Investor-State Dispute Settlement Mechanism and Intellectual Property Matters

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The proposed IP and Investment Chapters in the Trans-Pacific Partnership Agreement (TPP) and the recent North American Free Trade Agreement (NAFTA) investor dispute notifications by Eli Lilly against Canada has initiated the discussion concerning the impact of introducing Intellectual Property Rights (IPR) in the purview of investment chapters of trade agreements. These provisions protect the investor’s right to initiate dispute settlement proceedings against the foreign government under the international law by reasoning that the new law harms their present and future profits. However, on the other hand, it also undermines the ability of the national government to introduce domestic laws for the well being of its citizens, lest they be deemed as discriminatory by the foreign investors. In this paper, the effect of treating IP as an investment in the trade agreements and utilization of ISDS to resolve IP matters by way of analyzing the IPR cases will be examined that have been brought before the courts by the foreign investors in various countries.

Keywords: Investor state dispute settlement, intellectual property rights, trademark, patents, international law, bi-lateral agreements

Relevance of ISDS in IP Matters

With more and more trade being centered on the intellectual property, there has been increased inclusion of IPR related provisions and coverage in trade agreements between nations. The common clauses for protection of IP include fair and equitable treatment/ international standards, prohibition on performance requirements and investor-state dispute settlement. One of the earlier successful trade agreements that strengthened the protection of IP was NAFTA. NAFTA’s IP provisions created the highest standard of protection and enforcement of IP. The agreement provided companies wishing to work in Canada, Mexico and USA with a means not only to protect their IP but also with better laws for doing business in general. Therefore, earlier the agreements tried to protect IP and stressed on providing national treatment to the citizens of member state. In earlier agreements, IP was not considered as an investment per se, however, the leaked investment chapter of TPP explicitly includes intellectual property in its definition of investment.

The definition of investment in the proposed TPP Investment chapter provides that “investment means 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. Forms that an investment may take include- (g) intellectual property rights [which are conferred pursuant to domestic laws of each Party].” Further, Article 12.6.1 of the Draft TPP Investment Chapter requires that, as a minimum standard of treatment, “Each Party shall accord to cover investments treatment in accordance with customary international law, including fair and equitable treatment and full protection and security”. Subparagraph 2(a) interprets “fair and equitable treatment” to include “the obligation not to deny justice in criminal, civil, or administrative adjudicatory proceedings in accordance with the principle of due process embodied in the principal legal systems of the world”. The most elastic interpretations of this requirement suggests that the minimum standard of treatment protects all “reasonable expectations” for profits arising from the granting or even filing of IP claims of an investor even in the absence of direct representations.

Like in earlier trade agreements, in case of dispute, TPP also provides for resolution by approaching the Investor State Dispute Settlement (ISDS). ISDS confers a right to an investor to initiate dispute settlement proceedings against a foreign government in their own right under international law, if the foreign government violates his rights as per the

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agreement entered between two states. While ISDS has been evoked by investors for various disputes, its use for resolving IP matters is most recent.

Some of the cases where ISDS was evoked by the multi-national companies against the government for protecting their IPR are mentioned below:

**Philip Morris Cases in Australia and Uruguay**

Objecting to the “single presentation ordinance” and “80% health warning requirement” issued by the government of Uruguay and implementation of advertising restrictions by Australia for tobacco products, Philip Morris initiated arbitration proceedings against the government of Uruguay and Australia in the year 2010 and 2011 respectively. The company argued that these laws violate multiple provisions of the Uruguay-Switzerland Bilateral Investment Treaty and of the Australia-Hong Kong Bilateral Investment Treaty which provides protection for investments made in these countries, including brands, intellectual property, and ongoing business enterprises.

In Uruguay, PMI argues that introduction of “Single Presentation” Ordinance regulation, restricts competition to the detriment of foreign investors as it prohibits sales of more than one variation of cigarettes under a single brand name. Also, the introduction of 80% Health Warning Requirement violates Uruguay’s BIT agreement because it leaves virtually no space on the pack for the display of legally protected trademarks. PMI claims that these measures go beyond the tobacco regulations enacted in virtually every country and have not been shown to reduce smoking rates. Instead these restrictions could further promote the proliferation of black market cigarettes, which in 2009 amounted to nearly one in four of all tobacco products consumed in Uruguay.

In Australia, PMA argues that tobacco plain packaging measure constitutes an expropriation of its Australian investments in breach of Article 6 of the Hong Kong Agreement. The measure also breaches Australian government’s commitment under Article 2(2) of the Hong Kong Agreement to accord fair and equitable treatment to Philip Morris Asia’s investments. Philip Morris Asia further asserts that tobacco plain packaging constitutes an unreasonable and discriminatory measure and that Philip Morris Asia’s investments have been deprived of full protection and security in breach of Article 2(2) of the Hong Kong Agreement. As part of relief, PMA has asked the arbitration panel to suspend the law and award substantial compensation for the financial damage that plain packaging would cause by commoditizing the cigarette market in Australia.

Commenting on these cases, Philip Morris said: “The two regulations which are challenged in Uruguay, and the one challenged in Australia, arbitrarily and unjustifiably restrict legitimate businesses from using their brands and trademarks to sell their products. Building a brand is a long-term significant investment which these governments have severely damaged, despite their pledge under binding international treaties not to deprive investors of their property without fair compensation in return.”

As a consequence of arbitration proceedings, in April 2011, the Australian Government formally declared that it would reject ISDS provisions in all its subsequent FTAs. This stance arises from globally trending cases, which attempt to “limit [states’] capacity to put health warnings or plain packaging requirements on tobacco products”. The implications of this latter action demonstrate the invasive power of arbitration tribunals and their capacity to undermine domestic law.

Upholding the plain packaging law imposed by the Australian government, the tribunal in the arbitration, based in Singapore, has issued a unanimous decision agreeing with Australia’s position that it has no jurisdiction to hear Philip Morris’s claim on 18 December 2015. Even though it is a first case wherein a country was successfully able to defend its ordinance in an ISDS case, this case has a very little relevance as the outcome of this case entirely hinged on a procedural issue rather than on the merits of the case.

Philip Morris case adds to the list of cases brought about by the tobacco companies by making use of ISDS procedure “as an effective way to frame plain packaging as a legal issue divorced from health concerns”. If PM wins any of these cases, it would mean that in order to protect the IP of a foreign investor, a country has to modify or withhold its public health policy so that the rights of investor are safeguarded under the treaty, thus, complicate the emergence of any legislation or other reforms for public health. In a recent notice of arbitration from P.J. Reynolds against Canada, the company pointed to “illegal expropriation of a legally protected trademark” which is progressively a common protective term interpreted under ISDS provisions.

**Eli Lily v Canada**

Faced by back to back invalidation of two of its pharmaceutical patents for Strattera and Zyprexa,
Impact of Introduction of ISDS in IP Matters

"Investor-state dispute settlement" (ISDS) proceedings began as limited exceptions to the general rule of state-to-state enforcement. ISDS regimes evolved from a customary international law right to compensation for the expropriation of property through nationalizations of foreign assets. Inclusion of ISDS provisions in BITs and FTAs is important when dealing with developing countries where local courts and substantive rights may not meet widely accepted global standards. ISDS mechanisms can allow foreign claimants wronged under the agreement to take their claim directly to the international investment tribunal forum provided by the treaty, therefore avoiding the local, cumbersome, and often corrupt remedies of domestic courts.

However, the opponents of provision argue that ISDS is fundamentally flawed and violates the principle of “equality before law”. It gives foreign investors the right to sue governments for compensation if laws, policies, court decisions or other actions interfere with expected profits from investments, even if these government actions are in accordance with the public interest. This could lead to companies suing governments for using TRIPS flexibilities to promote access to medicines.

The Eli lily case serves as a case study to examine the effects of treating intellectual property as “investment”. The inclusion of IP as investment will provide a leeway to the big companies to enforce ISDS in cases wherein they feel that the country’s law does not cater to their interest as reflected in the treaty. The inventors can make use of the loopholes provided in the treaty to create pressure on the government to change or modify their IP law.

TRIPS Agreement which deals with trade related aspects of IP, itself incorporates certain "flexibilities" which aims to permit countries to use TRIPS-compatible norms in a manner that enable them to pursue their own public policies, either in specific fields like access to pharmaceutical products or protection of their biodiversity, or more generally, in establishing macroeconomic, institutional conditions that support economic development even in the face of ever-increasing transnational obligations. Therefore, inclusion of IP in investment context poses a serious threat to country’s law making power by providing the opportunity to the foreign investor to object the laws that have been domestic public interest if it does not suit their requirements.

The Philip Morris cases highlight the conflict between IP law and public health. The two cases highlight how introduction of ISDS could affect the implementation of public health policy. If PM wins any of these cases, it would mean that in order to
refused EU demands on investor-state dispute settlement (ISDS) and intellectual property rights provisions. Canada requested that arbitration procedures in certain intellectual property (IP) areas be excluded from the scope of the ISDS mechanism in CETA.13

**Conclusion**

ISDS was introduced to confer a right to an investor to initiate dispute settlement proceedings against a foreign government in their own right under international law if the foreign government violates his rights as per the agreement entered between two states and not as a mechanism to prohibit the government of the host country to make laws in public interest. The inclusion of intellectual property investment under the purview of ISDS realm threatens to put country’s law making capabilities at the whim and fancy of the foreign investors. It would grant more privilege to the foreign investors to question and refute the national laws created by the host country if they are not as per their requirement. The inclusion also poses serious threat to countries commitment under international declarations such as DOHA declaration, regarding providing access to affordable medicine. The provision also seems to override the flexibility in TRIPS agreement that allow countries to pursue their own public policies even in the face of ever-increasing transnational obligations. Therefore, unless the provisions of the trade agreement clearly excludes certain types of decision on IP in the scope of what can be considered as “expropriation” implementing ISDS in IP matters will not be a wise choice.

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