THE LEGAL IMPLICATION OF STABILIZATION CLAUSES ON INTERNATIONAL PETROLEUM CONTRACTS*

Abstract

This paper examined the legal implications of stabilization clause on International Petroleum Contracts, with the objective of identifying the significant benefits of inserting such clauses into petroleum contracts. Stabilization clause are contractual provisions incorporated into international energy contracts with the aim of shielding the investment from political risk. The paper employed a doctrinal research methodology, relying on primary sources such as statutes, judicial decisions and international legal instruments, while secondary sources including textbooks, journal articles and reports were also examined. The paper examined the legal effect of stabilization clause on petroleum contracts, the nature of expropriation of foreign investment, the principle of permanent sovereignty over natural resources amongst others. The paper observed that although stabilization clause insulates petroleum contracts from legislative and regulatory changes, the inclusion of such clauses negates the principle of permanent sovereignty over natural resources and erodes the sovereignty of states. It further revealed that the use of stabilization clause could have the effect of precluding sovereign states from amending its laws to achieve new economic objectives. The paper concluded that stabilization clause is required to enhance legal certainty for international petroleum investment and recommended that stabilization clause provision in petroleum contracts should be able to strike a balance between safeguarding foreign investments and preserving state sovereignty.

Keywords: Stabilization Clause, Petroleum, Expropriation, Sanctity of Contract.

1. Introduction

International Petroleum Contracts are often exposed to various political and economic risks particularly in developing countries of the world. The need for Oil Companies to protect their investments resulted in the incorporation of Stabilization Clauses into petroleum contracts as a way of safeguarding the contracts. Often times, countries blessed with natural resources partner with foreign investors who have the capacity and technology to exploit these resources. These international contracts are however, prone to political and economic instability by the activities of the host state. The need to protect these investments therefore resulted in the use of Stabilization Clause as a technique to secure such contracts.

Stabilization Clauses are mostly incorporated into contracts that are capital intensive such as the extractive industry or contracts for infrastructure or public services. They are usually involved in projects that require large initial capital investments and become profitable over time such as concession agreements, production sharing contracts, build and operate and transfer agreements (BOT) amongst others. These clauses are inserted into such agreements in order to secure the investments and recover costs.

Generally, foreign investors stand in a disadvantageous position in International Petroleum Contracts. This is because sovereign governments have full control over the affairs within its territory. They have the power to exercise constitutional, legislative and regulatory authority, and can unilaterally modify international investment contracts against foreign investors and nationalize foreign investments. It is worthy of note that sovereign states also have the power to enter into international agreements limiting their sovereignty, and it is against this background that investors in large projects with longer periods to recover profits such as the extractive industry usually seek guarantee to ensure that changes in the investment conditions in the host state does not harm the cost-benefit equilibrium of their investment.[1] In practice therefore, host States insert Stabilization clause into Petroleum Contracts in other to accommodate the interest of investors and attract future investment by ensuring sanctity of the contracts.

Hence, stabilization Clause is viewed by investors or credit grantors as vital instruments to mitigate the financial risk of their investments. Although It has been argued that whilst Stabilization Clause seeks to protect the rights of investors, it however, conflicts with the rights of host states to protect legitimate public interest, promote environmental justice and sustainable development. This study therefore examined the effect of Stabilization Clauses in International Petroleum Contracts, and recommended that their inclusion in Petroleum contracts should be used to enhance legal certainty and preserve state sovereignty.

2. Conceptual Clarifications

This work will attempt to define the core concepts that underpin this study. These clarifications are necessary to enable us have a proper understanding of the topic being researched.

***By Nancy AMADI-HARRY, LLB, BL, LLM, PhD,** Lecturer Faculty of law, Rivers State University, Nkpolu Oroworukwo Port Harcourt, Email: amadi.nancy@ust.edu.ng, Tel: 08160445664

***Ifunanya AMASIATU, LLB, BL, LLM, PhD**, Lecturer, Faculty of Law, Nigerian British University Asa, Abia State, Email; amasiatu.anthonia@nbu.edu.ng

[1]Chris C Wigwe, *Jurisprudence and Legal Theory* (2nd Ed Princeton & Associate Publishing Co. Ltd 2024)

Stabilization Clause

Stabilization clauses are contractual provisions or clauses incorporated into petroleum contracts with the aim of shielding the investment from political risk. They are instruments used by oil companies to protect their investments in International Petroleum Contracts. Stabilization clauses in International Petroleum Contracts are specific commitments made by host state to foreign investors which are designed to shield foreign investments from expropriation. The effect of a stabilization clause is that in the event of a subsequent adverse legislative or regulatory change in a host state, the investment will be insulated from such changes.[2] In other words, Stabilization clauses protect the right of foreign investors irrespective of a change in government. This study defines stabilization clause as a mechanism used by foreign investors to maintain the sanctity of International Petroleum Contracts and to mitigate the financial risks involved in such contracts. There are three types of Stabilization clause in petroleum agreements, they are; Freezing Clause, Economic Equilibrium clause and Hybrid clause. This work will now examine these clauses.

Freezing Clause

Freezing Clause are clauses in the contract which intends to insulate the contractual relationship from subsequent regulatory or administrative changes throughout the contract. They are provisions incorporated in Petroleum contracts for states to accept that the exercise of their legislative and administrative powers will not have the effect of modifying the contractual conditions agreed with the investor to the latter's disadvantage.[3] A Freezing Clause freezes the right of the host state to enforce new laws relating to the already existing contract. The applicable law in a freezing clause is the law in existence as at the time the contract was entered by the parties. It is instructive to note that in international petroleum contracts, whether a foreign investor will be exempted from the provisions of a new law will be answered by determining if it is a full Freezing clause or a Limited Freezing clause. For example, where a host state enacts a new legislation which affects the contractual relationship between the parties, the foreign company may rely on the freezing clause and would not be obligated to perform the provisions of the new legislation. However, where the host state insist that the investor is bound by the new law, the company is then entitled to compensation by the host state. Where it is a limited Freezing clause, the words and details contained in the clause would determine if the foreign company can rely on it to exempt itself from complying with the provisions of the new law. A limited Freezing clause may also make it difficult for the government to interfere with the contract by creating various formalities to undergo before this can happen.

Economic Stabilization Clause

This is a modern approach for maintaining the stability of International Petroleum Contracts. The Economic Stabilization Clause unlike the freezing clause does not aim at freezing the laws of the host state rather it is used to ensure that there is a balance of interest of the parties concerned. In this modern approach the state exercise of sovereign authority is not contractually barred, rather such action is counter balanced by the provision that the economic equilibrium of the contract as of the effective date of the contract will be maintained during the lifetime of the contract.[4] Most International Oil Companies[5] favour economic balancing provisions because whenever the host state unilaterally does any act which adversely affects the contract, the available remedies would be more favourable than under a freezing clause. For example, the breach of a freezing clause may result in only payment of lump sum damages which could be below that which the IOCs would consider necessary to 'keep it whole', whereas economic balancing clause is designed to keep the IOC whole on an ongoing basis. In practice, the Freezing and Economic balancing provisions are often employed together. Where they are employed together, the Economic balancing provisions sets out the outcome of the host country's breach of the promise contained in the Freezing clause. That is, the Economic balancing clause provides an additional layer of protection for stability of the contract.

Like the Freezing clause, Economic Equilibrium clause can be divided into three categories. They are; Stipulated Economic Balancing, Non-specified Economic Balancing and Negotiated Economic Balancing. These three categories, prescribes different ways of establishing the economic equilibrium of the contract where the unilateral act of the state adversely affects the contract. This will work will examine these three categories.

1. Stipulated Economic Balancing: This type of Economic balancing clause provides for automatic amendment of the contract in a manner stipulated in the contract. For example, by way of readjustment of 'petroleum profit split' in the case of Petroleum Production Sharing contract.
2. Non-Specified Economic balancing: This type of clause provides for automatic amendment of the contract but does not stipulate the nature of such amendment, nor does it require the mutual agreement of the parties for such amendment.

[2]*Ibid 736*

[3] *Ibid 737*

[4]A F M Maniruzzaman, 'The Pursuit of Stability in International Energy Investment Contracts: A Critical Appraisal' *Journal of World Energy Law and Reviews* (2008) (1)(2) 119

[5]International Oil Companies will be referred to as IOCs in the course of this work.

3. Negotiated Economic Balancing: This type of Economic balancing clause requires the parties to meet to negotiate amendments to the contract.

Hybrid Clause

Hybrid Clause consists of a mixture of the characteristics of both freezing clause and economic equilibrium clause. This type of stabilization clause requires the host state to reinstate the IOC to the same position it was before the change of law was made. A Hybrid clause like the other types of clauses is divided into two categories. The Full Hybrid clause and the Limited Hybrid clause. A Full Hybrid clause shields the investors from financial implication caused by change of law by ensuring that compensation is paid, while Limited Hybrid clause shields the investors from financial issues of some limited change of law.[6]

Petroleum

Petroleum is a naturally occurring oily, flammable liquid that is composed of a mixture of hydrocarbons and various organic compounds containing oxygen, nitrogen and sulphur.[7] It is a thick, flammable, yellow to black mixture of gaseous, liquid and solid hydrocarbons that occurs naturally beneath the Earth's surface. Petroleum is a fossil fuel formed below earth's surface by a process that takes millions of years and it usually extracted by drilling wells. It can be separated into fractions including natural gas, gasoline, naphtha, kerosene, paraffin wat, asphalt, fuel and lubricating oil and is used as raw materials for a variety of derivative products.[8] Petroleum is believed to originate from the accumulated remains of fossil plants and animals especially in shallow marine environments. The Petroleum Act of 1969, defines petroleum as "mineral oil (or any related hydrocarbon) or natural gas as it exists in its natural state in strata, and does not include coal or bituminous shales or other stratified deposits from which oil can be extracted by destructive distillation.[9] Similarly, the Petroleum Industry Act, defines Petroleum to mean hydrocarbons and associated substances that exist in its natural state in strata, and includes crude oil, natural gas, condensate and mixtures of any of them, but does not include bituminous and coal.[10] Petroleum is often times used interchangeably with term crude oil.

However, they are two different terms. Crude oil means oil that is unrefined. It is the liquid mixture of hydrocarbons and compounds extracted from below earth's surface. Petroleum on the other hand, refers to a broad category it includes crude oil and all petroleum products. Petroleum refers to crude oil and any products that are derived from it.[11] Petroleum is one of nature's most desired resources and is used to manufacture products like gasoline, plastics, rubber, lubricants etcetera. In Nigeria, petroleum is vested in the Federal Government.[12]

Expropriation

Expropriation can be defined as the compulsory taking of the property of a foreigner or an alien by the state. It can be seen as the act or conduct by host state which has the effect of depriving an alien or foreigner of substantially, all benefits derived from property interests of investment within the host state.[13] Expropriation could also be referred to as the deprivation of a person's property or a person's economic interest or benefit from a property.[14] It may be made directly by nationalization or indirectly by way of forced or coerced sale. The property expropriated may be moveable, immovable, tangible and intangible property.[15] This work defines expropriation as the act of the host state which has the effect of depriving the international oil company or foreigners of the ownership rights in their property. Expropriation may take many forms.[16] By section 44 of the Constitution, a person's property shall not be taken over by the government without adequate compensation.[17]

Sanctity of Contracts

Sanctity of contract is a legal principle which means that once parties freely enter into contract, they must honour their obligations under the contract. Sanctity of contract emanated from the doctrine of pacta sunt servanda which means 'agreement must be kept. This means that any contract entered into by two consenting parties shall be guided in good faith. The doctrine of sanctity of contract is a core principle of Nigeria Law. It refers to the principles that agreements freely and voluntarily entered into must be respected as written. The doctrine upholds freedom of contract, ensures legal

---

[6]Law Teacher 'Impact of Stabilization Clause on Petroleum Agreements' <https://www.lawteacher.net> accessed 10th June 2026
[7]Study.com 'Petroleum, Definition & Uses' <https://www.study.com> access 10th June, 2026
[8]Dictionary.com 'Petroleum, Definition & Meaning' <https://www.dictionary.com> accessed June, 2026
[9] Petroleum Act of 1969 s.15
[10]Petroleum Industry Act 2021, s 318
[11]Us Legal Forms 'Petroleum: Understanding its Legal Definition and Scope' <https://www.legal-resources.us legalform.com> accessed 10th June, 2026.
[12] Constitution of the Federal Republic of Nigeria 1999 (as amended), s 44(3)
[13] Chris Wigwe (n 1)
[14]WordPress.com 'Expropriation in Oil and Gas-NNPC v Famfa Oil' < https://omlivingstones.wordpress.com> accessed 10th June, 2026
[15]Isochukwu Ltd, 'Oil and Gas Expropriation and Nationalization' <https://isochukwu.com> accessed 28th August 2026
[16] *ibid*
[17]Constitution of the Federal Republic of Nigeria 1999, s 44

certainty and guards against arbitrary government or judiciary interference.[18] The doctrine of pacta sunt servanda derives its validity from Article 26 of the Vienna Convention on the Law of Treaties which provide thus 'Every treaty in force is binding upon parties to it and must be performed in good faith. The concept of pacta sunt servanda which originally developed as a concept enforcing treaties between states, applies as well to an agreement between a state and an alien.[19] It means that contracts between a state and an alien must be enforced because to do otherwise would undermine the reasonable expectation of the parties. Secondly, International investments would be jeopardized if investors cannot be assured that their agreements will be enforced. It has therefore been argued that when a breach of contract occurs, a full recovery will satisfy the injured party's expectation, since the party is placed in the same economic position, they would have been at the conclusion of the contract if it had been enforced.

3. Expropriation of Foreign Investments

Expropriation has been defined as the act or conduct by the host state which has the effect of depriving an alien or foreigner of substantially, all benefits derived from property interests of investment within the host state. It is the process by which a government takes over property or investment of an alien. Expropriation could be by way of nationalization of an alien investment or by way of a forced or coerced sale. A forced sale arises when host states enter take over negotiations with a foreign corporation, but so undermines the corporation's bargaining position that true negotiation occurs.[20] Here, the corporation is usually put under tension by the host state to the extent that it would have no alternative than to sell. Through this method, the state may be able to avoid possible backlash from international investors by assuming such an underhanded approach to expropriation and thereby describing the sale as fair. Irrespective of the nomenclature, a forced sale creates danger both internationally and domestically because it erodes the confidence of foreign corporations which create vibrations affecting international lending institutions and potential investors. This work submits that whether the host state's action is termed expropriation or coerced sale, the effect is the same, which is, the forfeiture of the benefit of the property held by the foreign investors.

By section 44 of the Constitution, a person's property shall not be taken over by the government without adequate compensation.[21] This position was demonstrated in the case of *NNPC v Famfa Oil*[22]- in this case, Famfa Oil was granted an Oil Prospecting License by the Federal Government and consequently entered into Joint Venture Agreements with Star Deep Water Petroleum Limited and Petrobas. Later on, the NNPC sought to compulsorily acquire 40% of Famfa's interest in the Oil Prospecting License. Famfa challenged this decision in court, and the court held the purported acquisition illegal, null and void. The court held that the government could only participate in an Oil Mining Lease Grant. Famfa Oil, subsequently discovered oil in commercial quantities and obtained an Oil Mining Lease. Before the grant, the government had promulgated the Deep-Water Block Allocations to Companies (Back in Rights) Regulations, which gave the Federal Government a right of participation in such Oil Mining Leases by acquiring five-sixths of the allotee's interest in the Oil Prospecting License and Oil Mining Lease under terms and conditions to be decided by the Federal Government. The Federal Government relying on this Regulation sought to compulsorily acquire five-sixths of famfa's equity interest and a 50% participatory interest on the block. Famfa Oil brought an action for the declaration of the acts of the Federal Government as illegal, null and void.

The Federal High Court disagreed; they appealed to the Court of Appeal who allowed the appeal. The Federal Government then appealed to the Supreme Court contending that the government had a right to participate in the Oil Mining Lease. The issue before the Supreme Court was whether the 50% acquisition by Federal Government was constitutional. The court held that the attempted participation in the Oil Mining Lease by the Federal Government was unconstitutional as it did not comply with paragraph 35 of the Petroleum Act, which mandates the government to negotiate the terms and conditions of a purported participation in an Oil Mining Lease with the licensee. Consequently, the purported acquisition offended section 44 of the Constitution which precludes compulsory acquisition of movable property or interest in movable property except as prescribed by law. This case established that the Federal Government cannot arbitrarily seize or compulsorily acquire a participating interest in an oil block. This provision also protects against expropriation of foreign investments.

4. Principle of Permanent Sovereignty over Natural Resources

The position of developing states is that they have the right to exercise full sovereignty over their natural resources and can dispose of their resources as they deem fit, free from outside influence. The principle of permanent sovereignty over natural resources proposes the argument that resource-rich nations should have control over their natural resources. This means that resource rich nations should have the right to dispose of their natural resources, the right to explore and exploit

[18]Law Hub Development and Advocacy Centre, 'Sanctity of Contract: a key Principle of Nigerian Law' <https://linkd.in.com> accessed 10th June, 2026

[19] Law teacher (n 5)

[20]J W Weller, 'International Parties, Breach of Contract, and the Recovery of Future Properties' *Holstra Law Review* (1987) (15) 3

[21]CFRN 1999 (as amended) s 44

[22](SC 178/2008); (2009) NGSC 1

their natural resources, the right to regulate foreign investment and the right to settle dispute on the basis of national law.[23]

The principle of permanent sovereignty over natural resources was established by a Resolution of the United Nation General Assembly 1803, which constitutes evidence of Customary International Law. For example, in *Libyan American Oil Company v Libya*[24] -the tribunal opined that Resolution 1803, if not a unanimous source of law, is evidence of recent dominant trend of international opinion concerning the sovereign rights of states over natural resources. This position was reaffirmed in *Texaco v Libya*[25], where the tribunal held that Resolution 1803 reflected the tenets of Customary International Law. Permanent sovereignty over natural resources is the position taken by host states. That they have the right to exercise full sovereignty over natural resources and can dispose of their resources as they deem fit, free from outside influence.

5. The Position of Developed States

For the developed states, they hold the position that expropriation must serve a public purpose, and must be accompanied with compensation. They argue that compensation must reflect the full value of loss sustained by the expropriated company.[26] The hold the view that the taking by a state of property of an alien is wrongful under international law if it is not for public purpose. For them, expropriation must be based on reasons of public necessity or public utility. This position generally referred to as the classic or traditional approach was described in 1938, by the United State Secretary of States, Hull, in a letter to the Mexican government. In charging Mexico with a deviation from international laws, Hull stated that international law requires prompt, adequate and effective compensation. The view of Developed states that international law requires compensation for lost future profits is supported by a number of arguments. Firstly, contracts duly entered by parties must be enforced, because to do otherwise would undermine the reasonable expectation of the parties, secondly, it will discourage international investments in the state.

6. Legal Requirement for Lawful Expropriation

The fundamental requirements imposed by international law for lawful expropriation, are

1. The expropriation must be for public purpose
2. The reason for the expropriation must not be discriminatory
3. Payment of compensation must be prompt, adequate and effective

Expropriation Must Be Public Purpose

The expropriation of a foreign corporation or alien by a host state must be for public purpose. This requirement is in line with the Resolution of the United Nations General Assembly, 1803 on Permanent Sovereignty over national resources. This is the position taken by developed states. However, the scope of public purpose is left at the discretion of the sovereign states to determine. This makes it difficult to establish that an expropriation was not done for public purpose. Despite these challenges, tribunals have held certain expropriation not to be for public purpose. For example, In *ADC v Hungary*[27], the tribunal held that the expropriation of the claimant's interest in the operation of a terminal at Budapest Airport by Hungarian Government was not lawful. Similarly, in *LETCO v Liberia*[28]- the tribunal found that the revocation of a concession and taking the areas of concession away from LETCO were not for public purpose

Expropriation Must Not Be Discriminatory

Another requirement for lawful expropriation is that the expropriation must be non-discriminatory. If the taking by a host government of a foreign investment is based on religion or nationality, then the expropriation will be considered unlawful. It has however, been held that where nationalization has a political motive that such motive perse does not constitute a sufficient proof of purely discriminatory measure.[29]

Payment of Compensation

The third requirement is that while the host state can exercise the right to expropriate the assets of a foreign investor, such expropriation must be accompanied with the payment of compensation.[30] Whether the taking of an investor asset is lawful or unlawful, foreign investors are entitled to compensation. However, there is a difference regarding calculation and amount of compensation. In a lawful expropriation, compensation covers the actual loss, while in an unlawful

[23]R P Ng'ambi, 'Permanent Sovereignty Over Natural Resources and the Sanctity of Contracts from the Angle of Lucrum Cessans' *Loyala University Chicago International Law Review* (2015) (12)(12) 3

[24] (1977) 5311LR 389

[25] (1974) 54 ILR 297

[26]Weston, 'The Charter of Economic Rights and Duties of States and the Deprivation of Foreign Owned Wealth' American *Journal of International Law* (1981) 437

[27]ADC Affiliate Ltd and ADC and ADC Management Ltd v Republic of Hungary, ICSID Case No ARB/03/16 (2 Oct, 2006)

[28] ICSID Case No. ARB/83/2 (1986)

[29] Libyan American Oil Company (LIAMCO) v The Government of the Libyan Arab Republic

[30]H R Younesi, 'The Taking Over of the Foreign Investor's Property by the Host State in International Petroleum Agreements: How International Arbitration Practice are Responding' *Petroleum Business Review* (2021) (5)(2) 99.

expropriation compensation should cover the loss actually suffered in addition to loss of future profits.[31] There have however, been disagreement over the standards of compensation. In determining the standards of compensation, two basic methods are used, they are:

1. The Hull formula which requires that compensation should be prompt, adequate and effective and
2. The appropriate compensation requirement which states that the host state should pay full value of the properties taken. This view is supported by developing countries and has its basis in Article 4 Resolution 1803.

7. Effect of Stabilization Clause on International Petroleum Agreement

International Petroleum Contracts with stabilization clauses cannot be altered unilaterally by the parties to the contract, and this position has been demonstrated in a plethora of cases. In *Saudi Arabia v Arabian American Oil Co (Aramco).*[32] - In this case, the government of Saudi Arabia entered an agreement with Saudi Arabian Maritime Tankers, Ltd, under which the company was given a thirty year right of priority for the transport of Saudi Arabian Oil. This concession conflicted with that granted to the Arabian American oil company (Aramco). Aramco held an oil concession agreement, granted by Saudi Arabia in 1933, which gave Aramco the exclusive right to transport the oil it extracted from its concession area in Saudi Arabia. As a result of this conflict, the matter went for arbitration. There was a stabilization clause in the Aramco concession agreement. The tribunal held that by reason of its very sovereignty within its territorial domain, the state possesses the legal power to grant right by which it forbids itself to withdraw before the end of the concession. The tribunal ruled in favour of Aramco, stating that the government was bound by its agreement with Aramco.

Similarly, in *BP Exploration Company (Libya) Ltd v Government of the Libyan Arab Republic*[33] - A single concession was originally granted to a Nelson Bunker Hunt in 1957. Hunt then assigned to BP an undivided one-half share of its interest. BP carried out exploration work and found oil in large quantities. BP then acted as operator for Hunt and itself. In 1969, the Royal government was overthrown and a revolutionary regime was established. In December, 1971, in retaliation for what was regarded as the UK's failure to prevent Iran's occupation of three Islands in the Persian Gulf, the Libyan government nationalized BP's entire interest in the concession. Shortly after the nationalization law, BP wrote the Libyan government to request arbitration. After Libya failed to respond, under clause 28 (c), BP asked the president of the International Court to appoint a sole arbitrator. The arbitrator found that the agreement was a contractual relationship belonging to the category of administrative contracts and that by virtue of the stabilization clause, Libya had limited its freedom to change or terminate the concession by unilateral act unless it could be shown that the changes was truly in the public interest. It held that nationalization constituted a fundamental breach of the concession and amounted to a total repudiation of the agreement.

In the case of *Texaco Overseas Oil Petroleum Company and California Asiatic Oil Company v Government of the Libyan Arab Republic (TOPCO)*[34] - Texaco and Calasiatic both United States corporations obtained fourteen oil concessions from the Royal Libyan Government. In 1973, the revolutionary government nationalized fifty-one percent of the company's interest in the concession. When the companies commenced arbitration proceedings, their remaining interest were also nationalized. Libya objected to the arbitration procedures, stating that the dispute was not subject to arbitration because the nationalizations were acts of sovereignty. The tribunal held thus, in respect of international law of contracts, nationalization cannot prevail over an internationalized contract, containing stabilization clauses entered into between a state and a foreign private company. In other words, when a contract is internationalized, the parties act as equals and the state host is bound by the guarantees it has offered to the investor.

Also, in *Libyan American Oil Co (LIAMO) v Government of the Libyan Arab Republic*[35]– LIAMCO was a Delaware corporation that owned an undivided twenty-five and one-half percent interest in three concessions at the time of the Libyan revolution. Fifty-one percent of LIAMCO interests were nationalized at the same time the TOPCO nationalization took place. When LIAMCO commenced arbitration, its remaining interest were nationalized. A sole arbitrator was appointed and the arbitrator found that the stabilization clause was justified not only by the said Libyan petroleum legislation, but also by the general principle of the sanctity of contracts recognized also in municipal and international law. He also stated that since concession agreements were binding, they could not validly be terminated unless there was mutual consent of the contracting parties, in compliance with the principle of the sanctity of contracts and particularly with the explicit terms of clause 16 of the agreement.

From the foregoing, it has been established that stabilization clauses freely accepted by the parties prohibit host government from exercising legislative powers which affect the terms of the contract.

[31] *ibid*
[32] 27 ILR 117 (1963).
[33] 53 ILR 297 (1973)
[34] 53 ILR 389 (1979)
[35] 62 ILR 140 (1977)

8. Conclusion and Recommendations

This work examined the impact of stabilization clause on International Petroleum Contracts. The study established that stabilization clause offers stringent advantages to investors during the duration of the contact, and their enforcement increases legal certainty in international investment. It has also been established that stabilization clause freezes the governing law of a contract as at the time it is made and thereby guaranty legal certainty to investors in an otherwise volatile petroleum sector. This in turn attracts foreign investors to the host country which contributes to economic growth. Despite the immense benefits of incorporating such clauses into petroleum contracts, stabilization clauses have been criticized by many countries because it precludes them from amending their laws to achieve new economic and environmental objectives.

It is also argued that such clauses negate the principle of permanent sovereignty over natural resources and erodes the sovereignty of states.

1. The study therefore recommends that the use of stabilization clause in International Petroleum Contracts should be encouraged as they help to enhance regulatory certainty which promotes investors' confidence.
2. It is also recommended that the inclusion of stabilization clause in petroleum contracts should not have the effect of completely freezing the contract throughout the duration or life span of the contract but such clause should be able to strike a balance between safeguarding foreign investments and preserving state sovereignty.
3. It is recommended that the inclusion of an adaptation or renegotiation clause will be more beneficial in petroleum contracts as it will allow the parties to modify the agreement previously entered into upon the happening of certain events.