Arbitrability, Corporate Insolvency, and Fractured Disputes: The NSW Court of Appeal's Approach in Clough v Elecnor and the Lex Domicilii vs. Lex Arbitri Divide

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Introduction: The Collision of Party Autonomy and Public Policy

The intersection of international commercial arbitration and corporate insolvency consistently generates profound jurisdictional friction. While arbitration is a private, consensual mechanism governed by party autonomy, corporate insolvency is a collective, statutory procedure rooted in public policy and designed to bind third parties.

When a commercial dispute triggers corporate restructuring mechanisms, courts face a critical question: is the dispute still "capable of settlement by arbitration," or must it be resolved by national courts? The New South Wales Court of Appeal (NSWCA) recently addressed this tension in *Clough Projects Australia Pty Ltd v Elecnor Australia Pty Ltd* [2026] NSWCA 111.

By dissecting the arbitrability of corporate matters and addressing the procedural fracturing of disputes, highlighted prominently in Ground 5 of the appeal, the NSWCA delivered a judgment that mirrors global approaches to the conflict between the law of the arbitral seat (*lex arbitri*) and the law of the corporate domicile (*lex domicilii*).

The Factual Matrix: *Clough v Elecnor*

The dispute arose from an unincorporated joint venture between Elecnor and Clough to deliver a major energy infrastructure project in Australia. The Joint Venture Deed contained a broad arbitration clause designating Singapore as the arbitral seat under ICC Rules.

In late 2022, Clough entered voluntary administration and subsequently executed a Deed of Company Arrangement (DOCA) under Part 5.3A of the Australian *Corporations Act 2001* (Cth). Under the DOCA, specified assets were transferred to a Creditors' Trust. Following this insolvency event, Elecnor sought to exercise a compulsory acquisition clause to buy out Clough's participating interest in the joint venture for a nominal $1.00. The DOCA trustees resisted, arguing that the DOCA had already transferred Clough's interest to the trust, thereby altering or extinguishing Elecnor's contractual buyout rights.

Elecnor commenced litigation in the NSW Supreme Court seeking specific performance of the buyout (the "Clause 21.3 Matter"). In response, Clough and the trustees filed a cross-claim seeking $55 million in commercial contribution for called bank guarantees (the "Call Contribution Matter"). Elecnor subsequently applied to stay the cross-claim and refer it to arbitration in Singapore, prompting Clough to argue that the entire dispute should be heard together in court, or alternatively, that Elecnor's primary claim should be temporarily stayed pending the arbitration.

The Arbitrability of Corporate Matters: The Statutory Shield

Central to the appellate review was determining which matters were "capable of settlement by arbitration" under the Australian *International Arbitration Act 1974* (Cth). The NSWCA affirmed the primary judge's ruling that the dispute must be fractured into two distinct matters.

The Call Contribution Matter was identified as a discrete, purely contractual controversy and was stayed and referred to arbitration in Singapore. However, the Court held that the Clause 21.3 buyout dispute was **non-arbitrable**.

The Court's reasoning hinged on the statutory nature of the DOCA. Resolving Elecnor's buyout rights required construing the DOCA and the operation of the *Corporations Act* in a manner that would inherently affect the rights of third-party creditors. The Court noted that a DOCA is not merely a private agreement; it is a statutory instrument that effects a change in the company's legal status and binds all creditors by operation of law. Consequently, there is a "legitimate public interest in seeing that disputes of the type in question are resolved by public institutions… rather than institutions and structures established by the parties."

Ground 5 and the Reality of Fractured Proceedings

Because the corporate buyout matter was non-arbitrable, it remained within the jurisdiction of the NSW courts, while the financial contribution claim was sent to arbitration. This bifurcation formed the basis of Ground 5 of the appeal, wherein Clough challenged the primary judge's refusal to temporarily stay the non-arbitrable court proceedings pending the determination of the Singapore arbitration.

The NSWCA dismissed Ground 5, affirming that the decision not to stay the Clause 21.3 Matter was a valid exercise of discretionary case management. The Court held that the resolution of the corporate acquisition dispute did not depend on the outcome of the arbitrated contribution claim. The dismissal of Ground 5 underscores a harsh procedural reality: when an arbitration agreement collides with a non-arbitrable statutory regime, the fracturing of the dispute across dual forums is often an inevitable consequence of enforcing the arbitration agreement to the extent permissible by law.

Global Reflections: *Lex Domicilii* vs. *Lex Arbitri*

The *Clough* judgment reflects a universal paradigm in cross-border dispute resolution: the supremacy of the *lex domicilii* over the *lex arbitri* in matters of corporate status and insolvency.

In international arbitration, parties select a seat (e.g., Singapore) whose laws, the *lex arbitri*, govern the procedural framework of the arbitration and typically determine objective arbitrability. However, the legal personality, restructuring, and insolvency of a corporation are governed exclusively by its *lex domicilii* or *lex concursus* (e.g., Australia).

Globally, courts align with the NSWCA's approach. Purely *in personam* commercial claims, such as quantifying a debt, can be arbitrated. But *in rem* claims, or disputes that strike at the core mechanics of an insolvency proceeding and affect the collective rights of the creditor pool, are universally guarded by the domestic courts of the corporate domicile. The public policy underlying the *lex domicilii* acts as a firm boundary that private arbitral tribunals cannot cross.

Strategic Takeaways for International Commercial Disputes

For corporate entities managing cross-border agreements, the *Clough v Elecnor* decision offers several practical, jurisdiction-neutral insights:

- **Evaluate the Scope of Arbitrability:** When disputes involve distressed counterparties, parties should recognize that arbitration clauses may not cover issues that invoke statutory restructuring regimes or impact the collective rights of third-party creditors.
- **Prepare for Parallel Proceedings:** As demonstrated by the NSWCA's dismissal of Ground 5, courts are willing to fracture disputes, retaining jurisdiction over corporate status issues while sending discrete commercial claims to arbitration.

- **Assess the Interplay of Governing Laws:** During the drafting and enforcement phases, it is essential to analyze how the procedural laws of the chosen arbitral seat (*lex arbitri*) will interact with the mandatory corporate and insolvency laws of the counterparties' home jurisdictions (*lex domicilii*), anticipating that local courts will intervene to protect statutory frameworks.

Conclusion

The NSW Court of Appeal's judgment in *Clough v Elecnor* is a definitive modern precedent on the limits of arbitrability. It illustrates that while international commercial arbitration remains the preferred mechanism for resolving cross-border contractual disputes, the statutory gravity of corporate restructuring and insolvency remains firmly within the domain of domestic courts. Navigating the resultant procedural fractures requires a sophisticated understanding of both the procedural flexibility of the *lex arbitri* and the mandatory public policy of the *lex domicilii*.

Wasel & Wasel advises on complex commercial disputes, international arbitration, and cross-border corporate litigation. The firm possesses extensive experience navigating multi-jurisdictional matters, addressing the intricate conflicts of law between arbitral seats and corporate domiciles, and managing parallel proceedings involving statutory insolvency regimes and commercial arbitration across global jurisdictions.

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