Current Topics Surrounding the Legal Environment in Japan

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Legal Landscape in India

An article that outlines the recent trends in the Indian legal market from the contentious issue of allowing foreign law firms to set up shop in India to the impact of legal outsourcing. The article also talks about whether or not foreign law firms are permitted to practice in India and how Indian law firms are already facing competition from them for the best talent.


This article offers an introduction to the newly-established Chinese European Arbitration Centre in Hamburg, Germany. Following a general overview of the Centre’s goals and functions, guiding principles, and institutional structure, key provisions of the CEAC Hamburg Arbitration Rules are briefly examined. The article concludes with a few words on the Centre’s establishment and future development.
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Dear Colleagues,

The IPBA’s 2008 Mid-Year Meeting was scheduled to be held in Hanoi, Vietnam, in early November. The meeting was to feature the traditional business meetings of the Council, Committee Chairs, Jurisdictional Council Members and Officers. In addition, we had organized a full day of educational programs to be presented in collaboration with the Vietnamese Lawyers Association, which had gone to great lengths to secure necessary governmental approvals and to make other necessary arrangements in support of our efforts. Participation by 100 or more lawyers from Vietnam was anticipated.

Unfortunately, a few days before the Mid-Year Meeting was to begin Hanoi was hit by flooding reported to be the worst in more than 30 years. After a hectic period of communications with our Mid-Year Meeting hotel as well as other observers in Hanoi, with our Secretary-General, Arthur Loke, skillfully coordinating a series of emergency conference telephone calls, it became apparent that we had no alternative but to cancel our Mid-Year Meeting. This was the first time it has ever been necessary to cancel a major IPBA event, and we thank our reliable Secretariat staff in Tokyo for their tireless efforts over a period of several days in November in corresponding with Council Members, cancelling hotel and other arrangements in Hanoi, and notifying speakers and others scheduled to participate in our Hanoi educational programs.

But in the IPBA we persevere, and so on November 25, Tokyo, Japan time, we held our first ever Council-wide telephone conference call, to attend to the business matters which would have been taken up in Hanoi. Several of these warrant special mention. The Council adopted an updated version of the IPBA manual, setting forth all IPBA policies and charter documentation, representing a major effort led by Jerry Sumida, our Deputy Secretary-General. The Council decided to hold our 2009 Mid-Year Meeting in Hong Kong, most likely during November, 2009. And the Council took a major step toward increasing the IPBA’s “infrastructure” in the major Asian jurisdictions, by authorizing the establishment of “Leadership Committees” in all Asian jurisdictions represented on the Council by Jurisdictional Council Members, that is, jurisdictions having 25 or more IPBA members. These Leadership Committees will be chaired in each case by the Jurisdictional Council Member in question, and will include as well a small number, perhaps three to five, of additional members from that jurisdiction. It is hoped that in time these Leadership Committees will be the cornerstone of expanded IPBA activity in, and augmented membership from, these key jurisdictions.

As we head now into the second half of the 2008-09 IPBA year, it will be useful to note the IPBA programming offerings during this period. On February 10, 2009, our Women Business Lawyers Committee is holding a one-day program in New Delhi, India, discussing topics of specific interest to women lawyers, under the heading of Women Lawyers Conference: Encouraging Success and Maintaining Balance. This program, which will be held at the India Habitat Centre in New Delhi, will focus on three primary areas of professional development for women: increasing and exercising influence inside and outside of a law firm, building and strengthening client relationships, and achieving and maintaining balance in one’s work and personal life. This will be a unique opportunity for women lawyers throughout India to explore issues of personal importance to the development of their careers. For more information, see the conference website: www.womenlawyersconference2009.com.

March of 2009 will bring one of the highlights of the IPBA programming year, our traditional “Asia M&A Forum”, organized in cooperation with the International Financial Law Review. The 2009 Asia M&A Forum, to be held in Hong Kong as in the past, will undoubtedly again draw keen interest, and participation, from throughout the Asia-Pacific region, and indeed elsewhere as well. And this IPBA year will conclude with the 2009 Annual Conference in Manila, where the Manila Host Committee, under the leadership of our President-elect, Rafael Morales, is in the process of organizing a truly outstanding Annual Conference.

In short, the IPBA continues its mission: to be the pre-eminent association of business lawyers in the Asia-Pacific region.

Gerold W Libby
President
Dear IPBA Members,

The Mid-Year Council Meeting, scheduled for Hanoi in November, had to be cancelled on account of floods in the city and the threat of outbreaks of water-borne diseases. The decision to cancel was not an easy one as it had to be made quickly, a few days before the meeting, before most Council Members catch their flights for Hanoi. Such a call risked criticism if the weather cleared up and Council Members are disappointed for not being able to catch up and party with friends, one of, if not the raison detre, for IPBA being a vibrant organization year after year. In an ironic way the weather was kind to the President and I who made the call. The rain continued into our scheduled meeting dates and vindicated us and news about damaged dykes made us look even prescient.

Since we had no precedent for a cancelled meeting what should we do? There were some who proposed meeting in alternative locations. In such a situation where most people would have difficulty changing travel plans and the Secretariat had to, in an instant produce suitable meeting facilities in a new location, it was just not practical to physically meet. Instead, through a series of phone calls amongst the members of the Nominating Committee, Officers, and the Council Members, we achieved our objectives of passing the most pressing resolutions and completing all urgent business to keep IPBA in good order till we get to Manila.

What did we learn from this? Quite a lot. The most important being that serious business can still be conducted on a mass call-in conference, although it is not ideal. But there is a qualifier to this. All who called in participated with a strong interest to get things done and stand behind the leadership to move the serious issues along in a purposeful and helpful manner. This speaks a great deal about our unity and our inherent respect for each other.

It took bad weather to bring these good qualities to the fore, and no meetings in the past had been ever conducted at such speed. Some of our house cynics will tell me that they have known this all along and how come it took me this long to find out. Perhaps I should get them to tell me what the weather will be like when we meet in Manila.

Arthur Loke
Secretary-General
Publications Committee Guidelines for Publication of Articles in the IPBA Journal

The IPBA Publications Committee is soliciting quality articles for the Legal Update section of the March and June 2009 issues of the IPBA Journal. If you are interested in contributing an article, please contact Mr Kap-You (Kevin) Kim, Publications Committee Chair, at kyk@bkl.co.kr or Mr Hideki Kojima, Publications Committee Vice-Chair, at kojima@kojimalaw.jp and/or submit articles by email to Mr Kim or Mr Kojima at the foregoing addresses.

Proposed themes for upcoming editions:

• Bankruptcy and Insolvency in the Asia-Pacific Region
  (March 2009)
  Deadline for submissions: March 1, 2009

• Law and Technology in the Asia-Pacific Region
  (June 2009)
  Deadline for submissions: June 1, 2009

The requirements for publication of an article in the IPBA Journal are as follows:

1. The article has not been previously published in any journal or publication;
2. The article is of good quality both in terms of technical input and topical interest for IPBA members;
3. The article is not written to publicize the expertise, specialization, or network offices of the writer or the firm at which the writer is based;
4. The article is concise (2,500 to 3,000 words) and, in any event, does not exceed 3,000 words; and
5. The article is written by an IPBA member.
Current Topics Surrounding the Legal Environment in Japan

The recent drastic increase in the number of attorneys is transforming Japanese legal society. Jobless or office-less newly admitted attorneys are attracting media attention. Does the Japanese business community truly need more attorneys? This article describes the arguments surrounding the recent increase in the number of attorneys in Japan. Also reported is the Japanese attorneys’ protest campaign against the proposed legislation to require attorneys to report suspicious transactions.

Amongst the many topics currently affecting the legal profession in Japan, two topics in particular have recently been the subject of heated debate. First, the increase in the number of Japanese attorneys has been a source of significant debate over the past several of years. Beginning in 2002, the Japanese government mandated an increase in the number of attorneys, and in implementing such an increase, various issues have arisen which have been the subject of considerable debate. The second topic is the possible incursion into the Japanese attorney’s confidentiality duty posed by Japan’s efforts to combat money laundering and terrorist financing. This so-called “gatekeeper issue” has also been the focus of heated discussion because it is considered to be detrimental to the independence of Japanese attorneys. Although many books and articles have been written regarding the aforementioned issues, I attempt in this article to summarize the significant arguments surrounding such issues for those who may not be intimately involved with Japanese legal affairs.

Increase in the Number of Attorneys
Since 1999, the number of Japanese attorneys has increased by 45% from 17,178 in 1999 to 25,041 in 2008. This increase has occurred amidst calls, particularly from the business community, to increase the number of attorneys in Japan. Compared with other developed countries, the number of attorneys in Japan, a country with a population of approximately 127.7 million, is very low. By comparison, in the United States, with a total population of approximately 300 million as of December 31, 2007, there were approximately 1,140,000 attorneys resident and active. Please refer to Figure 1 below for a comparison of the number of attorneys in different countries.

Figure 1 Comparison of the Number of Lawyers in Select Countries

Ref.: Courts Data Book 2004 by Japanese Supreme Court and Attorneys White Paper 2007 by Japan Federation of Bar Associations
In response to the perceived shortage of attorneys in Japan, in 1999, the Japanese Cabinet created the Justice System Reform Council (“Council”). The Council released a report (“Council Report”) in 2001 which, amongst recommending various other reforms, recommended increasing the number of attorneys. In the Report, the Council expected the number of Japanese attorneys to increase by expanding the passing rate of the Japanese bar examination.

In response to the recommendations contained in the Council Report, in 2002, the Japanese Cabinet approved the Plan for Promotion of Justice System Reform (“Plan”). Under the Plan, the number of attorneys is set to be substantially increased. By 2010 the number of applicants passing the bar examination is expected to increase to approximately 3,000, whereas in the past, there were only 500 to 1000 applicants who passed the bar exam annually. Further, under the Plan, in 2018 the total number of attorneys in Japan is set to increase to approximately 50,000.

Amongst existing attorneys, there is significant opposition to the planned increase in the number of attorneys. The arguments most frequently made by existing attorneys against increasing the number of attorneys seem to be based on two distinct arguments. The first argument most often presented is that the demand for legal services in Japan is not sufficient to absorb the proposed increase in the number of attorneys. The second argument is that by increasing the number of attorneys, the quality of legal services provided will decline. I examine each argument in turn.

As a fundamental matter, existing attorneys seem to be afraid that without a commensurate increase in the demand for legal services, the increase in the number of legal professionals will create economic hardship for all attorneys. Although there have not been any concrete indications that attorneys are losing revenue, the current difficulty for newly-admitted Japanese attorneys in finding employment has already emerged as a serious issue.

However, the problems faced by newly-admitted attorneys in finding employment are most likely a short-term phenomenon. This is because corporations seem to be expanding the number of Japanese attorneys working in-house. In 2001, 67 Japanese attorneys were hired in-house by corporations. By 2008, 267 attorneys were hired in-house. Due to the fact that there are approximately 4,000 publicly listed companies in Japan, it seems inevitable that the corporate sector will be a significant source of increased demand for Japanese attorneys in the immediate and long-term future. Additionally, in the Japanese government and its agencies, only a handful of attorneys have been employed. In the future, with a significant increase in the number of attorneys, the Japanese government and its agencies will most likely increase their hiring of attorneys as well.

Further, once Japanese attorneys begin working in-house, whether in the corporate or government environment, those attorneys are bound to create an increase in demand at existing law firms. Much like the experience in the United States with their shift to hiring attorneys in-house, due to the increased legal consciousness which will arise within the corporate and government environments with the presence of more attorneys, there will most likely be more requests for legal services to outside law firms.

The second argument most often cited by existing attorneys against increasing the number
of attorneys is based on the possible decline in the quality of legal services. Unfortunately, there is evidence tending to show such a decline. For example, in Japan, after passing the bar examination, all applicants are required to undergo training at the Judicial Research and Training Institute. After such training, applicants must pass the Final Qualifying Examination before becoming licensed attorneys. In the past, before the implementation of the Plan to increase the number of attorneys, virtually all applicants who passed the initial examination passed the Final Qualifying Examinations. Recently, however, with the implementation of the Plan, between 70 and 100 applicants per year have been unable to pass the Final Qualifying Examination. It seems that the increase in the passing rate may have allowed certain applicants who should not have passed the initial examination to pass. However, due to the fact that those who do not pass the Final Qualifying Examination are not licensed, it can be said that the system itself, to a certain degree, is preventing a decline in the quality of legal services.

Further, due to the difficulty in finding employment, opportunities for newly-admitted attorneys to experience on-the-job training, has decreased significantly. As identified above, due to the fact that the employment difficulties for newly-admitted attorneys will most likely be resolved in the long-term, perhaps a mandatory continuing legal education framework, akin to that implemented in the United States, could be implemented to shore up the short-term lack of on-the-job training.

A further trend often cited by existing attorneys as evidence that the increase in the number of attorneys is problematic is that newly-admitted attorneys cannot find employment at existing law firms. Therefore, after their training at the Judicial Research and Training Institute, they often open solo-law firms at their own homes. Existing attorneys assert that the revenue of such solo firms has been very low and they cannot break even. Again, this problem is most likely short-term, as corporations and the government and its agencies will fill the short-term demand gap in the long-term.

The Japan Federation of Bar Associations ("JFBA"), originally a major proponent of the increase in the number of attorneys, has recently called for a more gradual increase in the number of attorneys than was originally proposed in the Plan. The JFBA Chairman, Mr Makoto Miyazaki, has stated that "[t]he increase in legal professionals has caused various problems in maintaining quality." At the same time, however, Mr Miyazaki added that "[w]e’re not changing our stance that the number of people in the legal profession should be increased, but we recommend that the timing of the target be postponed." It seems that an increase in the number of Japanese attorneys is necessary and justified due to the increasing demand for legal services in Japan. However, in implementing the increase, due care must be given to the training and education of newly-admitted attorneys to ensure that there is not a decrease in the quality of legal services. Perhaps slowing the rate of the increase in the number of attorneys will resolve these issues.

Paradoxically, a possible argument in favor of increasing the number of attorneys is that such an increase will lead to enhanced competition. Through such enhanced competition, it can be argued that the quality of legal services will increase whilst the fees for such services will...
decline. However, such an argument is based on macroeconomic principles which in practice have led to mixed results in various industries.

In any case, however, the trend towards increasing the number of attorneys seems permanent, and if issues surrounding demand or the decline in quality arise, they must be addressed in a prompt manner to ensure the continued availability of quality legal services in Japan.

The Gatekeeper Issue
Recently, in many countries, legislation governing the duty of attorneys to report suspicious activity based on the Financial Action Task Force on Money Laundering (“FATF”) recommendations has invited significant debate. In 2007, a proposal to legislate such a duty for attorneys was the subject of significant debate in Japan.

As in many countries, attorneys in Japan owe their clients a wide-ranging duty of confidentiality. In accordance with Article 23 of the Japanese Attorneys Act, attorneys have the obligation to keep confidential all secrets which become known during the course of their work. The scope of the confidentiality duty can be very broad as it is understood to encompass legal advice given during a preliminary consultation, whether the attorney is retained or not, and includes confidential information regarding third parties.

At the same time, this duty of confidentiality is the basis for the assurance that the general population, including those seeking representation/counsel, can place their faith in attorneys and, when necessary, can divulge confidential information to an attorney secure in the understanding that such information will not be disclosed and that such information will be used solely to provide the best possible advice. To create any rules that require an attorney to report suspicious activity will create an irreparable breach in the relationship between attorney and client.

To be certain, the FATF recommendations theoretically exclude from the scope of information to be reported information to which attorneys already owe a duty of confidentiality. In Japan, in the outline of the draft legislation created by the National Police Agency, it was made clear that the duty to report suspicious activity “would not infringe upon the attorneys’ duty of confidentiality.” Therefore, theoretically, given that Japanese attorneys are already subject to a wide-ranging duty of confidentiality, there would be nothing that Japanese attorneys would come under a duty to report. However, such exclusions carry no weight when the government is attempting to legislate a reporting duty regarding any information exchanged between an attorney and client.

In Japan, there was also a proposal to have attorneys report suspicious transactions to the JFBA, which would in turn only report to the competent authorities information that it deemed necessary to report. Given the special status of the JFBA as an independent organization free from government supervision, requiring attorneys to report to the JFBA, instead of government agencies, may have been regarded as a measure to diminish any potential government influence.

However, the JFBA, regional Bar Associations and individual attorneys are strongly opposed to these proposals, and have waged an intense campaign opposing any such laws or regulations, arguing that the duty of attorneys to report such information shakes the foundation of the attorney’s independence and would erode the fundamental ability of attorneys to zealously represent their clients.

As many attorneys in other countries have already experienced, the problem is that the duty to report has a serious chilling effect. Even if the information which is subject to the confidentiality duty of attorneys is theoretically exempted from the reporting duty, neither clients nor attorneys would be certain as to exactly what extent information can be kept confidential. Attorneys may have difficulty deciding whether certain information should be reported and, in order to avoid any trouble and possible sanctions, may end up reporting many irrelevant transactions. When there is such a risk, who would entrust attorneys with confidential information? Clients will be daunted by the mere fact that attorneys are not truly independent, but are in a position to report certain information to governmental authorities. The duty to report is a challenge to the Japanese constitution which guarantees amongst other rights, public access to qualified attorneys which are in turn secured by the independence of attorneys.

As a result of the opposition by attorneys, the draft legislation submitted to the Diet excluded attorneys from those who owe a duty to report suspicious transactions. Instead, the enacted “Law for Prevention of Transfer of Criminal Proceeds” provides that the identity of clients and transaction records held by attorneys shall be regulated in accordance with the rules of the JFBA. In response, the JFBA established the Rules regarding Clients’
Identifications and Retention of Records. In sum, the attorneys duty of confidentiality remains unaffected.

Japan’s experience may present one useful suggestion as to how to implement the FATF recommendations. To be sure, the principle aims of the FATF, to stop money-laundering and terrorist activities are very important. However, such important aims must also be balanced with the confidentiality obligations of attorneys, which are equally important. In Japan, there will most likely be further attempts in the future to legislate a reporting requirement. If successful, these could irreparably damage the attorney-client relationship. Therefore, attorneys in Japan and in other countries dealing with this issue should cooperate and exchange information with each other in order to assist each law society facing this matter.

Notes:

4 American Bar Association, Market Research Department.
5 Japan In-House Lawyers Association.
8 The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body, originally established mainly by OECD countries, whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF issued the FATF Recommendations which provide plans of action needed to fight against money laundering and terrorist financing. Among such Recommendations, the 40 Recommendations on Money Laundering include the reporting of suspicious transactions and compliance by certain professions.
9 In other countries:

EU: Legislation in accordance with FATF Recommendation is required by Directive:

England: Solicitors owe a reporting duty with a sanction of imprisonment of up to five years. The number of reports was over 10,000 in 2005. Due to the unclear scope of the reporting obligations, it is said that many of the reports are for protective purposes. The offices of solicitors are also subject to stringent audits. In other countries, only a few have had more than 10 reports.

Poland: The gatekeeper legislation was held unconstitutional (July 2, 2007). Belgium: The Belgian bar is currently challenging the constitutionality of the gatekeeper legislation. Poland: The gatekeeper legislation was held unconstitutional (July 2, 2007). Belgium: The Belgian bar is currently challenging the constitutionality of the gatekeeper legislation.

USA: No concrete proposal for legislation has been made.

Canada: Legislation imposing on lawyers a duty to report has been suspended by court orders.

10 Recommendation 16 of the FATF 40 Recommendations.
11 The JFBA as well as the regional bar associations which are members of the JFBA have a high degree of autonomy. The Supreme Court can demand a report from the JFBA regarding its operations and can also request an investigation of an attorney or a regional bar association. (Japanese Attorneys Act, Article 49) However, neither the Supreme Court nor other government agencies has supervisory authority over the JFBA or regional bar associations, such as control over the administration and discipline of individual attorneys.
Legal Landscape in India

This article outlines recent trends in the Indian legal market from the contentious issue of allowing foreign law firms to set up shop in India to the impact of legal outsourcing. The article also addresses the question of whether or not foreign law firms are permitted to practice in India and how Indian law firms are already facing competition from them for the best talent.

Introduction
The legal market has had a chequered history in India. Prior to independence, the focus of law was more towards constitutional law and development of administrative law as India set out to lay down the legislative and administrative framework for its governance. A nascent industry that sought to be encouraged more through socialistic means and governmental investments rather than through private investments meant that the scope of work of lawyers was limited primarily to litigation. Even today the number of litigating lawyers heavily outnumbers lawyers specializing in any other area of law. Post liberalization, several avenues have opened within the broader realm of law. Lawyers have now even started practice dedicated to field of law slightly removed from litigation and court appearances. Thus developed legal practice in the thitherto unheard of areas of corporate law, intellectual property law, cyber law, competition law and in recent times even environmental law and post the telecom revolution, telecom law.

As India made slow but steady strides in the international market with a booming economy, increasing foreign investment in the country, proven expertise in software creation and exports, the possibility of having various trade and business related ties with India improved. Bolstered by a gradually liberalizing regime and presence of factors such as abundant natural resources, presence of a huge English speaking populace and availability of cheap labour apart from other factors such as the size of the Indian market have led to creation of several economic opportunities and investments in India. This has led to the emergence of a strong need for legal services and a resulting boom in the legal market in India. This boom is also reflected in the growth in the number of law schools in India and the increase in number of students contemplating law as a career option.

Thus, the above factors have led to the creation of a robust Indian legal market that has witnessed several developments in the recent past and consequently is the subject of much discussion on the way forward from here. Firstly, the debate continues about whether foreign law firms will be permitted to practice law in India, and, if so, under what conditions. Even though foreign law firms are currently not permitted to practice in India, they seem to be hiring more Indian lawyers and establishing connections with local law firms. Increasing competition from foreign law firms has led to large increases in the retainers paid by Indian law firms in 2008. Further, there are several
examples of Indian lawyers leaving jobs with established firms to set up their own practices, often taking associates from their previous firms with them. The importance of the Indian legal market globally is evidenced by the development and growth of legal process outsourcing by foreign companies.

**Entry of Foreign Law Firms into India: The Great Debate**

One issue that has seen the legal fraternity taking strong, albeit conflicting, positions is the issue of whether foreign law firms should be allowed to set up shop in India. Many believe that opening up our country in this regard is the next logical progression, arising not only because India is a signatory to the General Agreement on Trade in Services, but also in the light of the prevailing mood of liberalization and open competition. However, several significant voices have been raised questioning even the contemplation of such a move.

The peculiar nature of the legal profession in India has a major role to play in this debate. As opposed to the general trend in developed countries, where only about 20% of the lawyers work in the area of litigation, in India about 90% of the lawyers are litigation lawyers. Corporate law practice effectively started only post liberalization, so it is still young compared to most developed countries. Although several Indian law firms do have a set of lawyers dedicated to practicing corporate law, India does not have many large law firms practicing corporate law, compared to those in developed countries. This is also because of the restriction on the number of partners permitted in a firm, as discussed below.

Post liberalization, with the increasing trend of inbound foreign investment, Indian lawyers have gained experience in advising on cross-border transactions, complex structures and a plethora of related laws. In rendering such advice, Indian law firms have not only interacted with the best law firms across the world but have also developed experience in engaging with these issues. Indian lawyers have demonstrated that their legal skills are no exception to the proven capabilities of the famed Indian brain that is being recognised worldwide. Further, Indian lawyers have seen opportunities to obtain attractive positions in international law firms.

Those that believe entry to foreign law firms should be allowed only on the basis of reciprocity have overlooked the fact that not only Indian lawyers, but also Indian law firms, have been permitted to practice and open offices abroad to a certain extent. While some have availed of such openings leading to the “brain drain” phenomenon, what it has highlighted is the need for more interaction between lawyers across different jurisdictions to enable timely and appropriate advice on issues arising out of cross-border transactions.

Moreover, with Indian businesses becoming more competitive worldwide and adopting a more aggressive attitude by acquiring businesses abroad à la Tata-Corus and Hindalco-Novelis, there is a need, in India, to obtain advice on the legal position in various foreign jurisdictions. The debate on opening foreign law firms and the proposed scope of activity of these firms needs to be viewed in this larger context.

While many feel that opening the legal profession to foreigners will result in impoverishment of Indian lawyers, critics are quick to point out that foreign lawyers will neither be able, nor be willing, to sweat it out appearing in the Indian courts. This is primarily due to practical problems, for instance, lack of knowledge of the vernacular language and unfamiliarity with court procedures. Thus, the litigating lawyers should not face any competition; on the contrary, they may be given work by foreign lawyers. It is argued that opening the doors to foreign lawyers and foreign law firms could be advantageous to all parties concerned by bringing about higher standards of service and accountability, quicker access to world class advice for Indian industry and increased monetary returns for lawyers.

However, the protectionists argue that law firms in India are subject to severe restrictions. For instance, law firms in India are not allowed to advertise as per the Bar Council rules, and partnership law in India does not permit more than 20 partners per partnership firm. These restrictions have prevented the growth of Indian law firms. Many protectionists believe that these restrictions should be removed before entry to foreign law firms is permitted in order to ensure a level playing field. It is submitted that the proposed Limited Liability Partnership Bill, which has already been made public, will address these issues. However, some
argue that even if this bill is passed, time should be given to Indian law firms to reap the benefits of the proposed legislation and organize themselves into bigger entities capable of competing with large international law firms. This takes the debate to a different level with the focus not on whether the entry of foreign law firms should be permitted, but rather when and how. Thus, it is suggested by some that it may be prudent to adopt a practical approach by initially permitting the foreign law firms to only advise on issues pertaining to foreign jurisdictions, rather than on Indian law. Subsequently, after assessing the situation, foreign firms can be gradually permitted to advise on wider issues.

In light of this background in relation to whether foreign law firms should be allowed to practice in India, we now explore the current trends in the Indian legal market.

Recent Developments in the Indian Legal Market

This section highlights some trends that have emerged in the Indian legal market recently and ways in which Indian law firms have responded.

As provided above, under the Indian Partnership Act, each Indian legal firm is restricted to 20 partners. Partly because of such restriction, the Indian legal market has traditionally consisted of small and medium-sized firms. There are several recent examples in the Indian legal market of experienced lawyers leaving established Indian firms to set up their own firms, taking lawyers from their previous firms with them. These newer firms have links to big players in the international legal market. For example, certain partners from a prominent corporate firm have set up their own capital markets practice. Another example is Allen & Overy entering into a referral relationship with an Indian firm.

Other trends have included the movement of lawyers out of Indian firms to international firms. Although such a move is becoming increasingly common at a junior level, such as among junior associates, there is the odd example of a high-profile partner move such as the move of a partner from a leading Indian firm to Clifford Chance.

Several international firms have started recruiting directly from Indian law schools. Linklaters used to be active in recruiting directly from the National Law School of India University in Bangalore. Nowadays, many other international law firms, such as Norton Rose and Clifford Chance, have been recruiting Indian law school students in greater numbers. Along with the increase in recruitment by these law firms, the number of applications such law firms are receiving from Indian law students has also been on the rise. It is not rare for Indian law students to graduate from law school and directly join an international law firm.

These developments show that, while not being allowed to practice law in India, foreign firms have been establishing greater connections with India. This has been achieved by recruiting more Indian lawyers and by creating links with local law firms by, for example, having a referral arrangement with them.

Indian firms have responded to lawyers or law graduates moving abroad or setting up on their own and creating relationships with international firms, by increasing remuneration packages for lawyers. Recently, there have been large increases in retainers paid at most of the highly-ranked Indian law firms. Further, there has been some
suggestion of local firms improving the quality of their service in the face of growing competition from international firms. Other changes include the growth of Indian law firms which are less family-oriented and more egalitarian.

In terms of the work being undertaken, real estate funds work was active, although the current slowdown following the global economic crisis has reduced the number of M&A and private equity transactions. Further, the telecoms sector was particularly buoyant in 2007.

Foreign law firms are not only interested in Indian lawyers wanting to move abroad. The Indian legal market plays a significant role for foreign companies in that an increasing amount of legal work is being outsourced to India. This area is considered in more detail below.

**Legal Process Outsourcing (LPO)**

The legal services offshoring industry in India has witnessed a surge in the quantum of work being outsourced to India, as many law firms in India have set up legal process outsourcing arms to better support their international clients. This trend of domestic law firms setting up offshore services practice is recent and a direct result of the pressure that domestic firms face to survive in the aggressive legal market. As more and more domestic law firms are faced with competition within the domestic market forcing them to reduce professional fees, legal process outsourcing has emerged as a feasible business option to remain lucrative.

The success of the LPO industry in India can be attributed to the requirement of overseas foreign companies to reduce costs. In this way, lawyers at such companies remain focused on core and strategic issues. Moreover, Indian LPOs have the advantage of English speaking lawyers who are familiar with common law doctrines. The efficiency of legal outsourcing services combined with the fact that outsourcing legal work to India costs up to 80% less than the cost of using the services of American law firms has been the reason for the establishment of several LPOs in the past year.

Besides being an offshoot of a law firm, LPOs in India are being formed using other structures. This includes the captive LPO, which is essentially set up to cater to the legal services needs of its parent corporation, which can often constitute its only client. Other than law firms, several third party service providers, such as knowledge process outsourcing centers and business process outsourcing centers, have also set up LPOs in India to service the legal work requirements of corporations who do not have their own exclusive captive LPOs.

Initially, the quality of work being outsourced to LPOs in India was primarily low-end and more in the nature of transcription. However, over a period of time, core legal solutions like legal research, analyzing drafted documents, drafting patent applications, drafting software licensing agreements, pre-litigation documentation and advising clients are being outsourced to Indian LPOs. With the increase in the amount of high-end knowledge-based legal work being outsourced to India, foreign companies are now depending more and more on Indian LPOs to centralize and manage their compliance requirements and to manage assets such as contracts, licenses and leases, especially in relation to intellectual property.

An area of concern for most foreign law firms and corporates looking to outsource to India is the absence of stringent data protection laws in India. Although most international corporate firms boast
of a legal culture where client confidentiality is utmost, the same cannot be said for the emerging legal process outsourcing firms. It is hoped that with the efforts being made to have a statute addressing these security concerns, the legal process outsourcing industry in India will see more work flowing from overseas.3

Conclusion
Whether the entry of foreign firms is permitted or not, the conditions for entry will have to be given detailed consideration so as to keep in mind the existing norms in the Indian legal market, including providing some protection for Indian lawyers from foreign competition.

With the international legal market focusing on India, more Indian lawyers are being recruited by foreign firms. This has led to a “salary war” at home, where the top Indian law firms now have to compete not just with each other but also with international firms, to retain the best talent. This trend is more prevalent for UK, Singapore and Hong Kong firms which have substantial India-related capital markets practices and which essentially retain lawyers for their Indian desks.

However, the trend of Indian lawyers moving abroad has to be viewed in the context of the current financial crisis. It has been suggested that the effect of the economic downturn in the global economy, especially in the developed markets, is that more Indian lawyers will return to India.4 There is also a school of thought predicting that, following the collapse of various financial institutions abroad, there will be a growth in legal process outsourcing to India in areas such as restructuring, downsizing, layoffs, closure of branches and winding-up of subsidiaries.5 Also, with the growing pressure on most corporations overseas to cut their legal bills, Indian legal process outsourcing firms expect more work coming their way in the days to come. Time will tell whether these hypotheses will be borne out in practice.

Notes:
2 http://indialawjournal.com/issue_1/article_by_Hemant_Batra.html.
3 http://www.indialpo.net/.
5 “Legal eagles soar as mkts crash”, The Times of India, 24 November 2008.

This article offers an introduction to the newly-established Chinese European Arbitration Centre in Hamburg, Germany. Following a general overview of the Centre’s goals and functions, guiding principles, and institutional structure, key provisions of the CEAC Hamburg Arbitration Rules are briefly examined. The article concludes with a few words on the Centre’s establishment and future development.

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Chairman, Chinese European Legal Association
Hamburg, Germany

China has become one of the world’s most important economies. An increasing number of international commercial transactions related to China brings forth challenges to international commercial arbitration, especially in respect to this country’s economic and geographical size, culture and mentality as well as legal system. These considerations are justifying a new approach in international commercial arbitration using a tailor-made arbitration institution for China-related disputes. The newly founded “Chinese European Arbitration Centre (CEAC)” in Hamburg, Germany, is coming up to this expectation as a new trend in this area.

The following introduction gives an overview of the goals, functions and principles of the CEAC, shows the institutional structure and briefly explains the specialties of the Hamburg CEAC Arbitration Rules which are based on the UNCITRAL Arbitration Rules.

I. Chinese European Arbitration Centre – General Overview

1. Goals and Functions
The CEAC is the first institutional arbitration centre tailor-made to the needs of international trade with China. As stated in the CEAC Arbitration Rules, it targets commercial disputes in connection with:
• trade between parties from China and from Europe as well as from all over the world
• Chinese investments in other states and
global investments in China.

In addition, the parties are free to choose mediation as a means of dispute resolution before arbitration or to use the services of the Beijing-Hamburg Conciliation Centre which was established jointly by Hamburg Chamber of Commerce and the China Council for the Promotion of International Trade (CCPIT) in 1987 and closely cooperates with the Chinese European Arbitration Centre.

2. Principles
a) Tailor-made Arbitration Rules Based on Mutual Legal Origins
The CEAC focuses on specialties of China-related disputes – especially with regard to recognition and enforcement – and at the same time is based on mutual legal origins between China and Europe: As the recognition and enforcement of foreign judgments in China, and Chinese judgments in Europe, is often difficult or even impossible, the recourse to international arbitration is an important and effective instrument to enforce rights of participants in international trade, since China and most European countries are contracting parties of the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

In addition, the CEAC Hamburg Arbitration Rules are based on the 1976 UNCITRAL Arbitration Rules which are accepted worldwide. Furthermore, the Model Choice of Law Clause contained in the CEAC Hamburg Arbitration Rules has an option pointing to another globally-accepted international convention, the 1980 United Nations Convention on Contracts for the International Sale of Goods (CISG), which is also ratified by China and most of the European countries. Thus, the legal framework of CEAC arbitration is widely based on common principles between China and Europe with modifications as necessary with regard to specialties in Chinese law and culture.

b) Neutrality and Balance of Power
Another major principle upon which the CEAC is based is the principle of neutrality and balance of power. The CEAC pursues this principle as a truly global approach by integrating experts from China, Europe and the rest of the world (beyond China and Europe) equally on several levels of the arbitration institution (tripartite division of power).

• Appointing Authority: Most importantly, in the chambers of the Appointing Authority, there is an equal division of power between China, Europe and the rest of the world. Each chamber has one expert coming from each of these regions. Thereby, the CEAC ensures the balance of power at the crucial moment of selection or challenge of arbitrators. The Appointing Authority is the body which chooses the sole arbitrator or the chairman if the parties do not reach an agreement by themselves. In cases involving parties from different regions, continents or cultures, this can easily happen due to an insufficiency in the number of candidates, from a neutral region, whom both
parties know and trust. Moreover, the tripartite division of power ensures that in each chamber of the Appointing Authority there is one expert from a neutral region who can particularly assist the panel in the selection of the neutral arbitrator (chairman or sole arbitrator).

- **Advisory Boards of CEAC and CELA:** The Advisory Board of the CEAC is responsible for amendments to the CEAC Hamburg Arbitration Rules and advises the CEAC management on matters of administration of arbitration proceedings. The Advisory Board consists of a chairperson, two deputy chairpersons and up to twelve additional members who come from China, Europe and the rest of the world. All members of the Advisory Board are renowned experts in international commercial arbitration.

The CEAC Advisory Board includes, *inter alia*, Hew R. Dundas, the former president of the Chartered Institute of Arbitrators, and Christopher To, former Secretary General of the Hong Kong International Arbitration Centre. The principle also applies to the Advisory Board of the sole shareholder of the CEAC, the Chinese European Legal Association (CELA), which is chaired by Gao Zongze, former president of the All China Lawyers Association (ACLA).

- **Management:** The principle of balance of power also runs through the management of the CEAC. According to Section 6 of its Articles of Association, the CEAC has one or more managing directors. Currently, the management consists of one Chinese professor and two German lawyers.

3. **Seat and Tradition**

The CEAC is seated in Hamburg, which is an important gateway for business in Europe and has close economic and political relations with China. Hamburg has a well-known history as seat of arbitration with over fifteen arbitration centres for specific branches like coffee, oil, books and insurance. As for connections between Hamburg and China, it is especially worth noting the Beijing-Hamburg Conciliation Centre. As mentioned above, standing in combination with this Conciliation Centre, which was founded more than twenty years ago, the CEAC can offer the services of arbitration as well as of conciliation/mediation in one institution. Moreover, Germany not only has a long tradition of commercial arbitration, but also features a modern framework for arbitration, having adopted the UNCITRAL Model Law on International Commercial Arbitration.

II. **Institutional Structure**

The CEAC was founded in the legal form of a “German limited liability company” (GmbH) under the name “Chinese European Arbitration Centre GmbH”. This company carries out the operative business of the arbitration centre and is responsible for administering arbitration proceedings pending.

The Chinese European Legal Association is the sole shareholder of the CEAC GmbH and is an association promoting legal cultural exchange between Europe and China, focusing especially
All provisions supplementing or amending the underlying UNCITRAL Arbitration Rules are tailor-made for China-related disputes and strictly follow the concept of party autonomy.

on matters of dispute resolution. Its purpose is “to support the interaction and exchange between China and Europe and the world regarding issues of economics, law and legal culture” and “to make a contribution to the avoidance, settlement and resolution of disputes related to international trade from and to China.” By so doing, CELA also focuses on education of young practitioners in the field of international arbitration and contract drafting. Further, the association pursues the goal of facilitating trade between China and Europe not only by establishing the CEAC as a dispute resolution centre, but also through organizing seminars and workshops in international contract drafting for business companies in order to prevent disputes. The founding members of CELA include the Hamburg Bar Organisation, the Hamburg Chamber of Commerce, 17 international law firms and more than 45 lawyers and in-house counsel experienced in international arbitration. The association is open for all experts active in the field and there are two types of membership: law firm membership and individual membership.1

III. CEAC Hamburg Arbitration Rules
The CEAC Hamburg Arbitration Rules are tailored to China-related international dispute settlement. They have been developed in interaction with experts from numerous jurisdictions around the globe in a truly international spirit, and with special regard to the needs of intercultural arbitration, especially in regard to parties from China. The CEAC Hamburg Arbitration Rules are based on the UNCITRAL Arbitration Rules of 1976 which, however, are tailored to ad hoc arbitration. To adapt these rules to the nature of the CEAC as an arbitration institution and to the specifics of Chinese Law—e.g., the requirement that an arbitration institution be specified in the arbitration clause—several supplements and amendments have been made.

1. CEAC as an Arbitration Institution
First of all, amendments to the UNCITRAL Arbitration Rules have been made to adapt them to the needs of institutional arbitration in China-related matters.

For this reason, Article 3 (1) of the CEAC Rules provides that “where the parties agree to refer their disputes to arbitration under the “CEAC Hamburg Arbitration Rules” the “CEAC Rules” or the “Rules of the Chinese European Arbitration Centre” without providing the name of an arbitration institution, they shall be deemed to have agreed to refer the dispute to institutional arbitration by the Chinese European Arbitration Centre in Hamburg (Germany).” This provision is necessary in order to guarantee recognition and enforcement of arbitral awards rendered within CEAC arbitration proceedings as Chinese law requires that the parties refer their dispute to an arbitration institution.

Part of the provisions regarding institutional arbitration are also the provisions on the competence of the Appointing Authority, where power is shared equally between China, Europe and the rest of the world, for the appointment of sole arbitrators or presiding arbitrators, if necessary, as well as for challenges of arbitrators.

2. Model Arbitration Clause
The Model Arbitration Clause proposed by the CEAC is available in various languages – currently in English, Mandarin and German – and reads:

“All disputes, controversies or claims arising out of or relating to this contract, or the breach, termination or invalidity thereof,
shall be settled by arbitration in Hamburg (Germany) in accordance with the CEAC Hamburg Arbitration Rules.”

The Model Arbitration Clause furthermore provides four options that the parties may choose regarding the number of arbitrators, the place for oral hearings, languages to be used in the arbitral proceedings, confidentiality and the applicability of the CEAC Hamburg Arbitration Rules as in force at the moment of commencement of the arbitration proceedings or at the time of conclusion of the contract in dispute. By providing the responsible persons and business companies with such options, the CEAC aims to facilitate the drafting of an arbitration clause by reminding future parties of these important issues.

3. Model Choice of Law Clause
The CEAC Hamburg Arbitration Rules also offer a model Choice of Law Clause which future parties to CEAC Arbitration may use when drafting their contract. The Model Choice of Law Clause follows the concept that the parties may choose the option of law applicable to the substance of the dispute favorable to them by marking boxes for

“a) the law of the jurisdiction of _______________ [country to be supplemented], or

b) the United Nations Convention on Contracts for the International Sale of Goods of 1980 (CISG) without regard to any national reservation, supplemented for matters which are not governed by the CISG, by the UNIDROIT Principles of International Commercial Contracts and these supplemented by the otherwise applicable national law, or

c) the UNIDROIT Principles of International Commercial Contracts supplemented by the otherwise applicable law.”

This Model Choice of Law Clause reminds future parties of the fact that a choice of the law applicable to the substance of the dispute is of vital importance. It also offers alternatives to simply choosing the law of a certain jurisdiction by giving the parties the chance to choose unified laws such as the CISG or the UNIDROIT Principles of International Commercial Contracts, which are both common in China and most European countries.

4. Multi-Party Proceedings and Consolidation of Disputes
The CEAC Hamburg Arbitration Rules also contain provisions for multi-party proceedings and for the consolidation of disputes in order to provide the parties with a modern framework for arbitration. These provisions were inspired by the ongoing reform of the UNCITRAL Arbitration Rules and are intended to facilitate the resolution of disputes in an efficient and economic way. The same applies to Article 6a of the CEAC Hamburg Arbitration Rules which provides for a decision based solely on documents unless any of the parties requests a hearing. This provision was inspired by voices from the business community and the desire to have the option of saving costs for travel and accommodation in connection with arbitration proceedings.

5. Time Limit and Costs
In order to provide future parties to CEAC administration with an efficient means of arbitration, Article 31a of the CEAC Hamburg Arbitration Rules contains a provision stating that the arbitral tribunal shall render a final award within nine months after the notice of arbitration is received by the CEAC unless otherwise agreed by the parties.

Costs for CEAC arbitral proceedings are set out in a separate Fee Schedule with an Annex containing a table of fees in relation to the amount in dispute. Fees are based on the amount in dispute supplemented by a special rule for cases with extreme workload for the arbitrators. Costs are reasonable, roughly corresponding to the middle of the Hong Kong International Arbitration Centre frame, and are comparable to fee schedules of other European arbitration institutions.

6. Conclusion
All provisions supplementing or amending the underlying UNCITRAL Arbitration Rules are tailor-made for China-related disputes and strictly
follow the concept of party autonomy. The CEAC Hamburg Arbitration Rules are currently available as a consolidated version highlighting changes to the UNCITRAL Arbitration Rules in English and Mandarin.

IV. Establishment and Development
The CEAC was founded as a result of an international dialog within the context of the growing importance of a modern China active around the globe. The Hamburg Bar Organisation, the Hamburg Chamber of Commerce and an international group of lawyers have pursued for several years, since 2004, the concept of an arbitration centre specialised on China trade. Over the years, the project emerged to become truly international. Within the short period between the foundation of the Chinese European Legal Association, i.e. the sole shareholder of the CEAC, in July 2008, and the inauguration of the CEAC on 18 September 2008, more than 80 law firms and lawyers (including in-house counsels) from 19 nations have become members of CELA and thereby co-founders of the Chinese European Arbitration Centre.

Shortly after its inauguration, the CEAC has already become a notable issue at international conferences such as the Autumn CONSULEGIS Conference 2008 in Hong Kong and the Annual Meeting 2008 of the International Bar Association (IBA) in Buenos Aires. In sum, the young arbitration institution CEAC stands for a new approach of specification in international commercial arbitration and provides a modern, global and transparent framework for arbitration for disputes, which are – directly or indirectly – China-related.

Notes:
1 For further information see www.cela-hamburg.com.
2 For further information see www.ceac-arbitration.com.
An Invitation to Join the Inter-Pacific Bar Association

The IPBA is an international association of business and commercial lawyers who reside or have an interest in the Asian and Pacific region. The IPBA has its roots in the region, having been established in April 1991 at an organizing conference in Tokyo attended by more than 500 lawyers from throughout Asia and the Pacific. Since then it has grown to over 1,700 members from 68 jurisdictions, and it is now the pre-eminent organization in the region for business and commercial lawyers.

The growth of the IPBA has been spurred by the tremendous growth of the Asian economies. As companies throughout the region become part of the global economy they require additional assistance from lawyers in their home country and from lawyers throughout the region. One goal of the IPBA is to help lawyers stay abreast of developments that affect their clients. Another is to provide an opportunity for business and commercial lawyers throughout the region to network with other lawyers of similar interests and fields of practice.

Supported by major bar associations, law societies and other organizations throughout Asia and the Pacific, the IPBA is playing a significant role in fostering ties among members of the legal profession with an interest in the region.

IPBA Activities

The breadth of the IPBA's activities is demonstrated by the number of specialist committees overleaf. All of these committees are active and have not only the chairs named, but a significant number of vice-chairs to assist in the planning and implementation of the various committee activities. The highlight of the year for the IPBA is its annual multi-topic 4-day conference, usually held in the first week of May each year. Previous annual conference have been held in Tokyo (twice), Sydney (twice), Taipei, Singapore, San Francisco, Manila, Kuala Lumpur, Auckland, Bangkok, Vancouver, Hong Kong, New Delhi, Seoul, Bali, and Los Angeles attracting as many as 700 lawyers plus accompanying guests.

The IPBA has organized regional conferences and seminars on subjects such as Practical Aspects of Intellectual Property Protection in Asia (in five cities in Europe and North America respectively) and Asian Infrastructure Development and Finance (in Singapore). The IPBA has also cooperated with other legal organizations in presenting conferences—for example on Trading in Securities on the Internet, held jointly with the Capital Market Forum.

The IPBA also publishes a membership directory and a quarterly IPBA Journal.

Membership

Membership in the Association is open to all qualified lawyers who are in good standing and who live in, or who are interested in, the Asia-Pacific region.

- Standard Membership  US$195 / ¥23,000
- Three-Year Term Membership  US$535 / ¥63,000
- Lawyers in developing countries with low income levels  US$100 / ¥11,800
- Young Lawyers (under 30 years old)  US$50 / ¥6,000

Annual dues will cover the period of one year starting from January 1 and ending on December 31. Those who join the Association before August 31 will be registered as a member for the current year. Those who join the Association after September 1 will be registered as a member for the rest of the current year and for the following year.

Membership renewals will be accepted until July 31.

Selection of membership category is entirely up to each individual. If the membership category is not specified in the registration form, standard annual dues will be charged by the Secretariat.

Further, in order to encourage young lawyers to join the IPBA, a Young Lawyers Membership category (age under 30 years old) with special membership dues has been established.

IPBA has established a new 3-Year Term Membership category which will come into effect from the 2001 membership year.

There will be no refund of dues for cancellation of all membership categories during the effective term, nor will other persons be allowed to take over the membership for the remaining period.

Corporate Associate

Any corporation may become a Corporate Associate of the Association by submitting an application form accompanied by payment of the annual subscription of (¥50,000/US$500) for the then current year.

The name of the Corporate Associate shall be listed in the membership directory.

A Corporate Associate may designate one employee (“Associate Member”), who may take part in any Annual Conference, committee or other programmes with the same rights and privileges as a Member, except that the Associate Member has no voting rights at Annual or Special Meetings, and may not assume the position of Council Member or Chairperson of a Committee.

A Corporate Associate may have any number of its employees attend any activities of the Association at the member rates.

- Annual Dues for Corporate Associates  US$500 / ¥50,000

Payment of Dues

Payment of dues can be made either in US dollars or Japanese yen. However, the following restrictions shall apply to payments in each currency. Your cooperation is appreciated in meeting the following conditions.

1. A US dollar check should be payable at a US bank located in the US. US dollar check payable in Japan may be returned to sender depending on charges.
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3. Japanese yen dues shall apply to all credit card payment. Please note that the amount charged will not be an equivalent amount to the US dollar dues.
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See overleaf for membership registration form
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