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Party Autonomy, Separability, and Justice in Letter of Credit Dispute

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ABSTRACT

International commercial disputes frequently involve multiple interconnected yet legally independent agreements, including engineering, procurement, and construction (EPC) contracts, letters of credit (L/Cs), and bank account agreements. Although the principle of party autonomy permits contracting parties to select their preferred dispute resolution forum, conflicting jurisdiction clauses across related agreements create fragmented jurisdiction and legal uncertainty. This study examines the legal problem of determining the competent forum when forum selection clauses in interconnected contracts are inconsistent. Using a normative juridical method and a case study of Central Jakarta District Court Decision No. 362/Pdt.G/2017/PN Jkt.Pst., affirmed on appeal, cassation, and judicial review, the research analyzes judicial reasoning in resolving competing jurisdictional claims. The findings reveal that the court asserted jurisdiction by treating the L/C as an integral component of the EPC payment mechanism, thereby subordinating disputes arising from the L/C and related banking arrangements to the forum selection clause in the EPC contract. This reasoning overlooks the principles of party autonomy and the autonomy (separability) of letters of credit, potentially undermining legal certainty in international commercial transactions. The study contributes to private international law scholarship by proposing a more coherent framework for resolving fragmented jurisdiction through greater recognition of the separability principle and the independent legal character of banking instruments.

KEYWORDS *Fragmented Jurisdiction, Letter of Credit, Party Autonomy, Forum of Choice, Separability Principle*

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I. INTRODUCTION

The expansion of cross-border commerce has transformed international contractual relationships from conventional bilateral arrangements into complex networks of legally distinct yet economically interconnected agreements.[1] Large-scale infrastructure projects, energy investments, and transnational construction transactions commonly involve multiple contractual instruments, including engineering, procurement, and construction (EPC) agreements, financing arrangements, letters of credit (L/Cs), and banking agreements involving different parties across jurisdictions.[2] This contractual architecture reflects the specialization of modern commerce, where each instrument performs a specific legal function and allocates particular commercial risks. However, the coexistence of multiple agreements frequently creates jurisdictional uncertainty because each contract may contain different governing law provisions and dispute resolution clauses.[3] Consequently, courts are increasingly required to determine whether disputes should be resolved according to the autonomy of individual contracts or the economic unity of the overall transaction.

This issue has become increasingly significant as international commercial disputes continue to arise from complex contractual structures rather than isolated agreements. High-value sectors such as construction, energy, infrastructure, and project finance frequently involve multiple stakeholders whose obligations are

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[1] M. Khidoyatov, "Legal Aspects of Structuring Cross-Border Transactions in The Context of Changing International Regulation." *The American Journal of Political Science Law and Criminology* 7, no. 3 (2025): 14-21.

[2] Roberto Luis Frías García, "The Autonomy Principle of Letters of Credit." *Mexican Law Review* 3, no. 1 (2010): 4; Ronald J. Mann, "The Role of Letters of Credit in Payment Transactions." *Michigan Law Review* 98, no. 8 (2000): 2494-2536. https://doi.org/10.2307/1290352; Rori Achir, Mella Ismellina Farma Rahayu, and Ahmad Sudiro. "Letter of Credit Related Trade Disputes-Court Decisions Legal Certainty in Indonesia." *Indonesia Law Review* 14, no. 2 (2024): 1-21. https://doi.org/10.15742/ilrev.v14n2.8

[3] Bernard H. Oxman, "Complementary Agreements and Compulsory Jurisdiction." *American Journal of International Law* 95, no. 2 (2001): 277-312. https://doi.org/10.2307/2661397; Richard Garnett, "Coexisting and Conflicting Jurisdiction and Arbitration Clauses." *Journal of Private International Law* 9, no. 3 (2013): 361-386. https://doi.org/10.5235/17441048.9.3.361

distributed through separate legal instruments. Within this environment, jurisdictional fragmentation is no longer merely a procedural inconvenience but a structural feature of contemporary commercial transactions. The challenge for courts and arbitral tribunals is therefore not only identifying the existence of a valid jurisdiction agreement but also determining how competing jurisdiction clauses should interact when they arise from contracts that are commercially connected but legally independent.[4]

The problem becomes particularly complex when documentary credits are involved. Letters of credit governed by the Uniform Customs and Practice for Documentary Credits (UCP 600)[5] remain fundamental instruments in international trade because they provide payment security by separating banking obligations from disputes arising under the underlying commercial contract. The autonomy principle of documentary credits ensures that banks assess documents rather than contractual performance between buyers and sellers.[6] At the same time, party autonomy allows commercial actors to determine the forum and procedural framework governing their disputes.[7] Although both principles serve the objective of commercial certainty, conflicts arise when separate agreements within the same transaction prescribe different forums for dispute resolution.

The tension between these principles reflects a broader difficulty within private international law. Contemporary legal frameworks strongly recognize party autonomy, particularly regarding arbitration agreements and exclusive choice-of-court clauses, because predictability in jurisdiction contributes to stability in international commerce.[8] Nevertheless, these frameworks generally assume that disputes originate from a single contractual relationship. Such assumptions become increasingly problematic in modern transactions where rights and obligations are intentionally distributed among multiple agreements involving different parties. As a result, courts frequently face a methodological dilemma between respecting contractual separateness and achieving procedural efficiency through recognition of the commercial unity of the transaction.

Comparative judicial practice demonstrates the absence of a consistent approach toward this dilemma. Some courts adopt a contractual approach by strictly enforcing the jurisdiction clause contained in the agreement from which the dispute originates. Others adopt a transaction-oriented approach by considering the broader commercial context and allowing related disputes to proceed before a

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4 Chukwuma Samuel Adesina Okoli, and Abubakri Yekini. "Implied Jurisdiction Agreements in International Commercial Contracts: A Global Comparative Perspective." *Journal of Private International Law* 19, no. 3 (2023): 321-361. https://doi.org/10.1080/17441048.2023.2294615

5 *See* International Chamber of Commerce. *Uniform Customs and Practice for Documentary Credits (UCP 600)*. Paris: ICC Publishing, 2007.

6 Hamed Alavi, "Risk Analysis in Documentary Letter of Credit Operation." *Financial Law Review* 1, no. 4 (2016): 27-45. https://doi.org/10.1515/flr-2016-0021; Roberto Luis Frías García, "The Autonomy Principle of Letters of Credit." *Mexican Law Review* 3, no. 1 (2010): 67-96.

7 *See* Alex Mills, *Party Autonomy in Private International Law*. (Cambridge, UK: Cambridge University Press, 2018); Horatia Muir Watt, " "Party Autonomy" in International Contracts: From the Makings of a Myth to the Requirements of Global Governance." *European Review of Contract Law* 6, no. 3 (2010): 250-283. https://dx.doi.org/10.1515/ercl.2010.250

8 Julien Chaisse, *Advanced Introduction to International Commercial Contracts*. (Cheltenham, UK: Edward Elgar Publishing, 2025). *See also* Mo Zhang, "Party Autonomy and Beyond: An International Perspective of Contractual Choice of Law." *Emory International Law Review* 20 (2006): 511-562.

single forum. The former prioritizes legal certainty through fidelity to contractual arrangements, while the latter emphasizes efficiency and avoidance of fragmented proceedings. However, neither approach has provided a comprehensive framework for determining when economic integration should justify limiting contractual autonomy.[9]

The doctrinal uncertainty is particularly visible in disputes involving letters of credit. Existing scholarship concerning documentary credits has extensively examined the autonomy principle, emphasizing that banks should remain independent from disputes concerning the underlying transaction. Scholars such as Goode[10], Bertrams[11], Dolan, and Ellinger[12] argue that the reliability of documentary credits depends upon maintaining their separation from underlying contractual disputes. However, this literature primarily addresses substantive banking obligations rather than jurisdictional consequences when a letter of credit contains a different forum clause from the underlying commercial agreement.

A similar limitation exists within scholarship on party autonomy. Although extensive literature by Born[13], Briggs[14], Hartley[15], Brand[16], and Dicey[17], Morris & Collins[18] establishes the importance of respecting jurisdiction agreements, these analyses generally focus on individual contracts rather than interconnected contractual networks. Consequently, existing theories provide limited guidance regarding situations where several legally valid jurisdiction clauses coexist within one commercial transaction. The interaction between party autonomy in jurisdiction agreements and the autonomy principle governing documentary credits therefore remains insufficiently developed.

Recent studies on multi-contract transactions have recognized that modern commercial relationships often operate through networks of legally separate agreements. Scholars have debated whether jurisdiction should follow economic integration to prevent inconsistent judgments or whether such an approach undermines contractual certainty by disregarding deliberate contractual

9 *See* Jody S. Kraus, "Reconciling Autonomy and Efficiency in Contract Law: The Vertical Integration Strategy." *Philosophical Issues* 11, no. 1 (2001): 420-441. https://doi.org/10.1111/j.1758-2237.2001.tb00052.x; Duncan Kennedy, "From the Will Theory to the Principle of Private Autonomy: Lon Fuller's" Consideration and Form"." *Columbia Law Review* 100, no. 1 (2000): 94-175. https://doi.org/10.2307/1123557

10 Roy Goode, *Commercial Law*. 6th ed. (London: Penguin Books, 2020).

11 R. I. V. Bertrams, *Bank Guarantees in International Trade: The Law and Practice of Independent (First Demand) Guarantees and Standby Letters of Credit*. 4th ed. (Alphen aan den Rijn: Kluwer Law International, 2019).

12 E. P. Ellinger, Dora Neo, and E. Lomnicka. *Modern Banking Law*. 5th ed. (Oxford: Oxford University Press, 2011).

13 Gary B. Born, *International Commercial Arbitration*. 3rd ed. (Alphen aan den Rijn: Kluwer Law International, 2021).

14 Adrian Briggs, *Private International Law in English Courts*. (Oxford: Oxford University Press, 2019).

15 Trevor C. Hartley, *International Commercial Litigation: Text, Cases and Materials on Private International Law*. (Cambridge, UK: Cambridge University Press, 2009).

16 Ronald A. Brand, "Party Autonomy and Access to Justice in the UNCITRAL Online Dispute Resolution Project." *Loyola University Chicago International Law Review* 10, no. 1 (2012): 11-36.

17 Albert Venn Dicey, J. H. C. Morris, and Adrian Briggs. *Dicey, Morris & Collins on the Conflict of Laws*. 16th ed. (London: Sweet & Maxwell, 2022).

18 Lawrence Collins, ed. *Dicey, Morris & Collins on the Conflict of Laws*. 16th ed. (London: Sweet & Maxwell, 2022).

separation.[19] However, existing analyses have not adequately addressed the normative criteria required to balance these competing considerations. The absence of such criteria creates uncertainty because courts may rely on pragmatic assessments of commercial convenience rather than principled legal reasoning.

The Indonesian case examined in this article illustrates this unresolved theoretical problem. In Decision No. 362/Pdt.G/2017/PN Jkt.Pst.[20], subsequently affirmed through appellate, cassation, and judicial review proceedings in Decision No. 12PK/Pdt/2022, the Central Jakarta District Court treated the letter of credit arrangement as part of the EPC contractual relationship and extended the EPC forum selection clause to disputes involving banking arrangements. Although this approach sought to avoid fragmented proceedings, it raised fundamental questions regarding the autonomy of documentary credits and the enforceability of separately negotiated jurisdiction clauses involving parties that were not signatories to the EPC agreement. The case therefore provides an analytical basis for examining the broader conflict between transactional integration and contractual separability.[21]

This article addresses three research questions. First, how should courts determine the competent forum when interconnected commercial agreements contain conflicting jurisdiction clauses while maintaining their legal independence? Second, to what extent may the economic relationship between an EPC contract, letter of credit, and banking agreement justify limiting independently negotiated forum selection clauses? Third, is the judicial reasoning adopted in the Indonesian case consistent with the principles of party autonomy and documentary credit autonomy underlying international commercial transactions?

To answer these questions, this study pursues three objectives. First, it critically examines the judicial reasoning applied by Indonesian courts in resolving competing jurisdictional claims arising from interconnected agreements. Second, it analyzes the relationship between party autonomy and the autonomy principle governing letters of credit within private international law. Third, it proposes a normative framework for addressing jurisdictional conflicts in multi-contract transactions by balancing contractual separability, procedural efficiency, and commercial certainty.

The novelty of this research lies in integrating two doctrinal areas that have traditionally developed separately: jurisdictional autonomy in private international law and documentary credit autonomy in international banking law. Rather than

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19 *See* Mahmood Bagheri, *International Contracts and National Economic Regulation: Dispute Resolution Through International Commercial Arbitration*. Vol. 11. (Alphen aan den Rijn, Netherlands: Kluwer Law International BV, 2000); Eliezer Sanchez Lasaballett, "Conceptualizing Harmonization: The Case for Contract Law." *Uniform Law Review* 24, no. 1 (2019): 73-120. https://doi.org/10.1093/ulr/unz007; Mo Zhang, "Contractual Choice of Law in Contracts of Adhesion and Party Autonomy." *Akron Law Review* 41, no. 1 (2008): 123-173; Kal Raustiala, "Rethinking the Sovereignty Debate in International Economic Law." *Journal of International Economic Law* 6, no. 4 (2003): 841-878. https://doi.org/10.1093/jiel/6.4.841

20 *See* Republic of Indonesia. *Putusan Nomor 362/Pdt.G/2017/PN. Jkt.Pst*, Pengadilan Negeri Jakarta Pusat.

21 *See also* Muchamad Irham Fathoni, "The Tax Landscape of Split Contracts in Engineering, Procurement, and Construction (EPC) Investments: An In-Depth Study." *Jurnal Syntax Admiration* 5, no. 8 (2024): 2860-2872. https://doi.org/10.46799/jsa.v5i8.1414; Oren. Perez, "Using Private-Public Linkages to Regulate Environmental Conflicts: The Case of International Construction Contracts." *Journal of Law and Society* 29, no. 1 (2002): 77-110. https://doi.org/10.1111/1467-6478.00212

examining forum selection clauses or letters of credit independently, this study investigates their interaction within complex contractual networks. It argues that jurisdictional disputes in modern commerce cannot be adequately resolved through contract-specific analysis alone but require a framework that recognizes economic interdependence while preserving the legal autonomy intentionally created by the parties.

This article contributes theoretically, doctrinally, and practically. Theoretically, it advances private international law scholarship by developing a transaction-sensitive approach that reconciles competing forms of contractual autonomy. Doctrinally, it proposes criteria based on source of obligation, functional separability, and consent-based jurisdiction analysis. Practically, it provides guidance for courts, arbitral tribunals, and commercial actors dealing with complex transactions involving EPC contracts, documentary credits, and related banking arrangements. The remainder of this article discusses the methodology, theoretical foundations, judicial analysis of the Indonesian case, and the proposed framework for resolving fragmented jurisdiction in multi-contract disputes.

II. PARTY AUTONOMY AND THE FRAGMENTATION OF JURISDICTION IN MULTI-CONTRACT INTERNATIONAL TRANSACTIONS

The principle of party autonomy has long occupied a central position in private international law and international commercial dispute resolution because it enables contracting parties to determine the legal framework governing their contractual relationship. Rather than merely reflecting contractual freedom, party autonomy functions as a conflict-of-laws mechanism that allocates jurisdiction and applicable law according to the commercial expectations of the parties themselves.[22] Its development has been closely associated with the increasing complexity of cross-border commerce, where legal certainty is regarded as an indispensable prerequisite for efficient international transactions. As Born[23] observes, the recognition of party autonomy promotes predictability by allowing commercial actors to allocate legal risks before disputes arise, thereby reducing uncertainty and encouraging international investment. The enforceability of jurisdiction agreements and arbitration clauses consequently represents more than procedural convenience; it embodies respect for the parties' deliberate allocation

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[22] María Mercedes Albornoz, and Nuria González Martín. "Towards the Uniform Application of Party Autonomy for Choice of Law in International Commercial Contracts." *Journal of Private International Law* 12, no. 3 (2016): 437–465. https://doi.org/10.1080/17441048.2016.1234812; Felix Maultzsch, "Party Autonomy in European Private International Law: Uniform Principle or Context-Dependent Instrument?" *Journal of Private International Law* 12, no. 3 (2016): 466–491. https://doi.org/10.1080/17441048.2016.1257846; Horatia Muir Watt, ""Party Autonomy" in International Contracts: From the Makings of a Myth to The Requirements of Global Governance" *European Review of Contract Law* 6, no. 3 (2010): 250-283. https://doi.org/10.1515/ercl.2010.250. *See also* Eko Dwi Prasetiyo, "Kant's Concept of Moral Autonomy As a Philosophical Justification of Party Autonomy". *BANI Arbitration and Law Journal* 1, no. 2 (2025): 111-121. https://doi.org/10.63400/balj.v1i2.17; Desri Novian, "The Application of Party Autonomy Principle in Arbitration". *Jurisprudentie: Jurusan Ilmu Hukum Fakultas Syariah dan Hukum* 11, no. 1 (2024): 26-36. https://doi.org/10.24252/jurisprudentie.v11i1.53835

[23] Born, *International Commercial Arbitration*. 3rd ed.

of legal authority. This rationale explains why contemporary legal instruments, including the Hague Choice of Court Convention 2005[24] and the New York Convention 1958[25], consistently recognize party autonomy as a cornerstone of international dispute settlement. The emphasis placed on party autonomy therefore reflects not only contractual freedom but also broader policy objectives of facilitating international trade through legal predictability.[26]

Despite its well-established status, party autonomy does not operate in isolation from the legal structure of the underlying commercial transaction. Modern international projects frequently consist of multiple interconnected contracts executed among different parties, each serving distinct commercial purposes and allocating risks through separate legal arrangements. Infrastructure and engineering projects illustrate this phenomenon particularly clearly. An Engineering, Procurement, and Construction (EPC) project commonly includes the principal construction contract, subcontract agreements, performance guarantees, insurance contracts, financing arrangements, letters of credit, reimbursement agreements, and banking contracts. Although these agreements collectively support a single commercial objective, each establishes an independent legal relationship governed by its own rights, obligations, and dispute resolution mechanism.[27] Goode[28] argues that commercial practice deliberately separates these contractual relationships because each addresses different legal and financial risks that cannot be adequately regulated through a single contractual instrument. Consequently, the existence of multiple contracts within one economic transaction should not automatically lead courts to regard them as a unified legal relationship, particularly where the parties have intentionally negotiated different jurisdiction clauses for different contractual obligations.

This distinction between economic unity and legal separability has become increasingly significant as international commercial transactions have evolved beyond traditional bilateral contracts. Commercial efficiency often requires sophisticated contractual structures involving financial institutions that are not parties to the principal commercial agreement. Banks issuing letters of credit, insurers underwriting project risks, and guarantors providing financial security undertake obligations that arise independently from the performance obligations contained in the underlying construction contract. The legal independence of these relationships serves practical commercial functions by ensuring that financial

24 *See* Hague Conference on Private International Law. *Convention on Choice of Court Agreements*. Adopted June 30, 2005.

25 United Nations. *Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention)*. New York, 1958.

26 Born, *International Commercial Arbitration*. 3rd ed; Briggs, *Private International Law in English Courts*.

27 *See* Dimitar Kondev, *Multi-Party and Multi-Contract Construction Arbitration*. (Oxford: Oxford University Press, 2025). *See also* Troy L. Harris, "Designing Dispute Resolution Systems for Integrated Project Delivery: Challenges of Multi-Contract and Multi-Party Arbitrations." *Construction Law International* 9, no. 4 (2014): 30; Gilles Cuniberti, "The Laws of Asian International Business Transactions." *Washington International Law Journal* 25, no. 1 (2016): 35-86; Dwi Maryati, "Prinsip Hukum dalam Penyusunan dan Pelaksanaan Kontrak Engineering Procurement Construction (Kontrak "EPC")." *Yuridika* 33, no. 2 (2018): 188-211.

28 Goode, *Commercial Law*. 6th ed.

commitments remain insulated from disputes affecting the principal transaction.[29] Schwenzer[30] notes that international trade relies upon such contractual compartmentalisation because financial institutions evaluate documentary compliance rather than contractual performance, allowing payment mechanisms to function without becoming entangled in disputes over construction delays, defective performance, or contractual termination. This allocation of legal responsibility demonstrates that commercial interconnectedness should not be confused with legal integration, as different contractual relationships frequently require different judicial or arbitral forums to preserve the commercial reliability of international transactions.

The existence of multiple dispute resolution clauses within a single commercial project therefore reflects the parties' deliberate exercise of contractual autonomy rather than a drafting inconsistency requiring judicial harmonisation. Each forum selection clause identifies the tribunal considered most appropriate for resolving disputes arising from a particular contractual relationship.[31] For example, disputes concerning construction performance may be referred to international arbitration because arbitrators possess technical expertise in engineering disputes, whereas banking disputes may be submitted to domestic courts that exercise jurisdiction over local financial institutions and banking regulations. Dicey, Morris and Collins[32] observe that jurisdiction agreements must be interpreted according to the contractual relationship from which the disputed obligation originates rather than according to the broader commercial context in which several contracts operate simultaneously. Adopting this contractual approach prevents courts from extending a jurisdiction clause beyond the agreement in which it was negotiated, thereby preserving both party autonomy and legal certainty. Accordingly, fragmented jurisdiction should not be viewed as a legal defect but as a foreseeable consequence of sophisticated commercial drafting that allocates different categories of disputes to different adjudicative bodies according to their respective expertise and regulatory competence.[33]

The legal consequences of fragmented jurisdiction have attracted growing attention in private international law because multi-contract transactions increasingly generate disputes that cannot be confined within a single procedural forum. Unlike conventional contractual disputes involving only two parties, contemporary international commerce frequently produces overlapping factual circumstances while preserving legally distinct contractual obligations. This

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29 *See* Gao Xiang, and Ross P. Buckley. "The unique jurisprudence of letters of credit: Its origin and sources." *San Diego International Law Journal* 4, no. 1 (2003): 91-126. *See also* Douglas G. Baird, "Standby Letters of Credit in Bankruptcy." *The University of Chicago Law Review* 49, no. 1 (1982): 130-154. https://doi.org/10.2307/1599439

30 Ingeborg Schwenzer, ed. *Commentary on the UN Convention on the International Sale of Goods (CISG)*. 5th ed. (Oxford: Oxford University Press, 2022).

31 Yeshnah D. Rampall, and Ronan Feehily. "The Sanctity of Party Autonomy and the Powers of Arbitrators to Determine the Applicable Law: The Quest for an Arbitral Equilibrium." *Harvard Negotiation Law Review* 23, no. Spring (2018): 345-403. *See also* Mills, *Party Autonomy in Private International Law*.

32 Collins, ed. *Dicey, Morris & Collins on the Conflict of Laws*. 16th ed. (London: Sweet & Maxwell, 2022).

33 *See also* Felix Maultzsch, "Party autonomy in European private international law: uniform principle or context-dependent instrument?." *Journal of Private International Law* 12, no. 3 (2016): 466-491. https://doi.org/10.1080/17441048.2016.1257846

distinction has encouraged courts and arbitral tribunals to differentiate between factual interconnectedness and juridical interconnectedness.[34] Briggs[35] argues that courts should resist the temptation to consolidate disputes solely because they arise from the same commercial project, as doing so risks disregarding the contractual allocation of jurisdiction that each party intentionally negotiated. Fragmentation, therefore, should not be understood as procedural inefficiency requiring judicial correction; rather, it constitutes the natural legal consequence of contractual specialization. While parallel proceedings may occasionally increase litigation costs, they also preserve the contractual expectations that induced parties to enter separate agreements in the first place. Judicial intervention aimed exclusively at procedural economy may inadvertently undermine the predictability that international commercial law seeks to protect.

This concern becomes particularly evident when courts adopt what may be described as a transactional approach, namely, treating an entire commercial project as a single legal relationship despite the existence of multiple contracts. Under this approach, the court prioritizes the economic objective of the transaction over the legal autonomy of its constituent agreements. Such reasoning may appear attractive because it reduces the possibility of inconsistent judgments and avoids multiple proceedings concerning related facts. Nevertheless, several commentators have questioned whether procedural efficiency should prevail over contractual intention. Born[36] contends that jurisdictional analysis must begin with identifying the legal source of the disputed obligation rather than the commercial background from which the dispute emerges. A claim arising from a banking obligation remains legally distinct from a claim concerning contractual performance under an EPC agreement, even if both disputes originate from the same infrastructure project. Accordingly, the existence of factual overlap cannot, by itself, justify extending one jurisdiction clause to contractual relationships involving different parties, different obligations, and different legal interests.

Comparative judicial practice demonstrates that courts have increasingly recognised this distinction by applying a contract-specific approach when interpreting jurisdiction agreements. English courts, for example, generally construe jurisdiction clauses according to the precise contractual instrument from which the claimant's rights are derived, avoiding interpretations that would bind parties beyond the scope of their express consent. A similar tendency can be observed in Singaporean jurisprudence, where courts have consistently emphasised that consent to jurisdiction cannot be inferred merely from commercial interconnectedness. This approach reflects a broader principle of international commercial law that jurisdiction derives from agreement rather than economic convenience. The significance of consent becomes even more pronounced where banking institutions participate in a transaction without becoming parties to the underlying commercial contract. Since banks neither negotiate nor assume obligations under the EPC agreement, extending the EPC dispute resolution clause

34 Bernard Hanotiau, "Problems Raised by Complex Arbitrations Involving Multiple Contracts—Parties—Issues An Analysis." *Journal of International Arbitration* 18, no. 3 (2001): 251-360. https://doi.org/10.54648/354644; Soumil Jhanwar, "Multi-Contract Arbitrations and Single Commercial Transactions: A Fresh Method of Analysis." *Asian International Arbitration Journal* 19, no. 1 (2023): 9-62. https://doi.org/10.54648/aiaj2023002

35 *See* Briggs, *Private International Law in English Courts*.

36 Born, *International Commercial Arbitration*. 3rd ed.

to banking disputes risks imposing procedural obligations that were never contractually accepted. Such an extension not only weakens the consensual foundation of party autonomy but also blurs the distinction between contractual privity and commercial cooperation.[37]

The distinction between contractual consent and commercial interconnectedness acquires particular importance in transactions financed through letters of credit. Although the issuance of a letter of credit is commercially intended to facilitate payment under the underlying contract, the legal relationship between the issuing bank, the applicant, and the beneficiary originates from separate contractual commitments governed by banking law and international banking practice. The documentary nature of letter of credit transactions reflects the deliberate separation of financial obligations from disputes concerning contractual performance.[38] Consequently, the jurisdiction governing disputes relating to banking obligations should be determined primarily by the contractual arrangements establishing those obligations rather than by the broader commercial transaction they support. Failure to preserve this distinction risks transforming every banking dispute into an extension of the underlying commercial contract, thereby diminishing the independent legal function that documentary credits have historically served in international trade. It is precisely at this intersection between contractual autonomy, fragmented jurisdiction, and banking independence that the legal controversy examined in Decision No. 362/Pdt.G/2017/PN Jkt.Pst. emerges, raising fundamental questions regarding the extent to which courts may prioritize economic unity over contractual separability.

The legal autonomy of financial instruments within complex commercial transactions represents a further development of the broader principle of contractual separability. Among such instruments, the letter of credit occupies a distinctive position because its effectiveness depends upon maintaining independence from the underlying commercial contract. This independence is not merely a technical feature of banking practice but a fundamental legal principle designed to preserve confidence in international trade finance. Under Article 4 of the Uniform Customs and Practice for Documentary Credits (UCP 600), a credit transaction is separate from the sale or other contract on which it may be based, and banks are concerned only with documents rather than the actual performance of the underlying agreement. This separation reflects a deliberate allocation of risk: the seller obtains assurance of payment through the credit instrument, while the bank avoids becoming involved in disputes concerning contractual performance between buyer and seller. As Bertrams[39] explains, the independence principle is the foundation that allows letters of credit to function as reliable payment mechanisms because beneficiaries and financial institutions must be able to rely on the apparent autonomy of the credit obligation. Consequently, any judicial approach that treats

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37 Collins, ed. *Dicey, Morris & Collins on the Conflict of Laws*. 16th ed.

38 Roy Goode, "Abstract payment undertakings and the rules of the International Chamber of Commerce." *Saint Louis University Law Journal* 39, no. 3 (1994): 725–750; Homayon Mafi, and Raziyeh Abdolsamadi. "A Comparative Review of Separation Description in Commercial Documents with Independent Principle in the Letters of Credit." *Iranian Journal of Trade Studies* 20, no. 77 (2016): 115-145. https://dor.isc.ac/dor/20.1001.1.17350794.1394.20.77.5.8

39 Bertrams, *Bank Guarantees in International Trade: The Law and Practice of Independent (First Demand) Guarantees and Standby Letters of Credit*. 4th ed.

a letter of credit merely as an accessory mechanism of an underlying contract risks undermining the very commercial function that justifies its widespread use.

The significance of the independence principle extends beyond substantive payment obligations and also affects questions of jurisdiction. If the letter of credit constitutes a legally independent undertaking, disputes arising from that undertaking should generally be analysed through the legal relationship created by the credit arrangement itself. This approach does not deny the economic connection between the letter of credit and the underlying contract; rather, it recognises that commercial transactions often operate through legally separate layers. The applicant, beneficiary, and issuing bank occupy different legal positions from the buyer, seller, contractor, or employer involved in the underlying agreement. Therefore, a dispute concerning whether a bank wrongfully refused payment, improperly honoured documents, or breached its banking obligations involves a different legal inquiry from a dispute concerning defective performance under an EPC contract. As Goode[40] observes, commercial law frequently relies on functional separation because different participants require different levels of protection and assume different categories of risk. Applying the forum clause of the underlying contract to a dispute involving an independent banking obligation would effectively disregard this functional allocation and expand contractual consent beyond its original scope.

The tension between economic unity and legal separability becomes more complex when courts attempt to prevent inconsistent outcomes arising from related contracts. From a judicial perspective, consolidating related disputes may appear desirable because it promotes efficiency and avoids fragmented adjudication. However, efficiency cannot be pursued at the expense of legal principles that structure international commercial transactions. The doctrine of party autonomy is based on the assumption that commercial parties are capable of allocating risks and selecting appropriate dispute resolution mechanisms according to their interests. When courts replace these arrangements with their own assessment of the most convenient forum, they risk transforming jurisdiction from a matter of consent into a matter of judicial preference. Gaillard[41] emphasizes that international commercial arbitration is fundamentally based on the autonomy of the parties, and any limitation on that autonomy requires strong legal justification. The same reasoning applies to jurisdiction agreements in litigation: a forum chosen in one contractual relationship should not automatically govern another relationship unless there is clear evidence that the parties intended such an extension.

Within this framework, disputes involving EPC contracts and letters of credit present a particularly challenging legal question because both arrangements are simultaneously connected and independent. The EPC contract explains why payment obligations arise, while the letter of credit determines how payment security is provided and how banks participate in the transaction. These two instruments therefore perform complementary but distinct legal functions. Treating them as inseparable because they serve a common commercial purpose overlooks the sophisticated contractual architecture developed in international commerce. Instead, the appropriate analytical method requires identifying the immediate legal source of the dispute and determining whether the relevant parties actually

[40] *See* Goode, *Commercial Law*. 6th ed.
[41] Gaillard, *Legal Theory of International Arbitration*.

consented to the chosen forum. This approach maintains equilibrium between commercial reality and doctrinal consistency: the economic relationship explains why multiple agreements exist, but the legal relationship determines which jurisdiction clause governs. The controversy arising from Central Jakarta District Court Decision No. 362/Pdt.G/2017/PN Jkt.Pst. illustrates precisely the difficulty of maintaining this balance, as the court was required to determine whether the L/C dispute should follow the jurisdiction clause contained in the EPC contract or retain its independent procedural character.[42]

The foregoing discussion demonstrates that the central challenge in multi-contract international transactions is not the existence of multiple jurisdiction clauses itself, but the method used to determine which contractual relationship should control a particular dispute. A legal system that automatically prioritises the forum clause contained in the principal commercial agreement risks weakening the normative force of separate agreements that were independently negotiated. Conversely, an approach that mechanically separates every contractual relationship without considering their commercial interaction may also produce inefficient and fragmented dispute resolution. The appropriate balance therefore lies in recognising that interconnected contracts may share a common economic purpose while maintaining distinct legal identities. This distinction corresponds with the broader conceptual framework of private international law, where the autonomy of contractual arrangements must coexist with the need for effective dispute resolution. As Symeonides[43] explains, modern private international law does not seek to eliminate complexity arising from cross-border transactions; rather, it seeks to manage such complexity through principles that respect both party choice and legal coherence.

From this perspective, judicial assessment of competing jurisdiction clauses should not be based primarily on the question of which contract appears commercially dominant. Instead, courts should examine the precise legal basis of the claim, the parties bound by the relevant agreement, and the scope of consent expressed through the applicable dispute resolution clause. Such an approach provides a more principled method for resolving jurisdictional conflicts because it prevents the unintended extension of contractual obligations to parties who did not participate in negotiating the relevant forum clause. In the context of letter of credit disputes, this analytical framework becomes particularly important because banks operate within a specialised regulatory and contractual environment governed by principles of documentary compliance and independence. The application of an EPC arbitration clause or jurisdiction clause to a banking dispute without examining the separate legal relationship between the bank and the parties to the credit arrangement may therefore create uncertainty regarding the legal position of financial institutions and beneficiaries. Rather than enhancing commercial

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42 *See* Achir, et.al. "Letter of Credit Related Trade Disputes-Court Decisions Legal Certainty In Indonesia." *See also* Gideon Josh Haratua Hesekiel Pakpahan, et al. "Arbitrase Sebagai Upaya Penyelesaian Sengketa Terhadap Fraud Letter of Credits dalam Transaksi Internasional." *Repertorium: Jurnal Ilmiah Hukum Kenotariatan* 13, no. 1 (2024): 60-68. https://doi.org/10.28946/rpt.v13i1.3365

43 Symeon C. Symeonides, "Choice of Law in the American Courts in 2020: Thirty-Fourth Annual Survey." *The American Journal of Comparative Law* 69, no. 2 (2021): 177-262. https://doi.org/10.1093/ajcl/avab002

certainty, such an approach may generate precisely the unpredictability that party autonomy seeks to avoid.[44]

Accordingly, the controversy examined in Decision No. 362/Pdt.G/2017/PN Jkt.Pst. represents more than a question of procedural jurisdiction. This decision reflects a deeper tension between two competing conceptions of international commercial law. The first conception views complex transactions through the lens of economic unity, allowing courts to integrate related agreements when they serve a common commercial objective. The second conception emphasises legal separability, maintaining that each contractual relationship retains its own juridical character unless the parties expressly agree otherwise. While both approaches pursue legitimate objectives, the latter provides stronger protection for contractual autonomy and the structural principles underlying international trade instruments such as letters of credit. The Indonesian court's reasoning, which treated the L/C arrangement as inseparable from the EPC contract, therefore raises significant questions regarding the appropriate limits of judicial interpretation in multi-contract transactions. These questions form the basis for the following discussion, which examines whether the court's reasoning adequately accommodated the autonomy of the letter of credit and the parties' contractual choices, or whether it prioritised commercial integration at the expense of legal certainty.

III. JUDICIAL REASONING IN DECISION NO. 362/PDT.G/2017/PN JKT.PST.: BETWEEN ECONOMIC UNITY AND THE SEPARABILITY PRINCIPLE

The dispute examined in Central Jakarta District Court Decision No. 362/Pdt.G/2017/PN Jkt.Pst. illustrates the practical difficulty of reconciling contractual autonomy with the complex structure of international commercial transactions. The case arose from a contractual relationship involving an Engineering, Procurement, and Construction (EPC) agreement in which a letter of credit was utilised as the payment mechanism to support the performance of the project. Although the EPC contract and the letter of credit were commercially connected, they involved different legal relationships: the EPC agreement governed the obligations between the contracting parties concerning project implementation, while the letter of credit established an independent payment undertaking involving financial institutions. The dispute consequently required the court to determine whether the jurisdiction clause contained in the EPC contract could extend to disputes arising from the letter of credit arrangement. The issue was therefore not merely whether the two agreements formed part of the same commercial transaction, but whether their legal connection was sufficient to override the separate jurisdictional arrangements attached to each contractual instrument.

The Central Jakarta District Court approached the dispute by emphasising the functional relationship between the EPC contract and the letter of credit. In its reasoning, the court considered that the letter of credit was created as an instrument

[44] *See* Trevor C. Hartley, *Choice-of-Court Agreements under the European and International Instruments: The Revised Brussels I Regulation, the Lugano Convention, and the Hague Convention*. (Oxford: Oxford University Press, 2013).

to facilitate payment obligations arising from the EPC agreement. Because the L/C existed within the broader framework of the construction project, the court treated the payment mechanism as inseparable from the underlying contractual relationship. This approach reflects what may be characterised as an economic integration perspective, where the court gives priority to the commercial purpose of the transaction rather than the independent legal structure of each agreement. Such reasoning is understandable from a practical standpoint because the existence of the letter of credit was undoubtedly dependent upon the underlying project arrangement. However, the difficulty lies in whether economic dependence is sufficient to establish legal dependence, particularly when international commercial law has historically maintained a strict distinction between underlying contracts and documentary credit obligations.

The court's reasoning raises significant questions when examined against the autonomy principle of letters of credit recognised in international banking law. The independence principle, reflected in Article 4 of UCP 600, establishes that a credit transaction constitutes a separate undertaking from the sale contract or other underlying agreement upon which it may be based. The rationale behind this separation is that banks dealing with documentary credits must be able to determine their obligations based solely on documentary compliance without investigating disputes concerning contractual performance. As Ellinger, Lomnicka, and Hooley[45] explain, the commercial value of a letter of credit depends upon the confidence of the parties that payment obligations will remain unaffected by disputes arising from the underlying contract. If a bank's obligation could be suspended, transferred, or procedurally subordinated merely because a dispute emerged from the underlying agreement, the reliability of letters of credit as instruments of international trade finance would be substantially weakened.

From the perspective of comparative commercial law, the court's approach appears to diverge from the dominant international understanding of documentary credits. Courts in major commercial jurisdictions have generally maintained that disputes concerning letters of credit must be analysed separately from disputes concerning the underlying transaction, except in narrowly defined circumstances such as fraud. In English law, for example, the principle established in *United City Merchants (Investments) Ltd v Royal Bank of Canada*[46] confirms that the autonomy of the credit obligation constitutes a fundamental characteristic of documentary credit transactions. Similarly, Singaporean courts have consistently emphasised that the independence principle protects the integrity of banking commitments by preventing banks from becoming involved in disputes between buyers and sellers. These approaches demonstrate that legal systems with significant roles in international commerce generally prioritise the preservation of the letter of credit's autonomous character because commercial confidence depends upon the predictability of payment instruments. Against this background, the Indonesian court's decision to connect the L/C dispute directly to the EPC forum clause requires careful examination, particularly regarding whether such integration sufficiently considered the internationally recognised legal nature of documentary credits.

45 Ellinger, Neo, and Lomnicka. *Modern Banking Law*. 5th ed.
46 See *United City Merchants (Investments) Ltd v Royal Bank of Canada* [1983] 1 AC 168.

The difficulty with the court's reasoning lies in the assumption that a shared commercial objective necessarily produces a unified legal relationship. While the EPC contract and the letter of credit were undoubtedly connected from an economic perspective, their legal functions were fundamentally different. The EPC agreement regulated performance obligations, allocation of construction risks, delivery requirements, and remedies for contractual breach, whereas the letter of credit established a payment mechanism based on documentary compliance. The distinction is not merely formal; it determines the nature of the legal inquiry required to resolve a dispute. A claim alleging defective project performance requires an assessment of contractual obligations between the employer and contractor, while a claim concerning wrongful refusal of payment under an L/C requires an assessment of banking obligations between the issuing bank, applicant, and beneficiary. By treating both disputes as arising from a single contractual relationship, the court arguably replaced a legal analysis based on the source of obligation with an economic assessment based on the overall transaction. Such an approach may produce procedural convenience, but it risks diminishing the independent legal identity of contractual instruments that international commerce intentionally separates.

This issue is particularly significant because the concept of separability is not limited to arbitration agreements but reflects a broader commercial law principle concerning the independence of legally distinct commitments. In international arbitration, the separability doctrine ensures that an arbitration agreement remains effective independently from the underlying contract, allowing disputes concerning the validity or termination of the main agreement to still be determined by the chosen arbitral tribunal. As Redfern and Hunter[47] explain, separability exists because commercial parties require stability in dispute resolution mechanisms even when the substantive contractual relationship becomes contested. A similar rationale underpins the autonomy principle of letters of credit: the payment undertaking must remain independent so that the financial instrument can perform its economic function without being disrupted by disputes concerning the underlying agreement. Although arbitration clauses and documentary credits operate in different legal contexts, both principles serve a common objective—protecting the independent operation of contractual mechanisms created by party agreement. The court's reasoning in the present case therefore raises a broader concern regarding whether sufficient weight was given to this underlying principle of legal autonomy.

Furthermore, extending the EPC jurisdiction clause to the L/C dispute creates a potential problem concerning contractual consent. A jurisdiction agreement derives its legitimacy from the parties' acceptance of a particular forum for resolving disputes within the scope of their contractual relationship. The issuing bank, however, was not a party to the EPC agreement and did not participate in negotiating the dispute resolution clause contained therein. Applying that clause to a dispute involving banking obligations effectively imposes procedural consequences on an entity that never consented to them. This concern is consistent with the fundamental principle of privity of contract, under which contractual rights and obligations generally operate only between the parties who have agreed to

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47 Alan Redfern, and Martin Hunter. *Redfern and Hunter on International Arbitration*. 6th ed. (Oxford: Oxford University Press, 2015).

them. As Collins[48] observes, jurisdiction agreements require a clear expression of consent because they determine where and how legal rights may be enforced. Expanding a jurisdiction clause beyond its contractual boundaries without explicit agreement may therefore undermine both party autonomy and the legitimacy of jurisdictional authority.

The consequences of such an approach extend beyond the immediate dispute because they may affect the broader predictability of international trade finance. Financial institutions participate in cross-border transactions on the assumption that their obligations under documentary credits will be assessed according to established banking principles rather than commercial disputes between contracting parties. If courts begin to subordinate letter of credit disputes to jurisdiction clauses contained in underlying commercial agreements, banks may face uncertainty regarding the applicable dispute resolution framework and the legal environment governing their obligations. This uncertainty could influence the willingness of financial institutions to participate in international transactions, particularly where projects involve multiple jurisdictions and complex contractual arrangements. As Goode[49] emphasises, commercial law depends heavily upon predictable allocation of risk among participants; disrupting established distinctions between commercial contracts and financial instruments may therefore generate broader systemic consequences. The Indonesian court's approach, while motivated by the desire to avoid fragmented proceedings, arguably prioritised transactional coherence over the certainty required by international banking practice.

The court's approach, however, cannot be dismissed without considering the broader doctrine of interconnected or related contracts that has developed in international commercial practice. Complex transactions often require contractual coordination among several agreements, and courts in certain circumstances have recognised that separate contracts may need to be interpreted together to reflect the parties' genuine commercial intention. This approach is particularly relevant in transactions where contracts contain reciprocal obligations or where the performance of one agreement is expressly conditioned upon another. Nevertheless, the recognition of contractual interconnectedness does not necessarily eliminate the independent legal character of each agreement. The existence of a contractual network requires courts to identify the degree of legal integration intended by the parties rather than simply assuming that every agreement within a commercial structure forms a single legal unit. As Furmston and Tolhurst[50] explain, modern contract law increasingly acknowledges relational complexity, but such recognition must be balanced against the principle that contractual obligations arise from specific expressions of consent. Accordingly, the relevant question is not whether the contracts are commercially connected, but whether the parties intended to subject disputes arising from one agreement to the dispute resolution mechanism contained in another.

In the context of letters of credit, the threshold for disregarding independence is traditionally considered exceptionally high. International banking law recognises

48 Collins, ed. *Dicey, Morris & Collins on the Conflict of Laws*. 16th ed.
49 Goode, *Commercial Law*. 6th ed.
50 Michael Furmston, and Greg Tolhurst. *Contract Formation: Law and Practice*. (Oxford: Oxford University Press, 2019).

limited exceptions, most notably where fraud affects the documentary presentation or where enforcement of the credit would facilitate fraudulent conduct. The fraud exception demonstrates that the autonomy principle is not absolute, but it also confirms that ordinary contractual disputes should not interfere with the independent operation of the credit. As Bertrams[51] explains, the narrow interpretation of the fraud exception is necessary because excessive judicial intervention would undermine the certainty upon which documentary credit transactions depend. A dispute regarding delayed construction, defective performance, contractual termination, or disagreement over payment obligations between buyer and seller does not automatically constitute a basis for disregarding the independence of the letter of credit. Therefore, unless the dispute in Decision No. 362/Pdt.G/2017/PN Jkt.Pst. involved circumstances capable of falling within recognised exceptions, the mere existence of an underlying EPC dispute should not have been sufficient to merge the L/C relationship into the EPC contractual framework.

The reasoning adopted by the court also raises questions concerning the relationship between procedural efficiency and substantive justice. Courts frequently face the practical concern that fragmented dispute resolution may result in inconsistent decisions, duplicated proceedings, and increased litigation expenses. However, international commercial law has generally accepted that procedural efficiency must operate within the boundaries established by substantive legal principles. A single proceeding may appear efficient, but efficiency achieved by disregarding contractual autonomy may ultimately create greater uncertainty for commercial actors. As Gaillard[52] argues, the legitimacy of international dispute resolution depends not only on obtaining a final decision but also on ensuring that the process respects the expectations created by party consent. In this respect, justice in international commerce is not measured solely by the avoidance of multiple proceedings; it also requires fidelity to the legal structures through which parties organise their transactions. The court's attempt to prevent jurisdictional fragmentation therefore reflects a legitimate judicial concern, but the method used to achieve that objective requires scrutiny because it may compromise the very certainty that international commercial law seeks to preserve.

From a private international law perspective, the case demonstrates the difficulty of applying traditional jurisdictional concepts to modern contractual networks. The increasing sophistication of international transactions means that disputes may involve overlapping factual circumstances while remaining legally independent. A more appropriate judicial methodology would require separating the commercial background of the transaction from the legal foundation of the claim. If the claimant's rights arise from the EPC agreement, the EPC dispute resolution clause should govern; if the claim concerns obligations created by the letter of credit, the jurisdictional analysis should focus on the credit arrangement itself. This source-of-obligation approach does not prevent courts from considering the wider contractual context, but it establishes a principled limitation against automatically transferring one contract's jurisdiction clause to another. The significance of Decision No. 362/Pdt.G/2017/PN Jkt.Pst. therefore lies not merely

[51] Bertrams, *Bank Guarantees in International Trade: The Law and Practice of Independent (First Demand) Guarantees and Standby Letters of Credit*. 4th ed.

[52] Gaillard, *Legal Theory of International Arbitration*.

in the outcome of one commercial dispute, but in the broader question of whether Indonesian judicial practice has developed a sufficiently coherent framework for resolving conflicts among multiple interconnected contracts.

The analysis of Decision No. 362/Pdt.G/2017/PN Jkt.Pst. indicates that the court adopted a form of interpretative integration by viewing the letter of credit primarily through its economic function within the EPC transaction.[53] Such reasoning reflects a judicial preference for resolving disputes within a single commercial framework rather than allowing separate proceedings arising from related agreements. Nevertheless, the legal difficulty is that commercial integration does not necessarily correspond with juridical integration. International commercial transactions are frequently structured through multiple agreements precisely because different participants, risks, and regulatory considerations require separate legal treatment. The autonomy principle of letters of credit represents one example of this deliberate contractual architecture. By subordinating the L/C dispute to the EPC contractual framework, the court effectively prioritised the unity of the transaction over the autonomy of the financial instrument. Although this approach may appear consistent with considerations of procedural efficiency, it creates tension with the established international principle that documentary credits operate independently from underlying contractual relationships.

The implications of this reasoning are particularly significant for jurisdictions seeking to participate more actively in international commerce. Legal certainty in cross-border transactions depends not only on the availability of judicial remedies but also on the predictability of how courts interpret sophisticated contractual arrangements. Commercial parties, particularly financial institutions, rely on the assumption that contractual boundaries will be respected and that obligations arising from specialised instruments will be assessed according to their own legal framework. If domestic courts routinely extend jurisdiction clauses from principal commercial agreements to separate financial arrangements, parties may become uncertain regarding the enforceability of their contractual choices. Such uncertainty may affect contractual planning, dispute resolution strategies, and the willingness of international actors to engage with a particular legal system. Therefore, the issue presented by this case extends beyond the immediate parties and concerns the broader relationship between domestic adjudication and the expectations of international commercial practice.

A more convincing approach would require Indonesian courts to distinguish between commercial dependence and legal dependence when examining disputes involving multiple contractual instruments. The fact that a letter of credit facilitates payment under an EPC contract explains the commercial relationship between the agreements, but it does not automatically determine the jurisdiction applicable to disputes arising from each instrument. The determination of jurisdiction should instead begin with the nature of the claim, the contractual source of the obligation,

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[53] *See* Republic of Indonesia. *Central Jakarta District Court Decision No. 362/Pdt.G/2017/PN Jkt.Pst.*; Achir et al., "Letter of Credit Related Trade Disputes: Court Decisions Legal Certainty in Indonesia." *See also* Wahyu Pristha Utama, L. T. Setyawanta, and Joko Setiyono. "Letter of Credit (L/C): Juridical Review in Export-import Trade Payment Transaction in Indonesia." *Journal of Hunan University Natural Sciences* 61, no. 3 (2024): 146-155; Norman Mugarura, "The Letter of Credit, its resilience and viability in securing international commercial transactions." *Journal of International Trade Law and Policy* 13, no. 3 (2014): 246-264. https://doi.org/10.1108/JITLP-01-2014-0001

and the parties who consented to the relevant dispute resolution mechanism. Such an approach would preserve the legitimate objectives pursued by the court—avoiding unnecessary fragmentation—while maintaining the fundamental principles of party autonomy and contractual separability. The controversy surrounding Decision No. 362/Pdt.G/2017/PN Jkt.Pst. consequently demonstrates the need for a more structured framework capable of balancing economic coherence with legal independence. The following section examines how such a framework may be reconstructed by integrating party autonomy, the separability principle, and broader considerations of justice in international commercial dispute resolution.

IV. RECONSTRUCTING A COHERENT JURISDICTIONAL FRAMEWORK: BALANCING PARTY AUTONOMY, SEPARABILITY, AND ACCESS TO JUSTICE

The preceding analysis demonstrates that disputes arising from interconnected commercial agreements cannot be effectively resolved through a purely economic assessment of the transaction. While the existence of a unified commercial objective explains why multiple contracts are created, it does not provide sufficient justification for disregarding the independent legal character of each agreement.[54] A coherent jurisdictional framework must therefore acknowledge the dual nature of modern commercial transactions, they are economically integrated but legally differentiated. The challenge for courts is not to eliminate this duality, but to establish an interpretative method that respects contractual autonomy while preventing unreasonable procedural fragmentation. In this regard, the principles of party autonomy and separability should not be perceived as obstacles to judicial efficiency; rather, they provide the normative foundation for determining how jurisdiction should be allocated among interconnected agreements. A balanced framework must consequently begin with the recognition that contractual complexity is an inherent feature of international commerce, requiring legal methods capable of managing rather than simplifying such complexity.

The first element of such a framework is the adoption of a source-of-obligation approach in determining the appropriate forum for dispute resolution. Under this approach, courts should identify the legal instrument from which the disputed rights and obligations originate before considering whether another related agreement contains a jurisdiction clause. This method differs from the transactional approach applied in the contested decision, which prioritised the overall commercial relationship over the specific contractual basis of the claim. The source-of-obligation approach is consistent with fundamental principles of contract law because jurisdiction should follow the agreement through which the parties created their legal relationship. If a dispute concerns construction obligations, delay, quality standards, or contractual termination, the forum clause

[54] Loukas A. Mistelis, *Arbitrability: International & Comparative Perspectives*. Vol. 19. (Alphen aan den Rijn, Netherlands: Kluwer Law International BV, 2009); Gunther Teubner, "The Many-Headed Hydra: Networks as Higher-Order Collective Actors." In Joseph McCathery, Sol Picciotto, Colin Scott, eds., *Corporate Control and Accountability: Changing Structures and the Dynamics of Regulations*. (Oxford: Oxford University Press, 1993). Available at SSRN: https://ssrn.com/abstract=896479

contained in the EPC agreement should ordinarily govern. Conversely, if the dispute concerns payment obligations under a letter of credit, documentary compliance, or banking duties, the relevant jurisdiction clause should be determined by the credit arrangement or applicable banking agreement. Such differentiation preserves the parties' original allocation of risks and prevents unintended expansion of jurisdictional consent.

The second element concerns the recognition of functional separability among different contractual instruments. Separability should not be understood as requiring complete isolation between related agreements, because commercial transactions inevitably involve interaction among multiple contractual relationships. Rather, functional separability requires courts to distinguish between circumstances where contractual relationships interact economically and circumstances where they merge legally. This distinction is particularly important in financial instruments such as letters of credit, guarantees, and standby credits, where independence from the underlying transaction is essential to their commercial operation. As Schwenzer[55] explains, international trade instruments depend upon confidence that their obligations will be performed according to their own terms, rather than being affected by disputes unrelated to the instrument itself. Recognising functional separability therefore does not ignore commercial reality; instead, it reflects a more accurate understanding of how commercial actors intentionally structure transactions by allocating different risks to different legal mechanisms.

The third element involves a more disciplined interpretation of jurisdiction agreements based on consent rather than convenience. Forum selection clauses represent a contractual choice regarding where disputes should be resolved, and their legitimacy depends upon the agreement of the parties bound by them. Therefore, courts should avoid extending jurisdiction clauses to entities or contractual relationships that were not involved in negotiating those clauses. This principle is particularly relevant in disputes involving financial institutions, which often participate in commercial transactions without becoming parties to the underlying contract. Extending an EPC arbitration clause or jurisdiction clause to a bank involved solely through a letter of credit arrangement may create obligations that exceed the scope of the bank's consent. As Born[56] argues, respect for jurisdiction agreements is closely connected with the broader principle of legal certainty because international actors structure their transactions based on predictable enforcement of procedural commitments. A jurisdictional framework that prioritises consent therefore provides greater stability than one based primarily on judicial assessments of commercial convenience.

A coherent jurisdictional framework must nevertheless acknowledge that strict adherence to contractual separation may, in certain circumstances, create practical difficulties. International commercial disputes frequently involve factual questions that overlap across several agreements, and requiring completely independent proceedings may result in duplicated evidence, inconsistent findings, or increased procedural costs. However, these concerns should not lead courts to abandon the contractual structure established by the parties. The appropriate

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55 Schwenzer, ed. *Commentary on the UN Convention on the International Sale of Goods (CISG)*. 5th ed.

56 Born, *International Commercial Arbitration*. 3rd ed.

solution is not the automatic consolidation of related disputes, but the development of a more selective approach based on the degree of legal connection among the agreements involved. Courts may consider whether the contracts contain reciprocal obligations, express cross-references, common dispute resolution provisions, or evidence of an intention to create a unified legal framework. Such factors may justify coordinated proceedings in exceptional circumstances, but they should not replace the fundamental requirement of identifying the parties' actual consent. As Briggs observes, efficiency considerations may influence procedural decisions, but they cannot independently create jurisdiction where contractual agreement is absent.[57]

This approach also requires a clearer distinction between legitimate contractual integration and judicial reconstruction of agreements. In some transactions, parties intentionally create a contractual network in which one agreement expressly incorporates another or provides that disputes arising from related instruments shall be resolved through the same mechanism. In such circumstances, applying a single jurisdiction clause may reflect the parties' original intention rather than judicial intervention. However, where separate agreements contain different dispute resolution provisions, courts should presume that the distinction was deliberate unless evidence demonstrates otherwise. The presumption of contractual independence is particularly important in international commerce because sophisticated parties generally understand the legal consequences of using separate instruments. To assume that multiple contracts within one transaction automatically share the same jurisdictional arrangement would disregard the commercial sophistication underlying modern contractual drafting. The role of the court should therefore be interpretative rather than reconstructive: identifying the parties' agreement rather than creating a more convenient contractual structure after the dispute has emerged.

The autonomy principle of letters of credit further illustrates why exceptions to separability must remain narrowly defined. The independence of documentary credits does not prevent judicial intervention entirely; rather, it establishes a presumption that interference should occur only when overriding legal interests are demonstrated. The internationally recognised fraud exception provides one example where the protection of contractual autonomy must yield to broader considerations of justice. If a beneficiary seeks payment through fraudulent documents or if enforcement of the credit would facilitate fraudulent conduct, judicial intervention may be justified because the claim no longer represents the legitimate exercise of contractual rights. Nevertheless, expanding such exceptions beyond clearly established circumstances would undermine the certainty required for international payment mechanisms. As Ellinger, Lomnicka, and Hooley[58] explain, the strength of the documentary credit system depends upon maintaining a careful balance between preventing abuse and preserving the independence of banking obligations.

Beyond fraud, a similar cautious approach should apply to allegations of abuse of rights or artificial contractual arrangements designed to evade legal obligations. Courts may legitimately examine whether contractual separation reflects genuine commercial organisation or merely a mechanism to defeat

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[57] *See* Briggs, *Private International Law in English Courts*.

[58] Ellinger, Neo, and Lomnicka. *Modern Banking Law*. 5th ed.

mandatory legal rules. However, such review must be based on concrete evidence rather than assumptions arising from the fact that several contracts contribute to the same commercial objective. Otherwise, the distinction between legitimate contractual structuring and improper fragmentation becomes blurred, allowing courts to disregard party autonomy whenever a transaction appears economically interconnected. A principled jurisdictional framework should therefore recognise limited exceptions while maintaining the general rule that separate contracts remain separate legal relationships. This balance allows courts to protect substantive justice without sacrificing the predictability upon which international commercial transactions depend.[59]

A jurisdictional framework based on party autonomy and separability ultimately seeks to reconcile contractual freedom with broader objectives of justice. Justice in international commercial disputes cannot be reduced solely to providing a forum where a dispute can be heard; it also requires that parties are adjudicated according to the legal arrangements they reasonably relied upon when entering into the transaction. From this perspective, respecting a separately negotiated jurisdiction clause is not merely a matter of procedural formality but an essential component of procedural fairness. Parties allocate legal risks through contractual arrangements, including decisions regarding arbitration, litigation, applicable law, and dispute resolution procedures. When courts disregard these choices without sufficient justification, they alter the risk allocation that formed part of the commercial bargain. As Michaels[60] argues, private international law performs a coordinating function among different legal orders by respecting legitimate expectations created through private ordering. Therefore, a justice-oriented approach in international commercial disputes requires courts to preserve the autonomy of contractual arrangements while ensuring that such autonomy does not become a mechanism for avoiding mandatory legal protections.

The proposed framework also contributes to resolving a recurring tension in private international law between certainty and flexibility. Excessive emphasis on certainty may result in rigid application of contractual boundaries that fails to accommodate genuine relationships among agreements. Conversely, excessive flexibility may allow courts to disregard contractual arrangements whenever economic circumstances appear to justify intervention. The challenge is therefore to establish a middle position in which courts retain sufficient interpretative authority while remaining constrained by the principle of consent. The source-of-obligation analysis, combined with functional separability, provides such a balance because it allows courts to consider the commercial context without allowing that context to replace legal analysis. This method recognises that contracts operate within commercial networks but maintains that each contractual relationship must be evaluated according to its own legal foundation. In this respect, the proposed approach aligns with contemporary developments in private international law,

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59 *See* Watt, ""Party Autonomy" in International Contracts: From the Makings of a Myth to the Requirements of Global Governance." *See also* Tanya J. Monestier, "When Forum Selection Clauses Meet Choice of Law Clauses." *American University Law Review* 69, no. 2 (2019): 325-385.

60 *See* Ralf Michaels, "Private International Law as an Ethic of Responsivity." In Verónica Ruiz Abou-Nigm and María Blanca Noodt Taquela (eds.), *Diversity and Integration in Private International Law.* (Edinburgh: Edinburgh University Press, 2019), pp. 11-27.

which increasingly seek to accommodate complex global transactions without abandoning the principle of party autonomy.[61]

For Indonesian commercial law, this framework has particular relevance because international business transactions increasingly involve sophisticated contractual structures connecting domestic parties with foreign investors, financial institutions, and multinational enterprises.[62] The absence of a clearly articulated judicial methodology for dealing with competing jurisdiction clauses may create uncertainty for parties engaging in cross-border transactions. Indonesian courts have traditionally demonstrated respect for contractual freedom under Article 1338 of the Indonesian Civil Code, which recognises that agreements legally made by parties bind them as law.[63] However, the application of this principle in multi-contract international disputes requires further refinement because contractual freedom must also operate within the context of international commercial practices. Recognising the independence of letters of credit and other financial instruments would strengthen Indonesia's alignment with widely accepted international trade principles and enhance confidence among foreign commercial actors. Rather than limiting judicial authority, such recognition would provide courts with a more structured analytical framework for addressing increasingly complex commercial disputes.[64]

The proposed framework also offers a broader theoretical contribution by challenging the assumption that commercial unity should determine jurisdictional unity. International commerce frequently depends on the coexistence of multiple legal relationships, and the law must therefore develop mechanisms that preserve this complexity rather than forcing it into a single contractual category. The relationship between EPC contracts and letters of credit demonstrates that commercial transactions are often organised through deliberate legal separation, where each instrument performs a distinct function within the wider economic arrangement. By emphasising source of obligation, contractual consent, and functional separability, the framework proposed in this article provides a method for courts to navigate these complexities while maintaining coherence with international commercial law principles. Such an approach does not deny the interconnected nature of global transactions; instead, it recognises that effective regulation of interconnected transactions requires respect for the legal independence that makes them commercially possible.

The reconstruction of a jurisdictional framework for multi-contract commercial disputes ultimately requires moving away from the assumption that legal certainty can only be achieved through procedural consolidation. The experience of Decision No. 362/Pdt.G/2017/PN Jkt.Pst. demonstrates that attempts

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61 *See* Symeonides, "Choice of Law in the American Courts in 2020: Thirty-Fourth Annual Survey."

62 *See* Watt, " "Party Autonomy" in International Contracts: From the Makings of a Myth to the Requirements of Global Governance."

63 *See* Ridwan Khairandy, "Landasan Filosofis Kekuatan Mengikatnya Kontrak." *Jurnal Hukum Ius Quia Iustum* 18. no. Special Edition (2011): 36-55. https://journal.uii.ac.id/IUSTUM/article/view/7232. *See also* Sutan Remy Sjahdeini, *Kebebasan Berkontrak dan Perlindungan yang Seimbang Bagi Para Pihak dalam Perjanjian Kredit Bank di Indonesia*. (Jakarta: Institut Bankir Indonesia, 1993).

64 *See* Achir, et.al. "Letter of Credit Related Trade Disputes-Court Decisions Legal Certainty in Indonesia." *See also* Boris Kozolchyk, "The Emerging Law of Standby Letters of Credit and Bank Guarantees." *Arizona Law Review* 24, no. 2 (1982): 319-369. https://journals.librarypublishing.arizona.edu/arizlrev/article/id/8811/

to unify related disputes through a broad interpretation of contractual relationships may produce the opposite effect by creating uncertainty regarding the boundaries of contractual consent. International commercial actors require confidence that each contractual instrument will be interpreted according to its intended legal function. The predictability of a letter of credit, for example, depends upon the understanding that its payment obligation remains independent from disputes concerning the underlying transaction, while the effectiveness of an EPC dispute resolution clause depends upon limiting its application to the parties and obligations covered by that agreement. Maintaining these distinctions does not fragment commercial justice; rather, it provides the structural certainty necessary for complex transactions to operate effectively. Accordingly, judicial efforts to achieve efficiency should be directed toward procedural coordination where appropriate, not toward eliminating the legal autonomy of separate contractual arrangements.

The proposed framework therefore suggests a three-stage judicial inquiry when resolving jurisdictional conflicts in interconnected commercial transactions. First, courts should identify the immediate source of the obligation giving rise to the dispute and determine the contractual relationship from which the claim originates. Second, courts should examine whether the relevant parties expressly or implicitly agreed that disputes arising from connected instruments would be subject to a common dispute resolution mechanism. Third, courts should consider whether exceptional circumstances, such as fraud, abuse of rights, or mandatory legal interests, justify limiting the operation of contractual autonomy. This structured approach provides a more predictable method than relying on the broad concept of economic unity because it preserves the distinction between commercial connection and legal obligation. It also accommodates legitimate judicial concerns regarding fairness and efficiency without allowing those considerations to override the contractual choices that form the foundation of international commercial relations.

Finally, the dispute concerning the relationship between the EPC contract and the letter of credit in Decision No. 362/Pdt.G/2017/PN Jkt.Pst. reveals a fundamental challenge in contemporary commercial dispute resolution: how to balance the autonomy of private arrangements with the demand for effective justice. The court's reliance on the integrated nature of the transaction reflects a legitimate concern regarding fragmented proceedings, yet it insufficiently recognised the independent legal character of the letter of credit and the importance of consent-based jurisdiction. A more coherent approach requires simultaneous recognition of three principles: party autonomy as the basis of contractual choice, separability as a mechanism preserving the independence of distinct legal instruments, and justice as a requirement that dispute resolution procedures correspond with the parties' legitimate expectations. By adopting a framework based on source of obligation, functional separability, and consent-oriented jurisdictional analysis, courts can better accommodate the realities of international commerce while preserving the legal certainty essential to cross-border transactions. This approach offers a more sustainable foundation for resolving future disputes involving letters of credit and other interconnected commercial agreements.

V. CONCLUSION

This study demonstrates that the resolution of jurisdictional conflicts arising from interconnected commercial agreements requires a careful balance between party autonomy, contractual separability, and the pursuit of justice. The analysis of Central Jakarta District Court Decision No. 362/Pdt.G/2017/PN Jkt.Pst. reveals that judicial reliance on the economic unity of an EPC transaction may provide a practical solution to fragmented proceedings, yet it risks undermining the independent legal character of letters of credit and the contractual choices made by the parties. Although the EPC agreement and the letter of credit were commercially connected, they performed distinct legal functions and created separate obligations among different participants. The court's approach, which subordinated the L/C dispute to the jurisdictional clause of the EPC agreement, therefore raises concerns regarding the consistency of domestic adjudication with internationally recognised principles governing documentary credits, particularly the independence principle reflected in UCP 600. This study argues that commercial interconnectedness should not automatically justify juridical integration, as legal certainty in international transactions depends upon preserving the boundaries of contractual consent.

To address this challenge, this study proposes a jurisdictional framework based on three interconnected principles: source of obligation, functional separability, and consent-based jurisdictional analysis. Under this framework, courts should first identify the contractual relationship from which the dispute originates, then determine whether the parties expressly intended to extend a dispute resolution mechanism across related agreements, while allowing limited exceptions only where overriding considerations such as fraud or abuse of rights are established. Such an approach enables courts to accommodate the complexity of modern commercial transactions without sacrificing the predictability required by international trade. By reconciling party autonomy with the demands of procedural justice, the proposed framework contributes to the broader development of private international law by offering a more coherent method for resolving disputes involving EPC contracts, letters of credit, and other interconnected contractual instruments.

STATEMENTS

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