Construction

Contributing editors
Robert S Peckar and Michael S Zicherman

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GETTING THE DEAL THROUGH

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Contributing editors

Robert S Peckar and Michael S Zicherman
Peckar & Abramson PC

Publisher
Gideon Roberton
gideon.roberton@lbresearch.com

Subscriptions
Sophie Pallier
subscriptions@gettingthedealthrough.com

Senior business development managers
Alan Lee
alan.lee@gettingthedealthrough.com

Adam Sargent
adam.sargent@gettingthedealthrough.com

Dan White
dan.white@gettingthedealthrough.com

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New Zealand

Margaret A Helen Macfarlane, Christina Bryant, Nick Gillies and Michael O'Brien*

Hesketh Henry

1 Foreign pursuit of the local market

If a foreign designer or contractor wanted to set up an operation to pursue the local market what are the key concerns they should consider before taking such a step?

Some of the key concerns for a contractor setting up business in New Zealand include the following:

- considering what type of structure is most suitable (see question 12) and complying with the relevant regulations to establish any entity chosen. Overseas companies and limited liability partnerships must register with the Companies Office if they are 'carrying on business' in New Zealand. This can be done online through the Companies Office: www.business.govt.nz/companies/do-it-now/start-a-company;
- researching the market and determining how factors such as geographical distance and currency fluctuations may impact business. Statistics New Zealand has information, tables and tools that can help and these are available online at: http://businesstoolbox.stats.govt.nz/IndustryProfilerBrowse.aspx;
- checking licensing and professional qualification requirements (see also question 2);
- understanding pertinent taxation issues, including (among others) the following:
  - goods and services tax (GST) of 15 per cent is charged on the sale of goods and the provision of services; and
  - the Accident Compensation Corporation (ACC) provides no-fault accident compensation for workplace (and other) injuries, funded by employer levies; and
- understanding other factors that may affect the cost of doing business in New Zealand, including:
  - availability of insurance (see question 15);
  - ensuring compliance with New Zealand law regarding employee contracts, labour and human rights (see questions 17 and 18);
  - ensuring compliance with New Zealand health and safety legislation; and
  - ensuring compliance with consumer protection laws (see question 14).

2 Licensing procedures

Must foreign designers and contractors be licensed locally to work and, if so, what are the consequences of working without a licence?

Foreign designers and contractors must follow the same licensing procedures that are required for domestic designers and contractors.

All restricted building work (RBW) (residential building work that is essential to the structural integrity or weather tightness of a building) must be carried out or supervised by a licensed building practitioner (LBP). Holders of Australian design or trade-related licences can apply for a New Zealand licence under the Trans-Tasman Mutual Recognition Act 1997.

Becoming an LBP involves a robust application process consisting of a written application, oral testing by assessors and confirmation of the applicant's work by referees. A contractor carrying out RBW without an LBP (or without supervision by a person holding an LBP) may be fined up to NZ$20,000.

In addition, a plumber, gas fitter, drain layer, electrical worker or architect must be registered in their profession in accordance with the relevant legislation in order to be able to work in New Zealand. Engineers need not be registered by law to work in New Zealand – however, only qualified persons registered with the Institute of Professional Engineers of New Zealand may use the title 'Chartered Professional Engineer'.

3 Competition

Do local laws provide any advantage to domestic contractors in competition with foreign contractors?

New Zealand law does not provide any advantage to domestic contractors over foreign contractors.

Public sector procurement in particular is guided by the Principles of Government Procurement as well as the Government Rules of Sourcing. 'Being fair to all suppliers' as well as 'non-discrimination in procurement' are core components of these policies, which aim to encourage competition, treat suppliers from another country no less favourably than New Zealand suppliers and meet New Zealand's international obligations.

In addition to bilateral agreements relating to procurement with a number of other countries (such as Australia, Singapore, Brunei and Chile), New Zealand is in the process of acceding to the World Trade Organization's agreement on government procurement (GPA). The GPA aims to establish equal conditions of competition in the government procurement markets among countries that accede to it.

4 Bribery

If a contractor has illegally obtained the award of a contract, for example by bribery, will the contract be enforceable? Are bribe-givers and bribe-takers prosecuted and, if so, what are the penalties they face? Are facilitation payments allowable under local law?

A contract obtained through bribery is illegal and of no effect.

Bribery in the public sector is dealt with under the Crimes Act 1961, which makes it an offence to give or accept a bribe for an act done or not done in an official capacity. 'Bribe' is widely defined to include money, valuable consideration, office, employment or any direct or indirect benefit. Bribe-givers and bribe-takers are prosecuted; the penalty is imprisonment for up to seven years.

Bribery offences in the private sector are dealt with under the Secret Commissions Act 1910, which makes it a criminal offence to bribe an agent, such as a lawyer, broker or real estate agent, to act in a certain way regarding their client's business or affairs. A person who commits an offence against this Act is liable to imprisonment for a term not exceeding seven years. The wronged party may also bring a civil claim for breach of a statutory duty.

5 Reporting bribery

Under local law must employees of the project team members report suspicion or knowledge of bribery of government employees and, if so, what are the penalties for failure to report?

As noted in question 4, bribery offences in the private sector are dealt with under the Secret Commissions Act 1910. Where an employee has knowledge of bribery, but fails to report that knowledge, they are guilty of an offence under the Act. The maximum penalty for this offence is a period of imprisonment of up to seven years.

As for the public sector, as noted in question 4, bribery offences are dealt with under the Crimes Act 1961. Where a public-sector employee has knowledge of bribery but fails to report that knowledge, they could be regarded as aiding or abetting that offence. It does not appear that this has been tested in New Zealand, although it is suggested that mere knowledge of bribery may be insufficient – the employee may need to have knowledge and then also take steps to 'encourage' the bribery to continue. The maximum penalty for being a party to the offence of bribery is the same as for the principal offence, being a period of imprisonment of up to seven years.

There is no legal obligation to report a suspicion of bribery. However, the Protected Disclosures Act 2000 encourages individuals (whether in the public or private sector) to report suspicions or knowledge of serious wrongdoing in their workplace by providing protection for whistle-blowers. An employee of an organisation may disclose information under this legislation if the following is true:

- the information is about serious wrongdoing in or by the employee's organisation;
- the employee believes on reasonable grounds that the information is true or likely to be true;
- the employee wishes to disclose the information so that the serious wrongdoing can be investigated; and
- the employee wishes the disclosure to be protected.

Such a disclosure must be made either in accordance with internal procedures (public sector organisations are required by law to have internal procedures in place) or, in the absence of an internal procedure, to the head of the employee's organisation.

Where the employee reasonably believes the head of their organisation is involved in the serious wrongdoing, there are urgent or exceptional circumstances, or where they have made disclosure in accordance with their organisation's internal procedures but nothing has been done within 20 working days, they may escalate their disclosure to an 'appropriate authority'. An appropriate authority includes the ombudsman, the commissioner of police and various other government authorities.

Provided the above criteria are satisfied, then the disclosure is a protected disclosure, and the employee is protected from retaliatory action in their employment and liability from criminal or civil proceedings in relation to that disclosure. The recipient of a protected disclosure is also under a statutory obligation to use their best endeavours not to disclose information that may identify the whistle-blowing employee.

Note that under the Protected Disclosures Act, the term 'employee' includes former employees, contractors, people seconded to organisations and volunteers.

6 Political contributions

Is the making of political contributions part of doing business? If so, are there laws that restrict the ability of contractors or design professionals to work for public agencies because of their financial support for political candidates or parties?

There are no laws that prohibit contractors or design professionals from making donations to political parties or candidates.

However, both the Electoral Act 1993 (national elections) and the Local Electoral Act 2001 (local body or regional elections) require any donor who donates (to either a candidate or a political party) an amount exceeding NZ$1,500 (whether in a single donation or multiple or aggregated donations) to disclose their identity. It is an offence for a donor or recipient to conceal the identity of the donor for donations over this amount. Should that occur, the recipient must also give back to the donor the entire amount of the donation in question.

Political donations should not be a quid pro quo for any conduct by a public official so as to amount to bribery (see question 4). Public contracts may not be awarded based solely on political support but require a fair and transparent tender process (see question 3).

7 Other international legal considerations

Are there any other important legal issues that may present obstacles to a foreign contractor attempting to do business in your jurisdiction?

While there are no particular obstacles to doing business in New Zealand, a foreign contractor should be aware of how local laws impact foreign workers and foreign building products.

A foreign worker must hold a working visa (see question 16). A foreign contractor should confirm that there are no double taxation issues applying to foreign employees (see question 37). In addition, only foreign workers holding a working visa valid for a minimum of two years will be covered by New Zealand's public healthcare system. Foreign workers suffering a personal injury or work-related health condition while in New Zealand will be covered by the ACC, but this does not cover ordinary illness or emergency travel back home. In the case of serious injuries, the ACC will only assist to the point where the foreigner is able to safely return to his or her home country.

If a contractor plans on using building supplies or materials sourced from its home jurisdiction, it must ensure that those products and materials have been tested and comply with the applicable New Zealand standards regarding quality and safety as established by Standards New Zealand (SNZ), or with a foreign standard that SNZ recognises as being equivalent to the New Zealand standard.

8 Construction contracts

What standard contract forms are used for construction and design? Must the language of the contract be the local language? Are there restrictions on choice of law and the venue for dispute resolution?

NZS 3910, NZS 3916 and NZS 3917 are the most common construction contracts in New Zealand. Other well-known contracts (such as FIDIC and NEC3) are also used, albeit not as frequently.

NZS 3910 is intended for traditional procurement arrangements involving only construction work. NZS 3916 is similar to NZS 3910, although tailored for a design and build context. NZS 3917 is intended to be used for the provision of services over a defined period of time rather than a fixed scope of work.

Each of NZS 3910, NZS 3916 and NZS 3917 can be tailored to specific projects and contain special conditions to allow for this.

In addition to the NZS contracts, certain other bodies have produced contracts tailored for New Zealand construction works:

The New Zealand Institute of Architects (NZIA) has produced a series of standard-form construction contracts, some of which are designed for use where the contract is administered by an NZIA architect, others of which may be used when the architect is not contractually involved in the administration of the contract.

The Association of Consulting Engineers New Zealand and the Institute of Professional Engineers New Zealand have developed standard conditions of contract for consultancy services. These can apply to a wide range of consulting services and for most types of project.

The Registered Master Builders Association provides a standard form of subcontract (informally known as SA-2009), which is currently undergoing a review.

There is no requirement that English must be the language of the contract, although it is the predominant language used.

There are no restrictions on choice of law or venue for dispute resolution in the NZS suite of contracts. If not contractually specified by the parties, established private international law rules will need to be invoked to determine the venue and governing law.

9 Payment methods

How are contractors, subcontractors, vendors and workers typically paid and is there a standard frequency for payments?

Contractors, subcontractors and vendors of prefabricated, customised components for non-residential construction projects have a statutory

right to progress payments under the Construction Contracts Act 2002. The Construction Contracts Amendment Act 2015 extended the default progress payment provisions to residential construction contracts entered into or renewed on or after 1 December 2015. 'Pay when paid' arrangements are barred and have no legal effect.

Contracting parties may agree the number and frequency of progress payments. In the absence of any express agreement, payment claims can be made at the end of each month. Standard construction contracts generally provide for monthly claims, although the due date may vary. There are strict time requirements for responding to, and discharging, payment claims.

The method of payment can be agreed between the parties, although cash payments should be treated with caution and not used as a method to avoid payment of GST or other tax. Cheques are being phased out by banks as electronic transfers become the norm.

10 Contractual matrix of international projects

What is the typical contractual matrix for a major project in your jurisdiction in terms of the contractual relationships among the various construction project participants?

Owners and developers typically contract directly with a construction company, rather than through construction managers or trade contractors. For example, under NZS 3910, while a construction manager (called the 'Engineer to the Contract', but not necessarily a CPEng) is appointed as the principal's agent to manage the contract, the contractual relationship is directly between the principal and contractor. The contractor then subcontracts directly with specialist subcontractors.

A developing area is the use of alliance contracting, typically for large PPP infrastructure projects. In this regard, major construction companies with local expertise will frequently form joint ventures with foreign companies possessing specialist expertise, which, along with design consultants and key specialist subcontractors, form an 'alliance' of parties who contract with the pertinent public authority for the project.

11 PPP and PFI

Is there a formal statutory and regulatory framework for PPP and PFI contracts?

There is no specific legislative or regulatory framework for PPPs, which are typically only used for large-scale infrastructure projects. Examples include the construction of the new Wiri Prison (completed in 2015), and the development and construction of the Transmission Gully highway near Wellington (due to be completed in 2020).

The Treasury's National Infrastructure Unit provides guidance and advice on PPPs (including project agreement forms) on its website: www.infrastructure.govt.nz. PFI contracts are not typically used in New Zealand.

12 Joint ventures

Are all members of consortia jointly liable for the entire project or may they allocate liability and responsibility among them?

In New Zealand the term 'joint venture' (JV) has no precise legal definition and is not a recognised legal entity in its own right. A JV will generally be formed using one of the following legal structures:

- a limited liability company (company);
- a limited liability partnership (LLP);
- a partnership; or
- a contractual agreement.

The liability of each member of a JV will be determined by the legal structure chosen and the commercial arrangements between its members.

Where a company is established to form a JV, it is this entity that undertakes the project and assumes the legal liability, not the members individually. This allows the members to limit their exposure to liabilities and project losses. Liability for company directors will only arise in circumstances where directors have breached certain duties in the Companies Act 1993.

The situation is similar for LLPs registered under the Limited Partnerships Act 2008. In the case of a company or LLP, members may nevertheless become liable where they are required to provide guarantees on behalf of the company or LLP.

A JV may also take the form of a legal partnership, either created expressly by the members or as deemed by the Partnership Act 1908. In contrast to a company or LLP, the members of a legal partnership are jointly and severally liable and each member may bind the others subject to the laws of partnership.

Alternatively, a JV may be formed purely on a contractual basis between members. Under this form, the liability of each member will be subject to the provisions contained in the JV agreement together with any other agreements entered into with external third parties and the general law of contract.

13 Tort claims and indemnity

Do local laws permit a contracting party to be indemnified against all acts, errors and omissions arising from the work of the other party, even when the first party is negligent?

New Zealand law permits a contracting party to indemnify the other party against acts, errors and omissions arising from the work of the indemnifying party. Normally, a head contractor indemnifies a principal for losses arising from acts, errors and omissions in the performance of the contractor's scope of work (including the work of subcontractors). Commonly, subcontracts contain back-to-back indemnity provisions mirroring those provided to the principal by the head contractor.

However, to the extent a party's loss is caused by its own negligence, it may not be able to recover that loss from the indemnifying party. A contractual clause that indemnifies a party against loss that it has caused is enforceable (in the absence of fraud), but contracts do not normally contain such provisions. To the contrary, provisions for apportionment of loss are increasingly being incorporated into the more common forms of construction contract.

14 Liability to third parties

Where a contractor constructs a building that will be sold or leased to a third party, does the contractor bear any potential responsibility to the third party? May the third party pursue a claim against the contractor despite the lack of contractual privity?

While New Zealand law recognises the common law doctrine of privity of contract, there are significant exceptions, both statutory and at common law.

For example, the Contracts (Privity) Act 1982 permits a person who is not a party to a contract, but upon whom the contract was intended to confer a benefit, to enforce the contract as if that person were a contracting party.

In the specific context of building contracts, the Building Act 2004 implies certain warranties relating to proper performance of contract works into every residential building contract (the warranties are not implied into non-residential building contracts, and subcontracts with the head builder in a residential project are also excluded). A person who is the owner of a building or land to which the provisions apply may bring proceedings for breach of warranty even if that person is not a party to the building contract. Parties cannot contract out of these consumer protection provisions.

For the past several decades, New Zealand has experienced a significant problem with leaky buildings. In response, New Zealand law has recognised an extra-contractual duty of care on the part of contractors, sucontractors, suppliers and consultants (among others) to owners and subsequent purchasers of properties to ensure that building design, materials and construction work comply with applicable weathertightness requirements. While this principle was originally developed in the residential context, the duty of care has been extended to cover the design and construction of non-residential properties. Accordingly, consultants, contractors, sucontractors and others can be sued in tort by owners and subsequent purchasers for breach of this duty of care.

15 Insurance

To what extent do available insurance products afford a contractor coverage for: damage to the property of third parties; injury to workers or third parties; delay damages; and damages due to environmental hazards. Does the local law limit contractors' liability for damages?

There is a variety of insurance products available to contractors, including the following:

- contract works insurance (either project-specific or annual);
- tools, plant and equipment insurance (generally for market value only);
- public liability insurance (protection against legal liability to third parties for damage, loss or injury caused by an act or omission of the contractor arising out of the performance of the contract works). Note that compensation for bodily injury is covered by the ACC;
- employers' liability insurance (cover for personal injury to employees of the insured, that is not covered by the ACC);
- professional indemnity (PI) insurance (cover for liability costs arising from faulty professional advice or design; used by contractors where design components are the responsibility of the contractor). Note that most domestic PI (and errors and omissions) insurance policies now exclude coverage for leaky building liability;
- errors and omissions insurance (similar to PI insurance if a contractor is held liable for third-party loss resulting from an error or omission in performing the contract works, such as failure to follow a design specification or use of the wrong materials). Historically, this type of insurance was difficult for contractors to obtain, but there is now some availability from some specialist insurers and in bespoke policies; and
- statutory liability insurance (cover for legal costs and fines under certain legislation). Fines for breaching health and safety laws cannot be insured but the policy will normally cover legal costs and reparation payments if the contractor is taken to court for breaching health and safety laws.

Contractors' pollution liability insurance is available from some specialist insurers and provides protection against third-party liabilities arising from pollution releases. Note should be taken of policy exclusions, particularly in relation to pre-existing environmental contamination.

Although not standard, consequential loss insurance may be available from specialist liability insurers to cover financial losses resulting from a contractor's act or omission covered under a liability insurance policy (eg, 'down-time' due to delays resulting from a contractor's act or omission). Consequential loss insurance, specifically for delays arising from accidental damage to any part of the contract works, is another specialist product available.

Normally, policies exclude liability for liquidated damages. New Zealand's no-fault accident compensation law bars claims for compensatory damages for personal injury or death if cover is available from the ACC. New Zealand law does not generally limit liability for damages, although the parties may agree to a contractual cap.

16 Labour requirements

Are there any laws requiring a minimum amount of local labour to be employed on a particular construction project?

There are no laws requiring a minimum amount of local labour, although employers need to be aware that, under the Immigration Act 2009, only New Zealand citizens, New Zealand residents and permanent residents, holders of Australian current permanent residence visas and Australian citizens who enter New Zealand on a current Australian passport, are entitled to work in New Zealand as of right. All other persons must hold a valid work visa issued by Immigration New Zealand (INZ).

Each visa category has its own specific requirements. However, generally, before employing a foreign national, an employer must do the following:

- show that the person's occupation is on one of the immediate, long-term or Canterbury skill shortage lists;
- for an occupation not on a skill shortage list, first advertise for the position locally and demonstrate to the INZ that it could not fill the required role; or
- obtain employer accreditation to supplement its New Zealand workforce with foreign nationals.

At present, most occupations in the construction industry will be on one or more of the skill shortage lists. However, it is worth noting that on 19 April 2017 the Minister of Immigration announced a package of changes to New Zealand's immigration laws. These changes will include introducing remuneration thresholds for individuals applying for residence under the skilled migrant category and introducing a maximum duration of three years for lower-skilled and lower-paid essential skills visa holders (after which a minimum stand-down period will apply before being eligible for a further work visa). As of May 2017 the proposed changes were undergoing public consultation, with the government aiming to introduce them into law later in 2017. Further information is available on the INZ website: www.immigration.govt.nz.

17 Local labour law

If a contractor directly hires local labour (at any level) for a project, are there any legal obligations towards the employees that cannot be terminated upon completion of the employment?

Where an employee has been employed on a fixed-term agreement that complies with section 66 of the Employment Relations Act 2000 (ERA), and that employment comes to an end at the conclusion of the specified project, there are no further legal obligations owed to that employee.

To amount to fixed-term employment, the contractor and employee must agree that the employment will end at the close of a specified date, on the occurrence of a specified event or at the conclusion of a specified project. Furthermore, the contractor must have genuine reasons based on reasonable grounds for specifying that the employment will end in one of those three ways.

Where an employee's agreement is one of indefinite duration, their employment will continue beyond the completion of a project. If the contractor attempts to end the employee's employment, it may amount to an unjustified dismissal, unless the contractor can show that the decision to dismiss was one that a fair and reasonable employer could have made in all the circumstances.

Provided that an employee's employment is ended appropriately and lawfully, there are no further legal obligations owed to the employee after that point.

18 Labour and human rights

What laws apply to the treatment of foreign construction workers and what rights do they have? What are the local law consequences for failure to follow those laws?

Provided a foreign construction worker is lawfully entitled to work in New Zealand (see question 16), he or she will enjoy the same rights and protections at law as local construction workers.

If the foreign construction worker is an employee (as defined by section 6 of the Employment Relations Act 2000), he or she is entitled to the protections afforded by the Employment Relations Act 2000, the Holidays Act 2003, the Wages Protection Act 1983 and the Minimum Wage Act 1983 (among others).

Critically, status as an employee entitles a foreign construction worker be paid no less than the minimum hourly wage (NZ$15.75 per hour as from 1 April 2017), accrue annual holidays and sick leave (a minimum of 20 days and five days per annum respectively), and raise a personal grievance should the employer unjustifiably disadvantage or dismiss the employee from his or her employment.

Where an employer fails to follow those laws, the consequences vary. In the event of a failure to pay annual holidays or the minimum wage, the employer can be required to not only pay the amounts properly owing, but also pay a penalty to the government. This process is brought (and paid for) by labour inspectors employed by the Ministry of Business, Innovation and Employment (a government agency).

By contrast, where an employee raises a personal grievance, he or she is required to organise the process themselves – this may entail attending confidential mediation, or proceedings before either the Employment Relations Authority or Employment Court, or both mediation and proceedings. If successful in the authority or court, the employee may receive compensation for lost wages, compensation for

hurt, humiliation and distress and, in the case of dismissal, reinstatement to his or her former position.

If the foreign construction worker is an independent contractor, then there are no equivalent laws providing protection, and the parties' rights and obligations are determined by the independent contractor agreement. Independent contractors are normally required to submit invoices for payment and then pay their own tax. They are also normally required to provide their own tools of trade.

19 Close of operations

If a foreign contractor that has been legally operating decides to close its operations, what are the legal obstacles to closing up and leaving?

In closing its operations in New Zealand, a foreign contractor must do the following:

- dissolve any limited liability company formed in accordance with the Companies Act 1993 and seek removal of the company from the Companies Register;
- dissolve any limited liability partnership formed in accordance with the Limited Partnerships Act 2008 and partnership agreement and seek removal of the limited liability partnership from the New Zealand Limited Partnerships Register;
- dissolve any legal partnership formed in accordance with the Partnership Act 1908 and partnership agreement;
- in the case of a limited liability company and a limited liability partnership, request written notice from the commissioner of Inland Revenue stating that he or she has no objection to the company or partnership being deregistered; and
- distribute assets (if any), finalise the accounts, and pay any outstanding creditors and taxes due.

Where the foreign contractor has employees, it must consult with potentially affected employees. If the contractor implements its decision to close operations, it will need to give notice to employees that their positions are being made redundant, and pay out any contractual and statutory entitlements under the ERA and related legislation.

Where the foreign contractor is restructuring, for example selling or contracting out its operations, it must also comply with Part 6A of the ERA. This part is technical in nature and legal advice should be obtained.

20 Payment rights

How may a contractor secure the right to payment of its costs and fees from an owner? May the contractor place liens on the property?

A contractor may secure the right to payment through the terms of its contract or, if applicable, the Construction Contracts Act 2002 (CCA).

Under the CCA, parties to a 'construction contract' have a statutory right to progress payments and certain enforcement remedies. Those rights and remedies (except charging orders) were extended to residential construction contracts from 1 December 2015.

To obtain payment under the CCA, the contractor serves a payment claim specifying the amount it considers is due. If the payer disagrees, it must issue a payment schedule recording the amount that it believes is due. The payer is then liable to pay the amount specified in the payment schedule. If the payer fails to issue a payment schedule in the specified time, it becomes liable to pay the amount claimed in the payment claim. In the event of non-payment, the contractor can apply to the court to enforce it as a debt due, or suspend work (without affecting any other rights or remedies).

Where there is a dispute about sums withheld, the contractor may refer the dispute to adjudication, follow the dispute resolution mechanism in the contract if one is specified or otherwise commence proceedings. An adjudication decision may be entered as a court judgment where the decision required payment but the payer has remained in default.

A contractor cannot place a charging order (or lien) on the construction site without a court order. The CCA provides a faster process for obtaining this in construction cases. An appropriately nominated adjudicator should, if requested, grant a charging order where the amount claimed is due and the site is owned by the payer or an 'associate' of the payer. The charging order is lodged once the adjudication decision is entered as a judgment.

21 'Pay if paid' and 'pay when paid'

Does local law prohibit construction contracts from containing terms that make a subcontractor's right to payment contingent on the general contractor's receipt of payment from the owner, thereby causing the subcontractor to bear the risk of the owner's non-payment or late payment?

The Construction Contracts Act 2002 prohibits 'pay when paid' and 'pay if paid' arrangements: these are barred and have no legal effect. As noted in question 20, parties to a construction contract have a statutory right to progress payments and certain enforcement remedies.

22 Contracting with government entities

Can a government agency assert sovereign immunity as a defence to a contractor's claim for payment?

No.

23 Statutory payment protection

Where major projects have been interrupted or cancelled, do the local laws provide any protection for unpaid contractors who have performed work?

Contractors have rights of suspension under the Construction Contracts Act 2002 and most standard form construction contracts, which may prevent ongoing loss after an insolvency event. With the exception of retentions, which are now subject to statutory trust protection under the Construction Contracts Act 2002 (see 'Update and trends'), contractors have no preferential rights to payment for past work, unless they have an agreement with the principal that grants a security interest over the principal's assets or provides for the retention of an ownership interest in the goods and materials being supplied. To maintain security over other secured creditors, interests should be registered with the Personal Property Securities Register. Other contractual options available to secure payments include bonds and guarantees.

Payments made to contractors by an insolvent principal may be subject to clawback, depending on the circumstances and timing of each payment.

24 Force majeure and acts of God

Under local law are contractors excused from performing contractual obligations owing to events beyond their control?

Most standard form construction contracts contain a force majeure clause, which outlines the consequences of an event beyond the control of the parties. The most common standard form contract, the NZS suite of contracts (see question 8), provides that if the performance of the contract has become impossible or the contract has been otherwise frustrated, one party may notify the other party that it considers the contract to be terminated. This may vary from other standard form contracts that international contractors may be familiar with, such as the Joint Contracts Tribunal contract (which lists force majeure as a relevant event and potentially grants the contractor an extension of time).

If there is no force majeure clause included in a contract, the parties must rely on common law principles to establish that their contract has been frustrated. The court has power under the Frustrated Contracts Act 1944 to make orders for money to be paid or property to be transferred where it is just to do so.

25 Courts and tribunals

Are there any specialised tribunals that are dedicated to resolving construction disputes?

New Zealand has no specialist court to deal with construction disputes. On 1 March 2017, the Senior Courts Act 2016 and District Court Act 2016 came into force. As a result of these two statutes, claims valued at more than NZ$15,000 but less than NZ$350,000 are brought in the District Court and claims valued above that are brought in the High Court. Construction disputes are treated by the court like any other civil claim.

Some construction parties favour arbitration, partly because it enables them to appoint a specialist arbitrator. Parties must specifically provide for arbitration in their contract. Statutory adjudication is also available where the contract is a 'construction contract' within the meaning of the Construction Contracts Act 2002. Occasionally, specialist project-specific dispute boards are established for large infrastructure projects (see question 26).

New Zealand's independent bar is supported by a number of barristers with construction expertise who frequently sit as arbitrators, adjudicators and mediators. Retired judges and specialist lawyers from Australia are sometimes also appointed. In addition, a small number of industry organisations are partly or wholly dedicated to the construction sector. They assist in vetting and nominating suitable arbitrators, mediators and adjudicators and in facilitating those alternative dispute resolution processes. These include the Arbitrators and Mediators Institute of New Zealand, the Royal Institute of Chartered Surveyors and the Building Disputes Tribunal.

26 Dispute review boards

Are dispute review boards (DRBs) used? Are their decisions treated as mandatory, advisory, final or interim?

DRBs have been used for some large construction and engineering projects in New Zealand (eg, the Matahina Dam strengthening, Manapouri Second Tailrace Tunnel, Christchurch ocean outfall and, currently, the Transmission Gully highway project). They remain relatively uncommon, although there is growing support for their use.

The contractual documents and DRB specifications adopted by the parties will determine whether or when the board's decisions are final and binding, and whether the board can give non-binding advisory opinions. The parties may structure this as they wish.

27 Mediation

Has the practice of voluntary participation in professionally organised mediation gained acceptance and, if so, how prevalent is the practice and where are the mediators coming from? If not, why not?

Mediation is a widely used method for resolving construction disputes in New Zealand. Mediation is usually attempted in the course of litigation or arbitration and when the dispute has reached a sufficiently mature stage.

There is no legislative requirement for mediators to undertake specific training, although many have both a legal qualification and have undertaken further education in mediation. Some construction professionals (eg, engineers, quantity surveyors and building experts) have also begun to move into this space. They tend to mediate construction disputes where the issues are of a purely financial or technical nature (eg, final account disputes).

Under New Zealand's High Court Rules, a judicial settlement conference (JSC) is available to the parties to litigation as an alternative to mediation. A JSC is akin to mediation, except that a judge assumes the role of 'mediator'. As a result, they may be able to provide the parties with a 'steer' on the merits in a way that a mediator would not ordinarily do. A JSC is confidential and the judge that conducts it is excluded from hearing the case at trial if the dispute does not settle.

28 Confidentiality in mediation

Are statements made in mediation confidential?

Section 57(1) of the Evidence Act 2006 confers a statutory privilege in respect of communications or information that was intended to be confidential and was made in connection with an attempt to settle or mediate a dispute between the parties. The privilege also applies to confidential documents prepared in connection with an attempt to settle or mediate a dispute. The privilege may be disallowed if the communication or information was given or made for a dishonest purpose.

The privilege in section 57 does not apply to the terms of a settlement agreement, evidence necessary to prove the existence of a settlement agreement or a written cost-protecting offer in the context of awarding costs. Save for these exceptions, a mediator or party to mediation cannot be compelled to give evidence in a proceeding or otherwise disclose confidential information connected with a mediation or settlement negotiations.

Despite this legislative protection, mediation and settlement agreements normally include their own confidentiality provisions. It is not possible, however, to contract out of the admissibility exceptions in section 57.

29 Arbitration of private disputes

What is the prevailing attitude towards arbitration of construction disputes? Is it preferred over litigation in the local courts?

Construction contracts in New Zealand usually provide for the arbitration of disputes, often as the final step in a disputes resolution process that includes mediation. While arbitration is favoured for reasons of confidentiality and the power to nominate an arbitrator with specialist expertise, it can be a lengthy and expensive process with procedural difficulties in multiparty disputes. Parties in a contractual chain should consider whether the pertinent contracts have back-to-back arbitration provisions and whether there is power to consolidate arbitral proceedings. The Arbitration Act 1996 also provides for the consolidation of arbitrations.

Domestic arbitration agreements do not override the parties' statutory right under the CCA to adjudicate their disputes. The adjudicator's determination, however, will be overtaken by any subsequent award. Adjudication is not available for disputes subject to international arbitration agreements, which include arbitrations where the parties' places of business are in different countries.

30 Governing law and arbitration providers

If a foreign contractor wanted to pursue work and insisted by contract upon international arbitration as the dispute resolution mechanism, which of the customary international arbitration providers is preferred and why?

The Arbitration Act 1996 is based on the UNCITRAL Model Law on International Commercial Arbitration. Parties are free to adopt the rules of an international arbitration provider. International Chamber of Commerce arbitration has historically been the best known and the most widely used. Parties may agree the place of the arbitration and the governing law.

31 Dispute resolution with government entities

May government agencies participate in private arbitration and be bound by the arbitrators' award?

Yes.

32 Arbitral award

Is there any basis upon which an arbitral award issued by a foreign or international tribunal may be rejected by your local courts?

The award must be properly authenticated or certified. If it is not in English, a certified translation must be provided.

The court may refuse to enforce an award on grounds based on the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). These are largely concerned with natural justice (eg, incapacity of the parties, prevention of access, inducement by fraud, and compliance with the terms of the arbitration agreement).

The dispute that is the subject of the award must be arbitrable under New Zealand law. Most commercial disputes will meet this criterion. The court retains a residual discretion, which is narrowly construed, to refuse to enforce an award that conflicts with New Zealand's public policy.

33 Limitation periods

Are there any statutory limitation periods within which lawsuits must be commenced for construction work or design services and are there any statutory preconditions for commencing or maintaining such proceedings?

Proceedings must be commenced within the statutory limitation period.

The Limitation Act 2010 applies to any act or omission that occurred after 31 December 2010 (its predecessor applies to acts or

Update and trends

New retentions regime

A new retentions regime has been introduced in New Zealand as an amendment to the Construction Contracts Act 2002. From 31 March 2017, retentions under any new or renewed commercial construction contract or subcontract are deemed to be held on trust. There is no minimum contract value threshold for when this applies. These changes are intended to provide additional protection to contractors and subcontractors, particularly where the party holding retention moneys becomes insolvent.

Under this new regime, retentions may not be used as working capital, and are not available to other creditors (they must be held solely for the benefit of the payee). The payer (ie, the contractor or subcontractor) is, however, entitled to commingle retention monies with other funds, although that may create tracing issues and most contractors are expected to operate separate accounts. Retentions must be held as cash or other liquid assets that are readily converted to cash. Alternatively, a 'complying instrument' (eg, an insurance policy or bond issued by a registered bank or licensed issuer that complies with other statutory criteria) can be used instead.

The payer (ie, the principal or contractor) is required to keep proper accounting records of all retention monies held on trust, and those records must be made available to the payee on request. They may keep any investment returns but must bear any losses. The payer cannot pass on the costs of administering the trust or instrument.

Most principals and contractors are still grappling with how to comply with this regime, and 'alternative instruments' (which was a last-minute addition) are not yet widely available in the market. The new regime is likely to see a reduction in the use of retentions and an increase in bonds over time.

Building (Earthquake-prone Buildings) Amendment Act 2016 (the EPB Act)

The EPB Act came into force on 1 July 2017. It aims to centralise and streamline the process of identifying earthquake-prone buildings (EPBs) and to impose clearer and more targeted time frames for assessing and remedying EPBs, especially for areas where significant earthquakes are most likely to occur in the future. This legislation has been passed as a response to the numerous seismic events that have occurred in New Zealand since 2010, the most significant being the Christchurch earthquakes in 2010–2011 and the Wellington and Kaikoura earthquakes in 2013 and 2016.

The EPB Act will generally apply to commercial and apartment buildings, where the seismic strength of the building is less than the seismic demand in a moderate earthquake (ie, less than 34 per cent of the new build standard (NBS)), and where collapse of the building in a moderate earthquake is likely to result in injury or death, or damage to other property.

Under the EPB Act, New Zealand is geographically split into three seismic risk areas (high, medium, low) depending on seismic standard. The EPB Act requires territorial authorities to identify potential EPBs (between five and 15 years). That exercise has already been under way in many areas for some time, and will typically involve a desktop assessment, considering factors such as age, construction materials, size and use of the building. If a territorial authority identifies a given building is a potential EPB, the building owner is then required to obtain a more comprehensive engineering assessment within 12 months. If that engineering assessment determines the building is, in fact, an EPB, then the building will be added to a national register and prominently 'yellow stickered' to alert any users of the EPB status. Should a building be classified as an EPB, the building owner will have 15, 25 or 35 years (depending on whether the EPB is located in a low, medium or high seismic risk area) to either demolish the building or strengthen it to at least 34 per cent NBS. The time frames outlined above are halved for priority buildings (eg, hospitals, educational facilities or buildings containing unreinforced hazardous masonry) in areas designated by the EPB Act as being at medium to high risk from a future moderate earthquake event.

Failure to strengthen or demolish an EPB in the given time frame could result in a conviction and fine of up to NZ$200,000 for the building owner. In extreme circumstances, territorial authorities are entitled to carry out strengthening work at the building owner's cost.

omissions that occurred before that date). A claim must be brought within six years from the date of the act or omission in question. Where the damage is discovered after six years (ie, late knowledge), the claim can be brought within three years of the date the claimant knew or ought reasonably to have known certain facts giving rise to the claim.

In order to prevent indefinite liability, the Limitation Act precludes claims being brought more than 15 years from the date of the act or omission on which the claim is based.

Different limitation periods may apply in respect of specific legislation. Under the Building Act 2004, claims in relation to building work must be brought within 10 years of the act or omission on which the proceedings are based. Any claims made under the Fair Trading Act 1986 must be brought within three years of the date the loss or damage was or should have been discovered.

Parties may contract to a shorter limitation period.

There are statutory preconditions for commencing and maintaining proceedings set out in the High Court Rules, such as following the correct procedures and time frames for filing and serving documents and paying the correct court fees.

34 International environmental law

Is your jurisdiction party to the Stockholm Declaration of 1972? What are the local laws that provide for preservation of the environment and wildlife while advancing infrastructure and building projects?

New Zealand is party to the Stockholm Declaration of 1972.

Some key pieces of New Zealand environmental legislation that provide for the environment and potentially impact upon the construction industry are as follows:

- the Resource Management Act 1991, which seeks to promote the sustainable management of natural and physical resources, and mandates that certain activities obtain resource consent;
- the Building Act 2004, which sets out the procedure for carrying out building work in New Zealand, including identifying works requiring resource consent under the Resource Management Act;
- the Climate Change Response Act 2002, which provides for the implementation, operation and administration of a greenhouse gas emissions trading scheme in New Zealand; and
- the Environmental Protection Authority Act 2011, which establishes an agency that administers applications for major infrastructure projects of national significance and administers the Emissions Trading Scheme.

In addition, liability at common law for negligence, nuisance or under the rule in *Rylands v Fletcher* (which imposes strict liability on those who bring onto their land something that may escape and cause harm) may affect the construction industry.

35 Local environmental responsibility

What duties and liability do local laws impose on developers and contractors for the creation of environmental hazards or violation of local environmental laws and regulations?

The primary duty affecting the construction industry is to obtain resource consent for proposed projects under the Resource Management Act 1991 and to comply with any conditions of the consent granted.

The Resource Management Act 1991 imposes the following penalties for offences under its provisions:

- for a natural person, imprisonment of up to two years or a fine not exceeding NZ$300,000; or
- for an entity other than a natural person, a fine not exceeding NZ$600,000.

Where an offence is a continuing one, the penalties may increase by up to NZ$10,000 for every day during which that offence continues.

The Building Act 2004 provides for fines for a range of offences including carrying out building work without the required resource consent. These fines range from NZ$10,000 to NZ$200,000 depending on the specific offence.

36 International treaties

Is your jurisdiction a signatory to any investment agreements for the protection of investments of a foreign entity in construction and infrastructure projects? If so, how does your model agreement define 'investment'?

New Zealand is party to a number of free trade agreements that protect foreign entities investing in New Zealand, including those with Australia, Chile, China and the Association of South-east Asian Nations.

There is no model agreement for such agreements; therefore, the definition of 'investment' varies.

37 Tax treaties

Has your jurisdiction entered into double taxation treaties pursuant to which a contractor is prevented from being taxed in various jurisdictions?

New Zealand is party to 39 double tax agreements and protocols implemented with its primary trading and investment partners. These include Australia, Austria, Belgium, Canada, Denmark, Fiji, Germany, Indonesia, Ireland, Mexico, the Netherlands, Papua New Guinea, Poland, South Africa, Spain, Sweden, Taiwan, Turkey, the UK, the US and Vietnam.

38 Currency controls

Are there currency controls that make it difficult or impossible to change operating funds or profits from one currency to another?

No.

39 Removal of revenues, profits and investment

Are there any controls or laws that restrict removal of revenues, profits or investments from your jurisdiction?

Although there are no restrictions per se on the removal of profits or revenues from New Zealand, there are prohibitions under New Zealand law against, for example, transferring funds out of the jurisdiction in order to defraud creditors.

There are certain reporting requirements with respect to transferring funds exceeding the monetary threshold of NZ$10,000 out of New Zealand. In addition, if a person or company is electronically sending more than NZ$1,000 overseas, their bank is required to ask specific questions regarding the transfer.

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Hesketh Henry

Margaret A Helen Macfarlane **helen.macfarlane@heskethhenry.co.nz**
Christina Bryant **christina.bryant@heskethhenry.co.nz**
Nick Gillies **nick.gillies@heskethhenry.co.nz**
Michael O'Brien **michael.obrien@heskethhenry.co.nz**

Level 14, PwC Tower
188 Quay Street
Auckland 1010
New Zealand

Tel: +64 9 375 8700
Fax: +64 9 309 4494
www.heskethhenry.co.nz

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