Freedom of Investment Roundtable 29: Summary of Discussion

Note by the Secretariat

This note by the Secretariat summarises discussions at Freedom of Investment (FOI) Roundtable 29, held on 23 October 2018.

Sixty-two economies are invited to participate in the Roundtable.

For general information on the Roundtable and its work please refer to www.oecd.org/daf/investment/foi.

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Freedom of Investment Roundtable 29: Summary of Discussion

1. The Freedom of Investment (FOI) Roundtable is an inter-governmental forum that supports countries’ efforts to maintain and extend open, transparent and non-discriminatory policy frameworks for international investment. Through analysis and regular multilateral dialogue, the Roundtable promotes the sharing of experiences with investment policy design and implementation. It also helps countries to address policy concerns that international investment may raise. Policy monitoring by Roundtable participants promotes observance of countries’ international investment policy commitments, including those taken under the OECD investment instruments and in the context of the G20.

2. The present document summarises views and information contributed by participants at Roundtable 29, held on 23 October 2018. Participants included representatives of governments of the 36 OECD members as well as the European Union, other governments that have adhered to the OECD Declaration on International Investment and Multinational Enterprises (Argentina, Brazil, Colombia, Costa Rica, Romania and Ukraine), and government representatives from P.R. China, Kazakhstan, Russian Federation, Saudi Arabia, South Africa and Thailand. Representatives from the International Chamber of Commerce (ICC) and the World Bank (WB) also participated in the Roundtable or parts thereof.

3. The discussions at Roundtable 29 addressed several topics including:

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1 The Roundtable addressed some other items that are not reported here given their procedural nature or relation to work undertaken in other OECD Committees.
1. Follow-up discussion of the FOI Workshop on Adjudicators in Investor-State Dispute Settlement: Selection and compensation

4. The Roundtable discussed a Roundtable workshop on Adjudicators in Investor-State Dispute Settlement (ISDS): Selection and compensation, which took place on the day before the Roundtable. The workshop built on the Roundtable’s prior discussions of these issues2 and was designed to allow discussion with experts in advance of planned discussions with appointing authorities and arbitration institutions. It was led by four academic experts with a broad range of perspectives and experience (Dr. Joel Dahlquist Cullborg, Uppsala University; Dr. Martins Paparinskis, University College London; Dr. Sophie Turenne, University of Cambridge; Professor Gus Van Harten, Osgoode Hall Law School). The discussion was enriched by questions and comments from FOI participants. Five arbitration institutions were invited to attend the workshop (primarily in a listening capacity because a more interactive session is planned as the work progresses) and the Roundtable was pleased to welcome representatives from four of them to the workshop.

5. The Chair identified two issues from the discussion for possible further consideration by the Roundtable: (i) whether important systemic issues like the selection of adjudicators in ISDS cases should be entrusted to arbitral institutions; and (ii) whether there were any consequences that arose from the incentive structures and level of competition that exist in the current system.

6. A participant stated that the workshop had illuminated a complex range of incentives at play for appointing authorities and arbitrators in ISDS and asked how future work by the Secretariat might assist the Roundtable’s consideration of these topics. The Secretariat noted that incentives are analysed in the background papers and that input from appointing authorities and arbitration institutions on the analysis would be valuable and was expected to be sought. Additional factual investigation on arbitrator compensation practices in ISDS would also contribute to further consideration of possible actual or perceived fee-based incentives. It was also noted that work was on-going to expand the paper to address additional arbitration institutions and to address and follow up on initial comments received.

7. A participant asked how the Roundtable’s work on these topics could contribute to work on ISDS at UNCITRAL Working Group III. The Secretariat noted that arbitral compensation and appointing authorities in ISDS had rarely been addressed prior to the detailed Roundtable work, and that it participates in the UNCITRAL work and provides input on OECD work.

8. Roundtable participants expressed strong interest in a future discussion with active input from appointing authorities and arbitration institutions. The format was considered including the appropriate distribution of time allowed for the different inter-governmental and private-sector institutions given varying market shares, government views about

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suitability of public and private entities in the field, competitive aspects and other factors. The Secretariat indicated that based on initial comments from the Roundtable about differences between inter-governmental and private institutions, it expected that the first discussion would involve the two inter-governmental institutions.

2. Follow-up discussion of the Investment Treaty Dialogue on joint government interpretations of investment treaties

9. Roundtable participants provided comments and feedback on the fourth Investment Treaty Dialogue chaired by Chile and Israel shortly before the Roundtable. It was noted that many delegates had expressed their appreciation to the co-chairs for the opportunity to discuss this topic in an inter-governmental forum and that there was a broad consensus that joint interpretative instruments were a useful tool.

10. The Chair noted that a range of possibilities for future work had been discussed. These include the development of technical assistance for governments, consideration of provisions in investment treaties that might benefit from joint interpretative instruments, consideration of issues involved in preparing and negotiating joint interpretative instruments and establishing a regular event for continuing inter-governmental dialogue on this topic. A future event on joint interpretative instruments focused on exchanging best practices and experiences might be useful. It was noted that an earlier paper on this topic provides helpful background\(^3\) and that consideration could be given to updating the paper.

3. Presentation on new research databases for investment treaties and ISDS

11. The Roundtable welcomed Professor Malcolm Langford from the University of Oslo and its PluriCourts Centre. Professor Langford presented two new databases for analysis of investment treaties and ISDS, and discussed their usefulness in particular for investment treaty policy makers. He also reported on recent research on “double hatting” or the “revolving door” for ISDS arbitrators.

12. Professor Langford explained that the new databases are designed to support empirical work on investment treaties and ISDS. Empirical data from the databases can allow policy makers to investigate long-term trends in investment treaties. They can also help analyse the behaviour of different actors in ISDS and test empirical claims about investment treaties and ISDS cases. The databases are intended for policy makers, governments, social scientists and participants in ISDS cases. The databases are expected to be made available to the public in December 2018 or January 2019.\(^4\)

13. Roundtable participants expressed strong support for the initiative. Several participants asked about differences from existing databases such as UNCTAD’s Investment Policy Hub. Professor Langford noted that users will be able to access granular data on ISDS cases. They can apply filters to the data and perform custom searches. These


\(^4\) The PluriCourts Centre officially launched the PluriCourts Investment Treaty Arbitration Database (PITAD) on 31 January 2019. The database is now accessible at: https://pitad.org.
functions are not available in existing databases. Examples of possible datasets include amounts of damages claimed by investors or arbitrator appointments made by a given respondent state.

14. A participant asked whether the databases contained data on all publicly-known ISDS cases. Professor Langford confirmed that all efforts have been made to include data on every publicly-known ISDS case. However, he noted that little or no information exists in the public domain for certain non-ICSID and ad hoc ISDS cases.

15. Professor Langford also briefly introduced a recent paper that analyses empirical data generated by the databases related to the “revolving door” for ISDS arbitrators. It was noted that the Roundtable considered preliminary analysis of this topic in discussions of the ISDS scoping paper in 2011-13. The new paper uses data from 1039 ISDS cases and considers relationships between 3910 people known to have participated in these cases. It identifies a small group of influential actors in ISDS cases that have consistently practiced “double hatting” – the phenomenon of ISDS arbitrators wearing two or more hats as arbitrators, counsel, tribunal secretaries and experts in different cases. The paper uses a new approach to measure the influence of individuals in ISDS and ranks them in terms of overall influence to identify the top 25 “power-brokers” in ISDS. It also finds that the frequency of double hatting has been relatively stable since 2005. While time was lacking for discussion, the Chair underlined the importance of the policy issues raised by double hatting; it was noted that UNCITRAL’s Working Group III will be considering the roles of arbitrators and adjudicators in its work on ISDS reform.

4. Divestment Decisions by Multinational Enterprises (MNEs)

16. The Roundtable considered the findings of a recent empirical analysis of drivers of divestment decisions by MNEs. The project responded to interest in more quantitative analysis of the behaviour of MNEs and emphasis on sound statistics and evidence-based policy making. The study complements the Roundtable’s discussions since 2015 of the societal benefits and costs of international investment agreements (IIAs). It uses a novel firm-level database for a large set of countries to provide new empirical evidence on possible drivers of MNE divestments, including the role of IIAs.

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17. The Secretariat noted that the study finds that divestment is an important economic phenomenon: parents divest one of every five foreign-owned affiliates. A number of policies can also influence MNE divestments on top of the firm-level factors considered in previous studies. For example, raising unit labour costs, labour market efficiency, applied average tariff rates, real exchange rate volatility and level of control of corruption, are found to influence firm divestment probability. The results also confirm the relevance of international agreements to divestment decisions by MNEs. For example, the existence of a regional trade agreement (RTA) in general, and a deep RTA in particular – i.e. single market or customs union, including trade agreements with investment chapters – has been found to be systematically associated with a lower probability of divestment by an MNE in both developed and developing countries. The impact of other agreements appears less clear. Finally, several firm-level considerations studied in the earlier management literature are also found to play a role (e.g. the overall size and financial health of the business group).

18. The Roundtable expressed their appreciation for the study, in particular in the context of the ongoing reflection on the future of IIAs and other trade and investment reforms. It also stressed interest in further empirical work on the effect of IIAs on MNE business decisions, suggesting possible avenues for future research. Participants expressed a wish to discuss possible proposals for such work at a future meeting of the Roundtable.

5. Presentation of a new trade and investment agreement between Canada, Mexico and the United States (USMCA)

19. The Roundtable heard a brief update on the recently-concluded negotiations regarding the investment chapter of the new trade and investment agreement between Canada, Mexico and the United States (USMCA) which is designed to replace NAFTA. The US briefly presented the new treaty. Canada and Mexico were also available to answer questions.

20. The US informed Roundtable participants that the negotiations regarding the USMCA concluded on 30 September 2018 and that the Parties intended to sign the agreement by 1 December 2018. Chapter 14 of the USMCA on investment is intended to replace Chapter 11 of NAFTA.

21. The US noted that the USMCA contains all of the main substantive investment protections already found in NAFTA but with more clarity. Some new rules have been introduced, including a prohibition on performance requirements that require or incentivise investors to use or favour local technology. The USMCA departs significantly from the ISDS provisions in NAFTA and from previous US practice.

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10 For example, participants suggested future empirical studies could explore the role of specific provisions of such treaties (e.g. the role of investor-state dispute-settlement mechanism (ISDS)), their interaction with other types of treaties and the role of ISDS cases in mitigating the treaty effects.

11 As is frequently the case, the Treaty Parties refer to the treaty with their own country name first. USMCA is used here for convenience.

12 The USMCA was subsequently signed by the three Parties on 30 November 2018.
22. The US noted that for three years following the termination of NAFTA, covered investors with existing investments could continue to bring ISDS claims under NAFTA (known as “legacy claims”).

23. The US noted that there is no ISDS between Canada and the United States in the USMCA aside from legacy claims under NAFTA. The Chair asked for clarification about the dispute settlement mechanism between Canada and Mexico. Canada noted that there is no ISDS between Canada and Mexico but the State-to-State dispute settlement (SSDS) mechanism applies between all three Parties in relation to the investment chapter. The ISDS provisions in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will apply between Canada and Mexico once it comes into force.

24. The US noted that as between the United States and Mexico, Annex 14-D and 14-E of the USMCA provide two different regimes for ISDS. The general regime in Annex 14-D limits the scope of ISDS. It applies only to direct expropriation or claims under the national treatment or most-favoured nation treatment provisions.

25. A special regime in Annex 14-E maintains broad ISDS for covered investors with investments in five covered sectors (oil and gas, power generation, telecommunications, transportation and infrastructure) provided that they are also a party to a federal-level government contract. A participant asked how the two Parties had agreed on the five sectors identified for the maintenance of broad access to ISDS in Annex 14-E. The US noted that the ISDS provisions were the result of 14 months of negotiations between the Parties, including detailed assessments of offensive priorities and defensive sensitivities. The sectors identified for the maintenance of broad ISDS are sectors in which US investors have and intend to have significant long-term capital-intensive investments in Mexico. A heightened need for ISDS protection was therefore identified for these sectors.

26. A participant asked about the rationale behind the additional requirement for a federal government contract. In particular, he noted that governments could agree to international arbitration in contracts without needing to provide additional access to ISDS. The US noted that it is possible for government contracts to contain international arbitration provisions but many existing contracts in the covered sectors do not. From a US perspective, this factor militated in favour of seeking greater ISDS coverage for US investors. The US also stated that a national government contract requirement for access to ISDS means that the government can screen decisions about potential covered foreign investments after weighing the scope and consequences of the decision.

6. Recent investment policy developments

6.1. Recent investment policy measures related to national security

27. Roundtable participants discussed selected recent investment policy developments based on an inventory of investment measures taken between 16 September 2017 and 15 September 2018. Five countries made formal notifications of amendments to their policies relating to national security: Australia, Italy, Lithuania, United Kingdom and United States. These notifications are required under the Declaration on International Investment and Multinational Enterprises and the related 3rd Revised Decision on National Treatment. Six countries – Australia, France, Hungary, Netherlands, Norway and the

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13 The notifications are published on the OECD website: [http://oe.cd/natsec](http://oe.cd/natsec).
United Kingdom – and the European Union provided information on recent changes of their investment policies or of initiatives in this area.

6.1.1. Australia


29. Australia further informed Roundtable participants that on 1 February 2018 the Australian government announced clarifications to the administration of the review process of acquisitions of electricity transmission and distribution assets, and some generation assets, by foreign buyers. In particular, ownership restrictions or conditions may be imposed on such acquisitions on a case-by-case basis on national security grounds.

6.1.2. France

30. France informed Roundtable participants of two developments during the reporting period:

31. France noted that regulatory changes to France’s mechanism to manage risks associated with acquisitions are currently under consideration by the Council of State. Among the changes anticipated are tightened controls for acquisitions related to emerging technologies such as artificial intelligence, robotics and semiconductors. These changes are expected to take the form of a decree that will be issued before the end of 2018.

32. France also informed Roundtable participants that further changes in the investment screening process are currently being planned in the context of the Loi PACTE. The legislative process for the Loi PACTE is expected to commence in the first half of 2019. France undertook to notify the Roundtable regarding the entry into force of the new laws in due course and provide additional information at that time.

6.1.3. Hungary

33. Hungary informed Roundtable participants that on 2 October 2018 the Hungarian parliament adopted a pre-screening procedure of investors’ conformity to national security interests in the Law on the Control of the Foreign Investments Offending the National Security of Hungary. The new Law is expected to come into force on 1 January 2019. Further details on the law, its scope and procedures will follow in a formal notification once the Law comes into effect.14

6.1.4. Italy

34. Italy notified the Roundtable that changes to its national security review mechanism came into effect by decree-law of 16 October 2017; they were subsequently confirmed, Hungary notified the policy in early 2019; it is available as DAF/INV/RD(2019)2/REV1.
without modification, by the law of 4 December 2017. The changes, contained in article 14 of the decree-law, closed loopholes in the legislation about sanctions for non-respect of notification requirements and introduce sectors of “high-technology” in the list of areas indicative of a risk for security and public order, including in particular critical infrastructure (including storage and handling of data and financial infrastructure) critical technology (including artificial intelligence, robotics, semiconductors, dual use technologies, network security and space and nuclear technology), security of supply of critical resources, and access and control of critical information. The changes took effect only with respect to procedures that have not commenced before the date of entry into force. More details about the policy change are available in Italy’s notification set out in DAF/INV/RD(2018)5.

6.1.5. Netherlands

35. The Netherlands informed Roundtable participants that a Bill on “undesirable control over telecommunications” had been introduced in the State Council on 19 April 2018. The Bill, which had not been passed into law at the time of the Roundtable, would require potential acquirers of Dutch telecom assets to submit their proposals to the Ministry of Economic Affairs and Climate for review. The Ministry could prohibit or unwind such transactions if they would jeopardize national security or public order. Companies in the sector, according to official information on the bill, include those that provide mobile, fixed telephony and internet as well as internet nodes, data centres, hosting and certification services. It is expected that the Bill will be submitted to the Dutch parliament in the first quarter of 2019 and that it will enter into force as law in the second quarter of 2019.

6.1.6. Norway

36. Norway informed Roundtable participants that a new National Security Act had been promulgated on 1 June 2018. The law establishes, in its Chapter 10, a mandatory review mechanism for certain acquisitions of businesses by foreign and domestic investors. The scope of the Act is safeguard national security interests including critical national services. Details of the scope and operation of the mechanism are to be set out in regulations that are under discussion. It is expected that the new Act will enter into force on 1 January 2019. Norway undertook to provide a formal notification of the new Act once the legislation has entered into force.

6.1.7. United Kingdom

37. The United Kingdom notified the Roundtable that two amendments to the Enterprise Act 2002 had come into force on 11 June 2018. These amendments change the conditions for the application of the UK’s reviews of inward investment to manage national security concerns. The changes lower the turnover test threshold for mergers and acquisitions from GBP 70 million to GBP 1 million in three sectors: (1) the development or production of items for military or military and civilian use (‘dual use’); (2) the design and maintenance of aspects of computing hardware; and (3) the development and production of quantum technology. The share of supply test – an alternative criterion that could trigger a review – was likewise amended to also cover situations where the acquisition target already supplies 25% of the UK market in its sector; previously, only situations where the acquisition created a 25% supply position or led to an increase of the market share in the sector in the UK was covered. More details are available in the notification issued as DAF/INV/RD(2018)7.
38. The United Kingdom further informed Roundtable participants that the government conducted a public consultation on its National Security and Investment White Paper between 24 July and 16 October 2018. According to the accompanying Statement of Policy Intent, the proposal implies a further reform of the UK’s investment policies related to national security, which would establish a review mechanism independent from the current review system under the merger review system.

39. The United Kingdom noted that the White Paper addresses the government’s plans to upgrade its powers to scrutinise investments and address the risks that arise from hostile parties acquiring ownership or control over business or other entities or assets that have national security implications. The proposals indicate that notifications under the new regime would be voluntary and apply across the whole economy. The regime would encourage voluntary notifications of those investments and other events that may raise national security concerns. The government will publish details of where and how it expects national security concerns to arise in order to help businesses determine whether they should notify the government of a transaction or other event. The government will also reserve powers to review an investment even if it has not been notified voluntarily. The government has started the process of considering input received during the public consultation process.

6.1.8. United States

40. The United States notified the Roundtable that changes to the foreign investment review process under the Committee for Foreign Investment in the United States (CFIUS) had come into effect on 13 August 2018. The changes, set out in sections 1701 and following of the Foreign Investment Risk Review Modernization Act (FIRRMA) extend the timeline for CFIUS reviews, among others. Further changes – such as the expansion of CFIUS jurisdiction and filing obligations – will come into effect when implementing regulations have been adopted or within 18 months from the entry into force of FIRRMA. More details are available in the notification issued as DAF/INV/RD(2018)8.

6.1.9. European Union


6.2. Discussion of recent investment policy measures related to real estate

42. In the reporting period from mid-March 2018 to mid-September 2018, four countries had introduced or increased fees and taxes that apply to foreigners in the context of the acquisition or ownership of residential real estate: Australia, Canada, New Zealand and Singapore. These changes are summarised in the inventory of investment measures taken between 16 September 2017 and 15 September 2018. Australia provided further information to the Roundtable regarding its recent changes.

43. Australia informed Roundtable participants that the Australian government has recently introduced a vacancy fee, which forms part of the government’s response to a housing affordability plan announced on 9 May 2017. The measures are intended to
encourage foreign owners of residential real estate to make them available for rent where they are not used as a residence. Annual reporting and notification requirements are expected to provide greater visibility regarding vacancy rates for foreign-owned residential dwellings. On 30 November 2017, the implementing act received royal assent and thereby amends the *Foreign Acquisitions and Takeovers Act 1975*. Fees will be imposed on foreign owners of residential property who do not comply with the new reporting requirements or report that their property is vacant and not advertised for rent.

44. Australia further noted that it has recently introduced or increased taxes and stamp duty surcharges in several federal states for the acquisition or owning of under-occupied residential property by foreigners. Additional details are provided in Part III of the inventory of investment measures taken between 16 September 2017 and 15 September 2018.

### 6.3. Upcoming work related to national security measures

45. The Roundtable considered a short update from the Secretariat on current trends in investment policies related to national security. The Secretariat noted that it is preparing a comprehensive analytical paper on developments in the design and implementation of these policies for consideration during a forthcoming Roundtable. It was noted that a full-day conference on this topic will be hosted in March 2019. The Secretariat thanked the European Union for providing funding towards the preparation of the forthcoming note.

### 7. Report on discussions on investment facilitation at the WTO

46. Roundtable participants heard a presentation by the Secretariat on recent developments at the WTO with regard to investment facilitation.

47. It was recalled that at the Eleventh WTO Ministerial Conference (MC11) in December 2017, 70 Members (counting the EU as 29 Members) agreed to co-sponsor the “Joint Ministerial Statement on Investment Facilitation for Development” (document WT/MIN(17)/59). The Joint Ministerial Statement outlines three mutually-supportive tracks of action:

- to begin structured discussions with the aim of developing a multilateral framework on investment facilitation;
- to engage in continuous outreach to all WTO Members to learn more about their investment facilitation priorities and needs; and
- to work in cooperation with relevant intergovernmental organisations to assess developing and least developed Members’ requirements in implementing a possible multilateral framework “so that technical assistance and capacity building support can be made available to address these identified needs”.

48. The Secretariat noted that the WTO has scheduled a series of meetings throughout 2018 for structured discussions on the broad themes identified in the 2017 Joint Ministerial Statement. The objectives of these meetings are to evaluate the role of the WTO as a forum to discuss measures that Members could take to facilitate investment identify and develop possible elements of a proposed multilateral framework on investment facilitation. It was noted that the proposed framework would not address market access, investment protection protections or ISDS but would focus on three broad topics: improving predictability and
transparency of investment measures, streamlining administrative procedures and enhancing international cooperation. A meeting is scheduled in December 2018 to perform a stocktaking of the meetings throughout 2018 and define the upcoming steps.

49. A participant noted the substantial experience of the OECD in investment facilitation measures, including through the Policy Framework for Investment, and asked whether the Secretariat had presented its experience at the WTO meetings under the three topics identified by the WTO Secretariat. The Secretariat confirmed that it is attending the WTO meetings as an external expert and has presented at several meetings the experiences drawn from the OECD’s extensive work on investment facilitation. The Secretariat noted that the contributions of the OECD to these meetings had been well received and raised significant interest among WTO Members.