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CASE COMMENT

Bridgestone v Panama[1]

When Are Trademarks Covered Investments?

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I. INTRODUCTION

For the first time, an ICSID tribunal has addressed the question of whether, and under what circumstances, trademarks and licenses to use them are covered investments. With its potential to inform the debate surrounding the qualification of intellectual property (IP) rights in international investment law generally, the Tribunal's reasoning for upholding jurisdiction, deserves closer attention. This case comment will therefore analyze the Tribunal's findings as regards the qualification of IPRs as investments in detail and will offer a critique of the approach adopted. Specifically, I argue that, in accordance with existing jurisprudence, IP-related activities in the host State have to be directed at a certain project and not only at the sale of goods in order to be considered investments.

II. BACKGROUND

The dispute arose out of a judgment of the Panamanian Supreme Court of 28 May 2014, in which it held the Claimants liable to a competitor to pay US$5 million together with attorneys' fees due to the Claimants' opposition proceedings regarding the registration of a trademark ('RIVERSTONE').[3] The context of the dispute is the global competition between two groups of companies.[4] The Claimants, the Japanese-owned Bridgestone Group, markets tires under the marks 'BRIDGESTONE' and 'FIRESTONE'.[5] The other party is a Chinese-owned enterprise, the Luque Group, that markets, or seeks to market, tires under the mark 'RIVERSTONE'.[6] Bridgestone Licensing Services, Inc (BSLS) and Bridgestone Americas, Inc (BSAM), part of the Bridgestone group [both are

[1] *Bridgestone Licensing Services, Inc and Bridgestone Americas, Inc v Republic of Panama*, ICSID Case No ARB/16/34, Decision on Expedited Objections (13 December 2017).

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[3] *Bridgestone v Panama* (n 1) paras 48–58.

[4] ibid para 48.

[5] ibid.

[6] ibid.

wholly owned subsidiaries of Bridgestone Corporation (BSJ), a Japanese incorporated company], owned or were licensed to use the trademarks 'BRIDGESTONE' and 'FIRESTONE' in Panama.[7] As rights holders of these trademarks, the Claimants initiated proceedings in the Panamanian courts, opposing the registration of the 'RIVERSTONE' trademark in Panama.[8] This opposition claim was denied in 2006 and an appeal was subsequently withdrawn. In reaction to this opposition claim, the Luque Group entities then commenced proceedings against the Bridgestone entities, claiming that their 'commencement of the opposition proceedings had been wrongful and had caused them to cease sales of RIVERSTONE tires out of fear that their inventory would be seized if they were to lose the proceedings'.[9] Eventually, the Panamanian Supreme Court held the Bridgestone entities jointly and severally liable to the Luque Group companies for US$5 million, together with attorneys' fees of US$431,000.

The claimants subsequently initiated investment arbitration and argued that the Supreme Court's judgment weakened and thus decreased the value of their trademarks.[10] The claimants contended that the judgment of the Panamanian Supreme Court was unjust and arbitrary, and that it violated Panama's obligations under the United States–Panama Trade Promotion Agreement (TPA)[11] (i) to accord fair and equitable treatment; (ii) to accord to BSLS and BSAM treatment no less favorable than that accorded to its own investors and their investments; and (iii) not to expropriate BSLS's and BSAM's investments without prompt, adequate and effective compensation, and in accordance with the other requirements in the TPA.[12]

On 13 December 2017, the Tribunal rendered its decision, dismissing most of the expedited jurisdictional objections raised by Panama. First, Panama argued that the dispute in question did not arise directly out of an investment, as required under article 25 of the ICSID Convention.[13] Relying on the 'cause-and-effect relationship' test borrowed from *Metalpar v Argentina*,[14] the Tribunal found that the Claimants' rights to use the trademarks might be affected by the court judgment in Panama, but denied jurisdiction over the alleged effect in other Latin American countries for being too 'speculative and remote'.[15] The same was true for the alleged effect of the judgment on other Latin American governments and judiciaries, which, according to the Tribunal, fell out of its jurisdiction.[16] Next, the Tribunal rejected Panama's contention that one of the Claimants had no substantial business activities in the territory of the United States and therefore had the right to deny benefits under article 10.12.2 of the TPA (denial of benefits provision), finding that that did not apply to entities with a continuous link to the

[7] ibid paras 50–4.
[8] ibid para 56.
[9] ibid para 57.
[10] ibid paras 48–58.
[11] United States–Panama Trade Promotion Agreement (signed 28 June 2007, entered into force 31 October 2012) (TPA).
[12] *Bridgestone v Panama* (n 1) para 62.
[13] Convention on the Settlement of Investment Disputes between States and Nationals of Other States (opened for signature 18 March 1965, entered into force 14 October 1966) (ICSID Convention); *Bridgestone v Panama* (n 1) paras 237–48.
[14] *Metalpar SA and Buen Aire SA v Argentine Republic*, ICSID Case No ARB/03/5, Decision on Jurisdiction (27 April 2006) para 95. See *Bridgestone v Panama* (n 1) para 238.
[15] *Bridgestone v Panama* (n 1) paras 237–48.
[16] ibid paras 345–55.

home State.[17] Panama also raised the objection of abuse of process, claiming that one of the companies had paid the damages and costs awarded by the Supreme Court for the other entity to come under the protection of the TPA.[18] The Tribunal rejected the objection because it found that '[a]ll the elements necessary to enable BSLS to bring a claim under the TPA were in existence as soon as the Supreme Court had delivered its judgment awarding damages against BSJ and BSLS'.[19]

III. TRADEMARKS AND LICENSES AS COVERED INVESTMENTS

On the question of whether the trademarks constituted an investment in the host State, the Tribunal first followed the text of the definition under the applicable investment chapter of the TPA (article 10.29 of the TPA).[20] It began by setting out the definition of 'investment', clarifying that it must be an asset that was capable of being owned or controlled. The TPA also included a list with the forms that an investment might take, including 'intellectual property rights',[21] as many BITs do.[22] However, the TPA also required that an investment must have the 'characteristics' of an investment, giving the examples of commitment of capital or other resources, expectation of gain or profit, and assumption of risk.[23] The Tribunal also noted that other characteristics, as identified in *Salini v Morocco*,[24] are to be found in many investments, such as a reasonable duration of the investment and a contribution made by the investment to the host State's development.[25] In this respect, the Tribunal held that 'there is no inflexible requirement for the presence of *all* these characteristics, but that an investment will normally evidence most of them'.[26]

Clearly, a trademark is a type of intellectual property.[27] However, the Tribunal correctly noted that no other publicly available decision dealt with the question whether a trademark could constitute an investment 'when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or

[17] ibid paras 286–302.

[18] Drawing an analogy to the *Philip Morris v Australia* case [*Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12, Award on Jurisdiction and Admissibility (17 December 2015) para 554], in which the Tribunal held that the change in 'corporate structure to gain the protection of an investment treaty at a point in time when a specific dispute was foreseeable' constitutes an abuse of rights (or an abuse of process, the rights abused being procedural in nature). See ibid paras 326–7.

[19] *Bridgestone v Panama* (n 1) para 328.

[20] ibid paras 163ff.

[21] ibid para 164 (emphasis in the original).

[22] The Tribunal itself noted that later: see *Bridgestone v Panama* (n 1) para 166. For a 2009 comprehensive empirical study, see Rachel A Lavery, 'Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements' (2009) 6(2) Transnational Dispute Management 1. See also Ursula Kriebaum, *Eigentumsschutz im Völkerrecht: Eine vergleichende Untersuchung zum internationalen Investitionsrecht sowie zum Menschenrechtsschutz* (Duncker & Humblot 2008) 74; Siegfried Fina and Gabriel M Lentner, 'The European Union's New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights' (2017) 18(2) JWIT 271 (with further references).

[23] *Bridgestone v Panama* (n 1) para 164 (emphasis in the original).

[24] *Salini Costruttori SpA and Italstrade SpA v Kingdom of Morocco*, ICSID Case No ARB/00/4, Decision on Jurisdiction (23 July 2001).

[25] *Bridgestone v Panama* (n 1) para 165.

[26] ibid (emphasis in the original).

[27] ibid para 166.

the acquisition of other assets commonly associated with the establishment of an investment'.[28] Indeed, in *Philip Morris v Uruguay*, which also dealt with trademarks, the 'long-term, substantial activities in Uruguay' were qualified as 'investments'.[29]

In deciding this issue, the Tribunal reviewed the way in which trademarks can be promoted in a host State's market. It found that:

> [T]he promotion involves the commitment of resources over a significant period, the expectation of profit and the assumption of the risk that the particular features of the product may not prove sufficiently attractive to enable it to win or maintain market share in the face of competition.[30]

However, the Tribunal noted that 'the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country'.[31] According to the Tribunal, that is because of the negative effect of a registration of a trademark: it merely prevents competitors from using it on their products and does not confer benefits on the country in which the registration takes place, nor does it of itself create any expectation of profit for the owner of the trademark.[32]

Key to the characterization of a trademark as an investment for the tribunal is therefore its exploitation.[33] It is the exploitation that:

> [A]ccords to the trademark, by the activities to which the trademark is central, the characteristics of an investment. It will involve devotion of resources, both to the production of the articles sold bearing the trademark, and to the promotion and support of those sales. It is likely also to involve after-sales servicing and guarantees. This exploitation will also be beneficial to the development of the home State. The activities involved in promoting and supporting sales will benefit the host economy, as will taxation levied on sales. Furthermore, it will normally be beneficial for products that incorporate the features that consumers find desirable to be available to consumers in the host country.[34]

Another way of exploiting a trademark is licensing it, ie granting the licensee the right to exploit the trademark for its own benefit.[35] In support of these conclusions, the Tribunal cited the *Philip Morris v Uruguay* and *CSOB v Slovak Republic*[36] cases, in which the tribunals found the existence of a qualifying investment on the basis of a number of interrelated transactions.[37]

[28] ibid.
[29] *Philip Morris Brand Sàrl (Switzerland), Philip Morris Products SA (Switzerland) and Abal Hermanos SA (Uruguay) v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Decision on Jurisdiction (2 July 2013) para 209. (There was no further discussion of trademarks as investments.)
[30] *Bridgestone v Panama* (n 1) para 169.
[31] ibid para 171.
[32] ibid para 171.
[33] It is interesting to note that the term 'exploitation' is generally not used in the context of trademarks. Instead, international agreements regulating intellectual property refer to 'use'. Furthermore, under the Agreement on Trade-Related Aspects of Intellectual Property Rights (opened for signature 15 April 1994, entered into force 1 January 1995) (TRIPS Agreement) non-use of a trademark does not exclude protection unless extending to an uninterrupted period of at least three years (unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner) [art 19(1) TRIPS Agreement].
[34] *Bridgestone v Panama* (n 2) para 172.
[35] ibid para 173.
[36] *Československa obchodní banka, as v Slovak Republic*, ICSID Case No ARB/97/4, Decision on Jurisdiction (24 May 1999).
[37] *Bridgestone v Panama* (n 1) para 175.

The Tribunal then brushed aside the following counter-argument raised by Panama:

> Rights, activities, commitments of capital and resources, expectations of gain and profit, assumption of risk, and duration do not add up to an 'investment' when they are simply the rights, activities, commitments, expectations, and risks associated with, and the duration of, cross-border sales.[38]

The Tribunal responded that Panama did not provide any authority for this argument and rebutted that the 'reason why a simple sale does not constitute an investment is that it lacks most of the characteristics of an investment',[39] further noting that:

> [I]t does not follow that an interrelated series of activities, built round the asset of a registered trademark, that do have the characteristics of an investment does not qualify as such simply because the object of the exercise is the promotion and sale of marked goods.[40]

Hence, the fact that these series of activities were only ordinary commercial transactions did not matter to the Tribunal. It concluded that 'a registered trademark will constitute a qualifying investment provided that it is exploited by its owner by activities that, together with the trademark itself, have the normal characteristics of an investment'.[41]

However, one could challenge this reasoning because, even though not advanced by Panama, authority in support of Panama's position does exist. For instance, one may equate the investments in a trademark to the significant investments into a market authorization for pharmaceutical products. This was the issue in *Apotex* Inc. *v United States*.[42] Here, a North American Free Trade Agreement (NAFTA)[43] tribunal had to deal with the question whether the efforts made for an application for a market authorization of pharmaceutical products Abbreviated New Drug Application (ANDA) in the United States constituted a covered investment. In its detailed reasoning, the Tribunal held that:

> The ANDA was thus a requirement in order to conduct an export business. If there had been no ANDA process, the underlying business could not be said to be an "*investment*" in the U.S. The fact that an ANDA was required does not change the nature of the business.[44]

The NAFTA Tribunal thus concluded that the ANDA did not constitute a covered investment. Although in this case Apotex sought market authorization for products to be produced entirely outside the host State (the United States), one could argue that the key issue was whether the underlying business could be considered an investment or a mere cross-border sale of products produced outside the host State. If that is crucial for the characterization of an investment for a market authorization, one might ask why the same could not be argued for trademarks, particularly because the purpose of the protection of trademarks is generally

[38] ibid para 175.
[39] ibid para 176.
[40] ibid.
[41] ibid para 177.
[42] *Apotex Inc v United States of America*, Case No UNCT/10/2, Award on Jurisdiction and Admissibility (14 June 2013).
[43] North American Free Trade Agreement (signed 17 December 1992, entered into force 1 January 1994) (NAFTA) art 2.
[44] *Apotex Inc v United States of America* (n 42) para 217.

viewed to lie in incentivizing investment in product quality and preventing consumer deception.[45] Trademarks as such are then merely a means to exploit investments made into a product previously elsewhere. Thus, it is not entirely convincing that it is the usage or exploitation of the trademark itself that constitutes an investment. Rather, that requires a detailed look at the actual business activities of the local subsidiary that is owned and controlled by the investor.[46]

That view is supported by *Philip Morris v Uruguay*, where the Tribunal had no trouble finding that 'the Claimants' investments in Uruguay', including trademark rights, 'fall within the definition of the term [investments] under Article 1 of the BIT', which explicitly included 'trade or service marks, trade names, indications of source or appellation of origin'.[47] Here as the Tribunal itself noted, it considered the 'long-term, substantial activities in Uruguay' as qualifying 'investments' and not the trademarks themselves.[48]

Furthermore, the Tribunal considered the implementation of marketing strategies for the 'FIRESTONE' and 'BRIDGESTONE' brands in Panama, designed to promote the sales of tires bearing the marks as an investment.[49] A different view is possible. As pointed out elsewhere, the 'mere possession of IPRs or the involvement of IPRs in a commercial transaction do not automatically qualify as an investment'.[50] And the Tribunal does not dispute that. Commentators have thus concluded from existing jurisprudence that IP-related activities in the host State have to be directed at a certain project in order to be considered investments.[51] Indeed, in *Salini v Morocco*, the Tribunal found that the contract over the construction of roads was an investment, but not the know-how for the construction itself.[52] For further authority, Panama could have invoked the judgments of the Permanent Court of International Justice regarding the expropriation of the factory at Chorzów.[53] In this case the court considered intellectual property rights (including patents and licenses) protected along with the real property at issue, particularly because these 'were essential to the constitution of the undertaking',[54] since 'these rights related to the Chorzów factory and were, so to speak, concentrated in that factory'.[55] Thus, arguments could have been raised for Panama's position and it would have been interesting to see the Tribunal deal with them.

[45] Ralph S Brown, 'Advertising and the Public Interest: Legal Protection of Trade Symbols' (1948) 57 Yale LJ 1165, 1185–7. See also Mark A Lemley, 'The Modern Lanham Act and the Death of Common Sense' (1999) 108 Yale LJ 1687, 1688; Roger D Blair and Wenche Wang, 'Monopoly Power and Intellectual Property' in Roger D Blair and Daniel Sokol (eds), *The Cambridge handbook of Antitrust, Intellectual Property, and High Tech* (CUP 2017) 210.

[46] This was the case in *Eli Lilly and Company v Canada*, Case No UNCT/14/2, Final Award (16 March 2017). There, it was not the patents themselves but the activities of the US-based investor through its Canadian subsidiary in the host State that were considered investments.

[47] *Philip Morris v Uruguay* (n 29) paras 24, 183 and 194.

[48] ibid 209.

[49] *Bridgestone v Panama* (n 1) paras 204–10.

[50] Fina and Lentner (n 22) 280.

[51] Simon Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (Carl Haymanns Verlag 2011) 233–236. That view is supported by Henning Grosse Ruse-Khan, *The Protection of Intellectual Property in International Law* (OUP 2016) 162–3.

[52] *Salini v Morocco* (n 24) para 53.

[53] *Case Concerning Certain German Interests in Polish Upper Silesia*, Judgment, Permanent Court of International Justice (25 May 1926) PCIJ Series A, No 7 (1926) 5.

[54] *Case Concerning Certain German Interests in Polish Upper Silesia (Preliminary Objections)*, Judgment, Permanent Court of International Justice (25 August 1925) PCIJ Series A, No 6 (1925) 17. See Kriebaum (n 22) 74.

[55] *Case Concerning Certain German Interests in Polish Upper Silesia* Judgment (n 52) 44.

Against this background, the further finding of the Tribunal that licenses to use a trademark are also investments raises questions too. One of the Claimants' entities did not own the trademark but had only a license to use the registered trademark in Panama. Here the Tribunal referred to the express wording of article 10.29(g) of the TPA, which provides that a license will not have the characteristics of an investment unless it creates rights protected under domestic law of the host State.[56] After reviewing the arguments and expert testimony presented during the proceedings, the Tribunal concluded that the license to use a trademark constituted an intellectual property right under domestic law,[57] and was thus capable of constituting an investment when exploited.[58] It reasoned that:

> [T]he owner of the trademark has to use the trademark to keep it alive, but use by the licensee counts as use by the owner. The licensee cannot take proceedings to enforce the trademark without the participation of the owner, but can join with the owner in enforcement proceedings. The right is a right to use the Panamanian registered trademark in Panama.[59]

Again, key for the Tribunal was the 'exploitation' of the license. This was important because only then did it constitute an investment;[60] the mere existence of a licensing agreement, for example, would not suffice, as the Tribunal made clear.[61] The same questions as regards the characterization of the use of trademarks as investments provided above may similarly be raised for licenses as they, too, are directed only at the exploitation of investments made in product quality elsewhere.

In support of the Tribunal's conclusions regarding the issue of whether trademarks and licenses constituted covered investments, one might refer to the decision of the Tribunal in *Servier v Poland*,[62] in which marketing authorizations were considered investments. However, the applicable Poland–France BIT[63] specifically included 'licenses' and a broad definition of investment as 'rights given by the decision of a public authority' or 'any asset having an economic value', without the requirement of characteristics of an investment.[64] This jurisprudence is therefore not applicable to the present case.

IV. CONCLUSION

In conclusion, plausible arguments could have been raised to cast doubt on the view that trademarks and licenses to use them constitute covered investments

[56] ibid para 178.
[57] ibid para 195.
[58] ibid para 198.
[59] ibid para 195.
[60] ibid para 198.
[61] ibid. See also footnote 9 of the TPA ('For greater certainty, the foregoing is without prejudice to whether any asset associated with the license, authorization, permit, or similar instrument has the characteristics of an investment').
[62] *Les Laboratoires Servier, SAA, Biofarma, SAS, Arts et Techniques du Progres SAS v Republic of Poland*, UNCITRAL, PCA Case, Award (14 February 2012).
[63] Agreement between the Government of the French Republic and the Government of the Polish People's Republic Concerning the Mutual Promotion and Protection of Investments (signed 14 February 1989, entered into force 10 February 1990) (Poland-France BIT).
[64] Ricardo Ugarte, Franz Stirnimann and Dolores Bentolila 'Pharmaceuticals: a new frontier in investment treaty arbitration' *Global Arbitration Review* (6 September 2013) <http://globalarbitrationreview.com/article/1032622/pharmaceuticals-a-new-frontier-in-investment-treaty-arbitration> accessed 17 May 2019.

under the applicable TPA. It will be interesting to see how future tribunals will treat the reasoning and conclusions drawn in *Bridgestone v Panama*.

The case is also interesting on a broader level. International investment arbitration now increasingly deals with IP-related disputes. Several such disputes have made headlines in the arbitration community. For instance, in *Philip Morris v Australia*, the Claimants argued that a new tobacco regulation, the so-called 'plain packaging legislation', deprived the tobacco company Philip Morris of its intellectual property;[65] in *Philip Morris v Uruguay*, similar legislation was challenged under the Switzerland–Uruguay BIT.[66] Most recently, the pharmaceutical company Eli Lilly lost a case against Canada under NAFTA over invalidation of two of its patents through Canadian courts.[67] *Bridgestone v Panama* adds to these and, taken together, one might argue that existing cases have left the door to future IP-related claims wide open, as one commentator has put it.[68] The broad understanding of the concept of 'investment' regarding IP also contributes to that. Open questions remain, and it will be interesting to see how the Tribunal will decide on the merits in this case, which will surely have implications for future cases dealing with IP.

[65] *Philip Morris v Australia* (n 18).

[66] *Philip Morris v Uruguay* (n 29).

[67] *Eli Lilly v Canada* (n 45). For a brief discussion of the case, see Gabriel M Lentner, 'Litigating patents in investment arbitration: Eli Lilly v Canada' (2017) 12(10) JIPLP 815.

[68] Rob Howse, 'Eli Lilly v Canada: A Pyrrhic Victory against Big Pharma' (*IELPblog*, March 2017) <://worldtradelaw.typepad.com/ielpblog/2017/03/eli-lilly-v-canada-a-pyrrhic-victory-against-big-pharma-.html> accessed 17 May 2018. See also Ugarte, Stirnimann and Bentolila, (n 63). <https://www.winston.com/images/content/3/9/v2/39439/6-9-13-Pharmaceuticals-a-new-frontier-in-investment-treaty-arbit.pdf> accessed 17 May 2019.