VENEZUELA WITHDRAWS FROM THE WORLD BANK’S INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

The World Bank received, on January 24, 2012, “written notice of denunciation of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention) from the República Bolivariana de Venezuela”. As further reported on the ICSID website, “the denunciation will take effect six months after the receipt of Venezuela’s notice, i.e., on July 25, 2012”. It has been reported that Venezuela premised its denunciation on the position that international arbitration of oil and gas disputes is inconsistent with the Venezuelan constitution of 1999.

ICSID is an arbitration institution with more than 140 member states. ICSID makes available a forum for the settlement of disputes between host states and international investors. Submission of disputes to ICSID arbitration requires an independent consent to arbitration by the host state and by the investor. Currently, most state consents to ICSID arbitration are included in bilateral investment treaties, or BITs, that extend international legal protections to foreign investors, such as the guarantee of full and prompt compensation for expropriation. Most investors consent to arbitration by their submission of a BIT dispute to ICSID arbitration. To date, there are 140 pending arbitrations at ICSID, and 225 ICSID arbitrations have been concluded.

It is reported that a recent ICC award against PDVSA, the Venezuelan national oil company, in favor of an ExxonMobil subsidiary was the catalyst for Venezuela’s

2 ICSID News Release.
4 icsid.worldbank.org (the “ICSID Website”).
decision to withdraw from the ICSID Convention.\(^5\) ExxonMobil is also seeking compensation from Venezuela in an independent ICSID arbitration.\(^6\) The ICC award initially had been touted as a victory by PDVSA and the Venezuelan government because the ICC Tribunal awarded ExxonMobil only $747 million on a reported claim by Exxon of $7 billion.\(^7\) But, as has been reported in public arbitration fora, a reason for the damages amount appears to have been a function of the contractual damages provisions. The damages provision, for example, appears to have referenced the price of oil significantly below today’s market price.\(^8\) ExxonMobil therefore may be able to recover in the ICSID arbitration the difference between the ICC award and its true economic loss, reported to be in excess of $19 billion.\(^9\) Currently, an additional 16 ICSID claims are pending against Venezuela\(^10\) with a reported aggregate claim value in excess of $21 billion.\(^11\)

Venezuela’s withdrawal from the ICSID Convention should not have any formal legal effect on pending ICSID proceedings.\(^12\) The ICSID Convention does not allow Venezuela unilaterally to walk away from its commitments, even if that is what Venezuela wishes to do, given the flood of claims against it and the promise of additional claims. Commentators are in agreement that claimants in existing proceedings will continue to benefit from Venezuela’s consent to ICSID arbitration — and from the robust enforcement mechanisms for awards in the ICSID Convention.\(^13\)

There is some disagreement, however, as to the possible effect of Venezuela’s withdrawal from the ICSID Convention on claims that have not yet been filed. The minority view is that after receipt by the World Bank of a denunciation of the ICSID Convention, all “offers” made by Venezuela to arbitrate at ICSID made in bilateral investment treaties can no longer be invoked.\(^14\) This minority view is inconsistent with the text of the ICSID Convention, which provides a 6-month sunset period for any denunciation to take legal effect.\(^15\) As reported on the ICSID website, the denunciation “will take effect six months after the receipt of Venezuela’s notice, i.e., on July 25, 2012”.\(^16\) As an example, the ICSID Secretariat registered claims filed against Bolivia in and even after the 6-month period following Bolivia’s denunciation.\(^17\) Registration of such disputes by the ICSID Secretariat supports the view that, at a minimum, new claims against Venezuela can be submitted to ICSID arbitration during the 6-month period.

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6  Mobil Corporation and others v. Bolivarian Republic of Venezuela (ICSID Case No. ARB/07/27).


8  See Mark Kantor, How Damages Were Calculated in Mobil Cerrp Negro v. PDVSA, Email to OGEMID List Serve, dated January 18, 2012 (explaining that “under the joint venture’s Association Agreement the lost revenues for the heavy crude oil production from the project are founded on the 2006 price of Brent oil ($27/barrel), adjusted for quality differences between Brent and heavy oil, and then further adjusted for each year of the damages computation based on an inflation adjuster employing the US GDP deflator, not on the actual prices of either Brent or heavy oil for the years subsequent to 1996.”)

9  Michael Goldhaber, Arbitration Scorecard 2011, dated June 2011 (reporting the claim value in the ICSID case as “up to $20 billion”).

10  ICSID Website. In addition, Venezuela faces 4 claims filed under the ICSID “Additional Facility” from Canadian investors. Other cases have been reported as being close to filing but have not yet appeared on the ICSID Website as having been registered.


12  See, e.g., ICSID Convention, at Art. 25(1), Nolan/ Sourgens, at 17-19.


14  Nolan/ Sourgens, at 17-19; see also May 2007 Client Alert.

15  ICSID Convention, at Art. 71; see also May 2007 Client Alert.

16  ICSID News Release.

It appears that the better reasoned view is that denunciation of the ICSID Convention cannot vitiate Venezuela’s consent to ICSID arbitration even after the expiration of the 6-month period. The typical way to commence an ICSID arbitration against Venezuela has been through the invocation of bilateral investment treaties in which Venezuela consented to submission of disputes to ICSID by investors of the other treaty state. These treaties have long sunset periods, some running for 15 years. While these treaties are in force, or in their sunset period, the consent to arbitration they provide should remain undisturbed. This conclusion is supported by an express provision in the ICSID Convention: denunciation “shall not affect the rights or obligations under this Convention of that State … arising out of consent to the jurisdiction of the Centre given by [that State] before such notice was received by the depositary.” Recent statements by Venezuelan officials that denunciation of the ICSID Convention requires renegotiation of existing bilateral investment treaties supports this interpretation of the ICSID Convention.

It is reported that Venezuela’s notice of denunciation of the ICSID Convention was premised in part on its assertion that international arbitration of disputes relating to strategic assets is unconstitutional. This assertion may have implications for contractually based arbitration against Venezuela and state entities. It can be expected that Venezuela, PDVSA and other Venezuelan state entities may argue, for example, that arbitration clauses in contracts they have signed should be held void for incapacity: It is to be expected that objections of this kind may be raised by Venezuela in pending proceedings, as well as when adverse arbitral awards are sought to be enforced. Resolution of such possible objections by Venezuela will depend upon the specific arbitration clause at issue in each case. But, as a general rule, parties will be able to make strong arguments that such incapacity and arbitrability arguments must fail – as they have failed in the past when raised by other state-owned entities.

Venezuela – in a joint statement with Bolivia, Ecuador, Nicaragua and Cuba – initially threatened to withdraw from all World Bank and the IMF agreements, including ICSID. Since that time, Bolivia withdrew from the ICSID Convention in 2007, and Ecuador did so in 2009. Venezuela repeated that it would withdraw from ICSID in 2011, and again in early January 2012. Cuba, notwithstanding the May 2007 joint statement, has never been a member state of the ICSID Convention.

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18 Nolan/ Sourgens.
19 Nolan/ Sourgens.
20 Nolan/ Sourgens, at fn. 95.
21 Nolan/ Sourgens.
22 ICSID Convention, at Art. 72.
23 Tovar.
25 Nolan/ Sourgens, at 1.
28 Nolan/Sourgens, at 1.
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