The Backlash against Investment Arbitration
Perceptions and Reality

Edited by

Michael Waibel
Asha Kaushal
Kyo-Hwa Liz Chung
Claire Balchin
# Table of Contents

Foreword to the Backlash against Investment Arbitration .xxiii  
*Detlev Vagts*

Biographies of Editors  xxvii

Biographies of Contributors  xxix

The Backlash against Investment Arbitration: Perceptions and Reality  xxxvii  
*Michael Waibel, Asha Kaushal, Kyo-Hwa Liz Chung & Claire Balchin*

Acknowledgments  liii

## PART I  
THE PROTECTION OF INTERNATIONAL INVESTMENT:  
ASSESSING TREATY OBLIGATIONS 1

### Chapter 1  
Disregarding the Corporate Veil and Denial of Benefits Clauses: 
Testing Treaty Language and the Concept of “Investor” 3  
*Rachel Thorn & Jennifer Doucleff*

I. Introduction 3

Part 1: Definitions of Investor in Investment Treaties and Denial of Benefits Clause: An Overview of Their History, Objective, and Purpose 5

I. Definition of Investor and Denial of Benefits Clauses 5  
A. Definition of Investor 6  
1. Place of Incorporation 6
Table of Contents

2. Siège Social 7
3. Control 8
4. Combined Factors 8
   B. Denial of Benefits Clauses 9

Part 2: The Legal and Interpretive Issues Raised by the Definition of Investor and Denial of Benefits Clauses in the Decisions and Awards of International Tribunals 11

I. Disregarding the Corporate Form and the Definition of Investor 12
   A. Investor Narrowly Defined as Place of Incorporation 13
   B. Piercing the Corporate Veil to Determine Control 15
II. Piercing the Corporate Form for Abuse or Fraud 18
III. Defining the Threshold Level of Economic Activity within a Contracting Party 21
IV. Burden of Proof when a State Invokes a Denial of Benefits Clause 23
V. The Effect of Denial of Benefits Clause 25
   A. Notice Requirement 25
   B. When a Denial of Benefits Clause Must Be Invoked 25
VI. Concluding Remarks and Practical Implications 26

Chapter 2
Private Enforcement of International Investment Law: Why We Need Investor Standing in BIT Dispute Settlement 29
Stephan W. Schill

I. Introduction 29
II. Credible Commitments, Dispute Settlement, and Investment Cooperation 31
III. The Lack of Efficient Dispute Resolution in Domestic Legal Orders 33
IV. The Structural Deficiencies of Customary International Law 36
V. The Insufficiencies of Alternative Schemes of Foreign Investment Promotion and Protection 45
VI. Conclusion 48

Chapter 3
Drawing the Limits of Free Transfer Provisions 51
Alejandro Turyn & Facundo Perez Aznar

I. Introduction 51
   A. Early Cases 53
II. The Biwater Gauff Award: The Provision Is Not a Guarantee of Funds 55
III. The Continental Award 56
   A. Background of the Argentine Emergency Situation 58
Table of Contents

B. Landmark Findings of the Continental Award 59
C. Findings Regarding the Free Transfer Provision 66

IV. The Validity of Exchange Restrictions due to Balance-of-Payments Difficulties or Other Exceptional Situations 72

V. Free Transfers Provisions and the Applicability of Non-precluded Measures Clauses, Emergency Situations Clauses, and the Necessity Defense 75

VI. Conclusion 77

Chapter 4
A Comparison of ICSID and UNCITRAL Arbitration: Areas of Divergence and Concern 79
Stephen Jagusch & Jeffrey Sullivan

I. Introduction 79
II. Constitution of the Tribunal 81
   A. ICSID 81
   B. UNCITRAL 82
   C. Comment 84

III. Jurisdiction 85
   A. ICSID 85
   B. UNCITRAL 87
   C. Comment 88

IV. Provisional Measures 88
   A. ICSID 89
   B. UNCITRAL 91
   C. Comment 92

V. Confidentiality and Transparency 93
   A. ICSID 93
   B. UNCITRAL 94
   C. Comment 96

VI. Role of Domestic Courts 96
   A. ICSID 97
   B. UNCITRAL 97
   C. Comment 98

VII. Recognition, Enforcement, and Review of Awards 99
   A. ICSID 100
   B. UNCITRAL 102
   C. Comment 104

VIII. Costs 105
   A. ICSID 105
   B. UNCITRAL 106
   C. Comment 107

IX. Conclusion 108
# Table of Contents

**PART II**  
PARALLEL PROCEEDINGS AND CONFLICTING AWARDS  

## Chapter 5  
The Issues Raised by Parallel Proceedings and Possible Solutions  
*August Reinisch*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>113</td>
</tr>
<tr>
<td>II. Dangers of Multiple Proceedings</td>
<td>114</td>
</tr>
<tr>
<td>III. The Particularly Fragmented Universe of Investment Arbitration</td>
<td>114</td>
</tr>
<tr>
<td>IV. The Central Risk of Multiple Proceedings: Inconsistent Outcomes</td>
<td>115</td>
</tr>
<tr>
<td>A. Divergent Views on Legal Issues</td>
<td>115</td>
</tr>
<tr>
<td>B. Divergent Assessments of Identical Facts</td>
<td>116</td>
</tr>
<tr>
<td>C. Conflicting Results in the Same Dispute</td>
<td>117</td>
</tr>
<tr>
<td>V. Possible Solutions</td>
<td>118</td>
</tr>
<tr>
<td>A. An Appellate Mechanism for Investment Arbitration</td>
<td>118</td>
</tr>
<tr>
<td>B. Preliminary References in Investment Matters</td>
<td>118</td>
</tr>
<tr>
<td>C. Consolidation of Proceedings</td>
<td>119</td>
</tr>
<tr>
<td>D. Res judicata and Lis pendens</td>
<td>120</td>
</tr>
<tr>
<td>E. Precedent</td>
<td>124</td>
</tr>
</tbody>
</table>

## Chapter 6  
Parallel Proceedings: A Practitioner’s Perspective  
*Richard H. Kreindler*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Parallel Proceedings in International Arbitration from the Practitioner’s Perspective</td>
<td>128</td>
</tr>
<tr>
<td>A. Parallel Proceedings in International Arbitration</td>
<td>128</td>
</tr>
<tr>
<td>1. Lack of Contractual Privity</td>
<td>128</td>
</tr>
<tr>
<td>2. Presence of Contractual Privity</td>
<td>130</td>
</tr>
<tr>
<td>3. Parallel Proceedings and Issues of the Seat and/or Applicable Arbitral Rules</td>
<td>132</td>
</tr>
<tr>
<td>4. The Applicable Substantive Law</td>
<td>133</td>
</tr>
<tr>
<td>B. Motivations for Forum Shopping from the Practitioner’s Perspective</td>
<td>138</td>
</tr>
<tr>
<td>II. Possibilities to Hold Arbitral Forum Shopping in Check</td>
<td>140</td>
</tr>
<tr>
<td>III. Do Parallel Proceedings and Forum Shopping Impact Negatively on International Arbitration?</td>
<td>146</td>
</tr>
</tbody>
</table>

## Chapter 7  
Annulment and Its Role in the Context of Conflicting Awards  
*Christina Knahr*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>151</td>
</tr>
<tr>
<td>II. Jurisdiction of Ad hoc Committees</td>
<td>152</td>
</tr>
<tr>
<td>III. Grounds for Annulment</td>
<td>153</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>A. Manifest Excess of Powers</td>
<td>154</td>
</tr>
<tr>
<td>B. Failure to State Reasons</td>
<td>157</td>
</tr>
<tr>
<td>C. Serious Departure from a Fundamental Rule of Procedure</td>
<td>159</td>
</tr>
<tr>
<td>IV. The Role of Annulment in the Context of Conflicting Awards</td>
<td>160</td>
</tr>
<tr>
<td>A. Manifest Excess of Powers?</td>
<td>161</td>
</tr>
<tr>
<td>B. Failure to State Reasons?</td>
<td>162</td>
</tr>
<tr>
<td>V. Conclusions</td>
<td>162</td>
</tr>
</tbody>
</table>

**Chapter 8**

**Compensation for Non-expropriatory Investment Treaty Breaches in the Argentine Gas Sector Cases: Issues and Implications**

*Kathryn Khamsi*

<table>
<thead>
<tr>
<th>I. Compensation for Non-expropriatory Investment Treaty Breach: Reasoning in the Argentine Gas Sector Cases</th>
<th>170</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Use and Calculation of the “Fair Market Value” Measure in the CMS, Enron, Sempra, and BG Group Awards</td>
<td>171</td>
</tr>
<tr>
<td>A. Refusal to Compensate Lost Future Profits in the LG&amp;E Damages Award, and Consequent Rejection of the “Fair Market Value” Measure</td>
<td>174</td>
</tr>
<tr>
<td>III. Issues Raised by the Compensation Reasoning in the Argentine Gas Sector Cases</td>
<td>176</td>
</tr>
<tr>
<td>A. The Measure of Compensation: Its Choice and Implications</td>
<td>176</td>
</tr>
<tr>
<td>B. Compensating Lost Future Profits: The Requirement of Reasonable Certainty and Its Satisfaction</td>
<td>179</td>
</tr>
<tr>
<td>IV. Conclusion: Implications of the Compensation Reasoning in the Argentine Gas Sector Cases</td>
<td>184</td>
</tr>
</tbody>
</table>

**PART III**

**PROTECTING THE PUBLIC INTEREST**

**Chapter 9**

**Arbitrator Integrity**

*William W. Park*

<table>
<thead>
<tr>
<th>I. Level Playing Fields</th>
<th>189</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Heracleitus Meets the Psalmist</td>
<td>189</td>
</tr>
<tr>
<td>B. Why Bias Matters</td>
<td>191</td>
</tr>
<tr>
<td>C. Two Ways to Sabotage Arbitration</td>
<td>193</td>
</tr>
<tr>
<td>II. Problematic Relationships and Attitudes</td>
<td>194</td>
</tr>
<tr>
<td>A. The Basics: Independence and Impartiality</td>
<td>194</td>
</tr>
<tr>
<td>B. Can Integrity Be Waived?</td>
<td>197</td>
</tr>
</tbody>
</table>
Table of Contents

C. The Devil in the Detail 199
   1. Clear Conflicts 199
   2. Variations on a Theme 199
D. The Parties' Role in Arbitrator Selection 201

III. New Frontiers 205
A. Issue Conflict and Role Confusion 205
B. Institutional Bias and Professional Affiliation 207
C. Repeat Players 209
D. Duty to Investigate 209

IV. Challenges in Investor-State Arbitration 211
A. The Paradigm Shift 211
B. Critiques of Arbitrator Integrity in Investor-State Cases 212
   1. Systemic Bias in Favor of Investors 213
   2. Disillusionment with Arbitration 216
C. Mechanics of Challenge: Basic Texts 220
D. Filling the Gaps 223
   1. The Effect of Institutional Rules and Case Law 223
   2. The Specificity of Investment Cases 225
E. Transnational Standards and “Soft Law” 226
F. Professional Guidelines 228
   1. International Bar Association Guidelines 228
   2. American Rules 229
G. Synthesizing Legal Norms 231

V. Three Recurring Problems 233
A. Trivial and “De minimis” Contacts 233
B. Saying Too Much Too Early 235
C. Barristers
   1. Shared Chambers 236
   2. The IBA Guidelines 237
   3. Collegiality and the “Outside” Arbitrator 238

VI. Intellectual Integrity 239
A. Baby Splitting 239
B. Amiable Composition 241
C. Creeping Legalism 243
D. Arbitrators and the Search for Truth 245

VII. The Object of an Arbitrator’s Duties 246

Chapter 10
Amicus Curiae: A Panacea for Legitimacy in Investment Arbitration? 253
Nigel Blackaby & Caroline Richard

I. Introduction 254

II. Evolution of Amicus Curiae 257
   A. Evolution of Amicus Curiae in Domestic Legal Systems 257
   B. Evolution of Amicus Curiae in Interstate Dispute Resolution 258

xiv
Table of Contents

C. Evolution of Amicus Curiae in Investment Treaty Arbitration 259
   1. Within NAFTA 259
   2. Within ICSID 262

III. Amicus Curiae Alone Cannot Cure the Democratic Deficit and Lack of Transparency in Investment Treaty Arbitration 266
   A. The Admission of Amicus Curiae Briefs Alone Does Not Increase Transparency in Investment Treaty Arbitration 266
   B. The Admission of Amicus Curiae Briefs Alone Does Not Cure the “Democratic Deficit” in Investment Treaty Arbitration 268
   C. Increasing Transparency and the Legitimacy of Investment Arbitration as the Sole Reason for Admitting Amicus Curiae Briefs? 270
   D. Public Participation and the Risk of the Politicization of the Investment Treaty Arbitration 272

IV. Conclusion 273

Chapter 11
Participation of Non-governmental Organizations in Investment Arbitration as Amici Curiae 275
Amokura Kawharu

I. Introduction 275
II. NGO Participation in International Law 277
III. Why the Rise in NGO Interest in Investment Arbitration? 280
IV. Evaluating NGO Participation as Amici Curiae 282
   A. Representation of an Interest 283
      1. Addressing a Legitimacy Deficit; Representation of Public Interest Considerations 283
      2. Representation of a Private Interest 288
      3. Implications Regarding Criteria for Admission of Amicus Briefs 289
   B. Contribution of Expertise 291
      1. Assistance to the Tribunal 291
      2. The Issue of Relevancy 292
   C. The Tribunal’s Role 294
V. Conclusion 295

Chapter 12
Legality of Investments under ICSID Jurisprudence 297
Gabriel Bottini

I. Introduction 297
II. Illegal Investments before ICSID Tribunals 301
   A. Inceyesa Vallsioletana, S.L. v. Republic of El Salvador 301
Table of Contents

| B. World Duty Free v. Kenya                                      | 304 |
| C. Fraport v. Philippines                                      | 307 |
| D. Plama v. Bulgaria                                           | 310 |
| III. Conclusion                                                 | 313 |

Chapter 13
Invoking State Defenses in Investment Treaty Arbitration
Alexis Martinez

| I. Introduction                                                 | 315 |
| II. Force Majeure                                               | 316 |
| III. Necessity                                                  | 318 |
| IV. Bribery/International Public Policy                         | 327 |
| V. Legitimate Exercise of Sovereignty                           | 331 |
| VI. Conclusion                                                  | 336 |

PART IV
INVESTMENT ARBITRATION AND ITS DISCONTENTS

Chapter 14
Backlash to Investment Arbitration: Three Causes
Louis T. Wells

| I. Introduction                                                 | 341 |
| II. First Cause: Inconsistent Decisions                          | 342 |
| III. Second Cause: A Rigid View of Contract                     | 342 |
| A. One-Way Impact                                               | 345 |
| IV. Third Cause: Corruption and Incompetence                     | 347 |
| V. Remediying the Causes of Backlash                             | 348 |
| A. Ideal: Multilateral Agreement                                | 348 |
| B. Appellate Process                                            | 349 |
| C. Symmetry                                                     | 350 |
| D. Midpoint Guidance                                            | 351 |
| VI. Conclusion                                                   | 351 |

Chapter 15
Denunciation of the ICSID Convention and Consent to Arbitration
Christoph Schreuer

| I. Introduction                                                 | 353 |
| II. The Denunciation's Effective Date                           | 355 |
| III. Consent to Jurisdiction under the ICSID Convention          | 355 |
| A. The Reciprocal Nature of Consent                            | 356 |
| B. The Date of Consent                                          | 361 |
| C. The Irrevocability of Consent                                | 362 |
IV. Rights or Obligations under the Convention Arising out of Consent 364
V. Consent “Given by One of Them” 366
VI. Conclusions 367

Chapter 16
Zachary Elkins, Andrew T. Guzman & Beth Simmons

I. Securing Investors’ Legal Rights 371
   A. From Customary Law to Bilateral Investment Treaties 371
   B. The Spread of BITs 373
   C. Leaders and Followers in BIT Agreements 378
II. A Competitive Theory of Bit Diffusion 381
    A. BITS as a Credible Commitment 381
    B. Competitive BIT Signings: Logic and Implications 383
III. Empirical Methods and Data 386
     A. Analytical Design 386
     B. Data and Measures 387
        1. Spatial Lags of the Dependent Variable: Competition and Cultural Emulation 388
IV. Findings 395
V. Conclusion 401

Chapter 17
The Argentine Financial Crisis: State Liability under BITs and the Legitimacy of the ICSID System 407
William W. Burke-White

I. Introduction 407
II. The Argentine Financial Crisis and the Government’s Response 409
III. Argentina’s Legal Arguments for Policy Flexibility in Response to an Economic Crisis 411
IV. The Jurisprudence of the ICSID Tribunals 415
    A. The ICSID Tribunals and Non-precluded Measures Provisions 416
    B. The ICSID Tribunals and the Customary Defense of Necessity 421
V. The CMS Annulment Committee Report and the Viability of ICSID Arbitration 425
VI. Conclusion 431
# Table of Contents

## Chapter 18
**Perceived Bias in Investment Treaty Arbitration** 433
*Gus Van Harten*

I. Introduction 433
II. The Uniqueness of Investment Treaty Arbitration 434
III. Standards of Impartiality and Independence of Domestic Courts 436
   A. The Inappropriate Influence of Appointing Authorities 441
   B. The Inappropriate Influence of Private Parties 445
IV. Responses to Possible Counterarguments 446
V. Conclusion 452

## Chapter 19
**European Law Challenges to Investment Arbitration** 455
*Markus Burgstaller*

I. European Law Challenges to Investment Arbitration: An Introduction 455
II. European Law Challenges to Jurisdiction: The Validity and Applicability of Member States’ BITs 457
III. European Law Challenges on the Merits: The Applicability of EU Law in Investment Arbitration 467
IV. European Law Challenges to Enforcement: Securing the Correct Application of EU Law 472
V. European Law Challenges to Investment Arbitration: An Outlook 475

## Chapter 20
**Out of Order** 483
*Luke Peterson*

I. Costly Disputes 484
II. Treaties under Scrutiny 484
III. Closing the Floodgates 485
IV. Balanced Model 486
V. Playing Both Sides 487
VI. A Change of Nationality 488

## PART V
**ICSID ARBITRATION’s FALL FROM GRACE: THE WAY FORWARD** 489

## Chapter 21
**Globalization: The Driving Force in International Investment Law** 491
*Tillmann Rudolf Braun*

I. The Importance and Origins of International Investment Law 492
Table of Contents

II. The Lynchpin of International Investment: Procedural Enforcement Mechanisms and Partial Subjectivity in International Law for the Individual 495

III. Norm Generation and Norm Interpretation: The Interplay Between State and Arbitral Responsibility 497

IV. Norm Generation and the Forming of International Investment Law 501

V. The Structure of the Actors in International Investment Law in Historical Context 502

Chapter 22
A Dispute Systems Design Diagnosis of ICSID 507
Ilija Mitrev Penusliski

I. Introduction 507
II. Dispute Systems Design 509
   A. Principles 509
   B. Methodology 512
III. Applying DSD to ICSID: Assessing Foreign Investment Disputes 515
   A. Nature of Foreign Investment 515
   B. Stakeholders 516
   C. Nature of Disputes 517
IV. Applying DSD to ICSID: Assessing ICSID’s Dispute Resolution Procedures 518
   A. The ICSID Mechanism 518
   B. ICSID in a Crisis? 520
       1. Encroachment of Regulatory Autonomy 520
       2. Impaired Legitimacy 522
       3. Cost and Length 525
V. Applying DSD to ICSID: A New Design for ICSID 526
   A. Mediation 527
   B. Appellate Body 529
   C. Improved Judicial Scrutiny 531
   D. Arbitrator Selection and Conduct 532
VI. Applying DSD to ICSID: Implementation 533
VII. Conclusions 535

Chapter 23
The International Investment Protection Regime through the Lens of Economic Theory 537
Anne van Aaken

I. Introduction 537
II. International Investment Law: An Overview 538
Table of Contents

III. The Contract Theory Approach 540
IV. A Contract Theory Approach to Investment Law 543
   A. Flexibility through Explicit Escape Clauses and Exceptions 545
   B. Flexibility through Vague Terms 547
V. The Instability of the Investment Protection Regime 549
VI. Conclusion and Outlook 554

Chapter 24
“History Ain’t Changed”: Why Investor-State Arbitration Will Survive the “New Revolution” 555
Timothy G. Nelson

I. Introduction 556
II. Concession Arbitrations 557
   A. The Lena Goldfields Arbitration 557
   B. Concession Arbitration: The Oil Cases of the 1950s and 1960s 559
      1. The Gulf State Cases of the Early 1950s 559
      2. The ARAMCO Arbitration 560
      3. Sapphire: An Early Iranian Expropriation 561
   C. The 1970s: The Libyan Nationalization Cases 562
   D. The ICSID Convention and UNCITRAL Rules Emerge 565
   E. “Concession Arbitration” Continues 566
III. Claims Tribunal Arbitrations 567
   A. Early Claims Tribunals 567
   B. The ICJ and Limits on Diplomatic Protection 569
   C. The Iran-US Claims Tribunal 570
   D. More Recent Claims Tribunals 570
   E. The ICSID/BIT System Lineal: Descendant of the Claims Tribunals 571
IV. Backlash? History Ain’t Changed 573

Chapter 25
The State, a Perpetual Respondent in Investment Arbitration? Some Unorthodox Considerations 577
Mehmet Toral & Thomas Schultz

I. Introduction 577
II. The State as Claimant in Treaty-Based Arbitration 578
   A. Private Parties, Human Rights, and Investment Treaties 580
   B. Private Parties and Sustainable Development 585
   C. Conclusion: Is the State the Sole Debtor under Investment Treaties? 588
**Table of Contents**

III. The State as Claimant in Contract-Based Arbitration 589  
   A. Tanesco v. IPTL 591  
   B. East Kalimantan v. Kaltim Prima Coal 595  
   C. The State as Claimant in Investment Arbitration: Veering toward Political Dispute Resolution? 600  
IV. Conclusion 602  

Index 603