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KEYNOTE REMARKS:

GLOBAL ENERGY MARKETS—U.S. FOREIGN POLICY PERSPECTIVES

by Richard Westerdale

Keynote address delivered at the 5th ITA – IEL – ICC Joint Conference held in Houston, Texas on January 18-19, 2018.

This keynote addressed the changing global energy landscape, the United States (U.S.) Administration's priorities in the sector, and the role of the U.S. Department of State and the Bureau of Energy Resources.

Thank you to the Center for American and International Law, as well as the International Chamber of Commerce, for hosting this event and allowing me to speak here today.

We are living in a time of dramatic change in the global energy sector. The picture of supply and demand that most of us envision has been shattered. Technology, entrepreneurship, good policy, and commodity prices have radically reduced U.S. oil import dependence and have changed the geography of energy. Energy sits at the nexus between national security, economic development, and environmental responsibility—as it always has. We now live in a global economy with interdependent energy markets. Energy shortages, price volatilities, or market supply disruptions anywhere threaten economic growth everywhere. We all remain energy interdependent.

For these reasons, we are emerging from four decades—since the oil embargos of the 1970s—of energy scarcity. Today, we are entering a new era of energy abundance, and collectively it is in everyone's best interest to ensure that all nations are able to meet these same basic needs that are represented by the nexus of energy. This fundamental change increases geopolitical stability—or national security—and fosters economic growth globally. It is a



good news story for the U.S.¹

I know many of you are interested in hearing about what this Administration's energy policies mean for U.S. industry and our relationships around the world. However, first, I want to emphasize one core principle of this Administration. President Trump has been unapologetic, as highlighted in the recently released National Security Strategy, "that [his] Administration would put the safety, interests, and well-being of our citizens first"² as the world's leading energy producer, consumer, and innovator.

We have the opportunity to think creatively about continuing to work together with our friends and allies to achieve our collective energy and broader economic policy goals. What are our collective energy and broader economic policy goals? Quite simply, through diplomacy, we will seek to: (1) remove barriers to energy development and trade; (2) promote U.S. energy exports, including resources, technologies, and services; and (3) ensure economic and energy security for the U.S. and our allies and partners. These goals are focused on boosting domestic energy production, creating jobs here at home, and streamlining or eliminating certain regulations to restrictions to trade and development.

At the Bureau of Energy Resources at the State Department, we address the pivotal intersection of energy and foreign policy. We seek to ensure that the U.S. leadership on global energy issues remains. We respond to energy challenges from around the world that affect American prosperity and U.S. national security. U.S. national security is threatened when our allies lack reliable access to diversified, affordable, and reliable energy; when foreign energy markets exclude U.S. companies; when poor governance prevents

¹ Donald J. Trump, National Security Strategy of the United States of America 1, (Dec. 2017), <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

² *Id.* at 22-23.



market-based energy solutions; or when competition for energy leads to conflict. Finally, U.S. national security is threatened when terrorists or rogue regimens exploit energy resources to fund violence or destabilizing activities.

Before I delve any further, let me provide some background on today's global energy landscape. First, the oil and gas landscape has evolved tremendously over the past decade. In the last ten years, the U.S. has nearly doubled its oil production. Natural gas production has increased by more than 40%. The U.S. has transformed from being a natural gas importer to a natural gas exporter, including liquefied natural gas ("LNG").

The Energy Information Administration ("EIA") projects that in 2018 the U.S. will have historic level of oil production and exports—an average of 10.7 million barrels per day of oil produced in 2018.³ That is the highest annual average for production of oil in U.S. history.

Also, according to the recently released International Energy Agency's 2017 World Energy Outlook, the resilience of unconventional resources in the U.S. cements our position as the biggest oil and gas producer in the world, even at today's lower prices.⁴ Today, we are producing 775 billion cubic feet of natural gas. According to the EIA, U.S. natural gas production is on its way to nearly one trillion by 2025. These trends culminated in a historic first when the U.S. had its first export cargo of LNG from the Gulf Coast in February 2016. Since that time, more than 225 cargos have left those shores to a truly global footprint of 25 different countries around the world. The U.S. is having an impact internationally, and there is more LNG on the horizon.

The Department of Energy has authorized the export of 21.33 billion cubic feet of natural gas per day to non-free trade agreement countries from

³ See U.S. Energy Information Administration, *EIA Expects Total U.S. Fossil Fuel Production to Reach Record Levels in 2018 and 2019* (Jan. 18, 2018), <https://www.eia.gov/todayinenergy/detail.php?id=34572>.

⁴ See International Energy Agency, *WORLD ENERGY OUTLOOK 2017* (Nov. 2017).



facilities that are either under construction or approved today. That translates into approximately 220 billion cubic meters of LNG. To put that into perspective, that quantity equates to about one-fourth of the U.S. annual consumption or half of the EU's total natural gas consumption in 2016. Looking at it yet another way, Russia in 2016 exported approximately 160 billion cubic meters to the EU. U.S. production, at 220 billion cubic meters, is pretty substantive. By 2020, the U.S. will be approaching over 100 billion cubic meters a year in LNG exports. It is amazing to think that some 10 years ago or less, we were still building import terminals.

The U.S. shale revolution has had a truly global impact. Thankfully, as natural gas markets become increasingly competitive and efficient, the world wins. Well-functioning gas markets reinforce global energy security, foster environmental stewardship, and advance U.S. economic and commercial interests abroad. In short, what is happening domestically is making a difference and having an incredible impact on foreign affairs.

There are also changes in the global coal markets. Given the 1.3 billion people in the world today without access to consistent forms of energy, coal will remain an integral part of global energy mix, especially in developing countries, as we have seen in China and India. The expectation is, however, that coal will decline as a percentage of the global energy mix. In absolute terms, the amount of coal consumed globally will actually increase through the next decade or two.

The U.S. sits on more than one-fifth (22%) of the world's coal endowment, and yet we produce only nine percent and export less than one percent of the coal consumed globally, according to the International Energy Agency's 2017 Coal Report.⁵ This presents a real opportunity for the U.S., and the challenge

⁵ See International Energy Agency, MARKET Report SERIES: COAL 2017, ANALYSIS AND FORECAST TO 2022 (Dec. 2017).



is how best to position U.S. resources to compete in this global market and ensure that there is a level playing field for U.S. companies. The ability of the U.S. and our resources to compete globally is in part driven by the logistics in finding cost effective ways to get our products to market. Further, our research and development are second to none when it comes to coal technology. Such technologies will allow coal to remain competitive within the changing regulatory environment. One example of that is the Petra Nova Project that is right here in Houston. This is a 240-megawatt coal fire power generation plant and the world's largest post-combustion carbon catcher project, actually capturing more than 90% of the CO₂ from that power plant. That is 5,000 tons of carbon a day and over 1 million tons a year. U.S. ingenuity has done that.

Let me get back to the Administration's foreign policy and priorities. When it comes to energy, the Trump Administration's foreign policy focuses on three areas. First, opening markets and removing trade barriers. Second, promoting exports of energy resources, technologies, and services. Third, and importantly, ensuring the energy security of the U.S. and our allies and partners. The Administration is committed to our national security. Our State Department has backed global projects that encourage diversification of fuel types, technology, supply sources, including countries of origin, and delivery routes. We continue to invest in both our diplomatic capital and our technical assistance resources in ensuring that countries achieve their own goals for energy security.

The U.S. is a staunch supporter of European energy security, which is critical in ensuring Europe's role as a forceful U.S. partner in meeting the global challenges that we face today, including Russia. This includes the issues that are faced by Ukraine, which is a strong example of where natural resources, in this case natural gas, is key to that country's national security.



In the Eastern Mediterranean, the successful exploration and export of natural gas resources will increase regional cooperation and energy security. The Middle East has been a hot spot and a challenge for us and remains that way. However, those natural resources can serve in the Eastern Mediterranean as a catalyst for increased stability in a very strategically vital part of the world.

North Korea has emerged as perhaps one of the starkest security challenges for the U.S. Here too energy plays a role. As a result of our engagement with China, we achieved, in August of last year, a U.N. prohibition on all North Korean coal exports,⁶ removing over \$1 billion of annual revenue from the regime's coffers. Most recently, the U.N. Security Council unanimously voted to impose further energy sanctions on oil and refined products to expand pressure on North Korea to return to the negotiations which are aimed at achieving complete, verifiable, and irreversible denuclearization of that state.⁷

Other parts of Asia—from Singapore to Tokyo—see opportunities for increased collaboration to enhance regional energy security through a growing supply of U.S. LNG. Our partners in the Asia Pacific view U.S. LNG exports to the region as a tool for diversifying their energy resources and ensuring access to reliable sources of supply as they strive to create a more integrated global gas market.

In Nigeria, the U.S. supports the government's energy sector and anti-corruption agenda. These reforms in this sector increase government revenues, which are crucial for the fight against organizations that are key on terroristic activities like Boko Haram and addressing the instability that we see

⁶ S.C. Res. 2371, ¶8, U.N. Doc. S/Res/2371 (Aug. 5, 2017), <https://www.un.org/sc/suborg/en/s/res/2371-%282017%29>.

⁷ S.C. Res. 2375, ¶ 13, U.N. Doc. S/Res/2375 (Sept. 11, 2017), <https://www.un.org/sc/suborg/en/s/res/2375-%282017%29>.



in the Niger Delta. They ensure that outside investors, including U.S. firms, are paid for their investments, something that is important to our interests.

Closer to home in Central America and the Caribbean, the U.S. is seeking to increase energy trade. Such development will benefit the U.S. as well as those countries of the region because it will enhance their energy security while creating new opportunities for globally competitive U.S. energy firms and exports as viable alternatives to the long-held influence of Venezuela and Petrocaribe.

Energy security remains at the forefront of the Department's foreign policy. However, looking closely at this, you will also see and notice an overlap between energy security and the Administration's emphasis on trade and exports. Investing in the U.S.'s energy, for example, not only helps our allies maintain their energy security, but it strengthens our economy and helps create jobs here at home. This represents a true win-win for all involved.

This is what I really want to hone in on. How do we unlock the U.S.'s full economic potential? The State Department advances the Administration's priorities through good old-fashioned advocacy, identifying new markets and some of our broader technical assistance. Technical support to countries with the capacity and the will to pursue energy sector reforms can spur private investment and U.S. energy technology exports. That is why we assist corporate government reforms in Ukraine and their state-owned enterprises to reduce the reliance on Russian gas imports, promote privatization of efficient state-owned entities, and accelerate reforms to combat corruption, as well as assist Ukraine in meeting EU standards and commitments.

As another example, in the Caribbean the U.S. is working to integrate resource planning efforts and regulatory reforms by encouraging governments and utilities to make transparent and economically viable decisions to mitigate risks for U.S. investors and deliver lower costs to



consumers in that region.

In Central America, the U.S. is working to enhance regional electricity integration, which will strengthen energy reliability and lower prices. More broadly, enhanced integration will provide opportunities for U.S. businesses while strengthening the regional economy. This, in turn, reduces some of those factors that drive illegal immigration and elicit trafficking to the U.S. and make doing business there so costly.

Bringing energy to Africa can unlock tremendous economic opportunity. 600 million people in Africa still lack access to electricity. The natural resource discoveries, including natural gas in Africa and around the world, present new opportunities for domestic gas fire power generation and will support economic growth. But these discoveries also come with a challenge of avoiding the “resource curse.”

Advocating on behalf of U.S. energy companies and the hydrocarbon renewable and energy efficiency sector is another way we advance U.S. economic interest in trade. Historically, these efforts have translated in U.S. firms winning bids and securing billions of dollars in contracts around the world. In addition, the State Department works to resolve political tensions that affect U.S. firms and facilitate payment of arrears and resolve unfair tax liens by other countries.

One example of that was in Nigeria during a recent U.S. government led roundtable with the Nigerian Minister of State for Petroleum Resources—Dr. Emmanuel Ibe Kachikwu—and Senior Nigerian National Petroleum Corporation leadership. The Minister was able to announce the first payment of \$400 million of the \$5.1 billion in arrears that were owed to an international oil company.

At times there is the need to explain to our counterparts what is meant by our policies and regulations. Last year, the White House announced the initial



results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue. In particular, that welcomed China as well as any other of our trading partners to receive imports of LNG from the U.S. The dialogue, however, went further and included a candid reinforcement of the principles of open and efficient markets free of manipulation, which relates directly to China's influence in the global coal market.

Why is it that we do this? Because we have taken an all-of-the-above approach to energy. Because free and efficient markets combined with sensible regulations and good old-fashioned U.S. ingenuity—research and development—as well as strong capital markets make such things possible. This was true of the shale revolution and certainly can be true of hydrocarbons in general under this Administration. We want to work with our allies and partners to seek common ground and develop a way forward on these important energy issues. As Secretary Tillerson noted recently, “[e]nhancing European energy security by ensuring access to affordable, reliable, diverse and secure supplies of energy is fundamental to national security objectives.”⁸

Let me conclude by stating something that is widely recognized but sometimes overlooked: the U.S. has a competitive edge on all segments of the energy sector. This advantage translates into jobs and investments into U.S. infrastructure.

You can expect this Administration to continue to highlight the competitiveness of U.S. energy exports and anticipate that we will do everything we can to promote the exceptional skill, expertise, and technology that reside here in the U.S. in order to unlock the U.S.'s full economic potential. Regarding our collective energy and broader economic policy goals, we will continue to seek to remove barriers to energy development and trade, to

⁸ Secretary Rex Tillerson, Secretary of State, Remarks at the Wilson Center (Nov. 28, 2017), <https://nl.usembassy.gov/secretary-tillerson-speaks-u-s-europe-strengthening-western-alliances/>.



promote U.S. energy exports, again including resource, technology, and services, and ensure the economic and energy security of the U.S., its allies, and partners.

Thank you.



RICHARD WESTERDALE, is a former Senior Advisor, Bureau of Energy Resources, U.S. Department of State, Washington D.C. With over twenty-five years of experience in the energy arena, Rick previously worked as a Senior Advisor at the Department of State. He advised senior principals, including the Secretary, on the nexus of energy with U.S. national security and international energy policy priorities. Rick's focus was on international energy affairs and their effect on U.S. business interests including governance, access to energy, increasing access to conventional energy resources, and use of alternative and renewables technologies.



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