayers navigating the intersection of contract law and VAT compliance. By affirming the order for specific performance to hand over tax invoices, the court recognized the functional reality of UAE tax law:

without the physical tax invoice, the statutory right to a VAT refund is nullified. This judgment safeguards taxpayers, ensuring that the withholding of tax documentation cannot be weaponized in commercial disputes.

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Navigating Downstream Corporate Tax Liability in the UAE: An Analysis of Dubai Court of First Instance Judgment No. 1188 of 2025

June 16, 2026

Introduction

The introduction of the UAE Corporate Tax regime via Federal Decree-Law No. 47 of 2022 has fundamentally shifted the commercial landscape in the region. As businesses adapt to the new regulatory environment, a critical legal question has emerged: to what extent can a company unilaterally pass its corporate tax liabilities downstream to independent contractors, agents, or service providers? A recent judgment from the Dubai Court of First Instance (Case No. 1188 of 2025) provides vital clarity on this issue. By decisively ruling against unilateral tax deductions, the Court established clear

tests and boundaries for corporate tax liability distribution, setting an essential precedent for future commercial disputes.

Overview of the Facts

The dispute arose from a real estate brokerage relationship. The Plaintiff, an independent real estate agent, successfully brokered the sale of a property unit for a total transaction value of AED 1,638,947. According to the agreement between the Plaintiff and the Defendant, a real estate brokerage company, the total 6% sales commission was to be split, with the Plaintiff receiving an 80% share, amounting to AED 78,669.47.

However, upon final settlement, the Defendant company remitted only AED 71,589.22 to the Plaintiff, withholding a balance of AED 7,080.25. When the Plaintiff demanded the outstanding amount, the Defendant justified the withholding by claiming the deduction was necessary to cover its Corporate Tax and Value Added Tax (VAT) liabilities. Following unsuccessful attempts to resolve the matter amicably, the Plaintiff initiated legal proceedings to claim the withheld balance plus a statutory delay interest of 5%.

The Legal Arguments and Laws Cited

In its defense, the Defendant company relied heavily on the nascent tax legislation, specifically citing Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (referencing Articles 1, 2, 3, 11, and 12) and the applicable UAE Value Added Tax legislation (cited in the pleadings as Law No. 18 of 2022). The company argued that because taxes are imposed on corporate income and revenues at respective rates of 9% and 5%, the proportionate burden of these taxes should naturally be deducted from the commission paid out to the agent who generated that revenue.

The Court evaluated this premise by rooting its analysis in the UAE Civil Transactions Law. Citing the Law of Evidence (Article 1), which dictates that the burden of proof lies with

the claimant, the Court examined the contractual nexus between the parties. It heavily referenced Article 243(2) of the Civil Transactions Law, which mandates that each contracting party must fulfill what the contract obliges them to do, and Article 246, which requires contracts to be executed in good faith and in accordance with their explicit terms. Furthermore, the Court invoked Article 272(1), emphasizing that if one party fails to perform their contractual obligations, the other party has the right to demand execution.

The Court's Tests for Downstream Tax Liability

Upon reviewing the findings of a court-appointed accounting expert, the Court laid down a definitive framework, effectively establishing key tests, to determine the ability or inability of a corporate entity to impose tax liabilities downstream onto service providers:

1. **The Statutory Burden Test (Who bears the legal incidence?):** The Court affirmed that the statutory burden of Corporate Tax and VAT inherently falls upon the taxable corporate entity that registers the revenue; in this case, the Defendant company. The legal framework establishes that the tax burden is placed on the company itself, rather than being an automatic obligation of the downstream service provider or commission earner. Absent any other legal or contractual mechanism, the entity legally defined as the taxable person under the prevailing tax laws must bear its own tax costs.

2. **The Express Contractual Agreement Test (Is there explicit consent?):** To shift or deduct this statutory tax burden from a downstream party's remuneration, the Court established a strict evidentiary threshold. There must be an express, written agreement between the parties authorizing such a deduction. The Court categorically stated that without a written contract explicitly permitting the company to deduct statutory

taxes from the agent’s commission, any such deduction is legally baseless and unsupported by documentary evidence. Because the Defendant could not produce a written agreement authorizing the tax deduction, the Court deemed the unilateral “tax sharing” an unlawful breach of contract.

Judgment and Strategic Implications

Applying these tests, the Court ruled in favor of the Plaintiff, ordering the Defendant to pay the withheld AED 7,080.25. Additionally, reflecting updated judicial precedent from a 2021 directive of the General Assembly of the Dubai Court of Cassation, the Court awarded a 5% legal interest rate on the owed amount from the date of the judicial claim until full settlement, and ordered the Defendant to bear all legal fees and expenses.

This judgment serves as a strict warning to corporations in the UAE. Companies cannot use the introduction of Corporate Tax as a unilateral excuse to reduce payouts to contractors, freelancers, or agents. If a business intends to share its tax burden or calculate commissions on a post-tax basis, this mechanism must be explicitly drafted into written agreements. Moving forward, businesses should urgently audit and revise their independent contractor and brokerage agreements to ensure tax liability allocations are clearly defined, mutually agreed upon, and fully compliant with UAE contract law.

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War Series: Rogue Charterers, Vessel Misappropriation, and the Illusion of “Washed” Titles – Applying the 2001 UAE Supreme Court Gulf War Precedent to GCC Maritime Logistics in the 2026 Iran War

June 16, 2026

Introduction: The Maritime Fog of War and the Weaponization of Charter Parties As the

2026 Iran War aggressively destabilizes the Middle East, the world’s most critical maritime chokepoints, the Strait of Hormuz, the Arabian Gulf, and the Gulf of Oman, have been transformed into theaters of intense logistical paralysis. With naval blockades, soaring war risk premiums, and sweeping economic sanctions dominating the operational landscape, the global shipping industry finds its standard Charter Party Agreements (CPAs) fracturing under the pressure.

While much of the industry’s focus is understandably directed toward the frustration of time charters, safe port warranties under standard BIMCO forms (such as CONWARTIME or VOYWAR), and off-hire disputes, a far more considerable legal crisis is emerging in the offshore sector: the outright misappropriation of vessels.

Operating under standard bareboat agreements (such as the

BIMCO BARECON form), certain charterers are exploiting the geopolitical chaos by invoking the 2026 war not merely to excuse operational delays, but to entirely evade their absolute obligation to redeliver the vessel. Taking advantage of the "fog of war," these operators effectively hijack multi-million-dollar assets, sever communications, and attempt to "wash" the vessel's title through opaque judicial sales in peripheral jurisdictions, eventually re-flagging the ship and deploying it back into lucrative trade routes under a new identity.

In standard peacetime practice, disputes arising from these CPAs are overwhelmingly directed to arbitration, most notably under the London Maritime Arbitrators Association (LMAA) Terms. However, an LMAA arbitral award is ultimately a contractual remedy; it cannot physically intercept a stolen ship. When a misappropriated vessel suddenly drops anchor in a GCC port, shipowners require immediate, coercive *in rem* action from local civil courts.

For maritime stakeholders navigating this crisis, the UAE Federal Supreme Court provides an effective blueprint for vessel recovery. By examining a landmark judgment (Federal Supreme Court Judgment No. 252 of 2001, Civil), which adjudicated a complex vessel misappropriation stemming from the Second Gulf War (the 1990 Iraq-Kuwait conflict), we can transpose these powerful jurisdictional precedents directly onto the maritime realities of the 2026 Iran War.

The Factual Matrix: Transposing the 1990 Gulf War Misappropriation

The factual matrix of UAE Supreme Court Judgment No. 252/2001 serves as a perfect analogue for the aggressive title disputes erupting today. The dispute originated in the shadows of the 1990 Gulf War and the subsequent international embargoes, mirroring the blockades and sanctions defining the 2026 conflict.

On March 27, 1990, the original shipowner (the First Respondent) leased their vessel, the *Arabian Sea* (registered in Basra), to a commercial operator (the Charterer) under a five-year bareboat charter. Shortly after the vessel was delivered, the geopolitical landscape violently collapsed. As the regional war escalated and sanctions isolated operations, the Charterer exploited the blackout. When the charter period expired, the Charterer flatly refused to redeliver the vessel to the original owner, under the cover of wartime blockade and boycott.

Years later, the original owner tracked the vessel down. It had entered the territorial waters of the UAE and docked at the Port of Sharjah, flying the flag of Belize and operating under a new name, the *Baron*. Acting swiftly, the original owner petitioned the Sharjah Court of First Instance and successfully secured a conservatory arrest order (Attachment No. 4/1997), physically trapping the ship in port and demanding its delivery free of any encumbrances.

The legal battle escalated when a foreign corporate entity, Redcap Limited (the Intervener/Appellant), intervened in the lawsuit, demanding the arrest be lifted. Redcap claimed they were the new, legitimate owner of the vessel, having purchased it in 1996 for $1,700,000 USD through a formal judicial sale executed by the High Court in Kenya.

Relying on standard international maritime principles, Redcap argued that a judicial sale at public auction physically purges a vessel of all prior liens, encumbrances, and ownership claims. They asserted that if the original owner had a grievance regarding the stolen ship, their claim must be directed exclusively against the $1.7 million sale proceeds held in Kenya, not against the physical vessel itself. Furthermore, the Intervener launched a jurisdictional challenge, arguing that the UAE courts had no authority to adjudicate the ownership of a foreign-flagged vessel, owned by a foreign entity, that was merely passing through UAE waters

“incidentally.”

Jurisdictional Supremacy: The “Asset in Port” Trap

In 2026, foreign shipowners, rogue charterers, and P&I Clubs frequently assume that because a CPA is governed by English law, or because a vessel flies a flag of convenience, GCC courts will decline jurisdiction over complex ownership disputes. The UAE Supreme Court dismantled this assumption.

The Intervener argued that under the UAE Maritime Commercial Law, the vessel’s presence in Sharjah was merely “incidental” and did not grant the civil courts substantive jurisdiction over an international ownership dispute.

The Supreme Court rejected this entirely, anchoring its ruling in the absolute sovereignty principles of the UAE Civil Procedure Code. The Court established a definitive rule: the physical presence of the asset dictates the jurisdiction.

(“The original principle is regional judicial jurisdiction, and the administration of justice is a public interest exercised by the State within the limits that achieve this interest through its national judiciary… Therefore, the international jurisdiction vested in the national judiciary is, in this capacity, a matter of public policy linked to the sovereignty of the State.”)

Applying Article 21 of the Civil Procedure Law, the Court held that UAE courts possess absolute jurisdiction over lawsuits filed against foreigners who have no domicile in the UAE, provided the lawsuit relates to “funds or property located within the State.” The Court explicitly ruled:

(“The reason for jurisdiction in that case goes back to the fact that the disputed property is located in its territory, which is an objective criterion based on the location of the property. If it is located there, jurisdiction is established for the State’s courts, even if the source of the obligation

did not arise there, or if the presence of the property was incidental.")

Furthermore, the Court harmonized this with Article 115 of the UAE Maritime Commercial Law applicable at the time, confirming that a dispute over the "ownership of a vessel" unequivocally constitutes a "maritime debt" justifying an immediate conservatory arrest. For 2026 rogue charterers hoping to use UAE ports as temporary safe havens, the precedent is clear: the moment your hull crosses into UAE territorial waters, the protective veil of foreign jurisdictions is challengeable.

Piercing the "Cleansed Title" Myth: The Burden of Proving Foreign Law

The most considerable finding by the Supreme Court, and the most critical warning for the 2026 crisis, was its treatment of the Kenyan judicial sale. The Intervener believed that presenting a foreign court's auction decree would automatically force the UAE courts to recognize their clean title.

Under the GCC civil law framework, foreign law is not treated as binding legal authority that a judge must independently research; rather, it is treated purely as a "material fact." According to strict conflict of laws principles, the party relying on a foreign legal mechanism (such as the purging effect of a Kenyan judicial sale) bears the absolute burden of conclusively proving the existence, text, and application of that foreign law.

Because the Intervener merely alleged the effect of the foreign judicial sale in their memorandums but failed to formally, procedurally prove the foreign law to the standard required by UAE evidentiary rules, the Supreme Court upheld the lower courts' dismissal of the Kenyan sale entirely.

("Foreign law is a mere fact, the burden of proving which falls on the party invoking it, and the Appellant did not

prove its existence.”)

By invalidating the foreign judicial sale due to evidentiary failures, the Court retroactively erased the Intervener’s title. The Supreme Court confirmed the original owner’s absolute title to the vessel, solidifying the Sharjah arrest order and mandating the ship be handed over to them, completely free of any actions taken by the rogue charterer. The Intervener, despite having paid $1.7 million, lost the ship.

Strategic Playbook for Maritime Logistics in the 2026 Crisis

For international shipowners, lessors, and maritime litigators attempting to secure assets in the chaotic theater of the 2026 Iran War, the 2001 UAE Supreme Court precedent dictates a highly determined, localized strategy.

Bypass LMAA Delays for Immediate Asset Recovery: While you must commence LMAA arbitration (if not modified) to resolve the underlying BARECON or NYPE breach regarding the unpaid hire or failure to redeliver, arbitration will not physically stop the ship from trading. Shipowners must utilize maritime intelligence to track misappropriated vessels. The moment a stolen vessel enters UAE or broader GCC waters (such as Jebel Ali, Fujairah, or Sharjah), owners must immediately file an *ex parte* application under local maritime law (e.g., UAE Maritime Law Art. 115) to arrest the vessel based on the ownership dispute. The local courts may assert jurisdiction strictly based on the physical presence of the hull.

Do Not Fear “Title Washing” or Flags of Convenience: If a rogue bareboat charterer has attempted to extinguish your title by routing the vessel through a dubious judicial sale in a peripheral jurisdiction, do not assume your claim is reduced to chasing the sale proceeds. As the precedent proves, UAE courts will heavily scrutinize foreign judicial sales. If the new “owner” cannot flawlessly prove the foreign law that

allegedly purged your title, the UAE courts may disregard the foreign auction and return the physical asset to its original registered owner.

Strict Evidentiary Hygiene for Foreign Law: Conversely, if you are a legitimate buyer of a vessel that was lawfully auctioned during the 2026 conflict, and you face an arrest in the UAE from a disgruntled former owner, you cannot merely submit the foreign court judgment. You must submit legally authenticated, translated copies of the foreign maritime legislation, supported by expert legal affidavits, to prove *as a matter of fact* that the foreign judicial sale extinguished all prior encumbrances. Relying on "general principles of international maritime law" may result in a fatal loss at the local courts.

Conclusion: Territorial Reality Over Contractual Illusion

The 2026 Iran War has created a highly volatile environment for wider international commercial operations, where severe disruptions in shipping lanes, banking, and port operations have catalyzed a surge in distressed asset scenarios, complex cross-border restructuring, and, in some instances, outright maritime opportunism. As international operators, distressed stakeholders, and occasional rogue charterers navigate these disruptions, whether to resolve legitimate operational disputes, execute complex foreign sales, or obscure vessel identities, the belief that standard LMAA arbitration clauses will keep procedures safely insulated in London while the physical ships continue to trade or seek refuge in the Middle East may not be the case.

UAE Federal Supreme Court Judgment No. 252/2001 provides clarity in this sense. The GCC civil law framework is often protective of its territorial sovereignty. When a maritime asset enters domestic waters, the state's courts possess the jurisdiction to arrest it, adjudicate its true ownership, and strip away fraudulent or unproven foreign titles. For shipowners fighting to reclaim their fleets in the 2026

crisis, the message is clear: the most powerful weapon in your arsenal is not just the arbitration clause in your charter party, but the sovereign reach of the local port state.

Wasel & Wasel demonstrates extensive expertise in navigating complex maritime disputes, admiralty matters, and vessel arrests within the UAE courts and international arbitration forums. The firm has a proven track record of representing maritime contractors in grievance proceedings before the UAE Federal Courts to challenge the precautionary seizure of vessels. Their capabilities include advising logistics companies on appealing vessel arrest orders and successfully obtaining stays of execution from the UAE Federal Supreme Court against lower court vessel seizure orders. Furthermore, Wasel & Wasel actively handles complex charter party disputes, recovers outstanding debts under SUPPLYTIME agreements , and represents international shipping companies in London-seated LMAA arbitration proceedings concerning vessel sales and management.

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