Articles

Three Theories of *Lex Mercatoria*

GILLES CUNIBERTI*

One of the most remarkable developments in international commercial law over the last fifty years has been the gradual acceptance of the existence of a new 'merchant law,' or *lex mercatoria*, spontaneously generated by the international community in the shadow of national legal orders. While the notion that there might be law beyond the state aroused the interest of legal scholars around the world, few wondered whether international commercial actors had a genuine interest in the development of an autonomous transnational law. This Article offers empirical evidence suggesting that commercial parties almost never freely opt into *lex mercatoria*, but instead select a particular national law to govern their contracts. This conclusion begs the question of whether anybody else might benefit from *lex mercatoria*.

In a groundbreaking article published in 2005, Christopher Drahozal argued that the idea had lost practical significance and offered a signaling theory of *lex mercatoria*: the interest in the idea can be explained by the desire of would-be arbitrators to market themselves. While essentially agreeing with Drahozal, this

---

* Professor of Private International Law, University of Luxembourg; J.D., Ph.D (Law), Panthéon-Sorbonne University; LL.M., Yale. The author thanks to Avery Katz, George Bermann, Peter Strauss, Horatia Muir Watt, Christopher Drahozal, the participants in workshops at Columbia Law School, the University of Illinois College of Law, Sciences Po Law School, and the Max Planck Institute Luxembourg for commenting on earlier versions of this Article. The author also thanks as well to Iuliana Iancu for great research assistance and to Suzanne Larsen. All errors belong to the author.
Article offers two other theories explaining the development of lex mercatoria. First, I argue that deciding disputes on the basis of lex mercatoria can bring important benefits to international arbitrators. If that is the case, though, their interests may conflict with those of the parties who hired them. That raises a serious agency problem that threatens the legitimacy of the international arbitration system as a whole. Second, I demonstrate how lex mercatoria can benefit organizations that are involved in the business of producing model contracts, and maintain that the active promotion of non-state law—side-stepping mandatory rules of national law—is intended to reduce the costs of producing international model contracts by such organizations.

INTRODUCTION .................................................................................................................. 371

I. THE MANY FACES OF LEX MERCATORIA .......................................................... 373
   A. Lex Mercatoria and Freedom of Contract ............................................................... 375
   B. Lex Mercatoria as an Alternative to National Commercial Laws ......................... 378
      1. The List Method ................................................................................................. 380
      2. The Functional Method ................................................................................... 383

II. DOES LEX MERCATORIA MEET THE NEEDS OF COMMERCIAL ACTORS? .................................................. 384
   A. An Economic Analysis of Lex Mercatoria Reducing Transaction Costs ................. 384
      1. The Relevance of Parties’ Legal Sophistication ................................................. 385
      2. The Additional Cost of International Contracting ............................................. 386
      3. The Necessary Features of International Commercial Law ............................. 388
      4. How Precise is Lex Mercatoria? ......................................................................... 389
      5. Is Lex Mercatoria Otherwise Beneficial for Commercial Parties? ...................... 392
      6. Unpredictable Choice of Law Rules ................................................................. 392
      7. Need for Rules Specifically Tailored for International Transactions ................. 393
      8. Highly-Skilled Adjudicators Suffice .................................................................... 394
   B. An Empirical Analysis of the Use of Lex Mercatoria by Commercial Actors .......... 396
INTRODUCTION

Do international merchants or commercial actors want to break free from the laws of states and replace them with their own trade usages and commercial customs? Do they want to take control of the making of commercial law to provide their community a more efficient, unified transnational commercial law?

One of the most remarkable developments in international commercial law over the last fifty years has been the gradual acceptance of the existence of a new "merchant law," or *lex mercatoria*, spontaneously generated by the international community in the shadow of national legal orders. This new *lex mercatoria* is composed of commercial customs, but also includes a variety of other international norms that are regularly respected by international commercial actors. The idea of an autonomous transnational commercial law was first proposed by a handful of European scholars in the 1960s. It has since become a reality, insofar as some states

---

1. *Lex mercatoria* was originally a body of rules and principles laid down by traveling merchants throughout the medieval and Renaissance periods to regulate their dealings. *See*, e.g., Roy Goode, Herbert Kronke & Ewan McKendrick, *Transnational Commercial Law—Text, Cases, and Materials* 12 (2007). Whether modern *lex mercatoria* truly compares with medieval *lex mercatoria* is disputed by historians. *See infra* note 35.

2. *See infra* notes 31–38 and accompanying text.
have endorsed *lex mercatoria*. For example, most arbitration laws accept that parties may subject their contracts to *lex mercatoria*, and international commercial arbitrators regularly apply it. Moreover, national courts will typically confirm and enforce arbitral awards rendered on the basis of *lex mercatoria*.3

This limited but undisputable recognition of *lex mercatoria* by national legal orders aroused the interest of legal scholars and theorists around the world: the notion that there might be law beyond the state raised new and fascinating theoretical legal issues. Was this "law" a limited collection of rules, or a new legal order? Was it genuinely independent from national rules, or was it in fact largely fed by state norms? In any case, could such "law" exist at all without being at least tolerated, if not supported, by states?

While these debates were raging, surprisingly little attention was paid to the actors purportedly subject to this new *lex mercatoria*. Few wondered whether international commercial actors had a genuine interest in the development of an autonomous transnational law.4 The reason for this neglect was perhaps that the answer seemed just too obvious: as *lex mercatoria* was, by definition, the product of the common practices and customs of international merchants, it simply had to be their preferred rule of law because it represented their best and most efficient behaviors.

That question should have been asked, because the answer, far from being obvious, seems to be that international merchants do not benefit from *lex mercatoria*. Indeed, the little empirical evidence available suggests that commercial parties almost never freely opt in to *lex mercatoria*, but instead select a particular national law to govern their contracts. This conclusion begs the question of whether anybody else might benefit from *lex mercatoria*, and indeed whether this fascinating idea has any practical significance today.

I begin this paper by introducing the concept of the new *lex mercatoria* in Part I. I then explore, in Part II, whether that concept meets the needs of the international business community, concluding that its norms are too vague and incomplete for that purpose. In that regard, I present data from the International Chamber of Commerce (ICC) showing that parties to international commercial contracts provide for the application of *lex mercatoria* in less than 1% of the cases brought before the ICC’s Court of International Arbitration.

I then consider, in Part III, the groundbreaking article pub-

3. *See infra* notes 37–38 and accompanying text.

lished in 2005 by Christopher Drahozal, in which he concluded that the data on the contractual practices of international merchants suggests that *lex mercatoria* has simply lost practical significance, if it ever had any. He argued that the interest in the idea—outside of academic circles—could be explained by the desire of would-be arbitrators to market themselves. Although I find his signaling theory of *lex mercatoria* convincing, I have an important disagreement with Drahozal: I do not agree that the doctrine of *lex mercatoria* has lost all practical significance. To the contrary, I find that it remains very much alive, and not only at international conferences. Both national legislators and arbitral institutions have empowered international arbitrators to resort to *lex mercatoria* in cases where the parties have remained silent on the law governing their contract, and significant anecdotal evidence suggests that arbitrators regularly make use of this power.

In Parts IV and V, therefore, I speculate as to whether other actors in the arbitral process might have an interest in the development of a transnational commercial law and articulate the two central arguments of this Article. First, in Part IV, I argue that deciding disputes on the basis of *lex mercatoria* can bring important benefits to international arbitrators. If that is the case, though, their interests may conflict with those of the parties who hired them. That raises a serious agency problem that threatens the legitimacy of the international arbitration system as a whole.

Second, in Part V, I demonstrate how *lex mercatoria* can benefit organizations that are involved in the business of producing model contracts. The clearest example is the International Chamber of Commerce, which has been actively promoting *lex mercatoria* by encouraging parties to subject their contracts to non-state law. I maintain that the active promotion of the use of non-state law, which side-steps mandatory rules of national law, is intended to reduce the costs of producing international model contracts by such organizations.

I. THE MANY FACES OF LEX MERCATORIA

The claim that there is an autonomous transnational commercial law can be understood in many different ways. In its least controversial form, the claim could merely be that commercial customs and usages should be recognized and used to define the contractual obligations of the parties in the absence of other written indications.

---

5. *See id.*
of intent. The applicable national commercial law would either allow the incorporation of business norms in private contracts, or provide for their direct application in certain defined circumstances. In the United States, for instance, § 1-201(3) of the Uniform Commercial Code provides that the agreement of the parties is "the bargain of the parties in fact, as found in their language or inferred from other circumstances, including course of performance, course of dealing, or usage of trade." A similar rule is found in the commercial law of most other countries.

Lex mercatoria scholars have made, since the 1960s, a much broader and more far-reaching claim. Not only do these scholars recognize that commercial actors may autonomously produce some norms, they further argue for far greater autonomy from national legal orders. They do not limit the scope of lex mercatoria to those instances in which states have traditionally allowed business norms to be taken into account, but have instead claimed that business norms could be the only source of applicable rule, entirely displacing national commercial law. As far-reaching and remarkable as that may seem, this second understanding of the autonomy of transnational commercial law is now widely accepted. International commercial arbitration has played an instrumental role in this regard. States first allowed international arbitration to be largely autonomous, agreeing to enforce foreign arbitral awards without reviewing them on the merits. They then permitted arbitrators to decide international commercial disputes solely on the basis of lex mercatoria. The result is that it is now widely accepted that parties may choose lex mercatoria as the governing law for their contracts if they also provide for arbitration, and that arbitral awards made in such circumstances will be enforced in most jurisdictions.

7. U.C.C. § 1-201(3) (2012).
8. Despite the critical importance of international commercial arbitration in the development of lex mercatoria, the focus of this paper is on the privatization of lawmaking, not dispute resolution. As noted by Drahozal, the private ordering literature has traditionally been concerned with instances where privately created norms were also enforced privately. Christopher R. Drahozal, Private Ordering and International Commercial Arbitration, 113 PENN ST. L. REV. 1031, 1034 (2009); see also Barack D. Richman, Firms, Courts and Reputation Mechanisms: Towards a Positive Theory of Private Ordering, 104 COLUM. L. REV. 2328 (2004); Amitai Aviram, Regulation by Networks, 2003 BYU L. REV. 1179, 1181 (2003).
10. See infra notes 37–38 and accompanying text.
From the perspective of commercial actors, there is a crucial difference between the recognition of business norms through national commercial law and the claim of complete autonomy therefrom made by *lex mercatoria* advocates. In the former case, national commercial law remains available as a default. Thus, commercial parties may still rely on the existence of clear and detailed rules of applicable national law if custom or the contract is incomplete. In the latter case, however, no such backstop exists, such that it is necessary to believe in the completeness of *lex mercatoria*.

Intuitively, commercial parties should prefer to have national commercial law remain applicable as a backstop. In Part I.A, I first show that, unsurprisingly, most instances of private ordering correspond to this model. With that in mind, I then present the expansively far-reaching doctrines of *lex mercatoria* scholars in Part I.B.

### A. Lex Mercatoria and Freedom of Contract

The laws of the vast majority of countries offer various tools allowing commercial parties to design private normative regimes. The most important of those tools is the freedom of contract. Parties may write detailed contracts reflecting the terms and conditions of their arrangement as well as their preferences in the event of a default or other issue, and such terms will generally displace the default rules of the applicable law. As already noted, commercial law often recognizes business norms by allowing the use of commercial customs and usages for the purpose of supplementing commercial contracts or interpreting their terms when the contract itself is unclear on the relevant point.

The literature on private ordering shows that commercial parties willing to design private normative regimes do so by relying on their freedom of contract. Such parties will sometimes write detailed contracts for particular transactions; more often, they will simply resort to contractual forms widely used in their industry. Despite their desire to subject their transactions to norms that they have produced, these parties do not typically claim that their private regime should be self-sufficient and thus completely displace the otherwise applicable commercial law. On the contrary, however detailed such contracts might be, they will typically include a choice of law clause providing for the application of a national law, which shows that the parties recognize that their contract remains governed by a national law and that the source of their power to design a private normative regime is a rule of that national law that recognizes the freedom of contract.
Most instances of private ordering studied by legal scholars correspond to this model. A seminal article by Lisa Bernstein revealed that the American grain and feed industry has produced detailed substantive trade rules through its trade association, the National Grain and Feed Association (NGFA), for over a century. These various rules, which were initially meant to codify the customs of the industry and which still claim to “reflect trade practices,” govern all NGFA member contracts. NGFA membership is conditioned upon the member agreeing to submit all disputes with other members to the NGFA’s arbitration system. NGFA arbitrators decide such disputes by applying the relevant NGFA rules. Those rules are typically sufficient, as disputes over unforeseen contingencies seem rare. Notwithstanding that, although it might appear that the NGFA is almost entirely self-regulated, the grain and feed industry has never claimed complete autonomy from national legal systems. For the American NGFA, the question is whether the industry claims autonomy from American commercial law. But NGFA arbitrators have, in the rare cases in which the contract, trade rules, and trade practices have proven insufficient to resolve a given dispute, repeatedly relied on the Uniform Commercial Code or other applicable statutes.

Similarly, the international trade association of the industry, the Grain and Feed Trade Association (GAFTA), has also produced private norms in the form of dozens of model contracts that are commonly used in the industry. These model contracts all include an arbitration clause providing for arbitration under the GAFTA rules by qualified arbitrators with extensive experience in commodities trading. In an international environment, GAFTA could have been tempted to claim full autonomy from national legal systems: it did not. Although GAFTA model contracts exclude the application of concurrent state norms such as international commercial conventions, they still provide that they “shall be construed and take effect in accordance with the law of England,” where GAFTA has its seat.

12. Id. at 1772 (underscoring that “however, changes in unwritten customary practices have not been the primary motivation for trade rules amendments”).
13. Id. at 1773.
14. Id. at 1774.
15. See the arbitral awards cited by Lisa Bernstein, supra note 11, at 1777, n.41.
17. See, e.g., GAFTA Contract No. 64, General Contract for Grain in Bulk, art. 24
Another example of an industry that has generated many of the rules governing transactions between its members is the privately-negotiated derivatives industry. Unlike other financial products, swaps and other derivatives are not traded over an organized exchange. As a consequence, these transactions largely fall outside of the scope of securities regulation, which was designed to regulate exchange activity. Thus, the industry is essentially regulated by the contracts that its members conclude. In 1985, the repeat players in the industry established the International Swaps and Derivatives Association (ISDA), which now has more than 800 members from fifty-eight countries and six continents. One of ISDA’s most important contributions was to develop the ISDA Master Agreement, a model contract. This detailed, periodically revised agreement is used as an umbrella contract, and is thus accompanied by transaction-specific documents. Because it is so widely used, it is perceived as defining key practices, rights, and obligations in the industry. ISDA presents its contract as “the authoritative contract” used in the industry, which “has established international contractual standards governing privately negotiated derivatives transactions.”

Some argue that the ISDA Master Agreement is a set of private rules that actually regulates the industry—a comprehensive code of self-regulation—because the norms to be followed by industry actors all seemed to originate from it. In that sense, it could be presented as a form of \textit{lex mercatoria}. But this transnational set of norms has never claimed complete autonomy from national legal systems; rather, the ISDA Master Agreement is expressly governed by a national law. The industry is acutely aware of the fact that national insolvency laws may claim competence and may, in an appropriate case, invalidate some of the clauses of the Master Agreement. ISDA’s reaction, however, is not to claim any autonomy from these

\begin{thebibliography}{24}
  \bibitem{Riles2006} \textit{Id.}
  \bibitem{Riles2012} Riles, supra note 18, at 614.
\end{thebibliography}
laws, but rather to lobby governments to amend them\textsuperscript{25} by seeking, among other legislative acts, the conclusion of an international treaty ensuring the enforceability of choice of law clauses in contracts such as the Master Agreement.\textsuperscript{26} Furthermore, unlike certain other instances of private ordering, the derivatives industry lacks an autonomous dispute resolution mechanism. When disputes arise, parties go to national courts, which will not automatically or even necessarily defer to the private norms of the industry, but might instead invalidate critical clauses of the Master Agreement.\textsuperscript{27} If the ISDA Master Agreement has generated a financial lex mercatoria, it was clearly not autonomous from national legal orders but rather subjected to them.

It is probable that many other such examples exist.\textsuperscript{28} It is unclear, however, whether this kind of private ordering ought to be characterized as lex mercatoria. On the one hand, transactions between members of the industry are, in effect, regulated by sets of norms, which were privately produced and are common to most, if not all, actors worldwide.\textsuperscript{29} On the other hand, technically speaking, those norms are contracts governed by national commercial laws.\textsuperscript{30} For the purpose of this Article, however, it is unnecessary to decide. I am concerned with the special issues raised by the claim that parties might want to displace national laws entirely and to be solely governed by transnational business norms.

\textbf{B. Lex Mercatoria as an Alternative to National Commercial Laws}

In 1964, Berthold Goldman published the first in a series of

\begin{itemize}
\item \textsuperscript{25} \textit{Id.}
\item \textsuperscript{26} \textit{Id.} at 615.
\item \textsuperscript{28} At the same time, there are examples of industries in which trade associations failed to come to a consensus in developing trade rules. \textit{See} Lisa Bernstein, \textit{The Questionable Empirical Basis of Article 2's Incorporation Strategy: A Preliminary Study}, 66 U. CHI. L. REV. 710, 717 (1999).
\item \textsuperscript{29} For some authors, this is enough to speak of a lex mercatoria. \textit{See}, e.g., Collins, \textit{supra} note 22.
\item \textsuperscript{30} Scholars have often challenged the existence of lex mercatoria on the ground that most instances of private ordering amount to nothing more than private contracts that remain governed by national laws. \textit{See}, e.g., Symeon Symeonides, \textit{Party Autonomy and Private-Law Making in Private International Law: The Lex Mercatoria that Isn't}, in \textit{LIBER AMICORUM K.D. KERAMEUS} 1379 (2009).
\end{itemize}
articles in which he eventually argued that transnational commerce had generated not only a new transnational commercial law, but an actual transnational legal order that was autonomous from national laws and could displace such laws to govern international business transactions.31

The claim that business norms could be elevated to the status of law and could, therefore, govern transactions independently from national laws was remarkable. Goldman supported his argument by pointing to historical precedent. In the 1960s, it was widely believed that, in medieval times, the rules governing transnational commerce were essentially the customs followed in the community of international merchants, and that this lex mercatoria was autonomous from any state.32 Goldman presented his doctrine as a simple revival of this medieval concept of lex mercatoria. At the same time, another European scholar, Clive Schmitthoff, was also drawing parallels between the medieval lex mercatoria and the contemporary unification of international commercial law.33 Together, Goldman and Schmitthoff are now widely considered as the intellectual fathers of the new lex mercatoria.34 Despite obvious similarities, their doctrines and approaches were not identical: the idea of complete autonomy of transnational commercial law was essentially, if not exclusively, promoted by Goldman and students.

Over the next fifty years, Goldman’s and Schmitthoff’s ideas would be harshly criticized. Legal historians challenged the notion that medieval lex mercatoria was ever genuinely autonomous from state legal orders,35 and legal scholars vehemently denied the exist-

33. Id.
ence of any transnational commercial legal order. Nevertheless, their theories survived, and Goldman’s suggestion that the new *lex mercatoria* was completely autonomous proved extraordinarily successful. As international arbitration grew and states became interested in competing for its associated benefits, lawmakers adopted a variety of rules based on this proposition. Thus, national arbitration laws empowered arbitrators to decide disputes solely on the basis of *lex mercatoria*, and national courts enforced arbitral awards made thereunder.

Today, *lex mercatoria* is a legal reality in international commercial arbitration. Its content, however, is much debated, and has evolved since the 1960s. Most international arbitration scholars accept that there are two alternative approaches towards assessing the content of *lex mercatoria*: the list method and the functional method.

1. The List Method

Despite the claim that modern *lex mercatoria* revived medieval *lex mercatoria*, it was immediately obvious to its proponents that commercial customs, which were central to the concept in medieval times, were not particularly numerous in an era in which states produce so much commercial law. If *lex mercatoria* were to have any


significance, it would have to draw from other sources. Hence, from the outset, proponents suggested reliance on a variety of norms or practices that were reasonably global and could be included without overly contradicting the original concept of a law spontaneously generated by the international business community. Although a few scholars still consider that modern *lex mercatoria* should be limited to commercial customs, there is wide acceptance among arbitration scholars and practitioners of the need to incorporate a number of other norms.

To begin with, it is understood that one may refer to widely-adopted international commercial treaties such as the United Nations Convention on Contracts for the International Sale of Goods (CISG). Although one may argue that treaties are state law such that including them contradicts the precept of a law autonomous from national legal orders, the underlying rationale is that such treaties govern a high number of international transactions and constitute, to a large extent, the actual law of international business transactions. In the same vein, public international law is also often cited as a potential source of *lex mercatoria*, despite the fact that private actors have not traditionally been considered subjects of international law. Further, contractual practices, including model contracts, are commonly accepted as legitimate sources of *lex mercatoria*. This proposition is probably the most controversial, since contractual practices and model contracts have no authority unless they have been adopted by the parties or are so widely used that they become trade usages. Finally, it is widely accepted that *lex mercatoria* includes general principles of law. The original idea behind this proposition was that, if some principles were common to all nations and could be found in public international law, it was safe to assume that they would also belong to *lex mercatoria*. Some arbitral tribunals endorsed this view and expressly relied on general principles of law. This reliance, in turn, confirmed the status of the principles as a source of *lex mercatoria*, since they had now been recognized by international trade adjudicators. Before long, it was clear that this source would remain accessory, from a practical point of view, as it

---


41. See, e.g., Goode, supra note 6, at 16.


44. See Mustill, supra note 42, at 109; Pryles, supra note 39, at 320.
appeared that international arbitral tribunals had only identified a few
dozens of such general principles.\textsuperscript{45}

Such a wealth of sources, however, was unlikely to translate
into an easily accessible code of transnational commercial law. A re-
cent trend in the development of the new \textit{lex mercatoria} has been to
codify it and to try to put it into a user-friendly, or perhaps simply
usable, form. Professor Klaus Peter Berger has been working to
identify all of the rules which can be deduced from the various ac-
ccepted sources of \textit{lex mercatoria} and putting them into one single,
open-ended set of rules and principles.\textsuperscript{46} This process of "creeping
codification" has resulted in a list which, in 2010, contained around a
hundred principles.\textsuperscript{47} Some of them are reasonably precise and
would certainly offer adjudicators rules of decision enabling them to
settle many disputes. Others, however, are so vague that they would
hardly offer guidance to any party or arbitrator.\textsuperscript{48}

Similarly, the International Institute for the Unification of
Private Law (UNIDROIT) sponsored the work of a dozen academics
interested in producing an international restatement of contract law.
The UNIDROIT project was, however, quite different from Professor
Berger’s attempt to codify \textit{lex mercatoria}, as the UNIDROIT work-
ing group did not focus on the sources of \textit{lex mercatoria}, but rather
used different national contract laws as its starting point. Indeed, the
working group did not hesitate to adopt solutions which were rather
rare in comparative contract law.\textsuperscript{49} Nevertheless, the resulting
UNIDROIT Principles of International Commercial Contracts
(UNIDROIT Principles) are a coherent and complete code of contract
law, comparable to many national laws.\textsuperscript{50} Despite the fact that they
do not originate from customs and rules actually followed by com-

\textsuperscript{45} See KLAUS PETER BERGER, THE CREEPING CODIFICATION OF THE \textit{LEX MERCATORIA}
(1st ed. 1999) (39 principles); Mustill, supra note 42, at 91 (20 principles).

\textsuperscript{46} See BERGER, supra note 45.

\textsuperscript{47} \textit{Id}.

\textsuperscript{48} See, \textit{e.g.}, Principle IV.4.1 on Forms Requirements, id. at 383:
No IV.4.1 – Principle of informality:
(a) Contractual declarations are valid even when they are not evidenced
in writing unless mandatory rules of any applicable domestic law
provide otherwise.
(b) Parties to international business contracts may not insist on undue
formalism without any good reason.

\textsuperscript{49} For instance, the working group endorsed the right to ask for renegotiation of
contracts in case of hardship, which is rejected by many national laws, and was, as a
consequence, rejected by the drafters of the CISG too.

\textsuperscript{50} INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW [UNIDROIT],
PRINCIPLES OF INTERNATIONAL COMMERCIAL CONTRACTS (2010).
mmercial parties in international business transactions, the preamble of the UNIDROIT Principles states that "[t]hey may be applied when the parties have agreed that their contract be governed by general principles of law, lex mercatoria or the like."51 In fact, a small but growing number of parties and arbitrators use them as rules of decision in international commercial disputes. The new lex mercatoria might be slowly entering into a new era, one that some have already labeled the "new, new, lex mercatoria,"52 where it will be increasingly more accessible and usable, but also distinct from commercial customs and practices.

2. The Functional Method

In a series of influential articles, Emmanuel Gaillard, a French academic and leading international arbitration practitioner, proposed an entirely different approach for assessing the content of lex mercatoria.53 He argued that lex mercatoria ought to be considered as a method of decision-making rather than as a list of rules. When deciding disputes on the basis of lex mercatoria, arbitrators ought to conduct a comparative analysis and assess how the majority of the national laws connected to the dispute would resolve it. Arbitrators should then apply this widely-accepted solution, the inference being that the fact that the application of a rule common to most national legal orders would not come as a surprise to commercial parties.

Despite the ongoing debate on its actual content, the concept of a modern lex mercatoria—one largely autonomous from national laws—is now widely accepted. Most sophisticated jurisdictions now acknowledge, through national law, that commercial parties may provide for its application and empower international arbitrators to decide disputes according to its rules and principles.54 The purpose of this Article, however, is to ask both how and why the concept developed and remains alive half a century after its (re)birth: is it because it gave a unique opportunity to commercial actors to design the

51. Id.
best legal regime for their transactions? Or, have other actors had incentives to promote the idea of an autonomous transnational commercial law?

II. DOES *LEX MERCATORIA* MEET THE NEEDS OF COMMERCIAL ACTORS?

While scholars hotly debated the nature and content of *lex mercatoria*, the reasons *why* the concept developed and whether it was beneficial for actors were little explored. One reason might be that the answer seemed obvious. The original claim was that *lex mercatoria* was a set of rules generated by the merchant or commercial community for itself with custom and commercial practices both central to its definition. Thus, it followed that *lex mercatoria* simply *had* to meet the needs of commercial actors, as it could be safely assumed that they would have designed rules which fit their needs.

However, as previously explained, *lex mercatoria* has numerous sources, many of which are not directly generated by the community of merchants. Thus, in the following pages, I argue that the features of the modern *lex mercatoria* make it highly unlikely that it meets the needs of international merchants, and I present empirical evidence that they rarely choose its application.

**A. An Economic Analysis of Lex Mercatoria Reducing Transaction Costs**

Intuitively, one would think that the main reason commercial actors would want their international contracts to be governed by *lex mercatoria* would be to reduce transaction costs. Concluding international contracts appears more costly than concluding domestic contracts because international contracts raise the specific issue of choice of law: the law governing an international contract must be determined. As most legal systems give commercial actors the freedom to choose the applicable law, that means that commercial actors should agree on the law governing their contract, and draft an appropriate clause to that effect. They must, therefore, dedicate additional resources to the negotiation of that particular clause.

---

1. The Relevance of Parties' Legal Sophistication

At the outset, it is important to underscore that this argument is based on the assumption that the parties do, in fact, care about which law should govern their contract. They certainly ought to. The applicable law will provide default rules, which will control in the absence of any specific contractual provisions. Both parties should know and understand the consequences of such default rules in order to determine whether they fit the parties' particular needs and, if not, the parties must draft appropriate clauses providing otherwise. Moreover, the applicable law will provide mandatory rules that may invalidate some of the parties' contractual provisions and, in the worst case scenario, void the entire contract.

Yet it would be foolish to believe that all parties concluding contracts, even international commercial actors, fully appreciate the importance of the applicable law. Most of them are, after all, businessmen, and although some may have legal training, most will not, and still others might have no higher education at all. In other words, not all international commercial parties are sophisticated from a legal point of view. Some simply do not care about the law governing their contract. That means that they typically do not spend time or effort wondering what the applicable law for the particular contract might be, and they certainly do not expend any significant resources to determine it. Such an attitude clearly generates risks that are obvious (and somewhat disconcerting) to any lawyer. But the business people's lack of interest in the subject is not without advantages: such parties incur fewer transaction costs when concluding contracts. In particular, they do not incur additional transaction costs when concluding international contracts because they do not see the choice of law issue. And, indeed, in many cases, there will not be any negative consequence of such lack of interest, as no dispute may arise in connection with the transaction or, if one does, it may be resolved by way of negotiation.

Similarly, the law governing the contract may simply be ignored by parties who, although they may appreciate its importance, might think that they cannot afford to incur the costs necessary to de-

---

56. Not seeing the issue does not necessarily mean that such parties would not include choice of law clauses in their contracts. Rather, they might do so because contracts with which they have experience may have choice of law clauses or they may have seen or heard of other actors including such clauses and so feel that they should as well, or because they do not see the point of fighting about the issue with the other party. Indeed, they may feel that by accepting the law of the other party, they will be in a stronger position when negotiating other terms of the contract that, for them, are more important.
termine the applicable law. In other words, the value of a particular transaction may not justify dedicating resources to determining the applicable law. In such cases, the parties, whether they are legally sophisticated or not, may conduct a cost-benefit analysis and choose to ignore the issue altogether. But the result is the same: the parties dedicate no resources to resolve, in advance, which law will govern the contract. Thus, they do not incur higher costs when concluding international contracts.

Are there many parties falling within either of these two categories? In the absence of any empirical study, that is almost impossible to know. The answer might well vary depending on the parties (including, perhaps, their perception of the local law generally applicable thereto), the industries, and the value of the transactions. In any event, there is certainly a large number of sophisticated international commercial parties, and we focus on them.

2. The Additional Cost of International Contracting

For parties who fully appreciate the importance of the law governing their contract, international contracting should be more costly than domestic contracting. Initially, as already mentioned, parties to an international contract must provide for the applicable law. The first additional cost, therefore, is the time and resources spent negotiating and drafting a choice of law clause. For genuinely sophisticated parties, however, that cost is unlikely to be the only cost (not even the only negotiation and drafting cost), and certainly not the highest one. In order to fully appreciate the consequences of agreeing on the application of one law or the other, the parties ought to know and understand the provisions of the laws that might be chosen, meaning that the lawyers of the parties should advise them on the differences between—at a minimum—all potential laws connected to the particular transaction. However, as many legal systems do not limit the parties’ freedom to choose the law governing their international commercial transaction to only those laws related to the transaction, one could argue that the parties’ counsel should even


58. See, e.g., Regulation (EC) No. 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I), art. 3 [hereinafter Rome I Regulation]; Shewai Minshi Guanxi Falu Shiyong Fa (涉外民事关系法律适用法) [Law Applicable to Foreign-Related Civil Relations] (promulgated by the
advise them on all unrelated laws of the world, not just a few of them, in order to allow the client to negotiate for the most beneficial. Quite clearly, if that were the case, the mere preparatory work necessary to begin negotiating the choice of law provision would be prohibitive while dramatically increasing the transaction costs.\(^{59}\)

Whether and how much preparatory research is actually conducted by the parties’ lawyers before negotiating most international contracts remains unclear.\(^{60}\) It is much clearer, however, that when the parties eventually reach an agreement on a given national law, such law will be foreign to at least one of them. If that party had already asked his lawyers to advise him on the peculiarities of that law before or during the negotiation, the costs associated therewith would have already been incurred.\(^{61}\) If not, such research would have to be conducted \textit{after} reaching the agreement. Regardless of when such research is conducted (\textit{e.g.}, either before or after the negotiation and the conclusion of the contract), at least one of the parties needs to incur the cost of learning a foreign law.

Thus, international contracting has an additional cost resulting from the absence of an international contract law. If such a law existed—and if it applied automatically to international contracts—parties would not need to concern themselves with the law governing their transaction. They could either ignore the issue or specifically refer to such international law in a choice of law provision that is minimally negotiated (if at all). Further, as an international regime, it would be familiar to all, such that no party would need to learn it. Finally, if such an international regime were embodied in an international treaty, it would become part of the laws of the contracting states, and would thus become an international transaction law common to all of them.

This cost reduction argument can be made for any international law regime. It works, and was often made, in connection with international treaties such as the CISG. But it works equally well for a body of international law produced by private, international trade

---

\(^{59}\) Basedow, \textit{supra} note 55, at 67 (citing Eva-Maria Kieninger, \textit{Wettbewerb der Privatrechtsordnungen im Europäischen Binnenmarkt} 287 (2002)).

\(^{60}\) \textit{Id.}

\(^{61}\) For purposes of this paper, we must leave aside the question of whether a lawyer negotiating a choice of law provision without knowing and understanding the implications of the law of the jurisdictions under negotiation commits malpractice under the rules of professional conduct applicable to such lawyer.
actors such as *lex mercatoria*.62

It should be noted, however, that at least one cost of international contracting would not necessarily disappear even if an international law regime existed: most international commercial laws are just default rules that apply automatically only if the parties do not provide a different applicable law.63 International commercial laws are not, therefore, mandatory in character, and the parties may exclude their application.64 That means that if they so desire, contracting parties may still decide to compare solutions offered by applicable international law against national laws and choose a national law which better suits their needs. Of course, the parties would never be obliged to undertake the research necessary to make such a comparison; they could avoid any such expense by simply accepting the international legal regime.

3. The Necessary Features of International Commercial Law

The claim that the existence of an international legal regime for commercial transactions reduces the cost of international contracting is based on the assumption that international commercial law can be used as an alternative to national contract law. The argument rests on the notion that parties to international contracts would welcome the application of international law in lieu of national law because it would allow them to save some of the cost generated by negotiating and applying a national law. The argument is obviously based on an underlying assumption that all things are otherwise equal. In other words, there is an implicit assumption that international laws and national laws are otherwise comparable, such that it is not otherwise more costly to subject one’s contract to international commercial law.

Choosing international commercial law over national commercial law, then, would only be beneficial if international law has features valued by commercial actors.65 One such value is legal cer-

---


64. *Id.* art. 6.

65. *But see* Thomas E. Carbonneau, *A Definition of and Perspective Upon the Lex Mercatoria Debate*, in *LEX MERCATORIA AND ARBITRATION* 14 (Thomas E. Carbonneau ed., 1998) (arguing that international lawmaking cannot be evaluated solely by reference to domestic law-making standards as a platitude in the domestic context may provide essential
tainty:\textsuperscript{66} contracts are an essential instrument of planning the future of business relationships, and such planning requires a large measure of legal certainty.\textsuperscript{67} Commercial parties care about which law governs their contract because they want (and need) to know, in advance, whether their contractual provisions are enforceable (or likely to be enforced) under that law and, in the absence of a specific contract provision, what default rules that law would apply.

An argument can be made that the CISG might not compare with national laws in this regard. In a seminal article, Clayton Gillette and Robert Scott argued that the complicated international negotiation of the CISG favored compromise and, therefore, resulted in the adoption of vague rules.\textsuperscript{68} They underscored that the CISG reflects a compromise among representatives of over fifty states coming from all legal traditions, so that the resulting treaty would be acceptable to all of them. One method used to reach such compromises was a heavy reliance on legal standards rather than specific rules.\textsuperscript{69} In this respect, it is interesting to note that many parties to international sales specifically exclude application of the CISG from the possible sources of law for their contracts,\textsuperscript{70} although this might be for reasons other than its unsuitability to the needs of commercial actors.\textsuperscript{71}

A critical question for assessing whether \textit{lex mercatoria} could be a suitable alternative to national laws is, therefore, whether it affords the necessary degree of legal certainty that commercial parties require. The question has long been hotly debated.

4. How Precise is \textit{Lex Mercatoria}?

Although the new \textit{lex mercatoria} has gained wide recognition

\footnotesize


\textsuperscript{67} In the context of American corporate law, some argue that Delaware won the corporate charter competition despite the indeterminacy of its law. I address this argument below in the text accompanying notes 92–96.


\textsuperscript{69} \textit{Id.} at 469.


\textsuperscript{71} Lack of knowledge of the Convention by lawyers is certainly one such reason. Another might be the lack of authoritative case law interpreting the instrument.
in the last fifty years, a variety of scholars and practitioners have crit-
icized it. Such critiques have ranged from its conceptual impossibil-
ity\(^{72}\) to its ideological coloration. According to the latter critique, lex mercatoria helped maintain the dominance of the West in interna-
tional trade\(^ {73}\) and was designed to promote a doctrine of laissez-
faire.\(^ {74}\) However, the most important and frequent critique has been its overall lack of substance and the vagueness of those few new lex mercatoria rules that could be identified.

From the outset, critics of lex mercatoria have underscored its lack of comprehensiveness.\(^ {75}\) On many issues, it seems virtually im-
possible to identify any rule or principle that adjudicators could use to settle a dispute. At first glance, this might come as a surprise, giv-
en the numerous sets of norms that its proponents consider to be le-
gitimate sources of the new lex mercatoria. In truth, however, those sources very rarely offer a comprehensive regime. There are, of
course, noticeable exceptions, such as the CISG for international sales and the Uniform Customs and Practice for Documentary Cred-
its produced by the International Chamber of Commerce. But, for most contracts, the law has simply not been sufficiently harmonized at the international level, and experience has shown that there are, in fact, no commercial customs either. Rather, adjudicators seeking interna-
tional norms are left with a few general principles previously identified by arbitral tribunals. For several decades, those norms in-
cluded twenty- to thirty-odd principles. While that figure may have increased recently, it still cannot compare with most national laws, which offer hundreds of rules.

Further, lex mercatoria’s critics have long insisted that its rules, to the extent they can be identified, lack precision.\(^ {76}\) Again, it

---


\(^{75}\) Gary B. Born, *International Commercial Arbitration* 2236 (2009); Jean-

is useful to distinguish those few fields where the law has been harmonized internationally from others. The CISG, for example, offers a set of reasonably precise rules that are, from that perspective, comparable to the commercial laws of many States. Likewise, the Uniform Customs and Practice for Documentary Credits published by the ICC offers a set of precise rules that are regularly revised. But for most types of contracts, the accepted sources of \textit{lex mercatoria} will have no specific rules to offer, such that parties and arbitrators will have to resort to general principles of international commerce as recognized by international tribunals. Thus, the actual "rules" of \textit{lex mercatoria} will only be general principles, which give an immediate indication of their precision. Moreover, those principles are indeed often very general. A striking example thereof is the principle that "contracting parties must act in accordance with good faith and fair dealing."\footnote{See BERGER, supra note 45, at 377.}

An interesting response to these critiques was made by one of today's leading advocates of \textit{lex mercatoria}, professor and arbitrator Emmanuel Gaillard. As previously noted, Gaillard proposed a new approach whereby \textit{lex mercatoria} is to be considered as a method of decision-making rather than a mere list of rules.\footnote{Supra note 53 and accompanying text.} According to Gaillard, seeing \textit{lex mercatoria} as a method solves the issue of its lack of precision and vagueness, because one or more of the to-be compared national laws would have rules addressing all potential legal issues arising in the dispute.\footnote{Gaillard, Thirty Years of Lex Mercatoria, supra note 53, at 226.} By comparing their solutions, adjudicators would be able to come up with a precise solution to any disputed issue. The method proposed by Gaillard may or may not, in fact, provide international arbitrators with a tool improving their capacity to decide disputes on the basis of \textit{lex mercatoria}. Nevertheless, it seems clear that such a method gives a great deal of flexibility and discretion to adjudicators, making it equally clear that parties could never hope to predict with any reasonable degree of certainty the result arbitrators would reach when implementing it. One is, therefore, hard-pressed to imagine how this new concept of \textit{lex mercatoria} could possibly improve the contracting parties' ability to assess, \textit{ex ante}, what their obligations are under a contract they made subject, wisely or not, to \textit{lex mercatoria}.

Regardless of whether one understands \textit{lex mercatoria} as a list of rules or as a method of decision-making, the conclusion seems straightforward: the new \textit{lex mercatoria} does not offer rules of deci-
sion that can be compared to national laws in terms of precision or comprehensiveness. If the true benefit parties can (and should) expect from the law governing their contract is precise default rules that enable them to reasonably assess their future obligations under that contract, *lex mercatoria* seems, at best, woefully inadequate. As the purposes of establishing *lex mercatoria* as a separate and distinct commercial law cannot be met if it is defined as a decision-making method, the only remaining question, then, is whether *lex mercatoria* as a list of rules—that is, the new "codified" *lex mercatoria*—can one day achieve the goal of precision and legal certainty well enough to be considered satisfactory by commercial actors.

5. Is *Lex Mercatoria* Otherwise Beneficial for Commercial Parties?

While it is doubtful that *lex mercatoria* genuinely reduces transaction costs in international contract negotiations, it might bring other benefits to commercial parties that could justify choosing it as the governing law in a contract. Indeed, most *lex mercatoria* advocates base the need for its further development on other arguments. However, such arguments are equally unconvincing.

6. Unpredictable Choice of Law Rules

The most common argument in support of the usefulness of *lex mercatoria* suggests that commercial parties should prefer *lex mercatoria* to a national law because of the uncertainties generated by the conflict of laws,80 since commercial parties need legal certainty, a proposition which can hardly be challenged. Obviously, in any international dispute, the applicable law must be determined. This process, it is argued, creates uncertainty for the parties: modern choice of law rules have simply become too complex to accurately predict which law will govern the contract.81 Thus, *lex mercatoria*’s proponents argue, the only way to offer legal certainty to international commercial actors is to enable them to avoid the choice of law process by making a uniform law available.

There is no doubt that modern choice of law rules have become incredibly complex, both in Europe and in the United States, and that this has resulted in less predictability. There are, however, exceptions: one is the choice of law rule in contractual matters. Parties are free to choose the law governing their contract. The rule is

80. BERGER, supra note 45, at 9; Stone Sweet, supra note 55, at 631.
81. See supra note 80.
clear and simple, and such choice of law clauses are generally enforced in most jurisdictions around the world.\textsuperscript{82} This is even truer when parties choose arbitration rather than litigation. Of course, parties to international contracts may fail to specify the applicable law in advance. In such cases, a default choice of law rule would apply, and it would typically be complex and rather unpredictable. But would parties who have otherwise failed to include a choice of law clause in their contract really care about legal certainty? Most of them would probably be unsophisticated from a legal point of view, and would neither be ready to invest resources in assessing which law governs their contract, nor benefit from any uniform law.\textsuperscript{83} Conversely, legally sophisticated parties, in most cases, specify the law governing their contract therein, such that, in the event of a dispute thereunder, the choice of law process will not cause any significant problem, let alone create any uncertainty.\textsuperscript{84}

Furthermore, while the argument that applying a uniform law offers more legal certainty than applying a national law makes some sense if it incorporates a developed body of rules, it borders on ludicrous in the context of a uniform law composed of vague principles coupled with a complex comparative methodology for identifying potential rules of decision.\textsuperscript{85}

7. Need for Rules Specifically Tailored for International Transactions

Another argument in favor of \textit{lex mercatoria} suggests that its rules are uniquely adapted to international transactions, such that, when combined with a contractual stipulation that it applies, it avoids domestic rules which are unfit for such purposes.\textsuperscript{86}

There is no doubt that some of the norms typically considered to be part of \textit{lex mercatoria} are specifically tailored to some particular transactions. Model contracts developed by trade associations have been specifically designed for a particular industry and/or a particular type of transaction, and one trusts that they include clauses which are both more specific and better adapted to their object than the general default rules of national contract law. Similarly, in those

\begin{thebibliography}{9}
\bibitem{82} South America might be a noticeable exception. See Coyle, \textit{supra} note 70, at 364.
\bibitem{83} On the concept of legal sophistication, see the text accompanying notes 56–57.
\bibitem{85} \textit{Supra} Part I.B.
\bibitem{86} See, \textit{e.g.}, Lando, \textit{supra} note 42, at 748.
\end{thebibliography}
industries where specific customs and usages have developed, one trusts that they are better adapted and more specific than general rules of national laws.

However, using such norms is not—and never was—limited to cases in which lex mercatoria was chosen to govern a contract. Rather, national laws also typically apply such norms because virtually all developed countries both recognize the freedom of contract and allow the application of trade usages in dispute resolution. If a trade association drafts a detailed model contract, its detailed norms will be applied regardless of whether the parties chose lex mercatoria or the national law of any sophisticated nation to govern their contract.\footnote{87}

Lex mercatoria, moreover, encompasses many general norms, such as international treaties and general principles of law.\footnote{88} The claim that these norms are somehow better adapted to international trade than national law is weak.\footnote{89} Although they sometimes innovate, international commercial treaties typically adopt rules that already exist in national legal systems, and by definition general principles of the law are based on norms commonly found in national legal systems. In that regard, Celia Wasserstein Fassberg stated that she had not been able to identify a single rule unique to lex mercatoria;\footnote{90} rather, the origin of all its general rules is national law.\footnote{91}

8. Highly-Skilled Adjudicators Suffice

One last argument could be made in support of lex mercatoria: its quality is not critical for commercial actors because the quality of the applicable law is not what really matters to them. Rather, so the argument goes, their critical concern is the quality of the adjudicators—they want great adjudicators—such that they are more than willing to rely on the adjudicators’ expertise and wisdom instead of precise, efficient, and predictable rules of law.

A version of this argument has long been made in the context of the corporate charter competition debate in the United States. American corporate law is dominated by Delaware; more than half of publicly traded companies in the United States are incorporated

\footnote{87} Indeed, as underscored in Part II, trade associations will often include in their model contracts a choice of law clause providing for the application of a national law.

\footnote{88} Supra Part II.

\footnote{89} See Fassberg, supra note 84, at 79.

\footnote{90} Id.

\footnote{91} Id. at 80.
therein. Under U.S. conflict of laws, that incorporation is enough to trigger the application of Delaware corporate law to internal corporate issues, meaning that parties choose Delaware corporate law simply by incorporating in Delaware. One might, therefore, assume that Delaware built its success on detailed and precise corporate law rules. Many corporate law scholars indeed believe that the "greatest benefit that Delaware offers corporations is a highly developed case law that provides not only a useful set of precedents, but also a substantial degree of certainty about legal outcomes." Other corporate law scholars, however, reject that glowing description of Delaware corporate law, arguing instead that Delaware corporate law relies on many vague standards that make it difficult to predict legal outcomes. While recognizing that such indeterminacy is costly for economic actors, those scholars offer other theories to explain why companies continue to incorporate in Delaware: first and foremost among them is that Delaware has an illustrious, specialized equity court, its constitutionally-created Court of Chancery, and that it is the experience and quality of its chancellors and vice chancellors that are the critical factors in Delaware’s success in the corporate charter race.

It is, of course, beyond the scope of this Article to discuss whether Delaware’s success was achieved, notwithstanding the inde-
terminacy of its substantive corporate law, because of the quality of its Court of Chancery. It is quite clear, however, that even if it could be demonstrated that commercial actors are ready to trade precise legal rules for skilled and knowledgeable adjudicators, it cannot explain why commercial actors would choose lex mercatoria as the law governing their transactions. There is a fundamental difference between litigating in Delaware’s Court of Chancery and going to international arbitration. Delaware’s chancellors and vice chancellors are known and respected. In sharp contrast, arbitrators are not known before an actual dispute arises, and the most widely used appointment mechanism makes it virtually impossible to predict who most of them will be. A given party will only have the chance to freely appoint one arbitrator, with the second freely appointed by the other party and, finally, the president of the tribunal typically chosen by the two party-appointed arbitrators. It may be that the arbitral tribunal is composed of experienced commercial lawyers; on the other hand, unless otherwise stipulated in advance, there is no requirement that the arbitrators be experienced, or even attorneys. While a credible argument can be made that American companies value the quality of Delaware’s Court of Chancery so much that they are willing to risk legal uncertainty, that same argument cannot be made in the context of international arbitration.

B. An Empirical Analysis of the Use of Lex Mercatoria by Commercial Actors

1. Methodology

Conducting an empirical study of the contractual practices of international commercial actors with regard to lex mercatoria raises certain methodological issues. Data is hard to collect for several reasons: most importantly, most international commercial contracts are not typically made public and are frequently subject to confidentiality provisions, prohibiting even the disclosure of their existence. In some very special circumstances, national law may compel certain persons to publish some of their contracts, but these contracts could, at best, help to understand the practices of the parties subjected to such an obligation. For instance, U.S. law requires that publicly traded companies publish certain types of contracts.97

97. One such example is the obligation to file Form 8K to the Securities and Exchange Commission. For an empirical analysis of contracts published as a consequence of this
A second difficulty in collecting empirical data on the use of *lex mercatoria* is that when disputes arise out of contracts providing for the application of *lex mercatoria*, they will not typically be litigated, but instead go to arbitration, and gathering data with respect to arbitral practices or disputes going to arbitration is arduous. At the outset, arbitral awards, being part of private dispute resolution proceedings, are not public like judicial awards are. Indeed, arbitration proceedings are typically confidential. Furthermore, as arbitration is a decentralized mode of dispute resolution, no one can seriously pretend to be able to locate all arbitral awards or be aware of the existence of all arbitration proceedings. Moreover, contracts giving rise to disputes are not necessarily representative of all concluded contracts: disputes may arise out of certain contracts precisely because of the clauses they contain, which may provide an incentive to the parties to introduce proceedings. In such cases, it could thus be that litigated contracts giving rise to disputes only represent contracts containing inappropriate clauses and, hence, give rise to more disputes than others.

That being said, some arbitral institutions regularly publish data on some of the contractual practices of the parties referring cases to them. In particular, the ICC publishes, every year, data on the choice of law practices of the parties referring cases to its International Court of Arbitration (ICC Court) in its *ICC International Court of Arbitration Bulletin* (ICC Data). This Article will argue that ICC Data is meaningful for the purpose of empirically studying the contractual practices of international commercial parties with respect to *lex mercatoria*. The ICC is the leading arbitral institution in the world for settling international commercial disputes.\(^98\) Although it only receives 600 to 800 requests for arbitration per year, it handles more international commercial arbitrations than any other institution in the world.\(^99\) Those referred cases involve all industries and the origin of the parties is remarkably diverse, although it seems that Eu-

---

\(^{98}\) Of course, the data would have been more representative if I had been able to include statistics of other important arbitral institutions, but other institutions do not publish similar data. I contacted some of them (Stockholm Chamber of Commerce, London Court of International Arbitration), but they declined to provide similar data to me. The most likely reason is that these institutions have simply not collected it.

\(^{99}\) Surveys have revealed that it is the preferred institution of the majority of parties. *See, e.g., White & Case, 2010 International Arbitration Survey: Choices in International Arbitration* 23 (2010) (stating corporations prefer the ICC 50% of the time).
European parties dominate. While it would be useful to have access to the millions of international commercial contracts concluded each year, as well as the resources to analyze all of them, that will not happen any time soon, if ever. Thus, in the meantime, no one is able to offer a more accurate description of international contractual practices than the ICC. It is noteworthy that the ICC Data has remained remarkably stable over the years, which again suggests that such data is, in fact, representative.

Of course, the ICC Data only covers contracts that gave rise to a dispute. There is, therefore, a possibility that the contractual practices revealed by the ICC Data are only those of parties who will eventually seek a binding resolution to their dispute. If a given practice provides an incentive to seek external dispute resolution, it could be that it is overrepresented in the data collected by a dispute resolution center, such as the ICC. As the topic under discussion here is the contractual practice of choosing lex mercatoria to govern the parties’ contract, one could certainly argue that choosing to apply lex mercatoria in an international contract might prove to be just such an incentive: a reasonable argument can be made that because the solutions offered by lex mercatoria are far less precise and certain than solutions offered by many national laws, the parties are far less able to predict how an arbitral tribunal would rule on the basis of lex mercatoria, making them more likely to believe they have a chance to prevail in an arbitration. With such a belief, it is much easier to opt for arbitration rather than some other form of dispute resolution. In other words, it should be kept in mind that contracts providing for the application of lex mercatoria might actually be overrepresented in the ICC Data.

2. The ICC Data

For purposes of this Article, I have reviewed the ICC Data published for the years 1999 through 2012. During those fourteen years, 8,911 requests for arbitration were filed with the ICC Court.

---


101. The data is reported in the statistical reports published each year in the ICC International Court of Arbitration Bulletin. The statistical report for each year is published in the bulletin’s first edition in the following year; i.e., the statistical report for 1999 is contained in the first edition of the 2000 bulletin. For the most recently cited data in this paper, from 2012, see the 2012 Statistical Report in the ICC INT’L CT. of ARB. BULL. Vol. 24/Number 1–Issue 1, 2013. All references to data from specific years refer to the bulletins published the next year.
In compiling the ICC Data, the ICC looks at the underlying contract in each dispute. Over a period of fourteen years, the ICC Data, therefore, reveals the contractual practices followed in 8,911 instances.

On the most important points, the ICC Data is remarkably consistent over the years. First, parties chose the law governing their contract in 80–85% of the cases. Second, when they made a choice, they almost always chose a national law; on average, non-national rules were chosen in only 1–2% of the cases. Third, no single national law dominated, although both English law and Swiss law were chosen more often than other national laws (i.e., each in more than 10% of the cases).

For this discussion, the most important figure is obviously that less than 2% of the parties that had referred cases to the ICC Court intentionally chose non-national rules to govern their contract; more precisely, over that eleven-year period, only 148 contracts reviewed by the ICC contained such clauses. Given that the ICC reviewed a total of 8,911 contracts, this means that only in 1.7% of these contracts did parties opt to apply non-national law. That is not much. But, there are valid reasons to believe that this tiny fraction might overstate the number of contracts that select non-national law. As already pointed out, such clauses arguably provide an incentive to seek external dispute resolution, such that contracts representing such a choice are statistically overrepresented in data collected by dispute resolution institutions. In addition, parties providing for arbitration as a mode of external dispute resolution are arguably sophisticated parties, and are thus more likely to be aware that it is possible to subject their contracts to non-national rules.102

Furthermore, the ICC defines non-national rules to include the CISG when the parties specifically choose it to govern. Notably, the CISG was chosen as the governing law in about half of those 148 cases in which “non-national rules” were deemed to have been cho-

102. In all fairness, one should not make assumptions about the significance of the data without trying to explain why 15–20% of parties remain silent on the law governing their contract. There is no way to know why they do so, however. Suffice it to say that, in the absence of a choice by the parties, Article 21 of the ICC Rules of Arbitration and ADR Rules gives the arbitral tribunal complete discretion to apply “the rules of law which it determines to be appropriate.” It is, therefore, impossible to know—in advance—which rules of decision the tribunal will ultimately apply, such that parties who do not specify an applicable law would be wrong to believe that the tribunal would automatically find a non-national law appropriate. It is much more likely that most of them are, consciously or not, ignoring the issue, perhaps because (1) they could not reach an agreement during contract negotiations, (2) they found the cost of seriously addressing the issue too high, or (3) they were legally unsophisticated and failed to see the importance of the choice, thus not making one.
sen by the parties.\textsuperscript{103} Yet, the CISG is an international convention, which is in force in over seventy states.\textsuperscript{104} It is not a private set of rules different and autonomous from national legal systems, so one can legiti- mately question whether parties specifically opting for its application are genuinely selecting a non-national law. Indeed, had they not expressly chosen it, the CISG might well have applied any- way.\textsuperscript{105} In other words, it can be argued that at least half of the cases that the ICC Data presents as cases in which the parties chose to ap- ply non-national rules to their contracts do not actually qualify.

What conclusions can be drawn from the fact that commercial parties so rarely choose to apply non-national rules to their contracts? There are two possible explanations. On the one hand, one might argue that many parties are simply unaware that they can choose non-national rules as the law governing their contracts. But, such a lack of party sophistication is hard to believe. First, the contracts underlying the disputes referred to the ICC typically involve millions of dol- lars.\textsuperscript{106} One can reasonably assume that lawyers were often involved in the negotiation of such high-value contracts and that those lawyers knew about the possibility of providing for the application of a non-national law. Moreover, as previously noted, the parties were, by definition, sophisticated enough to provide for ICC arbitration in their contract. As they were aware of their ability to choose an alter- native to national court litigation, it is more than likely that they also were aware of their ability to choose an alternative to national law, that is, to choose non-national rules. On the other hand, a more con- vincing explanation is that the parties knew that they could subject their contract to non-national rules, but that they consciously chose not to do so. If they were going to choose a governing law, they would typically choose a national law.

The ICC Data sometimes includes information about the kind

\textsuperscript{103} I present and discuss the ICC statistics on the different choices of non-national rules below. See infra text accompanying notes 108–14.

\textsuperscript{104} The CISG has been adopted by eighty states, which include all major trading nations, the United Kingdom and India being notable exceptions. CISG Database, INSTITUTE OF INTERNATIONAL COMMERCIAL LAW, http://www.cisg.law.pace.edu/cisg/countries/cntries.html (last updated Oct. 4, 2013).

\textsuperscript{105} Article 1-1(a) of the CISG provides that it applies automatically when the parties have their place of business in different contracting states. United Nations Convention on Contracts for the International Sale of Goods art. 1-1(a), Jan. 1, 1988, 1849 U.N.T.S. 3.

\textsuperscript{106} Cases going to ICC arbitration rarely involve less than $200,000 (5.8% in 2012, 5.3% in 2011, 6.9% in 2010, 6% in 2009, 7% in 2008, and 11.3% in 2007). The value of the disputes is between $200,000 and $1 million in less than one-fifth of the cases (19.1% in 2012, 17.5% in 2011, 17.9% in 2010, 16.4% in 2009, 20.7% in 2008, and 18% in 2007).
of non-national rules that parties actually choose. Unfortunately, the ICC gathered such information less rigorously and less consistently over the years than it did for other portions of the ICC Data. Thus, in some years, the *ICC International Court of Arbitration Bulletin* provides anecdotal reports that non-national rules of one type or another were chosen in some contracts without giving precise figures, but in other years, the same Bulletin gives the exact numbers of which non-national rules were applied. Nevertheless, it is still possible to summarize the provided data as follows:107 between 1999 and 2009, of the parties referring disputes to the ICC Court who had expressly chosen to apply non-national rules to their contracts, the preferred choice was the CISG (often accounting for half of such choices),108 while the other regular, but less frequent, choices included “general principles of law,”109 public international law,110 “principles of equity,”111 the UNIDROIT Principles,112 the ICC International Commercial Terms (INCOTERMS),113 and the law of the European Union (E.U.).114

---

107. The ICC Data is sometimes imprecise. While it provides the number of contracts for which non-national rules were selected, it does not always provide the exact number of contracts that provided for specific non-national rules such as “universally recognized principles of law” or “public international law.” Thus, in the footnotes below, there are occasional notes that a contract “probably” chose a specific non-national rule.

108. In 2004, 2005, 2006, and 2012, half of the contracts providing for the application of non-national rules chose the CISG. In 2008, it was the “predominant” choice of the parties, and in 2010, it was chosen in seven of the ten contracts providing for non-national rules. However, in 2003, it was chosen in only three of eight contracts providing for non-national rules, in 2007 only one of three, and in 2011 only five of sixteen. In 2000, it was only chosen in two contracts, while general principles of law and international business were chosen in seven contracts.

109. “General principles of law” were chosen in one contract in 2004. “Private international law” was probably chosen in one contract in 2011. “Universally recognized principles of law” were probably chosen in one contract in 2008. “Principles of international commercial law” were chosen in two contracts in 2004, in one in 2003 and 2005, and probably in one as well in 2006 and 2008. Remarkably, in 2000, it seems that “[g]eneral principles of law and of international business law” were by far the preferred choice of the parties, being used in seven out of nine contracts.


113. The ICC International Commercial Terms (INCOTERMS) were chosen in two contracts in 2010 and in four contracts in 2011.

114. European legislation was directly chosen in one contract in 2003 and 2011, and in a
In considering the reasons behind the particular choice, it should be noted that at least some choices might have been dictated by the particulars of the relevant contracts. For instance, the parties might have provided for the application of public international law in contracts involving a sovereign state, or they might have provided for the application of E.U. law in contracts falling within the narrow scope of E.U. legislation, which has harmonized the law of particular kinds of commercial contracts. As neither the underlying contracts nor the arbitral awards eventually rendered in connection with the dispute are made publicly available, however, it is impossible to confirm whether that is generally the case.

The ICC Data is, nevertheless, interesting insofar as it shows that parties are ready to provide for the application of non-national norms, which are very different in character.

The set of non-national rules most often chosen is the CISG, which is significantly different from many of the other non-national norms chosen in two crucial respects. First, the CISG can be fairly presented as the international law of sales of goods: it is a rare example of a successful attempt to unify the commercial laws of most trading powers in one given field, the sale of goods. That means that when parties negotiate an international sale contract, subjecting it to international commercial law is a realistic option. Second, it makes sense to choose the CISG because it offers a reasonably detailed set of rules addressing most issues that can arise out of the performance of an international sales contract. The CISG is as detailed as many national laws governing the sale of goods, such that it offers comparable legal certainty to each of the contract parties.

In sharp contrast, many of the other non-national norms chosen by the parties are, at best, imprecise and, at worst, practically unidentifiable. Parties often characterize such norms as "principles" rather than "rules." When parties refer to the "principles of equity," for instance, it seems clear that they accept that their contract is not governed by any precise rule at all. In the context of international commercial arbitration, principles of equity are typically understood to refer to the arbitrators' personal sense of right and wrong; such

few contracts in 2008 and 2009.

115. Commercial agency, for instance, has been harmonized by the EEC Directive of Dec. 18, 1986 on the Coordination of the Laws of the Member States Relating to Self Employed Commercial Agents (86/653/EEC). In Award No. 9032 of 2001, 12 Int'l Comm. Arb. 123 (ICC Int'l Ct. Arb.), the parties to a distributorship agreement, which were both Europe based, had provided for the application of this directive.

116. Indeed, the word equity has been defined as "[t]he body of principles constituting what is fair and right." BLACK'S LAW DICTIONARY 579 (8th ed. 2004).
principles depend on their personal preferences and background. By
definition, therefore, such principles cannot be identified in advance.
Similarly, references to "general principles of law" or "international
business law" are hardly easier to identify: they are typically under-
stood to be principles common to the laws of most countries or, at the
very least, large developed countries.\footnote{See, e.g., Emmanuel Gaillard, \textit{La distinction des principes généraux du droit et des
usages du commerce international}, in \textit{Études offertes à Pierre Bellet} 204 (1991).} If such common principles
actually exist, which is far from certain, they are not easily identified.
Particular contract law rules can sometimes differ dramatically from
one jurisdiction to another and from one legal system to another, and
such differences legitimately cast doubts on the existence of any
common principle from which they could all derive. In any case,
whether such principles exist or not, there is no authoritative list
of them, and the process of identifying them is a major comparative law
effort.\footnote{There is, however, one unofficial collection of such principles, which may prove influential in the future. See Berger, supra note 45.} Indeed, when scholars undertook the task of preparing re-
statements of international contract law (for instance, under the aegis
of UNIDROIT) it took them years to do so.\footnote{See supra notes 49–52 and accompanying text.} In other words, before
such international restatements existed and while they remained rela-
tively obscure, parties providing for the application of "general prin-
ciples of law" could not, and clearly did not, have any detailed set of
principles in mind, much less actual rules. Now that such restate-
ments exist, parties seeking legal certainty should specifically choose
the application of a given international restatement.\footnote{Choice of law clauses providing for the application of UNIDROIT Principles are slowly increasing. See supra note 112.} Otherwise, if
parties continue to refer simply to general principles in their con-
tracts, it is clear evidence that legal certainty was not a major (or
even minor) concern.

For purposes of this Article, the ICC Data teaches a very im-
portant lesson: commercial parties rarely choose to subject their con-
tracts to \textit{lex mercatoria}. It is chosen, most generously, in less than
2\% of cases, and more accurately, in less than 1\% (when internation-
al sales contracts in which parties subject their contracts to a specific
international treaty are excluded). It seems clear, therefore, that
commercial parties remain unconvinced that they actually benefit
from application of \textit{lex mercatoria}. Given the vagueness of most of
its rules and its lack of comprehensiveness, their skepticism is hardly
surprising.\footnote{See supra notes 75–79 and accompanying text.}
III. DRAHOZAL'S SIGNALING THEORY OF *LEX MERCATORIA*

Although its proponents have argued for fifty years that *lex mercatoria* is beneficial for commercial parties, available data suggests that the latter have voted with their feet and that there is still a long way to go before they are convinced. As long as the content of *lex mercatoria* remains so vague and/or complex, it is hard to see how it can become more appealing to its alleged beneficiaries.

The logical consequence of international business people's lack of interest should have been to limit discussions and debate on *lex mercatoria* to academic circles. One can easily see why the proposition of a transnational law autonomous from national legal systems would attract a lot of attention from legal theorists. Consequently, the significant interest by legal theorists should not surprise anyone.122

What is surprising, however, is the interest *lex mercatoria* has generated outside of academia. Many legal practitioners have also engaged in the debate, and some have argued strongly in favor of *lex mercatoria*.123 Arbitral institutions have also taken clear stands, some going as far as encouraging parties not to provide for domestic law in their contracts.124 Finally, some national courts have agreed to enforce arbitral awards applying *lex mercatoria*, sometimes in cases where parties had not expressly empowered arbitrators to apply it.125 This raises the question of whether the favor bestowed upon *lex mercatoria* by non-party actors in the arbitral process can best be explained by the fact that they benefit more from *lex mercatoria* than commercial parties.

In his article empirically studying the use of *lex mercatoria* by commercial parties, Christopher R. Drahozal argues that the explanation for practitioners' continuing interest in *lex mercatoria* can

122. The literature on *lex mercatoria* and the development of transnational law is enormous. It is now also taking an interdisciplinary turn. See, e.g., BEYOND THE STATE: RETHINKING PRIVATE LAW (Nils Jansen & Ralf Michaels eds., 2008); GRAF-PETER CALLIESS & PEER ZUMBANSEN, ROUGH CONSENSUS AND RUNNING CODE: A THEORY OF TRANSNATIONAL PRIVATE LAW (2010).

123. Two examples are Emmanuel Gaillard, who has proposed a new concept of *lex mercatoria*, see supra note 53, and Fabio Bortolotti, who chairs ICC Task Forces promoting *lex mercatoria*, see infra Part V.

124. See infra, Part V.

be found in the market for international arbitration services.\footnote{126} He suggests that people willing to be appointed as arbitrators need to signal their quality to those who might appoint them. As arbitral proceedings, and the resulting arbitral awards, are typically confidential, Drahozal concludes that publishing articles on international arbitration issues is one of the few ways for prospective arbitrators to signal their quality to potential clients.\footnote{127} He further argues that those prospective arbitrators understand very well that they would be better perceived by the market if they demonstrate their legal internationalism (i.e., their understanding of the diversity of different legal traditions).\footnote{128} Publicly participating in the debate on \textit{lex mercatoria} might well be persuasive evidence of such legal internationalism; even though international commercial actors might not want their arbitrators to actually decide their particular dispute pursuant to \textit{lex mercatoria}, those same parties might believe that a good international arbitrator should, at a minimum, understand the major differences between legal traditions and the available rules of decision. For them, an arbitrator should be a genuinely “international” or “trans-national” lawyer.\footnote{129}

I agree with Drahozal that many, if not most, publications on international arbitration can be explained by the author’s desire to signal his or her qualifications as either a prospective arbitrator or a prospective counsel in arbitration proceedings.\footnote{130} I also agree with his proposition that \textit{lex mercatoria} is a good topic on which to write for such purposes. Yet, the reason why it is such a good topic seems to be that it is (a) fashionable in arbitration circles, and (b) perceived as beneficial to the development of international arbitration.\footnote{131} That newcomers would grab on to a topic that is both fashionable and perceived as going with the tide should not startle anyone;\footnote{132} in most, if not all groups, junior members of the community are subject to cascade effects.\footnote{133} But, this cannot explain how \textit{lex mercatoria} became

\begin{itemize}
\item \footnote{126} Drahozal, \textit{supra} note 4, at 550.
\item \footnote{127} Id.
\item \footnote{128} Id.
\item \footnote{129} Id. at 550–51.
\item \footnote{131} See Karton, \textit{supra} note 130, at 131.
\item \footnote{132} Dezalay \& Garth, \textit{supra} note 73.
\item \footnote{133} In the context of academic circles, see, e.g., Cass R. Sunstein, \textit{On Academic Fads and Fashions}, 99 Mich. L. Rev. 1251 (2001).
\end{itemize}
fashionable in the first place.

More importantly, Drahozl only tries to explain why people have continued to write on lex mercatoria. Yet, although commercial actors themselves remain cool to it, lex mercatoria exists outside of books and articles: it is regularly used by arbitrators to decide commercial disputes, most interestingly in cases in which the commercial parties did not provide for its application.

IV. AN AGENCY THEORY OF LEX MERCATORIA

Aside from the parties, the most important actors in the arbitral process are certainly the arbitrators. Most of the original writers who advocated in favor of lex mercatoria were leading international arbitrators, and they were the driving force behind its development. Interestingly, most of those distinguished jurists were law professors as well as leading practitioners. Thus, it could be that their interest in lex mercatoria was only academic, such that they wrote on the topic and promoted the concept out of an intellectual fascination with what they saw as an emerging autonomous transnational legal order. Yet, this paper queries whether, as international arbitrators, they did not hope for more tangible benefits, apart from engaging in an interesting intellectual debate.

In a study published in 1996, Yves Dezalay and Bryant G. Garth argued that lex mercatoria was invented in the 1960s by a handful of European continental arbitrators to give them total discretion in deciding disputes between Western petroleum corporations and newly independent Third World countries, and to eventually advance the interests of oil companies. These cases were not common commercial disputes, as they involved states. The issue of the applicable law was, therefore, a delicate one, as states are generally reluctant to be subjected to the law of another sovereign, and newly independent states were even less willing to agree to the application of the law of their former colonial powers. By providing for the application of “general principles of international commerce,” Dezalay and Garth posited that such young states were able to claim independence from the established legal regimes of colonial powers, while the arbitrators were given complete discretion to decide the dispute however they wanted. For the authors, such discretion was

134. DEZALAY & GARTH, supra note 73.
135. Id.
used to favor Western corporations. 136 Dezalay and Garth concluded, however, that those states eventually became critical of the consequences of allowing arbitrators to rule under lex mercatoria, such that the doctrine has gradually lost practical significance. 137

A different story, however, is that lex mercatoria remains popular with and still has many advocates among leading arbitration practitioners. Anecdotal evidence suggests that lex mercatoria remains appealing to a number of international arbitrators, who have expressed their inclination to use it in cases in which the parties did not even provide for its application. 138 Some arbitration laws 139 and many arbitration rules 140 empower international arbitrators to decide disputes pursuant to non-national rules in cases where the parties have not specified the applicable law. 141 Thus, when the arbitration is governed by such arbitration law and/or rules, arbitrators may decide that the law applicable to the merits of the dispute will be lex mercatoria. While it is very difficult to conduct empirical research on the practices of international arbitrators, anonymous extracts of arbitral awards are regularly published for scholarly purposes or mentioned in publications by practitioners. 142 This anecdotal evi-

136. Id. at 87 ("[T]his rather vague formula appeared to them sufficient to preserve the interest of their clients and to assure them a margin of maneuver in case of conflict.").

137. Id. at 91.

138. See Gaillard, Thirty Years of Lex Mercatoria, supra note 53, at 221; Julian Lew, Loukas Mistelis & Stefan Kroll, Comparative International Commercial Arbitration, ¶ 18-4 (2003); see also Yves Derains & Eric A. Schwartz, Guide to the ICC Rules of Arbitration 235 (2005) (stating that references to arbitrators to lex mercatoria have been increasing).

139. See, e.g., Code de procédure civile, art. 1511 (Fr.); Burgerlijk Wetboek (Civil Code), art. 1054 (Neth.); Bundesgesetz üBer das internationale Privatrecht [Swiss Federal Act on Law of Private International Law] Dec. 10, 1987, art. 187 (Switz.).

140. See, e.g., 2011 International Chamber of Commerce Arbitration Rules, art. 17; 2009 American Arbitration Association International Arbitration Rules, art. 28; 2010 Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce, art. 2; see also Swiss Rules of International Arbitration, art. 33.

141. Instead of requiring that the arbitral tribunal decide the dispute according to "the conflict of laws rules which it considers applicable," such laws and rules merely provide that tribunals may apply any "rules of law" that they deem applicable. This difference of language is unanimously understood as allowing them to choose lex mercatoria. See, e.g., Fouchard Gaillard Goldman on International Commercial Arbitration ¶ 1444 (Emmanuel Gaillard & John Savage eds., 1999); Lew, Mistelis & Kroll, supra note 138, ¶ 18-44.

142. As already underscored (see supra Part II.B), conducting empirical studies in the field of international arbitration is particularly difficult, because arbitration proceedings are typically confidential and decentralized. I have argued that the statistical reports published by the ICC are the only exception (supra Part II.B). Unfortunately, the ICC only reports
dence shows that international arbitrators have applied non-national rules to decide the merits of disputes in a significant number of cases where parties have not pre-selected the applicable law. In that regard, I identified fifty-three such awards rendered in the last fifty years. Interestingly, the vast majority of them (forty-seven out of fifty-three), and virtually all such awards rendered over the last thirty years, were delivered under the auspices of the ICC, which may be

about the positive choices made by the parties when drafting their contracts. It does not report about the decisions of arbitrators with respect to choice of law where the parties have not provided for the applicable law.

143. I am grateful to Ms. Iuliana lancu for her assistance in this matter.

144. The forty-seven arbitral awards in which an ICC arbitral tribunal decided to apply non-national law in the absence of a choice of the parties on applicable law were rendered over a period of fifty years:


evidence either demonstrating the ICC's central role in developing *lex mercatoria*, or simply that ICC awards are more widely publicized than others.

The fact that some national arbitration laws or other arbitration rules authorize arbitrators to apply non-national rules when the parties have not pre-selected an applicable law is telling. The current norm in international commercial arbitration is to direct arbitrators to apply a national law when the parties did not include a choice of law clause; in that regard, the influential 1985 UNCITRAL Model Law on International Commercial Arbitration instructs arbitrators to apply a choice of law rule to determine the applicable law in such circumstances, implicitly forcing them to apply a national law.\(^{145}\) Likewise, virtually all arbitration laws and rules in the world expressly forbid arbitrators from deciding *ex aequo et bono* in the absence of a clear choice by the parties empowering them to do so.\(^{146}\) Yet, notwithstanding that norm, a few national lawmakers,\(^{147}\) and numerous arbi-

---


146. See, e.g., LEW, ET AL., supra note 138, at 470 (stating that “[a]lmost all the laws and rules which contain such authority are in similar terms”).

147. Supra note 139.
tration institutions have adopted a very liberal rule allowing arbitrators to apply non-national rules in cases where parties have otherwise remained silent. It is hard to believe that this result could have been achieved without a strong lobbying effort by influential actors in the arbitral community. As one would expect, the first such liberal rules were successfully adopted in arbitration institutions, which are dominated by arbitration practitioners. One can only assume that similar lobbying efforts may have induced other departments of the same institutions to incorporate into their model contract clauses providing for the application of non-national rules.

It seems clear that at least some actors in the arbitral process have professional, rather than academic, incentives to support lex mercatoria as an alternative to national law and to encourage its application in arbitral proceedings. Below, I first explore what those incentives might be for arbitrators and then consider whether an agency conflict arises out of the relationship of those incentivized arbitral actors to the parties to the dispute.

A. Assessing Incentives of International Arbitrators

A useful starting point for assessing the potential benefits of lex mercatoria for arbitrators is to ask how they would have performed their task if that law did not exist. The answer is quite simple: they would have had to first determine the applicable national law and then apply it. The critical question is, therefore, whether arbitrators would be worse off if obligated to determine and apply national law instead of permitted to directly apply lex mercatoria. It seems rather obvious that, at least in a few areas, they are worse off.

1. Lex Mercatoria Gives Increased Discretion

As already discussed, a first major difference between the national laws of developed nations and lex mercatoria is that those national laws are typically much more detailed than the general principles of lex mercatoria. In most instances, national law will offer a precise rule of decision for the dispute. Thus, the decision-maker (be it a judge or an arbitrator) will have limited discretion in the ultimate resolution of the dispute. In sharp contrast, arbitrators deciding disputes pursuant to lex mercatoria are only constrained by vague principles and indeterminate sources: they have virtually unlimited dis-

148. Supra note 140.
149. See infra Part V.
cretion to resolve the dispute however they see fit.150 Indeed, some well-known practitioners have argued that arbitrators ruling ex aequo et bono or pursuant to lex mercatoria use similar (if not identical) decision-making techniques.151 Recall that Dezalay and Garth already argued that, in the 1960s, lex mercatoria was invented by arbitrators in order to legitimize resolving disputes in favor of Western oil companies in disputes arising from State contracts.152 Lex mercatoria's use in commercial arbitration gives the same virtually boundless discretion to the arbitrators. While there is no evidence that current international commercial arbitrators have any special agendas or wish to favor certain classes of litigants, they might welcome broad discretion for other reasons.

Arbitrating is a prestigious, and remunerative, activity. Candidates are bountiful. To stand out, some aggressively market themselves by, for example, writing for specialized journals and actively participating in topical conferences.153 If they succeed in being appointed to a tribunal, they will generally want to be appointed to other tribunals.154 Hence, arbitrators (unlike national court judges obligated to take any case that comes their way) have a clear incentive to satisfy the actors who appoint them. Most arbitrators are appointed by one party, who is most likely simply following the advice of his lawyers. While virtually all arbitration regimes specifically impose a duty of impartiality on the appointed arbitrators,155 every individual arbitrator nevertheless has an obvious incentive to do his best to meet whatever expectations the party who appointed him (and that party's lawyers) might have. For that reason alone, no arbitral tribunal could ever be composed of members appointed by just one party. Thus, international arbitral tribunals are typically composed of two appointed arbitrators (in a typical two-party dispute, one appointed by each of


151. See, e.g., Cremades & Plehn, supra note 62, at 332; Pryles, supra note 39, at 321.

152. Supra note 136 and accompanying text.

153. OPPETIT, supra note 130, at 10; Lalive, supra note 130, at 171.

154. While it seems clear that arbitrators wish to be appointed in other arbitrations, the actual reason may vary a great deal. For some, it will be the prospect of receiving additional fees. However, specialists of international arbitration also act as counsel, which typically attracts more fees. See Jan Paulsson, Ethics, Elitism, Eligibility, 14 J. INT'L ARB. 13 (1997). Their incentive seems to be to maintain or to enhance their reputation.

the disputants) and a president who is not appointed by either party. The presence of that third impartial arbitrator normally makes it difficult for a party-appointed arbitrator to be overly zealous in promoting the interests of the party who appointed him.\textsuperscript{156}

The president of the tribunal, however, is not immune to the same professional incentive to ensure his continuing appointment to tribunals. He will likely be an experienced arbitrator who has been a party-appointed arbitrator many times. All members of the tribunal, therefore, may share a common (if unspoken) understanding that no party should be absolutely dissatisfied with the arbitral outcome, so that no party-appointed arbitrator could be accused of inadequately defending the interests of the party who appointed him. As a consequence, all of the arbitrators involved might be willing to reach outcomes that are satisfactory to both parties. To ensure the arbitrators' ability to reach such mutually-satisfactory outcomes, the vaguer and less constraining the applicable rules of decision are, the better it is. The ability to apply \textit{lex mercatoria} fills the bill nicely.

2. Avoiding “Foreign” Law

Another important reason why arbitrators may welcome the broad discretion provided by \textit{lex mercatoria} is that the alternative might require them to apply the precise rules of an unfamiliar national law. The vast majority of international commercial arbitral tribunals are composed of arbitrators who are not specialists in the applicable national law, and who are often not even trained in that particular law. At the outset it should be remembered that, unless the underlying agreement to arbitrate so requires, the arbitrators need not be lawyers. They may be technical experts, for example, engineers in construction disputes. More importantly, international commercial arbitration has been so successful because it offers neutral dispute resolution.\textsuperscript{157} Sophisticated parties prefer, all things being equal, to

\textsuperscript{156} See, \textit{e.g.}, ANDREAS F. LOWENFELD, LOWENFELD ON INTERNATIONAL ARBITRATION, COLLECTED ESSAYS OVER THREE DECADES 101 (2005).

\textsuperscript{157} See, \textit{e.g.}, W. MICHAEL REISMAN, W. LAURENCE CRAIG, WILLIAM PARK & JAN PAULSSON, INTERNATIONAL COMMERCIAL ARBITRATION Ixxvii (1997); LOWENFELD, supra note 156, at 1; Pierre Lalive, \textit{On the Neutrality of the Arbitrator and the Place of the Arbitration}, in SWISS ESSAYS ON INTERNATIONAL ARBITRATION 28 (1984). See also the survey conducted by Christian Bürhing-Uhle between November 1991 and June 1992, which revealed that forum neutrality was considered one of the two most significant advantages of international arbitration, together with higher prospects of enforcement internationally. CHRISTIAN BÜRHING-UHLE, ARBITRATION AND MEDIATION IN INTERNATIONAL BUSINESS 109 (2nd ed. 2006).
have the home court advantage—that is, they prefer to litigate any dispute arising from such contracts in their home courts under their own national law. Assuming both parties are equally sophisticated, neither will risk giving the other such an advantage. Because failing to address the issue in the contract could very well result in one party grabbing the home court advantage by being the first to file suit, the parties have little choice but to address it during the contract negotiations; in that regard, they have few options other than a resort to binding arbitration.\textsuperscript{158}

The neutrality of international arbitral tribunals, of course, is not a given; it depends on the composition of the tribunal. For that reason, most tribunals are typically composed of jurists of different nationalities and expertise, with parties typically appointing a member of the tribunal who shares their nationality. The nationality of the president of the tribunal, typically chosen by party agreement or by the two party-appointed arbitrators, will most often be different from that of the parties and the party-appointed arbitrators, in order to preserve the neutrality of the tribunal.\textsuperscript{159} The result is that most international arbitral tribunals are composed of three arbitrators of three different nationalities and, if they are lawyers, typically trained in three different national laws. In the best case scenario, one tribunal member will be familiar with the applicable national law, but in the worst case, none will be.

In any case, many (if not most) international arbitration practitioners argue that training in the applicable law is not a critical factor in appointing an arbitrator;\textsuperscript{160} rather, they argue that what matters most is choosing a reliable international dispute resolution expert.\textsuperscript{161} For leading arbitrators, then, virtually every dispute involves a need to understand the complexities of a foreign law (i.e. a law in which they were never trained and never practiced).\textsuperscript{162} With that recurring

\begin{footnotes}
\item[158.] Some go as far as to argue that it is their only option, and that consequently arbitration actually enjoys a \textit{de facto} monopoly over international commercial disputes. See Jan Paulsson, \textit{International Arbitration Is Not Arbitration}, STOCKHOLM INT. ARB. REV. 1, 2 (2008).

\item[159.] BLACKABY ET AL., \textit{supra} note 39, at 260, ¶ 4-60; Nathalie Voser and Pascale Gola, \textit{in INTERNATIONAL ARBITRATION IN SWITZERLAND: A HANDBOOK FOR PRACTITIONERS} 37 (Gabrielle Kaufmann-Kohler & Blaise Stucki eds., 2004).

\item[160.] Challenges of arbitrators on the ground that they were not knowledgeable in the applicable substantive law have typically been rejected. See, e.g., DERAINS & SCHWARTZ, \textit{supra} note 138, at 160.

\item[161.] BLACKABY ET AL., \textit{supra} note 39, at 262, ¶ 4-65; Voser & Gola, \textit{supra} note 159, at 37.

\item[162.] LEW ET AL., \textit{supra} note 138, ¶ 18-2. Fabrizio la Spada, \textit{The Law Governing the
burden in mind, it is quite clear, that if all such disputes were governed by a unique body of transnational rules, an arbitrator’s life would be much easier: it would, obviously, save them the trouble of ascertaining the intricacies of an unfamiliar national law.\textsuperscript{163} But, it would also allow them to avoid problems which might arise if one member of the tribunal is well versed in the applicable law and could, therefore, be accused of using his knowledge to the advantage of a particular party.\textsuperscript{164} In such cases, rather than introducing an imbalance in the tribunal, all three arbitrators may prefer to agree to apply transnational rules, thereby putting them all on an equal footing.\textsuperscript{165}

3. Enhancing Legitimacy

Ascertaining and properly applying the intricacies of a foreign national law does more than just significantly complicate the international tribunal’s task. It also puts at risk its legitimacy, in particular in the eyes of other actors in the arbitral process who might be specialists in the applicable law. Imagine an arbitral tribunal composed of French, Swiss, and English arbitrators. If the applicable law is English law, the parties may each hire English law firms to represent them and add English barristers for the advocacy work. What would be the legitimacy of an award, and of the tribunal that made it, if it failed to grasp the complexities of the relevant English precedents, neglected to take the factual background of the applicable authorities seriously, or otherwise overgeneralized their meaning?\textsuperscript{166} The parties’ English lawyers would certainly not be impressed, and although the winner’s lawyer might accept that such errors are a natural consequence of using neutral international dispute resolution, the loser’s lawyer may well question the professional competence of those highly regarded arbitrators or the appropriateness of choosing arbitration in the first place. Further, if an opportunity to resist enforcement of the award arises, he is much more likely to advise his clients to make the best use of it, perhaps damaging the reputation of the individual


\textsuperscript{163} Poudret & Besson, supra note 75, ¶ 704.


\textsuperscript{165} \textit{Id.}

\textsuperscript{166} Civil lawyers might be tempted to do this. In the civil law tradition, case law is as important a source of the law as in the common law tradition, but facts play virtually no role in defining the scope of precedents.
arbitrators as well as the arbitral process itself.

Those risks would evaporate if the arbitral tribunal could instead apply vague (and otherwise poorly defined) transnational rules. Although some of *lex mercatoria*'s self-appointed guardians might still disagree with the arbitral tribunal’s ultimate reasoning, a tribunal’s use of such transnational rules allows it (and its members) to avoid the possible embarrassment of being thought or publicly found incompetent to apply complex rules of foreign law by leading specialists of the relevant legal system. One can, thus, understand why international arbitrators would be inclined to apply an international legal regime or try to denationalize applicable norms.\(^{167}\) In cases where a clear choice of the parties would not prevent them from doing so (and the applicable arbitration regime would allow it), that could mean ruling that *lex mercatoria* applies. But, even in cases in which the parties specified the applicable national law, it would still be possible to use *lex mercatoria* to mitigate the risks of improperly applying that national law. Remarkably, international arbitral tribunals often justify the decision both under the applicable national law and some principle or rule of transnational law.\(^{168}\) By doing so, the tribunal provides a preemptory response to any potential criticism of its skill in applying the national law by confirming the decision’s appropriateness under international principles.\(^{169}\) Similarly, there are examples of arbitral tribunals cumulatively applying several potentially applicable substantive laws in order to enhance the legitimacy of their decision.\(^{170}\)

International arbitrators may resort to transnational principles to avoid venturing into unknown foreign laws. However, knowledge of *lex mercatoria* and of transnational principles is becoming an expected competence for admission into the highest rank of internation-

---

167. See Lew et al., supra note 138, ¶ 18-4 (arguing that arbitrators should internationalize, or denationalize, applicable norms and, when possible, prefer international conventions over national laws).

168. See, e.g., Award in ICC Case No. 9651 (unpublished), cited in Naón, supra note 144, at 262; Interim Award in ICC Case No. 5314, XX Y.B. COMM. ARB. 35 (1995); I Collection, supra note 144, at 197; Award in ICC Case No. 12112, XXXIV Y.B. COMM. ARB. 76 (2009); see also Award in ICC Case No. 13129, XXXIV Y.B. COMM. ARB. 230 (2009) (applying international principles, but noting that English law would lead to the same result).

169. Pamboukis, supra note 76, at 657.

170. See, e.g., Award in ICC Case No. 3540, I Collection, supra note 144, at 105; Award in ICC case No. 2272, II YB COMM. ARB. 151 (1977); see also Award in ICC case No. 9651, supra note 168; Second Partial Award of 1996 in ICC Case No. 7472 (unpublished), cited in Naón, supra note 144, at 239; Award in ICC Case No. 6618 (unpublished), id. at 263.
al commercial arbitrators. In certain international arbitration circles, international arbitration is viewed as fundamentally different from litigation, such that arbitration should not in any way try to mimic domestic dispute resolution. Rather, international arbitration should be genuinely and distinctly international, and thus separate and autonomous from national law. For that reason, international arbitrators should not “merely” be leading practitioners in one jurisdiction, but should have an understanding of international business and the particular rules and customs applicable to it. They should, therefore, demonstrate that their expertise is not only national, but transnational, by showcasing their awareness of different legal traditions as well as their “legal internationalism.” As a consequence, mastery of *lex mercatoria* becomes both a defining quality for international arbitrators and a critical component of their legitimacy. From that perspective, a decision-maker’s lack of expertise in a particular national law is far less relevant than it would be in a national court setting, especially if the tribunal’s ultimate decision can be justified under some transnational rule or principle. Moreover, this separate and autonomous vision of international arbitration effectively excludes potential competitors without the “necessary” transnational credentials.

4. Reducing Accountability

The tribunal’s ability to apply vague principles instead of precise national rules does more than simply increase the arbitrators’ discretion and make their lives easier; it also helps to preserve their professional reputations. National commercial law is often complex and subtle. Identifying and properly applying the correct national rules can require a relatively sophisticated understanding of the particular legal system (e.g., how it works, the potential sources of its rules, and the relative authority thereof). Arbitrators applying foreign national laws have a significantly greater chance of making mistakes than domestic adjudicators do. And, while errors of law would typically not jeopardize the validity or the enforceability of the resulting award, they would hardly be good for the arbitrators’ reputations.

171. *Karton, supra* note 130, at 138.


Although the decision and its underlying reasoning are not typically made public, the parties and, more importantly, their lawyers, will be well aware of the arbitrators’ mistakes. Those lawyers are likely to share their impressions of the arbitrators and their expertise with other members of the arbitral community when meeting at one of the many conferences organized in the field. Most importantly, they are highly unlikely to encourage others to appoint those same arbitrators. Conversely, arbitrators applying vague principles and unclear methodologies take far fewer risks. Indeed, with almost unlimited discretion, it is extremely unlikely that the arbitral decision could be proven simply wrong. Analysts might disagree with it or its reasoning, but no one could actually establish that the arbitrators misunderstood the applicable rules or misapplied them.

B. International Arbitrators as Agents

Lex mercatoria is not just an academic debate. As previously shown, it provides international arbitrators concrete benefits. But, as also shown, commercial parties do not appear to receive equal benefits from its application. Thus, a reasonable hypothesis is that it developed, in spite of the lack of real benefits to commercial actors, because of those concrete benefits to international arbitrators.

Over a decade ago, in George Watts & Son, Inc. v. Tiffany and Co., 175 Judge Frank Easterbrook first articulated the proposition that the relationship between the parties and the arbitrators in an arbitration proceeding was one of agency; the argument has since been enthusiastically endorsed by academic writers. 176 Agency theory addresses situations in which one party (the principal) hires another (the agent), who is typically more expert than the principal, to carry out a given task. In the arbitration context, the disputing parties, being unable to resolve the dispute themselves, hire experts in dispute resolution (the arbitrators) to resolve the dispute for them. Thus, the arbitrator-party relationship falls squarely within the agency theory.

A problem in such a relationship arises when the agent has his own interests in whether, or in what manner, the requested task is performed. An agent might contradict the wishes of his principal to pursue his own interest instead of his principal’s. Agency theory finds that such conflicts of interest should be resolved in favor of the

---

principal, as it was he who hired the agent to perform the given task for and on behalf of the principal. Of course, not every agent’s choice to pursue his interest results in a problem for his principal. An agent may be able to fulfill his task in a variety of ways, and the choice of which one may be completely irrelevant to the principal. In that case, the principal should not care if, and indeed should expect that, his agent chooses the method that both achieves his principal’s goal and best suits the agent’s interests. An agency problem only arises if the interests of the actors are not just different, but in conflict.

The arbitrator-party relationship fits well into the agency model. The parties hire expert arbitrators to resolve their disputes. The arbitrators’ mission may be completed using different methods. The parties should only be concerned about which method the arbitrators choose if the interests pursued by the arbitrators in making that selection diverge from and conflict with the parties’ interests. By choosing to apply lex mercatoria instead of a national law to resolve the parties’ dispute, arbitrators are arguably pursuing their own interests, and not those of the parties, such that the “different” component of a classic conflict of interest is present. But is there the requisite “conflict” component, as well? It is important to assess the scope of the problem before exploring which strategies could be used to address it.

1. The Scope of the Problem

Principal-agent relationships only create agency problems when an actual conflict of interests exists between the agent and principal. I have argued that arbitrators have a variety of incentives to choose lex mercatoria as the applicable law in absence of the parties’ choice to that effect. Some of them do not raise any issue because arbitrators can pursue those particular interests at no cost to the parties. Others, however, create a genuine conflict of interest.

Logically, the most legitimate interest any agent can pursue is to reduce the agent’s cost of performance. Not only should the principal expect the agent to pursue that goal, but it might actually benefit the principal if lower agent costs result in lower fees to be paid to the agent.177 Applying lex mercatoria, or any other international le-

177. The rules of some arbitral institutions (the London Court of International Arbitration, for instance) provide that arbitrators charge the parties on an hourly basis. The most commonly used practice, however, which is also the rule in many other arbitral institutions such as the ICC, is that the fees of the arbitrators depend on the amount of the
gal regime for that matter, offers the tribunal a tremendous advantage by allowing the arbitrators to avoid first determining the applicable national law, and then establishing its relevant content, particularly if that national law is foreign to all or a majority of the members of the tribunal.\textsuperscript{178} The tribunal’s decision to apply or not apply an international legal regime is neutral for the parties.\textsuperscript{179} Of course, if the content of \textit{lex mercatoria} is equally, if not more, complex to assess, it is not less costly for the arbitrators to resort to it. But that is also neutral for the parties as long as the choice does not impact the fees charged by the arbitrators. And, as noted below, available international legal regimes can be easily applied at virtually no cost to the parties.

In sharp contrast, increasing his discretion (and thereby shielding him from claims of legal error) is an arbitrator interest which comes at a real cost to the parties. My assumption is, again, that commercial parties value legal certainty. They want to be able to determine with precision what their rights and obligations are under their contract. They want to know whether their contractual provisions would be enforceable under the applicable law, and which default rules would apply in the absence of an express contractual provision. As \textit{lex mercatoria} contains virtually no mandatory rules,\textsuperscript{180} there is very little risk that arbitral tribunals would not enforce the contract’s terms. Most contracts, however, are incomplete, and unforeseen contingencies may only be resolved by applying default rules. If the arbitrators decide to apply \textit{lex mercatoria}, it makes it virtually impossible for the parties to predict with reasonable certainty which default rule might eventually be applied. When default rules are clear, outcomes can be predicted and further dispute resolution costs seem wasteful. On the other hand, in an uncertain legal environment each party can hope for the application of very different default rules, such that the parties’ interest in settling the dispute before the final decision is lower. Thus, the choice to apply \textit{lex merca-

\textsuperscript{178} See supra note 159 and accompanying text.

\textsuperscript{179} While the decision of arbitrators to use \textit{lex mercatoria} instead of a national law to decide the dispute would typically not impact the fees charged by the arbitrators, one could easily imagine how it could impact the services of the lawyers of the parties and thus their costs.

\textsuperscript{180} Some arbitration scholars have submitted that there could be a genuinely transnational public order including a few rules such as the prohibition of corruption, racial discrimination, or drug trafficking. See, e.g., Gaillard & Savage, supra note 141, ¶ 1535. In practical terms, however, arbitrators virtually never use this transnational order. See id. ¶ 1533.
toria results in higher dispute resolution costs for the parties.

I have also argued that international arbitrators may feel that they increase their legitimacy if they decide disputes pursuant to lex mercatoria. The issue of the legitimacy of international arbitrators is not confined to the potential for agency conflicts of interest between arbitrators and parties. The legitimacy of international arbitrators is not only relevant to the arbitrators and the parties; rather, it is critically important to the community of international merchants and to international trade in general. Arbitration is an essential tool for resolving international commercial disputes because it, alone, offers a neutral dispute resolution forum. The parties’ national courts can offer no such alternative precisely because each party fears that the other will enjoy an unfair advantage if the dispute is litigated in its home court. Therefore, the success of international arbitration should be considered an issue of general welfare because it is critical to international trade. Protecting and enhancing its legitimacy is central to its continuing success. Thus, the need for legitimacy goes far beyond simply ensuring that parties respect and comply with arbitral awards. Rather, because arbitration is contractual in nature and requires agreement of the parties, if the arbitrators appear to lack legitimacy, parties might well abandon arbitration in favor of different, more legitimate dispute resolution processes.

For that reason alone, the impact that applying lex mercatoria has on the legitimacy of international arbitrators must be carefully assessed. I have argued that one incentive arbitrators have to apply it is to avoid using a national law they have not fully mastered. At first glance, one might think that arbitrators who are not specialists in the applicable national law should not try to hide that fact by choosing a different set of rules or that parties should only appoint arbitrators who possess the proper skill set. But that would be wrong. International arbitration achieves neutrality in dispute resolution by offering the parties a chance to appoint arbitrators of different nationalities and backgrounds, typically including a president who has no connection whatsoever to the parties or their dispute. That quest for neutrality excludes a resort to only those decision-makers who are masters of a particular national law. Because such neutrality is needed, any arbitrator efforts to decide disputes on the basis of an international legal regime, when otherwise appropriate, should be encouraged.

However, encouraging arbitrators to apply an inappropriate international regime may well undermine the international arbitration system. In particular, applying non-national rules that combine virtually unlimited discretion with very limited accountability is more likely to damage the legitimacy of international arbitrators than enhance it. While the appointment process provides a large measure of
legitimacy to arbitrators, the decision-making method selected and implemented by those arbitrators is, perhaps, even more important for legitimacy. Specifically, to maintain legitimacy, arbitrators cannot be perceived as acting without constraints or according to personal whim; instead, their decisions must appear to be derived from the thoughtful application of established rules. Parties do not go to international arbitration to avoid the application of law; rather, they go to international arbitration because it uniquely offers neutrality of adjudication. That is the very reason why virtually no arbitration laws allow arbitrators to decide *ex aequo et bono* without the parties’ *express* grant of that authority. Rather, in the absence of such specific party permission, they are bound to apply rules of law. The legitimacy of arbitral tribunals depends, therefore, on a general perception that the decision was made pursuant to clear rules that different arbitrators would have also applied in the same circumstances. If parties have not specified the applicable law for resolving their dispute, and have not otherwise given the tribunal’s arbitrators express authority to rule *ex aequo et bono*, allowing arbitrators to decide pursuant to *lex mercatoria*—that is, pursuant to a transnational legal regime which provides virtually the same unlimited discretion and lack of accountability without any need for express party permission—can damage the legitimacy of international arbitration as an institution and, thus, the general welfare of parties involved in international trade.

2. Strategies

Using *lex mercatoria* may appear attractive to international arbitrators for two distinct reasons: first, it is a transnational legal regime that allows them to avoid applying a national law they may not have mastered. Second, it incorporates many vague norms which offer little, if any, limits on the arbitrators, thereby giving them broad, if not unlimited, discretion. Thus, the very vagueness of *lex mercatoria* raises a genuine agency issue if it is applied without the parties’ express consent. In contrast, the incentives of arbitrators to apply other transnational legal regimes do not raise a similar problem. Quite to the contrary, issues that arbitrators address when resorting to a transnational regime appear to be entirely legitimate and, indeed, important not only for their own welfare but for international commerce in general.

In light of such legitimate interests, the most obvious solution to the potential agency problem—that is, an outright ban on the use of any transnational legal regime in the absence of specific party authorization—is not the most efficient. A better solution would be to
ensure that, when arbitrators are called upon to decide a case in which the parties have not selected an applicable law and have not given them any special authorizations, those arbitrators are only permitted to apply transnational rules that would be sufficiently precise to limit their discretion.

Such transnational legal regimes exist as a result of the recent efforts of scholars to produce international codes of contract law.181 Some such codes or sets of principles attempt to codify lex mercatoria and are based on actual customs, rules, and principles applied in international commerce. Others are scholarly projects intended to be international restatements of contract law. While they do not represent actual customs and rules observed by international merchants, they are far more coherent, exhaustive, and detailed. One excellent example of the latter is the UNIDROIT Principles, which are a coherent code of contract law affording precise and detailed rules. If arbitrators were to apply such a legal regime when the parties did not choose the applicable law, they would not have to apply a national law, but their discretion would be appropriately restricted by precise rules.182 Several arbitral awards have applied the UNIDROIT Principles as rules of decision and some have ruled that their use makes lex mercatoria more precise and more foreseeable.183

As the foregoing discussion shows, the agency problem can be addressed by restricting, in the relevant circumstances, the arbitrators’ choice to international codes of contract law or other detailed codifications of the norms actually observed by merchants. The E.U. Commission made such a proposal in 2006, though in a different context. In 2005, the European lawmakers considered reforming European choice of law rules in contractual matters; in a first draft of a new regulation, the European Commission proposed allowing E.U. Member States to enforce contract clauses choosing “principles and rules of the substantive law of contract recognized internationally or in the Community” as the applicable law.184 The proposal only ad-

181. See supra notes 49–52 and accompanying text.

182. As the parties would not have agreed on the application of any particular legal regime, the fact that the UNIDROIT Principles are not based on the norms actually observed by international merchants and thus do not correspond to the initial concept of lex mercatoria would be irrelevant: arbitrators would not have been instructed to apply lex mercatoria or any similar regime.


addressed the power of national courts to apply non-state law, not the power of arbitral tribunals to do so, which explains its modest reach: it permitted parties to choose non-state law, but did not propose that judges have the authority to choose, *sua sponte*, the applicable law. Interestingly, even that rather modest proposal proved too innovative; the E.U. Member States rejected it. In the arbitration context, however, the parties’ power to apply a non-state law to their dispute is already widely accepted. What remains under discussion, though, is whether arbitrators have (or should have) the right to apply non-state law in the absence of a choice by the parties. Some arbitration laws already grant arbitrators that right, while many others instruct arbitrators to apply conflict of laws rules, and thus a national law.185 My proposal would, therefore, represent a compromise.

Agency theory offers a variety of strategies to address agency problems and to protect principals. Regulatory strategies, on the one hand, dictate substantive terms governing the content of the principal-agent relationship, which tend to impose direct constraints on the agent. Governance strategies, on the other hand, facilitate the principals’ control over the agent’s behavior. Some strategies operate *ex ante*, by proscribing certain behavior or by facilitating principal control before an agent acts, while others operate *ex post* (e.g., by reviewing an agent’s actions after the fact).186

These strategies were developed in the context of corporate law. While the arbitrator-party relationship can be analyzed from an agency perspective, the two fundamental peculiarities related to the international arbitrator’s task must be taken into consideration to assess which strategy might be appropriate. The first and most obvious peculiarity is that arbitrators are hired by the parties to resolve a dispute between the parties as adjudicators. As a consequence, they are expected by the hiring parties to act independently from, and impartially with respect to, both parties to the dispute, who both happen to be their principals. So strategies for addressing agency problems in the context of the arbitrator-party relationship must not negatively impact the arbitrator’s independent and impartial decision-making process. Obviously, that restriction excludes a resort to widely-used strategies in the corporate context, such as offering incentives to agents to behave in a certain manner or granting to principals the power to control, *ex post*, the agents’ decisions.

185. *See supra* note 145 and accompanying text.

The second peculiarity of the arbitrator's task relates to the essential reason parties choose to go to arbitration: the parties want to avoid national courts because they fear that the national court of the other party will be biased against them. As no international commercial court yet exists, international arbitration offers them a chance to limit, to the maximum extent possible, their exposure to national courts while achieving a neutral decision-making forum. In that regard, the 1958 New York Convention on the Recognition and the Enforcement of Foreign Arbitral Awards, which is a cornerstone of the international arbitration process, limits the involvement of national courts in arbitration proceedings to their final, albeit critical, stage: enforcement of the arbitral awards. Consequently, to involve national courts in any strategy purporting to address the agency problems raised by the arbitrator-party relationship would be problematic, although the problem could be partially ameliorated if national courts were only authorized to apply a mechanical rule subject to virtually no discretion.

In light of the foregoing, an appropriate strategy might be to follow a regulatory approach, adopting a rule that provides that where parties did not specify the applicable law, arbitrators are authorized to apply either a national law or an internationally-recognized set of rules of contract law. Arbitral awards made in contravention of that rule could be set aside by the competent national court. Such a rule would be straightforward and easily applied, and would not confer on national courts any additional opportunity to review the arbitral award on its merits.

The proposed rule, however, raises some issues. First of all, the phrase "internationally-recognized set of rules of contract law" is imprecise; to avoid that criticism, a better solution might be to expressly specify one or more particular sets of rules that can be used (e.g., the UNIDROIT Principles or a particular international restatement). Second, the power of arbitrators to apply lex mercatoria in the absence of a positive choice made by the parties typically lies in arbitration rules, as most national arbitration laws instruct arbitrators in that situation to apply conflict of laws rules that, by definition, result in a national applicable law. To be effective, then, the proposed rule would have to be either adopted by arbitral institutions or considered a mandatory rule of the applicable arbitration law.

V. A PRODUCTION COST THEORY OF LEX MERCATORIA

Over the last few decades, the ICC has been remarkably active in promoting the use of lex mercatoria by international commer-
cial parties. It is, of course, the home of the leading arbitral institution in the world, the ICC Court, but it also actively produces international commercial norms, particularly model contracts. Below, I show how, in each of these capacities, it has promoted the use of *lex mercatoria*, and argue that it has done so to reduce its cost to produce those model contracts.

A. The ICC’s Efforts to Promote Lex Mercatoria

Most, if not all, international commercial actors have heard of the ICC’s INCOTERMS, which are widely used throughout the world in international sales of goods. But that is not the limit of the ICC’s work in creating international commercial norms: one of its most important activities is to produce international model contracts. It has, for example, issued model sales contracts,\(^ \text{187} \) commercial agency contracts,\(^ \text{188} \) distributorship contracts,\(^ \text{189} \) and intermediary contracts.\(^ \text{190} \) As all such model contracts are meant to be used in an international context, the ICC could not possibly avoid addressing the issue of the applicable law therein. Remarkably, the model contracts typically include a choice of law clause that encourages the parties to choose non-national rules to govern their relationship. The most common model clause offers an option to the parties.\(^ \text{191} \) The first alternative offered, Alternative A, adopts a clause choosing, “in the following order,” among (1) “the rules and principles of law generally recognized in international trade as applicable to international contracts,” (2) trade usages, and (3) the UNIDROIT Principles.\(^ \text{192} \) The second alternative, Alternative B, is a clause choosing a national law. However, the drafters warn potential users that the model contracts “were drafted under the assumption that [they] would not be gov-


\(^ \text{191} \) See, e.g., id. art. 13.1; Model Distributorship Contract, *supra* note 189, art. 24.1.A.

erned by a specific national law (as stated in Alternative A of [the relevant article])" and they further explain that "[I]f the parties prefer nevertheless to submit their agreement to a national law (by choosing Alternative B), they should carefully check in advance if the clauses of the model form conform with the provisions of the law that they have chosen."193 While it is true that some ICC model contracts include very different choice of law clauses (e.g., the Model International Sale Contract proposes the combined application of the CISG and of a national law for issues not settled by the CISG),194 the ICC still encourages the parties, in its introductory remarks to such contracts, "not to choose a domestic law."195

Whether the ICC's efforts to promote lex mercatoria through its model contracts have been successful remains unclear. If they had been successful, one would think that there would be far more instances of arbitral discretion in which the parties selected lex mercatoria to apply. The fact that so few disputes referred to the ICC Court of Arbitration including choice of law clauses applying non-state rules suggests either that the model contracts are not widely used, or that parties using them typically choose Alternative B, selecting a national law to govern their transaction.196 In any case, regardless of how successful these contracts may be, they are unequivocal evidence of the ICC's active promotion of the use of lex mercatoria.

That conclusion is further corroborated by some of the ICC's choices as an arbitration institution. I have already noted that it has been instrumental in advancing lex mercatoria as a set of rules to be applied by international arbitrators. Specifically, the ICC Rules of Arbitration allow arbitrators to apply "rules of law" both when the parties provided so and when they have remained silent on the applicable law.197 The ICC is not unique in this respect, however, as the rules of all other international arbitral institutions give the same power to arbitral tribunals.198 On that basis, one might assume that all major arbitral institutions are equally friendly to lex mercatoria, but they are not. While the ICC encourages parties not to select an appli-

193. See, e.g., Model Commercial Agency Contract, supra note 188, note to art. 24.1.A; Model Distributorship Contract, supra note 189, note to art. 24.1.A.


195. Stone Sweet, supra note 55, at 634.

196. A third possibility could be that they are widely included in actual contracts, including Alternative A, but that disputes do not arise out of them.

197. 2011 International Chamber of Commerce Arbitration Rules, art. 17.

198. See, e.g., 2009 American Arbitration Association International Arbitration Rules, art. 28; 2010 Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce, art. 2; see also Swiss Rules of International Arbitration, art. 33 (2012).
cable law in advance, many other institutions encourage parties to choose a national law to govern their transaction. From a practical point of view, that means that those other institutions encourage parties to include a clause that excludes the arbitrators’ power to apply *lex mercatoria*.

All arbitral institutions have a suggested standard dispute resolution clause, which, in practice, plays a critically important role. It is likely to be used by the vast majority of parties otherwise willing to provide for institutional arbitration, if only because by using the standard clause they exclude the risk of being held responsible for not using it if things go wrong. Of course, the point of these standard clauses is to provide for arbitration under the auspices of the relevant institution. But many standard clauses also include, in addition to the arbitration clause, a choice of law clause. And this choice of law clause virtually always encourages the parties to choose the law of a nation. The recommended clause of the London Court of International Arbitration, for instance, provides that “[t]he governing law of the contract shall be the substantive law of [_]” 199 Similar model clauses are also suggested by the Singapore International Arbitration Center, 200 the German Institution of Arbitration, 201 and the Arbitration Institute of the Stockholm Chamber of Commerce. 202

The ICC (like some other arbitral institutions) does not include any choice of law provision in its standard arbitration clause. 203 Given that all of its model contracts include a choice of law provision and that most of these provisions designate non-state rules, it is hard to believe that the ICC inadvertently forgot to address such an important issue in that clause. Rather, it likely made a conscious choice to exclude it, 204 particularly as its arbitration rules address the power

---


203. Other institutions which do not specifically encourage parties to choose the applicable law include the American Arbitration Association (International Arbitration Rules), the Swiss Chambers’ Court of Arbitration and Mediation, and the Cairo Regional Center for International Arbitration.

204. The ICC regularly revises its arbitration rules (most recently in 1998 and 2011) and
of the arbitrators when there has been no law selected by the parties. As many of its competitors include a choice of law clause that encourages the parties' advance selection of a national law, it seems obvious that the ICC's silence amounts to a rejection of that solution. The choice not to provide the applicable law in its standard arbitration clause is a way to preserve the application of lex mercatoria by arbitral tribunals. The only remaining question is why the ICC does not promote it more actively, as it does in its model contracts.

B. The ICC's Incentives to Promote Lex Mercatoria

Why would the ICC so actively promote the use of lex mercatoria instead of taking the safer, and less controversial, route of encouraging parties to submit their transactions to a national law? It could be for either of two reasons. First, advocates of lex mercatoria may have effectively lobbied the ICC to take an active role in its promotion: international arbitrators, who are logically very much involved in the ICC's general functioning (particularly its arbitration services), immediately come to mind for the reasons previously mentioned. Alternatively, the ICC may have its own interest in promoting lex mercatoria as a set of rules of decision.

The ICC has a patent interest in lex mercatoria's acceptance and development in its role as a norm producer. Because it is a private organization, it has no lawmaking power. It cannot pretend to establish authoritative rules. Thus, if its norms are to be used, it must be either because they are considered to be representative of trade usages or because commercial parties voluntarily incorporate them into their contracts. A few norms produced by the ICC have been so successful that they have been recognized by national courts as trade usages. Unfortunately, most of them never achieved that level of acceptance. Thus, the impact and success of ICC-generated norms depend not just on the willingness of private parties to incorporate them in their contracts, but also on the parties' power to do so.

The extent to which private parties are permitted to incorporate a set of norms in their contract depends on the extent to which law curtails their freedom of contract. Most jurisdictions do not grant

---

205. I discuss their incentives in the previous section.

206. For instance, U.S. Courts have given such status to INCOTERMS. See, e.g., BP Oil Int'l v. Empresa Estatal Petroleos De Ecuador, 332 F.3d 333 (5th Cir. 2003). French courts have ruled likewise with respect to the Uniform Rules and Customs on Documentary Credit. See, e.g., Cass. Com. 14 October 1981, Case No. 80-12336.
parties absolute power to incorporate norms; certain mandatory rules apply. Before one can incorporate norms into one’s contract or, put differently, use a model contract, one must first verify that the proposed norms or clauses comport with those mandatory rules. Those mandatory rules, however, vary from one jurisdiction to another, meaning that, if an organization is willing to engage in the business of producing norms or model contracts to be used in international transactions, that organization should first verify that its product comports with the more than 200 contract laws of all jurisdictions of the world. Whether any organization has ever really done that remains a mystery, but it is clear that some have sought legal opinions as to the enforceability of the essential clauses of their models in a number of jurisdictions.\textsuperscript{207} A less costly option would be to incorporate a particular national law into the model or, at a minimum, advise parties using the model to choose that particular national law, after verifying that the model contract in fact comports with the mandatory rules thereof.\textsuperscript{208} Of course, international commercial parties originating from other jurisdictions might be reluctant to simply choose the particular law chosen by the model’s drafters, especially if it happens to be the law of the other contracting party, so such a model may not be well received in the market.

From the ICC’s standpoint, neither of these options is viable. One can easily understand that attempting to verify whether a particular model contract (much less all of an organization’s model contracts) comports with over 200 contract laws is prohibitively expensive, both in terms of time, money, and efficacy. The monetary costs alone would be enormous.\textsuperscript{209} Moreover, there would be no way to assure that the laws of any one jurisdiction had not changed, requiring an ongoing monitoring system to maintain the organization’s assurance that its model complies with all national laws. That option is simply a nonstarter.

The less costly alternative of imposing a particular national law on the model contract is equally unpalatable. As an institution based in Paris, the ICC might have been tempted to impose French

\textsuperscript{207} This is the case with ISDA, for instance, discussed supra Part I.A.

\textsuperscript{208} The Grain and Feed Trade Association (GAFTA), for instance, includes in its model contracts a clause providing for the application of English law. This obviously simplifies the job of verifying whether they are enforceable.

\textsuperscript{209} See Fabio Bortolotti, Reference to the UNIDROIT Principles in Contract Practice and Model Contracts, in ICC BULLETIN, SPECIAL SUPPLEMENT, UNIDROIT PRINCIPLES: NEW DEVELOPMENTS AND APPLICATIONS 57 (2005) (”Were the contract to be submitted to an indefinite number of domestic laws, chosen by parties in individual cases, it would be impossible to draft clauses complying with all [rules of law applicable to it].”)
law, but its limited availability in English would certainly lead many parties to pass on that choice of law and, perhaps, on the entire model contract. *Lex mercatoria*, on the other hand, has several advantages. First, being non-national, it is not the law of one of the parties; it is thus unlikely to be perceived as favoring one. Second, *lex mercatoria* contains minimal (if any) mandatory rules, thereby greatly simplifying the drafters' task because they do not need to verify whether their model comports with any particular contract law, let alone all potentially applicable laws. As already noted, the typical ICC model contract alerts potential users that it was drafted with the assumption that parties would provide for the application of a non-national legal regime, and warns parties deciding to submit their contract to a national law to verify whether the model complies with the mandatory rules of the chosen law.

Fabio Bortolotti, an Italian academic and arbitrator who currently chairs the ICC's policy commission responsible for drafting model contracts (Commercial Law and Practice Commission) and formerly chaired the ICC task forces that drafted model contracts on international agency, distributorship, franchising, and contracts with occasional intermediaries, confirms the foregoing in various writings. In an article presenting the new ICC Model Commercial Agency Contract, Mr. Bortolotti explained why it provided for the application of non-national law. He suggested that principals would typically want to use the same model contract for all their agents, irrespective of the jurisdiction concerned. In that regard, subjecting the model contract to *lex mercatoria* has the unique advantage of situating it in a "free space"—an "autonomous zone"—where national laws do not apply. The parties would, thus, be able to "subtract themselves from the application of domestic rules, even mandatory ones." The only limit would be public policy in the jurisdictions in which the arbitral award needs to be recognized: an arbitral award can always be denied recognition if it is contrary to public policy.

210. As already underscored, some arbitration scholars have submitted that there could be a genuinely transnational public order, but this is virtually never relevant in practice. See supra note 180.
211. *Supra* notes 191–93 and accompanying text.
213. *Id.* at 688.
214. *Id.* at 688–89.
215. *Id.* at 689.
216. *Id.*
Imposing, or strongly encouraging, the choice of *lex mercatoria* as a model contract’s governing law might well have offered a solution to the problem of mandatory rules contained in national contract laws. It is certainly the most pressing problem faced by drafters of international model contracts, but it is not the only one. Contract provisions may be invalidated or otherwise held unenforceable pursuant to a variety of other national laws such as antitrust or insolvency laws. No advocate of *lex mercatoria* has ever claimed that it could displace such regimes.  

It is, therefore, no antidote to their application. Drafters of international model contracts must either take such regimes into account or ignore them. The ICC has certainly taken into account antitrust law when drafting some of its model contracts. The ICC Model Distributorship Contract is a good example. Although it provides for the application of *lex mercatoria*, the potential application of antitrust law has led the drafters to include options from which the parties must choose depending on whether they are concerned with the application of antitrust law. What is unclear, however, is whether the options offered by the drafters are meant to ensure that the relevant contract comports with all antitrust laws or simply with certain ones.

The ICC’s decision to promote *lex mercatoria* can, therefore, be explained by its desire to reduce its model contracts’ production costs. Like every other product or service provider, the ICC would like to reduce production costs for its various products intended for sale. As a seller of international model contracts, it is bound to incur some cost in verifying whether its models are valid and enforceable under applicable mandatory rules. One way to limit those costs is to first provide for the application of a single national law, and to then verify that its contracts comply with the mandatory rules of that particular law. Many trade associations have made precisely that choice,

---


219. *Id.* art. 24.1.A.

220. *See, e.g.*, *id.* art. 11 (Resale Prices), art. 12 (Sales Outside the Territory), and art. 16 (Sole Distributorship).

221. It is unclear, for instance, whether the options offered are meant to be compliant with both U.S. and E.U. competition laws. Some U.S. lawyers have argued that the focus was, at least for certain model contracts, only European law. *See, e.g.*, Carl E. Zwisler, *Amended ICC Model International Franchise Contract is Problematic for Franchising*, *Int’l Franchise Assoc.*, http://www.franchise.org/Franchise-Industry-News-Detail.aspx?id=54643 (last visited on Nov. 8, 2012).
by applying English law to their model contracts.222 However, the choice of one particular law might not always be acceptable to all commercial parties in a given industry. To address that issue, organizations producing model contracts might opt to incur the costs of verifying the enforceability of their contracts under only a limited number of national laws that correspond to the particular industry’s leading centers.223 But even an expanded choice of potential national laws might not work for certain norm producers working in broad and far-reaching fields without leading centers. As it is prohibitively expensive to even attempt to verify the enforceability of such an entity’s norms against the mandatory rules of hundreds of national laws, the only remaining solution is to avert the problem by preventing the potential application of such mandatory rules. The ICC chose that path, relying on the application of lex mercatoria to attempt to reach this goal.

The ICC’s effort to promote lex mercatoria in its model contracts is less problematic than its unfortunate decision to allow arbitrators to declare lex mercatoria applicable when the parties have not spoken, which creates genuine agency problems threatening the legitimacy of international arbitration as a whole. Model language is only binding on the parties if they choose to incorporate it in their ultimate contract, so a suggested choice of law clause applying lex mercatoria will only apply if accepted and incorporated by the parties. Moreover, although the ICC model contract drafters might encourage parties to refrain from choosing national law, they still typically offer the parties the option to do so. Parties choosing lex mercatoria in their contract, then, do so knowingly and voluntarily, such that one can reasonably presume that such parties have selected their preferred legal regime to govern it. Available data suggests, however, that lex mercatoria is not (and never has been) the preferred legal regime of international commercial actors. The ICC model contracts rightly notify parties that the lex mercatoria clauses will only be enforced by arbitral tribunals; parties choosing such clauses must, therefore, also include an arbitration clause (which, in all likelihood, will specify ICC arbitration). The ICC data, however, reveals that parties to ICC arbitrations choose non-national law in only 1% of the cases.224 Clearly, the lex mercatoria clauses in the ICC’s model contracts do

222. See, for example, GAFTA’s model contracts, such as the General Contract for Grain in Bulk, supra note 17.

223. This path has been followed in the finance industry. The enforceability of the ISDA Master Agreement was verified with respect to several national laws. See notes 20–27 and accompanying text.

224. See supra note 102 and accompanying text.
not appeal to the vast majority of commercial parties.

The question as to why those clauses are so unappealing remains to be answered. It may simply represent a distaste for the particular clauses offered in the ICC model contracts, or it may very well reflect a much more fundamental, general hostility to the application of lex mercatoria as a non-national legal regime in international contracts. The most common ICC lex mercatoria clauses establish three sets of norms to be applied in descending order: the first set is “the rules and principles of law generally recognized in international trade as applicable to international contracts”; the second is trade usages; and the third is the UNIDROIT Principles.225 Trade usages and UNIDROIT Principles are thus to be applied subsidiarily— that is, if and only if the dispute cannot otherwise be resolved by applying the first set of norms. Despite the reference to the UNIDROIT Principles, the clause directs the arbitrators to first apply “rules and principles of law generally recognized in international trade,” an obvious reference to lex mercatoria developed by continental scholars over the last fifty years, with its numerous and complex sources.226 Given its lack of precision, as well as the broad discretion its application gives to the arbitrators (arguably as broad as the authority to decide ex aequo et bono), it is unsurprising that most commercial parties find it unappealing.227 Moreover, the directive of the provision providing for the application of the three sets of norms in a particular “order” is not as clear as it seems. Professor Bortolotti, who was involved in the drafting of a number of these model contracts, argues that the correct order of the three sources is hierarchical.228 Sources lower in the hierarchy should only be applied if compliant with sources higher in the hierarchy. Trade usages and the UNIDROIT Principles might therefore only be applied if “they conform with general principles (lex mercatoria),”229 and “arbitrators may thus refuse to apply the provisions of the UNIDROIT Principles that they consider not to be in accordance with the reasonable expectations of business people engaged in international trade.”230 If Professor Bortolotti’s interpretation were widely adopted, parties could not even rely on the application of the UNIDROIT Principles, as arbitrators would have the discretion to displace them for alleged noncom-

225. See supra note 192 and accompanying text.
226. See supra notes 31–53 and accompanying text.
227. See supra notes 75–79 and accompanying text.
228. Bortolotti, supra note 209, at 62.
229. Id.
230. Id.
pliance with the general principles of international trade. Such a clause would not provide any legal certainty.

In light of the apparent distaste international commercial actors have for *lex mercatoria*, one cannot help but wonder whether the future of transnational commercial law does not lie instead in detailed and coherent international restatements of contract law. Perhaps if the *lex mercatoria* clauses in the ICC model contracts only applied the UNIDROIT Principles (or, alternatively, if the ICC reversed the order of application, such that the UNIDROIT Principles applied first), commercial parties might worry less about legal uncertainty and more readily enjoy the cost savings associated with not having to verify that their contract comports with the mandatory rules of the relevant national law. The present clause does refer to the UNIDROIT Principles, but only as a subsidiary solution available to supplement “rules and principles generally recognized in international trade.” Given the limited success of the ICC’s current clause, the ICC should include clauses referring to a single, clear, and detailed transnational commercial law regime, either as the sole option, or as the first set of norms to be applied.