

The European Union's New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights

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Abstract

This article examines the potential challenges for the protection of intellectual property rights (IPRs) through International Investment Agreements (IIAs) in light of the new generation of IIAs negotiated by the European Union (EU). It argues that it will be difficult in practice to succeed in enforcing IPRs through IIAs. The article will do so by examining in detail the criteria international tribunals have required in order to consider IPRs covered investments, and then analyzing the key protection standards

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considering the interaction between investment treaties and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Because negotiators have reacted to the legal issues raised in this context with new and innovative treaty language, this article will further examine these issues based on the EU's IIAs. Their drafting practice should be taken as an indication that existing IIAs should be interpreted rather narrowly in respect of the protection of IPRs.

Keywords

CETA – EU investment agreements – intellectual property rights – international investment law – TRIPS

1 Introduction

International investment agreements (IIAs)¹ may protect intellectual property rights (IPRs) as covered investments. While it might have started as an academic exercise, this issue recently ended up before investment tribunals in three high-profile cases: Philip Morris challenged 'plain packaging', restrictions on branding, and compulsory health warnings on cigarette packaging in two separate cases against Australia and Uruguay,² and a pharmaceutical company objected to the rejection of patent applications in Canada.³ In each of these cases, violations of IIAs were asserted.⁴ These cases arguably mark what

1 In this article the term international investment agreement encompasses both bilateral investment treaties (BITs) as well as free trade agreements (FTAs) which include a comprehensive chapter on investment.

2 *Philip Morris Asia Ltd v The Commonwealth of Australia*, PCA Case No 2012–12, UNCITRAL, Award on Jurisdiction and Admissibility (17 December 2015); *Philip Morris Brands Sàrl, Philip Morris Products SA and Abal Hermanos SA v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Award (8 July 2016).

3 *Eli Lilly and Company v The Government of Canada*, ICSID Case No UNCT/14/2, Notice of Arbitration (12 September 2013) (pending).

4 On these cases see Tania Voon and others, *Public Health and Plain Packaging of Cigarettes: Legal Issues* (Edward Elgar 2012); Bryan Mercurio, 'Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements' (2012) 15(3) JIEL 871; Sebastian Wurzberger and Andrew D Mitchell, 'Boxed in? Australia's Plain Tobacco Packaging Initiative and International Investment Law' (2011) 27 Arb Int'l 623; Andrew D Mitchell and Tania Voon, 'Time to Quit? Assessing International Investment Claims Against Plain Tobacco Packaging in Australia' (2011) 14 JIEL 515.

Bryan Mercurio has called the 'awakening [of] the sleeping giant' in respect of enforcing the protection of IPRs through investment treaty arbitration.⁵

A growing body of literature examines these issues and has suggested that IPRs should be considered protected investments and that interference with IPRs of an investor in a host state may violate protection standards under IIAs. Recent research has shown that investment protection standards, such as national treatment, non-discrimination, most-favored nation (MFN) treatment, fair and equitable treatment (FET), prohibition of uncompensated expropriation and the prohibition of performance requirements (especially technology transfer provisions) may protect IPR.⁶ This research has been generally met with enthusiasm within the investment community. Few studies, however, provide an in-depth and systematic analysis of the applicable IIA rules and how they could be applied in practice to enforce IPRs through such agreements.⁷

Related scholarship addresses how the standards of protection contained in IIAs affect flexibilities included in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO).⁸

5 Mercurio (n 4) 871.

6 See supra n 8; Simon Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (Carl Heymanns 2011); David Schneiderman, 'NAFTA's Takings Rule: American Constitutionalism Comes to Canada' (1996) 46 U Tor LJ 499, 523.

7 For a comprehensive analysis see Klopschinski (n 6). See also Henning Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (OUP 2016) 151–209. Addressing specific issues see Carlos Correa and Jorge E Viñuales, 'Intellectual Property Rights as Protected Investments: How Open Are the Gates?' (2016) 19(1) JIEL 91; Susy Frankel, 'Interpreting the Overlap of International Investment and Intellectual Property Law' (2016) 19(1) JIEL 121; Henning Grosse Ruse-Khan, 'Challenging Compliance with International Intellectual Property Norms in Investor–State Dispute Settlement' (2016) 19(1) JIEL 241; Henning Grosse Ruse-Khan, 'The Protection of Intellectual Property and International Investment Law' (2016) 19(1) JIEL 87; Simon Klopschinski, 'The WTO's DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPS' (2016) 19(1) JIEL 211; Kathleen Liddell and Michael Waibel, 'Fair and Equitable Treatment and Judicial Patent Decisions' (2016) 19(1) JIEL 145.

8 Prabhash Ranjan, 'Medical Patents and Expropriation in International Investment Law – with Special Reference to India' (2008) 5 Manchester JIEL 72; Henning Grosse Ruse-Khan, 'Protecting Intellectual Property under BITs, FTAs, and TRIPS: Conflicting Regimes or Mutual Coherence?' Max Planck Institute for Intellectual Property and Competition Law Research Paper No 11–02 (2011) 1; Henning Grosse Ruse-Khan, 'The International Law Relation between TRIPS and Subsequent TRIPS-plus Free Trade Agreements: Towards Safeguarding TRIPS Flexibilities?' (2011) 18 J Int'l Intellect Prop L 325; Robert Bird and Daniel R Cahoy, 'The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective

These flexibilities aim to permit developing and least-developed countries to use TRIPS-compatible norms in a manner that enables them to pursue their own public policies (for example, relating to access to pharmaceutical products) or more generally economic development. TRIPS flexibilities risk being effectively erased by the higher protection standards included in IIAs. Scholars have established that because of IIAs, the multilateral TRIPS is now a floor for harmonized standards, instead of the ceiling many in developing countries had expected.⁹ Scholarship has also highlighted the different approaches to the weight given to public interests when comparing investor protection with TRIPS: within the WTO system, IPRs are strictly linked to the aim of technological development, progress in knowledge, and distinctiveness of products, whereas the core issue of an IIA is the protection of foreign investors' tangible and intangible assets.¹⁰ The interaction between investment treaties and TRIPS adds to the complexity of the issues to be addressed.

Bargaining Approach' (2008) 45 ABLJ 283; Lahra Liberti, 'Intellectual Property Rights in International Investment Agreements: An Overview' (2009) 6(2) TDM 1; Bertram Boie, 'The Protection of Intellectual Property Rights Through Bilateral Investment Treaties: Is There a TRIPS-plus Dimension?' 19 NCCR Working Paper 1 (2010); Peter B Rutledge, 'TRIPS and BITs: An Essay on Compulsory Licenses, Expropriation, and International Arbitration' (2012) 13 NC J L&Tech 149; Carlos M Correa, 'Bilateral Investment Agreements: Agents of New Global Standards for the Protection of Intellectual Property Rights?' (2004) <www.grain.org/article/entries/125-bilateral-investment-agreements-agents-of-new-global-standards-for-the-protection-of-intellectual-property-rights> accessed 5 November 2016; 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) TDM 1; Christopher S Gibson, 'A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation' (2010) 25(3) Am U Int'l L Rev 357; Carlos M Correa, 'Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses' (2004) 26 Mich JIL 331; Valentina S Vadi, 'Access to Essential Medicines & International Investment Law: The Road Ahead' (2007) 8 JWIT 505; Smith Van, 'Enabling Environments or Enabling Discord: Intellectual Property Rights, Public-Private Partnerships, and the Quest for Green Technology Transfer' (2011) 42 Geo J Int'l L 817.

- 9 Denis B Barbosa, Margaret Chon and Von Hase, Andres Moncayo, 'Symposium: The International Intellectual Property Regime Complex: Slouching Towards Development in International Intellectual Property' [2007] Mich St L Rev 71, 87–88.
- 10 Antonietta Di Blase, 'Intellectual Property Protection in Investment Agreements and Public Concerns' in Giorgio Sacerdoti (ed), *General Interests of Host States in International Investment Law* (CUP 2014) 197.

Recognizing the high degree of uncertainty in this context,¹¹ it is the purpose of this article to critically examine the potential challenges for the protection of IPRs through IIAs. Despite the sometimes ambiguous and vague nature of treaty provisions in IIAs, this article argues that investment tribunals have provided important guidance for the interpretation of IIA provisions. In addition, negotiators have reacted to the legal issues raised in this context with new and innovative treaty language. This article will use the new generation of IIAs negotiated by the European Union (EU) to further explore these issues. These new IIAs demonstrate the clear intention of the parties to IIAs to avoid the conflict of norms raised by questions of IPR protection through IIAs. EU IIAs are of particular relevance, in this context, because the EU as a whole represents the most important source and destination for foreign direct investment (FDI).¹² The treaty language adopted by the EU will therefore have a significant impact on the future of international investment law. In doing so, this article analyses what has been called the invisible or unwritten EU Model BIT.¹³ It takes into account the available EU documents, published treaty texts and scholarly analysis. In particular, the recently concluded investment chapter of the EU-Canada Comprehensive Economic and Trade Agreement (CETA),¹⁴ as well as the available texts of the EU-Singapore¹⁵ and EU-Vietnam¹⁶ FTAs, are considered for possible wording and structure of future EU IIAs with regard to the protection of IPRs through IIAs.

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- 11 See also Tania Voon, Andrew D Mitchell and James Munro, 'Intellectual Property Rights in International Investment Agreements: Striving for Coherence in National and International Law' in Chin Lim and Bryan Mercurio (eds), *International Economic Law After the Global Crisis: A Tale of Fragmented Disciplines* (CUP 2015) 381.
 - 12 European Commission, 'Communication from the Commission to the European Parliament, The Council, the European Economic and Social Committee and the Committee of the Regions, Towards a Comprehensive European International Investment Policy' (7 July 2010) COM (2010) 343 final, 2.
 - 13 See the contributions in August Reinisch and Marc Bungenberg (eds), 'Special Issue: The Anatomy of the (Invisible) EU Model BIT' (2014) 15 JWIT 375–704.
 - 14 Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (signed 30 October 2016, not yet in force) (consolidated text of 29 February 2016) <http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc_154329.pdf> accessed 15 August 2016.
 - 15 Free Trade Agreement between the European Union and the Republic of Singapore (text as of May 2015) <<http://trade.ec.europa.eu/doclib/press/index.cfm?id=961>> accessed 15 August 2016 (EU-Singapore FTA).
 - 16 Free Trade Agreement between the European Union and the Socialist Republic of Vietnam (agreed text as of January 2016) <<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>> accessed 15 August 2016.

This article proceeds by first addressing the question whether IPRs are covered investments under IIAs generally and the EU's IIAs in particular. Next, the most relevant standards of protection for IPRs in IIAs are examined in detail, namely the protection against uncompensated expropriation and the fair and equitable treatment standard.¹⁷ This article concludes that several legal obstacles arise with regard to the protection of IPRs through IIAs.

2 IPRs as Investment in the New Generation of IIAs

2.1 *General Aspects*

Whether IPRs are protected as investments in IIAs depends on the scope of the definition of the term 'investment'.¹⁸ In fact, new forms of foreign investment contracts involve the transfer of intangible rights, such as licensing agreements, management and consultancy contracts.¹⁹ The protection of foreign investment is viewed to cover not only physical assets, but also intangible assets, including, most importantly, technology and know-how of the investor.²⁰

Empirical research of IIAs in force shows that IPRs generally fall within the definition of 'investment'.²¹ Most bilateral investment treaties (BITs) address

17 The issue of umbrella clauses is not addressed here. Suffice it to note that the Tribunal in *Philip Morris v Uruguay* correctly held that "trademarks are not "commitments" falling within the intended scope of Article 11 of the BIT." *Philip Morris v Uruguay* (n 2) para 482. See also Klopschinski (n 7) 229–231.

18 Rudolf Dolzer and Christoph Schreuer, *Principles of International Investment Law* (2nd edn, OUP 2012) 60.

19 M Sornarajah, *The International Law on Foreign Investment* (3rd edn, CUP 2010) 191.

20 *ibid.*

21 For a comprehensive study on how BITs cover IPRs as protected investment see Lavery (n 8) 4–7 and Annex 1. The author observes that although few BITs do not explicitly address IPRs, this does not necessarily mean that they do not cover IPRs since BITs generally provide that the lists of covered investments are not exhaustive. See also Julian D Mortenson, 'Intellectual Property as Transnational Investment: Some Preliminary Observations' (2009) 6(2) TDM 1, 4; Karina H Müller and Nathalia Mazzonetto, 'Intellectual Property Rights in the Context of Investment Arbitration: A Brazilian Perspective' in Daniel de Andrade Levy, Ana Gerda de Borja and Adriana Noemi Pucci (eds), *Investment Protection in Brazil* (Wolters Kluwer 2014) 227, 233–34; Liberti (n 8) 5–9. See also Christoph Schreuer and others, *The ICSID Convention: A Commentary* (2nd edn, CUP 2009) 123; UNCTAD, 'Intellectual Property Provisions in International Investment Arrangements' (2007) UNCTAD/WEB/ITE/IIA/2007/1. For a critical view see, eg, Ruth L Okediji, 'Is Intellectual Property "Investment"?' *Eli Lilly v Canada and the International Intellectual Property System* (2014) 35 U Pa J Int'l L 1121.

IPRs in their definition of investment either by a general reference to 'intellectual property rights'²² or by a (generally non-exhaustive) list of certain types of IPRs.²³ The 2012 US Model BIT equally includes 'intellectual property rights' in its demonstrative list of forms that an investment may take.²⁴

The same is true for most free trade agreements (FTAs) concluded between developed countries that include a chapter on investment. For example, Chapter 11 of the Australia-United States FTA²⁵ adopts a definition of investment in Article 11.17(f) that includes 'intellectual property rights.'²⁶ Similarly, the TPP, a recently negotiated regional trade agreement,²⁷ and the investment chapters included in the EU's FTAs, include IPRs in their definition of investment.²⁸

An explicit mention of IPRs in the definitions of investment may not even be required for IPRs to enjoy protection under the applicable IIAs. The fact

22 Mortenson (n 21) 4; Müller and Mazzonetto (n 21) 233–34.

23 For example, the Energy Charter Treaty defines intellectual property as including 'copyrights and related rights, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits and the protection of undisclosed information'; Energy Charter Treaty (signed 17 December 1994, entered into force 16 April 1998) art 1(12), 2080 UNTS 95. See also Liberti (n 8) 5–9.

24 The US Model BIT 2012 is available at <<https://ustr.gov/sites/default/files/BIT%20text%20for%20ACIEP%20Meeting.pdf>> accessed 7 December 2016.

25 Australia-US Free Trade Agreement (adopted 18 May 2004, entered into force 1 January 2005) (2004) 43 ILM 1248.

26 The same definition was adopted by the United States-Central America-Dominican Republic Free Trade Agreement (adopted 5 August 2004, entered into force 1 March 2006) art 10.28(f) (2004) 43 ILM 514 (CAFTA-DR); United States-Chile Free Trade Agreement (signed 6 June 2003, entered into force 1 January 2004) art 10.27(f); Peru-United States Trade Promotion Agreement (signed 12 April 2006, entered into force 1 February 2009) art 10.28(f); United States-Singapore Free Trade Agreement (signed 6 May 2003, entered into force 1 April 2004) art 15.1(13)(f) all available at <<http://investmentpolicyhub.unctad.org/IIA>>.

27 Trans-Pacific Partnership (TPP) (signed 4 February 2016) (final text) <<https://ustr.gov/sites/default/files/TPP-Final-Text-Investment.pdf>> accessed 15 August 2016. Compare, however, Art 1139(g) NAFTA which does not explicitly list IP rights but refers to 'real estate or other property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes.' However, the expropriation prohibition under Art 1110 NAFTA contains an exception for compulsory licenses which points to the fact that drafters understood the chapter to apply to IPRs as well. Henning G Ruse-Khan, 'Investment Law and Intellectual Property Rights' in Marc Bungenberg and others (eds), *International Investment Law: A Handbook* (CH Beck/Hart/Nomos 2015) 1695.

28 See further below Section 2.5.

that IIAs generally include very broad definitions of investments as covering ‘every kind of asset’ suggests that the default presumption is that IPRs are included in the definition of investment.²⁹ IPRs have been unequivocally recognized as a form of property in international treaties and conventions reaching back to the time of the ICSID Convention.³⁰ Furthermore, almost all IIAs confer protection explicitly to licenses and investor returns, which arguably encompasses royalties and fees from IPRs.³¹ This recognition has not been unanimous, however. Several states argued for the exclusion of IPRs from the definition of investment as the (eventually unsuccessful) negotiations of the Multilateral Agreement on Investment (MAI) illustrate.³² Still, at present it is arguably almost a foregone conclusion that IPRs are included within the scope of a covered investment in all IIAs.³³

As a result, both registered IPRs, such as patents and trademarks, and unregistered rights, such as copyright, trade secrets, and unregistered trademarks

29 See Mortenson (n 21) 5.

30 For a comprehensive analysis of the meaning of ‘investment’ in the ICSID’s preparatory work, see Julian D Mortenson, ‘The Meaning of Investment ICSID’s Travaux’ (2010) 51(1) Harvard JIL 257. More recently, the TRIPS preamble recognizes that ‘intellectual property rights are private rights.’ See also the *Chorzow Factory Case*, in which the Permanent Court of International Justice put emphasis on the protection of know-how that was transferred in the calculation of the damages, *Case Concerning the Factory at Chorzów (Germany v Poland)* (Merits) PCIJ Rep Series A No 17.

31 See, eg, Agreement Between Japan and the Republic of Indonesia for an Economic Partnership (adopted 20 August 2007, entered into force 1 July 2008) art 58(f)(vi) <www.mofa.go.jp/region/asia-paci/indonesia/epa0708/agreement.pdf> accessed 15 August 2016; EU–Singapore FTA (n 15) art 9.1(1)(h).

32 Lukas Vanhonnaeker, *Intellectual Property Rights as Foreign Direct Investments: From Collision to Collaboration* (Elgar 2015) 13. For the issues surrounding the inclusion or exclusion of IPRs in the definition of ‘investment’ see OECD, Negotiating Group on the Multilateral Agreement on Investment (MAI), ‘Report to the Negotiating Group on Intellectual Property’ (26 March 1997) DAF/MAI (97) 13, at nos 2 and 4. See also Stefania Ercolani, ‘The OECD Multilateral Agreement on Investment (MAI) Project: The Possible Consequences of Including Intellectual Property’ (1998) 9(3) Entertainment Law Review 125, 125–31. The eminent scholar Alfred Verdross, writing in 1931, did not consider ‘so-called literary, artistic and industrial property’ as property recognized by international law; see Alfred Verdross, ‘Les Règles internationales concernant le traitement des étrangers’ (1931) 37 Recueil des Cours 323, 364.

33 Bryan Mercurio, ‘Safeguarding Public Welfare? – Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements’ (2015) 6(2) JIDS 252, 256.

(as provided for in domestic law) are *prima facie* covered by the definition of investment in IIAs.³⁴

2.2 Objective Criteria

The conclusion that most IIAs include IPRs as a form of investment can only be the starting point of this analysis. IPRs are typically listed as one form 'that an investment may take.'³⁵ In order to be covered by an IIA, IPRs must fulfill other treaty requirements and present the characteristics of an investment satisfying two sets of criteria. First, the set of criteria included in the applicable IIA as regards the characteristics of an investment must be satisfied, such as commitment, duration, risk and contribution to economic development.³⁶ Second, if a dispute is administered under the ICSID Convention, the investment in question must be within the so-called outer limits as provided for in the ICSID Convention.³⁷

Regarding the interplay of these two sets of criteria, those stemming from the applicable IIA and those stemming from the jurisdictional requirement of Article 25 of ICSID, the Tribunal in *Philip Morris v Uruguay* stated the following:

A further aspect to be considered when interpreting the term 'investment' under Article 25(1) of the ICSID Convention is its interplay with the definition of 'investment' under the BIT. The consent of the Contracting Parties under the BIT to the scope of 'investment' is of relevance when

34 Mercurio (n 4) 878.

35 See the study of approximately 435 available IIAs concluded by China, Germany, the Netherlands, the US, and the UK by Lavery (n 8) 1–6.

36 See, eg, the definitions of investment in the 2012 US Model BIT (n 24), CETA (n 14), EU-Singapore FTA (n 15) and the EU-Vietnam FTA (n 16).

37 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) 575 UNTS 159 (ICSID Convention). Regarding the definition of investment see *Salini Costruttori SPA v Kingdom of Morocco*, ICSID Case No ARB/00/4, Decision on Jurisdiction (23 July 2001). However, the Tribunal in *Philip Morris Brands Sàrl, Philip Morris Products SA and Abal Hermanos SA v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Decision on Jurisdiction (2 July 2013) paras 203–210 considered the selling of tobacco products as an investment stating that it 'sees no basis for concluding that the Claimants' long-term, substantial activities in Uruguay do not qualify as "investments" under the BIT and the ICSID Convention' (ibid para 209) and adopted a more 'flexible' approach regarding the criteria established in the *Salini* case. See also Frankel (n 7) 131–132; Vanhonnaecker (n 32) 14; Grosse Ruse-Khan (n 27) 1697.

establishing the meaning of the term under Article 25(1) of the ICSID Convention, although such Parties do not have an unfettered discretion to go beyond what have been called the ‘outer limits’ set by the ICSID Convention.³⁸

As an example for the first set of criteria, Article 1 of the 2012 US Model BIT defines ‘investment’ as ‘every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk.’³⁹ Definitions in BITs vary but investment tribunals and scholars have regularly emphasized the fact that an investment typically consists of several interrelated economic activities, which should not be viewed in isolation.⁴⁰ Instead, ‘the identification of an investment is a holistic exercise using a “flexible and pragmatic approach” adapted to the particular circumstances of a case.’⁴¹ Thus, the mere possession of IPRs or the involvement of IPRs in a commercial transaction do not automatically qualify as an investment.

As regards the second set of criteria, the definition of investment in Article 25 of the ICSID Convention is controversial. The difficulty lies in the fact that the ICSID Convention does not define ‘investment,’ which has resulted in

38 *Philip Morris v Uruguay* (n 37) para 197 (footnote omitted).

39 US Model BIT 2012 (n 24).

40 Dolzer and Schreuer (n 18) 61. See *Ceskoslovenska Obchodni Banka, AS v The Slovak Republic*, ICSID Case No ARB/97/4, Decision on Jurisdiction (24 May 1999) para 72; *Enron Corporation and Ponderosa Assets, LP v Argentine Republic*, ICSID Case No ARB/01/3, Decision on Jurisdiction (14 January 2004) para 70; *Joy Mining Machinery Limited v Arab Republic of Egypt*, ICSID Case No ARB/03/11, Award on Jurisdiction (6 August 2004) para 54; *Mr Patrick Mitchell v Democratic Republic of the Congo*, ICSID Case No ARB/99/7, Decision on Annulment (1 November 2006) para 38; *Duke Energy International Peru Investments No 1 Ltd v Republic of Peru*, ICSID Case No ARB/03/28, Decision on Jurisdiction (1 February 2006) para 92; *Saipem SpA v The People's Republic of Bangladesh*, ICSID Case No ARB/05/07, Decision on Jurisdiction (21 March 2007) paras 110, 114. See also the leading case of *Mihaly International Corporation v Democratic Socialist Republic of Sri Lanka*, ICSID Case No ARB/00/2, Award (15 March 2002) para 61.

41 Emmanuel Gaillard, ‘Identify or Define? Reflections on the Evolutions of the Concept of Investment in ICSID Practice’ in Christina Binder and others (eds), *International Investment Law for the 21st Century: Essays in Honour of Christoph Schreuer* (OUP 2009) 403, 407–10. This view is confirmed by the Tribunal in *Philip Morris v Uruguay* (n 2) para 209.

different interpretative approaches.⁴² One of the most authoritative voices in investment law, Christoph Schreuer, identified, after reviewing the ICSID case law, the following typical criteria, which are to be considered in a holistic analysis: duration; regularity of profit and return; the assumption of risk; a substantial commitment by the investor; and the operation's significance for the host State's development.⁴³ ICSID practice is not consistent on this point and suggests that not all of these criteria need to be satisfied for there to be an 'investment.'⁴⁴ Particularly the latter element, the contribution to the host state's development, is highly contested.⁴⁵

With respect to these outer limits, it must be noted that on their own, IPRs, such as a patent granted or a trademark registered in the host state, do not fulfill these criteria.⁴⁶ As such IPRs may be a constituent element of, but are not as such a substantial commitment by the investor in the sense of the *Salini*

42 Mahnaz Malik, 'Definition of Investment in International Investment Agreements' [2011] International Institute for Sustainable Development Best Practice Series 1, 4.

43 Schreuer and others (n 21) Art 25 para 158. See also *Gruslin v Malaysia*, ICSID Case No ARB/99/3, Award (27 November 2000) paras 13.5–13.6; *Lanco v Argentina*, ICSID Case No ARB/97/6, Preliminary Decision on Jurisdiction (8 December 1998) para 48; *Fedax v Venezuela*, ICSID Case No ARB/96/3, Award on Jurisdiction (11 July 1997) paras 22, 31; *Salini Costruttori SPA v Kingdom of Morocco*, ICSID Case No ARB/00/4, Decision on Jurisdiction (23 July 2001) para 52; *Malaysian Historical Savors v Malaysia*, ICSID Case No ARB/05/10, Decision on Jurisdiction (17 May 2007) para 112 (annulled by Decision on the Application for Annulment, ICSID Case No ARB/05/10 (16 April 2009)); *Patrick Mitchell v Congo* (n 40); *Joy Mining v Egypt* (n 40) para 53; *CSOB v Slovak Republic*, ICSID Case No ARB/97/4, Decision on Objections to Jurisdiction (24 May 1999) para 64; *Philip Morris v Uruguay* (n 37) para 196. See also Gaillard (n 41) 403–16 (discussing various tribunals' implementation of the restrictive definition).

44 Voon, Mitchell and Munro (n 11) 387–88.

45 See the discussion in *Philip Morris v Uruguay* (n 37) paras 207–10. For the contrary view, see particularly the dissenting opinion of Makhdoom Ali Khan in *Deutsche Bank AG v Sri Lanka*, disagreeing with the majority decision and stating, 'my understanding of the recent jurisprudence is different from that stated in the Majority Award. In my view, recent decisions do not reject "contribution to economic development" as a typical characteristic of investment.' *Deutsche Bank AG v Democratic Socialist Republic of Sri Lanka*, ICSID Case No ARB/09/02, Dissenting Opinion of Makhdoom Ali Khan (23 October 2012) para 40; see also paras 41–49. Sharing this view eg Anthony Anghie, 'Deutsche Bank AG v Democratic Socialist Republic of Sri Lanka: "All That Is Solid Melts Into Air"' (2015) 30(2) ICSID Rev 356. See generally Sornarajah (n 19) 313–14.

46 Klopschinski (n 6) 233–36. Sharing the view of Klopschinski, eg, Grosse Ruse-Khan, *Protection of Intellectual Property* (n 7) 162. For the view that IPRs certainly meet these criteria, see eg, Mortenson (n 21) 7.

criteria.⁴⁷ For example, a patent granted in the host state may be considered a protected investment in connection with the investment made in research and development (R&D) along with it in the host state. Thus, satisfaction of these outer limits will depend on the actual activities of the investor in the territory of the host state.

It could be argued that the registration, maintenance, promotion, enforcement and protection of trademarks in the host state meet the requirement of a substantial commitment of the investor.⁴⁸ To be such a substantial commitment of an investor for the purposes of ICSID, these IPR-related activities must be directed at a certain project.⁴⁹ For example, in *Salini v Morocco*, the Tribunal characterized the contract over the construction of roads as an investment in accordance with Article 25 ICSID, but not the know-how for the construction itself.⁵⁰

A substantial financial commitment is in itself not sufficient to satisfy the element of substantial commitment by the investor. In *Consorzio Groupement L.E.S.I. – Dipenta (Italy) v Algeria*, the Tribunal held that the contract concerning the construction of a dam and not the capital investment in it must be considered an investment.⁵¹ This means that the financial commitment for R&D, for example, in the host state does not necessarily constitute in itself an investment for the purposes of the ICSID Convention.⁵²

Beside the substantial commitment, the regularity of profit and return is another characteristic under the ICSID Convention that may be present in IPRs of an investor. IPRs are responsible for significant profit and return of transnational enterprises every year in some cases;⁵³ this notwithstanding, the mere existence of IPRs does not convey regular profits to the investor.⁵⁴

Furthermore, the requirement of the assumption of risk is not met by simply holding IPRs in the host state.⁵⁵ Simply owning IPRs in the host State without any form of exploiting them does not amount to an assumption of risk in

47 Grosse Ruse-Khan (n 27) 1696.

48 Advancing this view see Mortenson (n 21) 8.

49 Klopschinski (n 6) 234.

50 *Salini v Kingdom of Morocco* (n 37) para 53.

51 *Consorzio Groupement LESI – Dipenta (Italy) v Algeria*, ICSID Case No ARB/03/08, Award (10 January 2005) para II.14(i).

52 But see Mortenson (n 21) 8.

53 *ibid.*

54 Sharing this view Klopschinski (n 6) 235.

55 Grosse Ruse-Khan (n 27) 1696.

the host State.⁵⁶ Even when exploiting IPRs in the host state, the risks associated with exploiting IPRs are qualitatively not exceeding the risks associated with normal business transactions.⁵⁷ As a result, it is clear that merely owning IPRs may not satisfy the objective criteria necessary for an investment to exist.⁵⁸ However, IPRs can be constituent elements of more complex business operations in the territory of the host state, which could then be qualified as an 'investment'.

It is clear that whether a specific form of IPR fulfills the elements required to be considered an 'investment' will depend on the particular facts of the case. In principle, IPRs could satisfy these requirements, if the elements of commitment of capital or other resources, the expectation of gain or profit, and the assumption of risk are present. For example, as Grosse Ruse-Khan points out, the marketing of IPR-protected goods and services on the domestic market or the licensing of IPR-protected technologies to domestic firms constitute more complex operations and the contractual arrangements underlying them (for example a licensing agreement) certainly meet the objective criteria of an 'investment', and hence the respective IPRs must be considered investments for which the ICSID has jurisdiction under Article 25(1) ICSID Convention.⁵⁹

In general, a holistic approach is required in order to analyze whether IPRs can be considered a protected investment under the applicable IIA and the ICSID Convention. Merely owning IPRs in the host state does not satisfy these requirements.⁶⁰

56 *ibid.* See also Klopschinski (n 6) 235–36. For the contrary view, see Mortenson (n 21) 8, who argues that '[t]here is an inherent uncertainty of any business venture based on exploiting an asset in the marketplace on the assumption that it will prove (or continue to prove) attractive to customers. Moreover, all forms of intellectual property share the unique and constant risk of infringement by third parties not privileged in their use.'

57 Grosse Ruse-Khan (n 27) 1696. See also Klopschinski (n 6) 234–35. For the contrary view see Mortenson (n 21) 8.

58 Voon, Mitchell and Munro (n 11) 388. See also Okediji (n 21) 1126.

59 Grosse Ruse-Khan (n 27) 1699. See also Mortenson (n 21) 8; Klopschinski (n 6) 236–49. But see Okediji (n 21) 1127–28.

60 While the Tribunal in *Philip Morris v Uruguay* suggested that, in principle, IPRs would qualify as investment, this is because the applicable BIT contained a purely asset-based definition without any further qualification of an investment. The Tribunal did not explicitly refer to IPRs as investment but held that 'the Tribunal sees no basis for concluding that the Claimants' long-term, substantial activities in Uruguay do not qualify as "investments" under the BIT and the ICSID Convention' (*Philip Morris v Uruguay* (n 37) para 209). See also Correa and Viñuales (n 7) 110.

2.3 *IPRs Under Domestic Law or Further Protection?*

What constitutes an IPR depends on the domestic laws of the host country. IPRs are granted by domestic law, and international treaties relating to intellectual property, such as TRIPS, impose merely an obligation to grant IPR protection in a certain manner meeting certain standards.⁶¹ Also, IIAs include references to the domestic law of the host state in requiring, for example, that ‘investments have been admitted in accordance with the law and regulations of the contracting parties in which territory the investment was carried out.’⁶² Others have explicit statements that recognize only IPRs conferred under municipal law.⁶³ Even without such reference, it is difficult to see how an IIA could be interpreted as creating individual IPRs in and of themselves.⁶⁴ Hence, IIAs must be interpreted as protecting IPRs only as far as they exist in domestic law.⁶⁵

2.4 *Application for the Registration of IPR as Protected Investment*

This raises the related question whether an application for the registration or granting of an IPR itself may be considered as an investment under IIAs.⁶⁶ Some forms of IPRs are only acquired through registration, such as patents, industrial designs, and, depending on jurisdiction, trademarks. On the other hand, applications for a patent can be sold and assigned to third parties and some countries grant pre-approval rights to applicants for a patent to protect

61 Grosse Ruse-Khan (n 27) 1697.

62 Chile-Egypt BIT (signed 5 August 1999, not yet in force) art I(2) <<http://investmentpolicyhub.unctad.org/Download/TreatyFile/674>> accessed 5 November 2016. For further analysis of such clauses see Katharina Diel-Gligor and Rudolf Hennecke, ‘Investment in Accordance with the Law’ in Bungenberg and others (eds) (n 27) 566–76. See also Lavery (n 8) 12–13; Klopschinski (n 6) 167–69; Grosse Ruse-Khan (n 27) 1696.

63 See eg, ASEAN Comprehensive Investment Agreement (signed 26 February 2009, entered into force 29 March 2012) art 4(c), which limits an ‘investment’ to ‘intellectual property rights which are conferred pursuant to the laws and regulations of each Member State’. For further examples, see Lavery (n 8) 12.

64 Grosse Ruse-Khan (n 27) 1697, pointing out that India and several other developing countries did not grant patent protection to pharmaceutical products until 1995 or later; some countries protect industrial designs under copyright (or even patent law), others have a specific design right.

65 See *Philip Morris v Uruguay* (n 2) para 243; Voon, Mitchell and Munro (n 11) 386.

66 Grosse Ruse-Khan (n 27) 1698.

their invention against would-be infringers.⁶⁷ Therefore, the application as such may be considered a protected investment.⁶⁸

This depends, however, on the rights attached to such applications under domestic law.⁶⁹ For example, in the case *Anheuser Busch Inc v Portugal*, the European Court of Human Rights held that a trademark application can be considered as property protected under the 1st Additional Protocol to the European Convention on Human Rights because '[t]he applicant company... owned a set of proprietary rights – linked to its application for the registration of a trade mark – that were recognised under [domestic] law, even though they could be revoked under certain conditions.'⁷⁰ The Court drew a distinction between the 'proprietary nature' of the registration of a trade mark itself, which would fall under the protection of property according to the European Convention on Human Rights because such registration has commercial value and can be traded according to domestic law, and the 'right' to have the trade mark registered, which in itself does not constitute protected property.⁷¹ It follows that IIAs cannot create new IPRs but only protect such that are recognized under the domestic law of the host state.⁷²

67 Mercurio (n 4) 878.

68 The most important legal effect of an application for trademark registration or the grant of a patent is that both actions secure a right of priority over subsequent applications.

69 Mercurio (n 4) 878.

70 *Anheuser Busch Inc v Portugal*, App No 73049/01 (ECtHR, 11 January 2007) (GC) para 78.

71 *Anheuser Busch Inc v Portugal* (n 71) paras 66 ff. But see Mercurio (n 4) 880, pointing out that 'it is extremely likely that an application for certain IPRs would normally be included within the scope of IIAs.'

72 In this sense, see also *Philip Morris v Uruguay* (n 2) para 243. See the detailed study in Klopschinski (n 6) 147–221. But see *EnCana Corporation v Ecuador*, LCIA Case UN3481, Award (3 February 2006) (Horacio A Grigera Naon, dissenting suggesting that 'ownership or legal entitlement rights directly rooted in and protected by the Treaty susceptible of being expropriated through conduct attributable to Ecuador in infringement of article VIII.I of the Treaty' Partial Dissenting Opinion (30 December 2005) para 15). This view is shared by the European Court of Human Rights in *van Marle v The Netherlands*, App Nos 8543/79; 8674/79; 8675/79; 8685/792 (ECtHR, 6 June 1986), which upheld a violation of his right to property under Article 1(1) of the First Additional Protocol to the European Convention of Human Rights even though the 'goodwill in business' at issue in the proceedings were not recognized under applicable Dutch law. For the opinion that IP Rights are protected regardless of recognition in domestic law, see eg Ermias T Biadgleng, 'IP Rights Under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protection of Public Interest' (2006) 8 South Centre Research Papers 1, 7. Biadgleng arrives at this conclusion by looking at the practice of the tribunals that have emphasized the autonomous meaning of terms used in investment agreements, which are not

In a related case, the NAFTA tribunal in the *Apotex* case held that its Abbreviated New Drug Application (ANDA) submissions (manufacturing protocols, laboratory controls, testing documentation, and results certification) for marketing its products solely in the United States, cannot be considered property in the context of NAFTA. It held that US law does not recognize such a submission as property, ‘even if as a technical matter the application may be “owned.”’⁷³

As a result, applications for the registration of IPRs may qualify as protected investments if this application or registration in itself is recognized under the applicable domestic law as (intangible) property and that the IIA does not limit protection to IPRs, which are conferred pursuant to the laws and regulations of the host state.⁷⁴

2.5 Definitions in EU-Negotiated IIAs

The following section will analyze the definitions of the term ‘investment’ in the agreements negotiated by the EU with Canada (CETA), Singapore, and Vietnam.⁷⁵ From the outset, the Governments of the EU (represented in the Council of the EU) specifically referred to the inclusion of IPRs in the definition of ‘investment.’ In the negotiation mandate for CETA, the scope of future investment agreements is described as follows: ‘the investment protection title of the agreement shall cover a broad range of investors and their investments, *intellectual property rights* included, whether the investment is made before or after the entry into force of the agreement.’⁷⁶

necessarily the same under domestic law. Therefore, the protection of IPRs in IIAs should not depend on domestic law. However, as was pointed out, IPRs as such are an empty concept and thus IIAs with references to IPRs cannot be interpreted as having a specific content irrespective of the applicable domestic law.

73 *Apotex v US* (n 3) para 207.

74 See explicitly, eg, Art 4(c)(iii) of the 2009 ASEAN Comprehensive Investment Agreement <www.asean.org/storage/images/2013/economic/aia/ACIA_Final_Text_26%20Feb%202009.pdf> accessed 7 December 2016.

75 These negotiations are still subject to the internal ratification processes and have therefore not yet entered into force.

76 Council of the European Union, ‘Recommendation from the Commission to the Council on the Modification of the Negotiating Directives for an Economic Integration Agreement with Canada in Order to Authorise the Commission to Negotiate, on Behalf of the Union, on Investment’ (15 December 2015) para 26(b) (emphasis added) <<http://data.consilium.europa.eu/doc/document/ST-12838-2011-EXT-2/en/pdf>> accessed 15 August 2016.

This inclusion of IPRs into the definition of investment was further discussed within the European Parliament. In its Resolution on the future European international investment policy, the Parliament insisted that

where intellectual property rights are included in the scope of the investment agreement . . . the provisions should avoid negatively impacting the production of generic medicines and must respect the TRIPS exceptions for public health.⁷⁷

The negotiators of the EU's IIAs have addressed the tension between obligations stemming from TRIPS and IIAs potentially covering IPRs as well regarding the primacy of conflicting rules,⁷⁸ as the section on expropriation will demonstrate.

The definitions adopted in CETA, the EU-Singapore and EU-Vietnam FTAs appear to be indicative of the EU's investment policy approach adopting broad definitions of 'investment' and 'investor.'⁷⁹ Specifically, in CETA's investment chapter the term 'investment' is defined as

[e]very kind of asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, which includes a certain duration and other characteristics such as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk.⁸⁰

It then provides a demonstrative list of forms of investments typically included in BITs, expressly including 'intellectual property rights'.⁸¹ This definition is almost identical to that of the EU-Singapore and EU-Vietnam FTAs.⁸² It resembles the *Salini* criteria (developed in the context of Article 25 ICSID

77 European Parliament, 'Resolution of 6 April 2011 on the Future European International Investment Policy' 2010/2203(INI) para 11 <www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2011-0141&language=EN> accessed 15 August 2016.

78 See also Jörn Griebel, 'The New EU Investment Policy Approach' in Bungenberg and others (n 27) 304, 315.

79 Regarding CETA, see Gabriela Alexandru and Frank Hoffmeister, 'A First Glimpse of Light on the Emerging Invisible EU Model BIT' (2014) 15 JWIT 379, 383–84.

80 Art 8.1 CETA.

81 Annex 8-D of the CETA recalls the primacy of domestic courts in determining the 'existence and validity' of IPRs.

82 See EU-Singapore FTA (n 15) arts 9.1(1) and 11.2 and ch I of Chapter 8 of the EU-Vietnam FTA (n 16).

Convention), without, however, including the requirement of ‘contribution to the development of the host State.’⁸³ Dropping this aspect could be read as an attempt to eliminate this criteria from the definition of investment.⁸⁴

The wording of EU IIAs points to an asset-based approach (i.e. containing a broad range of specified assets that can be protected under the agreement),⁸⁵ with an open definition rather than adopting an exhaustive list of covered investments. Thus, where they satisfy the objective characteristics of an ‘investment,’ IPRs are covered by the investment chapters so far negotiated by the EU, arguably even when they do not contribute to the development of the host state.

In conclusion, IPRs are not *per se* covered investments in the IIAs negotiated by the EU unless they satisfy the objective characteristics of an investment,⁸⁶ i.e. certain duration, the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk. This is not to say that IPRs can never constitute investment protected under IIAs, but that such classification requires a holistic, case-by-case analysis.⁸⁷ By way of example, this means that in principle, patents granted in the host state in connection with substantive R&D conducted in the host state, or trademarks used for products marketed in the host state in connection with substantial business activities of the investor in the host state, would be covered investments. However, a patent for

83 *Salini v Kingdom of Morocco* (n 37) para 52. See also Marc Bungenberg, ‘The Scope of Application of EU (Model) Investment Agreements’ (2014) 15 JWIT 402, 416.

84 For a more careful approach, see August Reinisch, ‘Putting the Pieces Together... an EU Model BIT?’ (2014) 15 JWIT 679, 686–87. For the problematic aspects of the exclusion of this criteria, see Anghie (n 45).

85 This asset-based approach can be contrasted with the ‘transaction-based’ and the ‘enterprise-based’ models. While the former protects the underlying capital transfer (rather than the assets owned or controlled by an investor), the latter defines the protected investment in terms of the business organization of the investment through an enterprise. See Engela C Schlemmer, ‘Investment, Investor, Shareholders’ in Peter Muchlinski, Federico Ortino and Christoph Schreuer (eds), *The Oxford Handbook of International Investment Law* (OUP 2008) 49, 52.

86 Similarly Correa and Viñuales (n 7) 110 ff. Contra Mercurio (n 33) 255, who argues that the express mention of IPRs in the list of forms that an investment may take has to mean that ‘IPRs are unquestionably included within the scope of an “investment”’. Such interpretation goes against the clear wording that defines ‘investment’ as ‘every kind of asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment...’

87 See also Okediji (n 21) 1127.

a product X in state A for a producer, who is based in state B in order to protect its exports there would not *per se* be a covered investment.⁸⁸

3 Key Standards of Protection for IPRs in IIAs

The characterization of IPRs as a protected investment makes applicable the protection standards of the IIAs. The key issues relating to the protection of IPRs through IIAs are therefore examined below. The following sub-sections will address particularly the question whether the implementation of TRIPS flexibilities may constitute an expropriation (3.1.) or a breach of the standard of fair and equitable treatment (FET) (3.2.). Each section will first address the general issues regarding the respective protection standard and will then examine the provisions of the newly negotiated EU IIAs.

3.1 Expropriation

3.1.1 General Aspects

Having established that under certain circumstances IPRs are covered investments in IIAs, they are subject to the protection against expropriation.⁸⁹ Indeed, investment tribunals have established that the protection against expropriation also covers intangible property rights.⁹⁰ In so holding, tribunals relied on the case of *SPP Middle East v Arab Republic of Egypt*, which held that it was an accepted principle in international law that intangible contractual rights could be subject to expropriation.⁹¹ Likewise, the Iran-United States Claims Tribunal in *Amco International Finance Corp v Iran* concluded that an expropriation 'which can be defined as a compulsory transfer of

88 Correa and Viñuales (n 7) 99. For a comprehensive account of when IPRs can be considered protected investment see Klopschinski (n 6) 147–252.

89 This was also addressed during negotiations of the Multilateral Investment Agreement, in which delegations thought that the MIA could significantly improve the existing international law on intellectual property through its investment protection provisions – in particular, the expropriation Provisions, see OECD (n 49) para 5.

90 *Wena Hotels Ltd v Arab Republic of Egypt*, ICSID Case No ARB/98/4, Award (8 December 2000) para 98. See also *CME v The Czech Republic*, UNCITRAL, Partial Award (13 September 2001) paras 591–609.

91 *Southern Pacific Properties (Middle East) Limited v Arab Republic of Egypt*, ICSID Case No ARB/84/3, Award (20 May 1992) paras 164–68. See also Mercurio (n 33) 257.

property rights, may extend to any right which can be the object of a commercial transaction.⁹² The same must apply to IPRs.

The protection against expropriation of IPRs has received significant scholarly attention.⁹³ In particular, scholars have examined the practice of compulsory licensing of patented drugs⁹⁴ aimed to increase access to medicines for domestic populations in need, in light of the expropriation provisions included in IIAs. Thus, a pharmaceutical company considered the issuance of a compulsory license for its patent protected drug an ‘expropriation of intellectual property.’⁹⁵ In fact, cases in Colombia,⁹⁶ Ecuador, India, Indonesia, Malaysia

92 *Amco International Finance Corp v Iran*, Partial Award (14 July 1987) 15 Iran-US CTR 189, para 108. See also *Phillips Petroleum Co Iran v Iran*, Partial Award (29 June 1989) 21 Iran-US CTR 79, para 76; *White Indus Australia Ltd v The Republic of India*, UNCITRAL, Final Award (30 November 2011) para 12.3.2.

93 See Rosa C Bernieri, ‘Intellectual Property Rights in Bilateral Investment Treaties and Access to Medicines: The Case of Latin America’ (2006) 9(5) *J World Intellect Prop* 548; Rosa C Bernieri, ‘Compulsory Licensing and Public Health: TRIPS-Plus Standards in Investment Agreements’ (2009) 6(2) *TDM* 1; Carlos M Correa, ‘Intellectual Property Rights as an Investment: Options for Developing Countries’ (2009) 6(2) *TDM* 1; Gibson (n 8) 357–442; Tsai-Yu Lin, ‘Compulsory Licences for Access to Medicines, Expropriation and Arbitration Under Bilateral Investment Agreements – Issues Beyond TRIPS’ (2009) 40(2) *Int’l Rev Intellect Prop & Comp L* 152; Marie L Seelig, ‘Can Patent Revocation or Invalidation Constitute a Form of Expropriation’ (2009) 6(2) *TDM* 1; Correa, ‘Bilateral Investment Agreements: Agents of New Global Standards for the Protection of Intellectual Property Rights?’ (n 8); Rutledge (n 8); Henning Grosse Ruse-Khan, ‘Litigating Intellectual Property Rights in Investor-State Arbitration: From Plain Packaging to Patent Revocation’ University of Cambridge Legal Studies Research Paper Series (2014); Valentina S Vadi, ‘Towards a New Dialectics: Pharmaceutical Patents, Public Health and Foreign Direct Investments’ (2015) 5(1) *J Intellect Prop & Ent L* 113; Grosse Ruse-Khan (n 27) 1703.

94 Compulsory licensing refers to the issuance of individual government licenses for the production and marketing of a patented product or process without the authorization of the right holder. TRIPS, art 31 contains a list of conditions under which this practice is allowed.

95 Merck & Co, Inc, ‘Statement on Brazilian Government’s Decision to Issue Compulsory License for STOCRIN™’ (4 May 2007) <www.businesswire.com/news/home/20070504005566/en/Merck-Statement-Brazilian-Governments-Decision-Issue-Compulsory#.U6ReyLFUBSQ> accessed 20 June 2014; through an agreement later negotiated between the parties, Merck was supposed to receive a 1.5% royalty fee as remuneration, Rutledge (n 8) 150.

96 Zoe Williams, ‘INVESTIGATION: As Colombia Pushes for Cancer Drug Price-Cut and Considers Compulsory Licensing, Novartis Responds with Quiet Filing of an Investment Treaty Notice’ (*IAREporter*, 30 November 2016) <www.iareporter.com/articles/investigation-as-colombia-pushes-for-cancer-drug-price-cut-and-considers-compulsory

and Thailand, show an increasing willingness of WTO members to issue compulsory licenses.⁹⁷ These health-related measures also test the interplay between international investment law and TRIPS.⁹⁸ A broad interpretation of the concept of indirect expropriation or 'regulatory taking' in international investment protection could allow foreign IPR holders to challenge various host state measures constraining the commercial exploitation of their IPRs.⁹⁹ Furthermore, the broad nature of the concept of indirect expropriation could also lead to investment disputes over other exceptions and limitations to IP rights that are internationally accepted boundaries of IP protection.¹⁰⁰

It is clear, however, that the limitations stemming from the doctrine of exhaustion (i.e. the exhaustion of the IPR holder's entitlement to control the product in which the IPRs are embodied once it has been put on the market),¹⁰¹ or the notion of IPRs as conferring only negative rights (i.e. the right to exclude others from exploiting the IP right, such as domestic trademarks)¹⁰² cannot be considered expropriations *per se*.¹⁰³ In *Philip Morris v Uruguay*, for example, the Tribunal held that

under Uruguayan law or international conventions to which Uruguay is a party the trademark holder does not enjoy an absolute right of use, free of regulation, but only an exclusive right to exclude third parties from

licensing-novartis-responds-with-quiet-filing-of-an-investment-treaty-notice/> accessed 7 December 2016.

- 97 'Ecuador Decrees New Health Policy' (*Bridges Weekly*, 1 February 2010) <<http://ictsd.org/i/news/bridges/69177>>. For a comprehensive discussion of these cases see Grosse Ruse-Khan (n 27) 1703.
- 98 This was already apparent during the negotiations of the MAI. In the Report to the Negotiation Group on Intellectual Property, 'some delegations expressed the view that the concepts of direct and indirect expropriation and the concept of a measure having an equivalent effect to expropriation should not cover certain intellectual property practices, such as the issuance of compulsory licenses or the revocation, limitation or creation of intellectual property rights, that are permissible under TRIPS and, perhaps, other intellectual property agreements', see OECD (n 49) para 5.
- 99 Julien Chaisse, 'Exploring the Confines of International Investment and Domestic Health Protections – Is a General Exceptions Clause a Forced Perspective?' (2013) 39 *Am J L & Med* 332, 353 ff.
- 100 Ruse-Khan, 'Protecting Intellectual Property under BITS' (n 8) 18.
- 101 Peter van den Bossche and Werner Zdouc, *Law and Policy of the World Trade Organization* (3rd edn, CUP 2013) 970.
- 102 *ibid.*
- 103 Grosse Ruse-Khan, *Protection of Intellectual Property* (n 7) 188.

the market so that only the trademark holder has the possibility to use the trademark in commerce, subject to the State's regulatory power.¹⁰⁴

In principle, however, the Tribunal held that IPRs were property rights capable of being expropriated.¹⁰⁵ Still, the measure at issue (the so-called 80/80-Regulation, which limited the space available on cigarette packages for showing the brand and other distinctive elements to 20% of the package's surface) could not, according to the Tribunal, 'have a substantial effect on the Claimants' business since it consisted only in a limitation imposed by the law on the modalities of use of the relevant trademarks.'¹⁰⁶ Thus, this measure did not constitute an indirect expropriation.

Another measure at issue in this recent IPR-related investment claim was Uruguay's adoption of a so-called single presentation requirement (SPR) precluding tobacco manufacturers from marketing more than one variant of a cigarette per brand family.¹⁰⁷ This resulted in an effective ban of seven out of thirteen trademark variants of the claimants.¹⁰⁸ They therefore asserted that the SPR would render their trademarks in the suppressed brands and the associated goodwill 'valueless' and therefore constitute an indirect expropriation of their IPRs.¹⁰⁹ However, the Tribunal rejected this argument based on the fact that the Claimant's business venture, which had to be considered as a whole since the measure affected the investor's activities in their entirety, remained sufficiently valuable.¹¹⁰ The Tribunal held that 'the effects of the SPR were far from depriving [the claimant] of the value of its business or even causing a "substantial deprivation" of the value, use or enjoyment of the Claimants' investments, according to the standard that has been adopted for a measure to be considered expropriatory.'¹¹¹ Therefore, no indirect expropriation was found.¹¹²

104 *Philip Morris v Uruguay* (n 2) para 271, for the reasoning see paras 255–71.

105 *ibid* para 274.

106 *ibid* para 276.

107 *ibid* para 9.

108 *ibid* para 274.

109 *ibid* para 279.

110 *ibid* para 283.

111 *ibid* para 284.

112 *ibid* (n 2) para 286. The Tribunal also held that the challenged measures mentioned 'were a valid exercise by Uruguay of its police powers for the protection of public health. As such, they cannot constitute an expropriation of the Claimants' investment' (*ibid* paras 288–307).

The emergence of indirect expropriation theories also raises the issue of whether expropriation provisions under IIAs restrict the grounds for the issuance of compulsory licenses, revocation of patents, or parallel importation, and thereby interfere with the protection of public interests.¹¹³ Potential expropriation claims could also arise in cases in which parallel imports cause a loss of IPR value or diminish an IPR owner's market share, something which according to NAFTA jurisprudence could constitute an investment.¹¹⁴

Such issues relate to the question of the relationship between compulsory licenses under TRIPS and the protection against expropriation under BITs. The authorization of a compulsory license may be considered an indirect expropriation. Through a compulsory license, a government authorizes the use of a privately-owned patent by the government or by one or more third parties, subject to certain terms provided in TRIPS.¹¹⁵ Is a compulsory license which is TRIPS-compliant automatically *not* an indirect expropriation under a BIT? And, if a compulsory license is *not* TRIPS compliant, is it automatically an expropriation?¹¹⁶

Due to the indeterminate and multifaceted meaning of the concept of indirect expropriation, it is difficult to precisely analyze the impact this standard has on TRIPS flexibilities.¹¹⁷ Generally, indirect or *de facto* expropriation takes place when expropriatory measures, although not executed as outright seizure of property, have an effect equivalent to an expropriation, that is depriving the owner of the substantial benefits of ownership.¹¹⁸

Following the analysis of Grosse Ruse-Khan, this article uses the US Model BIT criteria for indirect expropriation found in Annex B of the 2004 US Model BIT (identically worded in the 2012 US Model BIT) as a benchmark;¹¹⁹ these criteria are included in all recent IIAs concluded by the United States,¹²⁰ and

113 Liberti (n 8) 10.

114 See *SD Myers v Canada*, UNCITRAL, Partial Award (13 November 2000) para 232, stating that Myers' market share in Canada constituted an investment. In support of such reading, see Correa, 'Investment Protection in Bilateral and Free Trade Agreements' (n 8) 339.

115 Gibson (n 8) 361.

116 Rutledge (n 8) 159.

117 Ruse-Khan, 'Protecting Intellectual Property under BITs' (n 8) 18.

118 Alice Ruzza, 'Expropriation and Nationalization' in Rüdiger Wolfrum (ed), *Max Planck Encyclopedia of Public International Law* (online edition) (OUP 2013) para 13. See further Anne K Hoffmann, 'Indirect Expropriation' in August Reinisch (ed), *Standards of Investment Protection* (OUP 2008) 421 ff.

119 Grosse Ruse-Khan, *Protection of Intellectual Property* (n 7) 189 ff.

120 Andrew Newcombe, 'The Boundaries of Regulatory Expropriation in International Law' (2005) 20(1) ICSID Rev 1; Mercurio (n 33) 259. On the historical development of the

also influenced the concept of indirect expropriation in EU IIAs: This test requires a

a case-by-case, fact-based inquiry that considers, among other factors:

- (i) the economic impact of the government action, although the fact that an action or series of actions by a Party has an adverse effect on the economic value of an investment, standing alone, does not establish that an indirect expropriation has occurred;
- (ii) the extent to which the government action interferes with distinct, reasonable investment-backed expectations; and
- (iii) the character of the government action.

The first criterion concerns the extent of the impact that host state measures implementing TRIPS flexibilities have on the economic value of the patent, which certainly depends on individual circumstances.¹²¹ With regard to compulsory licenses, adherence to the obligation under Article 31 TRIPS to provide for adequate compensation on a case-by-case basis, ‘taking into account the economic value of the authorization,’¹²² probably excludes a substantial deprivation of the economic value of the patent and hence would not constitute an expropriation under the applicable IIA.¹²³

An investment tribunal may nonetheless find that these measures have a sufficiently severe economic impact.¹²⁴ As one commentator put it:

Expropriation rules, if found applicable, may in some cases be more beneficial to the patent owner than the compulsory licenses rules, particularly because the obligation to pay will rest with the government, and

conditions, see August Reinisch, ‘Legality of Expropriations’ in Reinisch (ed) (n 118) 171–204; Dolzer and Schreuer (n 18) 99–101.

121 Grosse Ruse-Khan, ‘Protecting Intellectual Property under BITS’ (n 8) 19.

122 Focke Höhne, ‘Artikel 31’ in Jan Busche and Peter-Tobias Stoll (eds), *TRIPS: Internationales und europäisches Recht des geistigen Eigentums* (Carl Heymanns 2007) 527; Daniel Gervais, *The TRIPS Agreement: Drafting History and Analysis* (Sweet & Maxwell 1998) 166.

123 Gibson (n 8) 384–385.

124 In the context of developing countries, investment tribunals have not systematically paid attention to the economic and political circumstances prevailing in host states when deciding on compliance with protection standards, see Ursula Kriebaum, ‘Are Investment Treaty Standards Flexible Enough to Meet the Needs of Developing Countries?’ in Freya Baetens (ed), *Investment Law Within International Law* (CUP 2013) 330.

because investment agreements normally provide for the investor's right to directly sue the State.¹²⁵

Generally, a compulsory license would not be challengeable if it has been issued in the public interest and there is no indication that it has an illicit purpose or is discriminatory, provided that an adequate remuneration is available.¹²⁶

The second criterion concerns the interference with 'distinct reasonable investment-backed expectations.'¹²⁷ Here it must be noted that TRIPS flexibilities discussed above are accepted elements of IPR protection and the issuance of a compulsory license is a common, legal option in TRIPS-compliant national IPR laws.¹²⁸ IPR are negative rights and therefore, as Grosse Ruse-Khan correctly points out, 'IP rights do not protect expectations on return of investments other than by preventing others from using the IP protected subject matter and hence generally cannot be affected by limiting the exploitation of protected goods and services.'¹²⁹ Hence, measures such as parallel imports and exceptions and limitations to the exclusive patent right, provided that these measures are consistent with the three-step test in Article 30 TRIPS, cannot be regarded as indirect expropriations.¹³⁰ This means that the grant of IPRs as such do not create legitimate expectations that measures based on TRIPS flexibilities will not be introduced.¹³¹

The third criterion for the determination of indirect expropriation is the 'character of the government action.'¹³² Here, as long as their character and underlying rationale consists of good faith public welfare goals (e.g. facilitating access to medicines or protection of public health), and as long as the actions are non-discriminatory in nature, investors are unlikely to succeed with claims of indirect expropriation.¹³³

In conclusion, applying the above criteria generally does not support a finding of indirect expropriation when host states take advantage of TRIPS flexibilities. Specifically, when investment treaties provide that the laws of the host state apply to the investment, the possibility that compulsory licensing will be

125 Correa, 'Intellectual Property Rights as an Investment' (n 93) 15.

126 Similarly, Lin (n 93) 158; Correa, 'Intellectual Property Rights as an Investment' (n 93) 15.

127 Annex B 4(a)(ii) US Model BIT (n 24).

128 Grosse Ruse-Khan, 'Protecting Intellectual Property Under BITs' (n 8) 20.

129 Grosse Ruse-Khan (n 27) 1705.

130 Grosse Ruse-Khan, 'Protecting Intellectual Property Under BITs' (n 8) 20.

131 *ibid.*

132 Annex B 4(a)(iii) US Model BIT (n 24).

133 Vadi (n 8) 518. See also *Philip Morris v Uruguay* (n 2) paras 306–07.

considered expropriation is remote. While it is possible that an investment tribunal may reach the opposite conclusion, it is unlikely; there does not appear to be any reported instance of a BIT arbitration that was decided on the basis of a claim that a compulsory license constituted an indirect expropriation.¹³⁴ However, the interplay between TRIPS flexibilities and IIA protection standards remains ambiguous due to the lack of guidance from tribunals dealing with these issues.

In recognition of the complexities discussed above, recent IIAs tend to include a specific reference in their expropriation clause to TRIPS. For example, the 2012 US Model BIT (as did the 2004 US Model BIT) includes clauses, which explicitly address the relationship between expropriation and international IPR treaties. Article 6(5) clarifies that '[t]his Article [on expropriation] does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement . . .'. This leaves the door open to challenge the legality of the compulsory license under the applicable IIAs. The following section will thus proceed with a detailed examination of the wording regarding expropriation adopted by the EU.

3.1.2 Expropriation in EU IIAs

The expropriation provision included in CETA follows largely a standard wording found in various EU Member State BITs. As Reinisch points out however, 'EU negotiators could not avoid some degree of "NAFTA contamination,"'¹³⁵ meaning that Annex 8-A of the CETA text provides for clarification which 'reproduces the shared understandings already expressed in the Canadian Model BIT 2004 and the US Model BIT 2012.'¹³⁶ Accordingly, a finding of indirect expropriation requires a case-by-case, fact-based inquiry and considers a number of relevant factors, such as the economic impact of the measure, its duration, the extent to which it interferes with 'distinct, reasonable investment-backed expectations,' and the character of the measure or series of measures, notably their object, context and intent.¹³⁷ Furthermore, CETA includes a clarification that the right to regulate should prevail over the economic impact of

134 Rutledge (n 8) 161–62 (noting that this could be due to the fact that arbitral proceedings are mostly confidential).

135 Reinisch (n 84) 690.

136 *ibid* 691.

137 *ibid*.

state measures when they protect the public interest in a non-discriminatory way.¹³⁸ The EU-Singapore and EU-Vietnam FTAs include similar provisions.¹³⁹

Regarding the complexities surrounding expropriation and TRIPS, CETA directly mentions TRIPS in its provision on expropriation. Thus, Article 8.12 CETA provides in relevant part:

5. This Article does not apply to the issuance of compulsory licences granted in relation to intellectual property rights, to the extent that such issuance is consistent with the TRIPS Agreement.

6. For greater certainty, the revocation, limitation or creation of intellectual property rights, to the extent that these measures are consistent with the TRIPS Agreement and Chapter Twenty (Intellectual Property), do not constitute expropriation. Moreover, a determination that these measures are inconsistent with the TRIPS Agreement or Chapter Twenty (Intellectual Property) does not establish an expropriation.

This wording appears to be based on similar wording found in Article 14.11(6) of the Japan-Australia Economic Partnership Agreement, Article 10.2 of the Canada-China BIT, and in several US BITs.¹⁴⁰ In paragraph 6, however, Article 8.12 CETA adds a clarification that measures, including the revocation, limitation, or creation of IPRs, which are inconsistent with TRIPS or the Chapter on Intellectual Property of CETA, do not automatically result in an expropriation.¹⁴¹ Hence, this clarification appears, in principle, to offer sufficient security for the host state that measures in exercise of TRIPS flexibilities will not constitute an expropriation.¹⁴²

There are, however, several outstanding issues relating to Investor-State Dispute Settlement (ISDS) in this regard. First, the measures of a host state

138 *ibid.*

139 See the adopted texts of the EU-Singapore FTA (n 15) and the EU-Vietnam FTA (n 16).

140 US-Australia FTA (n 24) art 11.7; US-Singapore FTA (n 25) art 6.5.5; US-Chile FTA (n 25) art 10.9.5; US-Uruguay BIT (signed 4 November 2005; entered into force 1 November 2006) art 10.7.5; US-Panama FTA (signed 28 June 2007, entered into force 31 October 2012) art 15.6.5; Korea-US FTA (signed 30 June 2007, entered into force 15 March 2012) art 11.6.5. Several IIAs have adopted the exact same language, see, eg, China-Association of South-East Asian Nations Investment Agreement (signed 15 August 2009, entered into force 1 January 2010) art 8.6; Korea-Australia FTA (signed 8 April 2014, entered into force 12 December 2014) art 11.7(5) (KAFTA) all available at <<http://investmentpolicyhub.unctad.org/IIA>>.

141 Mercurio (n 33) 262.

142 Grosse Ruse-Khan, 'Protecting Intellectual Property Under BITs' (n 8) 25.

relating to TRIPS may be challenged by an investor under ISDS and not by the (state-to-state) WTO dispute settlement system. Investors may also, in the case of regional agreements, directly bring a claim before regional dispute settlement bodies. In investor-state dispute settlement, there are *ad hoc* and institutional processes, access to which may be left to the preference of the investor.¹⁴³ This means the question of TRIPS consistency of a compulsory license (or other IP limitation) would be tested in ISDS.

Another issue relates to TRIPS consistency in light of the TRIPS' safeguard clauses.¹⁴⁴ Safeguard clauses in the TRIPS Agreement allow for the balancing of IPR protection and public health objectives.¹⁴⁵ According to paragraph 5 of the Doha Declaration, WTO Members agreed that:

In applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles [Arts 7–8].

An interpretation of an investment tribunal may differ, since it has to consider the context and objective of the BIT as guiding its interpretation of the consistency test as well.¹⁴⁶

The assumption of jurisdiction of investment tribunals over TRIPS appears questionable in light of the competing jurisdiction of the WTO Panels and the Appellate Body.¹⁴⁷ According to Article 23 of the WTO Dispute Settlement Understanding (DSU), when

[WTO] Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements or an impediment to the attainment of any objective of the covered agreements, they shall have recourse to, and abide by, the rules and procedures of this Understanding.

143 *ibid* 26.

144 Grosse Ruse-Khan, 'Protecting Intellectual Property Under BITs' (n 8) 26.

145 Elli Louka, *International Environmental Law: Fairness, Effectiveness, and World Order* (CUP 2006) 410.

146 Grosse Ruse-Khan, 'Protecting Intellectual Property Under BITs' (n 8) 27. For the different regulatory concepts and complexities of international investment law and WTO law see Klopschinski (n 7) 223–225.

147 See Art 23 Dispute Settlement Understanding. See also Gabrielle Marceau, 'WTO Dispute Settlement and Human Rights' (2002) 13(4) EJIL 753, 760–61.

Article 23 therefore prohibits the enforcement of WTO law, including TRIPS, outside the WTO system.¹⁴⁸ Avoiding a potential violation of Article 23 DSU, it is argued, following the systemic interpretation of IIAs in light of TRIPS proposed by Klopschinski, that investment tribunals 'should refrain from any interpretation of the standards of treatment of an IIA in view of TRIPS that could essentially turn the IIA into a vehicle to enforce TRIPS against the host state.'¹⁴⁹ For further clarification of the interaction between the provision on expropriation and TRIPS, a Joint Declaration is included in Annex 8-D of the CETA agreement, which states:

Mindful that investor-State dispute settlement tribunals... are not an appeal mechanism for the decisions of domestic courts, the Parties recall that the domestic courts of each Party are responsible for the determination of the existence and validity of intellectual property rights. The Parties further recognise that each Party shall be free to determine the appropriate method of implementing the provisions of this Agreement regarding intellectual property within their own legal system and practice. The Parties agree to review the relation between intellectual property rights and investment disciplines within three years after entry into force of this Agreement or at the request of a Party. Further to this review and to the extent required, the Parties may issue binding interpretations to ensure the proper interpretation of the scope of investment protection under this Agreement in accordance with the provisions of Article 8.31.3 [under which the CETA Joint Committee may adopt binding interpretations].

Bryan Mercurio views this Joint Declaration as being drafted in 'extraordinarily strong terms' in that it is 'too broad in giving total deference to domestic courts.'¹⁵⁰ However, the first sentence regarding the existence and validity of IPRs is in conformity with the above conclusion that IIAs do not create IPRs. It is clear that the parties to an IIA never intended to install a review mechanism for decisions of domestic courts regarding the existence and validity of IPRs. The further clarification that each Party shall be free to determine the appropriate method of implementing the provisions of TRIPS regarding intellectual property within their own legal system and practice puts another nail in the coffin of frivolous investment claims, such as those lodged by

148 Klopschinski (n 7) 226–29.

149 *ibid* 229.

150 Mercurio (n 33) 271.

Eli Lilly challenging the domestic court's interpretation of 'utility' in patent applications.¹⁵¹ The Joint Declaration shows the clear intent of the parties to exclude the enforcement of IPRs from the reach of ISDS.

The EU-Singapore and EU-Vietnam FTAs do not contain such clarifications or declarations. They only contain the standard reference that the article on expropriation does not apply to the issuance of compulsory licenses consistent with TRIPS. Thus, these agreements do not directly address the legal difficulties regarding potential claims for indirect expropriation based on the limitation, revocation or creation of IPRs.¹⁵² However, CETA and the EU-Singapore and EU-Vietnam FTAs include provisions that indicate that nondiscriminatory public measures shall not be considered indirect expropriation. As Mercurio points out

[t]his clause, in combination with the addition of provisions limiting expropriation provisions to situations where the revocation, limitation, or creation is inconsistent with the IP Chapter of the IIA or the TRIPS Agreement significantly narrows and constrains any potential claim for indirect expropriation based on the limitation, revocation or creation of IPRs.¹⁵³

All this is a strong indication for tribunals to adopt a rather narrow approach towards interpretation of investor claims based on interference with IPRs with regard to expropriation.

3.2 *Fair and Equitable Treatment*

3.2.1 General Aspects

The interaction between the FET standard and TRIPS also deserves closer scrutiny. The FET standard is an important protection standard in IIAs in practice.¹⁵⁴ Schreuer, based on investment tribunals' decisions, identified the

151 See *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Claimant Memorial (29 September 2014); see also *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Government of Canada Counter Memorial (27 January 2015). On this Liddell and Waibel (n 7).

152 Further addressing the problems of such wording see, eg, Mercurio (n 33) 261.

153 *ibid* 263.

154 Rudolf Dolzer, 'Fair and Equitable Treatment: A Key Standard in Investment Treaties' (2005) 39(1) *The International Lawyer* 87; Dolzer and Schreuer (n 18) 130. See also Sornarajah (n 19) 204, who points to the vague and open wording adopted in BITs that

following principles as covered by the FET standard: transparency and the protection of the investor's legitimate expectations; freedom from coercion and harassment; procedural propriety and due process, and good faith.¹⁵⁵ In IIAs, FET is sometimes regarded as an autonomous, distinct standard of international investment law and sometimes as an expression of treaty or customary international law standards.¹⁵⁶ Regardless of this qualification, in practice a claimant has to 'demonstrate that the treatment it has received fell below the "floor" established by the international law standard (whether imposed under customary international law or by treaty).'¹⁵⁷

In several cases, tribunals have applied this standard in a manner which balances the legitimate right of the host country government to exercise its right to regulate in the public interest with the 'legitimate expectations' of the foreign investor.¹⁵⁸ In ICSID awards 'legitimate expectations' related to circumstances 'where the assurances made to the foreign investor both in the contract as well as in non-contractual documents, in the law of the host state and even possibly verbal communications of high officials of the state.'¹⁵⁹ Conversely, some argue that 'legitimate expectations' generally pertain to the relative fairness, stability and transparency of the domestic legal system regardless of explicit promises or statements of the host state.¹⁶⁰ With regards to the health-related IPR claims under IIAs, the company Eli Lilly claims that the failure to fulfill an

lead to different interpretations and uncertainty. See also UNCTAD, *Fair and Equitable Treatment: A Sequel* (United Nations 2012).

155 Christoph Schreuer, 'Fair and Equitable Treatment in Arbitral Practice' (2005) 6(3) JWIT 357, 373–74. The tribunal in *Philip Morris v Uruguay* (n 2) paras 320–24 held that these principles, among others, are indicative of a breach of the FET standard.

156 Todd Grierson-Weiler and Ian A Laird, 'Standards of Treatment' in Muchlinski, Ortino and Schreuer (n 85) 259, 262; Schreuer (n 155) 359–364.

157 Grierson-Weiler and Laird (n 207) 262.

158 *Saluka Investments BV (Netherlands) v The Czech Republic*, UNCITRAL, Partial Award (17 March 2006) para 306; *Total SA v The Argentine Republic*, ICSID Case No ARB/04/01 (27 December 2010) paras 123, 309. Misuse of regulatory powers were found in the case of *Compañía de Aguas del Aconquija SA and Vivendi Universal SA v Argentine Republic*, ICSID Case No ARB/97/3, Award (20 August 2007) para 7.4.24. On the legitimate expectations of the investor, see *BG Group Plc v The Republic of Argentina*, UNCITRAL, Final Award (24 December 2007) paras 292–98; *Duke Energy Electroquil Partners & Electroquil SA v Republic of Ecuador*, ICSID Case No ARB/04/19, Award (18 August 2008) para 347. For an early discussion of the relevance of the concept of legitimate expectations in foreign investment law, see Rudolf Dolzer, 'New Foundations of the Law of Expropriation of Alien Property' (1981) 75 AJIL 553.

159 Sornarajah (n 19) 354.

160 Mercurio (n 33) 264.

obligation under TRIPS is a violation of the legitimate expectations requirement under the FET standard.¹⁶¹

Two aspects of protection under the FET standard are particularly relevant with respect to IPRs. First, FET is often understood as protecting the 'legitimate expectations' of investors against government interference.¹⁶² 'Legitimate expectations' of investors may be understood as protecting IPRs in accordance with the host state's obligations under TRIPS. However, tribunals have relied on the legitimate expectation based on the *domestic* law in force when the investment was made.¹⁶³ The subjective 'hopes and perceptions' of investors that *international* obligations under TRIPS will be strictly implemented domestically are not protected;¹⁶⁴ rather, legitimate expectations must be based on objectively verifiable facts.¹⁶⁵ This means that an investor cannot rely on the FET standard against the lack of implementation of the host state's obligations under TRIPS if the host state's legal framework lacked this implementation at the time of the investment.¹⁶⁶

Second, as the expression of an international minimum standard of treatment,¹⁶⁷ FET could be interpreted as requiring general compliance with obligations under TRIPS.¹⁶⁸ Such reasoning is based on an understanding that the obligations under TRIPS represent a minimum standard of treatment under customary international law. However, TRIPS is not considered customary international law, and therefore a violation of TRIPS obligations cannot be viewed as an automatic breach of the FET standard in international investment law.¹⁶⁹ As will be shown in the following section, these issues were

161 *ibid.* See *Eli Lilly v Canada* (n 3) paras 42 ff. See on this further Frankel (n 7) 128 ff; Liddell and Waibel (n 7) 155–56.

162 See Schreuer (n 155) 374–80; Ioana Tudor, *The Fair and Equitable Treatment Standard in the International Law of Foreign Investment* (OUP 2008) 164–168.

163 See, eg, *National Grid v Argentina*, UNCITRAL, Award (3 November 2008); *SD Myers v Canada*, UNCITRAL, Second Partial Award (21 October 2002); *Marvin Roy Feldman Karpa v United Mexican States*, ICSID Case No ARB(AF)/99/1, Award (16 December 2002) para 128.

164 Dolzer and Schreuer (n 18) 148.

165 See also *Philip Morris v Uruguay* (n 2) paras 421–35.

166 For a different view, see eg Boie (n 8) 16–18.

167 See also Andrew Newcombe and Lluís Paradell, *Law and Practice of Investment Treaties: Standards of Treatment* (Kluwer Law International 2009) 233–319.

168 For a more detailed discussion of various arguments, see Boie (n 8) 4–53.

169 For the argument that the FET standard would cover TRIPS obligations when the applicable IIA expressly references TRIPS and should therefore be interpreted as the inter-

addressed in drafting the FET provisions adopted in the EU's new IIAs, which suggest that the intent of the parties was to limit the scope of application of the FET standard, and to reject broader interpretations.

However, a decision arbitrarily rejecting the application for IPRs might amount to a violation of the fair and equitable standard of treatment (assuming that an investment has been made).¹⁷⁰ An investor may legitimately expect an affirmative decision by the respective granting authority, in cases where there is an established practice of granting IPRs in like circumstances.¹⁷¹ However, as noted above, a tribunal must exercise deference when looking at the application of domestic law in the host state.¹⁷² It cannot second-guess the decision whether or not an IPR meets all relevant criteria.¹⁷³ As a result, in this context the FET standard may only be violated if the rejection of an application or granting of IPRs is clearly arbitrary, i.e. without any basis in domestic law.¹⁷⁴

As the next section will illustrate, the EU's approach appears to have reacted to the remaining uncertainties regarding interpretation of the FET standard.

3.2.2 FET in EU-Negotiated IIAs

The recently-negotiated EU–Singapore FTA and CETA attempt to further define and narrow the scope of FET by moving beyond the language traditionally used in FET provisions. In CETA, the content of this standard is clarified as follows:

national minimum standard, see *ibid* 19. However, recent drafting practice points to the fact that also early agreements were not intended to extend FET to include other international agreements such as TRIPS into the FET standard of protection.

170 In this sense also *Philip Morris v Uruguay* (n 2) paras 289–90. On the application for the registration of IPRs see discussion above in Section 2.4.

171 In the *Anheuser Busch Inc v Portugal* case, the ECHR denied that the applicant had legitimate expectations since its position was not sufficiently secured in the national law: only after the application procedure has been completed and the relevant IPR has been granted, can the applicant be sure of its IPR; see *Anheuser Busch Inc v Portugal* (n 71) paras 48–50. For an extensive discussion of this issue regarding judicial patent decisions, see Liddell and Waibel (n 7) 145–74.

172 See *ibid* 157–63.

173 See Klopschinski (n 6) 209–10; Grosse Ruse-Khan (n 27) 1698; Liddell and Waibel (n 7) 165–71.

174 See also Grosse Ruse-Khan (n 27) 1698. Regarding denial of justice claims in the IPR context, see the reasoning in *Philip Morris v Uruguay* (n 2) paras 516–36 and the dissenting opinion of Gary Born at paras 6–81.

(2) A Party breaches the obligation of fair and equitable treatment . . . if a measure or series of measures constitutes:

- (a) denial of justice in criminal, civil or administrative proceedings;
- (b) fundamental breach of due process, including a fundamental breach of transparency, in judicial and administrative proceedings;
- (c) manifest arbitrariness;
- (d) targeted discrimination on manifestly wrongful grounds, such as gender, race or religious belief;
- (e) abusive treatment of investors, such as coercion, duress and harassment; or
- (f) a breach of any further elements of the fair and equitable treatment obligation adopted by the Parties in accordance with paragraph 3 of this Article.

...

(4) When applying the above fair and equitable treatment obligation, a Tribunal may take into account whether a Party made a specific representation to an investor to induce a covered investment, that created a legitimate expectation, and upon which the investor relied in deciding to make or maintain the covered investment, but that the Party subsequently frustrated.

Article 9.4(2)(e) EU-Singapore FTA and Article 14(6) of the EU-Vietnam FTA contain similar wording. These provisions clearly depart from previous drafting practice in attempting to set a precise and specific standard of treatment with an exclusive list of instances which give rise to a breach.¹⁷⁵

An important clarification found in Article 9.4(6) EU-Singapore FTA, Article 8.10(6) CETA, and Article 14(7) EU-Vietnam FTA, provides that '[a] breach of another provision of this Agreement, or of a separate international agreement, does not establish that there has been a breach of this Article.' This ensures that investors cannot base a claim of a violation of the FET standard in the IIA by invoking a violation of the TRIPS or other IPR treaties.¹⁷⁶ What remains clear is that the express mention of 'manifest arbitrariness' in the list of measures that constitute a breach of FET obligations means that the

¹⁷⁵ Art 8.10(4) CETA; similarly worded in Art 14(6) EU-Vietnam, and Art 9.4(2)(e) EU-Singapore worded slightly differently, as follows 'a breach of the legitimate expectations of a covered investor arising from specific or unambiguous representations'. See also Mercurio (n 33) 267.

¹⁷⁶ *ibid* 267.

rejection of an application for or registration of IPRs that has no basis in domestic law would constitute a breach of FET obligations.

In conclusion, the qualifications and clarifications adopted in the EU's IIAs ensure an appropriate balance between IP flexibilities and investor protection.

4 Conclusion

This article has analyzed current international standards for the protection of IPRs by IIAs, with particular emphasis on investment rules concluded recently by the EU. It has demonstrated that several legal challenges arise with regards to the protection of IPRs through IIAs. In particular, IPRs do not automatically satisfy the criteria for being considered a covered investment under the applicable IIA. The issue is further complicated by the fact that tribunals must defer to domestic courts with regard to the existence and validity of IPRs. Thus, a challenge under the relevant protection standards of the IIA relating to a perceived interference with IPRs of an investor will in most cases be unsuccessful. Still, uncertainties remain because few cases to date deal with IPR-based investment claims.

The recent treaty practice of the EU reacted to the issue of protecting intellectual property rights through IIAs. It is clear that negotiators do not intend to extend protection beyond the standards provided for in the TRIPS Agreement. Generally speaking, the EU's IIAs build on existing 'best practices' of Member State BITs, but add a number of important features and further details regarding the exact meaning of certain substantive standards, which help to clarify issues relating to IPRs and its relationship with TRIPS. The wording adopted in EU IIAs is not without problems, but the added clarifications are important in supporting a narrow approach regarding the inclusion of IPRs as investments under IIAs.

The arguments for such a narrow approach will also influence treaty interpretation of older IIAs still in force, again limiting the chances for investor claims. In other words, it seems as though the parties to IIAs have decided to avoid waking 'the sleeping giant.'¹⁷⁷

177 Mercurio (n 4) 871. See also the similar drafting practice in the recently concluded Trans-Pacific Partnership (TPP) (26 January 2016) <<https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>> accessed 15 August 2016.