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**Investor-State Dispute Settlement and the
Relationship between IP and Investment
Chapters in Free Trade Agreements**

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Abstract

Recently, more and more IP-related disputes are being brought before investment tribunals. This paper addresses the overlooked issue of the relationship between IP and investment chapters in Free Trade and Investment Agreements (FTAs), such as the recently concluded Canada-EU Comprehensive Economic and Trade Agreement (CETA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and others. IP is usually dealt within separate chapters in those agreements and within the WTO regime that provides for exclusive jurisdiction over the regulation and enforcement of IP. However, investment tribunals have so far not fully engaged with those legal regimes and have assumed jurisdiction over IP disputes under the investment chapter in the cases of *Eli Lilly v Canada*, *Philip Morris v Uruguay*, and most recently *Bridgestone v Panama*. Existing literature has so far not addressed this issue at all. I argue that investment tribunals should have taken into account the applicable conflict rules to arrive at the conclusion that IP disputes are to be resolved through state-to-state dispute settlement mechanisms under the FTA or the WTO. Reviewing the recent decisions on jurisdiction in these cases, I also look at some possible (negative) implications of the assumption of jurisdiction for IP.

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I. Introduction

There has been a lot of discussion of recent IP-related investment disputes. For example, two commentators identified in such claims a ‘strategy by IP companies to destabilize the balances struck in IP regimes such as the WTO with a view to creating counter-norms or re-writing domestic and international laws and regulations that the industry considers to be inconsistent with their IP rights.’¹ Behind such worries lies a polarization in the debate on IP regulation and policy:² Developed states and technology companies voice concerns over the insufficient level of protection for their IP interests internationally, while developing and least-developed states are unsatisfied with levels of protection that obstruct their access to essential medicines, know-how, information, and communication technologies (ICTs).³ Critics view the reality of intellectual property rights (IPRs) as ultimately benefiting corporations ‘that extract returns from patents for the financial benefits of their shareholders.’⁴

With the importance of IP in the global economy, the idea of protecting and enforcing IP rights through the use of investor-state dispute settlement (ISDS) based on international investment agreements (IIAs) has recently attracted increased criticism.⁵ Some critics are concerned that this expansion of IP protection through ISDS negatively affects the access to medicines—as medicines

¹ James Gathii and Cynthia Ho, ‘Regime Shift of IP Lawmaking and Enforcement from WTO to the International Investment Regime’ (2017) 18(2) *Minnesota Journal of Law, Science & Technology* 427-515, 447.

² Manish Aggarwal, ‘Investor-State Dispute Settlement and Protection of Intellectual Property Rights and Other Business Interests of the Technology Sector: Never the Twain Shall Meet’ in Ian A Laird and others (eds), *Investment Treaty Arbitration and International Law* (JurisNet LLC 2018) 172.

³ *ibid.*

⁴ Katharina Pistor, *The Code of Capital* (Princeton University Press 2019) 115 (pointing out that only about 12 percent of patents in the US between 2002 and 2015 went to individuals, whereas 43.5 percent to foreign corporations and 44.1 percent to US corporations).

⁵ Aggarwal (n 2) 173.

become inaccessible and unaffordable, ‘people will pay with their lives.’⁶ It has also been pointed out that the ‘social costs of enclosing knowledge can be huge, because control over knowledge is monopolized even though it could benefit everyone without taking anything away from the investor.’⁷ Initially, the enclosure was achieved internationally by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Now it is furthered by IP chapters and potentially ISDS tribunals, it has been argued.⁸

Except for an early case before the Permanent Court of International Justice (PCIJ),⁹ IP-related disputes are a more recent phenomenon,¹⁰ in part driven by a general expansion of ISDS.¹¹ In 2006, the oil and gas multinational Shell alleged expropriation of its assets when a Nicaraguan court seized the Shell logo and trademark in the country.¹² In 2012, a tribunal found in *Servier v Poland* that the denial of marketing authorisation for a generic drug was an unlawful expropriation of the investor’s investment.¹³ Most prominently, Philip Morris turned to investment arbitration

⁶ Brook K Baker and Katrina Geddes, ‘Corporate Power Unbound: Investor-State Arbitration of IP Monopolies on Medicines - Eli Lilly v. Canada and the Trans-Pacific Partnership Agreement’ (2015) 32(1) *Journal of Intellectual Property Law* 1, 59.

⁷ Pistor (n 4) 115.

⁸ *ibid* 123–126; 137–143.

⁹ See e.g. *Case Concerning Certain German Interests in Polish Upper Silesia*, PCIJ Series A, No. 7 (1926) 44 (‘in the present case it can hardly be doubted that, in addition to the real property ... rights and interests [included] patents and licences, probably of a very considerable value, the private character of which cannot be disputed and which were essential to the constitution of the undertaking.’); see also Ursula Kriebaum, *Eigentumsschutz im Völkerrecht: Eine vergleichende Untersuchung zum internationalen Investitionsrecht sowie zum Menschenrechtsschutz* (Duncker & Humblot 2008) 74.

¹⁰ Carlos Correa and Jorge E Viñuales, ‘Intellectual Property Rights as Protected Investments: How Open are the Gates?’ (2016) 19(1) *Journal of International Economic Law* 91; Henning Grosse Ruse-Khan, ‘The Protection of Intellectual Property and International Investment Law’ (2016) 19(1) *Journal of International Economic Law* 87.

¹¹ Pistor (n 4) 137–143.

¹² *Shell Brands International AG and Shell Nicaragua S.A. v Republic of Nicaragua*, ICSID Case No. ARB/06/14. The dispute was settled when the Nicaraguan Court of Appeal reversed the decision and Shell discontinued the proceedings in March 2007. See concerning the same Valentina S Vadi, ‘Trade Mark Protection, Public Health and International Investment Law: Strains and Paradoxes’ (2009) 20(3) *European Journal of International Law* 773, 784–785.

¹³ *Les Laboratoires Servier, S.A.A., Biofarma, S.A.S., Arts et Techniques du Progres S.A.S. v Republic of Poland (Servier v Poland)*, Final Award (14 February 2012). The tribunal found that the expropriation was unlawful; however, the reasoning remains redacted. See further Peter Chrocziel and others, *International arbitration of intellectual property disputes: A practitioner's guide* (C.H. Beck; Hart; Nomos 2017) 165–166.

over tobacco regulation affecting the company's trademarks in two separate cases against Australia and Uruguay, with awards rendered in 2015 and 2016 respectively.¹⁴ Additionally, the global pharmaceutical company Eli Lilly sought relief under the investment chapter of the North American Free Trade Agreement (NAFTA) for the invalidation of two of its patents by Canadian courts.¹⁵ And most recently, an investment tribunal is dealing with a trademark dispute initiated under the investment provisions of a US-Panama treaty.¹⁶ Besides these cases, reports suggest another dispute could arise under the US-Ecuador Bilateral Investment Treaty (BIT)¹⁷ over the alleged infringement of pharmaceutical patents by domestic courts.¹⁸ Possible cases could involve the issuance of compulsory licences, the rejection of pharmaceutical patents, and the commission of widespread copyright violations by state-controlled entities.¹⁹ It seems that IP-related cases will increasingly be part of the international investment arbitration landscape.²⁰

¹⁴ *Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12, Award on Jurisdiction and Admissibility (17 December 2015); *Philip Morris Brands Sàrl, Philip Morris Products S.A. and Abal Hermanos S.A. v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Award (8 July 2016).

¹⁵ *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Final Award (16 March 2017). On this see eg Kathleen Liddell and Michael Waibel, 'Fair and Equitable Treatment and Judicial Patent Decisions' (2016) 19(1) *Journal of International Economic Law* 145.

¹⁶ *Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. v Republic of Panama*, ICSID Case No ARB/16/34.

¹⁷ Treaty between the United States of America and the Republic of Ecuador concerning the Encouragement and Reciprocal Protection of Investment (signed 27 August 1993, entered into force 11 May 1997).

¹⁸ Zoe Williams, 'Another big pharma company (Pfizer) invokes investment treaty protections, complaining that local courts are wrongly infringing on patents' (2017) *IAReporter*, <http://www.iareporter.com/articles/another-big-pharma-company-invokes-investment-treaty-protections-complaining-that-local-courts-are-wrongly-infringing-on-patents/>, last accessed on 1 December 2018.

¹⁹ See for these scenarios e.g. Chrocziel and others (n 13) 168–172. For other potential cases, see the systematic and comprehensive study by Simon Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (Heymanns, Carl 2011); Henning Grosse Ruse-Khan, 'Challenging Compliance with International Intellectual Property Norms in Investor–state Dispute Settlement' (2016) 19(1) *Journal of International Economic Law* 241.

²⁰ For other potential cases see Chrocziel and others (n 13) 170–171. Critical of these developments is Peter K Yu, 'The Investment-Related Aspects of Intellectual Property Rights' (2017) 66 *American University Law Review* 829–910, 835.

Because IPRs are protected internationally by a wide range of treaties and international standards,²¹ the abovementioned disputes not only involve the substantive standards of treatment under applicable IIAs, but also questions of compliance with WTO agreements such as TRIPS, and other treaties such as specific IP chapters in FTAs like NAFTA.²²

Against this backdrop, this article will examine the legal relationship between investment chapters in FTAs and the IP-specific legal frameworks such as the TRIPS Agreement and IP chapters in FTAs. Recent scholarship has demonstrated that standards of investment protection generally included in IIAs may protect forms of IP.²³ Because negotiators have reacted to the legal issues raised in this context by new and innovative treaty language, this article looks at these provisions in light of the scholarly literature and existing decisions of investment tribunals. The final chapter discusses possible negative implications of the expansion of ISDS in protecting IPRs.

II. The Relationship between IP and Investment Obligations

1. A Multilayered Regime

The overall context of IP chapters being included in FTAs lies in a move from multilateralism toward plurilateralism.²⁴ For instance, Frederick Abbott identifies a trend in US trade policy toward bilateral and regional arrangements ‘to correct what the United States perceives as specific deficiencies in WTO rules [...] in the TRIPS Agreement.’²⁵ The effect of these IP chapters is to

²¹ Henning Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (Oxford University Press 2016).

²² Aggarwal (n 2) 175.

²³ See e.g. Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 19); Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (n 21); Lukas Vanhonnaeker, *Intellectual property rights as foreign direct investments: From collision to collaboration* (Edward Elgar 2015).

²⁴ Pistor (n 4) 137–143.

²⁵ Frederick Abbott, ‘The WTO Medicines Decision: World Pharmaceutical Trade and the Protection of Public Health’ (2005) 99(2) *American Journal of International Law* 317, 318; Pistor (n 4) 137–143.

restrict the use of TRIPS flexibilities, particularly with respect to the regulation of pharmaceutical products. For example, these chapters often contain provisions that limit potential exclusions from patentability, prevent parallel importation, and limit the grounds for the issuance of compulsory licenses.²⁶ Besides protecting IPRs in the IP chapters, protecting IPRs as part of the investment under investment chapters potentially leads to a further encroachment of the initial flexibilities in regulating IP that member states agreed to in the TRIPS Agreement.

As mentioned above, IPRs are governed internationally by their own multi-layered international regime that provides for specific norms.²⁷ These norms are based on delicate (and criticized) balances struck between public and private interests²⁸ as well as developed states' and developing states' concerns.²⁹ For example, the TRIPS Agreement addresses the creation, limitation, and revocation of IPRs, but for some issues does so only in broad-brush terms: it provides – to give one example – that patents should be granted for new, inventive, and useful inventions without defining these terms, leaving states broad discretion with regard to patentability standards.³⁰ The worry is that the balance struck in those agreements could be distorted when IP issues, such as the 'usefulness' of an invention, are litigated via ISDS.³¹

²⁶ Abbott (n 25) 349–350.

²⁷ Aggarwal (n 2) 175.

²⁸ Christophe Geiger, 'The Social Function of Intellectual Property Rights, or How Ethics can Influence the Shape and Use of IP Law' in Graeme B Dinwoodie (ed), *Methods and perspectives in intellectual property* (ATRIP intellectual property series. Edward Elgar 2013).

²⁹ Eva Nanopoulos and Rumiana Yotova, "'Repackaging' Plain Packaging in Europe: Strategic Litigation and Public Interest Considerations' (2016) 19(1) *Journal of International Economic Law* 175, 182; Aggarwal (n 2) 175 For a critique of the IP system, see John Linarelli, Margot E Salomon and M. Sornarajah, *The misery of international law: Confrontations with injustice in the global economy* (Oxford University Press 2018) 143 (viewing TRIPS as an 'example of a harm-producing trade agreement'); Thomas Pogge, *World poverty and human rights: Cosmopolitan responsibilities and reforms* (2nd edn, Polity 2008) 224–261; Susan K Sell, *Private power, public law: The globalization of intellectual property rights* (Cambridge University Press 2003).

³⁰ Aggarwal (n 2) 175.

³¹ *ibid* 176–177.

2. The Practice of Tribunals

Before looking at specific agreements, it is interesting to note that investment tribunals have not paid sufficient attention to the question of the relation between investment protection and (bilateral or multilateral) IP agreements. In the case of *Eli Lilly v Canada* under NAFTA Chapter Eleven which concerned the invalidation of two of the claimant's patents, Canada argued that

The Tribunal notably lacks jurisdiction to rule on alleged violations of any of TRIPS, PCT or NAFTA Chapter Seventeen [IP chapter]. Disputes in respect of an alleged breach of TRIPS obligations may only be brought pursuant to the Dispute Settlement Understanding of the World Trade Organization. Allegations of a breach of the PCT are, in accordance with that Treaty, to be brought before the International Court of Justice. Allegations of a breach of NAFTA Chapter Seventeen are to be brought on a State-to-State basis before a tribunal constituted pursuant to NAFTA Chapter Twenty.³²

However, the tribunal did not discuss Canada's argument further and rejected the claim on the merits.³³ This was because Eli Lilly argued that a violation of obligations provided for in the IP chapter and TRIPS would constitute a violation of investment protection standards; the tribunal, therefore, did not have to address any potential conflict between the chapters as this was framed to only be relevant to the extent that a violation of the IP chapter and TRIPS is a violation of investment protection standards.

In another case, this time dealing with trademarks, *Bridgestone v Panama*, the respondent state did not raise any potential conflict between IP and investment chapters.³⁴ In that case, the applicable treaty, the United States—Panama Trade Promotion Agreement (TPA) includes both.³⁵

³² *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Statement of Defence of the Government of Canada (30 June 2014) para 84.

³³ *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Final Award (16 March 2017).

³⁴ *Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. v Republic of Panama*, ICSID Case No ARB/16/34, Panama's Expedited Objections Pursuant to Article 10.20.5 of the Panama-U.S. Trade Promotion Agreement (30 May 2017).

³⁵ Gabriel M Lentner, 'Bridgestone v Panama: When Are Trademarks Covered Investments?' (2020) ICSID Review (forthcoming).

Since the dispute involved damages arising out of a dispute over trademarks, it could be argued that the dispute should actually be settled through the general dispute settlement mechanism provided in Chapter 20 (Dispute Settlement) of the TPA and not the specific ISDS mechanism under the investment chapter. Article 20.2 of the TPA provides for state-to-state dispute settlement and stipulates that ‘except as otherwise provided in this Agreement, the dispute settlement provisions of this Chapter shall apply [...]’. The investment chapter itself stipulates in Article 10.2 that ‘[i]n the event of any inconsistency between this chapter and another chapter, the other Chapter shall prevail to the extent of the inconsistency.’ The chapter on IPRs specifically deals with trademarks (Art 15.2) and sets out minimum standards for the enforcement of IPRs (Art 15.11). Taken together and interpreted as a whole, the specific obligations regarding enforcement of trademarks point to the conclusion that that IP dispute is to be settled under Chapter 20 and not under the investment chapter, thus depriving the investment tribunal of jurisdiction over this case.³⁶ Because Panama did not put forward this line of argument, the tribunal did not address it.

The relationship of different regulatory chapters in FTAs, such as NAFTA, has been discussed previously by tribunals, however. In *S.D. Myers, Inc. v Canada*, an investment tribunal addressed Canada’s argument that the dispute concerning the investor’s business of remediating hazardous waste actually falls within Chapter 3 (Trade in Goods) and/or Chapter 12 (Trade in Services).³⁷ By referring to a WTO panel report, the tribunal found that the chapters of the NAFTA are part of a ‘single undertaking,’ meaning that different provisions are ‘cumulative’ and complementary and not in conflict with each other.³⁸ The tribunal adopted a definition of ‘conflict’

³⁶ A similar problem arises out of Article 23 of the WTO’s Dispute Settlement Understanding (DSU), which prohibits the enforcement of WTO law (here TRIPS) outside the WTO Dispute Settlement Body. See 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) *Journal of International Economic Law* 211.

³⁷ *SD Meyers, Inc v Canada*, UNCITRAL, Partial Award (13 November 2000).

³⁸ *SD Meyers, Inc v Canada* (n 37) paras 291-292.

which was established by WTO precedents³⁹ and adopted by another NAFTA tribunal in *Pope & Talbot*.⁴⁰ According to the WTO cases the tribunal cited, provisions of different agreements should ‘be read as complementary unless there were a conflict in the sense that adherence to one provision would cause a violation of the other.’⁴¹ Therefore, the tribunal found that ‘[t]here is no reason why a measure which concerns goods (Chapter 3) cannot be a measure relating to an investor or an investment (Chapter 11).’⁴²

The tribunal further argued that ‘[a] measure that relates to goods can relate to those who are involved in the trade of those goods and who have made investments concerning them. The thrust of a dispute under Chapter 11 is that the impugned measure relates to an investor or an investment. If it were to do so, it would be covered by Chapter 11 unless excluded. [If it] were not to do so, it would not be covered.’⁴³ On the basis of the facts of the case, the tribunal held that ‘the fact that [SD Myers, Inc, SDMI] as a cross-border service provider may have recourse to the dispute provisions of Chapter 12 (Trade in Services), does not deprive it of the right to claim as an investor under Chapter 11. Extending to it rights as a cross-border service provider under Chapter 12 does not take away from [the claimant’s] rights conferred on it by Chapter 11.’⁴⁴ It explained that ‘Chapter 11 is engaged because SDMI was an investor. It has a right to recover the economic losses to its investment initiative caused proximately by an interference with its investment contrary to the provisions of Chapter 11. The fact that some of the totality of [claimant’s] losses

³⁹ See *SD Meyers, Inc v Canada* (n 37) para 293.

⁴⁰ *Pope & Talbot, Inc v Canada*, UNCITRAL Interim Award (26 June 2000).

⁴¹ See *SD Meyers, Inc v Canada* (n 37) para 293.

⁴² See *SD Meyers, Inc v Canada* (n 37) para 294.

⁴³ See *SD Meyers, Inc v Canada* (n 37) para 295.

⁴⁴ *SD Meyers, Inc v Canada*, UNCITRAL, Second Partial Award (21 October 2002) para 138.

due to interference with its investment involved cross-border services does not prevent SDMI from recovering them.⁴⁵

At first glance, such reasoning is compelling. The activities of a foreign company in the host state can involve several aspects covered by different regulatory chapters. That does not mean that only one of those chapters govern the whole range of activities to the expense of other rules. In this case, that was not an issue because neither chapter would have permitted the measures at issue, as the tribunal held expressly with respect to the trade in goods.⁴⁶

3. Overlooked Aspects of the Relationship between IP and Investment

The problem the tribunal overlooked is the consequence of such definition of conflict. Under this definition, provisions that give states the rights of discretion, authorizations, and justifications in one chapter are not in conflict with obligations in the investment chapter that limit the very same rights. As a result, a tribunal is prevented from even examining whether the permissive norm (of discretion, authorization, and justification) is the *lex specialis* that should prevail in the first place.⁴⁷ This would result in outlawing state measures that otherwise would fall within a policy space intentionally permitted by the treaty. And this is what provisions like Article 1112(1) NAFTA that state that the other chapter prevails to the extent of the inconsistency are intended to prevent in the first place.⁴⁸ Therefore, a broader concept of conflict should be adopted

⁴⁵ *ibid* para 139. See further on this Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 19) 90.

⁴⁶ *SD Meyers, Inc v Canada* (n 37) para 298.

⁴⁷ E. Vranes, 'The Definition of 'Norm Conflict' in International Law and Legal Theory' (2006) 17(2) *European Journal of International Law* 395, 399–400 (criticizing the WTO panel in the *Indonesia – Automobiles* case, in which it found that a conflict exists only in a situation of mutually exclusive obligations, thus excluding the possibility of conflicts between express permissions and duties.)

⁴⁸ Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 19) 91.

to better reflect the balance struck by the contracting parties.⁴⁹ If a state measure is regulated and would be permitted under another chapter, then Article 1112(1) NAFTA should be invoked and the permission of the other chapter should prevail over a conflicting obligation under chapter 11.

This new conflict rule also extends to dispute resolution and should therefore be considered at the jurisdiction phase. State measures that pertain to the regulation of IP are the subject of the IP chapter. Therefore, the IP chapter is clearly the *lex specialis*. The IP chapter thus prevails over the more general rules on investment (assuming the jurisdictional threshold of IP as ‘investment’ is cleared in the first place). This means that disputes over an alleged violation of the IP obligations are to be settled according to the dispute resolution rules of the IP chapter, in most cases state-to-state dispute settlement mechanisms.

Absent any applicable conflict rule in the relevant treaties, guidance is provided by Article 31(3)(c) of the Vienna Convention on the Law of Treaties. It provides for the consideration of, in addition to the context, ‘any relevant rules of international law applicable in the relations between the parties.’⁵⁰ Since the IP chapter (or TRIPS, as will be discussed below) would also be applicable in this context, a tribunal might well conclude that there was no breach of the investment chapter if the measure at issue was implementing those other obligations and hence qualified by them.⁵¹

Similar issues arise from the fact that IP-related issues are generally governed by TRIPS. For example, in *Philip Morris v Australia*,⁵² the claimant brought the case under the Hong Kong-

⁴⁹ *ibid.*

⁵⁰ Andrea K Bjorklund, ‘Applicable law in international investment dispute’ in Chiara Giorgetti (ed), *Litigating international investment disputes: A practitioner's guide* (Brill Nijhoff 2014) 282. See also Campbell McLachlan, ‘The Principle of Systemic Integration and Article 31(3)(c) of the Vienna Convention’ (2005) 54(2) ICLQ 279; Ursula Kriebaum, ‘Privatizing Human Rights’ in August Reinisch and Ursula Kriebaum (eds), *The law of international relations: Liber amicorum Hanspeter Neuhold* (Eleven International 2007).

⁵¹ Bjorklund (n 50) 282 (considering that a ‘tribunal might well say that the investor's rights under the BIT are (and always were) qualified by a state's other international obligations, a limitation that the investor should have anticipated. Yet at some stage giving effect to the states other obligations will effectively negate the investment agreement's protections.’) *ibid* 285.

⁵² *Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12.

Australia BIT⁵³; it also asserted breaches of WTO Agreements, such as TRIPS, and the TBT Agreement⁵⁴.⁵⁵ These WTO Agreements all provide for exclusive jurisdiction under the respective dispute settlement bodies of the WTO under Article 23 of the Dispute Settlement Understanding (DSU).⁵⁶ The DSU prohibits the enforcement of WTO Agreements, such as TRIPS, outside the WTO system.⁵⁷ This has led one commentator to propose 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.’⁵⁸ Furthermore, the dispute at issue was about limitations on the use of trademarks in cigarette packaging.⁵⁹ It is therefore not clear whether this can be litigated both in the WTO and under the applicable BIT. The tribunal did not discuss this issue in its decision on jurisdiction and admissibility, instead rejecting jurisdiction on the basis of the abuse of rights doctrine.⁶⁰

From these cases it is difficult to arrive at any particular conclusion, but arbitral tribunals appear to be reluctant to address the jurisdictional issue. In light of such hesitancy it seems unlikely that a jurisdictional challenge based on the primacy of IP chapter [consistency with capitalization] dispute settlement mechanisms or the WTO’s dispute settlement mechanism will succeed.

⁵³ Hong-Kong-Australia Bilateral Investment Treaty (signed 15 September 1993, entered into force 15 October 1993).

⁵⁴ The WTO Agreement on Technical Barriers to Trade (signed during Uruguay Round in 1994, entered into force 1 January 1995).

⁵⁵ *Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12, Australia’s Response to Notice of Arbitration (21 December 2011) Paras 33-35.

⁵⁶ Dispute Settlement Understanding, art. 23: Strengthening of the Multilateral System ‘When 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.’

⁵⁷ Klopschinski (n 36), 226–229.

⁵⁸ *ibid* 229.

⁵⁹ Australia - Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, WT/DS467/23 (28 June 2018).

⁶⁰ *Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12, Award on jurisdiction and Admissibility (17 December 2015).

4. New Drafting Practice in International Agreements

The recently concluded Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), for example, reacted to the *Philipp Morris* cases directly. It exempts any ISDS for disputes regarding tobacco control measures.⁶¹ Critics pointed out that this indirectly shows that investment protection does not include sufficient safeguards to guarantee the necessary regulatory autonomy of states in the field of health.⁶² Why else would there be a need to exclude a specific issue from its application while leaving other areas untouched?⁶³

On the more general relationship between chapters, the investment chapter addresses its relationship to other chapters in Article 9.3. It provides that ‘[i]n the event of any inconsistency between this Chapter and another Chapter of this Agreement, the other Chapter shall prevail to the extent of the inconsistency.’⁶⁴ Article 14.3(1) of the Agreement between the United States of America, the United Mexican States and Canada (USMCA) contains a similar provision.

Then, Article 18.5 of the IP Chapter, under the heading ‘Nature and Scope of Obligations’, provides that

Each Party shall give effect to the provisions of this Chapter. A Party may, but shall not be obliged to, provide more extensive protection for, or enforcement of, intellectual property rights under its law than is required by this Chapter, provided that such protection or enforcement does not contravene the provisions of this Chapter.⁶⁵

⁶¹ See Art. 29.5 CPTPP, Comprehensive and Progressive Agreement for Trans-Pacific Partnership, signed on 9 March 2018.

⁶² Lukasz Gruszczynski, ‘The Trans-Pacific Partnership Agreement and the ISDS Carve-out for Tobacco Control Measures’ (2015) 6(4) *Eur j risk regul* 652, 656.

⁶³ Andrew Mitchell et al. ‘Public Health and the TransPacific Partnership Agreement’ (2015) 5(2) *Asian Journal of International Law* 279, 292.

⁶⁴ Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Article 9.3.

⁶⁵ Agreement between the United States of America, the United Mexican States and Canada, Article 18.5.

When read together, these provisions result in some interpretive ambiguities. In particular, questions arise as to whether the CPTPP's investment chapter 'provides for more extensive protection for, or enforcement of [IPRs].'⁶⁶ Investment protection under the CPTPP does not constitute 'more extensive protection' under Article 18.5 of the IP Chapter in the CPTPP due to the language in Article 18.5 that says 'Each Party shall give effect to the provisions of [the IP Chapter]' and '...may... provide for more extensive protection for... [IPRs] under its law.'⁶⁷ This language plainly speaks in the context of a State Party's domestic laws and cannot be understood as referring to international obligations unless implemented on the domestic level.⁶⁸

On the other hand, the investment chapter appears to assume the application of its provisions to IP-related disputes, as is clear from the express mention of intellectual property rights as one form an investment can take (Art 9.1), as well as in the substantive protection standards, such as Article 9.8 on expropriation and compensation, which provides that the article shall not apply to measures either in accordance with the TRIPS or the IP chapter.⁶⁹

Given the above-mentioned factors, IP-related disputes fall into the scope of the investment chapter only when they concern measures affecting IP outside the (permissive) regulatory framework provided for in the IP chapter (or TRIPS) and fulfill the objective criteria of an 'investment' under the CPTPP.

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ See further on the CPTPP's investment chapter e.g. Gabriel M Lentner, 'CPTPP's Investment Chapter and the Protection of IP' (2019) 16(5) Transnational Dispute Management 1-12.

⁶⁹ Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Article 9.8.

The Canada-EU Comprehensive Economic and Trade Agreement (CETA) also contains an investment and IP chapter.⁷⁰ In a joint declaration to Article 8.12.6 of the CETA agreement included in Annex 8-D, the parties to the agreement state:

‘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].’

This description clarifies that an investment tribunal should not function as a review mechanism for the decisions of domestic courts regarding the existence and validity of IPRs.⁷¹ Despite this declaration only applying to expropriation claims and not to FET and other protection standards,⁷² it does provide guidance for the interpretation of the legal relationship between IP and investment.

Viewed in the light of this interpretative statement, the IP chapter of the CETA agreement clearly deals with the issue raised in *Bridgestone v Panama* (as does the USMCA). Article 20.14 of CETA is concerned with the registration procedure. Article 20.32, titled ‘Enforcement of IP,’ contains general obligations for parties to ensure certain procedural standards for the enforcement of IPRs. In addition, CETA contains rules on provisional and precautionary measures (Article

⁷⁰ On the protection of IPRs under the investment chapter see e.g. Siegfried Fina and Gabriel M Lentner, ‘The European Union's New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights’ (2017) 18(2) *The Journal of World Investment & Trade* 271.

⁷¹ *ibid* 299–300.

⁷² Dreyfuss (n 83) 13-14.

20.37), other remedies (Article 20.38), injunctions (Article 20.39), damages (Article 20.40), and even legal costs (Article 20.41).

Although not including an express provision on the relationship between the investment and IP chapters, the drafters saw some of these potential conflicts in relation to IP. This is evidenced by the fact that Article 8.12 dealing with compensation for expropriation expressly mentions in paragraph 6 that ‘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.’ Article 14.8(6) of the USMCA investment chapter includes a version of this save but without the second sentence. Furthermore, Article 8.15(4) (Reservations and Exceptions) provides that ‘In respect of intellectual property rights, a Party may derogate from Articles 8.5.1(f) [technology transfer], 8.6 [national treatment], and 8.7 [MFN] if permitted by the TRIPS Agreement, including any amendments to the TRIPS Agreement in force for both Parties, and waivers to the TRIPS Agreement adopted pursuant to Article IX of the WTO Agreement.’ This clearly points to the conclusion that IP regulation should remain outside the scope of investment protection.

Furthermore, CETA’s section on investor-state dispute settlement (ISDS) expressly states that it is without prejudice to the rights and obligations of the parties under the (state-to-state) dispute settlement chapter (Art 8.18) and provides for the situation wherein proceedings are brought under another international agreement. In that case, ‘the Tribunal shall, as soon as possible after hearing the disputing parties, stay its proceedings or otherwise ensure that proceedings brought pursuant to another international agreement are taken into account in its decision, order or

award’, under the condition that there is either potential for overlapping compensation (Art 8.24(a)) or the other international claim could have a significant impact on the resolution of the ISDS claim (Art 8.24(b)). In case of a choice of forum, Article 29.3(2) provides that ‘if an obligation is equivalent in substance under this Agreement and under the WTO Agreement, or under any other agreement to which the Parties are party, a Party may not seek redress for the breach of such an obligation in the two fora. In such case, once a dispute settlement proceeding has been initiated under one agreement, the Party shall not bring a claim seeking redress for the breach of the substantially equivalent obligation under the other agreement, unless the forum selected fails [...] to make findings on that claim.’ Article 31.3 USMCA has a similar effect.

Thus, while CETA and other mega-regional trade agreements recognize in principle the application of their investment chapter to IP disputes, the scope is significantly restricted by the interpretative statement and expressly defers in some instances to the respective IP chapters and to TRIPS.

III. Implications

1. The Rationale of IP Protection

Having clarified the relationship between IP and investment chapters, this Section will reveal that the assumption of jurisdiction in IP-related disputes by investment tribunals raises important issues.

Let us first consider the basic structure of IP protection. The primary rationale for the protection of IPRs is to provide incentives for creativity and innovation.⁷³ In the US, the protection of IP is largely aimed at incentivizing creation and innovation.⁷⁴ This ‘[u]tilitarian theory, and the economic framework built upon it, has long provided the dominant paradigm for analyzing and justifying the various forms of intellectual property protection.’⁷⁵ The balance between free competition and the promotion of innovation is, therefore, a delicate one.⁷⁶ Looking at the purported justifications for IP protection,⁷⁷ a clear picture emerges in which the protection of IPRs

⁷³ Yu (n 20) 842; Mark A Lemley, ‘Property, Intellectual Property, and Free Riding’ (2005) 83 *Texas Law Review* 1031, 1031; Robert P Merges, Peter S Menell and Mark A Lemley, *Intellectual Property in the New Technological Age* (5th edn, Wolters Kluwer Law & Business 2010) 2; Roger D Blair and Daniel Sokol (eds), *The Cambridge handbook of Antitrust, Intellectual Property, and High Tech* (Cambridge University Press 2017) 204; Brett Frischmann, ‘Crossing Boundaries: Spillovers Theory and its Conceptual Boundaries’ (2009) 51 *William & Mary Law Review* 801, 803–804 (‘Essentially, in the absence of intellectual property law, there would be a significant underinvestment in some types of intellectual resources because of the risk that competitors would appropriate the value of the resources’); Gaia Bernstein, ‘In the Shadow of Innovation’ (2010) 31 *Cardozo Law Review* 2257-2312, 2264-2265 (‘regardless of whether innovation is treated as a goal or as means to other goals, it plays a pivotal role in the rationale for limiting intellectual property rights.’). See also Rochelle Dreyfuss and Susy Frankel, ‘From Incentive to Commodity to Asset: How International Law is Reconceptualizing Intellectual Property’ (2015) 36 *Michigan Journal Of International Law* 557-602, 560-561.

⁷⁴ Lemley (n 73) 1031.

⁷⁵ Merges, Menell and Lemley (n 73) 11. See generally Peter S. Menell & Suzanne Scotchmer, *Intellectual Property*, in *Handbook of Law and Economics* (A. Mitchell Polinsky & Steven Shavell eds, 2007); William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* (2003).

⁷⁶ Keith E Maskus and Jerome H Reichman, ‘The Globalisation of Private Knowledge Goods and the Privatisation of Global Public Goods’ (2004) 7(2) *Journal of International Economic Law* 279-320, 292.

⁷⁷ Gabriel M Lentner, ‘Nomos and Narrative: The Protection of Intellectual Property Rights in International Investment Law’ [2018] *TTLF Working Paper No 34*, 14–25.

reflects the telos of a ‘structured conception of property which reconciles individual freedom with societal goals’ and thus provides for ‘flexibilities and nuanced norms’.⁷⁸

Under TRIPS – and IP chapters often refer to TRIPS and its minimum standards⁷⁹ – the obligation to grant negative rights⁸⁰ leaves room for governments to provide regulatory controls on the utilization and exploitation of IPRs. For example, Article 39(3) of the TRIPS agreement simply assumes that pharmaceutical and agricultural-chemical products are subject to marketing approval procedures.⁸¹ Furthermore, measures have been imposed by WTO members such as price controls, labeling requirements, and sale restrictions, which affect the commercial use of IP-protected goods or services; yet none of these would constitute an interference with the (negative) rights IPRs grant.⁸²

Like domestic legal systems, international trade law justifies the minimum standard of protection for IP as an impetus for innovation.⁸³ Articles 7 and 8 of the TRIPS Agreement expressly emphasize that IP protection serves a social function.⁸⁴ Article 7, titled ‘Objectives,’

⁷⁸ Vadi, ‘Trade Mark Protection, Public Health and International Investment Law’ (n 12) 795. See also Christopher May and Susan K Sell, *Intellectual property rights: A critical history* (Lynne Rienner 2006) On the expansion and securing of IPRs through human rights treaties, specifically the European Convention of Human Rights, see David S Welkowitz, ‘Privatizing Human Rights: Creating Intellectual Property Rights from Human Rights Principles’ (2013) 46 Akron Law Review 675.

⁷⁹ For example, Article 20.2(1) CETA states that ‘The provisions of this Chapter complement the rights and obligations between the Parties under the TRIPS Agreement.’

⁸⁰ See Articles 11, 14:1-3, 16:1, 23:1, 26:1, 28:1, 39:2 TRIPS which all oblige WTO Members to provide exclusive rights to ‘prevent’ third parties from using the protected subject matter in various ways.

⁸¹ Henning G Ruse-Khan, ‘From TRIPS to FTAs and Back Re-Conceptualising the Role of a Multilateral IP Framework in a TRIPS-Plus World’ [2017] Max Planck Institute for Innovation and Competition Research Paper No 18-02 1, 19 (who also considers the concept of negative rights alone not to ensure the realization of public interest but suggests ‘[i]n these situations, ways and means to limit the exclusive, private IP rights which TRIPS obliges to grant are needed to guarantee a proper balancing of interests.’ Ruse-Khan (n 81), 20.

⁸² Ruse-Khan (n 81), 20.

⁸³ Judith H. Bello & Alan F. Holmer, ‘The Uruguay Round: Where Are We?’ (1991) 25 The International Lawyer 723; Bernstein (n 73) 2264..

⁸⁴ See also Art. 15 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) (providing the right of everyone ‘to enjoy the benefits of scientific progress and its applications’). On the negotiation history of these provisions see Ruse-Khan, ‘From TRIPS to FTAs and Back Re-Conceptualising the Role of a Multilateral IP Framework in a TRIPS-Plus World’ (n 81) 13–17.

provides that the ‘protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and *in a manner conducive to social and economic welfare, and to a balance of rights and obligations.*’⁸⁵ Article 8(1) provides that ‘Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development [...]’. And paragraph 2 provides that ‘Appropriate measures [...] may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.’⁸⁶

The TRIPS Agreement also allows for so-called TRIPS ‘flexibilities’ to ensure that its IPR obligations do not unduly interfere with important public policy goals.⁸⁷ This means that WTO members retain some discretion with regard to the implementation of their obligations under TRIPS.⁸⁸

The gaps in international IP regulation generally are deliberate and should therefore not be viewed as voids in need of filling by investment treaties. As Ruth Okediji points out,

⁸⁵ Emphasis added.

⁸⁶ See also Daniel Gervais, ‘Investor-State Dispute Settlement: Human Rights and Regulatory Lessons from Lilly v. Canada’ (2018) 8 UC Irvine Law Review 459-511, 488 (on public policy space in TRIPS not available in investment treaties).

⁸⁷ Smith Van, ‘Enabling Environments or Enabling Discord: Intellectual Property Rights, Public-Private Partnerships, and the Quest for Green Technology Transfer’ (2011) 42 Georgetown Journal of International Law 817, 832–833.

⁸⁸ See Ruse-Khan (n 81), 14–15 (‘Conceptually, the public interest principle expressed here appears as a broad version of the ‘right to regulate’ to protect public interests in a non-discriminatory and proportional manner, recognised under customary international law and nowadays frequently applied in international investment law’). See also WTO, ‘Philosophy: TRIPS Attempts to Strike a Balance’ (2006) <http://www.wto.org/english/tratop_e/trips_e/factsheet_pharm01_e.htm> accessed 24 June 2014; Henning G Ruse-Khan, ‘The International Law Relation between TRIPS and subsequent TRIPS-plus Free Trade Agreements: Towards safeguarding TRIPS Flexibilities?’ (2011) 18 Journal of Intellectual Property Law 325, 328.

‘Like all treaties, intellectual property agreements include deliberate gaps, reflecting areas of non-convergence and the residual sovereignty of states to legislate specific rules. Indeed, because intellectual property rights are intimately connected with how countries achieve a competitive equilibrium in their local economies, and how they promote innovation and assure a “pro-competitive balance of private and public interests,” it is well-recognized that domestic implementation of international intellectual property standards will take distinctive twists across countries. Rather than define every standard, fill every normative hole, or seek uniform rules, international intellectual property agreements merely create global competitive conditions *between* countries—not within them.’⁸⁹

An investment tribunal decides on the basis of the applicable BIT and will generally not take into consideration objectives outside the BIT.⁹⁰ Investors’ direct access to investor-state arbitration also means that investors can assert claims against other WTO member states based on WTO or other IP obligations even though such enforcement may not be in the political or economic interest of either state.⁹¹

Another difference is found in the remedies. Trade agreements impose (prospective) trade sanctions rather than monetary compensation, as BITs often provide for.⁹²

ISDS mechanisms in practice offer little room for tribunals to tailor IPRs to reward innovations ‘appropriately (rather than excessively) and to maintain public regarding interests,

⁸⁹ Ruth L Okediji, ‘Is Intellectual Property “Investment”? *Eli Lilly v. Canada* and the International Intellectual Property System’ (2014) 35 *University of Pennsylvania Journal of International Law* 1121, 1132–1133 (footnotes omitted)

⁹⁰ Henning G Ruse-Khan, ‘Protecting Intellectual Property under BITs, FTAs, and TRIPS: Conflicting Regimes or Mutual Coherence?’ [2011] *Max Planck Institute for Intellectual Property and Competition Law Research Paper No 11-02* 1, 27; Fina and Lentner (n 70) 298. See on this also Klopschinski, ‘The WTOs DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPS’ (n 36) 223–225.

⁹¹ Alan O Sykes, ‘Public vs. Private Enforcement of International Economic Law: Of Standing and Remedy’ (2005) 34(2) *Journal of Legal Studies* 631, 645. See also Klopschinski, ‘The WTOs DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPS’ (n 36) 224–225.

⁹² Sykes (n 91) 654ff. See further Thomas Sebastian and Anthony Sinclair, ‘Remedies in WTO Dispute Settlement and Investor-State Arbitration: Contrasts and Lessons’ in Jorge A Huerta-Goldman, Antoine Romanetti and Franz X Stirnimann (eds), *WTO Litigation, Investment Arbitration, and Commercial Arbitration* (Global trade law series vol 43. Wolters Kluwer 2013).

such as where property rights need to be balanced with affordability and availability of medicine.’⁹³

2. Competing Interests and Logics: IP and Investment Protection

As one observer concluded in the context of IP litigation through investment arbitration, ISDS leaves ‘little room for the consideration of the public interest in a regime so heavily weighted towards investor protection.’⁹⁴ Indeed, ISDS has a singular focus on the protection of private interests. Only private investors can lodge a claim. Private investors, together with private arbitrators rather than states, ‘play the jurisgenerative role.’⁹⁵ This in turn ‘casts a deep shadow over the public interest component built into the patent system, thus potentially creating a severe policy imbalance.’⁹⁶ Built in the IP system are inherent limitations (term) and exceptions (such as fair use) to IPRs, which investment tribunals do not seem to easily recognize.⁹⁷ Such failure to give due consideration to the public interest component of the IP system ‘could give firms carte blanche to sue governments over laws that firms happen not to like. It could lead to an overlay of policy requirements above domestic law that sharply could constrain national policy discretion. It is a means to push for regulatory harmonization without going through a democratic process of debate and deliberation.’⁹⁸

⁹³ Susy Frankel, ‘Interpreting the Overlap of International Investment and Intellectual Property Law’ (2016) 19(1) *Journal of International Economic Law* 121, 125.

⁹⁴ Kate Miles, ‘Reconceptualizing international investment law: bringing the public interest into private business’ in Meredith K Lewis and Susy Frankel (eds), *International Economic Law and National Autonomy* (Cambridge University Press 2010) 296.

⁹⁵ José E Alvarez, ‘Are Corporations "Subjects" of International Law’ (2011) 9(1) *Santa Clara Journal of International Law* 1-36, 11.

⁹⁶ Gervais (n 86) 485-486.

⁹⁷ Frankel (n 93). Gervais (n 86) 487

⁹⁸ Susan K Sell, ‘Remarks’ (2014) 108 *Proc annu meet- Am Soc Int Law* 317, 317 See also Gervais (n 86) 487.

Overall, the nature of the legal obligations in WTO law (including TRIPS) and in international investment law are quite different. WTO law focuses on the macro-economic aspects of market access and trade opportunities to increase overall welfare, whereas international investment law focuses on micro-economic aspects of attracting and protecting individual investor's investments.⁹⁹ Trade agreements (including TRIPS) contain commitments that are government-to-government, while investment agreements contain government-to-firm commitments.¹⁰⁰ Also, the vast majority of existing IIAs do not recognize the balancing and flexibilities contained in international IP agreements, such as Articles 7 and 8 of TRIPS.¹⁰¹

Another fundamental difference between international investment law and trade law is that the law of the WTO agreements encompasses a multitude of topics, such as fairness of trade relations, sustainable development, employment, and the protection of the environment.¹⁰² Only the WTO Dispute Settlement Body and those involved in the settlement of such disputes have the institutional support and knowledge to deal with such range of issues.¹⁰³ With respect to disputes under IP chapters of FTAs, state-to-state litigation is more adequate than ISDS mechanisms at taking these issues into account.¹⁰⁴ This is because frivolous claims and extreme interpretations are unlikely to be advanced by the complaining state for fear of reciprocity.¹⁰⁵ States in state-to-state disputes can act as a filter, as they only bring disputes when the political and economic

⁹⁹ Nicholas DiMascio and Joost Pauwelyn, 'Non-Discrimination in Trade and Investment Treaties' (2008) 102 *American Journal of International Law* 48-89, 56. See also Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 19) 269ff.

¹⁰⁰ Sykes (n 91), 645.

¹⁰¹ Aggarwal (n 2) 177.

¹⁰² Klopschinski, 'The WTOs DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPS' (n 36) 224.

¹⁰³ Sebastian and Sinclair (n 92).

¹⁰⁴ Sean Flynn, 'How the Leaked TPP ISDS Chapter Threatens Intellectual Property Limitations and Exception' (*infojustice* 26 March 2015) <http://infojustice.org/archives/34189>.

¹⁰⁵ Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (n 21) 206.

benefits outweigh the potential costs.¹⁰⁶ And in the disputes brought, states are incentivized not to offer interpretations of the applicable rules that might limit their own regulatory freedom in the future.¹⁰⁷ Private investors do not have any such constraints.¹⁰⁸

A further concern regarding investment tribunals deciding IP issues relates to the fact that investment arbitrators may prioritize particular concerns (those of private investors) over others (those of states) in the balancing of IP interests.¹⁰⁹ Furthermore, a very real limitation results from the tribunals lacking in-depth expertise in IP law, WTO law, and the respective policy contexts.¹¹⁰ This could result in a distortion of the policy decisions taken in the IP framework in favor of private interests at the expense of public interests.¹¹¹

For example, in *Philip Morris v Uruguay*, the tribunal concluded that the trademarks at issue were property rights capable of being expropriated.¹¹² The tribunal reasoned that the ‘ownership of a trademark does, in certain circumstances, grant a right to use it,’¹¹³ but did not further explain these ‘certain circumstances.’¹¹⁴ The tribunal appeared to assume that an exclusive right includes a right to use and that this right must, in principle, be capable of expropriation.

¹⁰⁶ Aggarwal (n 2) 180.

¹⁰⁷ *ibid.*

¹⁰⁸ See also Christine H Farley, ‘Trips-Plus Trade and Investment Agreements: Why More May Be Less for Economic Development’ (2014) 35(4) *University of Pennsylvania Journal of International Law* 1061. Aggarwal (n 2) 180 Rochelle Dreyfuss, ‘Hedging Bets with BITS: The Impact of Investment Obligations on Intellectual Property Norms’ in Jonathan Griffiths and Tuomas Mylly (eds) *The Constitutional Transformation of Global IP Protection* (2019 forthcoming) 10-18.

¹⁰⁹ Valentina S Vadi, ‘Towards a New Dialectics: Pharmaceutical Patents, Public Health and Foreign Direct Investments’ (2015) 5(1) *Journal of Intellectual Property and Entertainment Law* 113, 137–144.

¹¹⁰ Grosse Ruse-Khan, ‘Challenging Compliance with International Intellectual Property Norms in Investor–state Dispute Settlement’ (n 19); Aggarwal (n 2) 178.

¹¹¹ Klopschinski, ‘The WTOs DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPS’ (n 36); Stephan W Schill, ‘Developing a Framework for the Legitimacy of International Arbitration’ in van den Berg, Albert Jan (ed), *Legitimacy: Myths, realities, challenges* (ICCA congress series vol 18. Kluwer Law International 2015). See also Aggarwal (n 2) 178.

¹¹² *Philip Morris v Uruguay* (n 14) para 274.

¹¹³ *Philip Morris v Uruguay* (n 14) para 267.

¹¹⁴ For an elaborate rejection of this view under the Paris Convention and TRIPS Agreement see Mark Davidson, ‘The Legitimacy of Plain Packaging under International Intellectual Property Law: Why there is No Right to Use a Trademark under either the Paris Convention or the TRIPS Agreement’ in Tania Voon and others (eds), *Public Health and Plain Packaging of Cigarettes: Legal Issues* (Edward Elgar 2012).

However, as noted above, this represents a misunderstanding of IPRs: any right to use a trademark is firstly subject to the relevant regulation in that state. Because IPRs are to some degree contingent rights only, meaning that ‘whether a claimant is a rightful owner, has complied with national eligibility standards for protection, whether there are any applicable subject-matter limits or supervening policy considerations, or whether a granting agency has appropriately granted (or denied) such rights are always subject to question before national courts.’¹¹⁵

The WTO panel in *EC – Trademarks* correctly points out that TRIPS ‘inherently grants Members freedom to pursue legitimate public policy objectives since many measures to attain the public policy objectives lie outside the scope of intellectual property and do not require an exception under the TRIPS Agreement.’¹¹⁶ Confirming this view in a detailed discussion of plain packaging regulations in Australia, the WTO panel held that Article 16.1 TRIPS does not establish a right to use but only provides for a right to prevent certain activities by unauthorized third parties.¹¹⁷ All of this must be read against the background of Articles 7 and 8 of the TRIPS Agreement, as stated above.¹¹⁸ Additionally, neither the Paris Convention nor the TRIPS

¹¹⁵ Okediji (n 89) 1126.

¹¹⁶ *EC- Protection of Trademarks* Appellate Body Report, *WT/DS176/AB/R* (1 February 2002) 7.246. See also Advocate General of the European Court of Justice in the dispute on the validity on the Tobacco Products Directive emphasizing that ‘the essential substance of a trademark right does not consist in an entitlement as against the authorities to use a trademark unimpeded by provisions of public law. On the contrary, a trademark right is essentially a right enforceable against other individuals if they infringe the use made by the holder’ Case C-491/01, *The Queen v Secretary of State for Health, ex parte British American Tobacco Ltd and Imperial Tobacco Ltd*, 2002 ECR I-11453, Opinion of Advocate General Geelhoed para 266. But see the counter argument in e.g. Expert Report of Professor Christopher Gibson para 76 http://www.tobaccocontrol.org/files/uruguay/expert_reports_witness_exhibits/CWS-023%20Gibson.pdf. See the discussion in *Philip Morris v Uruguay* (n 14) paras 255-271.

¹¹⁷ *WT/DS435/R, WT/DS441/R, WT/DS458/R, WT/DS467/R* of 28 June 2018 on Australia – Certain Measures Concerning Trademarks, Geographical Indications and other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, paras 7.1970-71.

¹¹⁸ See also Ernst-Ulrich Petersmann, ‘How to Reconcile Health Law and Economic Law with Human Rights? Administration of Justice in Tobacco Control Disputes’ (2015) 10 *Asian Journal of WTO & International Health Law & Policy* 27-78, 57-58.

Agreement infringe upon the sovereign rights of a state to limit the use of trademarks on noneconomic grounds, especially with respect to the protection of human life and health.¹¹⁹

ISDS tribunals might not be sensitive to the public policy goals inherent in the international IP law framework. The international IP system is based on allowing the ‘tailoring [of] national IP systems to the domestic socio-economic environment and to adapt to dynamic developments in technology and how IP protected subject matter is used in a society.’¹²⁰ Hence, the private enforcement of IP claims can have a significant effect on the political economy of cross-border IP litigation.¹²¹

Another implication of litigating IP disputes in ISDS is the shifting of the burden of proof in situations where a state invokes safeguard clauses. For example, under the WTO dispute settlement system, the complaining WTO member must show an infringement of one (or more) obligations under Article 31 TRIPS (regarding compulsory licenses, for example). In ISDS it would be the host state as respondent that has to show that a compulsory license is in accordance with the TRIPS Agreement or an IP chapter.¹²²

Another aspect of potential disputes arising out of the issuance of compulsory licenses deserves attention. Consider, for example, the issue of whether the issuance of a compulsory license constitutes an (indirect) expropriation. Most recent IIAs tend to include specific wording

¹¹⁹ See Appellate Body Report, *European Communities - Measures Affecting Asbestos and Asbestos-Containing Products*, 172, WT/DS135/AB/R (5 April 2001). See further Petersmann (n 118), 58. Discussing Australia’s plain packaging regulations and investment law see Tania Voon and Andrew D Mitchell, ‘Implications of International Investment Law for Plain Tobacco Packaging: Lessons from the Hong Kong–Australia BIT’ in Tania Voon and others (eds), *Public Health and Plain Packaging of Cigarettes: Legal Issues* (Edward Elgar 2012); Andrew D Mitchell and Tania Voon, ‘Time to quit? Assessing International Investment Claims Against Plain Tobacco Packaging in Australia’ (2011) 14 *Journal of International Economic Law* 515. On the relationship between TRIPS and BITs see Gabriel M Lentner and Sheila E Proaño, ‘ADPIC y los Tratados Bilaterales de Inversión: la necesidad de encontrar una armonía en su aplicación’ (2016) 17 *Iuris Dicto* 51 <https://www.usfq.edu.ec/publicaciones/iurisDictio/Documents/iurisdictio_017.pdf>.

¹²⁰ Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (n 21) 207.

¹²¹ *ibid.*

¹²² *ibid* 204–205.

addressing this issue. For example, the 2012 US Model BIT (along with the 2004 US Model BIT) clarifies in its Article 6(5) 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.’¹²³

However, such clarification should not be necessary. It clearly follows from the nature of patent rights that a compulsory license does not eliminate the possibility of the economic exploitation of the patent, particularly because the measure lacks a permanent character.¹²⁴ For these reasons, the European Parliament, when discussing future EU investment policy, 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.’¹²⁵ India’s new Model BIT goes even further and excludes the application of investment protection regarding ‘the issuance of compulsory licenses granted in relation to intellectual property rights, or to the revocation, limitation or creation of intellectual property rights, to the extent that such issuance, revocation, limitation or creation is consistent with the Law of the Host State’.¹²⁶

This result also makes sense in light of the justification for patent protection. A compulsory license is issued during health crises and emergencies and thus clearly serves concrete social welfare goals.¹²⁷ With the very foundation of patent protection being the promotion of social

¹²³ See further on this Fina and Lentner (n 70) 296–300 with further references.

¹²⁴ Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 19) 441.

¹²⁵ 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.

¹²⁶ See Model Text for the Indian Bilateral Investment Treaty, Art. 2.6(v) https://www.mygov.in/sites/default/files/master_image/Model%20Text%20for%20the%20Indian%20Bilateral%20Investment%20Treaty.pdf.

¹²⁷ For an example of the weighing of public interest considerations in the issuance of a compulsory license see the recent decision of the German High Court in Civil Matters (BGH), BGH, Urt. V. 11.7.2017 – X ZB 2/17 (BPatG).

welfare, considering such measures an indirect expropriation exposes the inherent contradiction between IP norms and international investment law.¹²⁸

Most fundamentally, as aptly put by Dreyfuss and Frankel, conventional IP law uses certain yardsticks to be actionable. For example, in trademark law, the infringement must impair the power to identify the source; in patent and copyright law, the infringement must impair the incentive to innovate. However, in international investment law, no such equivalent yardstick exists for the determination of what constitutes an expropriation.¹²⁹

To be sure, if an expropriation is permissible on social policy or emergency grounds, the patent holder still deserves compensation. The level of compensation, under an incentive-based rationale, is calculated to induce investment in innovation and deter infringement, and not, as under the logic of international investment law, to compensate for all profits that could have been earned otherwise.¹³⁰ Adopting the latter view regarding compensation would significantly impact states' power to govern their national innovation policy.¹³¹

In the context of IP, the implicit assumption that strong rights protection generally benefits the host state may no longer hold. IP protection for foreign IPR holders may actually limit 'the flow of resources and other investments to host countries, thus curtailing the benefits that ordinarily flow from traditional forms of foreign investment.'¹³² Certain companies may gain increased market power by exercising their IPRs, thus harming competition and raising the entry

¹²⁸ See also Rochelle Dreyfuss and Susy Frankel, 'From Incentive to Commodity to Asset: How International Law is Reconceptualizing Intellectual Property' (2014) 478 *New York University Public Law and Legal Theory Working Papers*, 572 (also referring to Justice Brandeis' opinion concerning the invalidation of the trademark Shredded Wheat, who stated that the \$ 17,000,000 put into creating the trademark is 'without legal significance'. See *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 119 (1938)).

¹²⁹ Dreyfuss and Frankel, 'From Incentive to Commodity to Asset: How International Law is Reconceptualizing Intellectual Property' (n 73) 572.

¹³⁰ *ibid* 592.

¹³¹ Okediji (n 89) 1122.

¹³² *ibid* 1127.

barriers for smaller foreign firms.¹³³ In other words, ‘one foreign firm’s intellectual property “investment” may be another foreign firm’s reason for divesting from the same host country.’¹³⁴ The point is that – using the example of *Eli Lilly v Canada*, where the invalidation of two patents owned by Eli Lilly based on the so-called utility doctrine was claimed to amount to an indirect expropriation – some foreign investors (such as foreign generic pharmaceutical companies) might have benefitted from the state measure that one investor challenges in ISDS.¹³⁵

Overall, the international IP system balances ‘incentives for innovation, investment in quality, and creativity against access and in some instances disclosure.’¹³⁶ IPRs are ‘creatures of legislative and judicial balancing.’¹³⁷ They are granted and modified ‘according to changing social circumstances and emergent technologies.’¹³⁸ This is why it would be ‘naïve at best and duplicitous at worst’ to view them through the lens of international investment law and see them as providing a stable, durable set of entitlements.¹³⁹ In the context of patents, for instance, IP ‘rights’ are in fact grants of privileges that may be taken away when such privilege is in conflict with other important objectives.¹⁴⁰ This point is particularly important for those who view IP as just another type of property. Without recognizing this broader normative context informing patent and innovation policies, patent revocation fully justifiable under domestic laws may look like an expropriation.¹⁴¹

¹³³ *ibid* 1127.

¹³⁴ *ibid* 1122.

¹³⁵ *ibid*.

¹³⁶ Baker and Geddes (n 6) 57.

¹³⁷ *ibid*.

¹³⁸ *ibid*.

¹³⁹ *ibid*.

¹⁴⁰ Sell, *Private power, public law* (n 29) 146.

¹⁴¹ Gervais (n 86) 486.

3. Towards Reconciling the Different Regimes

In light of the foregoing analysis, I propose the following. First, as mentioned, a broad concept of conflict of norms should be adopted in the relationship of IP and investment chapters/TRIPS. Only when the issue clearly falls outside the IP chapter or the TRIPS Agreement should an investment tribunal assume jurisdiction. Should an investment tribunal assume jurisdiction, it should be mindful of Article 31(3)(c) VCLT and that it is applying a form of ‘foreign law’ so that IP issues are treated as a matter of fact (rather than law).¹⁴² Otherwise, the tribunal should consider staying its proceedings and waiting for a final decision from the other dispute settlement system, where the case might also be pending (as in the plain packaging cases in Australia). This would allow the investment tribunal to take into consideration the determination of those decision-makers that specifically deal with such matters.¹⁴³

Some suggest that investment chapters in future treaties should explicitly exclude IPRs from their scope of application.¹⁴⁴ Future treaties should also clarify that IPRs ‘are not even indirectly protected by the definition of “investment”’.¹⁴⁵ This is important to ensure that ISDS tribunals would not have the jurisdiction to review state measures regarding IPRs that fall within the regulatory space granted by IP treaties and chapters.

¹⁴² Grosse Ruse-Khan, *Protection of Intellectual Property in International Law* (n 21) 208–209.

¹⁴³ *ibid.*

¹⁴⁴ Baker and Geddes (n 6) 58.

¹⁴⁵ *ibid.*

IV. Conclusion

The existing cases where IP disputes were brought before investment tribunals illustrate the range of issues at stake. They involve public health and national innovation policy questions with implications for access to medicines and market competition. It is therefore imperative to recognize the inherently different and multilayered legal framework concerning IPRs. It is equally important to be sensitive to the legitimate policy goals provided for under TRIPS and other applicable IP chapters and norms. IP regulation needs a balanced approach that takes into account the public interest objectives of IPRs. The international IP regime pursues the ultimate goals of technological development, intellectual progress, and increasing sophisticated production, whereas the core interest in any investment agreement is the protection of foreign investors' tangible and intangible assets. To strike the correct balance, international investment tribunals must recognize these differences and consider the IP chapters, the TRIPS Agreement, and their respective dispute settlement procedures in their decisions on jurisdiction.