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08:57:51

IN THE MATTER OF AN ARBITRATION UNDER CHAPTER
ELEVEN OF THE NORTH AMERICAN FREE TRADE AGREEMENT
AND THE UNCITRAL ARBITRATION RULES

----- x
:
In the Matter of Arbitration :
Between: :
:
UNITED PARCEL SERVICE OF AMERICA, INC., :
:
Investor, :
:
and :
:
THE GOVERNMENT OF CANADA, :
:
Party. :
:
----- x Volume 4

HEARING ON THE MERITS

Thursday, December 15, 2005

The World Bank
701 18th Street, N.W.
"J" Building
Assembly Hall B1-080
Washington, D.C.

The hearing in the above-entitled matter
came on, pursuant to notice, at 9:04 a.m. before:

KENNETH J. KEITH, President

L. YVES FORTIER, Arbitrator

RONALD A. CASS, Arbitrator

08:57:51

Also Present:

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Secretary to the Tribunal

Court Reporter:

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P R O C E E D I N G S

2 PRESIDENT KEITH: Mr. Wisner, are you

3 ready to resume?

4 CONTINUED CLOSING ARGUMENT BY COUNSEL FOR CLAIMANT

Pages 855 - 1115: this portion of the hearing was held in camera and the pages have accordingly been redacted.

17 MR. WHITEHALL: Thank you, sir. We are
18 just going to put up to remind you that this part
19 of our presentation is going to be in a number of
20 pieces, and we are going to start off with the
21 Chapter 15 issue, and Mr. Willis is going to
22 address you; to be followed by Ms. Hillman, who

17:07:30 1 will deal with Article 1102, the law; followed by
2 myself dealing with the leveraging and the
3 arrangements with Purolator; to be followed by
4 Mr. Conway, who will deal with the Article 1102
5 application to the Customs treatment; to be
6 followed by Ms. Tabet, who will deal with the
7 Publications Assistance Program and, as I heard,
8 the two remaining 1105 issues. I noticed that the
9 labor issue was not addressed, so I expect we won't
10 have to address it; and Mr. Neufeld will give you a
11 short submission on 1103, again giving it the
12 weight that it deserves. I don't think that I will
13 be responding to any arguments at this moment, so
14 the bottom line can be removed.

15 So with that, if I may present Mr. Willis,
16 I think you have seen him before. Thank you.

17 PRESIDENT KEITH: Thank you, Mr.
18 Whitehall.

19 Yes, Mr. Willis. We have, indeed, seen
20 him before.

21 MR. WILLIS: Mr. President and Members of
22 the Tribunal, my topic today will be Chapter 15 and

17:09:03 1 related questions of state responsibility for the
2 actions of Canada Post, and more specifically I
3 will be dealing with two general areas. First, I
4 will be discussing the concept of delegated
5 governmental authority as set out in Articles
6 1502(3) (a) and 1503(2) with respect to monopolies
7 and state enterprises respectively.

8 Our basic proposition here is that the
9 concept denotes powers of an inherently sovereign
10 nature, powers that private parties could not
11 exercise in the absence of a specific act of
12 delegation by governments. Commercial matters such
13 as the so-called leveraging of the monopoly
14 infrastructure and the Fritz Starber claim are
15 therefore not included.

16 The second part of my argument deals with
17 the relationship between Chapter 15 and the rules
18 of attribution in the customary international law
19 of state responsibility. And here, specifically I
20 will be responding to the contention that Canada is
21 responsible under Chapter 11 for the acts and
22 omissions of Canada Post without with regard to the

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17:10:16 1 conditions spelled out in Chapter 15. And there
2 are at least three independent
3 contentions--considerations, rather, that refute

4 this contention. The first is that it nullifies
5 the practical effect of the two key provisions I
6 just referred to.

7 And the second is the concept of *lex*
8 *specialis* in the customary international law of
9 state responsibility, meaning that where a treaty
10 addresses the conditions and extent of the party's
11 responsibility, the general rules on attribution
12 cease to apply. That those rules have in effect a
13 residual application for cases where the Treaty
14 remains silent.

15 And finally, the notion that Canada Post
16 Corporation is a state organ within the meaning of
17 the state responsibility principles is erroneous.

18 As an independent legal entity, the Corporation is
19 properly regarded as a parastatal enterprise that
20 is subject to a distinct regime of attribution
21 under the international rules.

22 Now, the Tribunal is already familiar with

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17:11:35 1 the central role in this disputed Chapter 15 which
2 is entitled "Competition Policy, Monopolies, and
3 State Enterprises." The dispute deals with the
4 Canada Post Corporation.

5 It is common ground between the parties

6 that the corporation is a state enterprise. It's a
7 Crown corporation within the meaning of the
8 Financial Administration Act, and Annex 1505
9 defines such corporations as state enterprises.
10 And the parties also agree that it is a monopoly in
11 some of its activities; namely, the letter mail
12 operations as set out and limited in sections 14
13 and 15 of the Canada Post Corporation Act.

14 Chapter 15 is where the parties have
15 defined and set out their general undertakings with
16 respect to both monopolies and state enterprises.
17 In addition to its substantive importance, the
18 jurisdiction of the Tribunal is limited to only two
19 provisions of Chapter 15, paragraph 1502(3)(a) with
20 respect to the exercise of delegated governmental
21 authority by monopolies, and paragraph 1503(2) with
22 respect to the exercise of such authority by state

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17:12:56 1 enterprises.

2 The two provisions are largely but not
3 entirely identical. They require the parties to
4 ensure, and I quote, "through regulatory control,
5 administrative supervision, or the application of
6 other measures that their monopolies and state
7 enterprises do not breach certain NAFTA obligations

8 wherever they exercise a regulatory administrative
9 or other governmental authority delegated to it by
10 a party."

11 The obligations in the case of state
12 enterprises under Article 1503 are limited to
13 Chapter 11 and Chapter 14 on financial services,
14 which is not relevant here. In the case of
15 monopolies, on the other hand, the obligation
16 extends to all provisions of the agreement, but
17 with the important limitation that only breaches of
18 Section A of Chapter 11 are made arbitrable under
19 the terms of Article 1116. And this was the
20 conclusion reached after considerable analysis by
21 this Tribunal in paragraph 69 of the Award on
22 jurisdiction.

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17:14:11 1 Other similarities and differences between
2 the two provisions were noted in paragraphs 16 and
3 17 of the Award on jurisdiction where the Tribunal
4 described their function as follows, and I quote:
5 "What is common to them is that if a party has
6 delegated governmental authority to a monopoly or
7 state enterprise, the party is to ensure, putting
8 it broadly, that the monopoly acts consistently
9 with the party's obligations under the agreement as
10 a whole, and the state enterprise acts consistently

11 with the parties' obligations under Chapters 11 and
12 14. That is to say, a party cannot avoid its
13 obligations by delegating its authority to bodies
14 outside the core government."

15 The lynchpin of both provisions is the
16 phrase "wherever the monopoly or the state
17 enterprise exercises regulatory, administrative or
18 other governmental authority that the party has
19 delegated to it." In the case of both provisions,
20 the meaning of this language is fleshed out and
21 illustrated by a series of examples that are very
22 similar, though not entirely identical.

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17:15:33 1 The award on jurisdiction points to a
2 contextual interpretation of the concept of
3 delegated governmental authority. It explains in
4 paragraph 18 that the other provisions of Articles
5 1502 and 1503 have a different field of operation.
6 They focus on the actions of the monopolies and
7 state enterprises in their commercial activities
8 through a variety of stipulations prohibiting
9 discriminatory or anticompetitive practices in the
10 marketplace, and requiring conduct based on
11 commercial considerations.

12 The pattern, therefore, begins to emerge.

13 On the one hand, we have provisions relating to
14 governmental authority that are designed to ensure
15 that the parties do not avoid their obligations by
16 delegating authority to bodies outside the core
17 government. And on the other hand, we have
18 provisions relating to the commercial activities of
19 monopolies and state enterprises. And the
20 fundamental nature of the distinction between the
21 two categories, governmental and commercial, is
22 highlighted by the fact that the governmental

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17:16:49 1 category is made arbitrable under Chapter 11, and
2 the commercial category is excluded from the
3 dispute settlement process.

4 In any event, Mr. President, I suggest the
5 Treaty language is clear. The two provisions,
6 1502(3)(a) and 1503(2), use the common phrase,
7 "regulatory, administrative, or other governmental
8 authority the party has delegated to it." The
9 phrase should be read as a whole, and the
10 individual words in it should be interpreted in
11 their context. So, regulatory authority is
12 invariably associated with government.

13 In the context side by side with the
14 references to regulatory authority and other
15 governmental authority, the word administrative

16 suggests acts of public administration, matters
17 governed by Public Law. And at the risk of stating
18 the obvious, the reference here is to authorities
19 specially delegated by a government, one of the
20 three NAFTA parties. And notice also the similar
21 terminology, including the words "regulatory" and
22 "administrative" used to describe the governmental

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17:18:13 1 obligations imposed by these provisions, and the
2 delegated governmental authority that triggers the
3 obligations.

4 The entire context, in other words, is one
5 of state authority and public administration, in
6 contra distinction to commercial and operational
7 matters that a corporation would be capable of
8 dealing with in the absence of any specific
9 delegation of governmental authority.

10 Note 45 to the NAFTA confirms this context
11 of state authority and public administration. It
12 refers once more to the central concept of
13 governmental authority, and it describes a
14 delegation under Article 1502 as including a
15 legislative grant, a Government Order, directive or
16 other act transferring to the monopoly or
17 authorizing the exercise by the monopoly of

18 governmental authority. No such special instrument
19 of delegation would be needed to authorize an
20 enterprise to carry out its ordinary commercial and
21 managerial functions.

22 In most instances, Mr. President, a simple

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17:19:23 1 test will determine whether or not we are dealing
2 with an exercise of delegated governmental
3 authority. And the question is whether the act is
4 something that in the ordinary course could and
5 would be done by a private party carrying on a
6 business of the same kind. If so, it is not an
7 exercise of delegated governmental authority as
8 contemplated by the Treaty, and the inquiry need go
9 no farther.

10 There is nothing inherently governmental
11 about the nature of the authority a corporation
12 necessarily has to manage its affairs and carry on
13 its ordinary business, and it follows that
14 commercial activities, including the pricing and
15 costing of corporate products or the management of
16 corporate property and assets, such as the
17 so-called infrastructure associated with the
18 operation of the business, cannot be brought under
19 the concept of delegated governmental authority.

20 And so, even before we get to the list of
21 examples in both of these provisions, the general
22 outline of what is contemplated is clear. The

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17:20:38 1 lists remove any possible ambiguity. They're
2 largely identical, but I will read from both. In
3 paragraph 1502(3), relating to monopolies, the
4 words are such as the power to grant import and
5 export licenses, approved commercial transactions
6 or impose quotas, fees, or other charges. In
7 paragraph 1503(2), relating to state enterprises,
8 it is such as the power to expropriate, grant
9 licenses, approve commercial transactions, or
10 impose quotas, fees, or other charges.

11 So, the lists provide in a sense a
12 definition by way of illustration, and they take us
13 from the abstract to the concrete. It is difficult
14 to give a complete exhaustive definition of
15 governmental in the abstract, though it's clear
16 enough, I suggest, that the commercial,
17 operational, and management activities would be
18 excluded, even in the absence of any examples.

19 But the list of examples tell us more
20 about the kind of authority at issue than any
21 abstract definition could possibly do. They are

22 not exhaustive, but any type of governmental

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17:21:58 1 authority not specifically referred to would, I
2 suggest, have to meet a test of substantial
3 similarity. That is the meaning of the words,
4 "such as," and the effect of ejusdem generis
5 principle.

6 The most obvious point is that these are
7 all matters that are necessarily based on state
8 power. Only governments or their delegates can
9 exercise an import and export licensing power or
10 impose quotas or require that commercial
11 transactions be approved. These are powers of a
12 legal character. They control the activities of
13 third parties on the basis of legal authority.
14 Quotas, licenses, and approvals, presuppose the
15 existence of legal sanctions if the requirement to
16 comply is disregarded.

17 Now, fees and charges might, of course, be
18 imposed by a private company on a transactional
19 basis, but the context here implies references to
20 regulatory charges and regulatory fees.

21 The basic framework of these two
22 provisions on delegated governmental authority is

17:23:25 1 closely paralleled by Article 5 of the ILC Articles
2 on State Responsibility. And this parallel with
3 Article 5 is something that both parties have noted
4 but to very different ends. And, clearly, we do
5 read the commentaries completely differently.

6 The ILC commentary in paragraphs one and
7 two explains that Article 5 is designed to take
8 account of the increasing phenomenon of paristatal
9 entities, including public corporations and
10 agencies. It deals with state responsibility in
11 connection with entities that are not state organs,
12 but that are, and I quote, "empowered by the law of
13 the state to exercise elements of governmental
14 authority." And that phrase in the light of the
15 commentaries is designed to capture essentially the
16 same idea as that of delegated governmental
17 authority in Chapter 15, and the significance of
18 the distinction between state organs and paristatal
19 entities is that in the case of Article 4 and state
20 organs, it makes no difference that the conduct was
21 commercial or private, as the commentaries under
22 Article 4 explain, and, in fact, as the recent

17:24:50 1 Partial Award in Eureko versus Poland pointed out
2 in connection with the Polish State Treasury.

3 But the distinction between commercial and
4 governmental is not only relevant, but crucial in
5 the case of Article 5, and the paristatal entities
6 to which it applies.

7 There are a couple of points that emerge
8 from the Article, Article 5, and the commentaries
9 under it. The parallel is so close as to suggest
10 that the drafters of the NAFTA were not thinking of
11 state enterprises and monopolies as state organs,
12 but rather in terms of paristatal entities of the
13 kind dealt with in Article 5, and I will come back
14 to that point later.

15 But the other point, and the one I want to
16 emphasize here is that the commentaries confirm
17 that the notion of governmental authority as
18 reflected in Article 5 is exactly what we have been
19 proposing as the correct interpretation of the
20 Chapter 15 provisions, and the concept therefore
21 excludes commercial activities.

22 The commentary refers to functions of a

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17:26:04 1 public character normally exercised by state
2 organs, giving the example of a security firm
3 empowered to exercise public powers pursuant to a

4 judicial sentence or to prison regulations.

5 And it states that in order to attract
6 state responsibility under this Article, the
7 conduct of an entity must accordingly concern
8 governmental activity and not other private or
9 commercial activity in which the entity may engage.
10 And here again, the example given is enlightening,
11 the exercise of policing powers by a railway
12 company would be covered, but not the sale of
13 tickets or the purchase of rolling stock.

14 Now, the claimant has acknowledged--

15 ARBITRATOR CASS: Might I interrupt for
16 just one moment. You said policing powers as
17 opposed to police powers. In American legal terms,
18 police powers refers to a broad set of powers of a
19 state. Policing would be one very particular power
20 and a very small subset of the very broad general
21 power over other activities that we would refer to
22 by that term. Did you mean something different

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17:27:32 1 here?

2 MR. WILLIS: Well, I believe the ILC was
3 not using the expression police powers at all in
4 the United States constitutional sense. It really
5 refers to law enforcement by uniformed constables

6 and the like.

7 PRESIDENT KEITH: For what it's worth, the
8 commentary like the articles were probably written
9 by an Australian, and I think you would have that
10 narrow meaning in mind.

11 MR. WILLIS: Now, as I was saying, the
12 claimant has referred to this important passage,
13 but has failed to draw the obvious conclusions.
14 And instead, it's built much of its argument around
15 a single paragraph of the commentary under Article
16 5, which is paragraph six of the commentary.

17 And here, the ILC explains that it has not
18 defined precisely the scope of governmental
19 authority, and that beyond a certain limit the
20 concept varies according to national traditions,
21 et cetera.

22 But this appears in the narrative of the

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17:28:42 1 commentaries as a qualification with respect to the
2 main thrust of the analysis of the ILC, which
3 points to a decisive dividing line between private
4 and commercial activity which could be carried out
5 by any private person, and public authority which
6 only governments or their delegates can exercise.

7 And there is no suggestion here in the
8 commentary that the governmental concept is

9 infinitely variable or subjective.

10 The ILC refers to paristatal entities as
11 an increasing phenomenon, and this helps explain
12 the underlying purpose of the delegated
13 governmental authority provisions in Chapter 15
14 because there has been a trend over the years for
15 governments either to privatize their operational
16 and commercial functions or at least to move them
17 outside the core government to state enterprises
18 which are modeled on the private sector. And
19 airport management might be an example, at least in
20 the Canadian context.

21 The policy of Chapter 15 is that if any
22 truly governmental authority is transferred out

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17:29:57 1 along with the operational functions, that
2 authority should not escape NAFTA disciplines. But
3 conversely, it would defeat the purpose of the
4 transfer to treat the operational and commercial
5 activities that have been transferred out as if
6 they were still an integral part of the core
7 government.

8 The commercial governmental distinction
9 has been applied by arbitral tribunals in a wide
10 variety of situations. In the Maffezini

11 jurisdictional award, which dealt with a regional
12 developmental agency in Spain, the Tribunal
13 referred to an earlier version of what is now ILC
14 Article 5, and it noted that the agency carried out
15 functions which are by their very nature typically
16 governmental tasks that could not normally be
17 considered to have a commercial nature. And the
18 same distinction was applied in the award on the
19 merits which found that in some respects the agency
20 was carrying out public functions not normally open
21 to commercial companies, and those functions could
22 not be considered commercial in nature and could be

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17:31:17 1 attributed therefore to the Government of Spain.

2 Now, the Maffezini awards do help to
3 illustrate the distinction, but I would hesitate
4 to--I would hasten, rather, to add a qualification.
5 Maffezini talks about governmental functions, but
6 Chapter 15, in common with ILC Article 5, talks
7 about governmental authority which is not
8 necessarily the same thing.

9 And the same qualification applies to
10 Salini versus Morocco which characterizes the main
11 object of a state company responsible for highway
12 building and operation as the performance of tasks
13 under state control.

14 But authority, governmental authority, as
15 I will be explaining, is a somewhat different
16 concept than functions or even tasks. It's
17 narrower and more precise, and it's authority that
18 we have to consider here.

19 I come back to the way in which the
20 governmental commercial distinction has been
21 reflected in arbitral awards in various situations
22 and for various purposes. A recent jurisdictional

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17:32:31 1 decision Impreglio versus Pakistan notes that the
2 same set of facts can give rise to both contract
3 claims, private contract claims, and Treaty based
4 claims, and that only the Treaty based claims could
5 be arbitrable under a Bilateral Investment Treaty.
6 And the Tribunal, without making final
7 determinations because this was a jurisdictional
8 award, characterized the dividing line in terms of
9 the conduct of the state in the exercise of its
10 sovereign power or *puissance publique* going beyond
11 that of an ordinary contracting party. The same
12 test was applied in *Salini versus Jordan* in an
13 award on jurisdiction given last year. Again, the
14 context here is different, but the language
15 reflects the same pervasive distinction in

16 international law between what is commercial on the
17 one hand or private and what is governmental in
18 character.

19 There is another parallel and perhaps more
20 familiar, the law on state immunity or sovereign
21 immunity distinguishes between governmental acts
22 and private and commercial acts and it restricts

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17:33:54 1 immunity to the governmental category.

2 A 1999 ILC Working Group on the
3 jurisdictional immunities of states after an
4 overview of the case law concluded that, and I
5 quote: "Sovereign and governmental acts which only
6 a state could perform and which are core government
7 functions have been found not to be commercial
8 acts. By contrast, acts that may be and often are
9 performed by private actors and which are detached
10 from any exercise of governmental authority are
11 likely to be found commercial acts."

12 The claimant's reply to the Mexican
13 Article 1128 intervention at paragraph 95 cites the
14 Eureka Partial Award and another recent arbitral
15 award, Noble Ventures versus Romania, and it says
16 they reject any idea of an absolute distinction
17 between governmental and commercial acts.

18 Well, this is true, but the reference to

19 the governmental and commercial distinction in
20 Eureko is in the context of ILC Article 4 rather
21 than Article 5. And I refer to paragraphs 128 and
22 130 which first quote out and set out the text of

1137

17:35:20 1 Article 4 and then bring in the Article 4
2 commentary that I just referred to. And the Award
3 does go on to say that the same result could have
4 been reached by other routes, but it's fair to say
5 that the primary focus is on Article 4 and the
6 Article 4 commentary.

7 Now, Noble Ventures is less explicit and
8 less clear on this point, but it implies that the
9 Romanian agency at issue was also being treated as
10 a state organ under Article 4, and not as a
11 paristatal entity exercising elements of
12 governmental authority under Article 5. And this
13 follows from its determination in paragraph 79 that
14 no relevant legal distinction could be drawn
15 between the agency and the government Ministry.

16 In practice, as the Noble Ventures award
17 observes, the governmental versus commercial
18 distinction can sometimes be difficult to apply.
19 This is a gray area. But not, I suggest, in terms
20 of the issues in this case, and not above all with

21 the illustrative examples that Chapter 15 provides.
22 The costing and pricing of services and the

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17:36:38 1 management of corporate assets, the so-called
2 infrastructure, lack any inherently sovereign
3 character or governmental character. There can be
4 a gray area, but I suggest we are well clear of it
5 here.

6 Delegated governmental authority typically
7 implies the exercise of a power to control the acts
8 of third parties or affect their rights and
9 interests. This is a common feature of all of the
10 examples in the two lists. What is contemplated
11 then is authority that's associated with the
12 sovereignty of the state.

13 Now, the claimant says the power to
14 control the activities of others is irrelevant, and
15 we heard that today and in the reply at paragraph
16 698 and following. And they cite one of the
17 follow-up proceedings in the WTO Canada Dairy
18 decision where the appellate body affirms that,
19 yes, the expression "governmental action" in the
20 agreement on agriculture can extend to situations
21 where no compulsion is involved. But governmental
22 action is one thing and governmental authority is

17:38:01 1 another, especially authority of the kind
2 illustrated in the Chapter 15 lists.

3 But more to the point, I suggest, are the
4 passages in the main appellate body report of 1999
5 which focused on the nature of governmental--of
6 government and governmental authority in the
7 context of provincial marketing boards. The
8 appellate body said at paragraph 97, "The essence
9 of government is, therefore, that it enjoys the
10 effective power to regulate, control, or supervise
11 individuals or otherwise restrain their conduct
12 through the exercise of lawful authority."

13 The appellate body discussed the powers of
14 the provincial boards to regulate the dairy
15 industry, controlling producers at every stage of
16 the process, setting quotas, calculating prices,
17 pulling returns, and doing this through orders and
18 regulations enforceable in courts of law. These
19 regulatory powers, the report says at paragraph 100
20 are, and I quote, "augmented by the machinery of
21 the state itself with the public force to enforce
22 that the regulatory functions and decisions are

17:39:28 1 carried out."

2 So, these were the factors that led the
3 appellate body to affirm that the boards are
4 governmental agencies taking governmental action,
5 and this helps give some of the flavor of what is
6 governmental and what is commercial.

7 Our opponents point to a number of
8 apparent exceptions that don't seem to fit the
9 description. Governments procure goods and
10 services and they pay grants and subsidies, and
11 that's true enough. And Article 1108 provides that
12 certain provisions of Chapter 11 do not apply to
13 procurement or subsidies and grants by a party or a
14 state enterprise.

15 But the objection, I suggest, carries no
16 real weight. The exceptions don't prove the rule.
17 The provisos in Article 1108 were presumably added
18 for greater certainty and out of an abundance of
19 caution. For example, to assure the procurement by
20 state enterprises would only be subject to national
21 treatment obligations to the extent set out in
22 Chapter 10. The general pattern is what counts,

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17:40:40 1 and it is generally if not always the case that

2 voluntary and consensual dealings would fall on the

3 commercial side of the line, and the coercive or
4 regulatory powers would fall on the governmental
5 side of the line.

6 And unquestionably, in the examples in
7 Articles 1502(3)(a) and 1503(2), the common feature
8 is the imposition of nonconsensual forms of
9 authority over private sector undertakings.

10 There are many points of detail in the
11 pleadings, but above all there is a complete
12 difference in orientation in the approach of the
13 parties to these two provisions on delegated
14 governmental authority. The question is whether
15 you look at the nature of the authority or whether
16 you look at the nature of the entity, and clearly
17 the first option is the right one. You look at the
18 nature of the authority being exercised.

19 The claimant in contrast approaches the
20 matter very largely in terms of the nature of the
21 state enterprise or the nature of the monopoly, and
22 thus, for example, in the reply at paragraphs 696

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17:41:56 1 and 7, the claimant argues that Canada Post acts
2 under governmental authority because it is owned
3 and controlled by the government. The board is
4 appointed by the government, and it inherited

5 authority from the old Post Office Department and
6 it is subject to directives, et cetera. I suggest,
7 Mr. President, that this line of argument is
8 completely misconceived. What counts as the Treaty
9 language makes clear, is not the nature or status
10 of the enterprise, but the nature of the specific
11 authority under which it's acting.

12 In the memorial at paragraph 730 and
13 following, under the heading Canada Post acted
14 under delegated authority, the claimant argues the
15 issue in terms of what it calls general and
16 specific grants of authority to Canada Post. As it
17 explains its position, the general grant of
18 authority to CPC is simply the, and I quote here:
19 "The control over the right in terms of access to
20 the Monopoly Infrastructure through the general
21 provisions of the legislation." That's at
22 paragraph 733.

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17:43:19 1 But decisions on access to the postal
2 network are commercial decisions. They're matters
3 of corporate management. The authority--the
4 authority to manage the monopoly is inherent in the
5 grant of the monopoly, and of course that's
6 something that's explicitly legitimized and
7 recognized by the NAFTA. And if the authority to

8 manage the monopoly were not inherent in the grant
9 of the monopoly, the privilege could simply not be
10 exercised.

11 The claimant's argument implies, and we
12 heard this again today, that everything a monopoly
13 does is necessarily an exercise of delegated
14 governmental authority. And that, of course, could
15 not be right because it would mean that most of the
16 language in Article 1502(3) (a) would have no
17 purpose at all.

18 ARBITRATOR CASS: If I might, Mr. Willis,
19 if we were dealing with Canada Post as an actual
20 department--if we were dealing with Canada Post as
21 a department of government, had it not been
22 corporatized, would its activities all be subject

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17:44:35 1 to 1102, apart from the specific exemptions of
2 procurement and the like?

3 MR. WILLIS: I believe that by creating
4 Canada Post as a state enterprise, indeed, the
5 legal situation was altered. That means that
6 creation of that designation of Canada Post as a
7 paristatal entity, if you like, means that it is
8 not, and I will be coming to this later. It is not
9 a state organ, and that its objection to treaty law

10 and the question of attribution is circumscribed,
11 circumscribed in this case by treaty and
12 circumscribed by general international law by the
13 terms and commentary of Article 5.

14 On the other hand, what we do get through
15 Chapter 15 is certainty of application and
16 additional rules that impose additional disciplines
17 and achieve the NAFTA objectives by imposing just
18 additional disciplines with respect to state
19 enterprises and monopoly through the additional
20 rules such as paragraphs (b), (c), and (d) of
21 1502(3), 1502(3) and paragraph three of 1503.

22 ARBITRATOR CASS: If, and I just to want

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17:46:06 1 make sure I follow where you're going here, if as
2 in Noble Ventures we said that it looks like the
3 change they change in name only effectively or in
4 form only and not a serious change in the operation
5 from a government department to a state enterprise,
6 then you would say that we wouldn't need to parse
7 the particular activities to see which is subject
8 to 1102 and which is not; is that accurate?

9 MR. WILLIS: Indeed, the ILC referred to
10 situations where the corporate veil is used merely
11 as a sham, and that would not alter the substance
12 of the rules of attribution. But where the

13 establishment of the entity is not a sham and where
14 it is given an independent legal personality, it
15 does have--the legal regime is altered, and it
16 becomes a matter that's subject to the limitations
17 of Chapter 15 or if we are looking at general
18 international law, it becomes subject to the
19 limitations inherent in the Article 5 scenario.

20 PRESIDENT KEITH: While you were
21 interrupted, Mr. Willis, this is not a final
22 figure, but you have tonight another seven or eight

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17:47:37 1 minutes to go, if you just want to take that into
2 account, but obviously you can proceed again in the
3 morning. I just thought in terms of the timing.

4 (Pause.)

5 MR. WILLIS: Mr. President, I could
6 conclude right now.

7 PRESIDENT KEITH: It's up to you.

8 MR. WILLIS: This is a convenient place to
9 interrupt and resume tomorrow morning.

10 PRESIDENT KEITH: Thank you. I didn't
11 mean to suggest that you should stop then, but if
12 you have completed--

13 MR. WILLIS: I think it's a convenient
14 point.

15 PRESIDENT KEITH: Could I actually just
16 ask one question about the point you were making,
17 and I think you've already made it really, and it
18 goes to some of the words that were used in some of
19 those decisions you referred us to.

20 One thing I hadn't really focused on until
21 we were being taken to the words again of
22 1502(3) (a) and so on, because we did look at them

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17:48:59 1 closely sometime back, is just the verbs because
2 they are coercive verbs, aren't they? Ground,
3 expropriate, approve, and pose. They're words that
4 relate much more as you say to, on the face of it,
5 the sovereign powers than to management or
6 commercial or consensual activities.

7 MR. WILLIS: Yes, they are words that
8 would be definitely associated with the exercise of
9 public authority, state power.

10 PRESIDENT KEITH: Well, I sort of focused
11 on it earlier today when I was reading out approved
12 commercial transactions because obviously Canada
13 Post enters into a lot of commercial transactions,
14 but you would say that approving commercial
15 transactions is a quite different kind of thing.
16 It is the functions of competition or Securities
17 Commission or something of that sort.

18 MR. WILLIS: Yes, Mr. President, and I
19 will be coming back to this tomorrow, and I will be
20 responding to some of the other comments made today
21 by Mr. Wisner, but certainly one of the points I
22 will be making is that the approval of commercial

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17:50:11 1 transactions and the conclusion of commercial
2 contribution transactions are definitely two
3 different things.

4 PRESIDENT KEITH: Well, if that is a
5 convenient time, we will start again at nine in the
6 morning. Thank you.

7 (Whereupon, at 5:50 p.m., the hearing was
8 adjourned.)

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17:50:31 1

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