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Investor-State Disputes Under NAFTA: A Tale of Fear and Equilibrium

Charles H. Brower, II*

Writers initially regarded the North American Free Trade Agreement’s investment chapter (Chapter 11)1 as an “overwhelmingly positive” regime that would protect Canadian and United States investors from arbitrary treatment at the hands of Mexican authorities.3 Despite some early warnings,4 few considered the possibility that Chapter 11 might also provide

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4. See Richard G. Dearden, Arbitration of Expropriation Disputes Between an Investor and the State Under the North American Free Trade Agreement, 29 J. WORLD TRADE 113, 114, 126-27
an instrument for vigorous scrutiny of measures adopted or maintained by Canadian and U.S. authorities. Following the initiation of several claims against their governments, however, Canadian and U.S. writers have denounced the purportedly "aggressive" use of investor-state arbitration as an "offensive" weapon that has "chilled" the exercise of regulatory authority and caused an "alarming" loss of sovereignty. Based on the wide variety of pending claims, writers warn that Chapter 11 provides foreign corporations with a reliable "tool for attacking any legislation or regulation that they do not find beneficial to their investment[s]." To combat this apparent threat, some writers advocate a retreat from liberal access to investor-state arbitration.

(Feb. 1995) (predicting the regular use of Chapter 11 in disputes alleging expropriation and explaining that Chapter 11 fetters the discretion of NAFTA Parties).


6. MANN & VON MOLTKE, supra note 3, at 4; Mann, supra note 3, at 405-06. See also J. Martin Wagner, International Investment, Expropriation and Environmental Protection, 29 GOLDEN GATE U. L. REV. 465, 466 (1999); Loritz, supra note 3, at 534.

7. MANN & VON MOLTKE, supra note 3, at 5; Mann, supra note 3, at 405; Ferguson, supra note 5, at 503; Ganguly, supra note 3, at 153.

8. See S.D. Myers, Inc. v. Canada, Partial Award, at para. 203 (Nov. 13, 2000) (separate opinion of Bryan Schwartz) (NAFTA/UNCITRAL), available at http://www.appletonlaw.com/4b2myers.htm; Mann, supra note 3, at 406; Justin Byrne, Note, NAFTA Dispute Resolution: Implementing True Rule-Based Diplomacy Through Direct Access, 35 TEX. INT'L L.J. 415, 432 (2000); Ferguson, supra note 5, at 500; Ganguly, supra note 3, at 119; Loritz, supra note 3, at 546. See also Dr. Rainer Geiger, Towards a Multilateral Agreement on Investment, 31 CORNELL INT'L L.J. 467, 471 (1998) (observing that "[e]nvironmental organizations are concerned about a chilling effect on governmental protection of the environment, resulting from investor claims that environmental regulation amounts to expropriation").

9. Ganguly, supra note 3, at 126. See also S.D. Myers, Partial Award, at paras. 12, 86 (Nov. 13, 2000) (separate opinion of Bryan Schwartz); Kevin Banks, NAFTA's Article 1110—Can Regulation Be Expropriation?, 5 NAFTA L. & BUS. REV. AM. 499, 499 (1999); Herman, supra note 5, at 123, 134; Pierre Sauve, Canada, Free Trade, and the Diminishing Returns of Hemispheric Regionalism, 4 UCLA J. INT'L L. & FOREIGN AFF. 237, 244 (1999-2000); Soloway, Environmental Trade Barriers Under NAFTA, supra note 3, at 88; Byrne, supra note 8, at 430; Loritz, supra note 3, at 546-47.

10. Ganguly, supra note 3, at 152. See also Banks, supra note 9, at 504; Herman, supra note 5, at 134; Soloway, Environmental Trade Barriers Under NAFTA, supra note 3, at 88-89; Ferguson, supra note 5, at 515.

11. See MANN & VON MOLTKE, supra note 3, at 58; Herman, supra note 5, at 135-37; Wagner, supra note 6, at 467-68; Ferguson, supra note 5, at 518-19; Ganguly, supra note 3, at 166.
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Joined in part by the Canadian and U.S. governments, writers also support the adoption of binding interpretive statements to limit the substantive obligations of Chapter 11. Such proposals express little confidence in arbitrators to render decisions that could mitigate popular concern. Over the past year, however, Chapter 11 tribunals have issued a number of decisions and awards that provide an important opportunity for reassessment of the criticisms that have been leveled at Chapter 11. Part I lays the foundation for such an analysis by reviewing the structure and purpose of Chapter 11. To explain why Chapter 11 has caused an outpouring of public concern, Part II describes the surprising variety of claims submitted to arbitration under its authority. Part III examines recent decisions of Chapter 11 tribunals to determine whether the emerging trends support the criticisms of Chapter 11. In so doing, Part III identifies a balanced interpretive strategy employed by most Chapter 11 tribunals. When construing Chapter 11’s provisions on procedure and jurisdiction, most tribunals have adopted flexible interpretations that promote access to arbitration and a hearing on the merits. When construing the substantive obligations of Chapter 11, however, tribunals have hewed more closely to the treaty’s text and specific rules of international law. This suggests that expansive claims will frequently survive procedural and jurisdictional objections, but are much less likely to pass through the more rigorous filter of substantive disciplines. Thus, condemnation of Chapter 11 may be premature; Chapter 11 provides broad opportunities to challenge measures adopted or maintained by host states, but the substantive disciplines offer adequate protection against abusive claims.


13. See Mann & Von Moltke, supra note 3, at 7-8, 20-21, 37, 47-48; Herman, supra note 5, at 136; Soloway, The Challenge of Private Party Participation, supra note 3, at 14; Ferguson, supra note 5, at 517-18. In July 2001, the Free Trade Commission (i.e., cabinet-level representatives of the NAFTA Parties) adopted the first Notes of Interpretation of Certain Chapter 11 Provisions. See infra note 249.

14. See Mann & Von Moltke, supra note 3, at 17 ("The legal uncertainties in the Chapter 11 disciplines are . . . unlikely to be significantly reduced by pending arbitrations.").
I. STRUCTURE AND PURPOSE OF CHAPTER 11

Structurally, Chapter 11 resembles bilateral investment treaties (BITs), which create standards for treatment of investors and establish procedures for resolving investor-state disputes. For example, Section A of Chapter 11 imposes the following key disciplines. First, Section A permits expropriation and measures tantamount to expropriation only for a public purpose, on a nondiscriminatory basis, in accordance with due process of law and the minimum standard of treatment under Chapter 11, and upon prompt payment of fair market value (plus interest) in freely-transferable funds. Second, Section A prohibits certain performance requirements, including requirements to export a given level or percentage of goods or services, or to achieve a given level or percentage of domestic content. Third, Section A requires NAFTA Parties to treat each other's investors in accordance with the relative standards of national treatment and most-favored-nation (MFN) treatment. Fourth, Section A establishes a minimum standard, which requires NAFTA Parties to treat each other's investors in accordance with international law, including fair and equitable treatment.

Section B of Chapter 11 secures these obligations by providing for investor-state arbitration of claims alleging that a NAFTA Party (or one of its state enterprises or monopolies) has violated one of the provisions found in Section A. Under Section B, NAFTA investors may demand arbitration under the ICSID Convention (if the investor's home state and the disputing NAFTA Party are both states parties to that convention), the Additional Facility Rules of ICSID (if either the investor's home state or the disputing NAFTA Party is a state party to the ICSID Convention), or the UNCITRAL Arbitration Rules.


16. NAFTA, supra note 1, at art. 1110(1)-(6), 32 I.L.M. at 641-42.
17. Id. at arts. 1106(1)(a), (b), 1106(3)(b), 32 I.L.M. at 640.
18. Id. at arts. 1102, 1103, 32 I.L.M. at 639.
19. Id. at art. 1105(1), 32 I.L.M. at 639.
20. Id. at art. 1116(1), 32 I.L.M. at 642-43.
21. Id. at art. 1120(1), 32 I.L.M. at 643. Presently, the United States is a state party to the ICSID
Thus, Chapter 11 reiterates traditional principles of international investment law that favor investor security.\(^{22}\) Their incorporation into NAFTA represented an apparent victory for U.S. negotiators, who wanted to liberalize the Mexican investment regime,\(^ {23}\) protect U.S. investors from expropriation,\(^ {24}\) and remove investor-state disputes from the Mexican judicial process, which was “generally considered corrupt or at least compliant with the will of the state.”\(^ {25}\) Negotiators also expected this mechanism to relieve the U.S. government from intervening in, and thus politicizing, investment disputes between U.S. companies and the Mexican state.\(^ {26}\)

II. PUBLIC CONCERN ABOUT RECENT CLAIMS

While Chapter 11 builds on the familiar structure of BITs, it “places the regime in a novel context.”\(^ {27}\) For the first time, the substantive and procedural obligations appear in an investment treaty whose adherents include two developed states, Canada and the United States.\(^ {28}\) “Thus, NAFTA investors can now hold Canada and the United States to the demands traditionally placed on developing states.”\(^ {29}\) Inevitably, this

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\(^{22}\) See Ethyl Corp. v. Canada, Decision Regarding the Place of Arbitration (Nov. 28, 1997) (NAFTA/UNCITRAL), reprinted in 38 I.L.M. 702, 703 n.5 (1999).


\(^{24}\) See Ferguson, supra note 5, at 503; Ganguly, supra note 3, at 154; Loritz, supra note 3, at 533, 535; Kass, supra note 3, § 2, col. 1.

\(^{25}\) Mann, supra note 3, at 402. See also Soloway, Environmental Trade Barriers Under NAFTA, supra note 3, at 88; Kass, supra note 3, § 2, col. 1.

\(^{26}\) See Brower & Steven, supra note 15, at 195.

\(^{27}\) Brower Remarks, supra note 22, at 14. See also Brower & Steven, supra note 15, at 194-195.

\(^{28}\) See MANN & VON MOLTKE, supra note 3, at 4; Brower & Steven, supra note 15, at 195; Price, supra note 23, at 731; Towards an Effective International Investment Regime, 91 AM. SOC’Y INT’L L. PROC. 485, 492 (1997) (remarks of Daniel M. Price); Safrin et al., supra note 12, at 723.

\(^{29}\) Brower Remarks, supra note 22, at 14. See also Price, supra note 23, at 736.
encourages claimants to use the investor-security bias of international law as a platform from which to challenge venerable policies and institutions. In 1998, two events highlighted the significance of Chapter 11 as an "untapped source of . . . investor rights." First, Canada withdrew a ban on the importation of (and inter-provincial trade in) the fuel additive MMT rather than defend itself against the $251 million claim of Virginia-based Ethyl Corporation. Second, a Canadian investor brought a $725 million claim against the United States based on Mississippi state court proceedings, in which (a) race and nationality may have contributed to a $500 million damage award, and (b) the state's 125% appellate bonding requirement foreclosed an appeal. These cases quickly established Chapter 11 as the foundation for a surprising range of claims.

The ensuing two years witnessed the initiation of at least five new claims, four of which were directed at Canada or the United States. Taking the claims in chronological order, a United States company, Pope & Talbot, Inc., brought its $125 million claim against Canada in March 1999.

30. See Brower Remarks, supra note 22, at 14.
32. See Christopher Dugan & John Nalbandian, Introductory Note to NAFTA Chapter 11 Arbitral Tribunal: Ethyl Corporation v. The Government of Canada (Decision Regarding the Place of Arbitration), 38 I.L.M. 700, 702 (1999) (observing that, following an adverse award on jurisdiction, Canada settled Ethyl Corp.'s claim by agreeing to withdraw the ban on MMT and to pay $13 million in compensation).
34. Because many of the submissions in Chapter 11 proceedings are confidential, writers frequently cannot obtain sufficient information about the existence and nature of pending disputes. See MANN & VON MOLTKE, supra note 3, at 7; Banks, supra note 9, at 501; Chi Carmody, Beyond the Proposals: Public Participation in International Economic Law, 15 AM. U. INT'L L. REV. 1321, 1342-43 & n.67 (2000); Safrin et al., supra note 12, at 725 n.54; Wagner, supra note 6, at 487; Ferguson, supra note 5, at 506, 513; Kass, supra note 3, § 2, col. 1.

The Freedom of Information Act (FOIA) should provide access to relevant documents within the possession, custody, or control of the Department of Justice (which is handling Loewen Group Inc. v. United States) and the State Department (which is handling all other Chapter 11 claims). In response to the author's FOIA request of October 5, 2000, the Department of Justice provided documents on the Loewen case and waived copying and search fees. The State Department's regulations indicate that it "shall" waive or reduce search and copying fees, provided that "[d]isclosure of the information is in the public interest . . . and is not primarily in the commercial interest of the requester." 22 C.F.R. § 171.15. Surprisingly, the State Department initially denied the author's October 5, 2000 request for a fee waiver on the grounds that disclosure would not serve the public interest. Following an administrative appeal, the State Department agreed in principle to some fee reduction during the summer of 2001. As of this writing, the author and the State Department have not agreed on the amount or nature of the fee reduction. Therefore, the author has not received any responsive documents from the State Department.

Under the circumstances, the author has endeavored to provide accurate information, but recognizes that it may not be complete. Because readers may have difficulty in obtaining primary documents, the author discusses the underlying facts of claims and the reasoning adopted by tribunals to a greater extent than he otherwise would.

& Talbot challenged Canadian regulations that implemented the 1996 Softwood Lumber Agreement by requiring producers in four Canadian provinces to obtain permits for—and pay fees on—certain lumber exports to the United States. According to Pope & Talbot, Canada’s administration of these measures denied its Canadian subsidiary national treatment, and fair and equitable treatment; constituted a performance requirement; and represented a measure tantamount to expropriation. As explained below, the tribunal has rendered a series of partial awards on jurisdiction and the merits.

In April 1999, a United States citizen initiated a $50 million claim against Mexico for the tax treatment of his Mexican company, Corporacion de Exportaciones Mexicanas, S.A. (CEMSA). The claim alleged that Mexican tax authorities arbitrarily (and in violation of court orders) denied CEMSA excise tax rebates. The investor described these measures as an expropriation and the denial of justice. Of the five new claims, only this one fits the paradigm of investor-state disputes that U.S. negotiators contemplated when drafting Chapter 11.

In July 1999, a Canadian company, Methanex Corporation, served its Notice of Intent to file a $970 million claim against the United States. Methanex asserted that California’s ban of the fuel additive MTBE constitutes a measure tantamount to expropriation and a denial of “fair and equitable” treatment, inasmuch as California did not rely on scientific evidence, failed to consider alternative regulations, and adopted measures

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36. Id. at 5-7.
39. Id. at 23-27.
41. See Feldman v. Mexico, Notice of Arbitration, at 5-6 (on file with the Pepperdine Law Review).
42. See id. at 8-11.
44. Id. at 2-4.
not reasonably necessary to protect legitimate public interests.\textsuperscript{45} "By casting its argument in these terms, Methanex implies that 'fair and equitable treatment' incorporates the types of restrictions that Article XX(b) of the General Agreement of Tariffs and Trade (GATT) places on health, safety, and environmental laws."\textsuperscript{46}

In September 1999, a Canadian company, Mondev International, Ltd., filed its Notice of Arbitration in a $50 million claim against the United States. While it lacked the colorful facts of the Mississippi court proceedings in \textit{Loewen}, this claim also involved state court proceedings.\textsuperscript{47} Mondev claimed that a combination of actions taken by Boston city authorities, the state trial court, and the Massachusetts Supreme Judicial Court resulted in a denial of justice, a measure tantamount to expropriation, and a denial of fair and equitable treatment.\textsuperscript{48} Mondev asserted that the Supreme Judicial Court contributed to these NAFTA violations by reweighing jury findings, ignoring its own standard of review, adopting a novel legal theory that the parties never asserted, and applying it retroactively to reverse a multi-million dollar jury award.\textsuperscript{49}

Finally, in January 2000, United Parcel Service of America, Inc. (UPS) served its Notice of Intent to pursue a $100 million claim against Canada.\textsuperscript{50} UPS claimed that Canada unlawfully permitted Canada Post (the national mail service) to use its monopoly on letter mail to cross-subsidize non-monopolized businesses, including parcel delivery and courier services.\textsuperscript{51} UPS also alleged that Canada Post violated the obligation of national treatment by giving its own courier businesses access to the national mail distribution system, while denying similar access to United Parcel Service Canada Ltd.\textsuperscript{52} Furthermore, UPS asserted that these and several other alleged violations of NAFTA (some of which do not fall within Chapter 11) constituted a violation of the minimum standard of treatment, including fair and equitable treatment.\textsuperscript{53}

These claims indicate that Chapter 11 provides the tool for challenging a wide variety of "measures," including laws and regulations that allegedly protect public health, safety, and the environment; create import and export

\textsuperscript{45} Id. at 2-3.
\textsuperscript{46} Brower Remarks, \textit{supra} note 22, at 14.
\textsuperscript{49} See id. at paras. 130, 138, 141.
\textsuperscript{50} United Parcel Serv. of Am., Inc. v. Canada, Notice of Intent to Submit a Claim to Arbitration Under Section B of Chapter 11 of the North American Free Trade Agreement (on file with Pepperdine Law Review).
\textsuperscript{51} Id. at paras. 5-16.
\textsuperscript{52} See id. at para. 19.
\textsuperscript{53} See id. at paras. 25-31.
controls; and implement treaties. In addition, Chapter 11 permits scrutiny of important governmental services, including a judicial system that we regard as a model for the rest of the world. This intrusion of international law into the daily affairs of NAFTA countries has provoked an outcry against the perceived chilling effect on regulatory programs and the corresponding diminution of sovereignty. Chapter 11 has even drawn criticism from a prominent international lawyer who describes Chapter 11 as a "bizarre human rights treaty . . . for a special-interest group" that provides NAFTA investors with "direct access to . . . denationalized adjudication of any governmental measure that interferes with their ample rights."

Herein lies the irony of Chapter 11: the U.S. government expected it to provide a depoliticized method of protecting U.S. investors against the arbitrary conduct of Mexican officials. Instead, the promiscuous use of Chapter 11 to challenge public regulatory laws in Canada and the U.S. has thrust it into the center of a highly politicized debate, in which participants question the compatibility of Canadian and U.S. sovereignty with traditional principles of international law. While Mexico remains committed to Chapter 11 as written, the Canadian government and parts of the U.S. government have proposed the adoption of binding interpretive statements to limit Chapter 11's substantive obligations. Most writers either concur or urge a retreat from unfettered access to investor-state arbitration of Chapter 11 claims.59

54. See supra notes 6-14 and accompanying text.
56. See Safrin et al., supra note 12, at 726 n.56 (observing that the Mexican government opposes any changes to the Chapter 11 process); Ferguson, supra note 5, at 516 (describing the Mexican government's satisfaction with the Chapter 11 process and its corresponding reluctance to make any changes). See also Mann, supra note 3, at 407 (stating that Mexico expects pending cases to resolve public concerns).
57. See supra notes 12-13 and accompanying text.
58. See supra note 13 and accompanying text.
59. See supra note 11 and accompanying text. But see Brower & Steven, supra note 15, at 194; Byrne, supra note 8, at 433; Loritz, supra note 3, at 549-51.
III. BALANCING ACCESS AND THE MERITS

Any system for resolving investor-state disputes must balance two objectives. First, it must provide investors with liberal access to a forum in which to present complaints. Second, the selected mechanism must not create ideal standards that conflict with the regulatory practices of most orderly states. It seems evident that public anxiety about Chapter 11 rests on the untested premise that it lacks balance and favors the interests of foreign investors over the public interest; hence, the perceived need to restore equilibrium by limiting access to investor-state arbitration or by restricting the substantive obligations of Chapter 11. Several recent awards provide an important opportunity to determine whether arbitral tribunals can strike a balance that should diminish the opposition to Chapter 11.

Part III argues that most Chapter 11 tribunals have adopted interpretive strategies that promote access to investor-state arbitration but do not impose unrealistic standards of conduct on NAFTA Parties. Part III(A) explains that most tribunals have adopted flexible interpretations of Section B’s provisions on procedure and jurisdiction, thus promoting access to arbitration and a hearing on the merits. Part III(B) describes the countervailing tendency of tribunals to adhere more rigorously to the treaty’s text and specific rules of international law in construing Section A’s provisions on liability. As critics feared, extravagant claims will often survive procedural and jurisdictional objections. Yet, critics have overestimated the capacity of such claims to pass through the rigorous filter of substantive disciplines. Thus, the emerging case law suggests that Chapter 11 gives investors broad opportunities to complain, but subjects their allegations to a level of scrutiny that provides adequate protection against abusive claims.

A. Access to Investor-State Arbitration

Section B of Chapter 11 "establishes a mechanism for the settlement of investment disputes that assures... due process before an impartial [arbitral] tribunal." Viewed in isolation, however, certain provisions of Section B seem to impose requirements that limit access to investor-state arbitration. For example, claimants must establish that they qualify as

62. NAFTA, supra note 1, at art. 1115, 32 I.L.M. at 642.
“investors” in another NAFTA Party.63 Their claims must also involve “investment disputes” in the sense that they challenge measures “relating to” investors or investments.64 Furthermore, in submitting claims, investors must include a written consent to arbitration and a waiver of the right to initiate or continue any other dispute resolution proceedings with respect to the allegedly offending measure, except for certain proceedings for extraordinary relief not involving the payment of damages.65 If the investor initiates a claim on behalf of an enterprise of another NAFTA Party that it owns or controls, the investor must also submit a waiver executed by that enterprise.66

Citing these provisions, disputing NAFTA Parties frequently seek partial or complete dismissal on the grounds that the claimants lack an investment; the claims do not involve investment disputes; claimants have improperly raised “new claims” based on events that occurred after the commencement of arbitration; and the claimants have submitted untimely or insufficient waivers. While individual provisions of Chapter 11 might appear to support such objections, most tribunals have construed those provisions in light of their purpose and context, which includes the creation of a dispute resolution process that assures “due process” before an impartial tribunal. Because “[l]ading th[e] process with a long list of mandatory preconditions . . . would defeat that objective,” most tribunals have flexibly construed procedural and jurisdictional rules to promote access to arbitration and examination of claims on the merits.67 Nonetheless, tribunals have indicated that they will not use flexible constructions to reward claimants who engage in seriously abusive behavior.

63. Id. at art. 1116 (authorizing “investors” to submit claims on their own behalf); id. at 1117 (authorizing “investors” to submit claims on behalf of enterprises they own or control), 32 I.L.M. at 642-43.
64. Id. at arts. 1101(1), 1115, 32 I.L.M. at 639, 642.
65. Id. at art. 1121(1), 32 I.L.M. at 643.
66. Id. at art. 1121(2), 32 I.L.M. at 643. In addition, investors cannot submit a claim to arbitration until six months have elapsed since the events giving rise to the claim. Id. at art. 1120(1), 32 I.L.M. at 643. Before actually submitting a claim, investors must also wait for 90 days after giving the disputing NAFTA Party notice of intent to submit the claim to arbitration. Id. at art. 1119, 32 I.L.M. at 642. Finally, investors may not submit a claim to arbitration if more than three years have elapsed from the date on which the investor acquired (or should have acquired) both knowledge of the alleged breach and the occurrence of loss or damage. See id. at arts. 1116(2), 1117(2), 32 I.L.M. at 642-43.
1. Lack of an Investment

Section A of Chapter 11 regulates measures that relate to “investors” and “investments.” Likewise, Section B of Chapter 11 establishes procedures for resolving “investment disputes.” Disputing NAFTA Parties have frequently sought dismissal on the grounds that claimants lacked investments or did not challenge measures “relating” to investments.

In *S.D. Myers, Inc. v. Canada*, the claimant (SDMI) alleged that its operations in Canada alone and jointly with S.D. Myers (Canada), Inc. (Myers Canada) constituted an investment within the meaning of Article 1139. Canada requested dismissal on the grounds that Myers Canada did not constitute an investment of SDMI because the individual members of the Myers family held the stock of both corporations. Thus, although the two businesses were affiliates, SDMI technically did not own or control Myers Canada. Because the three-year limitations period of Chapter 11 would likely have prevented the individual owners of Myers Canada from bringing a separate claim, SDMI sought to establish a Canadian investment on a number of other alternative grounds.

“Taking into account the objectives of the NAFTA,” the tribunal could “not accept that an otherwise meritorious claim should fail solely by reason of the [formal] corporate structure” adopted by a family business. Since the evidence established that both corporations remained within the Myers family and under the control of one individual, the tribunal concluded that Myers Canada qualified as an investment of SDMI for purposes of Chapter 11. As a result, the tribunal did not address SDMI’s alternative arguments on jurisdiction.

In *Pope & Talbot, Inc. v. Canada*, a U.S. investor claimed that its investment in a Canadian lumber company had been expropriated by regulations requiring export permits for – and payment of fees on – certain lumber exports to the United States. Canada responded that the claim did not relate to the investment of an investor because access to the U.S. market does not constitute “property included within the definition of an investment

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68. NAFTA, *supra* note 1, at art. 1101(1), 32 I.L.M. at 639.
69. *Id.* at art. 1115, 32 I.L.M. at 642.
71. *Id.*
72. *Id.* at para. 227.
73. *Id.* at para. 228.
74. *Id.* at para. 232.
75. *Id.* at para. 229.
76. *Id.* at paras. 227, 229, 231.
77. *Id.* at para. 232.
under Article 1139. Instead of trying to bring the concept of "market access" within the specific definition of an investment, the tribunal ruled that the Canadian subsidiary was an investment, that U.S. sales constituted a large part of the investment's business, and that those sales affected the investment's value. Viewed from this broader perspective, the tribunal denied Canada's objection because the export restrictions related to an "investment" as defined in Article 1139.

2. Investment Disputes

Several U.S. investors have challenged Canadian restrictions on the import or export of goods. In these cases, Canada has routinely argued that such claims do not involve investment disputes, but constitute "trade disputes" falling within the substantive disciplines of Chapter 3 (trade in goods) and the remedial provisions of Chapter 20 (state-to-state disputes). Citing the text of Article 1101 and GATT jurisprudence, Canada has maintained that the challenged measures do not "relate to" investments because they are "primarily aimed at" trade in goods. In two of three awards to consider this issue, Chapter 11 tribunals held outright that measures directed at trade in goods may also "relate to" investments if the measures directly affect the value of investments. In the third award, the tribunal declined to issue a definitive ruling, but indicated that Canada's objection lacked merit. Thus, while isolated quotes from Article 1101 and GATT jurisprudence might have supported a dichotomy between trade and investment disputes, arbitrators evidently realized that this distinction would

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80. Id. at para. 98.
81. Id.
83. Pope & Talbot, Award in Relation to the Preliminary Motion by the Government of Canada, at paras. 27-28 (Jan. 26, 2000).
84. S.D. Myers, Partial Award, at paras. 294-95 (Nov. 13, 2000). See also id. at paras. 61-62 (separate opinion of Bryan Schwartz); Pope & Talbot, Award in Relation to the Preliminary Motion by the Government of Canada, at paras. 33-34 (Jan. 26, 2000).
85. Ethyl Corp., Award on Jurisdiction, at paras. 63-64 (June 24, 1998), 38 I.L.M. at 725 (noting that Canada "cite[d] no authority" and did not "elaborate any argument" to support its position, observing that Canada did not require an immediate decision of the issue, and declining to exclude Ethyl's claim at the present time).
frustrate the purpose of investor-state arbitration by permitting NAFTA Parties to avoid scrutiny of harmful measures directed at the goods that investments consume or produce.

3. New Claims

Like many international tribunals, Chapter 11 tribunals have no authority to enjoin disputing parties from engaging in behavior alleged to constitute a violation of their treaty obligations. This leaves NAFTA Parties free to maintain or modify challenged measures, thus increasing the likelihood of injury during the course of arbitration. When investors have claimed damages for subsequently occurring events, however, NAFTA Parties have objected on the grounds that they constitute “new claims” that must be submitted to separate arbitrations in accordance with the procedural requirements of Section B. Although Chapter 11 tribunals have consistently rejected the inadmissibility of such claims per se, they have not adopted a uniform conceptual framework for dealing with this issue.

In Pope & Talbot, Inc. v. Canada, the investor submitted a claim challenging Canadian regulations imposing fees on certain lumber exports to the United States. Nine months later, the Canadian and U.S. governments agreed to impose additional fees on exports from British Columbia. The investor first challenged this “super fee” in its memorial some thirteen months after commencement of the arbitration. Canada objected on the grounds that (1) the regulations implementing the “super fee” represented a new measure that required submission of a separate claim in accordance with the procedural requirements of Section B, and (2) the UNCITRAL Arbitration Rules require claimants to identify their positions clearly in their statements of claim. The investor replied that (1) the new regulations merely adjusted existing measures so as to cause additional harm, (2) its statement of claim covered any modifications of the challenged regulations, and (3) disputing parties should not escape review by modifying challenged measures during the course of an arbitration. The tribunal agreed that the investor’s statement of claim challenged the export regulations as an evolving phenomenon and that the “super fee” simply represented a new

88. Id. at paras. 2, 4.
89. Id. at paras. 4-8.
90. Id. at paras. 12-13.
aspect of the challenged regime. As a result, the circumstances did not require amendment of the investor’s claim.

In *Ethyl Corp. v. Canada*, the notice of arbitration challenged a legislative proposal to ban the importation of (and inter-provincial trade in) the fuel additive MMT and did not specifically refer to a product known as “Greenburn.” The statement of claim, however, referred to the subsequently enacted Canadian legislation and its effect on “Greenburn.” Canada objected on the grounds that the investor had asserted “new claims” lying beyond the tribunal’s competence. The tribunal acknowledged that the references to “Greenburn” arguably constituted an elaboration of claims identified in the notice of arbitration but held that, “if anything,” they amended the notice of arbitration. In discussing the propriety of amendments under the UNCITRAL Rules, the tribunal noted that Article 20 generally permits amendments unless the tribunal considers them inappropriate given the likelihood of delay or prejudice. Finding nothing to rebut this “presumption of amendability,” the tribunal rejected Canada’s objections.

In *Metalclad Corp. v. Mexico*, the investor filed a notice of intent, in which it challenged the denial of a construction permit. Later, the investor submitted a memorial that referred to a subsequent decree that transformed the construction site into an ecological preserve. Mexico objected on the grounds that “Chapter Eleven does not contemplate the amendment of ripened claims to include post-claim events.” The investor responded that policies related to the administration of justice favored consideration of such “new claims.” For example, the failure to hear such claims could deprive investors of redress during the period in which NAFTA Parties would be most inclined to disregard their treaty obligations.

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91. Id. at paras. 24-25.
92. Id. at para. 28.
94. Id.
95. Id.
96. Id. at paras. 94-95, 38 I.L.M. at 730.
97. Id. at para. 95.
98. Id.
100. Id.
101. Id. at para. 65.
102. Id.
presentation of related claims *ad seriatim* would create serious inefficiencies.\(^{103}\)

The tribunal evidently treated the situation as one involving the amendment of a claim. It agreed that efficiency and equity require some opportunity for amendment; however, the tribunal also recognized that principles of fairness and clarity impose certain limitations on the amendment process.\(^{104}\) The tribunal held that Article 48(2) of the Additional Facility Rules strikes an appropriate balance by generally requiring investors to present ancillary claims no later than in their replies.\(^{105}\) Since the investor had challenged the ecological decree in its memorial, the tribunal concluded that it had presented the claim “in a timely manner and consistently with the principles of fairness and clarity.”\(^{106}\)

As the foregoing cases demonstrate, tribunals have rejected the formalistic argument that “new claims” require the initiation of separate proceedings. In so doing, they have paid respect to Chapter 11’s objective of providing liberal access to investor-state arbitration. Chapter 11 tribunals, however, have not adopted a uniform analytical framework for dealing with such claims. At least two tribunals (the *Pope & Talbot* and *Ethyl Corp.* tribunals) have suggested that related events may fall within the scope of the original claim and, therefore, may not require amendment. On the other hand, two tribunals have recognized that the assertion of some claims may require formal amendment in accordance with the applicable arbitration rules. While the UNCITRAL Rules appear to provide an open-ended presumption of amendability, the Additional Facility Rules apply this presumption only until the claimant’s reply, after which they apply the opposite presumption.

Thus, the admissibility of “new claims” depends in part on how investors draft their notices of arbitration and the arbitration rules they select. Investors who want to assert “new claims” without amendment should draft notices of arbitration and statements of claim that describe the offending measures at a high level of generality and challenge them as evolving phenomena. In addition, investors who wish to maintain an open-ended presumption of amendability may prefer the UNCITRAL Rules to the Additional Facility Rules. Investors should, however, recognize certain limits on the assertion of “new claims.” While Chapter 11 tribunals have given liberal consideration to “new claims” made in good faith, they have recognized the need to ensure that the assertion of “new claims” does not result in undue delay, prejudice, or unfairness to disputing NAFTA Parties.

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103. See id.
104. *Id.* at paras. 67-68.
105. *Id.* at para. 68.
106. *Id.* at para. 69.
It seems unlikely that Chapter 11 tribunals will permit investors to raise "new claims" in situations that might create an unfair advantage.

4. Waivers

Article 1121 sets forth the "conditions precedent" to "submission of a claim to arbitration." Among other things, Article 1121(1)(b) requires investors to waive their right to initiate or continue any other dispute settlement procedures with respect to the measures alleged to breach Chapter 11, except for certain actions for extraordinary relief not involving the payment of damages. When investors assert claims on behalf of their owned or controlled enterprises, Article 1121(2)(b) also requires the submission of waivers executed by those enterprises. The waivers "shall" be in writing and included in the "submission to arbitration," which means the notice of arbitration under the UNCITRAL and Additional Facility Rules. In a number of cases, NAFTA Parties have sought dismissal on the grounds that investors submitted untimely waivers, provided substantively insufficient waivers, or continued to pursue related claims for damages before domestic tribunals.

In Ethyl Corp. v. Canada, the investor failed to include written waivers in its notice of arbitration, but submitted them instead with its statement of claim. Relying on the clear textual references to "conditions precedent" and the time for submitting waivers, Canada argued that the untimely waivers created a jurisdictional defect. While conceding that a substantively sufficient waiver represents a condition precedent to consideration of the merits, the investor argued that Article 1121 establishes the conditions for admissibility of claims as opposed to the tribunal's jurisdiction. These arguments required the tribunal to decide whether the NAFTA Parties intended to give jurisdictional significance to the contemporaneous submission of waivers and notices of arbitration. After examining Article 1121, the tribunal gained "no insight" into its purpose beyond the evident function of memorializing a waiver already implied by

108. Id. at art. 1121(1)(b).
109. Id.
110. Id. at art. 1137(1), 32 I.L.M. at 646.
112. See id.
113. See id. at para. 74-75, 38 I.L.M. at 727 (emphasis added).
114. See id. at para. 74.
the act of initiating arbitral proceedings.\textsuperscript{115} Under the circumstances, the tribunal could not accept Canada's argument that the NAFTA Parties intended to give timely submission of waivers the "drastically preclusive effect" of determining jurisdiction.\textsuperscript{116} Accordingly, the tribunal held that the investor's delayed compliance with Article 1121 lacked jurisdictional significance.\textsuperscript{117} The tribunal suggested, however, that persistent or prolonged noncompliance with Article 1121 could warrant dismissal on the grounds of inadmissibility.\textsuperscript{118}

In \textit{Pope & Talbot, Inc. v. Canada}, the investor timely submitted its own waiver and the waiver of a Canadian investment, Pope & Talbot Ltd., in March 1999.\textsuperscript{119} Later, in its statement of claim, the investor referred to damages arising out of its investment in another Canadian company, Harmac Pacific Inc.\textsuperscript{120} Since Harmac had not executed its own waiver, Canada argued that the investor could not state a claim on its behalf.\textsuperscript{121} Although the investor submitted a waiver on behalf of the Harmac business in January 2000, Canada urged the tribunal to dismiss the "Harmac claim" because the three-year limitations period expired before submission of the waiver.\textsuperscript{122} The tribunal rejected the limitations argument on factual grounds and, further, disagreed "that the underlying claim is perfected only when the waiver is submitted."\textsuperscript{123} Like its counterpart in \textit{Ethyl Corp.}, the tribunal viewed "the initiation of arbitral proceedings... as a constructive waiver."\textsuperscript{124} The \textit{Pope & Talbot} tribunal, however, held that the Article 1121 waiver qualifies the constructive waiver in a significant way.\textsuperscript{125} According to the tribunal, the initiation of arbitration arguably waives the right to initiate or maintain \textit{any} other proceedings, whereas the written waiver establishes an intention of \textit{not} waiving the right to seek certain extraordinary relief under the law of the disputing NAFTA Party.\textsuperscript{126} Thus, written waivers do not protect the

\textsuperscript{115} \textit{Id.} at para. 90, 38 I.L.M. at 729.
\textsuperscript{116} \textit{Id.} at para. 91.
\textsuperscript{117} \textit{See id.}
\textsuperscript{118} \textit{Id.} at paras. 75, 91, 38 I.L.M. at 727, 729.
\textsuperscript{119} \textit{See Pope & Talbot, Inc. v. Canada, Award in Relation to Preliminary Motion by Government of Canada to Strike Paragraphs 34 and 103 of the Statement of the Claim from the Record (the "Harmac Motion"), at paras. 3-4 (Feb. 24, 2000) (NAFTA/UNCITRAL), \textit{available at} http://www.appletonlaw.com/4b3P&T.htm.}
\textsuperscript{120} \textit{See id.} at para. 15.
\textsuperscript{121} \textit{See id.} at para. 2.
\textsuperscript{122} \textit{See id.} at paras. 5-9.
\textsuperscript{123} \textit{Id.} at paras. 12-13.
\textsuperscript{124} \textit{Id.} at para. 16.
\textsuperscript{125} \textit{See id.}
\textsuperscript{126} \textit{Id.} (emphasis added).
disputing NAFTA Parties, they protect investors. As a result, the failure to execute a waiver cannot by itself prejudice a disputing NAFTA Party.

Although the Pope & Talbot tribunal declined to interpret Article 1121 as a provision of jurisdictional significance, it recognized that two consequences may flow from non-compliance with Article 1121. First, the tribunal explicitly held that Article 1121 prevents tribunals from entertaining the merits of claims before submission of a proper waiver, thus implying that it establishes conditions for the admissibility of claims. Second, the tribunal implied that dismissal might be warranted if the non-compliance resulted in prejudice, for example through the contemporaneous initiation of related claims for damages before domestic tribunals.

In subsequent proceedings, Canada objected to Pope & Talbot’s assertion of “new claims” without the submission of new waivers. Exasperated at Canada’s continued use of formalistic arguments to obstruct the adjudication of claims brought in good faith, the tribunal provided explicit guidance for the interpretation of Chapter 11’s provisions on procedure and jurisdiction:

[A]s rulings by this Tribunal and the Ethyl Tribunal have found, strict adherence to the letter of ... NAFTA [A]rticles [1116-1122] is not necessarily a precondition to arbitrability, but must be analyzed within the context of the objective of NAFTA in establishing investment dispute arbitration in the first place. That objective, found in Article 1115, is to provide a mechanism for the settlement of investment disputes that assures “due process” before an impartial tribunal. Lading that process with a long list of mandatory preconditions, applicable without consideration of their context, would defeat that objective, particularly if employed with draconian zeal.

Taken together, the Ethyl Corp. and Pope & Talbot awards reinforce the emerging trend of flexibly interpreting Section B to promote access to investor-state arbitration. At the same time; both tribunals carefully

127. See id.
128. Id.
129. See id. at para. 18.
130. See id.
132. See id. at para. 26 (second emphasis added).
affirmed their inherent power to control their dockets and to deal with serious prejudice by dismissing claims.

According to one observer, however, the Ethyl Corp. and Pope & Talbot awards conflict with the subsequent decision in Waste Management, Inc. v. Mexico. In that case, a U.S. investor submitted a claim on behalf of itself and its Mexican investment. With its claim, the investor submitted waivers of its own and its investment’s rights to initiate or continue other proceedings with respect to the challenged measures, subject to the “understanding” that the waiver did not apply to “any dispute settlement proceedings involving allegations that [Mexico] ... violated duties imposed by sources of law other than Chapter Eleven . . . including the municipal law of Mexico.” Following submission of the claim to arbitration, the investment maintained two related claims for damages in Mexican courts and initiated a third claim before a Mexican arbitral tribunal. Under the circumstances, Mexico argued that the Chapter 11 tribunal lacked jurisdiction because the investor had not provided the waiver required by Article 1121 and, moreover, had acted in a manner inconsistent with the waiver required by Article 1121.

In an award dismissing the claim for lack of jurisdiction, the tribunal made several assertions that arguably contradict the letter and the spirit of the Ethyl Corp. and Pope & Talbot awards. For example, all members of the tribunal agreed that a substantively deficient waiver would constitute a jurisdictional defect. In addition, all members of the tribunal agreed that they had an obligation to monitor the investor’s post-submission conduct. Finally, observers have identified a number of statements that seem to restrict access to investor-state arbitration, including the tribunal’s insistence on “clear, explicit, and categorical” waivers and the tribunal’s recognition of its obligation to devote the “utmost attention” to assessing the fulfillment of conditions precedent.

135. Id. at §5.
136. See id. at §§ 6, 25.
137. See id. at §§ 6-7.
138. The majority held that the investor submitted a substantively insufficient waiver in the sense that the investor did not waive the right to pursue related claims for damages under Mexican law. See id. at §§ 27(b), 28, 30, 31. The dissenting arbitrator agreed that a substantively insufficient waiver would create a jurisdictional defect. See id. at para. 58 (dissenting opinion of Keith Highet). However, the dissenting arbitrator concluded that Article 1121 does not require the waiver of claims under Mexican law that partially overlap with Chapter 11 claims but do not by themselves constitute Chapter 11 claims. See id. at paras. 41-43.
139. The majority indicated that conduct frustrating the waiver’s purpose constitutes a jurisdictional defect, while the dissenting arbitrator concluded that such behavior only affects the admissibility of claims. See id. (majority award) §§ 26-31, (dissenting opinion) at paras. 58-59.
140. See Dodge, supra note 133, at 190. See also Waste Mgmt., Arbitral Award, at §§ 17-18 (June
Certainly, the Waste Management award does not suggest an unflagging commitment to the promotion of access to investor-state arbitration. The award may encourage NAFTA Parties to make jurisdictional objections based on formalistic arguments. One hopes, however, that arbitrators will recognize that the result in Waste Management remains absolutely consistent with the Ethyl Corp. and Pope & Talbot awards. The Waste Management tribunal ordered dismissal because the investor, by word and deed, persisted (for fourteen months) in denying any intention to waive the right to pursue related claims for damages under Mexican law, as required by Article 1121. The Ethyl Corp. tribunal suggested that such prolonged non-compliance with Article 1121 might warrant dismissal, albeit on the grounds of inadmissibility. After the investor in Waste Management explicitly discontinued all Mexican proceedings at the eleventh hour and expressed a desire to cure any jurisdictional defects, the dissenting arbitrator argued that remediation was possible. The Pope & Talbot tribunal, however, suggested that delayed compliance with Article 1121 might not cure defects if the investor’s conduct resulted in prejudice. Thus, the Ethyl Corp. and Pope & Talbot awards support dismissal of the Waste Management claim.

While all the three tribunals probably would have dismissed the claim in Waste Management, one possible inconsistency remains: whereas the Ethyl Corp. and Pope & Talbot tribunals arguably would have held the claim to be inadmissible, the Waste Management tribunal concluded that it lacked jurisdiction. One may resolve this apparent tension by distinguishing between vexatious behavior that seriously impedes the process of adjudication and conduct that repudiates, waives, or vitiates consent to arbitration. When parties seriously obstruct the arbitral process, tribunals may respond by invoking their inherent power to manage their dockets and to dismiss vexatious claims over which jurisdiction exists. In other words,

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2, 2000).

141. See Waste Mgmt., Arbitral Award, at ¶s 25-31 (June 2, 2000).
142. See supra note 118 and accompanying text.
143. See Waste Mgmt., Arbitral Award, at para. 52 & n.41 (June 2, 2000) (dissenting opinion).
144. See supra note 130 and accompanying text.
145. See English Arbitration Act of 1996, § 41(3), reprinted in 36 I.L.M. 155, 174 (1997) (authorizing tribunals to dismiss claims if the claimant has caused "inordinate and inexcusable delay" that creates "a substantial risk that it is not possible to have a fair resolution of... that claim" or is likely to cause "serious prejudice to the respondent"). A number of U.S. federal courts have likewise described forum non conveniens dismissals as an exercise of the "inherent power... to control the administration of the litigation... and to prevent its process from becoming an instrument of abuse, injustice and oppression." Baumgart v. Fairchild Aircraft Corp., 981 F.2d 824, 828 (5th Cir. 1993). See also Sibaja v. Dow Chem. Co., 757 F.2d 1215, 1218 (11th Cir. 1985) (exercising inherent power is essential to the administration of justice); Karim v. Finch Shipping
the tribunal may declare all or part of the claim inadmissible. When parties conduct themselves in prejudicial ways that are totally inconsistent with consent to arbitration, they may be deemed to have repudiated or waived their consent to arbitration.146 Likewise, an investor's behavior might become so abusive that it vitiates the consent of a NAFTA Party to arbitration because no sovereign state would agree to arbitration under such conditions. In either case, the conduct effectively destroys the arbitration agreement and, with it, the tribunal's jurisdiction.147

The Waste Management tribunal admittedly did not rely on the distinction between merely prejudicial behavior and conduct that vitiates consent to arbitration. The facts of the case, however, support the application of this distinction,148 which restores a sense of harmony to the three awards.149 If accepted, this distinction could frustrate Waste Management's subsequent effort to refile its claim.150 Assuming that the jurisdictional defect resulted from destruction of the arbitration agreement, the majority's award would seem to constitute res judicata on that issue. Presumably, termination of the arbitration agreement would leave the second tribunal with no basis for jurisdiction. This seems consistent with the first tribunal's award, which did not contemplate that the investor could refile its claim.51

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146. See, e.g., Worldsource Coil Coating, Inc. v. McGraw Constr. Co., 946 F.2d 473, 476 (6th Cir. 1991) (holding that a party waives its right to arbitration where “its action . . . is so inconsistent with arbitration as to indicate an abandonment of that act”); Fisher v. A.G. Becker Paribas, Inc., 791 F.2d 691, 694 (9th Cir. 1986) (holding waiver to be disfavored but found where the party asserting waiver: “(1) has knowledge of an existing right . . . ; (2) acts inconsistent with that existing right, and (3) prejudice to the party opposing arbitration . . . .”); Jeffrey W. Stempel, A Better Approach to Arbitrability, 65 TUL. L. REV. 1377, 1403 (1991) (illustrating that parties may waive an arbitration right).

147. Article II(3) of the New York Convention does not require enforcement of “inoperable” arbitration agreements. See Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, art. II(3), 21 U.S.T. 2517, 330 U.N.T.S. 3. These include agreements that a party has waived, revoked, or terminated. See GARY B. BORN, INTERNATIONAL COMMERCIAL Arbitration in the United States 301 (2d ed. 1994); ALBERT J. VAN DEN BERG, THE NEW YORK Arbitration Convention of 1958, at 158 (1981). They also include agreements to which one party's consent has been vitiated. See Toby Landau, Composition and Establishment of the Tribunal: Articles 14 to 36, 9 AM. REV. INT'L ARB. 45, 104 (1998) (explaining that a “total challenge” to an arbitration clause exists when “consent to arbitration has been vitiated”).

148. See BORN, supra note 147, at 281-82 (explaining that the initiation of and substantial participation in judicial proceedings “would often constitute a waiver of arbitration” if the proceedings are inconsistent with the arbitration agreement).


151. See Dodge, supra note 133, at 190.
5. Conclusions on Access

The foregoing cases indicate that, when required to interpret Section B of Chapter 11, tribunals have adopted a flexible approach favoring the promotion of access to investor-state arbitration – even when isolated treaty provisions might support a different result. In addition to the rulings already discussed, one might also mention Azinian v. Mexico, in which the investor brought an expropriation claim based on the alleged breach of a concession agreement. The tribunal held that the claim failed because Mexican courts had ruled that no contract existed and the investor did not challenge the Mexican court proceedings as a denial of justice. Even so, the tribunal examined the Mexican proceedings because it did not “wish to create the impression that the Claimants [lost] on account of an improperly pleaded case.” Another tribunal refused to dismiss a claim, in which the challenged action (a legislative proposal) did not initially constitute a measure “adopted” or “maintained” by a Party, but subsequently achieved that status following submission of the claim to arbitration. The same tribunal also refused to dismiss the claim even though the investor commenced arbitral proceedings before the expiration of the six-month cooling-off period prescribed by Article 1120(1). The tribunal explained that “dismissal ... would disserve, rather than serve, the object and purpose of NAFTA.”

These decisions suggest that NAFTA Parties will rarely secure dismissal of extravagant claims at an early stage. Opponents of Chapter 11 will likely characterize the procedural victories of investors as proof of an unbalanced investment regime. For two reasons, such arguments fall wide of the mark. First, tribunals have indicated that they will not use flexible interpretations of Section B to permit the assertion of truly abusive claims. Second, as described in Part III(B), tribunals have rigorously examined the merits of claims in light of the treaty’s text and specific rules of international law. The public should not fear decisions that favor the creation of opportunities for foreign investors to assert large claims against NAFTA Parties; those

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153. Id.
154. Id. at para. 101.
156. See id. at paras. 79-85, 38 I.L.M. at 728-29.
157. See id. at para. 85, 38 I.L.M. at 729.
decisions merely represent the initial phase of a mechanism that achieves balance in due course.\textsuperscript{158}

\textbf{B. Examination of the Merits in Investor-State Arbitration}

A recent article about Chapter 11 asks "what all the furor is about" and concludes that it boils down to a fear that "arbitral tribunals . . . may not make the right decisions."\textsuperscript{159} The article responds to such apprehensions by referring to the "long history" of investor-state disputes and the "highly competent members of academia and the international bar" who serve as arbitrators.\textsuperscript{160} While accurate, these statements do not necessarily contradict Philip Jessup's observation that "writers and judges . . . have all too often set up . . . an ideal condition which rarely exists and have tended to assert a perfect international standard which does not reflect actual conditions in the most orderly states."\textsuperscript{161} To diffuse the opposition to Chapter 11, one must demonstrate that tribunals have not exposed the NAFTA Parties to unrealistic standards of conduct or liability.

As explained below, Chapter 11 tribunals have decided the merits of several claims alleged to involve expropriation, performance requirements,

\begin{footnotesize}
\begin{enumerate}
\item[158.] Some writers argue that the expense of defending meritless claims can threaten the regulatory sovereignty of NAFTA Parties. See Byrne, supra note 8, at 434; Ganguly, supra note 3, at 115. See also MANN & VON MOLTKE, supra note 3, at 17 ("Just the ability . . . to launch Chapter 11 challenges . . . presents a serious obstacle to regulatory action."). Investors, however, have brought only thirteen claims against NAFTA Parties before the end of 1999 and a fourteenth claim in 2000. See Safrin et al., supra note 12, at 724. See also supra notes 50-53 and accompanying text. Investors failed to pursue two of those claims, and a tribunal dismissed a third claim on jurisdictional grounds. See Soloway, The Challenge of Private Party Participation, supra note 3, at 12. See also supra notes 133-51 and accompanying text. When compared to the volume of investment between NAFTA Parties, the number of Chapter 11 claims is fairly modest. See GOVERNMENT OF CANADA, DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE, THE NAFTA AT FIVE YEARS 8 (1999) (stating that, in 1998, U.S. investment in Canada reached CDN$147.3 billion and that Canadian investment in the United States reached CDN$126 billion). The expense of defending a few meritless claims may be substantial, but it does not pose a serious threat to the regulatory sovereignty of NAFTA Parties.

One should not forget that the pursuit of Chapter 11 claims also imposes substantial costs on investors and that rational claimants will pursue only those actions that either have a reasonable chance of success or great symbolic importance. Cf. David G. Victor, The Sanitary and Phytosanitary Agreement of the World Trade Organization: An Assessment After Five Years, 32 N.Y.U. J. INT'L L. & POL. 865, 897-98 (2000) (attributing the small number of claims under the SPS Agreement to "extremely high" transaction costs, which limit claimants to bringing "winner cases . . . or highly symbolic cases in which the challenger is politically unable to avoid a dispute"). As tribunals continue to affirm the high threshold for establishing liability under Chapter 11, one can expect a corresponding decrease in the number of claims and the aggregate cost of defending Chapter 11 claims.

\item[159.] Brower & Steven, supra note 15, at 200. For avoidance of ambiguity, the reader should note that Judge Brower is not the author of the present article and bears no responsibility for the views expressed herein.

\item[160.] Id.

\item[161.] Jessup, supra note 61, at 914.
\end{enumerate}
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national treatment, and the minimum standard of treatment. They have examined claims rigorously in light of treaty provisions and specific rules of international law. They have deferred substantially to municipal decision-makers and have preserved the authority of NAFTA Parties to regulate in the public interest. Two tribunals have imposed liability, but given the treaty objectives of encouraging and protecting investment, it should come as no surprise that tribunals have sustained meritorious claims.

1. Expropriation

Two issues have dominated cases involving allegations of expropriation and measures tantamount to expropriation. First, these claims have required tribunals to identify the degree of interference or deprivation that must occur for liability to attach. Second, they have called on tribunals to determine whether non-discriminatory regulations or, more narrowly, the exercise of police powers can ever expose NAFTA Parties to liability. Contrary to the predictions of some observers, tribunals have followed the principle that governmental measures “may affect foreign interests considerably without amounting to expropriation.”

Article 1110(1) requires NAFTA Parties to compensate investors for “expropriation” and measures “tantamount to expropriation” of investments, but does not define either term. Some investors have described the latter term as a *lex specialis* that requires compensation for measures that do not rise to the level of a taking as defined by customary international law. According to this view, NAFTA Parties must provide compensation for measures that constitute a substantial *interference* with investments. Examples of such measures supposedly include export fees that reduce profits and temporary or partial prohibitions of exports to the investor’s natural market.

Tribunals have uniformly rejected such arguments on the grounds that the word “tantamount” means “equivalent.” Because Article 1110 only

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165. *See* Pope & Talbot, Interim Award, at para. 101 (June 26, 2000).
166. *See* S.D. Myers, Partial Award, at paras. 285-87 (Nov. 13, 2000).
167. *Id.* at paras. 285-86; Pope & Talbot, Interim Award, at para. 104 (June 26, 2000).
requires compensation for measures “equivalent to expropriation,” it does not impose any greater liability than would otherwise exist under customary international law. Thus, in accordance with the prevailing view of international law, Chapter 11 tribunals require a substantial deprivation of property rights for liability to attach. Applying this standard, tribunals have found no liability for export fees that reduce profits or export prohibitions that temporarily cut off access to an investment’s market. These decisions reinforce international law’s tolerance of significant interference with property rights. They also suggest that many of the pending expropriation claims are doomed to failure, particularly where they seek to turn routine governmental actions into international disputes.

Tribunals have been willing to find liability in situations that involve the virtual confiscation of property or complete deprivation of control over investments. For example, in Metalclad Corp. v. Mexico, local authorities in Guadalcazar denied a construction permit for a hazardous waste facility that had received all necessary environmental approvals from the competent

168. S.D. Myers, Partial Award, at para. 286 (Nov. 13, 2000); Pope & Talbot, Interim Award, at paras. 96, 104 (June 26, 2000).
171. Pope & Talbot, Interim Award, at paras. 101-02 (June 26, 2000).
173. RESTATEMENT (SECOND) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 192 cmt. b. (1965) (“Conduct attributable to a state may deprive an alien’s property of value without constituting a taking.”); Brownlie, supra note 162, at 535 (observing that “[s]tate measures . . . may affect foreign interests considerably without amounting to expropriation”); Christie, supra note 172, at 318 (recognizing situations in which “interference, although very substantial, has been held not to constitute a ‘taking’”); Higgins, supra note 169, at 351 (stating that “interferences with property for economic and financial regulatory purposes are tolerated to a significant degree”); Philip C. Jessup, Confiscation, 21 AM. SOC’Y INT’L L. PROC. 38, 39 (1927) (warning against the “hasty” condemnation of governmental measures that injuriously affect property rights).
federal authorities.175 In reaching their decision, the local authorities gave the investor no notice, provided no opportunity to be heard, and identified no construction defects in the facility.176 Later, the outgoing governor of the Mexican State of San Luis Potosi issued a decree incorporating the site into an ecological preserve.177 The tribunal held that these two actions permanently barred any operation of the facility and, therefore, constituted an indirect expropriation and a measure tantamount to expropriation.178

The Metalclad award establishes that Chapter 11 places limits on the extent to which NAFTA Parties may interfere with investments. It lends no support, however, to the proposition that Chapter 11 undermines legitimate regulatory programs. Since the competent federal authorities granted Metalclad all necessary environmental approvals, the case does not challenge Mexico’s right to adopt appropriate environmental regulations. Nor does the award challenge the right of Guadalcazar city authorities to review applications for construction permits; it only prohibits them from disregarding fundamental tenets of procedural justice and denying requests without some identification of construction defects. Finally, the award does not challenge the authority of Mexican state governors to establish ecological preserves. It only requires them to provide compensation for the economic destruction of investments operating lawfully and in compliance with Mexican environmental laws. Such obligations pose no credible threat to regulatory sovereignty.

Even though tribunals have adopted a fairly narrow definition of expropriation, Canada has sought to prevent its application to regulatory measures. According to Canada, international law does not require compensation for “any loss sustained by the imposition of a non-discriminatory, regulatory measure.”179 This formulation appears to conflate two related principles.180 First, bona fide regulations may substantially interfere with the use of property, but they usually do not constitute a substantial deprivation of property rights.181 Therefore, most regulations do

175. Metalclad, Arbitral Award, at paras. 52, 78, 80, 85-90 (Aug. 30, 2000).
176. Id. at paras. 91, 93.
177. Id. at paras. 109-10.
178. Id. at paras. 107, 109, 111.
180. It would also seem to make liability for regulatory takings coextensive with the obligation of national treatment.
181. B.A. Wortley, Expropriation in Public International Law 51 (1959) (explaining that restrictions based on the principle of neighbourliness may be imposed without a deprivation of property rights, but acknowledging that expropriation may occur when “the restrictions imposed extend beyond the obligations of neighbourliness”).
not meet the threshold definition of expropriation. Second, the non-discriminatory exercise of police powers (a narrow subset of regulations) generally justifies deprivations that would otherwise constitute takings of property. Even here, there are some exceptions. For example, outside of criminal proceedings, the exercise of police powers does not justify the outright transfer of title without compensation. Similarly, when exercising legitimate police powers, states bear responsibility for the adoption of clearly excessive measures that bear no reasonable relationship to the regulatory objective.

While recognizing that the “general body of precedent usually does not treat regulatory action as amounting to expropriation,” the tribunal in S.D. Myers, Inc. v. Canada rejected Canada’s absolute formulation of the rule. Instead, the tribunal distinguished between expropriation and regulation on the grounds that the former involves a deprivation of ownership rights, while the latter constitutes a lesser interference. The Pope & Talbot tribunal likewise held that the distinction between takings and bona fide regulations may depend on the degree of interference. Therefore, Canada’s absolute formulation went “too far” and would create a “gaping loophole in international protections against expropriation.” While agreeing that regulations can be applied in ways that constitute “creeping expropriation,”

182. Christie, supra note 172, at 337 (recognizing that “no one can ordinarily claim exemption from even substantial regulation in the public interest”). See also Sacerdoti, supra note 169, at 384 (“Deprivation of property should be distinguished from regulation, especially in relation to the use of property.”)


185. Id. at 275 n.10 (suggesting that the exercise of police power may constitute a taking if it has “damaged the property to an excessive degree”); Bischoff Case (Ger. v. Venez.), 10 R.I.A.A. 420, 420 (1903) (finding the initial taking of a carriage justified as an exercise of the police power, but imposing liability because of the unreasonable period of detention); Whiteman, supra note 183, at 1010 (“Even where the original taking of property is lawful, its unreasonable detention has been held to warrant an award.”). See also Christie, supra note 172, at 338 (requiring a “plausible relationship” between the objectives served by the police power and the action taken); Sohn & Baxter, supra note 183, at 553 (indicating that a state would be liable for destroying a bridge as a hazard to navigation if the bridge spanned a non-navigable river).


187. Id. at para. 282.


189. Id. at para. 99.
however, the tribunal also recognized that not all regulations are susceptible to challenge; in particular, the tribunal mentioned that the analysis of police powers would require "special care." 190

These rulings should diminish the opposition to Chapter 11. They do not support the principle of absolute regulatory sovereignty for NAFTA Parties, but absolute regulatory sovereignty does not exist under customary international law and it would be surprising to find that principle established by an investment treaty. Nevertheless, the emerging trend suggests that investors will face great difficulty in establishing claims for "regulatory takings" and even greater obstacles to the assertion of expropriation claims directed at the exercise of police powers.

2. Performance Requirements

Article 1106 prohibits NAFTA Parties from establishing certain performance requirements. 191 Article 1106(1)(a) states that no Party shall, in connection with the conduct or operation of an investment, impose a requirement to export at a given level. 192 Likewise, Articles 1106(1) and 1106(3) provide that no Party shall impose the following requirements either as conditions for the conduct or operation of an investment, or for the receipt of an advantage: achievement of a given level or percentage of domestic content; the purchase, use, or granting of preferences to locally produced goods or services; and the restriction of local sales in relation to the volume or value of exports. 193 Article 1106(5), clarifies that "[p]aragraphs 1 and 3 do not apply to any requirement other than the requirements set out in those paragraphs."

Chapter 11 tribunals have considered – and denied – two claims alleging the application of unlawful performance requirements. In Pope & Talbot, Inc. v. Canada, the investor claimed that the imposition of export fees constituted a performance requirement because the fees reduced the level of its exports. 194 The investor also argued that the export fees forced it to restrict sales of goods in Canada by relating them to the volume of exports. 195 The tribunal rejected both arguments. Although the tribunal recognized that

190. Id.
191. NAFTA, supra note 1, at art. 1106(1), 32 I.L.M. at 640.
192. Id.
193. Id. arts. 1106(1)(b), (c), (e), 1106(3)(a), (b), (d), 32 I.L.M. at 640.
194. Pope & Talbot, Interim Award, at paras. 47, 59 (June 26, 2000).
195. Id. at para. 49.
the fees deterred exports, they did not require any particular level of exports or place any limitations on domestic sales. In *S.D. Myers, Inc. v. Canada*, the investor claimed that a ban on the export of PCBs required it to undertake the destruction and disposal of PCBs in Canada. According to the investor, the export ban constituted an unlawful performance requirement because it forced the investor to achieve a given level of domestic content and to purchase or use local goods and services. One arbitrator would have upheld the claim because the destruction operations had to occur in Canada, thus establishing a required level of “Canadian content.” The majority disagreed and held that the export prohibition “clearly” did not require the investor to achieve a given level of domestic content. Although the majority did not explain the basis for that conclusion, it seems correct. While destruction operations might have to take place in Canada, the export ban did not prevent the investor from using U.S. labor, technology, equipment, and supplies in those operations. Under these circumstances, the measure did not require the investor to achieve any particular level of Canadian content.

Thus, Chapter 11 tribunals have not defined unlawful performance requirements to include measures that merely encourage the reduction of exports or the consumption of local goods and services. Tribunals have, instead, conditioned liability on the presence of actual requirements that fall within the specific prohibitions of Article 1106. In other words, tribunals have adhered rigorously to the letter of Article 1106 and have preserved the broad powers of states to create regulatory incentives without triggering liability.

3. National Treatment

Article 1102 requires each NAFTA Party to accord the others’ investors and their investments “treatment no less favorable than it accords, in like circumstances, to its own investors” and their investments “with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.” Thus far, one tribunal has ruled on a national treatment claim. Although the tribunal determined that Canada violated its obligations, the tribunal preserved a wide discretion for

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196. Id. at para. 75.
197. Id.
198. Id. at para. 80.
200. Id. at para. 270.
201. Id. at paras. 277 (award), 193 (separate opinion of Bryan Schwartz).
202. Id. at para. 276 (award).
203. NAFTA, *supra* note 1, at art. 1102(1), (2), 32 I.L.M. at 639.
states to adopt necessary environmental regulations that disproportionately affect foreign investors and investments.

*S.D. Myers, Inc. v. Canada* involved the claim of a U.S. company (SDMI) that specialized in the destruction and disposal of PCBs and hoped to enter the Canadian market. Located in close proximity to Canada’s industrial centers, SDMI had a clear cost advantage over Canadian competitors located in Alberta. To facilitate its business plans, SDMI lobbied the U.S. government for an administrative exemption from a U.S. ban on the importation of PCBs. After U.S. authorities granted this request, SDMI’s Canadian competitors asked Canada’s Minister for the Environment to close the border from the other side. Thereafter, the Minister adopted a policy favoring PCB disposal “in Canada by Canadians.” To implement that policy, the Minister banned the export of PCBs based on a “significant danger to the environment and to human life and health.” Lower-level Canadian officials consistently opposed the Minister’s decision because the export of PCBs presented no significant danger to the environment or to human life or health. To the contrary, open borders represented a positive development, since lower costs encouraged destruction of PCBs and the shorter transportation distances reduced the likelihood of accidents. In fact, these considerations prompted the Canadian government to reopen the border some sixteen months later.

When SDMI challenged the measure as a denial of national treatment, Canada responded that the export ban applied equally to Canadians and foreign investors. The tribunal rejected Canada’s “one dimensional” argument and explained that Article 1102 prohibits more than explicit distinctions between domestic and foreign investors. Article 1102 also requires consideration of the intent behind, and practical effect of, the challenged measures. With respect to intent, the tribunal held that “the

204. *S.D. Myers*, Partial Award, at para. 110 (Nov. 13, 2000).
205. *Id.* at para. 112.
206. *Id.* at para. 113.
207. *Id.* at paras. 122, 168.
208. *Id.* at paras. 116, 169, 171, 185.
209. *Id.* at para. 184.
210. *Id.* at paras. 176, 179.
211. *Id.* at paras. 162, 164, 166, 167, 173.
212. *Id.* at paras. 177, 179.
213. *Id.* at para. 127.
214. *Id.* at para. 241.
215. *Id.* at paras. 242, 252-54.
216. *Id.* at paras. 252-54.
documentary record as a whole clearly indicate[d] that the [measures] were intended primarily to protect the Canadian PCB disposal industry from U.S. competition." In addition, the tribunal concluded that the "practical effect of the [ban] was that SDMI . . . [was] prevented from carrying out the business [it] planned to undertake, which was a clear disadvantage in comparison to its Canadian competitors." 

Even though the investor established that the Canadian measures discriminated in favor of Canadian nationals, disparate treatment would not violate Article 1102 absent a showing that SDMI and its Canadian competitors were in "like circumstances." Thus, interpretation of that phrase became a dispositive issue. In examining the meaning of "like circumstances," the tribunal recognized its obligation to consider the "overall legal context" of Article 1102. According to the tribunal, that context includes "the various provisions of NAFTA, its companion agreement the [North American Agreement on Environmental Cooperation (NAAEC)], and principles that are affirmed by the NAAEC." This context establishes that NAFTA Parties have the right to establish high levels of environmental protection and an obligation to avoid the creation of trade distortions.

In defining the phrase "like circumstances," the tribunal also considered OECD practice with respect to the phrase "in like situations." This led the tribunal to observe that comparisons are only valid between enterprises operating in the same sector. The tribunal also construed OECD practice to justify the use of policy objectives to define the permissible circumstances for comparing treatment of domestic and foreign-controlled enterprises. Thus, the "assessment of 'like circumstances' must . . . take into account circumstances that would justify governmental regulations that treat them differently in order to protect the public interest." Put more simply, SDMI would not prevail if Canada could demonstrate that a legitimate environmental concern required the differential and adverse treatment of SDMI.

217. Id. at para. 194 (emphasis added).
218. Id. at para. 193.
219. Id. at para. 243.
220. Id. at para. 245.
221. Id. at para. 247.
222. Id.
223. Id. at para. 248.
224. Id.
225. Id.
226. Id. at para. 250.
227. Id. at para. 173 (separate opinion of Bryan Schwartz).
Applying these principles, the tribunal concluded that SDMI and its Canadian competitors operated in the same economic sector.\textsuperscript{228} In fact, Canada imposed the export ban to prevent SDMI from competing with Canadian-owned businesses.\textsuperscript{229} The tribunal also found that Canada had “no legitimate environmental reason for introducing the ban.”\textsuperscript{230} The tribunal recognized that Canada had an indirect environmental objective of ensuring the existence of a domestic PCB remediation industry.\textsuperscript{231} Although the tribunal described this as a “legitimate goal,” it held that Canada could have achieved it through less trade-distorting means, including subsidies or government procurement policies. Given these facts, the tribunal unanimously found a violation of Article 1102.\textsuperscript{232}

While a defeat for Canada, the \textit{S.D. Myers} award represents a distinct victory for legitimate environmental regulation by NAFTA Parties. The tribunal established that the NAAEC and the principles reaffirmed therein form part of the interpretive context for Chapter 11. This context establishes that NAFTA Parties have the right to adopt high levels of environmental protection that do not create unnecessary trade barriers. Second, the tribunal recognized that legitimate environmental concerns could place domestic and foreign investors in different circumstances and, thereby, justify disparate treatment. In other words, Article 1102 does not prohibit regulatory discrimination when necessary to protect the public interest.

4. Minimum Standard of Treatment

Article 1105(1) creates a minimum standard of treatment, which requires NAFTA Parties to treat each other’s investors in accordance with “international law,” including “fair and equitable treatment.”\textsuperscript{233} Attempts to interpret these two phrases have generated considerable debate. Construed according to its ordinary meaning, the phrase “international law” refers to all sources of international law, including treaty obligations.\textsuperscript{234} This view

\textsuperscript{228} Id. at para. 251 (award).
\textsuperscript{229} Id.
\textsuperscript{230} Id. at para. 195.
\textsuperscript{231} Id.
\textsuperscript{232} Id. at para. 255.
\textsuperscript{233} NAFTA, supra note 1, at art. 1105(1), 32 I.L.M. at 640.
\textsuperscript{234} See Statute of the International Court of Justice, art. 38(1), June 26, 1945, 59 Stat. 1055, T.S. No. 993, 3 Bevans 1179 (identifying the sources of international law); \textsc{Restatement (Third) of the Foreign Relations Law of the United States§ 102 (1987)} (stating that “international law” includes rules established by “customary law,” “international agreement,” or “general principles common to the major legal systems of the world”). \textit{See also} Clyde C. Pearce & Jack Coe, Jr., \textit{Arbitration Under NAFTA Chapter 11: Some Pragmatic Reflections upon the First Case Filed

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suggests that Article 1105 permits NAFTA investors to file claims against NAFTA Parties based *inter alia* on the adoption or maintenance of measures that (1) relate to investors of other NAFTA Parties (or their investments); (2) cause loss or damage to those investors (or their investments); and (3) violate a treaty obligation owed to the investors or their home states. Others take the position that the phrase "international law" only refers to customary international law. According to certain proponents of this view, Article 1105(1) only prohibits host states from engaging in egregious, outrageous or shocking conduct. In a recent article, a sitting Chapter 11 arbitrator offers a third understanding of Article 1105, which would require compliance with customary international law plus the provisions of the NAFTA to the extent that they provide additional protection.
Attempts to define "fair and equitable treatment" have encountered similar difficulties. Although the phrase has become a familiar term in BITs, virtually no case law addressed its meaning before the advent of Chapter 11 disputes. Furthermore, the thin commentary on "fair and equitable treatment" has yet to produce a consistent theme. Some authorities indicate that the term prohibits discriminatory and arbitrary treatment. Other writers suggest that fairness in the context of international investment law forbids the unconscionable frustration of reasonable expectations, for example by breaching treaty obligations. Construing the phrase even more expansively, one highly respected writer (Dr. F.A. Mann) states that unfair and inequitable treatment may include measures that "are not plainly illegal in the accepted sense of international law." Because fair and equitable treatment would be "distinct... from... principles of international law," this view might suggest an open-ended mandate to second-guess the governmental decisions of NAFTA Parties.

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240. See Mann, supra note 239, at 243; Westberg & Marchais, supra note 239, at 353. Two writers assert that the Iran-United States Claims Tribunal addressed the standard of "fair and equitable treatment" in Rankin v. Iran, 17 Iran-U.S. Cl. Trib. Rep. 135 (1987). See Westberg & Marchais, supra note 239, at 353-54. The conclusion seems dubious.


242. See Franck, supra note 235, at 473. See also Sacerdoti, supra note 169, at 341 n.143 (construing "fair and equitable treatment" to require "respect for international law"). Cf. Brower Remarks, supra note 22, at 14 (suggesting that the claimant in Methanex Corp. v. United States had attempted to use "fair and equitable treatment" to incorporate WTO norms).

243. Mann, supra note 239, at 243. See also Vandevelde, supra note 236, at 76 (suggesting that the obligation of "fair and equitable treatment" covers situations "where other substantive provisions of international and national law provide no protection").

244. Gudgeon, supra note 236, at 125. See also Mann, supra note 239, at 244.

245. In its latest award, the Pope & Talbot tribunal adopted Dr. Mann's definition of "fair and equitable treatment," but declined "to substitute its judgment... for Canada's" and denied almost all challenges to Canadian export regulations because they represented a "reasonable response to the circumstances." See Pope & Talbot v. Canada, Award on the Merits of Phase 2, at paras. 121, 123,
These debates about the interpretation of “international law” and “fair and equitable treatment” border on the absurd, albeit for different reasons. Because “international law” has a clearly established meaning, current disagreements about the scope of that phrase reflect an attempt to create ambiguity where none exists. Conversely, the debates about “fair and equitable treatment” constitute a futile effort to reduce a general concept to a precise statement of legal obligation. Proponents of this effort seem oblivious to the fact that the inclusion of “fair and equitable treatment” in Article 1105(1) represents the exemplification of an intentionally vague term, designed to give adjudicators a quasi-legislative authority to articulate a variety of rules necessary to achieve the treaty’s object and purpose in particular disputes.

Thus far, three Chapter 11 tribunals have rendered decisions that shed light on the minimum standard of treatment required by Article 1105.

125, 128, 155, 185 (Apr. 10, 2000) (NAFTA/UNCITRAL), available at http://www.appletonlaw.com/4b3P&T.htm. This suggests that Dr. Mann’s views do not necessarily invite open-ended scrutiny of measures adopted or maintained by host states.

246. See supra note 234 and accompanying text.

247. Cf. David A. Gantz, Potential Conflicts Between Investor Rights and Environmental Regulation Under NAFTA’s Chapter 11, 33 GEO. WASH. INT’L L. REV. 651, 746 (2001) (“Perhaps like Justice Potter Stewart and pornography, it will be easier to identify denials of fair and equitable treatment than to define them more specifically.”).

248. When treaty drafters intentionally use ambiguous phrases to gloss over differences, they effectively grant the competent judicial body a quasi-legislative power to formulate specific rules of conduct. See 1 GEORG SCHWARZENBERGER, INTERNATIONAL LAW 495 (3d ed. 1957). The phrase “fair and equitable treatment” evidently falls within this category of treaty provisions. See J.G. MERRILLS, INTERNATIONAL DISPUTE SETTLEMENT (3d ed. 1998) ("When an arbitrator is asked by the parties to have regard to equitable considerations... he... begins to assume the role of a legislator, creating law for the case in hand."); UNITED NATIONS CENTRE ON TRANSNATIONAL CORPORATIONS, BILATERAL INVESTMENT TREATIES 41 (1988) ("It is in the nature of a very general concept like fair and equitable treatment that there can be no precise definition. What is fair and what is equitable may largely be a matter of interpretation in each individual case."); VANDEVELEDE, supra note 236, at 76 ("The phrase is vague and its precise content will have to be defined over time through treaty practice, including perhaps arbitration under the disputes provisions."). See also C. WILFRED JENKS, THE PROSPECTS OF INTERNATIONAL ADJUDICATION 426, 767 (1964) (explaining that “equity... is... largely a matter of adapting principles to circumstances,” and arguing that “equitable concepts... should play an important part in adapting principles to circumstances in a world in which the law is constantly confronted with new problems and new needs”).

249. In July 2001, the Free Trade Commission (i.e., cabinet-level representatives of the NAFTA Parties) also adopted the first Notes of Interpretation of Certain Chapter 11 Provisions, which purport inter alia to make the following three interpretations Article 1105(1). See Notes of Interpretation of Certain Chapter 11 Provisions, July 31, 2001, § B, available at http://www.dfait-maeci.gc.ca/tna-nac/NAFTA-Interpr-e.asp. First, the Notes of Interpretation provide that “Article 1105(1) prescribes the customary international law minimum standard of treatment as the minimum standard of treatment” required by Chapter 11. Id., § B(1) (emphasis added). Second, “[t]he concept[s] of ‘fair and equitable treatment’... do[es] not require treatment in addition to or beyond that which is required by the customary international law minimum standard of treatment of aliens.” Id., § B(2). Third, “[a] determination that there has been a breach of another provision of the NAFTA, or of a separate international agreement, does not establish that there has been a breach of Article 1105(1).” Id., § B(3).

The NAFTA Parties state that the Notes of Interpretation “clarify” the meaning of Article
Although they have found violations in two cases, the tribunals have uniformly avoided expansive constructions and have attempted to minimize the intrusion of international review into substantive governmental decisions. In *Azinian v. Mexico*, the tribunal reviewed Mexican judicial proceedings to determine if they constituted a denial of justice as defined by

1105(1) and indicate that the Notes of Interpretation bind all sitting and future Chapter 11 tribunals. See *id.*, Preamble (stating that the Notes of Interpretation "clarify" Article 1105); *NAFTA Trade Ministers Clarify Chapter 11 Investment Provision*, 18 Int'l Trade Rep. (BNA) 1234 (Aug. 2, 2001) (indicating that the U.S. Trade Representative expects the Notes of Interpretation to "apply to all future and pending cases"). The Notes of Interpretation, however, resolve few (if any) debates about the meaning of Article 1105(1). Without trying to undertake a comprehensive analysis, one should immediately perceive three facts that will prevent the Notes of Interpretation from settling existing disagreements. First, it is not clear that the Notes of Interpretation have any binding force. While Article 1131(2) authorizes cabinet-level representatives to adopt binding "interpretations" of NAFTA's provisions, Article 2202 governs "amendments" of NAFTA's provisions. According to Article 2202, the NAFTA Parties may agree on any "modification of or addition to" NAFTA, but such amendments become "an integral part" of NAFTA only upon approval by the NAFTA Parties "in accordance with the applicable legal procedures of each Party." In other words, NAFTA draws a fundamental distinction between interpretation and modification: cabinet-level officials have the authority to resolve ambiguities, but not the power to modify obligations without submitting the proposed text for domestic political approval. If, as the author believes, the Free Trade Commission's purported "interpretation" of Article 1105 actually constitutes a "modification," it represents an *ultra vires*, attempted amendment that has no binding force.

Even if the Notes of Interpretation have some binding force, one must seriously doubt the U.S. contention that they are binding on Chapter 11 tribunals in pending disputes. Although Article 1131(2) of NAFTA does not specifically prohibit retroactive application of interpretive statements, Article 1131(1) requires Chapter 11 tribunals to "decide the issues in dispute in accordance with ... applicable rules of international law." Because those rules include the principle that "no one may be the judge of his own cause," it seems highly unlikely that a Chapter 11 tribunal would construe Article 1131(1) as authorizing the use of interpretive statements by NAFTA Parties to resolve the outcome of pending disputes in which they have demonstrable interests. See *Restatement (Third) of the Foreign Relations Law of the United States § 102 cmt. l* (1987) (identifying the rule that no one may be judge in his own cause as a general principle that has achieved the status of international law).

Assuming that the Notes of Interpretation constitute a binding interpretation of Article 1105(1), NAFTA investors may still argue that Article 1103 entitles them to a level of "fair and equitable treatment" that exceeds the requirements of customary international law. Article 1103 requires the NAFTA Parties to give NAFTA investors and their investments treatment no less favorable than given to investors and investments of countries that have concluded BITs with NAFTA Parties. *NAFTA, supra* note 1, at art. 1103, 32 I.L.M. at 639. The "fair and equitable treatment" provisions of BITs, in turn, have been construed to exceed the requirements of customary international law. See Pope & Talbot v. Canada, Award on the Merits of Phase 2, at paras. 110-13 (Apr. 10, 2000). Thus, whatever the meaning of Article 1105(1), NAFTA investors may use Article 1103 to bring claims based on the more generous standards of BITs, and Chapter 11 tribunals may interpret the BITs without regard to the Free Trade Commission's Notes of Interpretation. See *id.* at para. 117 (concluding that a limited interpretation of Article 1105 would not prevent claims for the denial of "fair and equitable treatment" under the broader interpretations of BITs). See also *NAFTA, supra* note 1, art. 1131(2), 32 I.L.M. at 645 (only authorizing the Free Trade Commission to make binding interpretations "of this Agreement").
customary international law. As noted above, the investor never asserted a 
claim under this heading and the tribunal raised the issue out of an 
abundance of caution.\textsuperscript{250} Although this part of the award probably 
constitutes dicta, it provides strong evidence of how other Chapter 11 
tribunals would approach claims that a NAFTA Party has violated the 
minimum standard. Consistent with prevailing views on international 
adjudication, the Azinian tribunal first recognized that it did not serve an 
appeal function and had no warrant to set aside domestic court judgments 
for a lack of persuasive force.\textsuperscript{251} To challenge domestic court proceedings 
in the particular case, the investors would have to establish a denial of justice,\textsuperscript{252} 
which might include a refusal to hear their claim, creation of “undue delay,” 
grossly deficient administration of justice, or clearly malicious or arbitrary 
applications of municipal law.\textsuperscript{253} The tribunal, however, found no 
deficiencies in the Mexican proceedings.\textsuperscript{254} The tribunal also found that the 
evidentiary record was not so insubstantial as to render the Mexican 
judgment an arbitrary decision.\textsuperscript{255} Thus, the tribunal found no denial of 
justice and, correspondingly, no violation of Article 1105.

As noted above, the investor in Metalclad Corp. v. Mexico planned to 
construct and operate a hazardous waste facility. To this end, it obtained all 
necessary environmental approvals from the competent federal authorities, 
who assured the investor that it required no additional approvals.\textsuperscript{256} When 
local authorities in Guadalcazar unexpectedly instructed Metalclad to apply 
for a construction permit, federal authorities advised it to do so as a 
courtesy.\textsuperscript{257} The federal authorities also stated that local authorities lacked 
any basis to deny the permit.\textsuperscript{258} After receiving Metalclad’s application, 
however, the local authorities denied the construction permit without giving 
Metalclad notice or an opportunity to be heard.\textsuperscript{259} In addition, the local 
authorities cited no defects in the facility’s construction.\textsuperscript{260} Metalclad 
submitted that these actions constituted unfair and inequitable treatment. 
Consistent with the views expressed above,\textsuperscript{261} the Metalclad tribunal did not 
try to formulate a precise definition of fair and equitable treatment. At the

\begin{footnotes}
\item 250. Azinian v. Mexico, Arbitral Award, at paras. 100-01 (Nov. 1, 1999) (NAFTA/ICSID Add'l 
\item 251. \textit{Id.} at paras. 84, 99.
\item 252. \textit{Id.} at para. 99.
\item 253. \textit{Id.} at paras. 102-03.
\item 254. \textit{Id.} at para. 102.
\item 255. \textit{Id.} at paras. 105, 120.
\item 256. See Metalclad Corp. v. Mexico, Arbitral Award, at paras. 52, 78, 80, 85-90 (Aug. 30, 2000) 
\item 257. See \textit{id.} at paras. 40-41.
\item 258. \textit{Id.} at para. 88.
\item 259. \textit{Id.} at para. 91.
\item 260. \textit{Id.} at para. 93.
\item 261. See supra notes 247-48 and accompanying text.
\end{footnotes}
outset of its decision, however, the tribunal held that Metalclad's investment did not receive "fair and equitable treatment in accordance with international law." By linking "fair and equitable treatment" to the requirements of "international law," the tribunal avoided the open-ended and subjective interpretation advocated by Dr. Mann and, instead, prescribed an assessment of fairness and equity in light of specific rules of international law.

The tribunal thus turned its attention to the principles established by NAFTA. Prominent among these, the tribunal found several references to transparency. The tribunal noted that the NAFTA Parties agreed to "ensure a predictable commercial framework for business planning and investment" and to "ensure that [their] laws, regulations, procedures, and administrative rulings... are promptly... made available in such a manner as to enable interested persons... to become acquainted with them." From these principles, the tribunal concluded that NAFTA Parties have the obligation to make sure that all legal requirements affecting investment are capable of being readily known. According to the tribunal, "[t]here should be no room for doubt or uncertainty on such matters." Once a NAFTA Party "become[s] aware of any scope for misunderstanding or confusion," it must "ensure that the correct position is promptly determined and clearly stated."

Mexico failed to meet this standard because it did not establish a clear rule on the need or procedures for obtaining local construction permits. In addition, the failure of local authorities to give the investor notice of a town meeting that resulted in the denial of its request for a construction permit, to provide an opportunity to be heard, or to identify any relevant considerations for the denying the permit demonstrated the lack of a transparent or predictable framework for business planning and investment.

Observers have variously described the Metalclad award as a "monumental development" for claimants and an excessive limitation on

263. See id. at para. 76.
264. Id. at para. 71 (quoting NAFTA, Preamble and art. 1802(1), 32 I.L.M. at 605, 648).
265. See id. at para. 76.
266. Id.
267. Id.
268. Id. at para. 88.
269. See id. at paras. 91-93, 99.
the regulatory authority of NAFTA Parties. One wonders, however, if either assessment withstands rigorous scrutiny. To begin with, it should come as no surprise that an acute lack of transparency would constitute unfair and inequitable treatment in the context of an investment treaty. The most qualified writers support this conclusion. In a related context, WTO precedent establishes that the lack of transparency may constitute "arbitrary discrimination" against international trade. Nor is it particularly astonishing that the tribunal would have found an acute lack of transparency on the facts of Metalclad. Again, WTO precedent establishes that regulatory systems lack transparency if they deny individual applications without notice, an opportunity to be heard, or the provision of reasoned, written decisions.

Perhaps the assessments of Metalclad rest on the tribunal's statement that NAFTA Parties "should" leave "no room for doubt or uncertainty" with respect to investment regulations. The tribunal, however, did not hold that the NAFTA Parties "must" leave "no room for doubt and uncertainty." Rather, it decided that NAFTA Parties may face liability if they first become aware of uncertainties and then fail to correct them with reasonable dispatch. This obligation does not seem particularly onerous. Furthermore, the award does nothing to interfere with the substantive regulatory policies of NAFTA Parties; it only requires them to describe and apply their policies in clear and predictable ways.

Observers may believe that the definition of "fair and equitable treatment" by reference to external treaty obligations will expose NAFTA Parties to a variety of new claims. The Metalclad award does not, however,

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271. See, e.g., Stephen L. Kass & Jean M. McCarroll, The "Metalclad" Decision Under NAFTA's Chapter 11, N.Y.L.J., Oct. 27, 2000, at 3 (observing that the Metalclad award "has shocked those environmentalists and governmental officials . . . who have been working to . . . prevent the 'race to the bottom' predicted by [those] who view free trade as a . . . way to circumvent . . . environmental standards").

272. See, e.g., Daniel M. Price, Some Observations on Chapter Eleven of NAFTA, 23 HASTINGS INT'L & COMP. L. REV. 421, 423-24 (2001) (concluding that "fair and equitable treatment" requires host states to deal "transparently in their relations with foreigners"); Sacerdoti, supra note 169, at 344 n.150 (explaining that "fair and equitable treatment" under the Lomé Convention requires "all rules and practices affecting an investor's interest [to] be transparent[ ] and predictable."). Mr. Price served as the principal U.S. negotiator of Chapter 11, and Sacerdoti serves as a judge on the WTO Appellate Body.


276. See id.

277. See supra note 267 and accompanying text.
define “fair and equitable treatment” in a surprising or expansive way. To begin with, the most highly qualified writers have concluded that the violation of treaty obligations “clearly” constitutes unfair treatment in the context of international investment. To anchor “fair and equitable treatment” in specific rules of international law, the award limits the potential for subjective analysis by individual tribunals.

In addressing the minimum standard of treatment, the S.D. Myers tribunal took a similar – but more explicitly deferential – approach. The tribunal recognized that it had no “open-ended mandate to second-guess” the controversial policy choices of NAFTA Parties. To preserve the decision-making powers of NAFTA Parties, the tribunal construed the phrase “fair and equitable treatment” in conjunction with the words “in accordance with international law.” Interpreted this way, Article 1105 only prohibits unjust or arbitrary treatment that is “unacceptable from the international perspective.” Claimants can usually establish such treatment by demonstrating the breach of a rule of international law specifically designed to protect investors. The tribunal cautioned, however, that not every violation of international law constitutes unfair and inequitable treatment. Furthermore, in making determinations, tribunals must consider the “high measure of deference that international law generally extends to domestic authorities to regulate matters within their . . . borders.”

Notwithstanding this explicitly deferential framework, a majority of the tribunal held that Canada’s violation of Article 1102 (national treatment) established a denial of fair and equitable treatment. In a separate opinion, one member of the tribunal indicated that Canada had also acted unfairly and inequitably by failing to give SDMI notice of the proposal to ban exports of

278. FRANCK, supra note 235, at 473. See also Sacerdoti, supra note 169, at 341 n.143 (construing “fair and equitable treatment” to require “respect for international law”).
280. See id. at para. 262.
281. Id. at para. 263.
282. See id. at para. 264.
283. See id.
284. Id. at para. 263. Put more simply, it appears that the tribunal would generally consider a violation of international investment law to constitute a sufficient (but not necessary) showing of unfair and inequitable treatment. This leaves open the possibility that state conduct might be “unacceptable from the international perspective” without violating international law. For example, a technically proper, but abusive, exercise of treaty rights might constitute unfair and inequitable treatment. See Price, supra note 272, at 423-24 (indicating that “fair and equitable” treatment requires adherence to the principle of good faith).
PCBs, granting its Canadian competitors privileged access to decision-makers, and not responding to SDMI’s communications regarding the ban. According to the separate opinion, these actions probably violated principles of procedural fairness and transparency established by Article 1802 of NAFTA and other widely accepted treaties, including the WTO agreements and BITs. The separate opinion declined to find Canada in violation of the particular treaty provisions, however, because the pleadings did not specifically address those provisions and Canada, therefore, lacked a meaningful opportunity to respond to the analysis.

In addressing the minimum standard of treatment, Chapter 11 tribunals have uniformly shown deference to domestic institutions. They have recognized that Article 1105 creates very limited opportunities to review the actions of NAFTA Parties. Accordingly, they have adopted constructions that avoid open-ended, subjective, and unpredictable analysis. These decisions should reassure the public that Article 1105 does not threaten the regulatory sovereignty of NAFTA Parties. It chiefly requires NAFTA Parties to observe in good faith specific rules of international law to which they have voluntarily consented.

IV. CONCLUSION

This article does not aim to denigrate the opponents of Chapter 11; the author recognizes their genuine concern for the public interest. The article suggests, however, that popular anxiety rests on the untested premise that Chapter 11 lacks balance and favors foreign corporate interests over the public interest. To challenge that premise, the article has examined a number of recent decisions and awards rendered by Chapter 11 tribunals. The emerging case law suggests that tribunals have adopted a balanced interpretive strategy, which promotes access to arbitration but does not impose unrealistic standards of conduct on NAFTA Parties. When applying procedural and jurisdictional provisions, tribunals have preferred flexible constructions that promote access to arbitration and a hearing on the merits – even when the isolated text might support a different result. Despite this commitment to access, tribunals have carefully preserved – and in one case exercised – the authority to dismiss abusive claims.

This trend might confirm fears that NAFTA Parties will rarely succeed in eliminating extravagant claims at an early stage of arbitration. When considering claims on their merits, however, tribunals have adhered rigorously to the text of Chapter 11 and specific rules of international law. In so doing, tribunals have deferred to municipal decision-makers and

286. See id. at paras. 241, 246-47, 252 (separate opinion of Bryan Schwartz).
287. See id. at paras. 249-50, 253-55, 257.
288. See id. at paras. 253, 258.
reaffirmed their authority to regulate in the public interest. Furthermore, tribunals have recognized their limited powers of review and have adopted constructions that avoid open-ended and subjective examination of governmental actions. While it may be premature to draw definitive conclusions, Chapter 11 tribunals show every sign of maintaining an appropriate balance between the rights of NAFTA investors to air their complaints and the obligations of NAFTA Parties to regulate in the public interest.

That said, a balanced approach still requires tribunals to find violations and award damages in meritorious cases. Canada and Mexico have already experienced that indignity, and the United States seems unlikely to emerge from Chapter 11 proceedings unscathed. When our government loses a substantial claim, the public will become understandably distressed. Let us hope that we will have the fortitude to acknowledge the deficiencies of our institutions, instead of vilifying Chapter 11 as an “outrageous” or “bizarre” regime.

289. See Ferguson, supra note 5, at 519 (quoting the Executive Director of the Council of Canadians for the proposition that “NAFTA gives outrageous powers to corporations”).

290. See Alvarez, supra note 55, at 307 (referring to Chapter 11 as “the most bizarre human rights treaty ever conceived”).