Reconceptualizing ISDS: When is IP an Investment and How Much Can States Regulate It?

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Trade and Investment Agreements:
What Safeguards for its
Social Function?
The Enforcement of IP by the WTO Panel: Comparative Views

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- Philip Morris v. Australia: dismissed
  - no jurisdiction
  - attempt to use Hong Kong BIT an abuse

- Philip Morris v. Uruguay: Uruguay won
  - no substantial deprivation of TM value
  - police powers permit regulation for health
  - regulations related to health, so no denial of FET or justice

- Eli Lilly & Co. v. Canada: Canada won
  - facts did not support allegations

- Bridgestone-Firestone v. Panama: Pending
  - jurisdictional issue decided in favor of Bridgestone-Firestone

How ISDS reduces flexibilities, relative to WTO adjudication, to protect fundamental values

1. Framing of the cases
2. Incentives of the investors
3. Incentives of the tribunals
4. Resolution
5. Strategies presented

► How should ISDS change?

1. Framing

Lilly & Co. v. Canada

Claim: “promise utility doctrine” requires applicant to prove every promise of utility made in the patent as of the filing date

- requirement changed suddenly, after NAFTA went into effect

TRIPS, art. 27
Patentable Subject Matter

1. Subject to the provisions of paragraphs 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.[5]

[5] For the purposes of this Article, the terms "inventive step" and "capable of industrial application" may be deemed by a Member to be synonymous with the terms "non-obvious" and "useful" respectively.

North American Free Trade Agreement

Article 1105: Minimum Standard of Treatment

1. Each Party shall accord to investments of investors of another Party treatment in accordance with international law, including fair and equitable treatment and full protection and security.

Article 1110: Expropriation and Compensation

1. No Party may directly or indirectly nationalize or expropriate an investment of an investor of another Party in its territory or take a measure tantamount to nationalization or expropriation of such an investment ("expropriation"), except:

(a) for a public purpose;
(b) on a non-discriminatory basis;
(c) in accordance with due process of law and Article 1105(1); and
(d) on payment of compensation in accordance with paragraphs 2 through 6.

7. This Article does not apply to 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 Chapter Seventeen (Intellectual Property).

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- *Would WTO find a violation if the same goals were pursued in different ways, both of which are TRIPS compatible?*

2. Parties' Incentives

3. Arbitrators' Incentives

Joost Pauwelyn, The Rule of Law without the Rule of Lawyers? Why Investment Arbitrators are from Mars and Trade Adjudicators from Venus, 109 Am. J. Int'l L. 761 (2015)

TABLE 1: *WTO Panelists Are From Mars, ICSID Arbitrators Are From Venus*

	WTO PANELISTS	**ICSID ARBITRATORS**
1. Nationality	> 50% developing country	68% W. Europe/N. America
2. Background	80% governmental service	76% private practice
3. Legal Expertise	45% non-lawyers	99.6% lawyers
4. Diversity	"Relatively High" 2.4 repetition rate 47.4% once-appointed only Top 10= 15.5% of appoint. Winner (Cartland, HK): 2% Women = 15 %	"Low" 3.5 repetition rate 56% once-appointed only Top 10= 20% of appoint. Winner (Stern, Fr.): 2.9% Women = 7 %
5. Status	Low-key technocrats	Star arbitrators
6. Ideology	Homogeneous	Polarized

Lilly & Co. v. Canada

221. First, the judiciary is an organ of the State. Judicial acts will therefore in principle be attributable to the State by reference to uncontroversial principles of attribution under the law of State responsibility. As a matter of broad proposition, therefore, it is possible to contemplate circumstances in which a judicial act (or omission) may engage questions of expropriation. . . such as, perhaps, in circumstances in which a judicial decision crystallizes a taking . . .

This said, the Tribunal emphasizes the point that a NAFTA Chapter Eleven tribunal is not an appellate tier in respect of the decisions of national judiciaries.

Lilly & Co. v. Canada

223. [I]t is evident that there are distinctions to be made between conduct that may amount to a denial (or gross denial) of justice and other conduct that may also be sufficiently egregious and shocking, such as manifest arbitrariness or blatant unfairness. It is also apparent, in the Tribunal's view, that concepts of manifest arbitrariness and blatant unfairness are capable, as a matter of hypothesis, of attaching to the conduct or decisions of courts. It follows, in the Tribunal's view, that a claimed breach of the customary international law minimum standard of treatment requirement of NAFTA Article 1105(1) may be properly a basis for a claim under NAFTA Article 1105 notwithstanding that it is not cast in denial of justice terms.

Lilly & Co. v. Canada

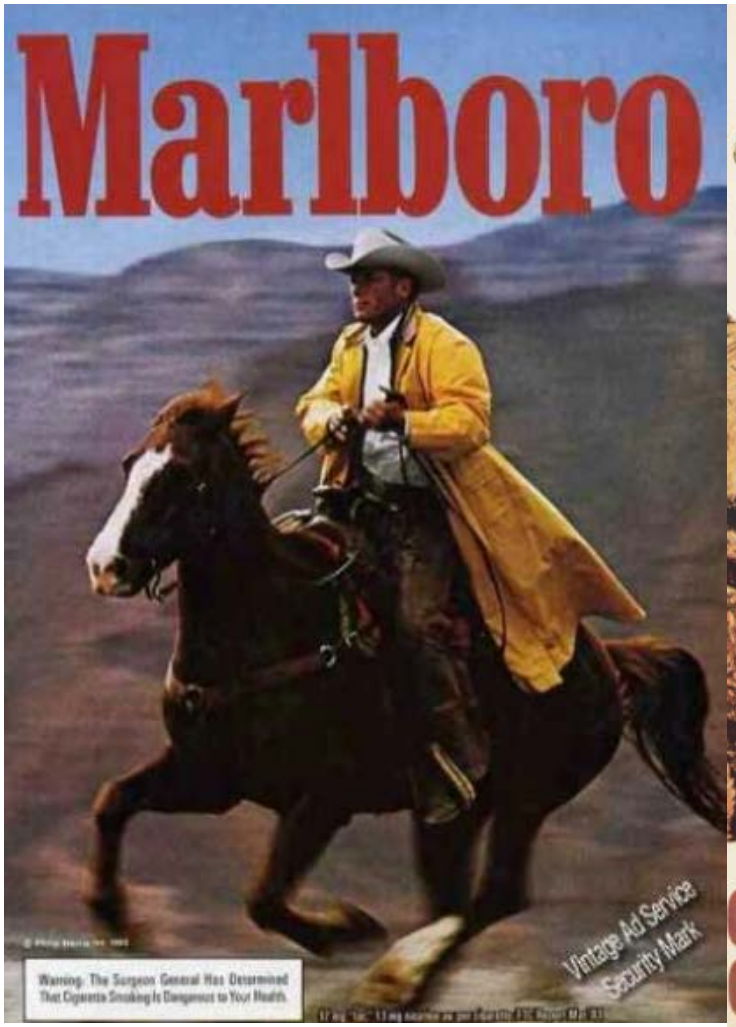
350. This process has of course involved some elements of change, but based on the record, that change is more incremental and evolutionary than dramatic.

4. Resolution

Eli Lilly & Co. v. Canada

442 As a consequence …the Tribunal concludes that Claimant has failed to establish the factual premise of its claims. Specifically, the Tribunal holds that, based on the record of this case, the challenged measures—the invalidation of the Zyprexa and Strattera Patents through application of the legal rules that Claimant refers to as the promise utility doctrine— cannot form the basis of an expropriation claim under NAFTA Article 1110 or a claim for a violation of the minimum standard of treatment under NAFTA Article 1105. The Tribunal also finds that there was not an arbitrary or discriminatory measure in violation of NAFTA Article 1110 or NAFTA Article 1105. The Tribunal must dismiss Claimant's claims without further inquiry.

Philip Morris

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A TUS HIJOS
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Philip Morris v. Uruguay

Agreement Between the Swiss Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments

Article 3 Protection and treatment of investments

(1) Each Contracting Party shall protect within its territory investments made in accordance with its legislation by investors of the other Contracting Party and shall not impair by unreasonable or discriminatory measures the management, maintenance, use, enjoyment, extension, sale and, should it so happen, liquidation of such investments. In particular, each Contracting Party shall issue the necessary authorizations mentioned in Article 2, paragraph (2) of this Agreement

(2) Each Contracting Party shall ensure fair and equitable treatment within its territory of the investments of the investors of the other Contracting Party. This treatment shall not be less favourable than that granted by each Contracting Party to investments made within its territory by its own investors, or than that granted by each Contracting Party to the investments made within its territory by investors of the most favoured nation, if this latter treatment is more favourable.

TRIPS Agreement, art. 16

1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.

TRIPS Agreement, art. 20

The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trademark, use in a special form or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings.

Philip Morris v. Uruguay

273 Trademarks being property, their use by the registered owner is protected. As intellectual property assets, trademarks are "inherently associated with trade for they imply a situation of intermediation between producers and consumers." It must be assumed that trademarks have been registered to be put to use, even if a trademark registration may sometime only serve the purpose of excluding third parties from its use.

274 . . . Tribunal concludes that the Claimants had property rights regarding their trademarks capable of being expropriated. It must now examine whether the Challenged Measures had an expropriatory character with regard to the Claimants' investment.

- *Would an ISDS tribunal have regarded itself bound by a prior DSU decision?*
- *Would the diminution in value argument be available in the WTO?*

WHO FRAMEWORK CONVENTION ON TOBACCO CONTROL

FCTC
WHO FRAMEWORK CONVENTION ON TOBACCO CONTROL

Article 11
Packaging and labelling of tobacco products

1. Each Party shall, within a period of three years after entry into force of this Convention for that Party, adopt and implement, in accordance with its national law, effective measures to ensure that:

(a) tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics, health effects, hazards or emissions, including any term, descriptor, trademark, figurative or any other sign that directly or indirectly creates the false impression that a particular tobacco product is less harmful than other tobacco products. These may include terms such as "low tar", "light", "ultra-light", or "mild"; and

(b) each unit packet and package of tobacco products and any outside packaging and labelling of such products also carry health warnings describing the harmful effects of tobacco use, and may include other appropriate messages. These warnings and messages:

Risk Factors & Nutrition
- Tobacco Control
- Road Safety
- Nutrition
  - Salt Reduction
  - Breastfeeding
  - Obesity Prevention
  - Undernutrition Prevention
- REGULA Initiative

W: Warn about the dangers of tobacco

The tobacco pack is a critical advertising vehicle for tobacco companies. It is referred to as a "badge" product because of its close identification with the image of the smoker. Brands can convey sophistication, toughness, rebelliousness, femininity or masculinity, and a whole host of other images. These images are particularly important to adolescent smokers, who are still trying to establish their identity.

Conversely, tobacco packages can be used to discourage tobacco use, through package health warnings or through plain packaging.

Contrary to popular opinion, many smokers are not aware of the risks of tobacco use. They may know that tobacco "is bad for them," but few realize the magnitude of risk relative to other behaviors (like eating junk food, for example), or their likelihood of dying from a tobacco-caused disease (half of all smokers die from smoking). Few smokers can name specific diseases, other than lung cancer, caused by smoking.

Experience in Brazil, Canada and other countries shows that strong health warnings on tobacco packages — particularly warnings with images — can be an important source of information for young smokers, and that warnings increase smokers' knowledge of risk and their motivation to try to quit smoking.

For more information and images on package health warnings in the Americas and the world, please visit our packaging and labeling page.

Last Updated on Friday, 23 September 2016 09:41

Philip Morris v. Uruguay

304 . . .Articles 8 and 9 of the Law set forth rules in fulfillment of the obligations undertaken by Uruguay under Articles 11 and 13 of the FCTC. . . The FCTC is one of the international conventions to which Uruguay is a party guaranteeing the human rights to health; it is of particular relevance in the present case, being specifically concerned to regulate tobacco

control.

391. Both measures have been implemented by the State for the purpose of protecting public health. The connection between the objective pursued by the State and the utility of the two measures is recognized by the WHO and the PAHO Amicus Briefs, which contain a thorough analysis of the history of tobacco control and the measures adopted to that effect. The WHO submission concludes that "the Uruguayan measures in question are effective means of protecting public health." The PAHO submission holds that "Uruguay's tobacco control measures are a reasonable and responsible response to the deceptive advertising, marketing and promotion strategies employed by the tobacco industry, they are evidence based, and they have proven effective in reducing tobacco consumption.

Philip Morris v. Uruguay
Born dissent

129. Turning to an analysis of the single presentation requirement, I find it impossible to avoid a conclusion that the requirement is a violation of the fair and equitable treatment standard in Article 3(2). Instead, notwithstanding the deference that is due sovereign regulatory measures and judgments, I am convinced that the requirement does not bear a rational relationship to its stated legislative objective, yet it proportionately injures important investor rights.

159. . . . There is, however, no reason in either logic or empirical evidence to conclude that all of the myriad of different uses of trademarks that could be employed on tobacco products, apart from in a single presentation, are misleading and deceptive.

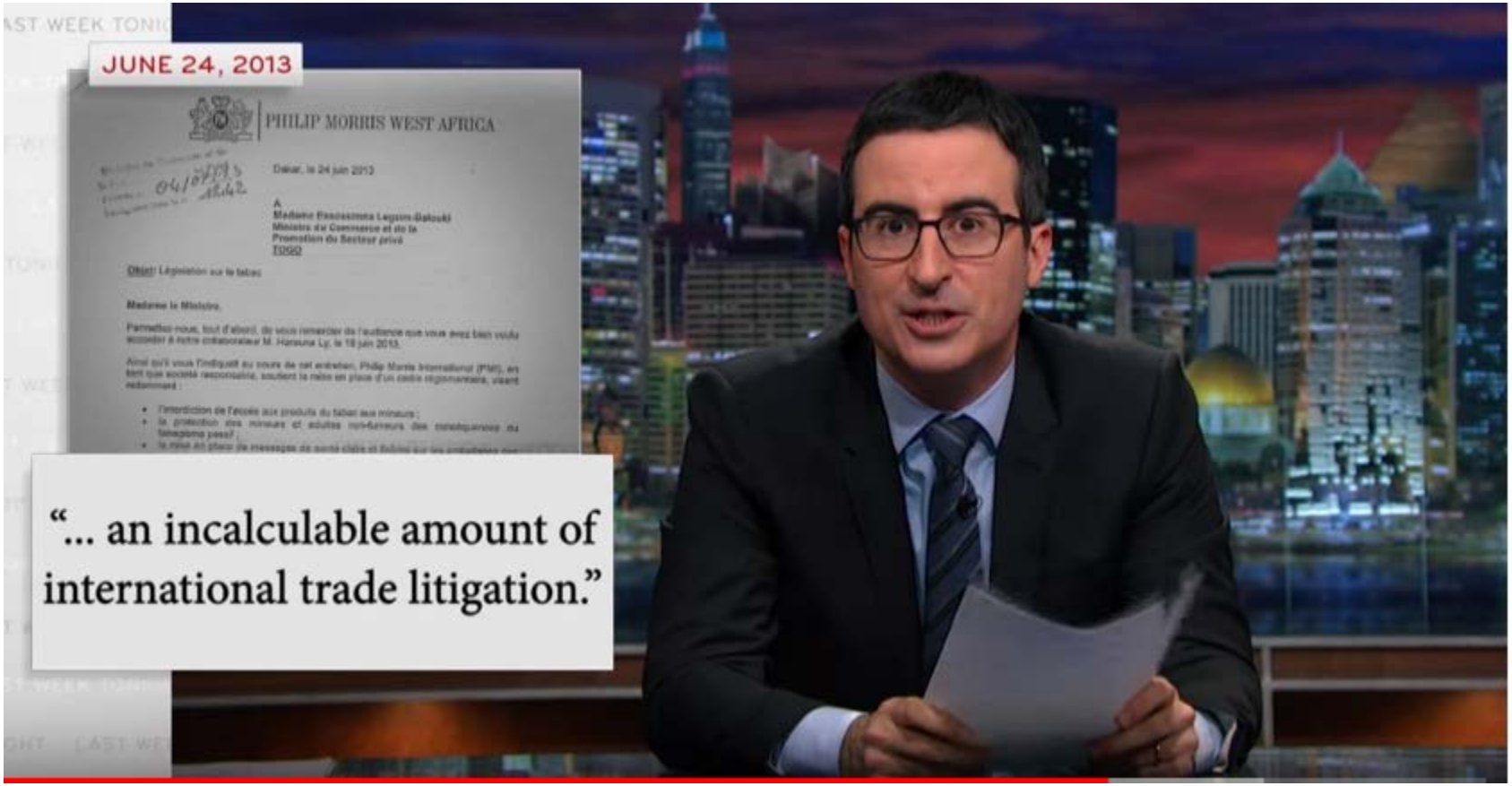
- *Query what kinds of deference the WTO woud accord, or the support tit would require?*

In sum…

1. Framed as an investment disputes, many grounds are created that would not be heard in the WTO
2. Private parties have incentives different from WTO member states
3. Panelists have the incentive to proliferate disputes
4. Resolutions do not depend on DSU determinations
5. ISDS awards, even if favorable to the state, can interpose new impediments to regulation

5. Strategic ammunition

Last Week Tonight


JUNE 24, 2013
PHILIP MORRIS WEST AFRICA
Dakar, le 24 juin 2013
A
Madame Francesmea Legzim-Balouki
Ministre d'e Commerce et de la
Promotion du Secteur privé
TOGO
Objet: Législation sur le tabac
Madame le Ministre,
"... an incalculable amount of international trade litigation."

The Attack on Australia

1. Action in the Australian Courts
   - *High Court decides the regulation is not a taking*

2. Philip Morris v. Australia (Hong Kong-Australia BIT)
   - *dismissed as an abuse of process*

3. Ukraine v. Australia (WTO DSU)
   - *suspended by Ukraine*

4. Cuba v. Australia (WTO DSU)

Where do we go from here?

Change investment law

e.g. EU-Canada Comprehensive Economic and Trade Agreement (CETA)

CETA, art 8.9 (1)-(2)

1. For the purpose of this Chapter, the Parties reaffirm their right to regulate within their territories to achieve legitimate policy objectives**,** such as the protection of public health, safety, the environment or public morals, social or consumer protection or the promotion and protection of cultural diversity.

2. For greater certainty, the mere fact that a Party regulates, including through a modification to its laws, in a manner which negatively affects an investment or interferes with an investor's expectations, including its expectations of profits, does not amount to a breach of an obligation under this Section.

CETA, Joint Declaration

Mindful that investor-State dispute settlement tribunals are meant to enforce the obligations referred to in Article 8.18.1 [on the scope of investment disputes] and 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

CETA, art. 8.27

Constitution of the Tribunal

2. The CETA Joint Committee shall, upon the entry into force of this Agreement, appoint fifteen Members of the Tribunal. Five of the Members of the Tribunal shall be nationals of a Member State of the European Union, five shall be nationals of Canada and five shall be nationals of third countries. . . .

CETA, art. 8.27

Constitution of the Tribunal

4. The Members of the Tribunal shall possess the qualifications required in their respective countries for appointment to judicial office, or be jurists of recognized competence. They shall have demonstrated expertise in public international law. It is desirable that they have expertise in particular, in international investment law, in international trade law and the resolution of disputes arising under international investment or international trade agreements.

1. Take the intangibility of IP into account in determining whether an in-state investment has been made

Bridgestone v. Panama

171. It seems to the Tribunal that the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country. The effect of registration of a trademark is negative. It prevents competitors from using that trademark on their products. It confers no benefit on the country where the registration takes place, nor, of itself, does it create any expectation of profit for the owner of the trademark. No doubt for these reasons the laws of most countries, including Panama, do not permit a trademark to remain on the register indefinitely if it is not being used.

Bridgestone v. Panama

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

Vienna Convention on the Law of Treaties, art. 31. *General Rule Of Interpretation*

3. There shall be taken into account, together with the context . . .

   (c) Any relevant rules of international law applicable in the relations between the parties.

TRIPS Agreement, art. 7, *Objectives*

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.

- *Right holders should not enjoy both the comparative advantage to import, which is furnished by the WTO and still consider themselves in-state investors*

2. Take the contingent nature of IP into account in awarding damages

Robert Howse, *International Investment Law and Arbitration: A Conceptual Framework*

https://www.iilj.org/wp-content/uploads/2017/04/Howse_IILJ_2017_1-MegaReg.pdf

For now it is important to recognize that solving the hold-up problem through investor protection creates moral hazard on the investor side. Where there is treaty-based investor protection with ISDS, an investor may feel freer to engage in activities that are harmful to the environment or other social interests, knowing that if the government responds by stricter regulation the investor has recourse to compensation, or can even forestall such stricter regulation or mitigate through the threat of an ISDS claim.

- *Reduce the parties' incentives to bring ISDS cases*

3. Expand the universe of “investors”

Reconceptualizing ISDS

- Draft new agreements carefully
  - but recognize that they may offer only partial solutions
- Require an analysis of when an IP right constitutes an investment in the state
  - consideration should be given to TRIPS objectives
- Relief should be limited to compensatory, rather than expectation, damages
- Recognise investments that arise from expectations regarding the absence of IP
  - recognize affirmative rights to protect fundamental values