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**June 18, 2004**

**CHAPTER NINETEEN**  
**DISPUTE SETTLEMENT**

ARTICLE 19.1: COOPERATION

The Parties shall at all times endeavor to agree on the interpretation and application of this Agreement, and shall make every attempt through cooperation and consultations to arrive at a mutually satisfactory resolution of any matter that might affect its operation.

ARTICLE 19.2: SCOPE OF APPLICATION

Except as otherwise provided in this Agreement or as the Parties otherwise agree, the dispute settlement provisions of this Chapter shall apply with respect to the avoidance or settlement of all disputes between the Parties regarding the interpretation or application of this Agreement or wherever a Party considers that:

- (a) a measure of the other Party is inconsistent with its obligations under this Agreement;
- (b) the other Party has otherwise failed to carry out its obligations under this Agreement; or
- (c) a benefit the Party could reasonably have expected to accrue to it under Chapter Two (Market Access for Goods), Chapter Four (Rules of Origin), Chapter Nine (Government Procurement), Chapter Ten (Cross-Border Trade in Services), or Chapter Fourteen (Intellectual Property Rights) is being nullified or impaired as a result of a measure that is not inconsistent with this Agreement, except that neither Party may invoke this sub-paragraph with respect to a benefit under Chapter Ten (Cross-Border Trade in Services) or Chapter Fourteen (Intellectual Property Rights) if the measure is subject to an exception under Article 20.1 (General Exceptions).

ARTICLE 19.3: ADMINISTRATION OF DISPUTE SETTLEMENT PROCEEDINGS

Each Party shall designate an office that shall be responsible for providing administrative assistance to panels established under Article 19.7. Each Party shall be responsible for the operation and costs of its designated office, and shall notify the other Party of its location.

ARTICLE 19.4: CHOICE OF FORUM

1. Where a dispute regarding any matter referred to in Article 19.2 arises under this Agreement and under the WTO Agreement, or any other agreement to which both Parties are party, the complaining Party may select the forum in which to settle the dispute.
2. The complaining Party shall notify the other Party in writing of its intention to bring a dispute to a particular forum before doing so.

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3. Once the complaining Party has selected a particular forum, the forum selected shall be used to the exclusion of other possible fora.
4. For the purposes of this paragraph, a Party shall be deemed to have selected a forum when it has requested the establishment of, or referred a matter to, a dispute settlement panel.

ARTICLE 19.5: CONSULTATIONS

1. Either Party may request consultations with the other Party with respect to any matter described in Article 19.2 by delivering written notification to the other Party. If a Party requests consultations with respect to a matter, the other Party shall reply promptly to the request for consultations and enter into consultations in good faith.
2. Each Party shall:
  - (a) provide sufficient information in the consultations to enable a full examination of how the matter subject to consultations might affect the operation of this Agreement; and
  - (b) treat any confidential information exchanged in the course of consultations on the same basis as the Party providing the information.
3. Promptly after requesting or receiving a request for consultations pursuant to this Article, each Party shall seek the views of interested parties and other members of the public on the matter in order to draw upon a broad range of perspectives.

ARTICLE 19.6: JOINT COMMITTEE

If the consultations fail to resolve a matter within 60 days of the delivery of a Party's request for consultations under Article 19.5, 20 days where the matter concerns perishable goods, or such other period as the Parties may agree, either Party may refer the matter to the Joint Committee by delivering written notification to the other Party. The Joint Committee shall endeavor to resolve the referred matter.

ARTICLE 19.7: ESTABLISHMENT OF PANEL

1. If the Joint Committee has not resolved a matter within 60 days after delivery of the notification described in Article 19.6, 30 days where the matter concerns perishable goods, or such other period as the Parties may agree, the complaining Party may refer the matter to a dispute settlement panel by delivering written notification to the other Party.
2. A Party may not refer a matter concerning a proposed measure to a dispute settlement panel.
3. Unless the Parties otherwise agree:

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- (a) The panel shall have three members.
  - (b) Each Party shall appoint one panelist, in consultation with the other Party, within 30 days after the matter has been referred to a panel.
  - (c) The Parties shall endeavor to agree on a third panelist as chair within 30 days after the second panelist has been appointed. If the Parties are unable to agree on the chair within this period, the Party chosen by lot shall select within five days as chair an individual who is not a national of that Party.
  - (d) The date of establishment of the panel shall be the date on which the chair is appointed.
4. The panelists chosen pursuant to paragraph 3 shall:
- (a) be chosen strictly on the basis of objectivity, reliability, and sound judgment and have expertise or experience in law, international trade, or the resolution of disputes arising under international trade agreements;
  - (b) be independent of, and not be affiliated with or take instructions from, either Party; and
  - (c) comply with a code of conduct to be established by the Joint Committee.

In addition, in disputes related to a Party's implementation of Chapter Fifteen (Labor), Chapter Sixteen (Environment), and such other chapters as the Parties may agree, panelists shall have expertise or experience relevant to the subject matter that is under dispute.

5. Panel hearings shall be held at a location determined in accordance with the model rules of procedure.

**ARTICLE 19.8: RULES OF PROCEDURE**

1. The Parties shall establish by the date of entry into force of this Agreement model rules of procedure, which shall ensure:
- (a) a right to at least one hearing before the panel and that, subject to subparagraph (f), such hearings shall be open to the public;
  - (b) an opportunity for each Party to provide initial and rebuttal submissions;
  - (c) that each Party's written submissions, written versions of its oral statement, and written responses to a request or questions from the panel shall be public, subject to subparagraph (f);

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- (d) that the panel will consider requests from nongovernmental entities in the Parties' territories to provide written views regarding the dispute that may assist the panel in evaluating the submissions and arguments of the Parties;
  - (e) a reasonable opportunity for each Party to submit comments on the initial report presented pursuant to Article 19.9.1; and
  - (f) the protection of confidential information.
2. Unless the Parties agree otherwise, the panel shall follow the model rules of procedure and may, after consulting the Parties, adopt additional rules of procedure for that panel proceeding not inconsistent with the model rules.
3. On request of a Party, or on its own initiative, the panel may seek information and technical advice from any person or body that it deems appropriate, provided that the Parties so agree and subject to such terms and conditions as the Parties may agree.

ARTICLE 19.9: PANEL REPORT

1. Unless the Parties otherwise agree, the panel shall, within 180 days after the chair is appointed, present to the Parties an initial report containing findings of fact, and its determination as to whether:
- (a) the measure at issue is inconsistent with the obligations of this Agreement;
  - (b) a Party has otherwise failed to carry out its obligations under this Agreement; or
  - (c) the measure at issue causes a nullification or impairment described in Article 19.2(c);
- as well as any other determination requested by the Parties with regard to the dispute.
2. The panel shall base its report on the relevant provisions of the Agreement and the submissions and arguments of the Parties. The panel may, at the request of the Parties, make recommendations for the resolution of the dispute.
3. After considering any written comments by the Parties on the initial report, the panel may modify its report and make any further examination it considers appropriate.
4. The panel shall present a final report to the Parties within 45 days of presentation of the initial report, unless the Parties agree otherwise. The Parties shall release the final report to the public within 15 days thereafter, subject to the protection of confidential information.

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ARTICLE 19.10: IMPLEMENTATION OF THE FINAL REPORT

1. On receipt of the final report of a panel, the Parties shall agree on the resolution of the dispute, which normally shall conform with the determinations and recommendations, if any, of the panel.
2. If, in its final report, the panel determines that a Party has not conformed with its obligations under this Agreement or that a Party's measure is causing nullification or impairment in the sense of Article 19.2(c), the resolution, whenever possible, shall be to eliminate the non-conformity or the nullification or impairment.

ARTICLE 19.11: NON-IMPLEMENTATION

1. If a panel has made a determination of the type described in Article 19.10.2, and the Parties are unable to reach agreement on a resolution pursuant to Article 19.10.1 within 45 days of receiving the final report, or such other period as the Parties agree, the Party complained against shall enter into negotiations with the other Party with a view to developing mutually acceptable compensation.
2. If the Parties:
  - (a) are unable to agree on compensation within 30 days after the period for developing such compensation has begun, or
  - (b) have agreed on compensation or on a resolution pursuant to Article 19.10.1 and the complaining Party considers that the other Party has failed to observe the terms of such agreement,

the complaining Party may at any time thereafter provide written notice to the other Party that it intends to suspend the application to the other Party of benefits of equivalent effect. The notice shall specify the level of benefits that the Party proposes to suspend. Subject to paragraph 5, the complaining Party may begin suspending benefits 30 days after the later of the date on which it provides notice under this paragraph or the panel issues its determination under paragraph 3, as the case may be.

3. If the Party complained against considers that:
  - (a) the level of benefits that the other Party has proposed to be suspended is manifestly excessive; or
  - (b) it has eliminated the non-conformity or the nullification or impairment that the panel has found,

it may, within 30 days after the complaining Party provides notice under paragraph 2, request that the panel be reconvened to consider the matter. The Party complained against shall deliver its request in writing to the other Party. The panel shall reconvene as soon as possible after

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delivery of the request and shall present its determination to the Parties within 90 days after it reconvenes to review a request under subparagraph (a) or (b), or within 120 days for a request under subparagraphs (a) and (b). If the panel determines that the level of benefits proposed to be suspended is manifestly excessive, it shall determine the level of benefits it considers to be of equivalent effect.

4. The complaining Party may suspend benefits up to the level the panel has determined under paragraph 3 or, if the panel has not determined the level, the level the Party has proposed to suspend under paragraph 2, unless the panel has determined that the Party complained against has eliminated the non-conformity or the nullification or impairment.

5. The complaining Party may not suspend benefits if, within 30 days after it provides written notice of intent to suspend benefits or, if the panel is reconvened under paragraph 3, within 20 days after the panel provides its determination, the Party complained against provides written notice to the other Party that it will pay an annual monetary assessment. The Parties shall consult, beginning no later than ten days after the Party complained against provides notice, with a view to reaching agreement on the amount of the assessment. If the Parties are unable to reach an agreement within 30 days after consultations begin, the amount of the assessment shall be set at a level, in U.S. dollars, equal to 50 percent of the level of the benefits the panel has determined under paragraph 3 to be of equivalent effect or, if the panel has not determined the level, 50 percent of the level that the complaining Party has proposed to suspend under paragraph 2.

6. Unless the Joint Committee otherwise decides, a monetary assessment shall be paid to the complaining Party in U.S. currency, or in an equivalent amount of Bahraini currency, in equal, quarterly installments beginning 60 days after the Party complained against gives notice that it intends to pay an assessment. Where the circumstances warrant, the Joint Committee may decide that an assessment shall be paid into a fund established by the Joint Committee and expended at the direction of the Joint Committee for appropriate initiatives to facilitate trade between the Parties, including by further reducing unreasonable trade barriers or by assisting a Party in carrying out its obligations under the Agreement.

7. If the Party complained against fails to pay a monetary assessment, the complaining Party may suspend the application to the Party complained against of benefits in accordance with paragraph 4.

8. This Article shall not apply with respect to a matter described in Article 19.12.1.

**ARTICLE 19.12: NON-IMPLEMENTATION IN CERTAIN DISPUTES**

1. If, in its final report, a panel determines that a Party has not conformed with its obligations under Article 15.2.1(a) (Application and Enforcement of Labor Laws) or Article 16.2.1(a) (Application and Enforcement of Environmental Laws), and the Parties:

- (a) are unable to reach agreement on a resolution pursuant to Article 19.10.1 within 45 days of receiving the final report; or

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- (b) have agreed on a resolution pursuant to Article 19.10.1 and the complaining Party considers that the other Party has failed to observe the terms of the agreement,

the complaining Party may at any time thereafter request that the panel be reconvened to impose an annual monetary assessment on the other Party. The complaining Party shall deliver its request in writing to the other Party. The panel shall reconvene as soon as possible after delivery of the request.

2. The panel shall determine the amount of the monetary assessment in U.S. dollars within 90 days after it reconvenes under paragraph 1. In determining the amount of the assessment, the panel shall take into account:

- (a) the bilateral trade effects of the Party's failure to effectively enforce the relevant law;
- (b) the pervasiveness and duration of the Party's failure to effectively enforce the relevant law;
- (c) the reasons for the Party's failure to effectively enforce the relevant law;
- (d) the level of enforcement that could reasonably be expected of the Party given its resource constraints;
- (e) the efforts made by the Party to begin remedying the non-enforcement after the final report of the panel; and
- (f) any other relevant factors.

The amount of the assessment shall not exceed 15 million U.S. dollars annually, adjusted for inflation as specified in Annex19-A.

3. On the date on which the panel determines the amount of the monetary assessment under paragraph 2, or at any other time thereafter, the complaining Party may provide notice in writing to the Party complained against demanding payment of the monetary assessment. The monetary assessment shall be payable in U.S. currency, or in an equivalent amount of Bahraini currency, in equal, quarterly installments beginning 60 days after the complaining Party provides such notice.

4. Assessments shall be paid into a fund established by the Joint Committee and shall be expended at the direction of the Joint Committee for appropriate labor or environmental initiatives, including efforts to improve or enhance labor or environmental law enforcement, as the case may be, in the territory of the Party complained against, consistent with its law. In deciding how to expend monies paid into the fund, the Joint Committee shall consider the views of interested persons in each Party's territory.

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5. If the Party complained against fails to pay a monetary assessment, and if the Party has created and funded an escrow account to ensure payment of any assessments against it, the other Party shall, before having recourse to any other measure, seek to obtain the funds from the account.

6. If the complaining Party cannot obtain the funds from the other Party's escrow account within 30 days of the date on which payment is due, or if the other Party has not created an escrow account, the complaining Party may take other appropriate steps to collect the assessment or otherwise secure compliance. These steps may include suspending tariff benefits under the Agreement as necessary to collect the assessment, while bearing in mind the Agreement's objective of eliminating barriers to bilateral trade and while seeking to avoid unduly affecting parties or interests not party to the dispute.

ARTICLE 19.13: COMPLIANCE REVIEW

1. Without prejudice to the procedures set out in Article 19.11.3, if the Party complained against considers that it has eliminated the non-conformity or the nullification or impairment that the panel has found, it may refer the matter to the panel by providing written notice to the other Party. The panel shall issue its report on the matter within 90 days after the Party complained against provides notice.

2. If the panel decides that the Party complained against has eliminated the non-conformity or the nullification or impairment, the complaining Party shall promptly reinstate any benefits it has suspended under Article 19.11 or 19.12 and the Party complained against shall no longer be required to pay any monetary assessment it has agreed to pay under Article 19.11.5 or that has been imposed on it under Article 19.12.

ARTICLE 19.14: FIVE-YEAR REVIEW

The Joint Committee shall review the operation and effectiveness of Articles 19.11 and 19.12 not later than five years after the Agreement enters into force, or within six months after benefits have been suspended or monetary assessments have been imposed in five proceedings initiated under this Chapter, whichever occurs first.

ARTICLE 19.15: PRIVATE RIGHTS

Neither Party may provide for a right of action under its domestic law against the other Party on the ground that a measure of the other Party is inconsistent with this Agreement.



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**Annex19-A**  
**Inflation Adjustment Formula for Monetary Assessments**

1. An annual monetary assessment imposed before December 31, 2005, shall not exceed 15 million U.S. dollars.
2. Beginning January 1, 2006, the 15 million U.S. dollars annual cap shall be adjusted for inflation in accordance with paragraphs 3 through 5.
3. The period used for the accumulated inflation adjustment shall be calendar year 2004 through the most recent calendar year preceding the one in which the assessment is owed.
4. The relevant inflation rate shall be the U.S. inflation rate as measured by the Producer Price Index for Finished Goods published by the U.S. Bureau of Labor Statistics.
5. The inflation adjustment shall be estimated according to the following formula:

$$\$15 \text{ million} \times (1 + \pi_i) = A$$

$\pi_i$  = accumulated U.S. inflation rate from calendar year 2004 through the most recent calendar year preceding the one in which the assessment is owed.

A = cap for the assessment for the year in question.]