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Arbitration Watch:

1. UNCITRAL holds first meeting on revisions to its rules of arbitration,
   By Damon Vis-Dunbar

Member governments of the Vienna-based United Nations Commission on International Trade Law (UNCITRAL) have met for their first round of discussions on revising the UN body’s signature rules of arbitration. The meeting, held on September 11-15, will form the basis for an initial draft set of revised rules, to be written by the UNCITRAL Secretariat for discussion at the next meeting of the UNCITRAL Working Group on Arbitration and Conciliation.

The UNCITRAL rules of arbitration, one of the most widely used in investment disputes, are being updated for the first time since they were adopted in 1976.
Earlier this year, the UNCITRAL Secretariat tabled a paper that put forward 47 areas where changes to the rules might be considered. A separate report, commissioned by the UNCITRAL secretariat from Jan Paulsson and Georgios Petrochilos of the law firm Freshfields Bruckhaus Deringer, elaborated on the need for certain revisions and offered suggestions on how they could be drafted.

On the evidence of last month’s meeting in Vienna, the Working Group on Arbitration and Conciliation, consisting of representatives of the UNCITRAL member-governments, has shown little enthusiasm for some of those potential revisions. In particular, changes to the rules that relate to confidentiality received lackluster support.

Currently, the UNCITRAL rules address the confidentiality of the oral hearings and of the written award.

Article 25(4) of the current Rules precludes the attendance of third parties at oral hearings unless the parties to the arbitration agree otherwise. According to Article 32(5) of the Rules, the arbitral award may be made public only with the consent of both parties.

The existing rules do not explicitly address whether confidentiality applies to the fact of the proceedings themselves or to written materials other than awards (for e.g. pleadings) which might be of interest to third parties seeking to monitor or intervene in a given proceeding.

The absence of any requirement that UNCITRAL arbitrations be registered or publicized means that some unknown number of claims will not come to public light – and hence to the attention of third parties who might be interested in the subject matter in dispute.

The possibility of a new provision that clarified the confidentiality obligations surrounding UNCITRAL arbitration proceedings had been mooted at the Working Group session in Vienna. Yet most participants who expressed an opinion did not endorse further express provisions dealing with confidentiality.

With respect to Article 32(5), which deals with the publication of awards, it was suggested that the onus might be reversed and that awards could be published unless the parties agree otherwise. Participants also voiced the need for further discussion of this matter.

Members also discussed the ability of third parties to submit written amicus curiae briefs. Some members suggested a need for an express provision on this matter; however, many participants also said that an existing provision of the Rules that states that “the arbitral tribunal may conduct the arbitration in such manner as it considers appropriate”, gave UNCITRAL tribunals room to decide on this matter on a case-by-case basis.
For their part, officials with the UNCITRAL Secretariat stress that the Working Group discussions are in their early stages, and that no decisions have been taken to reject revisions in any of the areas being considered.

At their last meeting in June-July of this year, the UNCITRAL Commission, composed of member-governments, was “generally of the view that any revision of the UNCITRAL Arbitration rules should not alter the structure of the text, its spirit and drafting style and that it should respect the flexibility of the text rather than make it more complex.” Some observers, however, are calling for governments to develop revised rules which are especially suited to arbitrations between investors and states, with greater emphasis to be placed upon transparency and public accountability (See next story in this edition of ITN: “Environmental NGOs push for special UNCITRAL rules for investor-state disputes”).

The ad hoc nature of UNCITRAL arbitration - whereby proceedings are not administered by an overarching arbitration institution - has posed certain challenges in some areas where revisions are being discussed. This includes provisions dealing with consolidating arbitral tribunals, which has been promoted as a means to protect against contradictory or divergent rulings arising in multiple cases where the essential facts in the dispute are the same. Where a state faces multiple claims relating to the same action, consolidation would also save time and money, say proponents.

Currently, consolidation is possible only when all parties agree to have parallel disputes brought under the purview of a single arbitral tribunal. While there was some support among the Working Group for an express provision that allowed consolidation when the proceedings related to the same “legal relationship”, others pointed out that such a provision would be difficult in ad hoc proceedings.

“If one or more of the relevant claims is subject to ad hoc (i.e., non-institutional) arbitration, mandatory consolidation may be problematic precisely because ad hoc arbitration is characterized by the absence of an administrating body, “ explains Alejandro Escobar, a lawyer with Latham and Watkins, and formerly Senior Counsel at the International Centre for the Settlement of Investment Disputes (ICSID).

“In other words, there is no single body which would have the last word on appointing a consolidation tribunal, requiring parties to appear before it, or requiring parties to discontinue existing proceedings or refrain from initiating future proceedings,” says Mr. Escobar.

As a next step in the revision process, the UNCITRAL Secretariat will produce a draft set of revised rules to be considered by the Working Group, said Jernej Sekolec, Secretary of UNCITRAL. In areas where there does not appear to be consensus amongst the Working Group, a series of optional revisions will be drafted.

Mr. Sekolec said that he hoped the updated rules would be adopted within two years, but said that there is no firm timeline. “It may take longer,” he said.
The Working Group will meet next in New York in February, 2007, to discuss the draft revisions prepared by the Secretariat.

Sources:

ITN interviews

Documents relating the Working Group’s September 11-15, 2006, meeting on revising the UNCITRAL rules of arbitration are available from the UNCITRAL website at: http://www.uncitral.org/uncitral/en/commission/working_groups/2Arbitration.html

2. Environmental NGOs push for special UNCITRAL rules for investor-state disputes, By Damon Vis-Dunbar

As the United Nations Commission on International Trade Law (UNCITRAL) revises its rules of arbitration, it should carve out special provisions for arbitrations between foreign investors and host governments, say two non-governmental organizations active in the field of international investment law.

The International Institute for Sustainable Development (IISD)* and the Center for International Environmental Law (CIEL) have voiced concern that changes to the UNCITRAL rules are being pursued without considering the public interest dimension that accompanies investor-state arbitrations. The two groups have applied to UNCITRAL for official accreditation as observers – a status which has yet to be granted. (see below).

“Whereas the UNCITRAL Rules were drafted thirty years ago, with only private commercial interests in mind, today it is much better understood that when private and public interests are involved, democratic principles of good governance and the rule of law must apply,” states an IISD paper on the matter**.

Greater transparency and accountability lie at the heart of several of the changes to the UNCITRAL rules advocated by IISD and CIEL. These changes include mandating that investor-state arbitral proceedings be disclosed to the public at the commencement; be open to the public; expressly provide for third party interventions (for e.g. by NGOs, academics or other interested outsiders); and that documents such as awards and pleadings be published.

These proposals echo similar innovations that have been introduced into new investment treaties and free trade agreements signed by certain governments, including the United States and Canada, in response to pressure from media and non-governmental organizations.

During its meeting in September, the so-called Working Group on Arbitration and Conciliation, a committee of UNCITRAL member governments, began to explore revisions to the rules in areas of confidentiality and third party intervention, although not
with a particular focus on investor-state arbitration. The Working Group discussion could lead to new rules that either strengthen secrecy requirements, or make proceedings more transparent. As it is, the majority of the working group did not push for changes in either direction at the September meeting.

A representative of one member government, speaking to ITN after the meeting, suggested that, in not endorsing revisions to the rules on confidentiality and third-party intervention, the Working Group sought to retain UNCITRAL’s broad appeal.

“The UNCITRAL rules have been extremely successful across a number of different fields, and I think there is a concern within the group that they must remain adaptable, flexible and popular,” said this person.

“The delegates agreed that the rules must remain simple and flexible,” said another member of the Working Group who spoke to ITN after the September meeting. However, this person stressed that the discussions were still at a preliminary stage, and that the Working Group had not closed the door on any possible revisions.

The UNCITRAL rules are most often used in commercial disputes between private parties, where a high-degree of confidentiality is expected. Yet their use in investor-state disputes has grown alongside the expansion of bilateral investment treaties (BITs), which commonly list the UNCITRAL rules among the options available for arbitrating disputes between foreign investors and governments.

Addressing how investor-state disputes are treated under the UNICTRAL rules is urgent given their wide-spread use, said Nathalie Bernasconi, a lawyer with CIEL. “We are concerned that the issue will be ducked in this revision process,” she said.

In their efforts to push for special rules that address investor-state disputes, CIEL and IISD applied to become accredited observers to the September meeting of the Working Group; however that application was not approved before the meeting commenced.

Some 18 non-governmental organizations attended that meeting, fifteen of which represent regional or international arbitration bodies or organizations. Those applications for observer status were approved under the discretion of the UNCITRAL secretariat. But since IISD and CIEL were considered to be more “remotely associated” with the law-making process by the Secretariat, it was decided to raise the issue with member governments, said Renaud Sorieul, Principal Legal Officer at UNCITRAL.

Having been raised at the September meeting, the issue was not brought back to the floor for any resolution, leaving the decision in abeyance at this time. Since then, both IISD and CIEL have written again to the Secretariat to reiterate their requests for observer status for future meetings of the Working Group.

Mark Halle, director of IISD's trade and investment programme, challenges the assertion that IISD is remotely associated with the international law-making process.
Mr. Halle says that IISD submitted a statement of its credentials in advance of the Vienna meeting, detailing IISD’s “long and impressive track record not only on investment policy in general, but with the rules and practices governing investment agreements and disputes in particular.”

He adds that IISD “is actively working with a large number of developing countries on investment negotiations; has participated in the review of the ICSID rules; and was the first civil society organization to successfully use the UNCITRAL Arbitration Rules to apply for and receive amicus curiae status.”

"For the UNCITRAL Secretariat to accredit organizations that are part of the arbitration bar while deeming that IISD’s accreditation requires careful consultation with member governments is preoccupying, to say the least. The fact that UNCITRAL is a body of the United Nations makes it that much more disturbing.” said Mr. Halle.

Sources:

ITN interviews

A statement from the Center for International Environmental Law is available on-line at: http://www.ciel.org/Tae/UNCITRAL_Announce_18Sep06.html

A statement from the International Institute for Sustainable Development is available on-line at: http://www.iisd.org/investment/

* Editor's Note: IISD’s programme on Investment and Sustainable Development undertakes policy research and analysis and advances policy recommendations in the area of international investment law. Investment Treaty News (ITN) is dedicated to neutral reporting on developments in the area of foreign investment law and policy, and is editorially independent of IISD’s policy work.


3. US investor invokes BIT to sue Ukraine over broadcasting quotas and licensing, By Luke Eric Peterson

A US national, Mr. Joseph Charles Lemire, has filed a request for arbitration with the International Centre for Settlement of Investment Disputes (ICSID), alleging various
failures and omissions by Ukrainian broadcasting regulators in relation to his investments in that country’s radio industry.

It marks the second instance where Mr. Lemire has sued Ukraine under the US-Ukraine bilateral investment treaty (BIT) in recent years. An earlier arbitration brought to ICSID in 1997 was discontinued in 2000, after the presiding tribunal issued an arbitral award which embodied a settlement agreement reached between the two disputing parties.

The new claim by Mr. Lemire alleges breaches of that earlier settlement agreement, as well as various new breaches of the US-Ukraine BIT.

At the crux of the claim is a dispute with government regulators as to the handling of numerous broadcast licensing and trademark applications by Mr. Lemire’s Ukrainian owned investments. Mr. Lemire insists that the government was slow to approve a dozen licenses which were at the heart of the 2000 settlement agreement, and, what’s more, that officials have since rejected all but one of several hundred other bids for licenses by Mr. Lemire in the intervening period. Mr. Lemire also insists that frequencies awarded to him have been unusually weak in terms of their wattage.

As a result of the alleged unfair and inequitable treatment meted out by the Ukrainian broadcasting sector, Mr. Lemire insists that his market position as an early entrant onto the Ukrainian radio industry has been steadily eroded as other competitors are awarded key licenses in the country.

Mr. Lemire also objects to the terms of a 2006 Broadcasting Law which imposed domestic content requirements on radio stations (i.e. to play 50% Ukrainian music) and which forbids foreigners from being the “founder” of radio companies.

With respect to Mr. Lemire’s challenge to the introduction of domestic content quotas in the broadcasting sector, this issue had been a political bone of contention between the European Union and the United States, in relation to a number of investment treaties concluded by the US with various Eastern European candidates for accession to the EU.

Officials with the European Commission in Brussels had protested that the treaties did not contain exceptions for the audio-visual sector, raising doubts as to whether EU policy measures such as local programming content regulations would run contrary to certain requirements contained in those investment treaties.

While the United States ultimately agreed to amend its treaties with the European countries slated to join the EU, the US treaty with Ukraine was not altered as part of those changes.* Indeed, the Ukraine is not a short-term candidate for EU accession.

On its face, the US-Ukraine investment treaty provides US investments with National Treatment, and also provides that “Neither Party shall impose performance requirements as condition of, establishment, expansion or maintenance of investments, which require
or enforce commitments to export goods produced, or which specify that goods or services must be purchased locally, or which impose any other similar requirements.”

While the Ukraine did reserve its right to make or maintain limited exceptions to National Treatment related to the “ownership and operation of television and radio broadcasting stations”, the US-Ukraine treaty does not contain any express exceptions to the treaty’s stricture against the imposition of so-called performance requirements.

Peter S. Grant, author of a popular study, Blockbusters and Trade Wars: Popular Culture in a Globalized World, in an interview with ITN, observes that the US-Ukraine treaty does not do as much as some trade and investment treaties to shelter domestic regulation of broadcasting from international scrutiny.

Grant, a communications lawyer with the law firm McCarthy Tetrault in Toronto, observes that the treaty is “not particularly well worded from the perspective of the Ukraine.” He adds that there is “ambiguity” as to whether the Ukraine would be permitted to introduce domestic content regulations in the areas of television or radio broadcasting, including the types of laws adopted by European Union member-governments in order to ensure minimum quantities of domestic content in film, television or radio programming.

The role of domestic content rules in relation to the cultural industries has been a particularly controversial topic in trade and investment negotiations. Recently, as part of its negotiations with the United States, the Republic of Korea agreed to reduce a quota which dictates that Korean films be shown in domestic cinemas for a minimum number of days each year. For its part, the Government of Canada exempts entirely so-called cultural industries from its trade and investment agreements, in an effort to retain the widest discretion to regulate those industries.


4. Shell launches claim against Nicaragua over seizure of intellectual property, By Damon Vis-Dunbar

Two companies connected to the petrochemical giant Shell Group have filed a claim against the Government of Nicaragua for breach of the Netherlands-Nicaragua bilateral investment treaty (BIT) in response to an alleged expropriation of their logo and brand name.

According to Shell, Nicaragua seized its trademarks in an effort to enforce a 489 Million Dollar (US) judgment handed down in 2002 by a Nicaraguan court, in Sonia Eduarda Franco Franco, et al. v. Dow Chemical, et al. That judgment was in favour of some 500
Nicaraguan citizens who claim to have been affected by the pesticide DBCP, which was manufactured for use on banana plantations in the 1960s and 70s.

The defendants in the Nicaragua judgment were the Shell Oil Company, Dow Chemical, Dole Foods Corporation, Inc., and Standard Fruit and Vegetables Co., Inc.

DBCP (1,2-dibromo-3-chloropropane), sold under the brand name Nemagon, was banned in the United States in 1979, after its use was linked to sterility. Shell says it stopped selling the pesticide in 1978; however, its legacy has ensnared Shell and other chemical manufacturers in ongoing legal actions in Latin America and elsewhere.

The request for arbitration was filed with the International Centre for the Settlement of Investment Disputes (ICSID) by two companies: Shell Brands International, a subsidiary of the Dutch-based Shell Petroleum Naamloze Vennootschap, and Shell Nicaragua S.A., a Nicaraguan company.

They maintain that the class-action judgment concerned companies other than themselves, and therefore the seizure of intellectual property under their ownership constitutes “an unlawful expropriation, an unfair and inequitable act and a denial of justice.”

Tomas Delaney, head of the legal department at the Nicaraguan Ministry of Trade and Industry, confirms that Shell’s trademarks in Nicaragua were “embargoed” by a Nicaraguan court. “If the companies don’t pay (the judgment), then the plaintiffs have a right to auction off the trademarks and be compensated with the results of the auction,” Mr. Delaney told ITN.

Shell’s request for arbitration is the latest chapter in a two-decade long endeavor by thousands of Nicaraguan citizens who are seeking compensation for health problems linked to DBCP.

The first class-action suits were launched in the US in the 1980’s, but failed when American courts dismissed the cases under the doctrine of forum non conveniens (FNC or inconvenient forum). The courts cited the fact that the citizens and evidence were in Nicaragua.

With the door closed to US courts, plaintiffs were sent back to Nicaragua, where the legal system lacked the capability to hear the cases effectively, says Erika Rosenthal, who represents several hundred Nicaraguan citizens affected by DBCP.

Ms Rosenthal calls the forum non conveniens rule “a reliable shield” that ensures there will be “two standards of justice – one for the victims of the North and another for those in the South.”
“For the globalized economy, in which products and industrial processes travel across borders freely, to have legitimacy requires globalized access to justice,” said Ms. Rosenthal.

In 2001, the Nicaraguan National Assembly introduced legislation designed to help Nicaraguan citizens seek compensation for DBCP related injuries.

Among its features, Law 364 requires that the defendant companies deposit up to $20 Million US within 90 days of a complaint, in order to guarantee payment in the case of a judgment. It also requires that minimum damages be set at between $25 000 and $100 000 US per claimant.

If defendant companies do not post the bond, the law states that they must submit to the jurisdiction of US courts and renounce the forum non conveniens rule. The law is an effort to “level the playing field” says Ms Rosenthal.

Law 364, and the resulting lawsuits, has put Shell and other chemical companies on the defensive: “In the aggregate, the amounts purportedly claimed exceed $5 Billion US,” says Shell.

The United States Trade Representative voiced the sentiments of Shell and other companies when it said in a recent report: “... the law and its application under Nicaragua’s judicial system lacks due process, transparency and fundamental fairness....”

Under Law 364, the case of Sonia Eduarda Franco Franco, et al. v. Dow Chemical, et.al., resulted in the largest judgment ever handed down by Nicaraguan court. However, a California federal court has since held that the Nicaraguan Court judgment is unenforceable against Shell in the United States.

For its part, Shell maintains that it never sold DBCP in Nicaragua, although it says that it sold the pesticide for use in other Central American countries. Despite having objected to the earlier class action suits in the US by invoking the forum non conveniens rule, Shell says it is willing to defend itself in US courts against any new claims by Nicaraguan plaintiffs, because Nicaraguan law and the Nicaraguan courts are no longer capable of providing a fair hearing. "Shell stands ready to try any original cases from Nicaragua in the United States,” said David W. Ogden, counsel for Shell.

Shell’s request for arbitration marks the first time that Nicaragua has been taken to international arbitration at the Washington-based ICSID. Nicaragua’s president, Enrique Bolaños Geyer, has set up a joint four-member committee to oversee the case, which includes representatives from the President’s General Counsel’s office, the Ministry of Trade and Industry, the Ministry of Foreign Affairs, and the Attorney General’s office. Nicaragua has not retained outside legal counsel, but expects to do so shortly.

Mr. Delaney stressed that Nicaragua was considering its options with special care, given its lack of experience with treaty-based international arbitration. Since the investment
chapter of the recently signed Central American Free Trade Agreement (CAFTA) also features a provision that allows for international arbitration at ICSID in the case of investment disputes, he said the President Bolaños sees this as an important learning experience.

“The president wants to be sure that, this being our first case, we come up with a legal team that has experience and knowledge in this area, for any potential future disputes we may have,” said Mr. Delaney.

Sources:

ITN Interviews


5. More Spanish portfolio investors line up to sue Russia over Yukos,

By Luke Eric Peterson

A group of Spanish investment funds are the latest to move towards arbitration with the Russian Federation over losses related to the Government’s treatment of the Yukos energy company.

The law firm of Covington & Burling has filed 4 demand letters with the Russian Federation, setting in motion a mandatory 3 month waiting period after which the investors may turn to binding arbitration under the Spain-Russia bilateral investment treaty.

Earlier this summer, the same law firm had announced that it was suing Russia on behalf of a different Spanish fund company under the Spain-Russia treaty.

These bilateral treaty claims will proceed in parallel to a much larger arbitration currently being pursued by the former majority shareholders in the Yukos Corporation, Group Menatep.

It remains unknown whether other Yukos shareholders have mounted their own parallel arbitrations, although persistent rumours suggest that other investment treaty lawsuits may be in the works.

In an interview with ITN, Thomas Johnston, of Covington & Burling, notes that he is not concerned by several recent arbitration rulings which have appeared to demonstrate the limited utility of some Soviet-era investment treaties. As reported in this newsletter, two separate arbitration claims against Russia and Hungary have foundered on the basis that the relevant investment treaties contained very circumscribed consent-to-arbitration clauses.
Spain’s investment treaty with Russia does not provide for arbitration in case of most alleged breaches of the treaty’s substantive protections. Rather, the treaty contains an investor-state dispute settlement clause which limits arbitration to disputes related to the quantity or method of payment owing in the event of expropriation.

Johnston suggests that this provision will be adequate to his needs, as his claim centers on alleged expropriation without adequate compensation – something that he says should fall within the confines of the treaty’s consent-to-arbitration clause.

“Our claims are claims for state-theft of the property of foreign investors and there is no doubt but that the Spanish treaty – all the European BITs with Russia – establish jurisdiction for claims like that,” he told ITN.

Briefly noted:

6. Enron looking to sell Azurix arbitration award,
By Luke Eric Peterson

According to a press report, a US private equity firm advising the Enron Group on its financial restructuring is seeking to sell an ICSID arbitration award which was issued this year in favour of the Enron subsidiary Azurix Corp.

Dow Jones reports that Blackstone has been tapped to sell Enron assets, which now include a $165 Million (US) award rendered on July 14th by an ICSID arbitration tribunal in a dispute between Azurix and the Argentine Republic.

Argentina has 120 days in which to pursue annulment of the award, a process which could entail a further substantial delay before the Government would be faced with a decision whether to pay the award.

An Argentine government official tells ITN that a decision has yet to be taken as to whether to pursue annulment of the Azurix award. Argentina did move to annul an earlier award, in a dispute with US-based CMS Gas Transmission Company. The country also faces a decision whether to seek annulment of the latest award granted in favour of a foreign investor against Argentina, in a case brought by US-based LG&E and decided on October 3, 2006.

Alluding to the likelihood that Argentina could challenge the Azurix award, Dow Jones has reported that any sale of the award by the Enron Group would likely be at a discounted rate.

Sources:
ITN Interviews

“Enron Taps Blackstone To Sell Claim Award Vs Argentina”, Dow Jones, Sept.13, 2006

7. Yearbook of Int’l Environmental Law to devote special edition to investment law

The Yearbook of International Environmental Law has announced that its 2006 edition will devote a special focus to the “dynamic changes occurring in the field of international investment law and the environment”. The publication is seeking contributions on any topic relevant to the theme of international investment law and the environment. Suggestions include:
- The treatment of environmental issues in the growing number of bilateral and multilateral investment treaties, and in bilateral treaties on economic cooperation that include significant investment provisions;
- Emerging legal doctrines emanating from international investment tribunals and arbitral decisions regarding investor and host state responsibilities, including for example decisions relating to “regulatory expropriations”, national treatment and fair and equitable treatment in the environmental context;
- The treatment of environmental protection in foreign investment contracts and other agreements between investors and host governments, including the use of regulatory stabilization clauses that insulate investors from potential changes in environmental and related regulations as they apply to the specific investment; Prospective contributors should write to the YbIEL editors via e-mail (ybiel-editors@jus.uio.no) prior to November 15. Successful applicants will be notified by December 1, and the deadline for submitting final articles will be February 28, 2007.

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