

Summary of Contents

About the Author	vii
Preface	xvii
Foreword	xix
Acknowledgements	xxiii
Part I	
The Risks	1
Chapter 1	
General Introduction and Framework of the Research	3
Chapter 2	
Political Risks Arising from the Intervention of Host States	21
Chapter 3	
A Way of Taking Over: Indirect Expropriation	59
Part II	
Managing Political Risks	99
Chapter 4	
Stabilization Clauses: A Way of Managing of Political Risks	101
Chapter 5	
Flexibility of Contractual Relations in Energy Projects: Renegotiation Clauses	143

Summary of Contents

Chapter 6 Examining Modern Renegotiation (Equilibrium) Clauses in Petroleum Contracts	195
Chapter 7 Choice of Law and Alternative Dispute Resolution (ADR) Clauses: Empirical Insights	221
Part III Conclusion and Implications	269
Chapter 8 Conclusion and Implications	271
Appendices	281
Appendix 1 The Questionnaire	283
Appendix 2 Some of the Omitted Research Findings	299
Appendix 3 Forced Divestment of Petroleum Production	303
Appendix 4 The Millennium Wave	307
Appendix 5 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (ICSID)	313
Appendix 6 The Energy Charter Treaty (ECT) (Excerpt)	335
Appendix 7 North American Free Trade Agreement (NAFTA) (Excerpt)	347
Appendix 8 ASEAN Agreement for the Promotion and Protection of Investment	369
Bibliography	377
Index	403

Table of Contents

About the Author	vii
Preface	xvii
Foreword	xix
Acknowledgements	xxiii
Part I	
The Risks	1
Chapter 1	
General Introduction and Framework of the Research	3
1. General Considerations Concerning International Energy Projects	3
2. Objectives and Scope of the Research	9
3. Significance of the Book	11
4. Research Questions	11
5. Methodology and Research Procedures	12
5.1. Research Approach	13
5.1.1. Questionnaire	13
5.1.2. Interviews	14
5.1.3. The Respondent Group	14
5.1.3.1. Total Sample by Profile	15
5.1.3.2. Total Sample by Country	16
5.1.3.3. Total Sample by Nature of Investment	16
5.1.4. Analysis of Data	17
6. Structure of the Book	17

Table of Contents

Chapter 2	
Political Risks Arising from the Intervention of Host States	21
1. Introduction	21
2. The Definition and Types of Political Risks	22
3. Categorization of Political Risks	25
4. The Nature of Energy Investments: The Aspect of Political Risk	26
4.1. Is There Any Difference between Developed and Developing Countries in Terms of Political Risk?	29
5. Historical Analysis of Political Risks to International Energy Investments	35
5.1. Today's Political Risks	48
6. Conclusion	56
Chapter 3	
A Way of Taking Over: Indirect Expropriation	59
1. Introduction	59
2. Terminology	61
2.1. Expropriation, Nationalization and Confiscation	62
2.2. Indirect Expropriation	63
2.2.1. Creeping Expropriation	64
2.2.2. Regulatory Expropriation	64
3. The Concept of Expropriation	65
3.1. The Basic International Requirements for Expropriation	68
3.1.1. Public Purpose	70
3.1.2. Non-Discrimination	72
3.1.3. Due process of Law	74
3.1.4. Compensation	75
4. Resource Nationalism and Indirect Expropriation: a Long-Term and Difficult Issue for the Energy Industry	76
4.1. Hypothetical Example	79
5. Types of Devices Used by Host States for Indirect Expropriation	81
6. Distinguishing between Non-Compensable Regulation (Legitimate Regulatory Measures) and Indirect Expropriation	87
6.1. Case Law	89
7. Mitigating Expropriation Risks through Contract Provisions	94
8. Conclusion	95
Part II	
Managing Political Risks	99
Chapter 4	
Stabilization Clauses: A Way of Managing of Political Risks	101
1. Introduction	101
2. General and Historical Perspective on Stabilization Clauses	102
2.1. Types of Stabilization Clauses	104

Table of Contents

3. The Legal Significance of Stabilization Clauses	108
3.1. Validity	108
3.1.1. Under National Law	110
3.1.2. Under International Law	113
3.1.2.1. Scholarly Opinion	113
3.1.2.1.1. The Internationalized Contract	114
3.1.2.1.2. The Principle of Permanent Sovereignty	117
3.1.2.1.2.1. Permanent Sovereignty over Natural Resources	118
3.1.2.1.3. Moderate view	120
3.1.3. Empirical Work	121
3.2. Efficacy	129
3.2.1. Scholarly Opinion	129
3.2.1.1. Effectiveness of Stabilization Clauses in Preventing Current Regulatory Risks: Environment and Human Rights	131
3.2.2. Empirical Work	133
3.2.3. Evaluations	138
4. Conclusion	141

Chapter 5

Flexibility of Contractual Relations in Energy

Projects: Renegotiation Clauses

	143
1. Introduction	143
2. The Concept of Renegotiation	149
2.1. Types of Renegotiation	150
2.1.1. Situation-based Renegotiation	150
2.1.1.1. Post-Deal Renegotiation	150
2.1.1.2. Intra-Deal Renegotiation	151
2.1.1.3. Extra-Deal Renegotiation	151
2.1.2. Initiation by Parties	151
2.1.2.1. Investor-Led Renegotiation	151
2.1.2.2. Government-Led Renegotiation	151
2.2. Theory of Renegotiation	152
2.2.1. Bargaining Power	153
2.2.2. Causes of Renegotiation	157
2.3. From the Principle <i>Pacta Sunt Servanda</i> to the <i>Clausula Rebus Sic Stantibus</i> in Energy Investment Contracts	159
3. The Need for Renegotiation	166
3.1. Long-Term Investments (Salvage the Contract)	166
3.2. Changing Circumstances	167
3.2.1. Changes in Economic Conditions and Industry Patterns	167

Table of Contents

3.2.2. Changes in Laws and Regulations	171
3.2.3. Changes in Politics	172
3.3. Filling Gaps in Incomplete Contracts	177
3.4. Providing Flexibility for Cultural Differences	178
3.5. Providing an Early Opportunity to Settle Disputes	180
3.6. Avoiding Unilateral Change of Contractual Terms and Indirect Expropriation	181
3.6.1. Scholarly Opinion	181
3.6.2. Empirical Work	182
3.6.3. Testing the Hypothesis	184
3.7. Balancing Flexibility and Stability in the Energy Investment Contract	185
4. Reluctance to Use Renegotiation Clauses	189
5. Conclusion	194
Chapter 6	
Examining Modern Renegotiation (Equilibrium) Clauses in Petroleum Contracts	195
1. Introduction	195
2. Can Stabilization and Renegotiation Clauses Coexist in the Same Agreement?	196
3. Examining Traditional and Modern Renegotiation Clauses in Contractual Practices	199
3.1. Samples of Renegotiation Clauses from Contracts	199
3.1.1. Traditional Renegotiation Clauses	200
3.1.1.1. General Renegotiation Clauses	200
3.1.1.2. Specific Renegotiation Clauses	202
3.1.2. Modern Renegotiation (Equilibrium) Clauses	203
4. Checklist for Drafting Modern Renegotiation (Equilibrium) Clauses	209
5. Some Principles for the Renegotiation Process	213
6. The Outcome of Renegotiation	215
7. Conclusion	219
Chapter 7	
Choice of Law and Alternative Dispute Resolution (ADR) Clauses: Empirical Insights	221
1. Introduction	221
Section I: Choice of Law Clauses	222
2. General Observations	222
3. Survey Findings on Choice of Law Clauses	228

3.1. Purpose of Inserting Choice of Law Clauses	228
3.2. Which Law or Country's Law Was Chosen?	229
3.3. Why Do You Prefer That Law?	231
3.4. Would the Outcome of Any Dispute be Different If the Host State's Law Applies?	233
3.5. Do You Use Any Model or A Standard Choice of Law Clause in Your Contracts?	235
3.6. The Effectiveness of Choice of Law Clauses	236
3.7. General Evaluation	238
Section II: ADR Clauses	239
4. General Observations	239
4.1. Types of ADRs	242
4.1.1. Negotiation	242
4.1.2. Mediation	243
4.1.3. Conciliation	244
4.1.4. Expert Determination	244
4.1.5. Arbitration	245
5. Survey Findings on ADR Clauses	246
5.1. Which, if any, of these dispute resolution methods were used in the petroleum dispute(s) in which you were involved?	246
5.2. The Effectiveness of ADR Clauses	247
5.3. Preference of Dispute Settlement Mechanisms from the Parties' Perspective	249
5.4. ADR is not effective in oil and gas disputes because of the disputes' peculiar nature	251
5.5. ADR is not effective in oil and gas disputes because it is non-binding and unenforceable	254
5.6. Evaluation of Dispute Settlement Methods	257
5.6.1. Evaluation of Some Specific Factors	257
5.6.1.1. Factor 1: Possibility for Performance of the Contract to Continue	257
5.6.1.2. Factor 2: Privacy	257
5.6.1.3. Factor 3: The Speed of the Process	257
5.6.1.4. Factor 4: Binding Nature	258
5.6.1.5. Factor 5: Enforceability	258
5.6.1.6. Factor 6: The Cost of the Method	258
5.7. General Evaluation	258
6. Conclusion	266

Table of Contents

Part III	
Conclusion and Implications	269
Chapter 8	
Conclusion and Implications	271
1. Introduction	271
2. Revisiting the Research Findings	272
3. Concluding Remarks	277
Appendices	281
Appendix 1	
The Questionnaire	283
Appendix 2	
Some of the Omitted Research Findings	299
Appendix 3	
Forced Divestment of Petroleum Production	303
Appendix 4	
The Millennium Wave	307
Appendix 5	
Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (ICSID)	313
Appendix 6	
The Energy Charter Treaty (ECT) (Excerpt)	335
Appendix 7	
North American Free Trade Agreement (NAFTA) (Excerpt)	347
Appendix 8	
ASEAN Agreement for the Promotion and Protection of Investment	369
Bibliography	377
Index	403