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A public law approach to investment treaty arbitration: Redressing the balance between investment protection and state regulation

Mohamed Adel Shoaib

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A PUBLIC LAW APPROACH TO INVESTMENT TREATY ARBITRATION:
REDRESSING THE BALANCE BETWEEN INVESTMENT PROTECTION AND STATE REGULATION

A Thesis Submitted to the
Department of Law

In partial fulfilment of the requirements for the
LL.M. Degree in International and Comparative Law

By

Mohamed Adel Shoaib Ali

December 2016
The American University in Cairo
School of Global Affairs and Public Policy

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DEDICATION

For Mom and Dad, to whom I owe everything I am and all that I wish to be
ACKNOWLEDGMENTS

First of all, I would like to express my profound gratitude to the creative cooperation between the AUC and the Egyptian Council of State that enabled me an invaluable opportunity to pursue my second master's degree in one of the most prestigious LLM programs in Egypt. I am also grateful to the AUC library access and facilities without which this thesis would not have been completed.

I am sincerely indebted to my thesis supervisor, Dr. Hani Sayed, for his guidance and support throughout the drafting process. Although I had a tough schedule to follow, I learned so much from his critical comments and discussions. His wide knowledge and patience made this project possible to achieve. I am also thankful to Dr. Thomas Skouteris not only for taking the time to read and comment on this thesis, but also for the most interesting classes I had ever attended. His thoughts gave me a fresh insight into the dynamics of modern international law.

Special thank you goes to Dr. Diana Van Bogaert for her persistent help and academic support since I first applied for the LLM program until I have finally submitted my thesis. I could not have asked for a more active, welcoming and friendly professor. Further, I would like to take this opportunity to thank Drs. Jason Beckett and Amr Shalakany for being both great persons and professors; I truly appreciate that they have always pushed me to try my best.

I wish to convey my deepest gratitude to my inspiring boss, Chief Judge Mustafa El-babhety, for believing in my legal talent and giving me an opportunity to hone my academic and professional skills in my field of interest. Without his support, I would have missed a life-changing experience. I would also like to extend my gratitude to all my colleagues in the General Department for Arbitration and International Disputes for the motivational atmosphere and productive discussions.

I would like to thank my friends, Omar El-menshawy, Amira Hateba, Alaa Mazloum, Asmaa Taher, Dina Farouk, Hoda Khafagi, Farida Ibrahim, El-hussein Fekry and Mahmoud El-essawy, for their thoughtfulness and support during my master's study. Finally, I am grateful to all my family members for their constant encouragement; how lucky I am to have such amazing sister and brother in my life, Maha and Amr. To all of them I say, thank you for always lifting me up and standing by my side.
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A PUBLIC LAW APPROACH TO INVESTMENT TREATY ARBITRATION:  
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Supervised by Professor Hani Sayed  

ABSTRACT  

The ICSID has shifted the scope of investor-state disputes from domestic legal systems to international law realm. It assigns regulatory disputes between states and individuals to one-off private panels rather than public law courts. While investment treaty arbitration (ITA) combines the form and procedure of commercial arbitration, it performs under the substantive principles of public law. Since the ICSID does not set out the substantive rules governing investment disputes, investment treaty tribunals have constantly been the most dynamic zone of international investment law. Drawing on the ICSID neoliberal orientation, tribunals have interpreted and applied the substantive investment standards far beyond the consent of the treaty parties. They have largely intruded into domestic matters that lie within the host state sovereign authority. Moreover, they maintained a domestic normative scheme favourable to foreign investment that obviously exceeds international minimum standards of treatment. A minimal governmental regulatory action becomes an interference with the use of foreign private property that amounts to compensatory expropriation. The aim of this thesis is to reform investment treaty tribunals' law-making from within. Remoulding ITA as public law adjudication, this thesis sets out a comparative public law methodology for refining the content and scope of the open-ended standards for investment protection. It draws on the customary rules of the Vienna Convention on the Law of Treaties as a basis for interpreting investment treaty terms. This thesis seeks to reconceptualise the objectives of ITA under the ICSID legal framework. It emphasizes the correlation between investment protection and the host state’s right to economic development. Further, it integrates rules on corporate social responsibility to equiponderate the host states' international responsibility vis-à-vis foreign investors. Finally, this thesis points out to the significance of incorporating general principles of law and judicial decisions as recognized sources of public international law into the practice of ITA. It argues that accommodating the principle of proportionality as a general principle of law in the tribunals' law-making process would help draw the line between investment protection and state regulation.

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TABLE OF CONTENT

I. INTRODUCTION ........................................................................................................................1

II. THE HYBRID NATURE OF INVESTMENT TREATY ARBITRATION ............... 7
   A. THE HISTORICAL INTERPLAY BETWEEN DOMESTIC AND INTERNATIONAL
      JURISDICTION .................................................................................................................. 9
      1. Calvo Doctrine: National Courts as “ex officio” Jurisdiction over Investment
         Disputes .................................................................................................................... 9
      2. The ICSID System: A Unique Jurisdiction for Settlement of Investment Disputes
         a. The ICSID as a Substitute for Two Divergent Dispute Resolution Systems,
            International Diplomatic Protection and Domestic Court System ........... 14
         b. The ICSID as an Exception to State Sovereign Immunity from Adjudication.  16
   B. THE PUBLIC-PRIVATE DICHOTOMY OF INVESTMENT TREATY ARBITRATION .... 19
      1. The Public Law Foundation: Investment Treaty Arbitration as Regulatory
         Adjudication ............................................................................................................. 20
         a. Analogy to Domestic Judicial review of Administrative Actions ............. 21
         b. ICSID Tribunals’ Variable Scope of Review ............................................. 22
      2. The Private Law Foundation: Investment Treaty Arbitration as Private Model of
         Dispute Settlement ............................................................................................ 23
      3. Investment Treaty Arbitration as a One-Sided System of Litigation ........... 25
         a. An Individualized Claim-Making Process .................................................. 26
         b. State Prospective Consent: ...................................................................... 28
   C. CONCLUSION: ............................................................................................................... 31

III. PRIVATIZING INVESTMENT TREATY ARBITRATION: ELEVATING
     INVESTMENT PROTECTION OVER STATE REGULATORY POWER ............ 33
   A. INTER-STATE BARGAIN OF AN INVESTMENT TREATY: DOES VARIATION IN TREATY
      TERMS ACCOUNT FOR FRAGMENTATION OF INVESTMENT TREATY ARBITRATION .... 35
      1. Bilateral Investment Treaties as a Normative Basis for International Investment
         Regime .................................................................................................................... 36
      2. Divergent Interpretations of International Minimum Standards of Treatment ...... 39
   B. AN ASYMMETRIC BASIS OF JURISDICTION UNDER THE ICSID LEGAL FRAMEWORK . 42
      1. Undefined Protected Investment: Investments Are Not Alike .................... 43
      2. Unequal Access to ICSID Tribunals: Multinational Investment versus Domestic
         Investment ........................................................................................................... 46
a. Favouring Multinational Corporations over Individual Investors .................. 47
b. Excluding Domestic Investors from International Minimum Standards of
   Treatment ............................................................................................................ 49

C. FRAGMENTATION OF INTERNATIONAL INVESTMENT LAW: DYNAMICS OF INVESTMENT
   TREATY TRIBUNALS .............................................................................................. 52
   1. Institutional Appointments of Arbitrators under the ICSID Framework......... 53
   2. The Lack of Binding Precedent and Supervisory Mechanisms....................... 56
   3. Equating Indirect Expropriation with State Regulatory Measure: A Threefold
      Formulation ....................................................................................................... 61

D. CONCLUSION ....................................................................................................... 66

IV. INVESTMENT TREATY ARBITRATION AS PUBLIC LAW ADJUDICATION:
   MAPPING OUT A REGULATORY SPACE FOR THE HOST STATE ....................... 68

   A. THE INTERPRETIVE FRAMEWORK: CUSTOMARY RULES OF INTERNATIONAL LAW
      UNDER THE VIENNA CONVENTION ON THE LAW OF TREATIES ...................... 70
      1. A Restrictive Approach to the VCLT Interpretive Guidelines ....................... 71

   B. THE CONCEPTUAL FRAMEWORK: COUNTERBALANCING INVESTOR’S RIGHTS WITH
      OBLIGATIONS UNDER THE WASHINGTON CONVENTION ...................................... 75
      1. Identifying the Host State’s Right to Economic Development as an Object to ICSID
         Litigation ............................................................................................................. 76
      2. Integrating Rules on Corporate Social Responsibility in Investor-State Disputes . 81

   C. THE COMPARATIVE FRAMEWORK: ACCOMMODATING PUBLIC LAW STANDARDS OF
      REVIEW IN INVESTMENT TREATY ARBITRATION LAW-MAKING .......................... 85
      1. The Legal Foundation for Substantive Investment Law Reformation: General
         Principles of Law and Judicial Decisions ............................................................. 88
      2. Delineating the Boundary between Compensatory Expropriation and Non-
         compensatory State Regulation: A Three-part Proportionality Test ................. 92

V. CONCLUSION ....................................................................................................... 97
I. INTRODUCTION

The advent of the International Center for Settlement of Investment Disputes (ICSID) – under the Washington Convention – has drastically transformed traditional international arbitration from the reciprocal relationship to the regulatory sphere.\(^1\) Through a wide network of Bilateral and Multilateral Investment Treaties (B/MITs), individuals and multinational corporations are now able to directly initiate, arbitrate and enforce international proceedings against sovereign states. In that capacity, Investment Treaty Arbitration (ITA) acts as a fundamental legal tool of public international law that reviews and adjudicates on states' exercise of public authority vis-à-vis foreign investors.\(^2\) However, the lack of a multilateral legal framework on the substantive standards of investment protection under the ICSID has invested one-off investment treaty tribunals' extensive law-making powers.\(^3\) The absence of an effective mechanism to review inconsistent awards has led to divergent approaches on a case-by-case-basis.\(^4\) Drawing on the ICSID neoliberal orientation, most investment treaty tribunals have recognized expansive interpretations of open-ended treaty standards in favor of private transnational investment. These interpretations give rise to legal instability in the practice of ICSID tribunals. As a result of this, a large number of privately-minded awards have diminished host states' legitimate regulatory power, maintained a domestic legal order that fairly exceeds international minimum standards of treatment and deprived host states the right to counterclaim against transgressor investors for breaches committed in the course of their investment.\(^5\) In that sense, ICSID creates a one-sided model of adjudication that seriously demands search for an alternative approach to strike a balance between the interests of foreign investors and host state.

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(The convention is commonly known as the 'ICSID Convention' or the 'Washington Convention')

(159 states have signed and 151 have ratified the ICSID Convention), available at http://www.worldbank.org/


4 Id. at 170

5 See supra note 2 at 127-131
Over the past decade, respondent states discontent with ICSID's inclination to private transnational investment has reached a climax. The expansionary interpretations of central investment provisions by privately-contracted arbitrators have proved to be detrimental to the legitimacy of the system at large. The lack of a conclusive basis for states consent to the ICSID jurisdiction has cursed the practice of ITA with unpredictability. Investment treaty tribunals have endorsed a restrictive approach that relies on textual meaning in defining the scope of "protected investment", while ignoring the main objective of ICSID in promoting host states' economic development. In doing so, tribunals have intruded into matters of mere administrative discretion that lie within the sovereign authority of the treaty parties. Inflexible investment protection has vigorously contravened inherent regulatory functions of the host states in pursuing legitimate policies essential to ensure public welfare. Therefore, a significant part of the literature criticizes the current practice of investment treaty tribunals for favoring multinational corporations at the expense of the developing host states' socio-economic needs.

It is evident that the global network of B/MITs creates an overarching body of international investment regime. Yet, the vaguely-drafted investment treaty terms, including Indirect Expropriation, Fair and Equitable Treatment and Most Favored Nation, allow arbitrators wide leeway in reinterpreting the substantive rights of the treaty parties. In many cases, despite similarities in facts and merits, investment treaty tribunals have strikingly reached contradictory legal conclusions. Such divergent practice touches fundamentally on the claims of systematic institutional bias of the ICSID. Even though a judicial-like process was intended to disentangle the disputed public and private interests in investor-state disputes, a neoliberal ideology has been bestowed upon ICSID tribunals. An epistemic hegemony of commercial arbitrators

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6 See Susan D. Franck, the Legitimacy Crisis in Investment Treaty Arbitration: Privatizing Public International Law through Inconsistent Decisions, 22 FORDHAM L. REV. No. 73, 1521-1625 (2005)
7 Id.
9 Id.
over investment disputes has transformed ICSID into a multinational corporations-friendly system of dispute settlement.\textsuperscript{11}

Therefore, the development of international investment law as an autonomous regime has come to a standstill since tribunals' interpretive approaches are no longer supported by state practice. Despite the fact that the private law tendency provides foreign investors with a high threshold of protection against unfair and discriminatory treatment by the host state, it ultimately restrains the latter from exercising legitimate regulatory powers in matters of public policy.\textsuperscript{12} In addition, it gives foreign investors a means to penetrate into the host states' domestic sociopolitical scheme and influence governmental choices. In fact, such penetration contradicts the principle of non-intervention at the heart of public international law. Furthermore, it challenges the negative role of ITA in blocking essential policies in matters of common concern including health, environment, human rights, finance and taxation.\textsuperscript{13}

Since the early 1990s, innumerable arbitral awards worth billions of dollars have been rendered. These costly damages have severely impacted the host states' capacity to pursue developmental policies or implement social security programs. The precarious practice of ITA has resulted in immense confusion on whether entering into BITs is beneficial for developing economies, or it is detrimental for possibly resulting in large sums of damages to already low-income host states with modest shares of Foreign Direct Investment (FDI); does ITA actually play a decisive role in the process of economic development that justifies the surrender of sovereign immunity from adjudication in return for the promise of FDI? This discrepancy has led many states to renegotiate the terms of their B/MIIs on much stricter provisions to come in line with domestic social and economic programs.\textsuperscript{14}

The chain of global economic crises in the 2000s has yielded a new generation of BITs providing for more regulatory space in public law fields of action. A shift in roles between inward and outward sources has resulted in the emergence of new

\begin{itemize}
  \item[\textsuperscript{11}] Id.
  \item[\textsuperscript{12}] Id.
  \item[\textsuperscript{13}] See supra note 6 at 1589-1590
  \item[\textsuperscript{14}] For example, the India-U.S. 2012 model BIT has introduced major changes regarding the Investor's scope of obligations most notably in paying taxes, fighting corruption and exhausting local remedies before Administrative and judicial bodies.
\end{itemize}
capital-exporting powers. New defences of state non-compensable measures have been triggered before arbitral tribunals. The host states’ backlash to the system pitfalls has driven some investment treaty tribunals under the North American Free Trade Agreement (NAFTA) to rediscover customary principles of international law in order to balance between investment protection and state regulation, particularly in health and environmental regulation. International law principle of sovereign independence has been brought back to life in some NAFTA’s arbitrations. Nevertheless, such semantic evolution is not equally reflected in ICSID’s tribunals law-making.

Observing the regulatory nature of investment treaty disputes, some academics highlight the importance of a public law approach in the process of interpreting investment treaty terms. Yet, the jurisprudence on investment arbitration shows meagre attempts to accommodate public law standards of review in investment treaty arbitration. Instead of a substantive law reform, a major part of the literature on ITA puts forward a number of institutional and procedural measures to address the current fragmentation of the International Investment law. I believe that this path of reform is contingent on either renegotiating the ICSID Convention or realizing a Multilateral Agreement on International Investment (MAI) to replace the diverse network of BITs. Despite being comprehensive, this reform seems infeasible due to the ongoing conflict of interests between transnational corporations and host states.

Drawing on the public law foundation of ITA, this thesis adopts a pragmatic approach based on the self-reformation of investment treaty tribunals. Thinking of ITA as a public law adjudication may allow for remolding ICSID’s tribunals’ law-making process to consider public law standards of judicial review. Even though investment law scholarship rarely uses a comparative public law approach, I suggest it may offer a promising avenue for reforming international investment law from within.

Against this background, in chapter I, I explore the legal hybridity of investment treaty arbitration. I contend that ITA has two different phases that go hand-in-hand.

16Id.
First, it involves the interplay between domestic and international jurisdiction. Second, it entails a dichotomy between public and private interests in investment disputes. Although ITA combines the form and procedure of commercial arbitration, it performs under the substantive principles of public international law.

In chapter II, I scrutinize the current network of ITA under ICSID's legal framework. In section one, I review the respective case law on the law-making process of investment treaty tribunals. First, I appraise the attitude of different tribunals towards variations in relevant investment treaty terms and whether the latter affect their final legal reasoning. In section two, I critically examine the asymmetric jurisdictional basis of ICSID in defining both the "protected investment" and the "protected investor".

In section three, I briefly investigate the allegations of institutional bias through evaluating the process of arbitral appointments under the ICSID legal system. Then, I assess the lack of binding precedent and supervisory mechanism in light of the current practice of ITA and whether such lack accounts for the fragmentation of international investment law. Finally, I analyze the main approaches used by investment treaty tribunals to define the concept of indirect expropriation and whether they respond to state legitimate regulation.

In chapter III, I set out a three-pronged framework for reforming investment treaty tribunal law-making. First, I lay out an interpretive approach for investment treaty standards of treatment. To that effect, I draw on the customary rules of the Vienna Convention on the Law of Treaties (VCLT) as a basis for interpreting the substantive rights of treaty parties. Building on the same line of argument, in section two, I rely on the conceptual framework of the Washington Convention to firstly emphasize the correlation between investment protection and the host state's right of economic development as a main objective of ICSID, and secondly integrate rules on corporate social responsibility to restore legal equilibrium between investment protection and state regulation.

In section three, I point out to the significance of the general principles of law and judicial decisions as recognized sources of public international law in reforming ITA from within. Further, I argue for accommodating the principle of proportionality as a
general principle of law in investment treaty tribunals law-making. Finally, I propose a proportionality analysis three-step test to delineate the boundary between compensatory expropriation and non-compensatory state regulation.
II. THE HYBRID NATURE OF INVESTMENT TREATY ARBITRATION

Foreign investors have always sought to protect their property rights and secure their businesses against the sovereign powers of host states. Thus, they frequently relied on the exercise of diplomatic protection by their home states. Yet, diplomatic protection was dependent on the full discretionary power of the investor’s home state, regardless of the merits of a given dispute. This discretion had essentially implied political, economic and most notably military considerations inter alia the investor’s home state and the host state. On the other side, domestic settlement of investment disputes through the national legal system of the host state proved to be problematic for foreign investors’ interests. For that reason, investor-state arbitration was envisaged in the first place to provide foreign investors with substantive legal protection against the host-state's exercise of public authority.

In harmony with its hybrid nature, Investment Treaty Arbitration (ITA) is formed by a sovereign act whereby a host state voluntarily waives its sovereign immunity from adjudication. Domestically, a state may consent to international investment arbitration through enacting domestic investment legislation that recognizes arbitration in future disputes with foreign investors operating on its territories. Consequently, national courts shall be suspended from exercising their territorial jurisdiction over foreign investment disputes. On the international level, a state may conclude Bilateral or Multilateral Investment Treaties (B/MITs) or join Free Trade Agreements (FTAs) which provide for investment arbitration before ICSID tribunals. In that case, the investor’s home state cannot subsequently claim diplomatic protection over the dispute. This means that even though ITA is originally formulated by a public law act, it proceeds as a private law model of dispute settlement.

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18 Id.
19 Id. at 8-10
21 Id.
22 Id. at 2-5
23 Id. at 10
24 Id.
The ICSID does not constitute a permanent court for investment disputes in the ordinary meaning of public international law. While interpreting BITs at issue, ICSID panels make selective reference to customary rules of international law applicable to investment including most notably rules of _lex mercatoria_. The mixed role of public and private law appears more confusing when it comes to the application of central investment standards within the merits of the dispute, namely, the rights and obligations of both parties under an investment treaty. The ICSID’s inclination to private law is manifestly reflected in the practice of investment treaty tribunals.\(^{25}\) Its _ad hoc_ arbitral tribunals are made up of privately-appointed arbitrators instead of tenured judges. In reviewing and adjudicating on states conducts vis-à-vis foreign investors, they apply private law rules and procedures. Similar to commercial arbitration, strict deference to principles of confidentiality and private autonomy precludes third parties including interest groups, civil society or local communities from having access to the arbitral proceedings.\(^{26}\) Whether the host state and the investor have already agreed on the applicable law or not, there is always leeway for the arbitral tribunal to draw on different interpretations in deciding the merits of the case.

At this point, the paradox lies in how arbitral tribunals settle the tension between domestic and international law jurisdiction. How do they assess public and private law concerns; and how do they reach conclusions that reconcile equally the competing interests of both the foreign investor and the host state. In this chapter, I argue that the legal hybridity of ITA has two different phases that go hand-in-hand. It involves the interaction between domestic and international jurisdiction since investor-state disputes have been historically distributed among national courts, _ad hoc_ tribunals and claim commissions. Yet, the advent of the ICSID has somehow shifted the scope of investor-state disputes from the host states domestic legal systems to the international investment regime. In addition, investment treaty disputes concern a dichotomy between public and private interests. That is to say, ITA decides on regulatory disputes between sovereign states and private investors or corporations. As such,

\(^{25}\) *Id.*  
\(^{26}\) *Id.* at 20
ICSID tribunals constitute an alternative private method of adjudication to the public law court system. In contravention of public law principles of sovereign independence and non-intervention, one-off private international tribunal reviews, evaluates and deters state authority from regulating its internal affairs in relation to foreign investors. I analyse the two phases of hybridity in the following two sections.

A. THE HISTORICAL INTERPLAY BETWEEN DOMESTIC AND INTERNATIONAL JURISDICTION

In theory, investment treaty arbitration does not totally lie within the borders of international jurisdiction; rather it lies at the intersection between both domestic and international law. This is manifest in the parties, facts, rules and procedures of investor-state disputes. Participants in the given relationship belong to two different legal systems i.e. the state as a subject of public international law and the foreign investor whether an individual or corporation as a subject of domestic law.27 When investors operate beyond their national borders, different legal regimes of hosting states govern their private international investment. Thus, there is always a question concerning which jurisdiction prevails. Does international law supersede domestic law or vice versa? Do both jurisdictions apply at the same time under certain limitations? The answer to these questions has never been the same; it constantly changes in so far as political, economic and legal contours governing international investment law change throughout history. In this section, I examine the evolution of investor-state disputes before and after the establishment of ICSID.

1. Calvo Doctrine: National Courts as “ex officio” Jurisdiction over Investment Disputes

The current legal framework governing international investment law is an outcome of various historical, political and economic forces. The legal status of alius including foreign investors had been elevated from complete outlawry in the Middle Ages to national treatment in the modern era.28 It was not until the eighteenth and nineteenth

27 Id. at 2
28 See, supra note 17 at 4
centuries that states recognized aliens’ rights to travel, live and trade in foreign territories under non-discriminatory norms. The shift in the international practice concerning the protection of foreigners coincided with the process of Western commercial, political and military expansion in different regions, including Turkey, Egypt, Morocco, Tunisia, and other Central and Far Eastern Asian countries.\(^{29}\) Even though Western foreigners were relatively subject to the domestic laws of the host states, their properties were considered part of their home state's assets; and hence were organised under special legal regimes. Accordingly, any mistreatment of foreigners or expropriation of their properties in the host state constituted an injury to the latter's home state itself.\(^{30}\)

The correlation between foreigner’s treatment abroad and the sovereignty of the home state had given rise to the principle of diplomatic protection in the course of transnational business. In 1924 the Permanent Court of International Justice (PCIJ) recognized states' right to exercise diplomatic protection over their nationals for an injury sustained as an elementary principle of international law.\(^{31}\) Although the exercise of diplomatic protection had taken different forms mainly claim commissions and \textit{ad hoc} tribunals, coercive means of dispute settlement were frequently used by the powerful Western states. Throughout the colonial era, powerful countries exercised extraterritorial jurisdiction over their nationals and properties existing within colonised areas. In most cases, extraterritorial jurisdiction was exercised in the form of military intervention, annexation of territories, friendships, capitulation treaties or at best concession agreements.\(^{32}\) At the time, the use of force in the exercise of diplomatic protection was not contravening the essence of international law.\(^{33}\)

\(^{29}\) \textit{Id.} at 3-4
\(^{30}\) \textit{Id.} at 5
\(^{31}\) \textit{Id.}
\(^{32}\) \textit{Id.}
\(^{33}\) The evolution and exercise of diplomatic protection must be viewed in its historical context under the colonial political and legal regimes; where diplomatic protection by powerful states was often accompanied by 'gun-boat diplomacy'. See ANDREW NEWCOMBE & LLUIS PARADELL, supra note 17 at 6-8
In the late nineteenth and early twentieth centuries, several attempts to ensure the pacific settlement of international disputes were carried out notably including the Hague Convention I of 1899 on the Pacific Settlement of International Disputes, the Hague Convention II of 1907 on the Limitations of the Employment of Force for the Recovery of Contract Debts and the 1928 General Treaty for the Renunciation of War. However, the powerful colonial states had persisted in using all possible political, economic and military means to protect their interests abroad, impose diplomatic protection and coercively recover awards. The Western socio-political expansionism drove some states, particularly Latin American states, to adopt the Calvo Doctrine in respect to protection of foreign investment. The doctrine first emerged to resist the protective approach endorsed by the capital exporting countries for the protection of their nationals' properties abroad through the extraterritorial application of foreign regimes on host states.

The Calvo Doctrine is based on two essential principles: the absolute equality of foreigners with nationals and the non-intervention within the internal affairs of other states. According to the Argentinian jurist Carlos Calvo, the customary international law principle of sovereign equality entails that foreigners must not be entitled to a preferential standard of treatment other than the host state's nationals. The exercise of diplomatic protection in its different forms undermines the political independence and sovereign equality of the host state. Instead of the protective approach of jurisdiction, the Calvo doctrine laid down a territorial approach based on sovereign equality and national standard of treatment. Therefore, Calvo’s territorial principle of jurisdiction recognizes the absolute right of host states to delineate the boundaries of their executive, legislative and judicial powers, decide on economic, social and cultural matters of national concern and enforce their domestic laws and regulations.

See supra note 5 at 9-12
35 For example, Great Britain had used military force many times against Latin American states to enforce diplomatic claims, recover public debts and allegedly protect its national properties; See Charles Lipson, Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries, 54 (University of California Press) (1985)
36 According to Carlos Calvo, all states are equal and no state shall intervene in the internal affairs of other states under the pretext of diplomatic protection. Foreign investors must be entitled to the same treatment which accorded to nationals, treated in accordance with the domestic laws of the host state and subjected to the local courts' jurisdiction; See Carlos Calvo, Le droit international théorique et pratique, 5th edition, (1896)
37 See supra note 17 at 12
on everyone within their territorial borders. Nonetheless, visitors and non-national residents are variably excluded from certain rights and obligations inasmuch as the nationality requirements dictate, such as having the right to vote, paying public tax and enlisting in military service.\(^\text{38}\)

Although the Calvo doctrine somehow succeeded in curtailing the abuses of diplomatic protection through requiring the exhaustion of local remedies in host state, it has never been elevated to the rank of a customary international law principle.\(^\text{39}\) State practice has clearly shown that the threat or the actual use of force remains a legal means of diplomatic protection in the event a host state refuses to adhere to arbitration or to enforce an award. Furthermore, powerful exporting countries persisted in claiming the right to exercise diplomatic protection in order to apply their laws to their nationals abroad.\(^\text{40}\) International jurisprudence on state responsibility for injuries to aliens recognizes both a minimum standard of treatment that is accepted by "civilized states" and satisfactory compensation in cases of expropriation of foreign properties.\(^\text{41}\) Yet, diplomatic protection under the Calvo's territorial approach cannot be invoked if any “available and effective local remedies” have not been exhausted before the host state domestic legal system.\(^\text{42}\)

2. **The ICSID System: A Unique Jurisdiction for Settlement of Investment Disputes**

The rift between capital exporting and capital importing states over the minimum standards of treatment of foreign investment had widened during the process of decolonization post-World War II (WWII).\(^\text{43}\) The newly independent states fiercely claimed their right to either revise or annul the concession agreements that were signed under the colonial rule. Most of the decolonized states adopted a socialist economic approach towards private property in general and foreign investment in particular. A systematic process of nationalization had taken place to transfer foreign

\(^{38}\text{See Vaughan Law, Jurisdiction, in M. Evans (Ed.), INTERNATIONAL LAW, 336-337 (2003)}\)

\(^{39}\text{See supra note 17 at 13-14}\)

\(^{40}\text{Id.}\)

\(^{41}\text{"This minimum standard is essentially similar to standards of justice accepted by 'civilized states' including the European states and the US."}\)

\(^{42}\text{Id.}\)

\(^{43}\text{See supra note 17 at 18-24}\)
private assets of the economy to the public ownership of the newly independent national state.\textsuperscript{44} Since 1938, states international responsibility to pay prompt and adequate compensation for direct expropriation of foreign private properties was well-established under the \textit{Hull} formula.\textsuperscript{45} However, in most instances, the process of nationalization was effectuated in accordance with national protectionist laws, and without appropriate compensation according to the Hall customary rule.\textsuperscript{46} In the same vein, on December 1962, the United Nations (UN) General Assembly (GA) passed Resolution no. 1803 on the "principle of permanent sovereignty over natural resources". The resolution emphasizes the inherent right of states to permanent sovereignty over their natural resources; yet it asserts their international obligation to pay appropriate compensation for expropriation of foreign properties and private assets:\textsuperscript{47}

\begin{quote}
[N]ationalization, expropriation or requisitioning shall be based on grounds or reasons of public utility, security or the national interest which are recognized as overriding purely individual or private interests, both domestic and foreign. In such cases the owner shall be paid appropriate compensation, in accordance with the rules in force in the State taking such measures in the exercise of its sovereignty and in accordance with international law.\textsuperscript{48}
\end{quote}

As a result of this, capital exporting countries have shifted their rights-based language of private property and concession agreements to the notion of economic development to keep up with the new international reality. The flood of capital that accompanied the post-WWII reconstruction process stimulated a number of bilateral and multilateral treaties on Friendship, Commerce and Navigation (FCN).\textsuperscript{49} Although the promotion of trade and the protection of investment were the primary objects of such treaties, they also included provisions for economic development of the host states. In 1958, the signing of the New York Convention on the Recognition of Foreign Arbitral

\textsuperscript{44} Id.
\textsuperscript{45} It was first known in President Roosevelt's administration when the US Secretary of State, Cordel Hull, claimed prompt, adequate and effective compensation due for American foreign investors as a result of a series of expropriations conducted by the Mexican socialist government.
\textsuperscript{46} Id.
\textsuperscript{49} See supra note 17 at 24-26
Awards (1958)\textsuperscript{50} marked a concrete step towards a transnational legal arrangement for the settlement of investment disputes.\textsuperscript{51} It paved the way for the establishment of the ICSID legal framework for investor-state arbitration in 1965.

\textbf{a. The ICSID as a Substitute for Two Divergent Dispute Resolution Systems, International Diplomatic Protection and Domestic Court System}

In the euphoria of decolonization, diplomatic protection, whether in its imperialistic orientation or its legal form including state-to-state diplomacy, claim commissions and ad hoc tribunals proved to be irresponsible to the nature of investment disputes.\textsuperscript{52} On the one hand, the right to exercise diplomatic protection used to be within the absolute discretion of the investor’s home state. Regardless of both the merits of the claim and the amount of economic loss, the exercise of diplomatic protection on behalf of foreign investment was entirely contingent on the political, economic and most notably the military considerations between the claiming state and the host state.\textsuperscript{53} Thus, foreign investors had no power to affect the claim-making process relying on the international responsibility of states for injuries to aliens, unless the home state so desired or a treaty/contract-based right to claim already existed.\textsuperscript{54}

On the other hand, the Calvo effect on the nascent jurisprudence of investment law has yielded the recognition of exhaustion of local remedies before national courts as a requirement for the exercise of diplomatic protection.\textsuperscript{55} In that sense, if foreign investors did not initially resort to domestic means of settlements in the host state, the international responsibility of the latter for injury to foreign nationals may not be invoked. Likewise, submission of investment disputes to the national legal systems of the host states was always problematic for foreign investors’ interests.\textsuperscript{56} In many cases, such submission exposes the transnational private business to the risk of being

\textsuperscript{50} See Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 330 UNTS 38 (Jun 10, 1958), (entered into force 7 Jun. 1959)

\textsuperscript{51} The New York Convention acts as an executive instrument for International Arbitration in general and Investment Arbitration in specific since it provides for the recognition and enforcement of foreign arbitral awards before domestic courts of states.

\textsuperscript{52} See supra note 17 at 24

\textsuperscript{53}\textit{Id}.

\textsuperscript{54}\textit{Id}.

\textsuperscript{55} See Stephen M. Schwebel, \textit{Arbitration and the Exhaustion of Local Remedies, JUSTICE IN INTERNATIONAL LAW}, (1994)

\textsuperscript{56} See supra note 20 at 2
at the mercy of the socio-political clashes between states. Furthermore, it leads foreign investors towards immense legal uncertainty as they operate under different legal regimes. Such uncertainty is continuous in the sense that it begins the moment a business is first initiated abroad to the time a dispute may arise. In the latter case, foreign investors are in many events deprived of an access to impartial tribunal to settle upon their dispute. In fact, this is due to the lack of essential expertise to resolve cross-border investment disputes at the national level as well as the direct affiliation of national administrative and judicial arrangements to the governmental authority of the host state. The latter, being a part to the dispute renders domestic dispute resolution including national courts to fall far short of fairness and consequently become vulnerable to politicization. This tangled relationship between private international investment on the one hand, and host states on the other has highlighted the need for transnational governing arrangements at domestic, regional and international levels, particularly in the areas of dispute resolution.

In 1965, the establishment of the International Center for Settlement of Investment Disputes (ICSID) was a turning-point in the evolution of international investment law. It was first proposed by the World Bank to overcome the drawbacks of investment dispute settlement under both diplomatic protection and domestic court systems. ICSID provides a legal framework for the settlement of investment disputes arising between contracting states and investors who are nationals of other contracting states. It purportedly offers an impartial legal and institutional framework which aims for protecting transnational businesses as well as promoting economic development of the contracting states. For such common ends, ICSID delocalises investor-state disputes through making them subject only to the ICSID's resolution system. As soon as the parties consent to the ICSID jurisdiction, other local remedies

57 Id.
58 Id.
59 This tendency contradicts the very basis of procedural justice principle which entails that no one shall be a judge in his own cause "nemo judex in sua causa"
60 See supra note 20 at 2
62 See supra note 1 (Convention on the Settlement of Investment Disputes between States and Nationals of Other States)
63 See supra note 17 at 27-30
64 Id.
are supposed to be excluded, unless otherwise agreed by the parties.\(^65\) Once a claim is initiated before the ICSID, the investor’s home state cannot exercise diplomatic protection, nor can the latter's national courts review or adjudicate the given dispute.\(^66\) If the respondent state consents to the ICSID jurisdiction whether through treaty or contractual obligation, its consent cannot be withdrawn unilaterally or even conditioned on any additional requirements such as the exhaustion of local remedies before domestic arrangements, unless explicitly agreed by the parties.\(^69\) Practically speaking, this legal structure clearly transforms the scope of protection for private international investment from a mere privilege under diplomatic protection to a substantive right under the ICSID framework.

b. The ICSID as an Exception to State Sovereign Immunity from Adjudication

The ICSID Convention is a product of the reshaping of the international investment regime in the wake of the postcolonial upheavals. Developing states took advantage of their grander number in the United Nations (UN) to reconstruct the international rules on foreign investment on the basis of economic justice.\(^70\) Their collective effort under the United Nations Conference on Trade and Development (UNCTAD)\(^71\) has shifted the focus of investment law towards international economic development.\(^72\)

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65 According to the "Report of the Executive Directors on the Convention": 'If a state and an investor agreed on arbitration and do not reserve the right to have recourse to other remedies or require the prior exhaustion of other remedies, thus the intention of the parties is to have recourse to arbitration to the exclusion of any other remedy. "This rule of interpretation is embodied in the first sentence of Article 26. In order to make clear that it was not intended thereby to modify the rules of international law regarding the exhaustion of local remedies, the second sentence explicitly recognizes the right of a State to require the prior exhaustion of local remedies.”

66 Article 26 of the ICSID convention provides that “Consent of the parties to arbitration under this Convention shall, unless otherwise stated, be deemed consent to such arbitration to the exclusion of any other remedy”. Also Article 27(1) states that “No Contracting State shall give diplomatic protection, or bring an international claim, in respect of a dispute which one of its nationals and another Contracting State shall have consented to submit or shall have submitted to arbitration under this Convention, unless such other Contracting State shall have failed to abide by and comply with the award rendered in such dispute.”

67 Id.

68 According to article 25 (1) of the ICSID Convention: "When the parties have given their consent, no party may withdraw its consent unilaterally.”

69 Id.

70 See supra note 17 at 86-99


72 Id.
Capital-exporting states have departed from the language of private property to the protection of transnational investment as a means to economic development of states. This notion is evident in the very first paragraph of the ICSID Convention Preamble which reads: “Considering the need for international cooperation for economic development, and the role of private international investment therein.” Thus, the protection of foreign investment is no longer reduced to state responsibility for injuries to aliens on its territory, rather it becomes an object for promoting free trade and economic development among contracting states. This semantic evolution in the international investment regime has supposedly motivated most of developing states to ratify the ICSID convention with the aim of attracting Foreign Direct Investment (FDI) to their nascent economies.

Nevertheless, *prima facie* ratification is not sufficient for a host state to abide by the ICSID jurisdiction since the latter makes the agreement to arbitrate an investor-state dispute before its panels a parallel obligation. Theoretically, a contracting state’s international responsibility may not be invoked unless it has formerly concluded B/MITs or an investment agreement that endorses the ICSID jurisdiction over future disputes with an investor of another contracting state. In that capacity, ITA acts as a unique adjudicative tool of public international law that governs the relationship between states and foreign investors through reviewing and adjudicating the former sovereign acts over its territory vis-à-vis foreign investors or corporations. Therefore, ICSID does not tolerate arbitration unless the respondent state, as a sovereign party to the dispute, has in advance waived its sovereign immunity from adjudication. In this respect, ITA is genuinely distinguished from both commercial and contract-based investment arbitrations as they concern a state's private rather than public act within the international commercial sphere. This is due to the fact that state private acts under international commercial contracts are justiciable according to

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73 See supra note 1
75 Id. at 79-84
76 Id.
77 See supra note 1 at 121-150
78 Id. at 125-127
the restrictive doctrine of state immunity.\textsuperscript{79} To the contrary, customary international law on sovereign independence of states renders states regulatory acts within their territorial borders immune from the international forms of adjudication.\textsuperscript{80} These regulatory acts encompass state executive, legislative and judicial conduct.\textsuperscript{81}

The fundamental plea of state immunity from suit extends either to foreign domestic courts of other states or international tribunals like that of the ICSID.\textsuperscript{82} Under customary international law, foras other than those of the state in whose territories the investment dispute arise are legally barred from reviewing the latter’s public acts.\textsuperscript{83} Although modern international practice has broadened the criteria upon which the waiver of state immunity from adjudication may be given, still "three substantial conditions" must be met for state consent to the ICSID jurisdiction.\textsuperscript{84} First, the consent to waive state immunity must be given directly by the beneficiary state itself, and not by any of its affiliated agencies; second, the consent must be explicit and unequivocal pursuant to an international treaty; third, the consent to waive state immunity from adjudication must not affect state immunity from execution or enforcement under international law.\textsuperscript{85} In fact, the distinction between the plea of state immunity from adjudication and that of execution or enforcement justifies the recognition of compensation as the only form of reparation under the ICSID Convention.\textsuperscript{86} The waiver of immunity from adjudication may be expressed by the respondent state either in the form of a self-standing offer contained in an international B/MIT or in a subsequent compromis d’arbitrage. Once given, ICSID claims its exclusive jurisdiction over an investment dispute; and hence the dispute

\textsuperscript{79} See Hazel Fox, Jurisdiction, in M. Evans (Ed.), INTERNATIONAL LAW, 361-363 (2003)
\textsuperscript{81} See supra note 78 at 357-361
\textsuperscript{82} Id.
\textsuperscript{83} Id. at 365
\textsuperscript{84} For example, the notion of jus cogens in the course of human rights claims.
\textsuperscript{85} Article 55 of the ICSID convention provides that “Nothing in Article 54 shall be construed as derogating from the law in force in any Contracting State relating to immunity of that State or of any foreign State from execution.”
\textsuperscript{86} Article 34 of the International Law Commission draft articles on responsibility of states for internationally wrongful acts states that "Full reparation for the injury caused by the internationally wrongful act shall take the form of restitution, compensation and satisfaction, either singly or in combination."
must be arbitrated without interference from any domestic political or judicial organs of either the host state or the home state.

B. **The Public-Private Dichotomy of Investment Treaty Arbitration**

In the ordinary course of events, states’ regulatory disputes fall within the ambit of public law adjudication, i.e. domestic courts of law as part of the state governing authority. However, this is not the case with ITA where sovereign acts of states are adjudicated by ICSID's private international tribunals. In fact, ITA combines public and private law features into a single dispute resolution system. The mixed public-private structure of ITA may be traced back to the evolution of the classical form of international arbitration from commercial transactions to regulatory conducts. Even though ITA is primarily formed by a public act of a state, it performs as a private model of adjudication. Unlike other form of international arbitration, it involves a regulatory relationship between a sovereign party – a host state – and a private party – a foreign investor.

In practice, ITA reviews, assesses and adjudicates on states' regulatory conducts vis-à-vis foreign investors' private interests. In this way, ITA has a dual effect on host states. In view of its high punitive damages, it offers foreign investors a coercive tool to deter host state's regulatory acts in relation to their private interests. Furthermore, it allows foreign investors a means to undermine prospective governmental policies through the threat of initiating arbitration proceedings. According to the UNCTAD, a large number of investor-state disputes have been amicably settled upon mutual compromises through out-of-court arrangements between foreign investors and host states.\(^{87}\) It has been reported that these settlements frequently involve drastic economic concessions given by respondent host states in return for ceasing arbitral proceedings.\(^{88}\)

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\(^{88}\) See supra note 6 at 65-70
The advent of the ICSID has strikingly extended the private model of international arbitration into the regulatory sphere. Despite the fact that the New York Convention and the UNCITRAL Model law on International Arbitration combined together the form of international arbitration as an alternative dispute resolution, its scope of application was confined only to commercial disputes between juridically-equal parties. This embraces both state-to-state and private individuals/corporations disputes where the parties to the dispute have the same legal standing. Under classical international law, claims of international responsibility may only be brought among states as subjects of public international law. Even in cases where injuries are directed towards aliens, claims of international responsibility used to be initiated exclusively by the investor’s home state against the host state through diplomatic channels.

Private individuals had no direct power in the claim-making process due to the lack of jurisdiction rationae personae under customary international law. Only sovereign states had discretion to claim international responsibility on behalf of their aliens abroad. It was not until the establishment of ICSID that individual investors and transnational corporations have been given direct access to international tribunals to initiate and enforce international claims in their own right against host states. Thus, ICSID has turned into a unique jurisdiction to private transnational investments. From this point, international investment arbitration transformed from reciprocal to regulatory relationship inter alia a sovereign state and a private

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89 See supra note 50
93 Id.
94 Id.
individual/corporation. These regulatory disputes were originally to be adjudicated by the host state's national courts in accordance with its municipal laws.  

a. Analogy to Domestic Judicial review of Administrative Actions

Van Harten and Loughlin aptly suggest that ITA offers an alternative dispute resolution system akin to domestic administrative courts of states. Indeed, article 1 (2) of the ICSID convention is an embodiment of "global administrative law"; it states that “The purpose of the Centre shall be to provide facilities for conciliation and arbitration of investment disputes between Contracting States and nationals of other Contracting States in accordance with the provisions of this Convention.” The function of ITA under the ICSID legal framework in reviewing and adjudicating states' regulatory conduct vis-a-vis foreign investors is quite analogous to the domestic administrative courts of states. First and foremost, general consent of states to ICSID jurisdiction whether through investment contracts, national legislations or B/MITs, has converted ITA into a "compulsory adjudicative mechanism". Second, investors have the right to bring "direct individual claims" before ICSID tribunals, especially that they are not obliged in most cases by the customary limitation to exhaust local remedies in the host state. Third, since the procedural enforcement of the New York Convention has been extended to the Washington Convention, ICSID awards are legally enforceable vis-à-vis all state parties and not subject to any subsequent domestic or international supervision. Finally and most seriously, ITA enables foreign investors to influence host state policy choices through threats of initiation of arbitral proceedings.

95 Id.
96 See supra note 2, Van Harten & Loughlin (This article sets forth a strong argument that ITA has developed an internationally recognized set of rules that is fairly analogous to the administrative law system of states. ITA is formed by a sovereign act, by which states consent generally to investment arbitration. This may be done through either enacting a law or concluding bilateral or multilateral investment treaties that impose arbitration in future disputes that may arise from the states’ exercise of public authority vis-à-vis foreign investors.)
97 Id. at 122-123
98 Id. at 142-145
99 Id. at 127-131
100 Id.
This evolutionary shift from the reciprocal to the regulatory nature of disputes under the ICSID jurisdiction has brought about a broader jurisdiction *rationae materiae* in investment disputes. In this respect, article 25 (1) of the ICSID convention provides that “The jurisdiction of the Centre shall extend [to any legal dispute] arising directly out of an investment, between a Contracting State (or any constituent subdivision or agency of a Contracting State designated to the Centre by that State) and a national of another Contracting State.” The logical corollary of this article is that the scope of application of ITA goes beyond the limits of private contractual relationships to cover all host state regulatory conducts that may negatively affect foreign investors over its territory.\(^\text{102}\) In contrast to commercial arbitration, ITA is not limited to private reciprocal disputes, rather it encompasses all governmental actions against foreign investors regardless of their private or public nature.

**b. ICSID Tribunals' Variable Scope of Review**

ICSID investment tribunal's scope of review is not the same in all case. It may vary depending on the nature of the legal instrument sanctioning investor-state arbitration. In this regard, three scenarios are contemplated. If the ICSID jurisdiction is triggered only by an investment contract where state consent is expressed by a private rather than a public act, the authority of the arbitral tribunal will be limited to such contractual relationship. In this case, the host state’s exercise of public authority over the foreign investor will be assessed in light of the given contractual provisions.\(^\text{103}\) On a different account, if the ICSID jurisdiction is invoked through a sovereign act in the form of national legislation or international B/MIT (which is the focus of this study), the authority of the arbitral tribunal will be extended to cover all state public conducts vis-à-vis an investor regardless of their nature, whether public or private. In this event, the scope of reviewability of state conduct includes acts and omissions undertaken by any organ of the state irrespective of its functions, including executive, legislative and judicial organs.\(^\text{104}\) Finally, it is worth mentioning that in many events the ICSID

\(^{102}\) *Id.* at 125-127


\(^{104}\) Article 4 (1) of the International Law Commission draft articles on responsibility of states for internationally wrongful acts provides that “The conduct of any state organ shall be considered an act
jurisdiction may be triggered through both private and public legal instruments; for example, a contracting state may sign an investment contract with a foreign investor with whom country it has already entered into a BIT. In this case, the investor's claim may be based on either contractual or treaty term violation or both of them. Therefore, the threshold of protection is far higher for such an investor since arbitral tribunals frequently draw on the more preferential terms for an investment. Further, some investment treaty tribunals elevate contractual provisions to the rank of treaty obligations.  


Arbitration has long been used to settle commercial disputes arising between private parties. Since the early 1960s onwards, the practice of investor-state arbitration as an alternative method of dispute settlement has materialised under various international legal instruments; especially the European Convention on International Commercial Arbitration (1961), the Inter-American Convention on International Commercial Arbitration (1975) and most notably the UNCITRAL model law on International Arbitration (1985). However, the scope of international arbitration under these legal instruments was entirely limited to commercial acts of states within the private law sphere. As a result, commercial arbitration was used in its classical form to review only a state commercial conduct within a given contractual relationship. The unusual function of ITA as a private law mechanism to resolve
regulatory disputes *inter alia*, the state and foreign investors, first emerged under the ICSID legal framework.110

Under ICSID’s framework, states consent to a private international regime for investment protection. By doing so, contracting states voluntarily grant foreign investors and transnational corporations the right to arbitrate, initiate and enforce international claims for injuries towards their assets or properties. A wide network of roughly 3,000 bilateral treaties incorporates states' self-standing consent to ICSID’s private legal framework.111 To that effect, both commercial arbitration and ITA are initiated through an individual claim made by a private party. Analogous to international commercial arbitration, sovereign acts of a contracting state become subject to a private panel of contracted-arbitrators rather than a public law court system.112 Instead of a permanent court, one-off arbitral tribunals are in charge of investor-state disputes. Privately appointed arbitrators as a substitute for state-tenured judges undertake the process of settlement since the ICSID's Chair bestows comprehensive jurisdiction upon an arbitral panel to settle a specific dispute on a case-by-case basis.113

Investment arbitration under the ICSID legal framework transplants rules of international commercial arbitration into regulatory disputes. On the one hand, ITA cherishes the principle of the confidentiality of proceedings, being at the heart of private law adjudication. This is evident in article 48 (5) of the ICSID Convention which provides that “The Centre shall not publish the award without the consent of the parties”. Since the ICSID is not authorized to publish arbitral awards without the consent of the concerned parties to the dispute, the latter may intend to block the legal reasoning of ITA for political or economic considerations. Although the overwhelming majority of ICSID decisions are published, It has been recently reported that there are some other anonymous arbitral decisions that never been reported due to the political sensitivity that surrounds investment disputes.114

110 See supra note 1
112 See supra note 2 at 140
113 See supra note 91 at 50
114 See Legal Information Institute, Cornell University. available at https://www.law.cornell.edu/
In conformity with the commercial practice, ITA raises the principle of party autonomy over state sovereignty; hence the protection of transnational investment prevails over public policy considerations such as health, environment and social security. In practice, these considerations have nothing to do with the settlement of investor-state disputes.\textsuperscript{115} Therefore, third parties other than the state and the foreign investor including epistemic groups, civil society and local communities in the host state are absolutely precluded from joining arbitration proceedings.\textsuperscript{116} As to the legal remedy, ICSID recognizes compensation as the sole remedy in investor-state disputes. Despite the fact that compensation equally applies as a public law remedy in the event restitution seems to be impossible, it is still at the heart of private law remedies.\textsuperscript{117} Further, awarded damages in investor-state disputes are recovered in accordance with the enforcement framework of international commercial arbitration under the New York Convention.\textsuperscript{118}

### 3. Investment Treaty Arbitration as a One-Sided System of Litigation

The Preamble of the ICSID Convention states that “no Contracting State shall by the mere fact of its ratification, acceptance or approval of this Convention and without its consent be deemed to be under any obligation to submit any particular dispute to conciliation or arbitration.”\textsuperscript{119} This provision was essentially formulated in deference to the contracting states’ sovereign immunity from adjudication under international law. The Preamble is also supplemented by article 25 (1) which requires that the parties consent in writing to the ICSID jurisdiction.\textsuperscript{120} Indeed, states, as sovereign powers are at liberty to accept the ICSID jurisdiction depending on their legal, political and economic standing. Yet, the interplay between national and international jurisdiction along with the public-private structure that uniquely present in ITA has considerably reflected in the prospects of investment disputes under the ICSID.\textsuperscript{121}

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\textsuperscript{115}See supra note 2 at 141
\textsuperscript{116}Id.
\textsuperscript{117}See supra note 20
\textsuperscript{118}See supra note 2 at 139-140
\textsuperscript{119}See supra note 1
\textsuperscript{120}Id.
\textsuperscript{121}See supra note 2
a. An Individualized Claim-Making Process

Even though the ICSID Convention abstractly features both host states and foreign investors bringing arbitration requests against each other, only foreign investors have practical legal access to the ICSID litigation.122 In contrast to the reciprocal nature of typical international arbitration, the ICSID legal framework creates a one-sided system of international adjudication. Investor-state disputes constantly depict an investor whether an individual or a corporation filing a claim against a host state on the basis of an investment contract, an investment treaty or more commonly on both. This is not to suggest that the Convention does not anticipate the host state other than a respondent. Rather, the neoliberal mindset of the ICSID together with investment tribunals law-making have developed a one-sided body of law that only allows foreign investors to appear as claimant.123 Some private law practitioners have justified this biased model of the claim-making process by the fact that the host state, being sovereign, is the stronger party in investment disputes.124 It has comprehensive customary powers over its territory whether in relation to nationals or aliens.125 Drawing on its political and economic influence, it may exercise unchecked regulatory powers against foreign investors.126 For this reason, foreign investment protection was the primary objective of the Washington Convention's drafters. Moreover, it may be argued that sovereign states have various domestic legal avenues of relief other than investment arbitration including domestic administrative and judicial arrangements; consequently, the host state may internally pursue legal proceedings on its own legitimate authority to have its rights sufficiently and expediently fulfilled.127

On the contrary, I believe that it is the restrictive approach of most of arbitral tribunals rather than the conceptual framework of the ICSID that diminishes the host states'

122 Article 36 (1) provides that "Any Contracting State or any national of a Contracting State wishing to institute arbitration proceedings shall address a request to that effect in writing to the Secretary-General who shall send a copy of the request to the other party."
124 See supra note 101 at 9
125 Id.
126 Id.
127 See supra note 123
substantive rights and accordingly gives rise to a biased claim-making process. ICSID’s arbitral tribunals tend to question the conduct of the host state more than that of the investor regardless of the merits of the case. This inclination towards private international investment produces a one-sided avenue of relief that foregrounds the protection of foreign investment over public policy concerns of the host state; especially in health, environment and human rights matters. In doing so, investment tribunals employ an immense disciplinary influence over a state's legitimate regulatory power. No doubt, the need for substantive legal protection for transnational investment cannot be denied; yet, the right of the host state to counterclaim in an international venue must not to be disputed under any circumstance. In interpreting the parties' interests under ICSID’s litigation, tribunals should account for the host state's substantive right to development as perceived by the Washington Convention. Further, they have to consider the state's countermeasure against serious breaches committed in the course of an investment.

In line with Van Harten's argument, I submit that the one-sided claim-making of ITA renders it close to public administrative law review. Although the consent to ICSID arbitration is no different than ordinary "offer and acceptance" in contract law, it varies considerably in the practice of ITA under the ICSID legal framework. Once a state has ratified the Washington Convention, its consent to ICSID jurisdiction may be extrapolated from different domestic and international legal instruments. This includes most notably a national legislation, investment contract or an international treaty. It is such consent that forms a state outstanding offer and consequently gives rise to recurrent arbitrations without legal privity. In Paulsson's view, this legal privity is twofold. For one thing, it means that a foreign investor whether individual or corporation, who is not a party to an international B/MIT with a host state, can avail himself/herself of the latter's protection as long as his/her home country is a party to

128 Id.
129 Id.
130 See supra note 91 at 54
it. In this regard, the home state's international rights and obligation under the investment treaty are transferred to its aliens. Another thing relates to the *rationae temoris* of investment arbitration; that is "arbitration without privity" entails that even investments that did not exist at time a given B/MIT was concluded may become a subject of arbitration claims against the host state treaty party in the future. Therefore, investor's claim *ipso facto* establishes a legal acceptance that perfects a host state self-standing offer to arbitrate included in a B/MIT. In all cases, ICSID's tribunals have the competence to settle in their own jurisdiction any preliminary objection made by either party to proceedings.

b. State Prospective Consent:

ICSID's case law endorses broad criteria in recognizing states' consent to its jurisdiction. It draws on a variety of domestic and international legal instruments including investment contracts, national investment laws and international B/MITs to extract states' consent to ITA. In the case where a state's consent to ICSID arbitration is contained in either a *clause compromissoire* in an investment contract or a subsequent *compromis d'arbitrage* of an international treaty, the ICSID jurisdiction is explicit and consequently will be deduced easily by a given arbitral tribunal. Such way of consent to ITA follows the exact means of consenting to traditional commercial arbitration. However, the difficulty lies in cases where the state's consent to ICSID arbitration is incorporated in either national legislation or B/MIT provision. Although the requirement of "written consent" is seemingly fulfilled in the form of a sovereign act whether a domestic law or an international treaty, the substance of states' consent to arbitration remains implicit. In the meantime, this sort of state consent constitutes the basis for the overwhelming majority of ICSID arbitrations particularly when a foreign investor invokes customary rules of international law applicable to the dispute such as Fair and Equitable Treatment (FET) and Most Favored Nation (MFN). According to 2016 ICSID caseload statistics, nearly 70% of

133 Id.
134 Id.
135 Article 41 (2) of the convention puts the dispute in the hands of the arbitral tribunal to deal with any objection to the ICSID jurisdiction; thus the tribunal will have the competence to “determine whether to deal with it as a preliminary question or to join it to the merits of the dispute.”
136 See supra note 131
137 Id.
investor-state disputes where the ICSID jurisdiction has been upheld were based on either national investment legislation of the host state or a BIT provision.\textsuperscript{138}

In the first scenario, a state unilateral act in the form of national investment legislation contains the state's self-standing consent to ITA. The landmark *Pyramids* case *SPP v. Egypt*\textsuperscript{139} marked such a development of state prospective consent.\textsuperscript{140} It was a turning point in the practice of international investment law to establish the consent to arbitration on a unilateral public act.\textsuperscript{141} Although Egypt as a party to the Washington Convention had not entered into an investment contract with Mr Siag, nor had it signed an ICSID arbitration agreement or *compromis d’arbitrage*, its binding consent to the ICSID was found in article (8) of its National Investment Law no. 43 of 1974.\textsuperscript{142} While the arbitral tribunal held that *SPP*’s consent is simply given through filling out the arbitration claim, it has concluded as to Egypt's consent that “although consent by written agreement is the usual method of submission to ICSID jurisdiction, it can now be considered as established and not requiring further reasoning that such consent can also be effected unilaterally by a contracting state.”\textsuperscript{143} In this case, the interaction between international and domestic jurisdiction is quite evident in establishing the ICSID jurisdiction. Whereas state consent was found in domestic legislation, investor’s consent was effectuated by a private law act invested in the filling in of a written arbitration claim. In order to establish the ICSID jurisdiction, the tribunal had employed an expansive treaty interpretation in light of both domestic statutory provisions and international law that governs unilateral juridical acts.\textsuperscript{144}

In the second scenario, the state prospective consent to the ICSID jurisdiction is triggered only by a BIT clause. This sort of consent governs the current mainstream

\begin{footnotes}
\item[139] *Southern Pacific Properties (Middle East) Limited v. Arab Republic of Egypt*, ICSID Case No. ARB/84/3 (Decision on Jurisdiction, April 14, 1988)
\item[140] See supra note 103 at 175-178
\item[141] For example, in *tradex v. Albania*, Albania's consent to arbitration was upheld on the basis of its 1993 National Investment Law
\item[142] See supra note 103 at 176
\item[143] See supra note 139
\item[144] See supra note 20 at 4
\end{footnotes}
practice of ITA under ICSID’s case law. The (1990) AAPL v. Sri Lanka was the first case in which a state consent to ICSID arbitration has been solely found in a BIT. It marked a serious shift in the basis of states’ consent to the ICSID. Up to that time, there had been few BITs compared to over the 3000 existing today. In an attempt to assert the private law foundation of ITA, the tribunal concluded that "the BIT per se does not contain the parties’ agreement to arbitration; rather it contains the state offer of consent to arbitration which has been perfected by the investor’s subsequent acceptance through filling an arbitration claim". Contrary to what stated by AAPL v. Sri Lanka, one can perceive a dichotomous process for extracting the parties' consent to arbitration in such a case. In this respect, the mixed Public-Private nature of ITA comes into play. The first step involves a public act represented by a BIT arbitration clause between the host state and the investor’s national state which offers the host state consent; the second step involves a private act epitomized in the acceptance of the host state offer through filling in of an arbitration claim. Despite the fact that the language of the Sri Lanka-United Kingdom BIT is pretty conclusive in expressing the parties' consent to the ICSID jurisdiction, it contradicts article 25 of the Convention which requires a "written consent". This expansive approach in interpreting state’s consent seems precarious in relation to the international principle of sovereign independence; yet, for others with a privately oriented mind-set, it is justified to some extent by the fact that ITA is a private international adjudicative mechanism (if that can even be said).

Comparing the rationale of the two above-mentioned cases, it would be illogical if investment treaty tribunals decided that a state is able to give its consent to international arbitration through a unilateral municipal legislation, while few years later the latter is held powerless to do so pursuant to international legal instruments.

145 Asian Agricultural Products Ltd. v. Republic of Sri Lanka, ICSID Case No. ARB/87/3 (Final Award, June 27, 1990)
146 See ICSID Database available at https://icsid.worldbank.org/apps/ICSIDWEB/resources/Pages/Bilateral-Investment-Treaties-Database.aspx
147 See supra note 20 at 4-5
148 The Sri Lanka-United Kingdom BIT stipulates that "Each contracting party hereby consents to submit to the Centre for the Settlement of Investment Disputes…for settlement by conciliation or arbitration under the Convention on the Settlement of Investment Disputes between states and nationals of the other states…any legal dispute arising between that contracting party and national or company of the other contracting party concerning an investment of the latter in the territory of the former."
Nevertheless, this is not to justify these two expansive approaches in extrapolating a state consent to ITA, nor to suggest that all BITs intrinsically serve as a state’s prospective consent to arbitration. There are still numerous BITs that contain instead an ICSID arbitration clause explicitly requiring subsequent *compromis d’arbitrage* between the parties. This narrow scope of interpretation did in fact prevail at the time the convention was signed. ICSID’s drafters themselves have incorporated such approach of interpretation of state consent into the Convention Preamble and again in article 25 (1).149 Despite the fact that a broad scope of interpretation to state consent is in the foreign investor’s best interest, it conversely brings up immense legal uncertainty to the host state.150 Indeed, ITA is designed in the first place to protect transnational investment as the weaker party over host state's territory, yet state "subsequent written consent" to an international regulatory adjudication serves as a guarantee for its sovereign independence.

**C.  CONCLUSION:**

In this chapter, I have explored the legal evolution of ITA from two different yet interrelated dimensions: domestic and international jurisdiction and public and private law. In section one, I have demonstrated how investor-state disputes do not lie in full within the ambit of international law, rather they lie at the intersection between domestic and international laws. The governing regime of investment disputes has changed in so far as political, economic and legal contours of international investment law evolved throughout history. Diplomatic protection proved to be irresponsive to the nature of investment disputes; the notorious forms in which it was exercised by the powerful exporting states have undermined the host states political independence and sovereign equality. Although the *Calvo* Doctrine has partially succeeded in curtailing the abuse of diplomatic protection through requiring the exhaustion of local remedies in respondent states, it has never been elevated to the status of customary international law. Likewise, deciding investment disputes through national court systems puts private transnational business at risk of being denied justice or facing

149 See * supra* note 131 at 611

150 See * supra* note 91 at 133
unspecialized or unfair domestic arrangements. It further exposes foreign investor's interests to underlying socio-political clashes between states.

In section two, I have explained how the mixed public-private structure of ITA is traced back to the evolution of the classical international arbitration from the reciprocal relationship in "commercial transactions" to the regulatory relationship in investor-state disputes. While ITA is primarily formed by a public act of a state, it performs as a private model of dispute settlement under the ICSID. On the domestic level, a state may consent to international investment arbitration through enacting domestic investment legislation that allows arbitration in future disputes with prospective foreign investors operating on its territories. On the international level, a state may conclude B/MITs or join FTAs which provide for investment arbitration before ICSID tribunals. In reviewing states' regulatory conduct vis-a-vis foreign investors, I have analogized the function of ITA to the domestic judicial review of administrative actions. In that sense, the ICSID legal framework constitutes an alternative private method of adjudication to the public law court system; nevertheless, investment treaty tribunals apply private law rules that originate in the practice of international commercial arbitration.

In contrast to the reciprocal nature of typical international arbitration, the ICSID legal framework creates a one-sided system of litigation that perceives investors only as claimants. A one-off private international tribunal reviews, evaluates and adjudicates state authority to regulate its internal affairs of public policy vis-a-vis foreign investors. A considerable amount of case law shows broad criteria in recognizing states consent to ICSID jurisdiction. Investment treaty tribunals draw on a variety of domestic and international legal instruments to extract the contracting state consent to arbitration. In sum, I argued that ITA combines the form and procedures of international commercial arbitration, yet it performs under the substantive principles of public law. In fact, regulatory disputes that govern the relationship between states and private individuals essentially require the incorporation of public rather than private law standards of review. Since ITA is formed by a sovereign act of a state by which the latter voluntary waives its sovereign immunity from adjudication, it must legally be reviewed as public law adjudication.
III. PRIVATIZING INVESTMENT TREATY ARBITRATION: ELEVATING INVESTMENT PROTECTION OVER STATE REGULATORY POWER

The legitimacy of the current network of ITA under the ICSID legal framework is believed to be at stake. In addition to the precarious basis of consent to the ICSID jurisdiction, as discussed in chapter one, the ICSID’s neoliberal philosophy has bolstered expansive interpretations of investment treaties at the expense of host state regulatory power. This is due to the absence of a comprehensive legal framework that balances equally between the interests of investors and host-states, accounts for the economic disparities between developed and developing countries and clearly sets up the limits between investment protection and state regulatory functions. Whereas the developed countries, being representatives of mainstream transnational business, have long sought to maximize the scope of protection in favor of foreign investors, developing countries strove for FDI flows side-by-side with securing their national policies. Even though most of Investor-state arbitrations are concluded under the legal framework of the ICSID, interpretations of central investment provisions included therein have proven to be volatile and hence vulnerable to change on a case-by-case basis. This applies particularly with respect to the scope of minimum standards of treatment including Most Favored Nation (MFN), Fair and Equitable Treatment (FET), definition of protected investment, concept of indirect expropriation, limits of investment guarantees in host state and provisions on corporate social responsibility (CSR) concerning health, environment, labor and taxation.

International investment law has become plagued with uncertainty and fragmentation. ICSID’s neoliberal foundation has persisted in privatizing international investment law through the broad law-making power of commercial arbitrators and private international law firms. The legal framework of the Washington Convention establishing the ICSID was vehemently criticized by a large number of academics and

\[151\text{ See supra note 6 at 1521-24}\]
\[152\text{ See supra note 3 at 163-65}\]
\[153\text{ Id.}\]
\[154\text{ Id.}\]
\[155\text{ See supra note 8 at 111-15}\]
\[156\text{ See supra note 91 at 124-31}\]
practitioners in the field for favoring inflexible investment protection to the detriment of the host states’ socio-economic scheme.\textsuperscript{157} Some scholars have attributed the fragmentation of the international investment regime to the variation in treaty terms, negotiating powers and the quality of legal expertise based on a state's political and economic level of development.\textsuperscript{158} On the other side, the lack of a binding precedent to govern the practice of ITA as well as an effective mechanism to review and correct potential legal errors has largely generated many conflicting arbitral awards.\textsuperscript{159} Over the past two decades, innumerable arbitral awards worth billions of dollars have been rendered against middle and low-income states.\textsuperscript{160} The divergent practice of ITA has ultimately folded into two principal solutions; namely, either to amend the Washington Convention in order to accommodate host states' right to regulate along with investment protection or to renegotiate a Multilateral Agreement on Foreign Investment (MAI) to fairly considers the host states public law concerns. Nevertheless, differences between developed and developing countries over both the scope of the minimum standards of investment protection and the limits of states' regulatory space have hindered any amendment to the Washington Convention.\textsuperscript{161}

The failure of negotiations on a MAI to replace the current diverse network of BITs has maintained the imprudent interpretations of ICSID investment treaty tribunals. Moreover, applying extreme neoliberal policies has proven to be risky amid arduous economic crises. Even developed countries have been forced to rethink their free marked-based ideals for the sake of economic salvation and social security protection. States practice' has witnessed a shift towards creating a safe space for exercising regulatory power over economic functioning. Therefore, investment treaty tribunals cannot further tolerate interpretations which are no longer supported by state practice. The rising discrepancy among ICSID arbitral panels has led some developing countries to renegotiate their BIT provisions on much stricter terms to be in line with domestic social and economic policies. This tendency is evident in the practice of

\begin{footnotesize}
\textsuperscript{157}See supra note 8 at 623-25
\textsuperscript{158}See SORNARAJAH M., THE INTERNATIONAL LAW ON FOREIGN INVESTMENT, 183-87, (3rd edition, Cambridge University Press) (2010); also See supra note 103 at 63-64
\textsuperscript{159}See Stephan W. Schill, W (h) ither Fragmentation? On the Literature and Sociology of International Investment Law, 22 EJIL. No. 3, 875-908, (2011)
\textsuperscript{160}See supra note 146 available at https://icsid.worldbank.org/apps/ICSIDWEB/resources/Pages/ICSID-Caseload-Statistics.aspx
\textsuperscript{161}See supra note 103 at 153-160
\end{footnotesize}
many middle and high-income developing states, especially with regards to financial, labor, health and environmental fields of function.162 Other countries have managed to initially limit their consent to the ICSID jurisdiction to avoid unpredictable claims.163 A third category of states have taken an extremist attitude towards ITA and decided to opt out of the ICSID164 system altogether, rescind their investment treaties165 or to challenge the ICSID arbitral awards through the available annulment procedures.166

A. INTERSTATE BARGAIN OF AN INVESTMENT TREATY: DOES VARIATION IN TREATY TERMS ACCOUNT FOR FRAGMENTATION OF INVESTMENT TREATY ARBITRATION

Until the end of WWII, investment protection was subject to the power and persuasion of states. The scope of protection for foreign investment was mainly dependent on the political, economic and military influence of either the host state or the investor’s home state.167 In the wake of the postcolonial era, the schism between capital-exporting and capital-importing countries over the minimum standards of treatment for foreign investment forced the former to negotiate comprehensive BITs so as to secure long-established interests over the latter’s territories.168 Above all, having a minimum standard of protection for foreign investment was a prerequisite

162 India-U.S. (2012) model BIT which replaced the 1993 model; even though retained the investor-state dispute system under the ICSID, it has embraced major changes regarding foreign investor’s scope of obligations most notably in paying taxes, fighting corruption and exhausting local remedies before administrative and judicial bodies.
163 In March 12, 2015, Egypt has passed crucial amendments to the Egyptian Investment Law no. 8/1997, by which its consent to investor-state arbitration under the ICSID becomes limited to subsequent agreement and pending submission of the claim to a governmental committee for settlement of investment disputes. It was reported that such amendments were intended by the Egyptian legislator in order to limit Egypt’s exposure to investor-state arbitration that hiked up to dozens of claims after the January 25th revolution in 2011.
166 See The ICSID Caseload – Statistics (Issue 2014-1). Up until 2014, a total of sixty one ICSID annulment proceedings were filled, fifty of which were decided and eleven others were pending. Out of this, thirteen awards were fully or partially annulled, twenty two annulment applications were rejected and fifteen proceedings were discontinued by the parties available at https://icsid.worldbank.org/ICSID/FrontServlet?requestType=ICSIDDocRH&actionVal=CaseLoadStatistics
167 See supra note 17 at 65-70
168 Id.
for developed states to deploy more assets in the newly independent states. A salient part of the literature on investment arbitration supports the view that term variations over a diverse network of BITs have yielded an increasing number of inconsistent arbitral awards and consequently accounts for fragmentation of the system at large.\(^\text{169}\)

In this regard, I explain how bilateral investment treaties have developed an overarching regime for the protection of private international investment. Further, I evaluate the divergent approaches of investment treaty tribunals to the minimum standards of treatment that included in different bilateral investment treaties.

1. **Bilateral Investment Treaties as a Normative Basis for International Investment Regime**

It was in the best interest of capital-exporting countries representing mainstream transnational investment to establish a hegemonic model of investment protection.\(^\text{170}\)

Under the neoliberal philosophy, bilateral treaties were seen as a substitute for both the deceased *gun-boat* diplomacy and the implausible multilateral treaty on transnational investment. This interest corresponded to the capital-importing countries' aim to attract FDI essential for economic development.\(^\text{171}\) For such an end, the latter were keen to convey positive messages to the former through entering into comprehensive bilateral investment treaties.

In fact, these matching interests explain why BITs have historically developed in an adverse order between developed and developing countries. On the other side, the New International Economic Order Declaration (NIEO) has reinforced South-South economic cooperation leading to the conclusion of numerous BITs among capital-importing countries themselves.\(^\text{172}\) Oil explorations in North Africa and the Middle East have driven many developing countries to sign BITs to assist their nascent oil inter-trade.\(^\text{173}\) Besides, the industrial boom in South Eastern Asia has witnessed a

\(^{169}\) See supra note 158 at 183; (for different argument) See supra note 159 at 875-908

\(^{170}\) Id.


significant diffusion of BITs amongst Far Eastern developing countries in order to facilitate manufacture and technology transfer.\textsuperscript{174}

All these factors have resulted in a considerable increase in the number of BITs concluded between developing states from only 42 BITs in 1990 to over 1000 BITs in force today.\textsuperscript{175} Being relatively recent, most of BITs concluded between developing states were initially guided by the capital-exporting countries model investment treaties. In particular, the U.S. was and still playing a prominent role in developing a body of laws through updated model BITs.\textsuperscript{176} Thus, the interest in uniform rules on investment protection came up along with neoliberal views that lead private transnational businesses to gain access to domestic markets.

Over the time, there have been changes in BIT terms upon individual limitations. Some states have adapted investment treaty language to their social, political and cultural identity. Yet, such changes in BIT terms were always concerned with generalities rather than details of minimum standards for investment protection.\textsuperscript{177} Thus, the continuing attempts to conclude a multilateral investment treaty have failed because of the differences over the exceptions and not the principles of investment protection.\textsuperscript{178} Arbitral tribunals have eventually decided on the substantive rights and obligations of either party through interpretation. Nevertheless, the scope of interpretation the tribunal may exert increases or decreases depending on the degree of clarity and flexibility of treaty language.\textsuperscript{179}

Although the treaty parties create their own investment treaty law, arbitral tribunals are the supreme interpreters of when and how treaty term applies. Once the parties recognize an investment treaty, they impliedly delegate comprehensive interpretive power to the prospective arbitral tribunal. In that capacity, investment treaty tribunals replace treaty parties as law-maker for the given investment treaty. In asserting its law-making function, the tribunal in \textit{Sempra Energy International v. Argentine}

\textsuperscript{174}Id.
\textsuperscript{175}See supra note 17 at 58
\textsuperscript{176}See For example, the U.S. model BITs of 1994, 2004 and 2012
\textsuperscript{177}See supra note 173 at 20-25
\textsuperscript{178}See supra note 17 at 20
\textsuperscript{179}Id.
concluded that it has the exclusive competence to interpret the meaning of BIT terms upon which it was entitled by the parties to settle the given dispute.\textsuperscript{180}

Theoretically, arbitral tribunals as consensual adjudicative mechanisms are not formally bound by the judicial rule of \textit{stare decisis}.\textsuperscript{181} Even though arbitral awards are not given the status of formal precedent, they are frequently relied on by investment treaty tribunals. In practice, the use of precedent creates a body of case law that applies independently from the governing treaty provisions.\textsuperscript{182} Even so, investment treaty tribunals have in many occasions deviated from well-established precedents drawing on certain legal reasoning underlying the tribunal’s conviction instead of treaty term variations.\textsuperscript{183}

Before the advent of the ICSID, investment treaties provided at most for state-to-state arbitration as an alternative to diplomatic protection.\textsuperscript{184} At that time investment arbitration claims had not been individualized yet. Only states were parties to international investment arbitrations. Dispute resolution was exercised through submitting a treaty claim by a state party to the International Court of Justice (ICJ), an arbitral tribunal or \textit{ad hoc} committee.\textsuperscript{185} Even after the emergence of the individualized version of investment arbitration for the first time under the legal framework of the Washington Convention, the ICSID jurisdiction had to be built on a pre-existing investment contract \textit{inter alia}, a foreign investor and a host state.\textsuperscript{186}

It was not until the \textit{AAPL} v. \textit{Sri Lanka} award in 1990 that the pervasive network of BITs became a comprehensive source of states’ consent in investor-state treaty-based arbitrations.\textsuperscript{187} In that way, customary international law on both \textit{lex mercatoria} as well as state responsibility for injuries to aliens was reflected in a vast network of bilateral, multilateral and free trade agreements.\textsuperscript{188} In fact, this network forms the

\textsuperscript{180} Sempra Energy International v. The Argentine Republic, ICSID Case No. ARB/02/16 (Final award, September 28, 2007)
\textsuperscript{181} See supra note 6 at 1611
\textsuperscript{182} Id.
\textsuperscript{183} See supra note 159
\textsuperscript{184} See supra note 17 at 65-70
\textsuperscript{185} Id.
\textsuperscript{186} Id. at 44
\textsuperscript{187} See supra note 145
\textsuperscript{188} See supra note 17
modern bulk of international law on foreign investment. It is impliedly understood from article 42 of the ICSID Convention that BITs constitute the primary source of international law on the protection of foreign investment against non-commercial risks. 189

2. Divergent Interpretations of International Minimum Standards of Treatment

One may suggest that quid pro quo bargains and relative negotiating powers of treaty parties underlying the concept of BITs render the latter essentially variable in content and structure. While some BITs may require negotiations between treaty parties, exhaustion of local remedies or expiration of a grace period prior to submitting arbitration claim, others may not require any prerequisites. 190 Undeniably, BITs are not identical, yet they form an overarching body of international standards governing foreign investment. 191 BITs have developed a striking convergent structure whether in terms of language or objectives which advance the promotion and protection of private transnational investment and the economic development of the host states. 192 Drawing on standardized treaty terms, they typically contain provisions on non-discrimination, prohibition of direct and indirect expropriation, Most Favored Nation (MFN), Fair and Equitable Treatment (FET), Free Transfer of Capital (FTC) and most importantly arbitration as an alternative dispute resolution. 193

Even when it comes to almost identical BIT terms, some arbitral tribunals have not arrived at consistent legal reasoning. For instance, in CME Czech Republic B.V v. the Czech Republic & Ronald S. Lauder v. the Czech Republic, despite the fact that both tribunals were deciding on the same facts and merits under the same applicable arbitration rules, they reached different interpretations of compensatory expropriation. Whereas the former holds the Czech Republic liable for approximately U.S $ 270

189 See supra note 1
190 See supra note 173 at 20-22
192 Id.
193 See supra note 173
million in damage for breach to the Czech Republic-Netherlands BIT,\textsuperscript{194} the latter awarded no damages for lack of unlawful expropriatory activity under the Czech Republic-United States BIT.\textsuperscript{195} Likewise, the question rises before arbitral tribunals with respect to the application the “Umbrella Clause” in some BITs, and whether it elevates a contractual breach to the level of a treaty violation. Two ICSID panels have divergently applied the umbrella clause, despite clear textual similarity in the given BITs.\textsuperscript{196} The tribunal in \textit{SGS v. Philippines} upheld jurisdiction over the dispute on the grounds that the Philippines contractual obligation to observe undertakings which were entered into with SGS at the time the latter has first commenced its investment is essentially covered by the treaty umbrella clause.\textsuperscript{197} In contrast, the tribunal in \textit{Salini v. Jordan} found that the umbrella clause does not apply to Jordan’s contractual claim at issue, and accordingly the tribunal dismissed jurisdiction over the claim.\textsuperscript{198}

From international law perspective, BITs develop a normative basis for international minimum standards of treatment. As Stephan Schill argues, they usher in an era of multilateralized investment protection for private international investment.\textsuperscript{199} The Most Favoured Nation Clause (MFN) as one of the key standards governing investment protection provides the clearest example in this respect. The MFN clause is frequently incorporated in most bilateral, multilateral, regional and sectorial investment treaties in an unconditional and reciprocal form.\textsuperscript{200} The existence of MFN clause in a BIT automatically extends the host state beneficial treatment that may be given to third parties to the party of such BIT, particularly if the latter is treated less favourably by the host state. Therefore, MFN clause does not only apply the minimum standards for investment protection in a normative manner, but also

\begin{footnotesize}
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\item \textsuperscript{194} \textit{CME Czech Republic B.V. v. The Czech Republic}, UNCITRAL (Partial award, September 13, 2001) (Final award, March 14, 2003)
\item \textsuperscript{195} \textit{Ronald S. Lauder v. The Czech Republic}, UNCITRAL (Final award, September 3, 2001)
\item \textsuperscript{196} See supra note 103 at 63-65
\item \textsuperscript{197} \textit{SGS Société Générale de Surveillance S.A. v. Republic of the Philippines}, ICSID Case No. ARB/02/6 (Decision on preliminary objections to jurisdiction, January 29, 2004)
\item \textsuperscript{198} \textit{Salini Costruttori S.P.A. and Italstrade S.P.A. v. The Hashemite Kingdom of Jordan}, ICSID Case No. ARB/02/13 (Decision on jurisdiction, November 9, 2004) (Final award, January 31, 2006)
\item \textsuperscript{199} See supra note 191
\item \textsuperscript{200} Article 16 (2) of the Energy Charter Treaty provides that "Nothing in such terms of the other agreement shall be construed to derogate from any provision of part III or V of this treaty or from any right to dispute resolution with respect thereto under this treaty, where any such provision is more favourable to the investor or investment."
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multilateralize the access to BITs beneficial terms by foreign investor/investment.\textsuperscript{201} Nevertheless, jurisprudence on ITA shows divergent approaches to the application of the MFN clause. This is manifest in the two ICSID conflicting awards, \textit{Maffezini v. Spain} and \textit{Palma v. Bulgaria}.\textsuperscript{202} Whereas the Maffezini tribunal allowed the investor to benefit from a more favorable dispute resolution system under the Spain-Chile BIT,\textsuperscript{203} the Palma tribunal, relying on a restrictive approach to treaty terms, rejected to extend the application of the MFA clause in the Cyprus-Bulgaria BIT concerning the dispute resolution clause to the other Bulgarian BIT.\textsuperscript{204}

Moreover, the concept of "Corporate Structuring" similarly exemplifies the multilateralization of international investment law through BITs. Corporate structuring allows foreign investors to avail themselves of the protective regime of a third party investment treaty.\textsuperscript{205} In the total absence of an investment treaty between the host state and the investor’s home state, ITA can be invoked under the ICSID jurisdiction if the intended investor establishes an affiliation or subsidiary of his investment in a third state which has already entered into an investment treaty with the respondent host state.\textsuperscript{206} In fact, both the MFN clause and the corporate structuring best epitomize the "depoliticization" of investor-state disputes through eliminating the state-to-state power equation from the settlement process as central argument for the establishment of the ICSID.\textsuperscript{207} I argue that the ICSID private law inclination inherently supports legal solutions that mostly fit into the nature and structure of private transnational investment rather than host states' regulatory functions.\textsuperscript{208} It is the arbitral tribunals’ variable interpretations of key investment provisions rather than the variation in BIT terms themselves that have brought about the “fragmentation” in the international investment regime at large. Even though one can easily note variations among BIT

\begin{itemize}
  \item \textsuperscript{201} See supra note 191 at 120-123
  \item \textsuperscript{202} See supra note 103 at 63-64
  \item \textsuperscript{203} Emilio Agustín Maffezini v. The Kingdom of Spain, ICSID Case No. ARB/97/7 (Final award, November 13, 2000) (Rectification of the award, January 31, 2001)
  \item \textsuperscript{204} Plama Consortium Limited v. Republic of Bulgaria, ICSID Case No. ARB/03/24 (Decision on jurisdiction, February 8, 2005) (Final award, August 27, 2008)
  \item \textsuperscript{205} See supra note 191 at 399
  \item \textsuperscript{206} Id.
  \item \textsuperscript{207} See Ibrahim F. Shihata, \textit{Towards a Greater Depoliticization of Investment Disputes: the Roles of ICSID and MIGA}, International Centre for Settlement of Investment Disputes (1993)
  \item \textsuperscript{208} See supra note 6 at 604-663
\end{itemize}
terms, the effect of the latter has proven to be secondary to investment treaty tribunals' interpretations in predicting outcomes of investor-state disputes.

B. AN ASYMMETRIC BASIS OF JURISDICTION UNDER THE ICSID LEGAL FRAMEWORK

Since the early 1990s, the growing number of BITs has formed the modern body of international law on foreign investment. International minimum standards of treatment have shifted from customary rules to treaty-based law. Yet, the deep private-law-oriented framework of the ICSID has resulted in a diffusion of ITAs through direct individualized claims.209 Paradoxically, neither the Preamble of the ICSID Convention, nor do its conventional terms provide a comprehensive definition of the "protected investment". Although the very first paragraph of the Preamble clearly associates private international investment with the contracting states' economic development, it does not elaborate on such association for the purpose of ICSID's mainline jurisdiction. Thus, the convention leaves the matter of determining the ICSID jurisdiction rationae materiae to the given B/MITs as a first guess and the interpretation of the intended investment treaty tribunal as a second guess. In light of the vaguely drafted BIT terms, arbitrators have taken an expansive approach in deciding what is qualified as a protected investment under the ICSID legal framework.210

On the other hand, the ICSID jurisdictional basis rationae persona maintains a normative legal order that favours Multinational Corporations (MNCs) whether on the international or the domestic level.211 Considering the ICSID’s costly proceedings, developed countries' investors have a smooth access to its facilities and consequently better chances of victory over developing countries' investors.212 In addition, domestic investors and corporations are denied access to the ICSID for lacking jurisdiction rationae personae under the latter's framework. They are deprived of any substantive

209 See supra note 17
210 See supra note 8
211 See supra note 103 at 4
legal protection on an equal footing with their foreign counterparts. As a result of that, domestic investors are double-burdened under the ICSID legal framework. First, they are entitled to a less preferential treatment than foreign investors and corporations. Second, they do not have the choice to overshoot bureaucratic administrative and judicial procedures to an alternative dispute settlement.

1. **Undefined Protected Investment: Investments Are Not Alike**

For the purpose of the Washington Convention, an investment establishes the jurisdiction *rationae materiae* of the ICSID. However, the Convention does not provide a definition of "protected investment". As a threshold jurisdictional issue, investment treaty tribunals have to primarily decide whether the substance of the claim qualifies as an investment in the meaning of the Washington Convention as well as the relevant B/MIT.213 Even though the Preamble of the ICSID does not comprehensively define protected investment, it emphasizes the relationship between the investment and the economic development of contracting host states. It reads as follows: "Considering the need for international cooperation for economic development, and the role of private international investment therein; bearing in mind the possibility that from time to time disputes may arise in connection with such investment between Contracting States and nationals of other Contracting States."214 Thus, the Preamble requires that an investment contributes to the host state's economic development in order to qualify as protected under the ICSID framework.

On the conventional level, chapter two of the convention entitled "jurisdiction of the centre" does not assist at all in defining an investment. In this regard, article 25 (1) states that "The jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a Contracting State (or any constituent subdivision or agency of a Contracting State designated to the Centre by that State) and a national of another Contracting State."215 This provision provides a broad definition of protected investment, and hence transfers the burden of defining the latter to the B/MITs on which the parties agree.

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214 See supra note 1
215 Id.
Christoph Schreuer traces this jurisdictional lacuna whether partially in the Preamble or fully in article 25 to the contracting parties contradicting views reflected in the convention *travaux preparatoires* on the definition of protected investment. In spite of the fact that the parameters set forth in most BITs on what constitutes an investment are frequently similar, if not identical in term and content, they often provide general conditions for qualifying an investment. This lack calls on investment treaty tribunals to draw on customary rules of interpretation to define an investment under the ICSID. In doing so, they have to essentially consider the ICSID preambular limitation as well as the BIT terms in question. To the contrary, investment arbitration jurisprudence denotes divergent approaches in deciding what qualifies as protected investment. Investment treaty tribunals have broadly expanded their law-making authority relying on the well-established procedural rule as stipulated literally in article 41 of the Convention that "the tribunal shall be the judge of its competence." Whereas some tribunals adopted an integrationist approach in defining investment, others applied a restrictive definition to the preambular text and ignored the requirement on the contribution to the host state's economic development.

The practice of most arbitral tribunals is laid down by the earliest award *Fedax NV v. Republic of Venezuela (1998).* The substance of the claim concerned promissory notes signed by Venezuela and endorsed to Fedax. The tribunal accepted the Venezuelan argument that Fedax had not made any foreign direct investment in Venezuela and that it had indirectly acquired such promissory notes by way of a third party endorsement. The tribunal upheld Venezuela's defense and dismissed the claim for lack of direct investment made towards the host state's economic development.

Four years later, by the same token the tribunal in *Salini v. Morocco* drew on an integrationist approach of an investment, and further required an investment to have four essential elements: a contribution of money or assets; a fixed duration; an

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217 See supra note 173 at 10-18
218 Id.
219 See supra note 1
220 *Fedax N.V. v. The Republic of Venezuela*, ICSID Case No. ARB/96/3 (Final award, March 9, 1998)
221 See supra note 173 at 165
222 *Salini Costruttori S.P.A. and Italstrade S.P.A. v. Kingdom of Morocco*, ICSID Case No. ARB/00/4 (Decision on jurisdiction, July 31, 2001)
element of risk; and a contribution to the host state’s economic development.\footnote{See Alex Grabowski, \textit{The Definition of Investment under the ICSID Convention: A Defense of Salini}, 15 289-90 287-309, Chicago Journal of International Law (2014)}

Clearly, the objective test in both \textit{Fedax} and \textit{Salini} is consistent with the customary rules of international law under the Vienna Convention on the Law of Treaties (VCLT). In emphasizing the importance of the object and purpose under article 31 (1) of the VCLT, the tribunal in \textit{Saluka} concludes that “The protection of foreign investments is not the sole aim of the treaty, but rather a necessary element alongside the [overall aim] of encouraging foreign investment and extending and intensifying the parties’ economic relations.”\footnote{See supra note 213 at 222} In \textit{Saluka}, the tribunal not only acknowledges the relationship between investment protection and the host state's level of economic development, but also uplifts the latter as the "overall aim" of such a relationship.

Nevertheless, more recent investment jurisprudence denotes dissenting practice by other investment treaty tribunals. In \textit{Victor Pey Casado & President Allende Foundation v. The Republic of Chile},\footnote{Victor Pey Casado and President Allende Foundation v. The Republic of Chile, ICSID Case No. ARB/98/2 (Final award, September 13, 2016)} although the Tribunal referred to the four-part test in qualifying an investment, it did not fully apply the latter.\footnote{See supra note 223 at 299} Indicating ostensible deference to the VCLT interpretive guidelines, the tribunal argued that the ICSID preamble requirement on the contribution of an investment to the host state's economic development is not an \textit{ipso facto} condition for qualifying an investment; rather it is a potential outcome of an investment. Accordingly, the Tribunal filtered out the definition of investment from the fourth condition.\footnote{Id. at 300} More extreme words were used by the \textit{Quiborax v. Bolivia} tribunal in rejecting both \textit{Fedax} and \textit{Salini} integrationist approach.\footnote{Quiborax S.A., Non Metallic Minerals S.A. and Allan Fosk Kaplán v. Plurinational State of Bolivia, ICSID Case No. ARB/06/2 (Decision on jurisdiction, September 27, 2012) (Final award, September 16, 2015)} In that meaning, the \textit{Quiborax} tribunal concludes that “It is true that the Preamble to the ICSID Convention mentions contribution to the economic development of the host State. However, this reference is presented as a consequence and not as a condition of the investment.”\footnote{See supra note 223 at 301-303}
In my view, both *Victor Pey* and *Quiborax* tribunals flagrantly contradict customary international law rules of interpretation as stipulated in articles 31 and 32 of the VCLT which explicitly qualify the Preamble and the annexes as inherent parts of the treaty text for the purposes of interpretation. Dissenting tribunals endorse a restrictive approach that relies on mere textual meaning while ignores the object and purpose of the treaty as embodied in the Preamble. The Convention *travaux preparatoires* unequivocally show that developing states, in particular, first joined the ICSID with the primary aim to withstand economic challenges and attract FDI flows for the sake of economic development and public welfare. For such an end, states voluntarily authorize foreign investments penetration into areas of public policy, entitle them to minimum standards of treatment and waive their sovereign immunity from adjudication so as to allow for alternative means of dispute settlement. In return for this, foreign investment should abide by the host state's laws and regulations and make substantial contribution in terms of value-added to the host state's economic development.

2. Unequal Access to ICSID Tribunals: Multinational Investment versus Domestic Investment

Modern international investment law has freed foreign investors from their home state’s discretion to exercise diplomatic protection through the individualized form of claims. Yet, access to ITA under the current legal framework of the ICSID has proven to be problematic for many investors whether on the international or domestic levels. Several studies have criticized the scope of the ICSID jurisdiction *rationae personae* as it only enables Multinational Corporations (MNCs) easy access to ITA.

On the other hand, lesser concerns in the relevant literature, though significant in my view, have been raised over excluding domestic investors from the international minimum standards of treatment under the ICSID. I argue that this jurisdictional

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230 See supra note 216  
232 See supra note 17  
233 See supra note 212 at 553
deficit strongly contravenes the well-established public law principles of procedural fairness and equality which dictate that all parties to a given dispute must be granted legal protection on an equal footing.

a. Favouring Multinational Corporations over Individual Investors

Some commentators maintain that MNCs enjoy smooth access and better chances of victory under the ICSID legal framework. The high degree of legal sophistication and procedural complexity in the ICSID dispute resolution system places many hurdles in front of the respondent developing states as well as their investors. In fact, ICSID litigation requires the competing parties – corporations, individual investors and host states – to be well-advised by reliable legal arbitrators, counsels and experts throughout the proceedings. The respondent state has to have the adequate analytical tools and econometric studies to assess its domestic investment policies in light of the relevant international minimum standard of treatment. These instruments are quintessential in either proving or disproving the negative impact on a given foreign investment.

Aside from legal expertise, developing states are double-burdened by the ICSID lengthy proceedings that often last for years. Undoubtedly, the financial standing of investment treaty parties may be reflected on the prospects of ITA. While developed states endeavor to secure transnational protection for their MNCs, developing states enter into BITs to primarily attract FDI to their modest economies. Thus, the latter accept the former's standardized investment provisions on a take-it-or-leave-it basis. Given the potential for large damages under the ICSID litigation, one may suggest that ITA is a precarious dispute resolution system for developing countries. The situation may be even worse if we consider the fact that the financial resources of

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234 Id.
236 Id. at 617-19
237 Id. at 611-14
238 Id.
some MNCs exceed the total GDP of some low and middle-income contracting states of the ICSID.239

Recent empirical findings clearly support the view that the ICSID dispute resolution system favours MNCs over developing host states. While low and middle-income developing countries’ share from Global FDI is around 10%, they are respondents in the overwhelming majority of ITAs.240 According to the 2016 ICSID caseload statistics, developing states have been involved in more than 70% of the total number of investor-state arbitrations registered before the ICSID since 1972.241 Furthermore, geographic distribution of cases surprisingly reveals that North American and Western European states have been respondents in only 11% of the ICSID investor-state disputes, while South American, African, and Middle Eastern Countries have been subjected to roughly 50% of disputes.242

As a result of this private law inclination towards MNCs, the developing host states' socio-economic rights appear to be severely undermined under the ICSID legal framework for the sake of investment protection. In this regard, the 2010 UNCTAD database on ITA reveals that the American-based MNCs are the most likely to take developing states to ITA before ICSID tribunals; as the number of claims filed by MNCs against developing host-states reached 93 claims compared to only 12 claims filed by developing-states' corporations against the US.243 These data together with the fact that the US share of global FDI exceeds the wholesale shares of the low and middle income developing countries demonstrates that the developed states’ MNCs

239 See YEN, TRINH HAL INTERNATIONAL LITIGATION IN PRACTICE: THE INTERPRETATION OF INVESTMENT TREATIES 321 (1st edition, Martinus Nijhoff Publishers) (2014); (for example, in the course of litigations that were triggered after its economic crisis, Argentine had to pay a total amount of damages that fairly exceeds its entire annual budget. Also, Pakistan was entitled to pay damages equivalent to total national reserve as a result of a chain of investment arbitrations.)
242 Id.
enjoy a better legal standing under the ICSID framework than those of developed counties do.\textsuperscript{244}

Even though the ICSID bolsters the penetration of MNCs into public law matters such as health, environment and taxation, it does not provide for relevant rules on corporate social responsibility. Further, it does not even allow access to its proceedings by the host state’s affected individuals or groups.\textsuperscript{245} Oddly enough, an investor who seeks fair and equitable treatment in the host state cannot be held accountable by the latter for his transgression against the host state’s population.\textsuperscript{246} Nevertheless, international efforts have been made to bring corporate conduct under the rule of law.\textsuperscript{247} The NIEO Declaration has moved to develop international law rules on corporate social responsibility that consider host states’ sovereign independence in the course of transnational investment operations.\textsuperscript{248} In consequence, the 1977 UN Code of Conduct on Transnational Corporations came out to comprehensively elaborate on foreign investors’ obligations in host states. Yet, it has never been put into force due to the profound disagreements between developed and developing countries concerning the scope of minimum standards of treatment for foreign investors.\textsuperscript{249}

\textbf{b. Excluding Domestic Investors from International Minimum Standards of Treatment}

Article 25 (1) of the Washington Convention excludes domestic investors/corporations from the substantive protection under the ICSID dispute resolution system.\textsuperscript{250} In contrast to the comprehensive jurisdiction of other international adjudicative bodies such as the European Court of Human Rights


\textsuperscript{245} It is worth mentioning that many commentators have called for an access to ICSID proceedings by the civil society in host states. This may appear to be vital in many fields of common concern including breaches to environment, human rights and workers’ privileges in the host state. (Despite being crucial, this topic of discussion goes beyond the focus of the present thesis.)

\textsuperscript{246} See Francesco Francioni, Access to Justice, Denial of Justice and International Investment Law, 20 no.3, 729-747 (2009)

\textsuperscript{247} However, there are on-going jurisprudential efforts to accommodate corporate social responsibility into the law-making process of investment treaty tribunals. (As I propose in chapter three, progressive interpretation of ICSID’s provisions may help refine the essence of investment standards such as the concept of indirect expropriation, NT and FET.)

\textsuperscript{248} See supra note 172

\textsuperscript{249} See supra note 191 at 63-96

\textsuperscript{250} See supra note 1
(ECHR), the ICSID jurisdiction \textit{rationae personae} apply only to the foreign investors of a contracting state.\footnote{Id.} This means that the domestic investors are deprived from the unique features of ITA. Whereas foreign investors are entitled to international minimum standards of treatment, alternative dispute resolution system and direct enforcement of arbitration claims, domestic investors are denied corresponding rights over investment disputes. In that sense, domestic investors do not take advantage of the deterrent function of ITA in reviewing and assessing state’s unlawful conduct vis-à-vis private individuals and corporations (as illustrated in chapter one).\footnote{Id.}

In spite of the fact that domestic investors are operating on the national level, they do not have equal access to the incentives and guarantees offered to foreign investors. Instead, they are bound to deal with non-specialized domestic arrangements in accordance with national policy stipulations which are often replaced by one-window apparatus for foreign investors. While the latter benefit from both international and domestic means of dispute settlement, domestic investors benefit only from domestic means of dispute settlement.\footnote{See supra note 74 at 115} Accordingly, domestic investors do not have the option of overshooting bureaucratic administrative and judicial proceedings. Moreover, the ICSID legal framework not only saves transnational investment from having resort to national courts system, but also from any "unilateral judicial action" taken by the host state. In contrast to domestic legal systems, judicial actions may constitute unlawful interference with an investment under international law. Finally, investors are likely to be awarded far higher amounts of damages by ICSID arbitral panels than the host state's national courts.\footnote{Id.}

In the ordinary course of means, state sovereign immunity from jurisdiction prevents its national investors from bringing an action before international adjudicative fora.\footnote{See supra note 38} Further, host states think twice before exceptionally allowing a domestic investor access to international Tribunals including ICSID's additional facility.\footnote{The ICSID's Additional Facility was created on September 27, 1978; It provides for arbitration, conciliation and fact-finding services for disputes between a State and a foreign investor, one of which
economic and political consideration may accord better negotiating power to some domestic investors through either contractual or treaty-based investment guarantees.\textsuperscript{257} For example, in concentrated economies, powerful investors may attempt to manoeuvre through exerting economic pressure on the host state in order to achieve an alternative dispute resolution.\textsuperscript{258} Contrariwise, in countries with underdeveloped institutions, unofficial dispute resolution methods may frequently include recourse to violence, political pressure or fraudulent practices against foreign investors.\textsuperscript{259} However, it has been suggested that ITA has a secondary function on the domestic level in promoting good governance particularly in developing states. It may drive the host state towards improving domestic alternative means for settlement of investment disputes whether in administrative or judicial form.\textsuperscript{260} In that view, domestic investors will avail themselves of better policy making, minimum standards of treatment, fair access to justice and consequently higher threshold of protection.

It is true that the deterrent function of ITA may to some extent lead host states to develop preventive mechanisms for amicable settlement of investment disputes so as to avoid exposure to costly damages under the ICSID. In that case, both international and domestic investors will make use of it. The point does not lie with the existence of an effective alternative dispute system on the national level; rather it lies with the bargaining power of an investor to persuade the state to sit for an amicable settlement in the first place and to negotiate decent terms in the second place. This is not an easy task for a domestic investor compared to powerful MNCs that function on the international plane. In sum, the current legal framework of the ICSID tends to grant foreign investors far higher threshold of protection while excluding their domestic counterparts from any substantive form of protection. Whereas the former can simply rely on the Washington Convention, B/MITs, FTAs or at least an arbitration contract in order to initiate compulsory arbitration against the host state, the latter are largely shackled by sovereign immunity restrictions, administrative formalities and

\textsuperscript{257} See supra note 244
\textsuperscript{259} Id. at 12
\textsuperscript{260} See supra note 2 at 121-150
unspecialized national arrangements. This is unless a domestic investor or corporation has in advance signed an arbitration agreement providing for investment arbitration.\textsuperscript{261}

C. \textbf{FRAGMENTATION OF INTERNATIONAL INVESTMENT LAW: DYNAMICS OF INVESTMENT TREATY TRIBUNALS}

Aside from treaty term variations on the one hand, and the asymmetric basis of jurisdiction on the other, investment treaty tribunals themselves tend to interpret substantive standards of investment protection on a case-by-case basis. The lack of binding precedent to govern the practice of ITA has yielded divergent interpretations of central investment standards particularly on the application of indirect expropriation, Fair and Equitable Treatment (FET) and Most Favoured Nation (MFN) clauses.\textsuperscript{262} The absence of supervisory mechanisms to review and correct inconsistent awards adds more fuel to the already fragmented international investment regime. Jurisprudence on international investment law has failed to integrate a unified doctrine on the protection of foreign investment. As a result of this failure, increasing number of inconsistent arbitral awards worth billions of dollars in damages has been rendered against host states.\textsuperscript{263} Therefore, many scholars have vehemently criticized the current practice of investment treaty tribunals for elevating inflexible investment protection over the socio-economic regulatory power of host states.\textsuperscript{264}

The scope of international minimum standards of investment treatment has become unrestrained in relation to the host state's regulatory space.\textsuperscript{265} The inconclusive basis of states consent to the ICSID together with the imbalanced mainline jurisdiction has cursed the practice of ITA with legal uncertainty. At a maximum point of public disquiet, many countries have reconsidered their stances toward the ICSID system and investment treaty arbitration at large. Most of developed and developing countries have reacted to inflexible protection through either terminating or renegotiating their

\textsuperscript{261} See supra note 74 at 79, 128
\textsuperscript{262} See supra note 17 at 57-60
\textsuperscript{263} See supra note 159
\textsuperscript{264} Id.
\textsuperscript{265} Id.
BITs in order to meet domestic social and economic needs.\textsuperscript{266} State regulation in matters of public concern has been brought up in the new generation of B/MITs, especially in finance, labor, health, environment and human rights fields. Disinclination to accept controversial awards is also evident in the practice of some states through making use of annulment procedures before the ICSID.\textsuperscript{267} In this section, I briefly evaluate the process of institutional appointments under the ICSID system. Then, I examine the lack of binding precedent and supervisory mechanism in the practice of ITA as being sources of fragmentation in the international investment regime. Finally, I set out relevant case law on the concept of expropriation with an aim to appraise the different approaches used by investment treaty tribunals in order to distinguish between compensatory expropriation and state lawful regulation.

1. **Institutional Appointments of Arbitrators under the ICSID Framework**

Since the first case was registered in 1972, the ICSID has exercised control over the appointment process of arbitrators, conciliators and \textit{ad hoc} committees. Some empirical studies suggest that arbitrator/counsel-related variables are among the most widely used models to predict investor-state disputes' outcomes.\textsuperscript{268} Up until 2015, less than 20\% of ICSID's arbitral appointments embrace nationals of developing countries.\textsuperscript{269} Furthermore, the 2016 ICSID annual report notes that the same basis of

\textsuperscript{266}See Kathryn Gordon & Joachim Pohl, \textit{Investment Treaties Over Time-Treaty Practice and Interpretation in a Changing World}, 31-35 (OECD Working Papers on International Investment, 2015) (The majority of recent BITs contain provisions referring to treaty amendments. Starting from 1990s, most of treaty changes related to exceptions to MFN clause, NT for custom unions, security and protection standards, tax-related issues and most notably investor-state dispute settlement.)

\textsuperscript{267}See United Nations Conference on Trade and Development, \textit{Recent Developments in Investor-State Dispute Settlement ISDS}, 7-8 (UNCTAD, IIA issues note) (April, 2014) (Argentine is the most frequent state to file applications for annulment proceedings before the ICSID since it has been respondent in more than 50 Investor-State arbitrations) available at http://unctad.org/en/PublicationsLibrary/webdiaepcb2014d3_en.pdf

See also International Centre for Settlement of Investment Disputes, \textit{Updated Background Paper on Annulment for the Administrative Council of ICSID}, Annex 1 (1-31) (May 5, 2016) (Until April 15, 2016, Argentina has requested the annulment of 16 ICSID awards, out of which eight annulment requests have been rejected, two discontinued and only four awards have been annulled including Vivendi, Enron, CMS and Sempra) available at https://icsid.worldbank.org/en/Documents/resources/Background\%20Paper\%20on\%20Annulment\%20April\%202016\%20EN.pdf#search=Argentina

\textsuperscript{268}See supra note 244 at 18-20

\textsuperscript{269}Id.
appointment distribution is still applied by the Centre’s Administrative Council.\textsuperscript{270} In light of these findings, developed countries and their MNCs have a better legal representation than developing host states in investor-state disputes. This biased process of appointment has always been traced back to the high degree of sophistication that requires certain academic and professional credentials for arbitral appointments.\textsuperscript{271} Given the limited number of qualified arbitrators from developing states, the appointment process would ultimately favour developed countries interests. However, the lack of cultural diversity on the arbitral bench raises increasing concerns over ICSID's private law inclination that enables developed states' transnational businesses a smooth access to the Centre's facilities and consequently higher chances of victory.\textsuperscript{272}

According to the Washington Convention, the ICSID performs under the auspices of the World Bank (WB). Both the ICSID's chair and the Administrative Council are granted broad discretionary power in appointing arbitrators in investor-state disputes under article 38 of the Convention. Thus, developing states have little, if any, freedom regarding the selection of arbitrators in investment disputes.\textsuperscript{273} It is even disconcerting to identify that the ICSID is affiliated to the WB, since the president of the latter is the chair of the former. The conflicting interests manifest in the fact that the WB and the Centre share almost the same contracting states, staff members, administrative bodies as well as the headquarters. Most of the ICSID hearings are held in Washington, the same seat as the WB, and if not, in other developed countries like Britain, France or Germany.\textsuperscript{274} Furthermore, The WB as one of the global financial institutions that supports free-market values funds the ICSID Secretariat General.\textsuperscript{275} A network of appointed commercial arbitrators, private law firms and large financial institutions

\textsuperscript{271} See supra note 244
\textsuperscript{272} See supra note 212 at 522
\textsuperscript{273} It has been reported that the Africans judges, counsels and arbitrators are the least participating nationals in the international dispute resolution mechanisms.\textsuperscript{274} See supra note 235 at 611-12
backed by developed states insist on fidelity to inflexible protection.\textsuperscript{276} It is enough then to figure out that the ICSID neoliberal orientation favours private international investment as embodied in MNCs over states' regulatory power.

The evidence also seems to suggest that a considerable number of assigned arbitrators put up with the WB's free market economic solutions. International arbitrators and lawyers who are engaged in investor-state disputes before the ICSID were already absorbed in a commercial environment.\textsuperscript{277} Thus, they perceive ITA as a branch of international commercial law rather than public international law.\textsuperscript{278} As I have argued in chapter one, the form and procedure of investment arbitration has historically evolved from the practice of commercial arbitration to investor-state arbitration. The paradox lies here in the fact that commercial arbitrators are now operating in a regulatory, rather than a commercial sphere. The legal contours of regulatory disputes in which states public authority is involved are utterly different from commercial relationships.\textsuperscript{279} In contrast to the public law principles of transparency, impartiality and neutrality, the practice of ITA under the ICSID draws heavily on political influence, professional patronage and sponsorship.\textsuperscript{280} Arbitrators advance expansionary interpretations that favor the financial stability of MNCs even at the expense of public policy concerns such as environment protection and human rights. These expansionary interpretations are deliberately sought to perfect the task of investment treaties in protecting private transnational investment.\textsuperscript{281} Given the neoliberal institutional context along with the commercial law background, a systemic community of arbitrators, academics, lawyers, economists and commentators interprets BITs far beyond the state parties' consent in promoting states' economic development side-by-side with investment protection.

\textsuperscript{276} Id.
\textsuperscript{277} Id.
\textsuperscript{278} Id. at 27
\textsuperscript{279} See supra note 91
\textsuperscript{280} See supra note 275 at 60
\textsuperscript{281} Id. at 60-63
2. The Lack of Binding Precedent and Supervisory Mechanisms

Although ITA is a relatively novel method for the settlement of investment disputes, it has developed a considerable amount of literature especially over the past two decades.\textsuperscript{282} The establishment of the ICSID has stimulated the penetration of private international investment into the host states' territories. Jurisprudence on ITA is fundamentally built on the pervasive investment provisions as included in thousands of B/MITs.\textsuperscript{283} Investment treaty terms have codified most of the customary international rules on the minimum standards of treatment and the international responsibility of states for injuries to aliens.\textsuperscript{284} But still, there is no multilateral legal framework to define investment, settle on the scope of investment standards of protection and account for the economic disparities between developed and developing countries.\textsuperscript{285} The ICSID legal framework under the Washington Convention does not set out the substantive rules governing the regulatory relationship between foreign investors and host states. Thus, investment treaty tribunals have been and remain the most dynamic zone of international investment law. Since they have a dual effect on both private investment interests and public-policy-making, they presumably combine public and private international law rules into a single dispute resolution system.\textsuperscript{286} Yet, the overlapping standpoints of both private investment and host states have cursed the practice of investment treaty tribunals with more divergence.\textsuperscript{287} Investment treaty tribunals have never balanced between the host state’s socio-economic rights and the protection of foreign investors against non-commercial risk.\textsuperscript{288}

Consistent with the general rule in public international adjudication,\textsuperscript{289} international investment law does not recognize a rule of \textit{stare decisis}. Article 53 (1) of the ICSID

\textsuperscript{282}The literature on investment treaty arbitration is an outcome of a discipline that until recently has been a field of few practitioners and now is shifting mainstream.  
\textsuperscript{283}See supra note 173  
\textsuperscript{284}Id.  
\textsuperscript{285}See supra note 3 at 876-77  
\textsuperscript{286}Id.  
\textsuperscript{287}Id. at 884  
\textsuperscript{289}According to article 59 of the statute of the International Court of Justice “The decision of the court has no binding force except between the parties and in respect of that particular case.”
convention impliedly ignores the rule of legal precedent: "The award shall be binding on the parties and shall not be subject to any appeal or to any other remedy except those provided for in this Convention." This means that investor-state disputes are to be settled on a case-by-case basis with respect to particular facts and parties in a specific context. Nevertheless, this is not to say that investment treaty tribunals disregard precedent in full; rather they do rely on each other's decisions in supporting their legal reasoning. International practice reveals that arbitral panels variably apply legal precedent depending on the subject-matter in question whether inter-state conflict, international trade, human rights or investment.\(^\text{290}\) The growing body of investment treaty law that stems from a network of more than 3000 B/MITs was seen as establishing a multilateral legal system on the minimum standards of investment protection.\(^\text{291}\) However, the jurisprudence of investment treaty tribunals shows a considerable amount of divergence rather than convergence. The lack of a binding rule of *stare decisis* in the practice of ITA has compelled arbitral tribunals to draw on variable textual interpretations for investment treaty standards.\(^\text{292}\) This includes most notably, direct and indirect expropriation, Fair and Equitable Treatment (FET) and Most Favoured Nation (MFN) clauses. Paradoxically, investment treaty tribunals sought to largely expand the scope of investment protection far beyond the treaty parties' consent to its object and purpose. Even though most Investor-state treaty-based arbitrations are undertaken under the ICSID legal framework, interpretations of investment standards included therein are frequently divergent and subject to change on a case-by-case basis. This discrepancy undermines the principles of legal stability and consistency that should exist in any sound legal system and consequently threatens the legitimacy of ITA.\(^\text{293}\)

From my perspective, fragmentation of international investment law may be attributed to two main reasons. First, Tribunals do not stick to the customary international law rules of interpretation under the Vienna Convention on the Law of Treaties

\(^{290}\) See Gilbert Guillaume, *The Use of Precedent by International Judges and Arbitrators*, 2, 5-23, Journal of International Dispute Settlement (2011)

\(^{291}\) See supra note 288 at 9-10

\(^{292}\) See supra note 159

\(^{293}\) See supra note 6
On the contrary, investment treaty tribunals adopt a restrictive interpretive approach which considers only the ordinary textual meaning of an investment treaty while ignoring the treaty parties' consent. The second reason is that investment treaty tribunals have never settled the public-private conflict between the host state’s regulatory power and the foreign investor’s protection. I agree with Stephan Schill that investment treaty tribunals do create international investment law through precedent. However, the Washington Convention’s travaux préparatoires supports the view that the doctrine of stare decisis does not apply to the ICSID arbitrations. One may suggest that some investment standards of treatment have relatively formed an overarching applicable law in investor-state disputes. Drawing on the similarity of BIT terms, Kaufmann-Kohler argues that investment treaty tribunals, in particular, must be bound in their legal reasoning by the rule of precedent. In contrast to both commercial and contract-based-investment tribunals, investment treaty tribunals form a part of the international legal order and hence they are under a "moral obligation" to follow precedent in their decisions. For example, MFN clauses in bilateral investment treaties have played a significant role in bringing uniformity into international investment standards of protection as previously illustrated in section one. Nevertheless, MFN clause has never been elevated to the status of precedent. Sufficient evidence demonstrates that ICSID tribunals' law-making on international investment standards of protection does not construct a coherent body of precedent. Instead, the frequent exceptions and derogation in the practice of investment treaty tribunals is anathema that lends investor-state dispute settlement to unpredictable outcomes.

295 See supra note 288 at 10-14
296 See supra note 288 at 1082
298 Id.
299 See supra note 204 (Palma v. Bulgaria)
300 See supra 275 at 50
301 See supra 288 at 11
In the course of Argentina's economic crisis, some tribunals that involve the same facts and merits have adopted divergent approaches in making reference to earlier ICSID arbitral awards. In this respect, I compare three ICSID awards that adopt different approaches in deciding on the applicability of precedent to investor-state disputes. The tribunal in AES Corporation v. Argentina not only took a negative attitude towards precedent, but also acknowledged its contribution to the on-going process of fragmentation. In very odd language, the AES tribunal stated that “each tribunal remains [sovereign] and may retain, as it is confirmed by ICSID practice, [a different solution] for resolving the same problem.” In the same year, using a different approach while responding to a one party's claim arguing for departure from earlier case law, the tribunal in Camuzzi v. Argentina adopted a positive approach towards precedent by concluding that “the tribunal has no reason not to concur with conclusion, even though some of the elements of facts in each dispute may differ in some respect.” A more balanced approach in deciding on the applicability of precedent to investor-state arbitration was endorsed by the tribunal in Daimler Financial Service AG v. Argentine. In spite of acknowledging that there is no such rule of stare decisis under international investment law, the tribunal concluded that "Each case must be decided on the basis of the applicable treaty texts and in light of the relevant facts… it is a fundamental principle of the rule of law that 'like cases should be decided alike' unless a strong reason exists to distinguish the current case from previous ones." It appears from this language that the Daimler Tribunal used an investigative approach vis-a-vis "all alike cases" in order to ensure a minimum degree of legal stability in its legal reasoning. This balanced approach is quite

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302 Following its arduous economic crisis in the early 2000s, Argentine has faced dozens of ICSID arbitration claims under different BITs for over $ 100 billion in damage as a result of a series of governmental emergency measures including cutting national spending, devaluation of the Argentine Peso against the US Dollar and imposing restrictions on capital transfer.


304 AES Corporation v. The Argentine Republic, ICSID Case No. ARB/02/17, (Decision on jurisdiction, April 26, 2005)

305 Camuzzi International S.A. v. The Argentine Republic, ICSID Case No. ARB/03/2, (Decision on objection to jurisdiction, May 11, 2005)

306 Daimler Financial Services AG v. Argentine Republic, ICSID Case No. ARB/05/1, (Final award, August 22, 2012) 

different from AES's clear departure from the concept of the rule of law on the one hand and Camuzzi's disregard for the 'necessary evolution of the law on foreign investment.

In light of these divergent interpretations of the scope of legal precedent in ITA, central investment standards have been inconsistently applied by one-off investment treaty tribunals. The absence of an appellate body to the institutional framework of the ICSID has exacerbated legal inconsistency whether at the jurisdictional or substantive level of ITA. As a result of this, more conflicting awards are expected to come out.\textsuperscript{308} In many legal systems, the concept of legal precedent is in some way attached to the higher courts' judgments in final appeals. On the contrary, the lack of hierarchy among arbitral tribunals in international investment law makes it impossible to pursue such a concept of precedent.\textsuperscript{309} In my view, this fragmentation is essentially driven by the private law inclination of most investment treaty tribunals towards the interests of transnational foreign investment. The International Court of Justice as a form of international adjudication enjoys a relative \textit{jurisprudence constant}, though has no formal rule of precedent.\textsuperscript{310} On the other side, annulment procedure under the ICSID has reflected more illegitimacy in the process of investor state dispute settlement. They have proven to be complex, costly and futile to many respondent states that opted to contest ICSID awards.\textsuperscript{311} An independent adjudicative body would be essential for reviewing and correcting possible inconsistent arbitral decisions. Indeed, this body would inspire the legal conduct of the key actors in investor-state disputes including arbitrators, international lawyers, economists and multinational corporations. Finally, challenged awards would help create an international normative order on the minimum standards of treatment for investment protection.\textsuperscript{312}

\textsuperscript{308} \textit{Id.} at 625
\textsuperscript{309} See \textit{supra} note 290 at 6
\textsuperscript{310} See \textit{supra} note 289
\textsuperscript{311} For example, in \textit{Malicorp v. Egypt}, in spite of acknowledging a manifest excess of power by the Tribunal for serious departure from fundamental rule of procedure \textit{equality of arms}, the annulment committee rejected the application for annulment; \textit{See Malicorp Limited v. The Arab Republic of Egypt}, ICSID Case No. ARB/08/18 (Decision on the application for annulment, July 3, 2013)
3. Equating Indirect Expropriation with State Regulatory Measure: A Threefold Formulation

The *per se* prohibition of non-compensatory expropriation of foreign investment is well-established under customary rules of international law. Under the Hull formula, states international responsibility to pay prompt, adequate and effective compensation for expropriating foreign assets is undisputed.\(^{313}\) The wide network of B/MITs\(^{314}\) virtually prohibits expropriation except in cases where it is taken for public purpose, non-discriminatory, in accordance with due process of law and accompanied by proportionate compensation.\(^{315}\) Since expropriation was attached to the dispossession of private property owned by foreign investors in the aftermath of nationalisation, its definition did not apply to a situation where a foreign investor is still holding the alleged property. The proliferation of B/MITs after the advent of the ICSID has rendered this classical form of direct expropriation rarely applicable.\(^{316}\) States' modern practice of interference with the mere use of foreign investment without formal transfer of title has driven the jurisprudence on ITA to reverse "the possession paradigm" of expropriation to include other forms of indirect expropriatory conducts. Indirect expropriation has been frequently applied where no material deprivation resulting from the state public conduct, yet the use of an investment is negatively impacted.\(^{317}\) This tendency is justified under most legal systems by the investor's right to effective management and control as prerogatives to private ownership.\(^{318}\) Some capital-importing states, such as China and India, have turned to be a source of outward investment even to traditional exporting states. While developed states, particularly under NAFTA, have reacted by taking protectionist regulatory measures to protect people's health, environment and human rights, developing states managed to lower standards of national protection so as to attract bigger share from FDI.\(^{319}\)

\(^{313}\) See supra note 45  
\(^{314}\) Almost all B/MITs provide for the prohibition of direct and indirect expropriation including the North American Free Trade Agreement (NAFTA) and the Energy Charter Treaty (ECT).  
\(^{316}\) Id.  
\(^{317}\) Id.  
\(^{318}\) See supra note 275 at 208  
\(^{319}\) Id. at 192-95
This shift in roles was reflected in the BITs boom in the 1990s through introducing a third category of measures which are "tantamount to expropriation". The lack of clear distinction between indirect expropriations and the new category of acts tantamount to an expropriation in the overwhelming majority of BITs have provided the basis for an expansionist approach to state regulatory acts in relation to foreign investors.\textsuperscript{320}

This threefold formulation of state regulatory measures to direct, indirect and acts tantamount to an expropriation has no comparable application in domestic law on regulatory takings. It was primarily intended by drafters with neoliberal backgrounds to construct a system of investment protection based on free market values and the sanctity of private property.\textsuperscript{321} The lack of any distinction under BITs between compensable indirect expropriation and non-compensable state regulation has mostly appeased the privately oriented commercial arbitrators and lawyers who aim to amplify the legal cause of arbitration with a view to bolster their profitable industry. Thinking of ITA as a form of commercial arbitration, most investment treaty tribunals have taken the law of expropriation beyond the treaty object and purpose as consented to by the treaty parties. A minimal governmental regulatory action becomes interference with the use of foreign investment that amounts to an expropriation.\textsuperscript{322} In interpreting and applying the vaguely drafted substantive standards of protection, investment treaty tribunals assume a powerful quasi-legislative function.\textsuperscript{323} In doing so, they intend to create a course of precedents on the international minimum standard of treatment, especially on indirect expropriation, FET and MFN clauses. Whereas some tribunals have ostensibly referred to the customary rules of interpretation under the VCLT as a means to legitimize their expansive interpretations, others have conversely used the latter's interpretive technics to derogate from previous decisions.\textsuperscript{324}

The existence of a third category of acts tantamount to takings without a precise definition gives rise to legal instability and inconsistency in the practice of ITA. Investment treaty tribunals have largely extended the applicability of indirect

\textsuperscript{320} Id. at 210
\textsuperscript{321} Id. at 208-214
\textsuperscript{322} See supra note 159 at 888
\textsuperscript{323} Id. at 892
\textsuperscript{324} Id. at 60-62
expropriation terms to almost all state regulatory measures. Thus, they maintain a
domestic normative scheme favourable to foreign investment that obviously exceeds
international minimum standards of treatment.325 The threefold formulation magnifies
the substantive principles of state responsibility to cover lawful regulatory actions
while leaving the state defenceless against foreign investors’ transgressions.
Furthermore, opponent arbitrators’ proposals to develop a counterclaim mechanism in
the practice of ITA as a means of distinction between indirect expropriation and
lawful regulation were ignored by ICSID arbitral panels.326 Instead of examining host
state’s intention behind taking regulatory measures, arbitral tribunals have endorsed an
"all or nothing" paradigm that either grants investor full compensation or denies the
latter any kind of indemnification. ICSID case law indicates that even if a regulatory
measure is taken in the course of the state traditional role in advancing public welfare
with no intention to cause injury to an investor and do not contravene investment
legitimate expectations, it may invoke state responsibility for affecting the economic
value of an investment.327 In fact, the ambiguity of the requirements that establish
indirect expropriation in the first place makes it more problematic to differentiate the
latter from the newly introduced acts tantamount to takings in the second place. Under
this authority, two main doctrines have emerged in the jurisprudence of ITA to
distinguish compensatory expropriation from state lawful regulation.328

The "sole effect doctrine" is considered the founding form of the "all or nothing"
paradigm. The impact of a governmental measure on an investor is the sole factor
required for the occurrence of a compensable expropriation. This is regardless of
whether the regulatory measure is taken for attaining a public purpose such as health
or environment protection.329 In Metalclad v. Mexico, a US corporation alleged loss of
"an expected economic benefit" as a result of a Mexican municipality rejection of a
construction permit for a hazardous waste transfer landfill was deemed as sufficient
for establishing compensatory expropriation.330 The tribunal concluded that "covert or

325 Id.
326 Id.
327 See Ursula Kriebaum, Regulatory Takings: Balancing the Interests of the Investor and the State, 8
328 Id. at 720
329 Id. at 724-25
330 Metalclad Corporation v. The United Mexican States, ICSID Case No. ARB(AF)/97/1, (Final
award, August 30, 2000)
incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or reasonably-to-be-expected economic benefit of property even if not necessarily to the obvious benefit of the host State.” The Metalclad case is an outcome of the "tantamount clause" in newer BITs. In my view, the Tribunal flagrantly undermines the principle of sovereign independence of states which is at the heart of general international law. Such a precarious approach does not only rely on inexisten factual evidence represented in the alleged lost-opportunity, but also impedes state power to regulate matters of public policy concern such as protecting its population from hazardous waste in the present case. Although there was no imminent value depreciation which is an essential requirement for compensatory expropriation, the tribunal relied on the "tantamount" development to maintain a normative condition favourable to the foreign investor in recovering compensation.

On the other hand, some Tribunals have used the "police power doctrine" to distinguish between compensable expropriation and non-compensable regulatory measure. The excessive reliance by foreign investors on the broad definition of indirect expropriation to thwart state regulations has driven some recent tribunals to develop a public purpose criterion. For such an end, they draw on a restrictive approach which mainly focuses on the the nature rather than the impact of state measure. For instance, in the NAFTA case, Methanex v. United States, the tribunal held that the US. Executive order banning the use of 'MTBE' substance, which is used as a fuel additive, for its serious threat to human health and environment is a lawful regulatory measure; and accordingly the tribunal provided for no compensation. In contrast to Metalclad, the Tribunal in Methanex refuted the investor's claim based on the deprivation of a reasonably-to-be-expected economic benefit. The latter maintained that since the challenged governmental order is taken for general welfare and without discrimination, the state is not liable for compensation. Later in Saluka v. Czech Republic, the Tribunal stated that "it is now established in international law that States are not liable to pay compensation to a foreign investor when, in the normal

331 Id.
332 See supra note 327 at 725
333 Methanex Corporation v. United States of America, UNCITRAL, (Final award on jurisdiction and merits, August 3, 2005)
exercise of their regulatory powers, they adopt in a non-discriminatory manner *bona fide* regulations that are aimed at the general welfare."\(^{334}\) Under the police power doctrine, if the state measure is non-discriminatory, taken for a legitimate public purpose and in accordance with due process of law, no compensation will be awarded, unless a specific commitment was initially made vis-à-vis an investor.\(^{335}\) However, the *Saluka* award recognizes the difficulty of such approach in application by concluding that "international law has yet to identify in a comprehensive and definitive fashion precisely what regulations are considered permissible and commonly accepted as falling within the police or regulatory power of States and, thus, non-compensable."\(^{336}\)

The adoption of "public interest" as a decisive criterion in both *Methanex* and *Saluka* awards to distinguish lawful regulation from expropriation may be seen as a step forward in curbing the inflexible protection of investment. However, the volatile definition of public interest under international law makes it practically impossible to distill comprehensive requirements for non-compensable regulations under the police power doctrine. Further, the restrictive approach in interpreting indirect expropriation through disregarding the effect of the state measure on an investor is detrimental to international investment law at large.\(^{337}\) Finally, it is worth mentioning that both decisions, *Methanex* and *Saluka*, were decided in accordance with the UNCTRAL model law. Some commentators have justified this restrictive approach to indirect expropriation regulatory power by the fact that both cases have involved regulatory powers taken by developed states to deal with increasing challenges to national security, health or environment.\(^{338}\) I believe that similar awards in the same vein under ICSID's arbitration rules are rare, if they exist at all.


\(^{335}\) See *supra* note 327 at 725-30

\(^{336}\) See *supra* note 334

\(^{337}\) See *supra* note 327 at 726

\(^{338}\) See *supra* note 47 at 163-65
D. CONCLUSION

In this chapter, I examined the governing legal framework of investment treaty tribunals under the ICSID. The Washington Convention does not constitute a self-contained substantive regime for ITA. In section one, I sought to answer whether variations in investment treaty terms have driven international investment law to fragmentation. It is suggested that *quid pro quo* bargains and relative negotiating powers of treaty parties underlying the concept of BITs have rendered the latter essentially variable in content and structure. Nevertheless, I argued that changes in BITs terms are mainly concerned with generalities rather than details of substantive standards of treatment. Most of BITs contain standardized provisions for investment protection particularly on the prohibition of non-compensable expropriation, FET and MFN. I found that even in cases of almost identical treaty terms, arbitral tribunals arrive at consistent interpretation of international minimum standards. It is true that the treaty parties create their own investment treaty, yet arbitral tribunals turn out to be the supreme interpreters of when and how treaty law applies. Treaty parties are assumed to impliedly delegate comprehensive interpretive power to one-off arbitral tribunals. However, the scope of interpretation the tribunal may exert increases or decreases depending on either the clarity or the ambiguity of treaty language. The more ambiguous is the treaty language, the wider is the scope of interpretation to an investment tribunal. I concluded that despite variations in treaty terms, the effect of the latter remains subordinate to tribunals’ interpretations in predicting outcomes.

In section two, I critically scrutinized the ICSID's asymmetrical basis of jurisdiction in defining both the "protected investment" and the "protected investor". It is quite odd that neither the Convention Preamble, nor the conventional terms provide a definition for what is to be qualified as a protected investment for the purpose of the ICSID litigation. Despite the fact that the Preamble clearly requires a certain contribution by a private international investment to the contracting states economic development in order to be qualified as an investment, some tribunals have intentionally ignored such a requirement. The parameters set forth in most B/MITs on what constitutes an investment are frequently similar in term and content, yet they often provide vague conditions for defining an investment. In light of this lacuna,
ICSID arbitral panels take a broad approach in interpreting protected investment with an aim to amplify protection for transnational investment. Even though earlier decisions defer to the preambular condition regarding the contribution of an investment to the host state's economic development, recent jurisprudence shows divergent approaches in defining an investment. Some tribunals like *Victor Pey* and *Quiborax* endorse a restrictive approach that depends on mere textual meaning while ignoring the object and purpose of the ICSID Convention. Moreover, the high degree of legal sophistication, technical complexity and costly proceedings in the ICSID litigation limits the jurisdiction *rationae personae* of the ICSID to multinational corporations and developed countries’ investors. I noted that a little amount of the literature on ITA discusses the discriminatory nature of the ICSID litigation in excluding the domestic investors from the international minimum standards of protection. I argued that such jurisdictional deficit rigorously contravenes the well-established procedural rules of fairness and equality.

In section three, I drew on the different approaches used by investment treaty tribunals to interpret the definition of indirect expropriation. Jurisprudence on ITA has reversed "the possession paradigm" in expropriation to include other forms of indirect takings. Yet, it provides no definite distinction between the latter and the state lawful regulation. Thus, Investment treaty tribunals rely on variable textual interpretations for defining expropriation as the central standard in international investment law. The lack of a binding rule of precedent along with an appellate body in the practice of ITA has exacerbated inconsistency whether at the jurisdictional or substantive level. Furthermore, introducing a third category of measures "tantamount to expropriation" in the newer version of BITs provides a basis for an expansionist interpretation to state regulatory acts in relation to foreign investors. Thinking of ITA as a form of commercial arbitration, most investment treaty tribunals have taken the law of expropriation beyond the treaty parties consent. Instead of objectively examining the governmental regulatory action in the course of awarding damages, arbitral tribunals endorse an "all or nothing" paradigm that considers the interests of either party. Neither the "sole effect criterion" nor the "police power doctrine" provides for a comprehensive approach to the distinction between compensatory expropriation and non-compensable state regulation.
Even though investment treaty arbitration combines the form and procedures of international commercial arbitration, it performs under the substantive principles of public international law. As I argued in chapter one, the function of ITA in reviewing and adjudicating states exercise of public authority vis-à-vis foreign investors makes it akin to public law's judicial review of governmental actions. Yet, the private law inclination of investment treaty tribunals towards inflexible protection of transnational investment hinders the host state’s right to pursue legitimate public policy objectives. The expansive interpretations of international investment standards which were set out in chapter two extend investment protection beyond the treaty parties' intention under the ICSID conceptual framework. A significant part of the literature on ITA puts forward a number of remedial measures to address the current fragmentation of international investment regime. Most of these remedies focus on the institutional reform of the ICSID legal framework. They vary from establishing an "independent international investment court"\(^{339}\) to developing an "ICSID appellate body"\(^{340}\). Undoubtedly, that would help revise inconsistent awards that may be rendered under one-off investment treaty tribunals.\(^{341}\) Other institutional proposals suggest a fairer institutional process for appointing arbitrators in order to increase objectivity, accountability and transparency in the practice of ITA.\(^{342}\) On the procedural level, some studies recommend the "consolidation of claims", whenever applicable, to avoid potentially conflicting conclusions by different tribunals on the same subject matter.\(^{343}\) This technique would ensure procedural uniformity in the practice of ITA, raise predictability of the host state and foreign investor and prevent over-litigation and double recovery.\(^{344}\)

\(^{339}\) See supra note 91; (Gus Van Harten's thesis on the establishment of an international investment court)

\(^{340}\) See supra note 6

\(^{341}\) Id.

\(^{342}\) See supra note 10


However, I contend that both institutional and procedural reforms are basically contingent on either renegotiating the ICSID convention, or realizing a Multilateral Agreement on investment protection (MAI) to replace the diverse network of BITs existing today. Despite being comprehensive, these reform proposals seem unfeasible due to the everlasting conflicting interests of developed and developing states, multinational corporations, commercial arbitrators, and host states' civil society. Instead, this chapter presents a pragmatic approach based on the self-reformation of investment treaty tribunals law-making. The hybridity of ITA is the entry point for remoulding the law-making process on public law concepts of adjudication. I argue that reintroducing ITA as a public law model of adjudication may drive the system to self-reformation. To that effect, I set out a workable three-pronged framework for investment treaty tribunals law-making; namely, interpretive, conceptual and comparative. In section one, I lay out an interpretive approach for investment treaty tribunals. I draw on the customary rules of the Vienna Convention on the Law of Treaties (VCLT) as a basis for interpretation of substantive standards of protection. In section two, by applying the VCLT interpretive guidelines on the conceptual framework of the Washington Convention, I emphasize the correlation between investment protection and the host state's right to economic development as an object to the ICSID. Further, I rely on article 42 (1) of the Washington Convention, whenever a given BIT term allows, as a basis for integrating rules on corporate social responsibility. In section three, I suggest a comparative framework for investment treaty tribunals law-making. First, I point out to the significance of the general principles of law and judicial decisions as formal sources of public international law in reforming ITA from within. Second, I examine the use of proportionality in comparative public law review of governmental actions. Considering its relevance to ITA, I argue for accommodating the principle of proportionality as a general principle of law in investment treaty tribunals law-making. For such an end, I lay out a three-step test to delineate the boundary between compensatory expropriation and non-compensable lawful regulation.

346 See supra note 312
A. **The Interpretive Framework: Customary Rules of International Law under the Vienna Convention on the Law of Treaties**

Investment treaties cannot be interpreted in isolation from general international law. It is well established under the principle *pacta sunt servanda* that treaty parties are bound to carry out their international obligations in good faith. Still, international investment law has not generated a self-contained system of substantive rights and obligations. The open-ended investment standards and guarantees stated in a wide body of BITs have yielded divergent interpretations by one-off arbitral tribunals. Only a few investment treaties, like NAFTA, Canada, and the US model BITs, explicitly refer to the customary rules of international law on treaty interpretation. Additionally, the latter elaborates on the definition of customary international law.

Even if there is no such explicit stipulation, investment treaty tribunals, operating within the ambit of public international law, have a formal room for reference to customary rules of international law applicable to investment disputes. Through consenting to investment arbitration, treaty parties impliedly delegate their law-making powers, including most notably interpretive authority, to potential arbitral tribunal. Since investment treaties create general rather than specific standards for the protection of foreign investment, such standards must be interpreted before they can

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347 Under the NAFTA, article 1105 (1) on the minimum standard of treatment provides that "Each Party shall accord to investments of investors of another party treatment in accordance with international law." Similarly, article 1131 (1) on the governing law stipulates that the "Tribunal established under this Section shall decide the issues in dispute in accordance with this agreement [and] applicable rules of international law." The clear language of article 1131 (1) of the NAFTA refers to the compulsory application of the rules of international law on investment disputes; (In fact, this is quite different from the apparent supplementary application of customary international law under article 42 (1) of the ICSID which states that: "The Tribunal shall decide a dispute in accordance with such rules of law as may be agreed by the parties. [In the absence of such agreement, the Tribunal shall apply the law of the Contracting State party to the dispute (including its rules on the conflict of laws) and such rules of international law as may be applicable.").

348 Article 5 (1) of the US – 2012 – model BIT on the minimum standard of treatment states that "Each Party shall accord to covered investments treatment in accordance with customary international law, including fair and equitable treatment and full protection and security.

349 Annex (A) of the US – 2012 – model BIT treaty provides a definition to the "Customary International Law" mentioned in articles 5 (1) and 6 concerning expropriation and compensation; it states that "The Parties confirm their shared understanding that "customary international law" generally and as specifically referenced in... results from a general and consistent practice of States that they follow from a sense of legal obligation."
be applied. This justifies the fact that investment tribunals have historically taken the lead in developing international investment law through law-making.  

1. **A Restrictive Approach to the VCLT Interpretive Guidelines**

Since the very first treaty-based investment arbitration, *AAPL v. Republic of Shri Lanka*, the interpretive guidelines of the Vienna Convention on the Law of Treaties (VCLT) have been presumably considered in the tribunals’ law-making process. Yet, most investment treaty tribunals take a restrictive approach in applying the latter's "general rule of interpretation" under article 31. In doing so, tribunals limit their interpretations to the ordinary meaning of investment treaty text under article 31 (1) while ignoring its object and purpose. It is quite odd that a large number of investor-state tribunals have not even mentioned the interpretive guidelines of the VCLT in defining the substantive principles of investment protection. As truly observed by Sornarajah, the paradox lies in the fact that arbitral tribunals only satisfy the ordinary meaning of treaty terms and turn a blind eye to the object and purpose of the treaty as envisaged by article 31 and 32 of the VCLT. Such restrictive approach not only abstracts investment standards from their intended purpose as originally anticipated by the treaty parties, but also extends their application to undesired areas of mere regulatory discretion of states. In that regard, the challenged award of *Sempra Energy International v. Argentina* concludes that "interpretation is not the exclusive task of States; it is also the duty of tribunals called upon to settle a dispute, particularly when the question is to interpret the meaning of the terms used in a treaty.” Despite the clear reference to the VCLT interpretive rules, the award has been challenged on grounds of manifest errors of law, excess of power and failure to state reasons. Censuring *Sempra's* selective adherence to the general rule of

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350 See supra note 213 at 15-17
351 See supra note 145
353 Id.
354 See supra note 180
355 See *Sempra Energy International v. The Argentine*
interpretation, the annulment committee concludes that "relevant rules of international law should be used to interpret BIT provisions that either reflect customary international law or are not defined in the BIT. The Tribunal interpreted Article XI in accordance with relevant rules of treaty interpretation, as codified in Articles 31 and 32 of the VCLT."\(^{356}\)

On a different account, the tribunal in *Tokios Tokéles v. Ukraine* made a controversial decision on jurisdiction as a result of using a restrictive approach to interpretation.\(^{357}\) Despite the fact that the claimant Lithuanian corporation was controlled by Ukrainian nationals who own (99) percent of the company’s shares, incorporated under Ukrainian law, maintained its administrative headquarters in the latter; the Tribunal considered the company as falling within the category of protected investors under the ICSID framework.\(^{358}\) This expansive approach misinterprets the *rationae personae* jurisdictional basis of the ICSID in providing substantive protection only for foreign investors as explicitly stated in both the Preamble and article 25 (1) of the Convention. Further, it confuses the legal theories on nationality of international corporations whether under civil law or common law systems. Whereas the former endorses the nationality or domicile of individuals dominating the majority of shares as a decisive criterion, the latter recognizes the administrative seat as a basis for the enterprise nationality.\(^{359}\) Thus, the *Tokios Tokéles* tribunal did not comprehensively apply the VCLT interpretive guidelines. First, the tribunal has restricted the definition of investors to the ordinary textual meaning of the Lithuania-Ukraine BIT, while ignoring the main object of the Washington convention as only protecting foreign rather than domestic investors. Second, the non-exhaustive interpretation of the VCLT guidelines in examining the definition of protected investors under the Lithuania-Ukraine BIT has expanded the scope of protection beyond the treaty party intention – Ukraine in the given case.

\(^{356}\) *Republic*, ICSID Case No. ARB/02/16 (Decision on the Argentine's application for annulment of the award, June 29, 2010)

\(^{357}\) *Id.*

\(^{358}\) *Tokios Tokelés v. Ukraine*, ICSID Case No. ARB/02/18 (Decision on jurisdiction, April 29, 2004) (Final award, July 26, 2007)

\(^{359}\) *See supra* note 239 at 113-115

*See Aleksander Fillers, Corporate Nationality in International Investment Law, 1 1857, European Scientific Journal (2014)*

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Against this backdrop, I believe that the faithful application of customary international rules on treaty interpretation provided for in articles 31 and 32 of the VCLT would tackle the inconsistent practice of ITA from within. In fact, both articles offer an interpretive methodology which covers both bilateral and multilateral investment treaties. I argue for an interpretive methodology for investment treaty tribunals' law-making process that fulfills two essential features: it must be inclusive and exhaustive. First, I mean by the inclusive application that the VCLT interpretative rules must be inclusively applied to the substance of both the Washington Convention and the BIT in question. The Washington Convention is perceived as constituting the overarching legal framework of ITA that gives rise to the conclusion of thousands of B/MITs. This follows that the latter should not by any mean contravene the former’s general provisions as in the case of Tokios Tokéles with respect to the definition of an investor under the ICSID framework. Thus, the inclusive application of article 31 and 32 of the VCLT interpretive rules appears to be indispensable in discerning the full understanding of the minimum standards of protection in the case at hand. Moreover, I argue that such application of articles 31 and 32 has a specific importance in striking a balanced conceptual framework as to the rights and obligations of both parties under the ICSID litigation, as I will elaborate on in the next sub-section.\(^{360}\) In spite of the fact that article 31 may suffice in some cases to extract the essence of the treaty conventional terms, it does not do the same to the preamblar terms of the ICSID Convention or other BITs. Therefore, article 32 comes into play whenever article 31 leads to indefinite, vague or unreasonable conclusions\(^{361}\) like what has been experienced by many arbitral tribunals while interpreting the definition of investment under article 25 (1) of the Washington Convention.\(^{362}\) There is no doubt that the historical context, socio-political conditions and negotiation circumstances that

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\(^{360}\) See *supra* note 239 at 104

\(^{361}\) According to article 32 “Recourse may be made to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of article 31, or to determine the meaning when the interpretation according to article 31: (a) Leaves the meaning ambiguous or obscure; (b) Leads to a result which is manifestly absurd or unreasonable.”

\(^{362}\) See *supra* note 239 at 107
coincided with the treaty conclusion are of mounting concern in distilling the parties' real intentions.\(^{363}\)

Second, investment treaty tribunals must exhaustively apply the interpretive techniques set forth in the general rule of interpretation under article 31 of the VCLT. This exhaustive approach is in fact required by the clear language of article 31 (1) which provides that “A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty [in their context and in the light of its object and purpose].” The word "and" demonstrates that the examination of the interpretive means should not be confined to the treaty's ordinary meaning of the texts; rather it should go further to examine the parties' mutual intent at the time they have signed an investment treaty. This dictates a cumulative application of the "ordinary meaning" as well as the "object and purpose criteria" as stated in article 31 (1) as a first step. In that meaning, I emphasize that the tribunal must ascertain that the ordinary meaning criterion matches rather than supplements the object and purpose of the treaty. In a second step, the tribunal proceeds to examine all other prescribed interpretive techniques provided for under the general rule of interpretation in article 31 to ensure a comprehensive understanding of the treaty terms in light of its object and purpose. In this meaning, article 31 (2) of the VCLT elaborates on the context stipulated in article 31 (1): "The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes…" This language requires that the process of interpretation must not stop at article 31 (1) of the VCLT, rather it must proceed with the examination of other interpretive guidelines provided for under article 31 (2), (3) and (4) in the first place and article 32 in the second place.\(^{364}\)

\(^{363}\)Id. at 109

\(^{364}\)Article 31 (2) of the VCLT stipulates that "The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes: (a) any agreement relating to the treaty which was made between all the parties in connexion with the conclusion of the treaty; (b) Any instrument which was made by one or more parties in connexion with the conclusion of the treaty and accepted by the other parties as an instrument related to the treaty."

Article 31 (3) states that: "There shall be taken into account, together with the context: (a) Any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions; (b) Any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation; (c) Any relevant rules of international law applicable in the relations between the parties."
B. **THE CONCEPTUAL FRAMEWORK: COUNTERBALANCING INVESTOR’S RIGHTS WITH OBLIGATIONS UNDER THE WASHINGTON CONVENTION**

The expansive interpretations of investment treaty tribunals have elevated the foreign investor’s private rights over the host state’s public interests. Public international law principles of sovereign independence and non-intervention are blatantly eroded under the current practice of ITA.\(^{365}\) The Preamble of the Washington Convention confirms the role of private international investment in promoting economic cooperation and development among contracting states. Particularly, developing countries had perceived the advent of the ICSID as a global tool for attracting FDI to their nascent economies.\(^{366}\) They have signed B/MITs with the intention of giving the capital-exporting states positive signals that they owe their investors preferential treatment over their territories. In that sense, the ICSID is primarily seen as a balancing equilibrium between sovereign states and foreign investors.\(^{367}\) However, as critically shown in chapter two, some empirical findings question the relationship between ITA under the ICSID and the promotion of economic development in the host states. In particular, low and middle-income developing countries are double-burdened by costly proceedings and highly punitive awards under ICSID litigation. Thus, the decisive function of ITA in boosting the economic development of the host states becomes more dubious by the unrestrained interpretations of investment treaty standards.\(^{368}\)

The unpredictable application of the minimum standards of protection has largely barred host states from pursuing national econometric policies essential for development.\(^{369}\) Moreover, it has even disallowed the latter from holding Multinational Corporations (MNCs) accountable for their wrongdoing against the residing population in matters of common concern such as healthcare, environmental

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Article 31 (4) states that "A special meaning shall be given to a term if it is established that the parties so intended."

\(^{365}\) See supra note 103 at 291-93

\(^{366}\) Id.

\(^{367}\) Id.


\(^{369}\) See supra note 103 at 292
protection, human rights, labour entitlements, fighting corruption, taxation and financial regulation. Although there has been a shift in state practice towards curtailing the penetration of ITA into the public regulatory sphere, tribunals seem hesitant to respond to non-investment concerns. Building on the proposed comprehensive methodology for interpretation, I intend to reconceptualise the objectives of ITA under the ICSID legal framework. In doing so, I aim to restore the legal equilibrium between the protection of foreign investment and the host state’s right to pursue economic development. Second, I draw on an integrationist interpretation of both article 31 (3) (C) of the VCLT and article 42 (1) of the Washington Convention, when applicable, to develop rules on corporate social responsibility vis-à-vis host states. These rules, I argue, would essentially equiponderate the host state's international responsibility for injuries to foreign investors.

1. **Identifying the Host State's Right to Economic Development as an Object to ICSID Litigation**

In the midst of the ICSID negotiations, contracting states have disputed the definition of protected investment and consequently have left the matter to the parties consent in each BIT and then to the tribunal's discretionary power. While developing states have managed to stress the essence of public interest in investor-state disputes, developed states aimed to maximize the sanctity of private property. For example the United Kingdom, as a capital-exporting country, has proposed a definition of investment based on economic activity rather than economic development. This conflict has ultimately led the contracting states not to assign a definition of investment to the Washington Convention at all. Article 25 (1) establishing the mainline jurisdiction of the ICSID stipulates that “the jurisdiction of the Center shall apply to [any legal dispute arising directly out of an investment] between a Contracting State (or any constituent subdivision or agency of a Contracting State designated by that State to the Center) and a national of another Contracting State.”

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370 *See supra* note 216
371 *Id.*
372 *See supra* note 231 at 237
Obviously, the language in "any legal dispute" maintains a broad scope of what may qualify as an investment for the purpose of the ICSID convention.\(^{373}\) Therefore, the Washington convention has principally transferred the burden of defining the protected investment to the law-making power of investment treaty tribunals depending on the BIT terms at issue.\(^{374}\)

In contrast to ICSID’s conventional terms, the Preamble has clearly emphasized the correlation between protection of private international investment and promotion of economic development in the contracting states. In this meaning, the very first paragraph of the Preamble provides that “Considering the need for international cooperation for economic development, and the role of private international investment therein; bearing in mind the possibility that from time to time disputes may arise in connection with such investment between Contracting States and nationals of other Contracting States.”\(^{375}\) Even though the Preamble does not provide comprehensive definition of investment, it sets out a general condition for qualifying the protected investment, that is, the contribution of the protected investment to the host state’s economic development. Nevertheless, historical political and economic circumstances denote that the promotion of economic development of the host states side-by-side with the protection of transnational investment has been the main object of ITA under the ICSID framework.\(^{376}\) In that sense, ITA is perceived as a decisive tool for economic development more than an alternative method for dispute settlement.\(^{377}\) States agreed to grant foreign investors and multinational corporations a preferential treatment with the intention of attracting foreign capital flows as essential for the process of economic development.\(^{378}\)

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\(^{373}\) On the contrary, the (1987) ASEAN Agreement for the Promotion and Protection of Investments requires the host state’s written approval of an investment; article (2) of the Convention states that: “This agreement shall apply only to investments brought into, derived from or directly connected with investments brought into the territory of any contracting party by nationals or companies of any other contracting party and which are specifically approved in writing and registered by the host country.”

\(^{374}\) See supra note 1

\(^{375}\) See supra note 216

\(^{376}\) See supra note 8 at 9-10

\(^{377}\) See supra note 17 at 3-8
Despite the fact that each BIT encompasses a self-standing definition of investment, most BITs use the same exact provisions for qualifying protected investment.\footnote{\textit{See} for example, article I in both the UK (2005) model BIT and France (2006) model BIT which contain identical language on the definition of investment.} While some investment treaties, like the US model BITs of 1994, 2004 and 2012, have maintained the same preambular condition on the contribution to the host state's economic development, others have remained silent towards the latter.\footnote{For example, the Preamble of the German (2005) model BIT does not provide for the investment's contribution to the host state economic development.} Following the same line of argument in chapter two, I believe that the investment treaty tribunals' inconsistent interpretations of the definition of investment rather than treaty term variations brought about the fragmentation of international investment law. Some recent decisions like \textit{Victor Pey Casado & President Allende Foundation v. The Republic of Chile} and \textit{Quiborax v. Bolivia} have ignored the criterion of the “contribution to the host state's economic development” in qualifying an investment for the purpose of the ICSID jurisdiction \textit{rationae materiae}.\footnote{\textit{See supra} note 225; \textit{See supra} note 228} These tribunals have restricted the interpretation of investment definition to the ordinary meaning of treaty terms through selective application of article 31 of the VCLT. I contend that such restrictive reading of treaty terms neither reflects the BIT parties' intention, nor observes the central object of the ICSID in promoting states economic development. In this respect, I argue that the inclusive and exhaustive application of the interpretive guidelines laid down by the VCLT would help in defining the protected investment.

On the one hand, the inclusive application of the VCLT interpretive guidelines entails that the tribunal's interpretation of investment under a given BIT be consistent with the overarching framework of the ICSID convention. Thus, the definition of the protected investment must primarily satisfy the general condition set out by the ICSID Preamble, i.e. foreign investment contribution to the host state's economic development. This comprehensive methodology for qualifying an investment is quite supported by article 31 (2) (a) and (b) of the VCLT general rule which provides that:

\begin{quote}
[T]he context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes: (a) any agreement relating to the treaty which was made between all the parties in connexion with the conclusion
\end{quote}
of the treaty; (b) any instrument which was made by one or more parties in connexion with the conclusion of the treaty and accepted by the other parties as an instrument related to the treaty. 382

Undoubtedly, this essentially involves the Washington Convention, being recognized in advance by both parties to a given BIT. Furthermore, article 31 (2) also comprises the United Nations Charter as a multilateral legal instrument of public international law. 383 In spite of its generic nature, the UN Charter embraces a considerable amount of international law principles, particularly the principle of sovereign equality of states. 384 Since it is mutually accepted by state parties, the latter must be considered by investment treaty tribunal while interpreting the definition of an investment pursuant to a given BIT term. In that sense, sovereign equality entails that the host state must authorize a certain activity over its territory in order to be qualified as a protected investment for the purpose of the ICSID Convention. 385

On the other hand, the exhaustive application of the VCLT guidelines requires that the tribunal satisfy all interpretive techniques under the general rule of article 31(1), (2), (3) and (4). 386 This means that the tribunal must understand that the ordinary meaning of a treaty text complements rather than contradicts the object and purpose of the ICSID. For such an end, it shall equally consider preamblar texts side by side with conventional texts in deciding what qualifies as an investment. In addition to that, the exhaustive approach of interpretation allows the tribunal, in the event the general rule of interpretation under article 31 does not produce consistent conclusion recourse to the supplementary means of interpretation under article 32 (a) and (b). The latter stipulates that “Recourse may be made to supplementary means of interpretation, including the preparatory work of the treaty and the circumstances of its conclusion, in order to confirm the meaning resulting from the application of article 31, or to determine the meaning when the interpretation according to article 31: (a) Leaves the

382 See supra note 1
384 Article 2 (1) of the UN Charter states that “The Organization and its Members, in pursuit of the Purposes stated in Article 1, shall act in accordance with the following Principles; (1) The Organization is based on the principle of the sovereign equality of all its Members.”
385 See supra note 223 at 305
386 Id.
meaning ambiguous or obscure; (b) Leads to a result which is manifestly absurd or unreasonable.”

This may be useful where a BIT does not provide for the general criterion on the contribution to the host state’s economic development such as in the (2005) German model BIT. 

Such recourse, I believe, is imperative to maintain an interpretive balance between the given BIT terms and the ICSID convention.

In defining the protected investment under the Jordan–Italy BIT, the remarkable award of Salini et al. v. Morocco (2001) considers the Preamble's limitation on the ICSID jurisdiction rationae materiae. While interpreting the definition of investment under the given BIT, the tribunal concluded that “[the common intention] of the Parties is reflected in this clear text.” These words obviously contest the textual argument in defining protected investment as relying on mere “economic activity or asset” and goes further to examine ICSID’s purpose in promoting the contracting states economic development. Presided over by Judge Guillaume, the tribunal laid down an interpretive methodology based on the inclusive and exhaustive application of the VCLT interpretive guidelines. In doing so, Salini duly observes the parties’ intention beyond the ordinary meaning of article 31 and 32 as evidenced whether in the ICSID Preamble or its travaux préparatoires. Finally, the tribunal develops a "four-part test” which requires an investment to have four essential elements in order to be qualified as protected under the ICSID jurisdiction; namely: “a contribution of money or assets; a fixed duration; an element of risk; and a contribution to the host state’s economic development.”

The jurisprudential adherence to the Salini four-part test would not only promote economic development of the contracting states as an object of the ICSID, but also provide the host states with more predictability in the practice of ITA. Yet, a counterargument against the suggested comprehensive methodology for interpretation is that the VCLT general rule of interpretation applies only to state-to-state disputes and consequently does not cover international disputes involving individuals. In this regard, Weeramantry confirms that the VCLT customary rules are applicable to all

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387 See supra note 294
388 See supra note 380
389 Id. at 294-96
390 See supra note 222
international disputes regardless of their subject matter or involved parties. He contends that this methodology is best exemplified by the European Court of Human Rights' interpretive approach which consistently refers to the VCLT customary rules of interpretation, despite featuring individual-state disputes.\textsuperscript{391} From a public law perspective, customary rules of international law justify the application of the \textit{Salini} test in the practice of ITA as public law adjudication. In my view, \textit{Salini} award offers a balanced approach to the interpretation of the definition of investment as it accounts equally for private corporate interests and public policy concerns. Further, the \textit{Salini} four-part test lays down a strong jurisdictional precedent that respects the principle of sovereign independence of states in approving investment entry into their territories.\textsuperscript{392}

2. Integrating Rules on Corporate Social Responsibility in Investor-State Disputes

The core concept of investment treaty arbitration is to provide foreign MNCs an alternative dispute resolution system away from the national court system. At the same time, the legal status of MNCs renders them practically unbound whether by the international investment law principles or the host state's internal laws and regulations. In exploring the reform of international investment law in the area of corporate conduct, the hybrid nature of ITA comes again into play. The difficulty here lies in the fact that multinational corporations (MNCs), unlike state parties, are not counted among subjects of international law. Instead, they are private law entities operating on the international sphere.\textsuperscript{393} This legal status is what I believe makes ITA a one-sided litigation since investment treaty tribunals have not so far developed a methodology that fits into the unique public-private nature of ITA.\textsuperscript{394} In this regard, Stephan Schill insightfully points out that "When the two streams of investment protection and corporate responsibility meet and mix, it will be difficult to maintain a system of inflexible investment protection."\textsuperscript{395} The emergence of new defences with

\textsuperscript{392} See supra note 373
\textsuperscript{393} See supra note 47 at 217
\textsuperscript{394} Id. at 213-20
\textsuperscript{395} See supra note 191 at 64
respect to corporate responsibility in the newer generation of BITs strongly pushes towards a balanced law-making process. In the same vein, I propose the adoption of an integrationist approach that embraces the customary rules of interpretation as enshrined in articles 31 and 32 of the VCLT insofar as the conceptual framework of the given BIT permits. I propose a two-fold approach to ITA self-reformation that suits the hybridity of the ICSID dispute resolution system.

First, I argue for integrating domestic legal instruments and mechanisms on corporate compliance. The conceptual framework of article 42 (1) of the Washington Convention, whenever applicable, constitutes a basis for an integrationist approach to reform. According to article 42 (1) of the Convention: “The tribunal shall decide disputes in accordance with such rules of law as may be agreed by the parties. [In the absence of such agreement], the tribunal shall apply the law of the contracting state party to the dispute (including rules on the conflict of laws) and such rules of international law that may be applicable.” Although article 42 (1) concludes that the substantive law to ICSID disputes is to be determined in accordance with the parties agreement, it advances the applicability of the host state internal law in the absence of an agreement. The remarkable award of World Duty Free v. Kenya presents jurisprudential evidence towards the integration of corporate responsibility in arbitral tribunals law-making.\textsuperscript{396} The award relied on English law, particularly the common law rule of "unclean hands", to invalidate an investment agreement for proven allegations of corruption at the inception of foreign investment. Even though the World Duty Free arbitration was contract-based investment dispute, it opens a door to the host state counterclaims in cases of proven corruption.\textsuperscript{397} This unequivocally suggests the possibility of embracing corporate social responsibility (CSR) into the domestic law of the host state. In the case of contractual investment arbitration, foreign investors are frequently subject to the host state's internal law pursuant to a contractual relationship.\textsuperscript{398} However, I contend that article 42 (1) allows investment treaty tribunals interpretive leeway for integrating domestic rules on CSR into the

\textsuperscript{396} World Duty Free Company v Republic of Kenya, ICSID Case No. Arb/00/7, (Final award, October 4, 2006)

\textsuperscript{397} See ALOYSIUS P. LLAMZON, CORRUPTION IN INTERNATIONAL INVESTMENT ARBITRATION, 200-206 (1st edition, Oxford University Press) (2014)

\textsuperscript{398} Id. 

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law-making process. Thus, even though the host state and the foreign investor agree on the substantive applicable law to the dispute, this does not, by any means, render the domestic law of the host state irrelevant to the merits of the dispute.\footnote{399}{See supra note 288 at 27-30}

I believe that the ICSID legal framework diminishes the jurisdiction of the host state law insofar as the latter contradicts or minimizes the international standards of protection for foreign investment. In fact, this is consistent with the customary rules of international law. In this respect, article 27 of the VCLT entitled, "Internal Law and Observance of Treaties", provides that “A party may not invoke the provisions of its internal law as justification for its failure to perform a treaty.” Conveying the same meaning, article 3 of the ILC draft articles on state responsibility for internationally wrongful acts insists on the same customary rule: “The characterization of an act of a state as internationally wrongful is governed by international law. Such characterization is not affected by the characterization of the same act as lawful by internal law.”\footnote{400}{See supra note 104} This means that the host state’s domestic laws and regulations may be applied in ITA on two main conditions: first, the absence of investment contract providing for "Stabilization Clause"; second, the internal law or regulation in question is consistent with the general international law as \textit{lex fori}. Indeed, it is quite impossible to decide an investor-state dispute without reference to the host state internal laws, regulations or governmental decisions. It is indispensable for investment treaty tribunals to apply the host state’s law while deciding both preliminary and substantive matters of a given dispute. This essentially includes issues of jurisdiction, nationality of the treaty parties and legality of governmental acts or omissions vis-à-vis foreign investors.\footnote{401}{See supra note 288 at 30}

Second, I suggest that international investment law should be reconceptualised on the basis of international mutual responsibility. The scope of investor-state disputes should move beyond the traditional notion of corporate profitability to social benefits. For such an end, I argue that the investment treaty tribunal’s fullest application of article 42 (1) in light of the VCLT customary rule of interpretation particularly under article 31 (3) (c) would better accommodate international corporate responsibility into
the practice of ITA. Article 31 (3) (c) of the VCLT stipulates that “There shall be taken into account, together with the context: any relevant rules of international law applicable in the relations between the parties.” In addition to the substantive law agreed upon by the parties in accordance with article 42 (1), investment treaty tribunals may rely on article 31 (3) (c) of the VCLT to incorporate any international instruments applicable to the dispute in question into its legal reasoning.\(^{402}\) Although the second method of reform which is based on the integrationist approach to the VCLT general rule of interpretation is much more palatable to most international law academics and practitioners, it seems to me impractical in some way. This is since the two most prominent attempts to adopt internationalised rules on CSR have never entered into force. Intriguingly, both attempts were led under the auspices of the OECD. In 1976, the latter adopted guidelines addressing transnational corporate responsibility for the first time. Once again in 1998, it proposed a Multilateral Agreement on transnational Investment (MAI) including comprehensive rules on corporate conduct. Indeed, there are a large number of soft law instruments on CSR that have been adopted on the international plane, yet none of which have found way to multilateral legal framework. Thus, soft law instruments and preamblar provisions on CSR have rarely been encompassed in the law-making process of investment treaty tribunal.\(^{403}\)

In fact, the natural inclination of the ICSID system towards private interests shows hesitancy in giving legal weight to other areas of international law, such as human rights, sustainable development or environmental protection. Nonetheless, the major shift in state practice towards a more comprehensive version of BITs which account for non-investment standards proves to be significant with respect to the development of a normative order on corporate compliance.\(^{404}\) Yet, the current version of preamblar terms has proven to be impractical in informing the treaty parties’ intention. It offers the investment tribunal a negative rather than positive room for discretion. This vagueness has yielded many inconsistent interpretations of non-investment standards and consequently has affected the legitimacy of ITA at large.\(^{405}\) In order to

\(^{402}\) See supra note 231 at 141-43  
\(^{403}\) See supra note 47 at 306  
\(^{404}\) Id. at 307  
\(^{405}\) See supra note 239 at 18
blunt the one-sided nature of investor-state disputes, Muchlinski suggests the inclusion of investor responsibilities along with that of the host state in the tribunals' process of interpretation.\footnote{See PETER MUCHLINSKI, MULTINATIONAL ENTERPRISES AND THE LAW, 189 (1st edition, Oxford University Press) (2007)}

For instance, many states have revised their model investment treaties to account for more strict provisions on corporate social responsibility; these include for example, the Russian Federation amendment in 2002, France in 2006 and the United States in 2004 and 2012. Other countries are currently in the process of developing a new model BIT such as Argentine, South Africa, Egypt and Turkey. In drafting the treaties, states aim to achieve an “appropriate balance between protection of the rights of foreign investors on the one hand, and recognition of the legitimate sphere of operation of the host State on the other.”\footnote{See supra note 239 at 193} From the standpoint of domestic law, corporate social responsibility of foreign investors takes place through ensuring a minimum standard of corporate conduct. As such, foreign investors undertake social and environmental commitments to national laws, regulations, and codes of conduct. In addition to the legal obligations, some developing states set up CSR on the basis of developmental obligations in domestic infrastructural fields such as healthcare, education, public utility, urbanization, sanitation and energy.\footnote{See supra note 231 at 252}

C. THE COMPARATIVE FRAMEWORK: ACCOMMODATING PUBLIC LAW STANDARDS OF REVIEW IN INVESTMENT TREATY ARBITRATION LAW-MAKING

The chain of global economic crises which erupted in the 2000s has dramatically changed the dynamics of the international investment regime. Argentine's arduous course of litigation brought about new-fangled defences in the practice of ITA such as the state of necessity.\footnote{In over fifty claims before different investment Tribunals, Argentine has excessively relied on the customary law on the state of necessity to justify its emergency powers against foreign investors and corporations following the 2000s economic crisis; See supra note 303 at 71-73} The inconsistent arbitral decisions that grew out of over fifty claims against Argentine severely affected the credibility of ITA in advancing host
states’ economic development. The emergency measures undertaken by many states in the wake of the 2008-2009 financial crises have considerably altered the theory of expropriation towards a more nuanced understanding of non-compensable regulation. In contrast to Argentine's case, the US and other European states' interventions to contain economic calamity especially in the banking system have been faced with great appeasement on the global financial level. This contradictory approach has raised significant questions concerning the scope of state regulatory powers vis-à-vis investment protection. More intriguingly, some traditional capital-importing powers, like the BRICS countries, became key transnational investment players in Western capital-exporting countries. This shift in roles between inward and outward sources of investment along with some host states backlash against the ICSID has been echoed by a new version of BITs which provides for states' regulatory measures in public policy matters including health, environment and taxation.

States' reaction to the system pitfalls has driven most of investment treaty tribunals to rediscover customary principles of international law in order to balance between investment protection and state regulation. Thus, public law principles of sovereign independence, non-intervention and administrative discretion have been revived in the practice of ITA. Investment treaty tribunals' scope of reviewability and interpretation of the open-ended investment standards has become in some way limited by investment treaty terms. Moreover, sufficient jurisprudential evidence shows variable attempts to accommodate public law concepts in tribunals' decision making process. Understanding the regulatory nature of ITA, some academics and practitioners in the field highlight the importance of a comparative public law

410 See supra note 275 at 196
411 Id.
412 See DONAL DONOVAN & ANTOIN E. MURPHY, THE FALL OF THE CELTIC TIGER: IRELAND & THE EURO DEBT CRISIS, 189-192 (1st edition, Oxford University Press) (2013) (The US Federal Reserve has rescued hundreds of the American domestic and international investment enterprises and national banks including Goldman Sacks, Lehman's Brothers, Bear Stearns and Citi Group. Under the 'National Emergency Insurance Program' special loans, lines of credits and governmental purchasing were designed to stabilize the US Banking System following the 2008-2009 financial crises. This governmental intervention with the domestic market inherently contravenes the international minimum standards of treatment most notably NT and FET.)
413 See supra note 275 at 380
approach to the interpretation of investment standards. For some, this may be realised by reference to the public law principles which are applicable to individual-state disputes such as the World Trade Organisation's appellate body (WTO) and the European Court of Human Rights (ECHR). Others trace the crux of investor-state disputes back to the general principles of domestic administrative judicial review of governmental actions. As Professor Crawford aptly noticed, international investment law as sub-discipline of public international law "is presently in a period of comparative openness and reformation." It is true that the current "sense of fluidity" in the practice of investment treaty arbitration threatens its future as the most preferred mechanism for the settlement of transnational investment disputes, yet such fluidity marks an invaluable opportunity towards the substantive self-reformation of ITA.

The ultimate purpose of this section is to figure out a legal margin for investment treaty tribunals in order to reconcile the host state’s legitimate regulation with the protection of foreign investment. Depending on the public law interpretive framework laid out in section one, I seek to explore the prospective role of both general principles of law and judicial decisions as formal sources of public international law in reforming the substantive investment law from within. In sub-section one, I set out a comparative public law methodology for refining the content and scope of the open-ended standards of investment protection. I intend to emphasize the interaction between treaty-based investment arbitration and a comparative public law approach through referring to administrative law adjudicative principles applicable to regulatory disputes. In that sense of use, I propose accommodating the principle of proportionality as a general principle of law in major legal systems into the law-

414 See supra note 15 at 1-35
415 See Ursula Kriebaum, Regulatory Takings: Balancing the Interests of the Investor and the State, supra note 327 at 729-733
416 See supra note 2 at 129 (Investment treaty tribunals feature a global mechanism for judicial review of states' conduct vis-à-vis individual investors; thus, it seems quite analogous to domestic administrative judicial review yet in an international cloak.); See also Schneiderman D., Constitutionalizing Economic Globalization: Investment Rules and Democracy’s Promise 223 (2008)
419 See supra note 17
making process of investment treaty tribunals. In sub-section two, I lay out a "three-step test" for delineating the boundary between compensatory indirect expropriation and non-compensable state regulation.

1. The Legal Foundation for Substantive Investment Law Reformation: General Principles of Law and Judicial Decisions

Investment treaty tribunals must not interpret international investment principles in a legal vacuum; rather they have to resort to the concept of sources of International Law as enshrined in article (38) of the Statute of the International Court of Justice (ICJ). In the event treaty terms run out of a legal solution, arbitral tribunals may appeal to customary rules of international law. The Vienna Convention on the Law of Treaties (VCLT) sets forth the legal basis for interpreting the treaty parties' substantive rights and obligations. Consistent with the regulatory nature of investor-state disputes, a comparative public law methodology seems feasible for informing the unbounded substantive provisions of investment treaties. The on-going change towards ensuring the host state's right to regulate in BITs terms supports the idea of interpreting international investment standards through a public law lens. As Professor Pierre Lalive puts it: "an international arbitration should be decided by a truly 'international arbitrator', i.e. someone who is more than a national lawyer, someone who is internationally-minded, trained in comparative law and inclined to adopt a comparative and truly international outlook." Therefore, it is crucial for an international arbitrator to grasp the sources of international investment law in order to define its substance. Unraveling the debate that underlies the different sources of

420 The principle of proportionality was first originated in European domestic administrative and constitutional judicial review and subsequently transplanted to civil law system states most notably Germany, France and Egypt. In the meantime, proportionality techniques are commonly used in domestic administrative, constitutional and criminal legal fields as a means to balance the interests of individuals with that of the state. Further, proportionality analysis has recently been applied by many international law-based forms of adjudication including the International Court of Justice, the European Court of Human rights and the Appellate Body of the World Trade Organisation; See STEPHAN W. SCHILL, INTERNATIONAL INVESTMENT LAW AND COMPARATIVE PUBLIC LAW, 1-36 (2nd edition, Oxford University Press) (2010); also See ADEL A. KHALIL, JUDICIAL REVIEW OF ADMINISTRATIVE ACTIONS AND COMPARATIVE LAW, 57-79 (1st edition, Dar El Kutub) (2010)


public international law would determine what substantive law applies in the resolution of investor-state disputes. Make no mistake, this is not an easy task, rather it requires a high degree of legal diligence and objectivity.

In order to address the current pitfalls of ITA, I suggest the integration of new sources of international law into the investment treaty tribunals' law-making process. Chief among these sources are the general principles of law and judicial decisions. Indeed, the content of some reliable sources of general international law may seem irrelevant to an arbitrator while deciding a specific dispute because of treaty term limitation, notwithstanding the fact that most BITs offer wide latitude for analyzing different sources of law. Both general principles of law and judicial decisions are encompassed in article 38 (1) (c), (d) of the statute of the International Court of Justice (ICJ) among traditional sources of international law. Although the essence of article 38 (1), which exhaustively enumerates sources of international law, reveals no legal hierarchy among sources, general principles of law and judicial decisions are often perceived as secondary sources of international law. Yet, international practice has yielded a critical change regarding the concept of sources of international law, since states become purportedly bound by new set of norms to which they have never been explicitly consented. The relatively modern concept of *jus cogens* presents a strong proposition in this regard especially that it has a doctrinal avenue under article 53 of the VCLT. However, there remains a heated debate concerning the cogency of modern sources of international law due to the consent-based nature prevailing over the concept of sources under article 38 of the ICJ statute. Nonetheless, I confine the present analysis to the traditional sources of international law for the purposes of study limitation.

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424 Id. at 138-143
Theoretically, general principles of law and judicial decisions come into play through filling gaps in the absence of applicable treaty terms, or international customary rules. As Sir Hersch Lauterpacht concluded that the "general principles of law may be a necessary and inevitable way of filling a lacuna in the interpretation of a specific question." Even though there is no rule of stare decisis in international law adjudication whether under article 59 of the ICJ statute or article 53 (1) of the ICSID Convention, investment treaty tribunals frequently rely on domestic and international law jurisprudence. In light of this analysis, I contend that the issue does not lie in the lack of interpretational means, rather it lies in the misapplication of the existing ones. I argue that the legal foundation for a comparative public law approach to ITA may be found whether in the VCLT interpretive guidelines or the ICSID conceptual framework. On the one hand, the comprehensive application of article 31(3) (c) of the VCLT interpretive rules may produce relevant customary international law rules applicable between the treaty parties including general principles of law in national and international law-based adjudications. As Stephan Schill asserts, this depends on the interpretative leeway allowed under a given international investment agreements. On the other hand, article 42 (1) of the ICSID Convention typically provides for the application of domestic law alongside with customary rules of international law "as may be applicable"; this may possibly cover general principles of law and comparative law jurisprudence. This is no doubt contingent on the treaty parties' agreement concerning the applicable law to the dispute. Yet, a comparative public law approach is supported by recent investment treaty arbitrations despite the absence of explicit consent by the treaty parties.

Furthermore, evidence has been found in international investment law scholarship that a comparative public law approach may improve the practice of ITA. Some model

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429 See supra note 421 at 89
430 Article 31 (3) (C) stipulates that "There shall be taken into account, together with the context…Any relevant rules of international law applicable in the relations between the parties."
431 See supra note 15
432 Id.
433 For example, in Tecmed v. Mexico, the Tribunal has applied proportionality analysis as a means to the distinction between compensatory expropriation and non-compensable regulatory taking, though the parties have not explicitly agreed on its application; See ICSID, Case No. ARB(AF)/00/2, (Final award, May 29, 2003)
BITs currently provide for the use of domestic law concepts as general principles of law in interpreting and applying the minimum standards of investment protection. On their part, investment treaty tribunals have frequently relied on the jurisprudence of previous national administrative and constitutional courts. In the course of regulatory takings and environmental protection, recent investment treaty tribunals have relied on the US Supreme Court's "Penn Central balancing test" in order to assess the legitimacy of regulatory takings in light of the investment-backed expectations. Other investment treaty tribunals have made recourse to the ICJ and the European Human Rights Court (EHRC) case law to elaborate on key legal concepts most notably full protection and security, indirect expropriation and corporate nationality. For instance, in Soufraki v. United Arab Emirates, the arbitral tribunal referred to the ICJ's Nottebohm case while discussing the issue of the investor's nationality. Also in Occidental Petroleum Corp. v. Ecuador, the tribunal drew on the limits of applying proportionality analysis in the course of investor-state disputes. Furthermore, the Iran-U.S. Claims Tribunal has been and still one of the most reliable sources for investment treaty tribunals. For example, in Saipem v. Bangladesh, the Tribunal relied excessively on the latter's case law to assess the lawfulness of the state's expropriatory measure. Drawing on this authority, I argue that developing a qualitative methodology for the operation of general principles of law in the practice of investment treaty tribunals would help in disentangling the competing interests of investors and host states in ITA.

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434 See supra note 423 at 141
435 See supra note 421 at 85
436 See Karl P. Sauvant, Yearbook on International Investment Law & Policy, 2010-2011, P. 784, Oxford University Press (2012); See also Thomas Walde & Abba Kolo, Environmental Regulation, Investment Protection and 'Regulatory Taking' in International Law, 50 INT'L & COMP. L. Q. 811, 821 (2001)
437 Id.
438 Hussein Nuaman Soufraki v. The United Arab Emirates, ICSID Case No. ARB/02/7/ICSID, Case No. ARB(AF)/00/2, (Final award, July 7 2004)
439 Occidental Petroleum Corporation and Occidental Exploration and Production Company v Ecuador, ICSID Case No. ARB/06/11 (Award, 5 October 2012)
440 Saipem S.p.A. v. The People's Republic of Bangladesh, ICSID Case No. ARB/05/07, (Final award, June 30 2009)
441 See supra note 423 at 146-47
2. **Delineating the Boundary between Compensatory Expropriation and Non-compensable State Regulation: A Three-part Proportionality Test**

The 'threefold' formulation of direct, indirect and acts tantamount to expropriation has proven to be futile in application. It has ended up widening the scope of indirect expropriation to include most regulatory actions of host states. Investment treaty tribunals have never succeeded in drawing the line between compensatory indirect expropriation and non-compensable state measure. As previously mentioned in chapter two, this formula has no comparable application in any domestic legal system. The neoliberal-oriented drafters intentionally introduced them to maintain a normative preferential treatment for foreign investors in host states. The tribunals' expansive approach towards inflexible investment protection has largely shackled the host states hands in regulating public law matters of common concern relating to the protection of health, environment, human and labour rights. None of the prevailing doctrines used by investment treaty tribunals have succeeded in either curbing the unbound requirements for indirect expropriation or deciding the scope of non-compensatory regulation of states.

In deciding whether an expropriation has occurred, the "sole effect doctrine", constituting the mainstream practice of investment treaty tribunals, examines the economic impact of governmental action on investment. A minimal deprivation of reasonably to-be-expected economic benefit is sufficient to establish compensatory expropriation regardless of the lawfulness of state conduct. The "police power doctrine" on the other hand, focuses on the gravity of the governmental action and thus lessening of investment benefits to certain extent does not entitle an investor to any compensation as long as the regulatory measure is taken lawfully. This "all or nothing" approach of arbitral tribunals is mainly reduced to investigating the occurrence of an expropriation instead of assessing its lawfulness or wrongfulness.

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443 See supra note 275 at 205
445 See supra note 275 at 208-10
446 See supra note 333
Since cases of regulatory takings involve wide governmental discretion in proportion to public policy objectives, this approach has always yielded imbalanced arbitral awards. It is either the foreign investor who gets fully compensated in sacrifice to the host state's interest to pursue public policy objectives, or it is the latter that gets exempted from expropriation letting the former alone to incur the full economic burden of its regulatory conduct. In other words, it is either full compensation or nothing at all.447

Against this background, I argue that accommodating the principle of proportionality into investment treaty tribunal law-making would help inform the definition of indirect expropriation.448 To the extent that a given BIT terms allow interpretive leeway, proportionality analysis may be used in reviewing the governmental action in question in order to decide whether it meets the substantive requirements of an expropriation.449 In contrast to the sole effect doctrine, proportionality analysis would account for the host state's right to pursue public policy objectives through exercising its inherent regulatory powers. Moreover, it would rationalize the rising police power doctrine under some NAFTA arbitrations, particularly in health and environmental issues, which has been criticized for undermining the very essence of investment protection in investor-state disputes. I believe that proportionality analysis would nip the recent notion of judicial activism in the bud as some voices have suggested channeling the NAFTA attitude into investor-state arbitrations under the ICSID legal framework.450

Nevertheless, most states have reacted to tribunals’ unrestrained interpretations through a new generation of BITs which include more strict terms on state regulatory

447 See supra note 327 at 720
448 It is worth mentioning that a majority of common law writers criticizes the replacement of the rule of reasonableness by the principle of proportionality in investment treaty arbitration. See SORNARAJAH, M., RESISTANCE AND CHANGE IN THE INTERNATIONAL LAW ON FOREIGN INVESTMENT, 366 (2015); (Sornarajah argues that: “The principle of proportionality does not constitute a general principle of law in common law systems, as even European systems have not accepted it in totality.” See also (for different argument in support of this thesis) LAUTERPACHT, THE DEVELOPMENT OF INTERNATIONAL LAW BY THE INTERNATIONAL COURT, (1958); See STEPHAN W. SCHILL, INTERNATIONAL INVESTMENT LAW AND COMPARATIVE PUBLIC LAW, 1-36 (2nd edition, Oxford University Press) (2010)
449 See Benedict Kingsbury & Stephan Schill, Investor-state Arbitration as Governance: Fair and Equitable Treatment, Proportionality and the Emerging Global Administrative Law, 21, NYU School of Law (2009)
450 Id. at 22
power with respect to non-investment objectives. Most of the recent BITs have been skinned from the third category of "actions tantamount to takings", embraced new defences to the host state's non-compensable interventions and reverted back the law on expropriation to its original twofold formula, i.e. direct and indirect expropriation.\footnote{Id.} This on-going conceptual transformation in BITs opens a door to consider comparative public law standards of review in ITA law-making. It further marks a chance for arbitrators to develop comparative methods, integrate proportionality analysis and respond to the competing public-private dichotomy in order to keep the system alive.\footnote{Id.} Kingsbury and Schill confirm this meaning: "Proportionality analysis is a method of legal interpretation and decision-making in situations of collisions or conflicts of different principles and legitimate public objectives."\footnote{See supra note 449} In order to draw the line between compensatory expropriation and state lawful regulation, the principle of proportionality furnishes a restrictive three-step test. It is restrictive in the sense that it works within the conceptual framework of the BIT in question on the one hand, and the customary rules of international law on the other. Further, the test has three main themes that must be considered cumulatively yet separately: the suitability of the given measure as to the ultimate object; the necessity of the measure in light of its impact on an investment; and finally the proportionality between the overall effects of the measure and its legitimate objective.\footnote{Id.}

The first step in the proportionality analysis is two-fold. It encompasses both psychological and material elements. The former relates to the state's intention and whether the challenged governmental measure is taken to serve a legitimate public interest. This means that the measure must be adopted for general welfare and on a non-discriminatory basis.\footnote{See supra note 327 at 731} The material element concerns the suitability of the governmental measure to attain a legitimate public purpose. The arbitral tribunal has to establish a causal link between the taken measure and the targeted public purpose. Further, suitability of an act entails that such act must be taken in accordance with the

\footnote{See supra note 327 at 717-19}
\footnote{See supra note 449}
\footnote{Id.}
\footnote{See supra note 327 at 731}
due process of law. In this regard, the tribunal must assess the legality of the challenged act in light of the national law of the host state as well as customary international law according to article 3 of the ILC. Thus, if the state action constitutes a violation of an international legal norm it would be deemed illegitimate even if it is lawful under the host state law. Finally, it may happen at any point that the tribunal finds out that the governmental measure is illegitimate, discriminatory, corrupt or aimed at private benefit. In any of these cases, the tribunal would not proceed to the next two steps of the proportionality analysis.

The second step of the proportionality test involves analysis of the necessity of the challenged measure. It questions whether the government could have adopted another measure that is less detrimental to the rights and interests of the given investment yet equally attain the targeted public purpose as identified in the first step. In that sense, the arbitrator has to examine all alternative policies before the decision-maker and whether there were more feasible and effective choices that do not equally encroach upon the investor's rights and interests as the challenged measure has done. For instance, a state cannot justify its regulatory measure either on the basis of suitability or necessity in order to violate a fundamental human right under customary rules of international law. This means that the second step not only requires examining the necessity of the governmental measure compared to other effective public policy alternatives, but also the proportionality of the measure to the investor's protected rights and interests.

Lastly, in the third step, and if the challenged measure has fulfilled the two previous steps, the tribunal would engage in a proportionality analysis stricto sensu that initially requires balancing the aggregate impact of the challenged governmental measure on the investor's rights and interests with the genuineness of the targeted public purpose. This step is crucial as to deciding whether there is an obligation to pay compensation at first, and assessing the amount of such compensation at second.

\textsuperscript{456}Id.
\textsuperscript{457}See supra note 104
\textsuperscript{458}See supra note 449 at 28-30
\textsuperscript{459}Id. at 29
\textsuperscript{460}See supra note 327 at 733-734
In this regard, proportionality analysis *stricto sensu* must consider all available factors on a case-by-case-basis. This essentially includes, the genuineness and legality of the targeted public purpose, the gravity of the regulatory measure, the substance of the protected right, the contribution of investor's own conduct, the investment-backed expectations, the degree of loss based on a cost-benefit analysis, the quantity and period of interference, the available alternative measures and their degree of effectiveness and the adequacy of indemnification made, if any. Finally, the third step is central to the proportionality analysis in that it restricts the suitability (first step) and the necessity of pursuing a public purpose (second step) to the extent the latter is proportionate to all other substantive rights and interests involved. In the course of deciding the lawfulness of a regulatory measure vis-à-vis an investor, if proportionality analysis stops at the second step, the investor's rights and interests would be largely jeopardized in relation to an insignificant public interest.\textsuperscript{461}

Against what some commentators have suggested that proportionality analysis responds to the imbalance BITs, I rather submit that proportionality responds to the unrestrained law-making of investment treaty tribunals.\textsuperscript{462} Further, I argue that the proportionality test has an advantage over other deferential standards of review, since it requires the adjudicator not only to consider the reasonableness of the governmental measure *ipso facto*, but also to go farther in assessing the proportionality of the public purpose objectives to the substance of the affected rights. In that capacity, it aims at providing a legal interpretation of treaty terms in cases of conflict between competing rights and interests of foreign investors on the one hand, and host states on the other.\textsuperscript{463} Undoubtedly, the tribunal must stick to the conceptual framework of the BIT while interpreting treaty terms using customary rules of treaty interpretation. However, investment treaty tribunals may consequently have recourse to proportionality analysis to investigate whether the challenged state measure is consistent with the governing legal framework under a given BIT. Therefore, by making use of proportionality analysis, tribunals are not second-guessing the

\textsuperscript{461} Id. 734
\textsuperscript{463} Id. 880
relevance of host states regulatory measure to public interest, nor do they reinterpret BITs provisions on the substantive rights of the parties. It is already settled that the treaty parties have given arbitral tribunals the onus to review and correct their own public conduct vis-à-vis prospective investors.464

V. CONCLUSION

It is imperative for the purpose of this thesis not to confuse the ICSID's unique private model of dispute settlement with the public law foundation of ITA. Since the latter essentially emanates from a state sovereign power as a subject of international law. Through its consent to the ICSID jurisdiction, a state willingly refers its regulatory disputes with individual investors to an alternative dispute settlement to its domestic court system. In that sense, host states delegate their law-making power to one-off investment treaty tribunals. The logical corollary of understanding ITA as public law adjudication is that public law concepts most notably sovereign independence, non-intervention and administrative discretion have to be duly observed in both jurisdiction and merits of investor-state disputes. Despite the fact that B/MITs are subject to relative bargain power, term variations and individual limitations, investment treaty tribunals have wide discretionary power through the process of interpretation. If there is a gap in an investment treaty, the competent tribunal fills it in through the back-door of interpretation. From an international law perspective, investment treaty tribunals are bound by the customary rules of international law applicable to investment disputes. The Vienna Convention on the Law of Treaties lays down the legal basis for interpreting the substantive rights of treaty parties in an international context. I maintain that this interpretive approach is indispensable to reconceptualise the host states' right to economic development as intended by the drafters of the Washington Convention. Furthermore, such an approach would allow arbitral tribunals, in so far as treaty terms so apply, to integrate rules on corporate social responsibility vis-à-vis the host state. International minimum standards of investment protection cannot be applied in isolation from corporate compliance with national legal rules applicable to investment. It is the duty of investment treaty

464 Id. at 882
tribunals to consider these rules provided that they are consistent with general international law. I submit that a public law approach to investment tribunals' law-making process would help map out a predictable space for the host state in its exercise of regulatory powers in areas of public policy concerns such as health, environment, human rights, finance and taxation.

Investment treaty tribunals must not interpret international minimum standards in a legal vacuum; rather they have to resort to the concept of sources of international law as provided by article (38) of the ICJ statute. In the event treaty terms run out of a legal solution, arbitral tribunals may appeal to customary rules of international law. I argue that the integration of new sources of international law into investment treaty tribunals' law-making would help define the open-ended substantive standards of investment protection. Yet, this entails disentangling the debate that underlies the different sources of international law in order to determine the substantive principles applicable to a given investor-state dispute. This process requires a comparative qualitative analysis of context-related legal principles in both civil and common law traditions whether at the domestic or international level. I believe that the on-going semantic transformation of BITs would allow for a more nuanced understanding of comparative public law standards of review in international investment law. Drawing on the regulatory nature of ITA, I argue that accommodating the principle of proportionality as a general principle of law into investment treaty tribunal law-making would help inform the definition of indirect expropriation, delineate the boundary between compensatory expropriation and non-compensatory regulation and consequently account for the host state's right to pursue public policy objectives. Finally, I contend that developing comparative methods in ITA not only enables investment treaty tribunals' to resolve interpretational conflicts between competing rights and interests of foreign investors and states, but also marks an invaluable opportunity for international arbitrators to save the legitimacy of the ICSID at large.