

# **CHALLENGES AGAINST ARBITRAL AWARDS IN MALAYSIA**

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**A thesis submitted in partial fulfilment of the  
requirement for the award of the degree of  
Master of Science (Construction Contract Management)**

**Faculty of Built Environment  
Universiti Teknologi Malaysia**

**JANUARY 2018**

**DEDICATION**

*To my beloved Grandfather, Father and Mother,  
Sisters and Brother.*

***Thank you for your support, guidance and everything.***

## **ACKNOWLEDGEMENTS**

A research of this nature may not be undertaken without resources rendered by Messrs. Azman, Davidson & Co, a legal firm, which I have been working since I finished my pupillage for more than 10 years ago and which I have been allowed free access to its reasonably comprehensive library that contains collection of law reports, and thereafter copying the cases for reading and analysis. In addition to that, the firm has rendered free printing for draft and fair copy of the thesis.

Extended thanks are also due to my colleague, Mr. Mak Hon Pan, a Partner of the firm, who is practicing in the law of arbitration and who always draws my attention on decided cases on mentioned and discussed in my thesis, be they reported or unreported.

I also wish to express my sincere appreciation to my friend, Ms. Wee Chiat Khee, whom I knew when she was doing internship with the firm and now doing her pupillage at Messrs. Azman, Davidson & Co, before her admission as an advocate & solicitor of the High Court of Malaya, for helping me to check the alternative citations to the reported cases as discussed in my thesis from online database and law reports, helping me to prepare the lists of cases and helping me to proof reading my draft thesis.

Most of all, I wish to express my deep sense of gratitude to my family, especially to my parents, brother and sisters for their never-ending support and encouragement.

Last but not least, thank you to all who have made this thesis possible.

## **ABSTRACT**

The purpose of this study is to investigate the advantages and disadvantages of having arbitration as compared to court litigation for the purposes of challenging and enforcing the arbitral award and provisions in the Arbitration Act 2005 as interpreted by the Courts in respect of certain grounds to challenge an arbitral award. Arbitration Act 2005 (Act 646) was passed and became law on 15 March 2006 by virtue of Gazette P.U. (B) 65/2006 replacing the old Arbitration Act 1952 (Act 93) is the Act of Parliament which governs the law of arbitration in Malaysia, for both domestic arbitration and international arbitration. Malaysia is unlike Singapore, where it has different Acts of Parliament separately governing each of domestic arbitration and international arbitration. The Act 646 was based on the Model Law on International Commercial Arbitration, which was adopted by the United Nations Commission on International Trade Laws (UNCITRAL) on 21 June 1995 but with certain exceptions and modifications. However, since the Act became effective, there are numerous local cases decided by the High Court and Court of Appeal in respect of the approaches governing Section 37 and Section 42 of Arbitration Act 2005. Section 42 is not part of Model Law. There are conflicting approaches by the High Court and Court of Appeal on the test to be applicable as to when an arbitral award can be challenged on reference on a question of law. It is only until recently (more than 10 years since the Arbitration Act 2005 was enacted) that the Federal Court in Far East Holdings Bhd v Majlis Ugama Islam dan Adat Resam Melayu Pahang appears to settle the law on Section 42 and other issues.

## ABSTRAK

Kajian ini dilakukan bertujuan mengkaji terhadap kebaikan dan keburukan timbang tara dengan membandingkan litigasi mahkamah bagi tujuan mencabar dan menguatkuaskan dan peruntukan-peruntukan dalam Akta Timbang Tara seperti yang ditafsirkan oleh Mahkamah-mahkamah terhadap alasan-alasan tertentu untuk mencabar sesuatu award timbang tara. Akta Timbang Tara 2005 (Akta 646) telah diluluskan dan dijadikan undang-undang pada 15 Mar 2006 kerana warta kerajaan P.U. (B) 65/2006 yang menggantikan Akta Timbangtara 1952 (Akta 93) yang lama, yang merupakan Akta Parliamen yang menentukan undang-undang timbang tara di Malaysia, bagi kedua-dua timbang tara domestik dan timbang tara antarabangsa. Malaysia tidak sama dengan Singapura di mana ia mempunyai dua Akta Parliamen yang berlainan menentukan timbang tara domestik dan timbang tara antarabangsa. Akta 646 adalah berlandaskan *Model Law on International Commercial Arbitration*, yang diterima oleh *United Nations Commission on International Trade Laws (UNCITRAL)* pada 21 Jun 1995 tetapi dengan sedikit kekecualian dan pengubahsuaian. Walaubagaimanapun, sejak Akta tersebut berkuatkuasa, terdapatnya banyak kes-kes tempatan yang diputuskan oleh Mahkamah Tinggi dan Mahkamah Rayuan berkenaan pendekatan-pendekatan yang menentukan Seksyen 37 dan Seksyen 42 Akta Timbang Tara 2005. Terdapatnya pendekatan-pendekatan yang bercanggah oleh Mahkamah Tinggi dan Mahkamah Rayuan terhadap ujian yang dipakai tentang bila sesuatu award timbang tara boleh dicabar atas rujukan mengenai soal undang-undang berdasarkan Seskyen 42. Ia adalah sehingga kebelakangan ini (melebihi 10 tahun sejak Akta Timbang Tara 2005 digubalkan) bahawa Mahkamah Persekutuan dalam Far East Holdings Bhd v Majlis Ugama Islam dan Adat Resam Melayu Pahang nampaknya telah menetapkan undang-undang atas Seksyen 42 dan isu-isu lain.

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background Of The Study**

Arbitration Ordinance XIII of 1809 was our nation first legislation on arbitration<sup>1</sup>. Such Ordinance was applicable to Straits Settlement which was governed under British India. Then it was followed by Arbitration Ordinance 1890. The colonial government enacted the Arbitration Ordinance in 1952 to govern all Federation of Malaya States. This 1952 Ordinance was a wholesale adoption from United Kingdom's Arbitration Act 1950. The 1952 Ordinance was intended to serve as a simple and clear statute to regulate the practice of arbitration<sup>2</sup>. The Act gave wide powers to the court to intervene in the arbitral process<sup>3</sup> and the basis to set aside an award, largely by Section 24 on 'misconduct' of which the term was not defined under any provision of the Act. Thereafter the Ordinance was revised to become Arbitration Act 1952 (Act 93).

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<sup>1</sup> Syed Ahmad Idid and Umar A Oseni, "The Arbitration (Amendment) Act 2011: Limiting Court Intervention In Arbitral Proceedings in Malaysia" [2014] 2 MLJ cxxxii

<sup>2</sup> Sundra Rajoo, "Law, Practice and Procedure of Arbitration – The Arbitration Act 2005 Perspective" [2009] 2 MLJ cxxxvi

<sup>3</sup> Teng Kam Wah, "Section 34 of The Arbitration Act 1952" [2004] 1 CLJ iii

In 1984, the Act 93 went through an amendment at section 34 where three types of arbitration were excluded<sup>4</sup> from the operation of the Act..

Malaysian courts have consistently since from the High Court case in Sharikat Pemborong Pertanian & Perumahan v Federal Land Development Authority<sup>5</sup> adopted the English common law ground of setting aside, namely “*error of law patent on the face of award*”, when it set aside an arbitral award pursuant to section 24 of Arbitration Act 1952 for ‘misconduct’.

On 30 December 2005, Parliament enacted the new Arbitration Act 2005 (“the new Act”) to substitute the Arbitration Act 1952. The New Act was based on the Model Law on International Commercial Arbitration as adopted by the United Nations Commission on International Trade Laws (UNCITRAL) on 21 June 1995. At the same time the Convention on the Recognition and Enforcement of Foreign Arbitral Awards Act 1985 (Act 320)<sup>6</sup> was also abolished. The New Act would be applied to the arbitrations which was started after 15-3-2006 and makes the distinctions on the Malaysian Courts’ supervisory roles with regards to in respect of domestic and international arbitrations respectively.

In 2011, Section 8 of the New Act which originally read “*Unless otherwise provided, no court shall intervene in any of the matters governed by this Act*” was substituted with “*No court shall intervene in matters governed by this Act, except where so provided in this Act.*”. The significance of such amendment was discussed in some court cases to mean that the Court shall adopt a minimalist approach or non intervention approach against the arbitral award.

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<sup>4</sup> Teng Kam Wah (2004). Section 34 of The Arbitration Act 1952 [2004] 1 CLJ iii

<sup>5</sup> [1969] 1 LNS 172; [1971] 2 MLJ 210; [1969] 1 MLRH 233

<sup>6</sup> This Act enacted the New York Convention.

The New Act provides new grounds of challenging arbitral award by section 37 and sections 42 where they are different from section 24 of Arbitration Act 1952. This thesis will provide a literature review on decided cases in respect of the comparison of old law and new law on such challenges.

## 1.2 Problem Statement

W.S.W. Davidson and Sundra Rajoo<sup>7</sup> were of the views that the amendment to section 34 of Arbitration Act 1952 was to promote the usage on the Kuala Lumpur Regional Centre for Arbitration in the region who did not want to get involved in the interference by Malaysian courts during the course of proceedings or post award. They held the view that the 1980 amendment adopted the chosen regime through the arbitration agreement but failed to follow the norm and sensible division between ‘international’ and ‘domestic’ arbitrations as practised by other countries.

The Arbitration Act 2005 used different approach by abdicating the ‘copy and paste adoption’ of the English Arbitration Act 1996 as previously experienced in the Arbitration Act 1952. However it partly adopts certain characteristics of English Arbitration Act 1996 and substantially follows with the general principles as laid down by the UNCITRAL Model Law.<sup>8</sup>

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<sup>7</sup> W.S.W. Davidson and Sundra Rajoo, “The New Malaysian Arbitration Regime 2005” [2006] 4 MLJ cxxx

<sup>8</sup> Syed Ahmad Idid and Umar A Oseni, “The Arbitration (Amendment) Act 2011: Limiting Court Intervention In Arbitral Proceedings in Malaysia” [2014] 2 MLJ cxxxii

The New Zealand Arbitration Act 1996 had influenced the enactment of the New Act. This New Act makes the distinctions of ‘domestic’ and ‘international’ arbitrations for the purposes of courts’ interference towards the arbitral awards.

By virtue of section 3(2), Parts 1, II and IV of the New Act shall apply (meaning that they cannot be excluded even if the parties want to do so) and Part III shall apply if the parties do not exclude it in writing with regard to the domestic arbitration. The choice to exclude is generally regarded as ‘opt out’, meaning that Part III ‘will be deemed’ to apply unless the parties expressly exclude its operation.

With regard to the international arbitration where Malaysia is having the seat, the applicability of Parts 1, II and IV of the New Act is same as domestic arbitration but Part III is not applicable unless both parties adopt it in writing by virtue of section 3(3). The choice of adoption is generally regarded as ‘opt in’, meaning that Part III will be not applicable unless the parties expressly adopt its operation.

Chapter 7 governs the recourse or challenge against award. It falls under Part II of the Act where section 37 is the provision regulating an application by the dissatisfied party of the arbitral award applying to set aside an award on certain limited circumstances.

Section 37 contains a provision that also allows the court to set aside an award that conflicts with the Malaysian public policy. The breach of public policy is now inclusive of breach of the rules of natural justice in connection with the making of the award or during the arbitral proceedings. W.S.W. Davidson and Sundra Rajoo were of the view that the “*expansion of the public policy concept in addition to the grounds of the award was induced or affected by fraud or corruption*” was debatable. They worried that floodgates might be

opened if the limited grounds to set aside as provided under the Model Law would be expanded to cases demanding a thorough scrutiny on the procedure applied during the arbitration.

Problems also occur when section 37 of Arbitration Act 2005 does not lay down the guidelines in very precise wordings on “*award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration*” and “*decisions on matters beyond the scope of the submission to arbitration*” and thus let the courts’ hand very wide in interpreting the situations when an arbitral award may be challenged.

Part III contains an important provision, namely section 42, where the courts have powers to wholly or partly vary / remit / set aside the award on “*reference on any question of law arising out of an award*”. In this sense, section 42 gives the courts wider powers than section 37 that the award is either partially or wholly set aside if successfully challenged.

According to Mohamad Ariff bin Md Yusof<sup>9</sup>, there was no equivalent provision in the Model Law for section 42 but similar provisions exist in UK Arbitration Act 1979, now section 1(2) of Arbitration Act 1996; section 69(2)(a), Clause 5, Schedule 2 of New Zealand Arbitration Act 1996; section 23(2) – (4) of Hong Kong Arbitration Ordinance (Cap 34) and section 49(1) of Singapore (Domestic) Arbitration Act 2001 (Cap 10). In all these jurisdictions, they provide for ‘*an appeal on questions of law*’ and the filtering mechanism ‘*leave of court*’ must be obtained prior to filing the intended appeal.

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<sup>9</sup> Mohamad Ariff bin Md Yusof (2016). Chapter 14. Challenge of Arbitral Awards In Arifin Zakaria and Sundra Rajoo (2016). Arbitration in Malaysia – A Practical Guide, Malaysia: Sweet & Maxwell. Also see: Sundra Rajoo & WSW Davidson (2007). “The Arbitration Act 2005: UNCITRAL Model Law as applied in Malaysia”. Malaysia: Sweet & Maxwell Asia.

Sundra Rajoo<sup>10</sup> held the view that section 42 was vaguely worded to allow any question law of law to be raised without providing necessary guidance to filter out vexatious applications which might lead to delay the enforcement of arbitral award proceedings.

The problem also occurs when section 42 does not lay down what the meaning of and test of “*question of law arising out of an award*” is. Such omission has caused the judiciary to be in conflicts as to the applicable test when an arbitral award can be challenged on ‘question of law’.

In Kerajaan Malaysia v Perwira Bintang Holdings Sdn. Bhd.<sup>11</sup>, the Court of Appeal laid down 10 non exhaustive guidelines in respect of ‘*reference on question of law*’ under section 42. One of the guidelines was that ‘*the court should intervene if the award is manifestly unlawful and unconscionable*’. Sanjay Mohanasundram<sup>12</sup>, a practising lawyer in the area of arbitration, referring to this guideline commented that this “*is a departure from the strictly non interventionist approach taken by many other jurisdictions. The implication is that if an arbitrator has incorrectly applied the law the court can in appropriate case set aside the award.*”

The problem seems to be settled on 15 November 2017 when the Federal Court in Far East Holdings Bhd v Majlis Ugama Islam dan Adat Resam Melayu Pahang<sup>13</sup> preferred one approach rather than another approach established by intermediate appellate court, the Court of Appeal. But the problem is contemplated to recur in the future on other issues.

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<sup>10</sup> Sundra Rajoo, “Law, Practice and Procedure of Arbitration – The Arbitration Act 2005 Perspective” [2009] 2 MLJ cxxxvi

<sup>11</sup> [2014] AMEJ 1550; [2015] 1 CLJ 617; [2015] 6 MLJ 126; [2015] 2 MLRA 92

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<sup>13</sup> [2017] 8 AMR 313; [2017] 1 LNS 1695; [2018] 1 MLJ 1; [2017] MLRAU 1

### **1.3 Objective of Study**

To compare and contrast the advantages and disadvantages of having disputes resolved by arbitration with court litigation and identifying and discussing the multi approaches taken by court when facing application to challenge arbitral award pursuant to certain grounds under section 37 and section 42 of Arbitration Act 2005.

### **1.4 Research Scope**

The approach implemented in this thesis is substantially based on caselaw. However, several relevant textbooks and articles published in Malayan Law Journal and websites on the subject of study will be referred to. The relevant court cases are restricted to those hard copy of law reports published by All Malaysian Reports (AMR), Current Law Journal (CLJ), Malayan Law Journal (MLJ), unreported cases by the aforesaid corresponding publishers in the collection of All Malaysian Electronic Journal (AMEJ), Legal Network Series (LNS), Malayan Law Journal (MLJU). Unreported cases from the official website: [www.kehakiman.gov.my](http://www.kehakiman.gov.my) will be obtained if the cases are not accessible from AMEJ, LNS or MLJU. Several cases from Singapore Law Reports (SLR) and English cases will be procured whenever they were referred in Malaysian cases.

## 1.5 Significance of Study

The results of this study is to build up knowledge for the stakeholders in the commercial world of the advantages and disadvantages in preferring to resolve their commercial disputes by way of litigation in court or alternative dispute resolution by way of arbitration. They have to conduct the balancing exercise on the advantages and disadvantages when choose arbitration or court litigation. The results of the research will also provide them an understanding on the various decided court cases pertaining to the application involving certain grounds to challenge an arbitral award as provided by section 37 of the New Act as a result of:

- (a) The arbitrator's excess of jurisdiction resulting from:
  - (i) the award dealt with a dispute outside the terms of the submission to arbitration; or
  - (ii) the award contained decisions beyond the parameter of the submission to arbitration.
- (b) Conflicting with the Malaysian public policy when there is a breach of the natural justice during the arbitral proceedings or in connection with the making of the award.

The findings of the research will provide the commercial stakeholders an understanding on the various decided court cases pertaining to the ambit of section 42 of Arbitration Act 2005 as to what extent an arbitral award may be varied partly or wholly or set aside partly or wholly by the courts due to "*reference on question of law arising from the award*" when the arbitrator has made error(s) on question of law.

Discussion on section 42 will enhance the stakeholders' knowledge in respect of conflicting approaches taken by the courts pertaining to the correct test applicable for '*question of law arising from an award*' and how to apply the test in their case at hand.

Discussion on section 8 as amended will enhance the stakeholders' knowledge in respect of the conflicting approaches taken by the courts as to whether they have the powers to grant an extension of time to a dissatisfied party to file application to challenge the arbitral award when the time frame stipulated by sub section (4) is 90 days for section 37 challenge and by sub section (2) is 42 days for section 42 challenge.

## **1.6 Research Methodology**

Relevant leading textbook and articles published in Malayan Law Journal on arbitration will be referred to for the purposes of understanding the history of arbitration legislations in the country, purposes on enactment of new Arbitration Act 2005, its tracing on the corresponding Articles in the Model Law, operation and implementation of sections 37 & 42 as decided by court cases. The referred court cases in the articles and textbook will be searched and read in order to analyse the significance and conflicting approaches in respect of the challenges on arbitral award.

Past decided cases pertaining to section 24 of Arbitration Act 1952, sections 8, 37 and 42 of Arbitration Act 2005 will be manually searched from the hardcopy of the law reports such as All Malaysian Reports, Current Law

Journal and Malayan Law Journal. Cases referred by a particular case will be traced and read in order to compare and contrast the reasoning of that particular decided case with the referred cases. The process of searching and reading the referred cases will be repeated until a sufficient number of decided cases is collected and read. If the reported cases have referred to unreported cases cited in All Malaysian Electronic Journal (AMEJ), Legal Network Series (LNS), Malayan Law Journal (MLJU), then such unreported cases will be searched and read to enable the author to have better understanding on the practice of the law and issues at hand.

Attention is also drawn by the author's colleague on unreported cases which are only obtainable from official website from the Malaysian Courts. Then all searches cases will be printed or photocopied and will be manually arranged according to the date of decision and relevant sections from Arbitration Act 1952 or Arbitration Act 2005. The alternative citations, whether reported or unreported, to the reported case will be searched using computer database of the Current Law Journal and Malayan Law Journal. For the alternative citations in the All Malaysian Reports, they will be manually searched by referring to the hardcopy of the law reports kept in the author's working legal firm's library. Lastly the arranged cases will be read and understood in the chronology of dates in order to follow the development of law on the subject under review and to have better analysis that any particular earlier decided cases have not been referred in a particular subsequent case. It is however noted that not all cases which were read will be discussed in the thesis.

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