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CPTPP's Investment Chapter and the Protection of Intellectual Property Rights by G.M. Lentner

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Gabriel M. Lentner[*]

Abstract

This article examines whether the Comprehensive and Progressive Agreement for Trans-Pacific Partnership's (CPTPP) investment chapter has the potential to protect Intellectual Property Rights (IPRs). Standards of investment protection generally included in International Investment Agreements (IIAs) may protect forms of Intellectual Property Rights (IPRs). Such arguments are generally formulated in abstract terms, since to date no (publicized) IPR-based claim succeeded in an investor-state dispute settlement (ISDS) procedure. Recognizing the high degree of uncertainty in this context, this article takes the existing case-law of investment tribunals into account and examines in detail the key protection standards as included in the CPTPP. 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 scholarly literature and existing decisions of investment tribunals.

Introduction

Intellectual Property (IP)-related investment disputes are not an entirely new phenomenon. In 1926, the Permanent Court of International Justice (PCIJ) had to deal with the expropriation of patents and licenses in the *Case Concerning Certain German Interests in Polish Upper Silesia.*[1] Fast-forward into the 21st century and it is not surprising that IP-related investment cases are increasing. For instance, 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.[2] 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.[3] Most prominently, *Philip Morris* turned to investment arbitration over tobacco regulation affecting the company's trademarks in two separate cases against Australia and Uruguay,

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[1] 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.

[2] *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.

[3] *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.

with awards rendered in 2015 and 2016 respectively.[4] 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.[5] And most recently, an investment tribunal is dealing with a trademark dispute initiated under the investment provisions of a US-Panama treaty.[6]

Beside these existing cases, reports suggest another dispute could arise under the US-Ecuador Bilateral Investment Treaty (BIT)[7] over the alleged infringement of pharmaceutical patents by domestic courts.[8] Potential cases could also involve the issuance of compulsory licences, the rejection of pharmaceutical patents, and the commission of widespread copyright violations by state-controlled entities.[9] It is therefore clear that IP-related cases are not ephemeral but will increasingly be part of the international investment arbitration landscape.[10]

The purpose of this article is thus to examine the implications of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership's (CPTPP) investment chapter for the protection of IPRs. Recent scholarship has demonstrated that standards of investment protection generally included in International Investment Agreements (IIAs) may protect forms of Intellectual Property Rights (IPRs).[11] Such arguments are generally formulated in abstract terms, since to date no (publicized) IPR-based claim succeeded in an investor-state dispute settlement procedure. Recognizing the high degree of uncertainty in this context, this article takes the existing case-law of investment tribunals into account and examines in detail the key protection standards as included in the CPTPP. 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 scholarly literature and existing decisions of investment tribunals. The article will not discuss the so-called tobacco carve-out provided for in Article 29.5 of the CPTPP, according to which a state may deny the benefits of the ISDS mechanism with respect to claims challenging tobacco control measures.

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4 *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).

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

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

7 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).

8 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.

9 See for these scenarios e.g. Chrocziel and others (n 3) 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); see also 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.

10 For other potential cases see Chrocziel and others (n 3) 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.

11 See e.g. Klopschinski (n 9); Henning Grosse Ruse-Khan, *The Protection of Intellectual Property in International Law* (Oxford University Press 2016); Lukas Vanhonnaeker, Intellectual Property Rights as Foreign Direct Investments (Edward Elgar 2015).

Relationship between the IP and Investment Chapter

The CPTPP contains both an investment chapter as well as a chapter on IP. Hence, it is important to analyze the relationship between the two as regards IP-related investment disputes. Before looking at the CPTPP, 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*[12] 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. 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.[13]

However, the tribunal did not discuss Canada's argument further and eventually rejected the investor's claim on the merits.[14]

In another case dealing with a trademark dispute, *Bridgestone v Panama*, the respondent state did not even raise this issue in its objection to jurisdiction.[15] In this case, the applicable treaty, the United States—Panama Trade Promotion Agreement (TPA) includes not only an investment chapter but also a chapter on intellectual property rights.[16] Since the dispute involves damages awarded arising out of a dispute over trademarks, it could be argued that the dispute is actually to be settled through the dispute settlement mechanism provided therein and not under the investment chapter: Chapter 20 (Dispute Settlement) of the TPA, provides in Article 20.2 that 'except as otherwise provided in this Agreement, the dispute settlement provisions of this Chapter shall apply [...]', providing for state-to-state dispute settlement. And the investment chapter itself stipulates in Article 10.2 that 'In the event of any inconsistency between this Chapter and another Chapter, the other Chapter shall prevail to the extent of the inconsistency.' On substance, the chapter on intellectual property rights specifically deals with trademarks (Article 15.2) and also sets out minimum standards for the enforcement of intellectual property rights (Article 15.11). Taken together, it is not far-fetched to conclude that the TPA, interpreted as a whole, provides that IP-disputes are to be settled under Chapter 20 and not under the investment chapter, thus depriving the investment

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[12] *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2.

[13] *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.

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

[15] *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).

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

tribunal of jurisdiction over this case.[17] Because Panama did not forward this line of argument, the tribunal did not address this jurisdictional issue.

Similar issues arise from the fact that IP-related issues are generally governed by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[18] For example, in *Philip Morris v Australia*,[19] the claimant brought the case under the Hong Kong-Australia BIT,[20] in which it also asserted breaches of WTO Agreements, such as the TRIPS Agreement, and the TBT Agreement[21].[22] These WTO Agreements all provide for exclusive jurisdiction to the respective dispute settlement bodies of the WTO under Art 23 of the Dispute Settlement Understanding (DSU).[23] The DSU prohibits the enforcement of WTO Agreements, such as the TRIPS Agreement outside the WTO system.[24] 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.'[25] Furthermore, the dispute at issue was about limitations on the use of trademarks in cigarette packaging.[26] 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, rather rejecting jurisdiction on the basis of the abuse of rights doctrine.[27]

From these cases it is difficult to deduce any particular conclusion, but arbitral tribunals appear to be reluctant to address this jurisdictional issue. In light of such hesitancy it seems unlikely that a jurisdictional challenge based on the primacy of IP Chapter dispute settlement mechanisms or the WTO's dispute settlement mechanism will succeed.

In the CPTPP, 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.'

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[17] 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 WTOs 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.

[18] Agreement on Trade-Related Aspects of Intellectual Property Rights (entered into force 1 January 1995).

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

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

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

[22] *Philip Morris Asia Limited v The Commonwealth of Australia*, UNCITRAL, PCA Case No 2012-12, Australia's Response to Notive of Arbitration (21 December 2011) Paras 33-35.

[23] 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.'

[24] Simon Klopschinski, 'The WTOs 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, 226–229.

[25] Ibid 229.

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

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

However, Article 18.5 of the IP Chapter provides under the heading 'Nature and Scope of Obligations' 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.

When read together, these provisions may result in some interpretive ambiguities. Particular questions arise as to whether the CPTPP's Investment Chapter 'provides for more extensive protection for, or enforcement of [IPRs].' In my view, investment protection under the CPTPP does not constitute 'more extensive protection' under Article 18.5 of the IP Chapter in the CPTPP. My primary rationale for taking this approach has to do with 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.' 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.

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

In consideration of all these factors, IP-related disputes fall into the scope of the investment chapter only under the condition that it fulfills the objective criteria of an 'investment' under the CPTPP and that the host state measure(s) are not governed by the provisions of the IP Chapter.

Definition of Investment Covering IP?

Most BITs expressly include IPRs in their definition of an investment.[28] The CPTPP, too, defines investment as

> 'every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include
>
> [...] (f) intellectual property rights'

This means that in order to be a covered investment under the CPTPP, IPRs must also have the characteristics of an investment (as in most other investment agreements)[29]. This was

[28] For an older survey see Rachel A Lavery, 'Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements' (2009) 6(2) Transnational Dispute Management 1; see also Kriebaum (n 1) 74.

[29] 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.

extensively discussed in *Bridgestone v Panama*.[30] Here the applicable BIT, the US-Panama TPA[31] also includes the reference to the 'characteristics' of an investment, giving the examples of these as, commitment of capital or other resources, the expectation of gain or profit, the assumption of risk.[32] In response to the arguments presented in that case, the tribunal made clear that 'there is no inflexible requirement for the presence of *all* these characteristics [including a reasonable duration and a contribution to the host State's development] but that an investment will normally evidence most of them.'[33] Then it stated that when 'the trademark is promoted, the promotion involves the commitment of resources over a significant period, the expectation of profit and the assumption of the risk that the particular features of the product may not prove sufficiently attractive to enable it to win or maintain market share in the face of competition.'[34] In this case the tribunal makes a distinction between a trademark that is merely registered, which does not fulfil these requirements, and a trademark that is exploited, which it considers as covered investment. It clarified

> 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. That was not the case in the Philip Morris case where the products in question were cigarettes, but the tribunal nevertheless found that the activities that included marketing the cigarettes under the trademark constituted a qualifying investment.[35]

The tribunal added, that the same is true when the trademark is licensed under a franchise agreement that grants to the licensee the right to exploit the trademark for its own benefit.[36] What seems to be decisive for the tribunal is not the existence of an IPR, but the business activities around it that must fulfil the mentioned requirements.

Upon closer inspection, this just shifts the problem of classification from the IPRs to the business activities associated with it. Following the tribunal's logic owning a copyright in the host state would not be enough. However, things would change when the copyright owner is marketing the copyright protected book, for example, in the host state. This would require a devotion of resources for the promotion and support of those sales, with the expectation of

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[30] *Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. v Republic of Panama*, ICSID Case No ARB/16/34, Claimant's Memorial (11 May 2018) paras 131-155. See also *Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. v Republic of Panama*, ICSID Case No ARB/16/34, Respondent's Counter Memorial (14 September 2018) paras 8-14, 165-185.

[31] The United States—Panama Trade Promotion Agreement (TPA) (signed 12 October 2012, entered into force 31 October 2012).

[32] TPA art 10.29.

[33] *Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. v Republic of Panama*, ICSID Case No ARB/16/34, Decision on the Expedited Objections (13 December 2017) para 165.

[34] *Bridgestone v Panama* (n 33) para 169.

[35] *Bridgestone v Panama* (n 33) para 172.

[36] *Bridgestone v Panama* (n 33) para 173. For criticism see Lentner (n 16).

profit and the assumption of risk that no one is buying the book. That result would, however, be absurd. Clearly, the promotion and sale of books cannot be considered an investment. The criteria developed in *Bridgestone v Panama* therefore do not appear to be very clear-cut.

Other cases provide even more limited guidance on the question of whether and under what circumstances IPRs are to be considered investments. In *Eli Lilly v Canada*, it was undisputed by the parties that the two invalidated patents qualified as investments under NAFTA Chapter Eleven.[37] In *Philip Morris v Uruguay*, an investment dispute involving trademarks, the tribunal equally viewed the claimant's assets, including trademark rights, as investments. Here, the tribunal considered the 'long-term, substantial activities in Uruguay' as qualifying 'investments' under the applicable Uruguay-Switzerland BIT,[38] without any further discussion of the trademarks as investments as such.[39] In another case, where the applicable BIT[40] provided for a very broad definition of investment as 'rights given by the decision of a public authority' or 'any asset having an economic value', the tribunal considered marketing authorisations and IPRs attached to them investments.[41]

Summing up, tribunals have adopted a rather broad interpretation of investment and IPRs will thus likely be considered protected investments in most cases under the CPTPP provided that they are being exploited or licensed to be exploited in the host state. However, as held in *Bridgestone v Panama*, 'the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country'.[42]

Expropriation

As regards expropriation and compensation, the CPTPP specifically addresses IPRs. According to Article 9.8(5)

> This Article [on expropriation and compensation] shall not apply to the issuance of compulsory licences granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation or creation of intellectual property rights, to the extent that the issuance, revocation, limitation or creation is consistent with Chapter 18 (Intellectual Property) and the TRIPS Agreement.

A footnote at the end of the paragraph clarifies that

> For greater certainty, the Parties recognise that, for the purposes of this Article, the term 'revocation' of intellectual property rights includes the cancellation or nullification of those rights, and the term 'limitation' of intellectual property rights includes exceptions to those rights.

[37] *Eli Lilly v Canada* (n 14) paras 161-162.
[38] *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, Decision on Jurisdiction (2 July 2013) para 209.
Uruguay-Switzerland Bilateral Investment Treaty (signed and entered into the force 7 October 1988).
[39] Uruguay did not raise this issue, see *Philip Morris v Uruguay* (n 38) para 177.
[40] Poland – France Bilateral Investment Treaty (signed 14 Feb 1989, entered into force 10 Oct 1990).
[41] *Servier v Poland* (footnote 3 above) paras 533-62 (redacted). See also Chrocziel and others (n 3) 143. See also, 'Pharmaceuticals: a new frontier in investment treaty arbitration' (2013) Global Arbitration Review http://globalarbitrationreview.com/article/1032622/pharmaceuticals-a-new-frontier-in-investment-treaty-arbitration last accessed 01 December 2018.
[42] *Bridgestone v Panama* (n 33) para 171.

This clarification is welcome insofar as it forecloses any discussion about whether the issuance of a compulsory licence, which is permitted under certain conditions under the TRIPS Agreement,[43] may amount to an expropriation. What it does not clarify is who is competent to decide on whether these conditions are met, and with regards to the revocation, limitation or creation, under the TRIPS or the IP Chapter, whether these measures are consistent with the relevant provisions. For practical reasons it is not plausible that this is meant to suggest that an investment tribunal would have to wait for a decision of the relevant judicial mechanism, such as a WTO panel report regarding TRIPS consistency, or State-to-State dispute settlement for the IP Chapter, to determine whether or not this provision applies. However, it is equally problematic for the investment tribunal to decide on TRIPS consistency, for example, and subsequently a WTO panel decides differently. Such contradictory decisions should be avoided, and tribunals should therefore defer to the other more appropriate forum for any such determination. This could already be done at the jurisdiction phase by determining that the dispute concerning a compulsory licence, the revocation, limitation or creation of IPRs are outside of the jurisdiction of the investment chapter.

Also, an *e contrario* argument could be made that in case of an alleged violation of the TRIPS agreement or the IP Chapter, such measures then automatically constitute an expropriation. Here, the CPTPP does not include a clarification like the CETA Investment Chapter according to which ‘a determination that these measures are inconsistent with the TRIPS Agreement or [the IP Chapter] does not establish an expropriation.’[44] Even without such clarification, it should be clear that the investment chapter is not intended to provide an indirect vehicle to enforce other international agreements, such as TRIPS or the obligations contained in the IP Chapter. Specifically, because each of them provides for their own dispute settlement mechanism, as discussed above.

In addition, the parties to the CPTPP added an annex where they specify certain understandings regarding expropriation. Most important for present purposes is Annex 9-B(3)(a) which provides that indirect expropriation requires the consideration of factors such as

(i) the economic impact of the government action, although the fact that an action or series of actions by a Party has an adverse effect on the economic value of an investment, standing alone, does not establish that an indirect expropriation has occurred;
(ii) the extent to which the government action interferes with distinct, reasonable investment-backed expectations;[45]
(iii) the character of the government action.

In (b) it clarifies that

[43] TRIPS Agreement, art 31(1.2).
[44] Comprehensive Economic and Trade Agreement (CETA), art 8.12 (6):
‘For greater certainty, the revocation, limitation or creation of intellectual property rights, to the extent that these measures are consistent with the TRIPS Agreement and Chapter Twenty (Intellectual Property), do not constitute expropriation. Moreover, a determination that these measures are inconsistent with the TRIPS Agreement or Chapter Twenty (Intellectual Property) does not establish an expropriation.’
[45] A footnote placed here in the CPTPP reads: ‘For greater certainty, whether an investor’s investment-backed expectations are reasonable depends, to the extent relevant, on factors such as whether the government provided the investor with binding written assurances and the nature and extent of governmental regulation or the potential for government regulation in the relevant sector.’

> Non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety and the environment, do not constitute indirect expropriations, except in rare circumstances.[46]

In light of possible IP-related cases, these further understandings make it clear that regulatory measures which only have a negative effect on the economic value of an IPR will not (standing alone) establish an indirect expropriation. What is interesting to note, however, is the fact that in (ii) distinct, reasonable investment-backed expectations seem to be protected, which raises similar issues as those discussed below regarding legitimate expectations. Legitimate expectations and IPRs was discussed at length in *Philip Morris v Uruguay*.[47] However, in the context of measures pursuing public welfare objectives, section (b) severely narrows the possibility of finding an indirect expropriation in such cases.

So far only two tribunals have directly addressed the question of expropriation of IPRs. In *Philip Morris v Uruguay*, the tribunal had to determine whether trademarks can be expropriated in the first place. This depended, according to the tribunal, on the nature of the rights conferred to the trademark holder under Uruguayan law.[48] It concluded that the claimants had property rights regarding their trademarks capable of being expropriated,[49] because it 'must be assumed that trademarks have been registered to be put to use, even if a trademark registration may sometimes only serve the purpose of excluding third parties from its use.'[50]

In another case, *Eli Lilly v Canada*, the tribunal equally considered patents as being in principle capable of being expropriated. It did not have to decide on this issue but observed that judicial acts (in this case the invalidation of two patents held by the claimant) '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 under NAFTA Article 1110, such as, perhaps, in circumstances in which a judicial decision crystallizes a taking alleged to be contrary to NAFTA Article 1110.'[51]

In both cases cited, the CPTPP provision would have required the tribunal to only consider the consistency with the IP Chapter or TRIPS respectively (or even allowed it to reject jurisdiction). This is because *Philip Morris v Uruguay* concerned the limitation of the use of trademarks and *Eli Lilly v Canada* was about revocation of patents, both measures of which are covered by Article 9.8(5) as discussed above.

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[46] Footnote omitted.
[47] *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) paras 340-345, 375-379, 421-435.
[48] *Philip Morris v Uruguay* (n 47) paras 235, 255-267.
[49] *Philip Morris v Uruguay* (n 47) para 274.
[50] *Philip Morris v Uruguay* (n 47) para 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'.)
[51] *Eli Lilly and Company v The Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Final Award (16 March 2017) para 221.

FET

The CPTPP provision on fair and equitable treatment (FET) provides some further definitions and clarifications of the most invoked standard of protection in investment agreements. Under the heading of Minimum Standard of Treatment, Article 9.6. provides (along with the definition of full protection of security)[52]

> 1. Each Party shall accord to covered investments treatment in accordance with applicable customary international law principles, including fair and equitable treatment and full protection and security.
>
> 2. For greater certainty, paragraph 1 prescribes the customary international law minimum standard of treatment of aliens as the standard of treatment to be afforded to covered investments. The concepts of "fair and equitable treatment" and "full protection and security" do not require treatment in addition to or beyond that which is required by that standard, and do not create additional substantive rights. The obligations in paragraph 1 to provide:
>
> (a) "fair and equitable treatment" includes 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;

An important clarification for potential IP-related disputes is provided in paragraph 3 and 4, which provides that

> 3. A determination that there has been a breach of another provision of this Agreement, or of a separate international agreement, does not establish that there has been a breach of this Article.
>
> 4. For greater certainty, the mere fact that a Party takes or fails to take an action that may be inconsistent with an investor's expectations does not constitute a breach of this Article, even if there is loss or damage to the covered investment as a result.

Taken together several points are worth mentioning regarding implications for IPRs. First, it is clear that (arguably even without the express reference)[53] the existence of IPRs and the nature of rights conferred depend on the domestic law.[54] This means that the FET does not create an IPR. The clarification that the FET standard does not create additional substantive

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[52] A footnote refers to an understanding by the parties in Annex 9-A where the parties 'confirm their shared understanding that "customary international law" generally and as specifically referenced in Article 9.6 (Minimum Standard of Treatment) results from a general and consistent practice of States that they follow from a sense of legal obligation. The customary international law minimum standard of treatment of aliens refers to all customary international law principles that protect the investments of alien'.

[53] *Philip Morris v Uruguay* (n 47) para 243; Tania Voon, Andrew D Mitchell and James Munro, 'Intellectual property rights in international investment agreements: striving for coherence in national and international law' in Chin Lim and Bryan Mercurio (eds), *International Economic Law after the Global Crisis: A Tale of Fragmented Disciplines* (Cambridge University Press 2015) 386; Fina and Lentner (n 29) 284.

[54] See *Philip Morris v Uruguay* (n 47) para 264.

"However, as the Respondent has pointed out, the better interpretation is that the exclusive right to use is simply the other side of the coin of the "right to prevent any person from performing," and does not thereby mean that a trademark gives rise to an absolute right of use. This is confirmed by the Spanish original of Article 11 which refers to "the right of exclusive use" ("el derecho de uso exclusivo")".

rights only emphasizes this point. However, this does not exclude the possibility of a decision, such as a revocation of an IPR, amounting under certain circumstances to a denial of justice. Next, under paragraph 3 it is clear (similar to the clarification found in Article 9.4(6) EU-Singapore FTA, Article 8.10(6) CETA, and Article 14(7) EU-Vietnam FTA)[55] that investors cannot base a claim of a violation of the FET standard by invoking a violation of the TRIPS or other IP treaties.[56]

With paragraph 4, the CPTPP makes clear that the investor's legitimate expectations are not protected. For IPRs this means that if legitimate expectations are frustrated by, for example, the introduction of more limited IP protection in the state, this does not as such constitute a breach of the FET standard.

Investment tribunals in existing cases regarding IPRs have so far only dealt with unqualified FET standards. For example, in *Philip Morris v Uruguay* the measures at issue imposed restrictions on the presentation and use of trademarks (for tobacco products) that were introduced for health purposes. The tribunal held that the FET standard did not affect 'the State's rights to exercise its sovereign authority to legislate and to adapt its legal system to changing circumstances.'[57] It stated that 'changes to general legislation (at least in the absence of a stabilization clause) are not prevented by the fair and equitable treatment standard if they do not exceed the exercise of the host State's normal regulatory power in the pursuance of a public interest and do not modify the regulatory framework relied upon by the investor at the time of its investment "outside of the acceptable margin of change.'[58] The dissenting opinion on this issue found a violation, however, highlighting the significant discretion given to arbitrators in applying such unqualified FET standard.[59]

In another case, *Eli Lilly v Canada*, the tribunal referred to the FET standard as protecting investor's legitimate expectations but held that the claimant had not 'demonstrated, as a factual matter, that its legitimate expectations were violated by the application of Canadian patent law to the Zyprexa and Strattera Patents.'[60] In that case the claimant also alleged that the court's invalidation of the patents were arbitrary and discriminatory because of the change in the Court's jurisprudence.[61] However, the tribunal held that the 'patent grants to Claimant were made in a legal system that historically has, and necessarily, evolves, and this evolution resulted in later decisions, rationally and not unforeseeably, that concluded the initial patent grants were invalid, just as the Canadian statutory patent regime envisions.'[62] The tribunal also noted that a it 'is not an appellate tier in respect of the decisions of the national judiciary' and will 'only be in very exceptional circumstances, in which there is clear evidence of egregious and shocking conduct, that it will be appropriate for a NAFTA Chapter Eleven

[55] On this see Fina and Lentner (n 29).
[56] Bryan Mercurio, 'Safeguarding Public Welfare?—Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements' (2015) 6(2) Journal of International Dispute Settlement 252, 267.
[57] *Philip Morris v Uruguay* (n 47) para 422.
[58] *Philip Morris v Uruguay* (n 47) para 423.
[59] Tania Voon, 'Philip Morris v Uruguay: Implications for Public Health' (2017) 18(2) The Journal of World Investment & Trade 320, 331.
[60] *Eli Lilly v Canada* (n 51) para 387.
[61] *Eli Lilly v Canada* (n 51) para 95.
[62] *Eli Lilly v Canada* (n 51) para 418.

tribunal to assess such conduct against the obligations of the respondent State under NAFTA.'[63]

The CPTPP's FET standard thus certainly narrowed down the generally broad interpretation of the standard by investment tribunals.

Conclusion

With the growing importance of IPRs in the global economy, IP-related disputes will only increase in the future. Investor-state dispute settlement provides investors with a more attractive procedure compared to state-to-state dispute settlement under the WTO or IP chapters in most trade agreements. This article has shown, however, that much is still uncertain and more work is needed to fully develop clear standards for the application of investment protection to IP-related disputes. In particular, the relationship between the IP chapters/WTO obligations on the one hand and investment provisions is far from settled. The CPTPP similarly does not provide a clear solution. One reason is that so far scholars and practitioners have not discussed all these issues in detail. But it also exemplifies the continuing fragmentation of international law.

In regard to the definition of investment, cases are starting to provide guidance on whether and under what circumstances IPRs are covered investments. But not all aspects of the *Bridgestone v Panama* decision appear to be suitable in that context. For the CPTPP, this means that arguments for and against certain types of IPRs as covered investments can be made. The wording of the most relevant protection standards in the CPTPP in the context of IP-related disputes have reacted to some uncertainties. The text now appears to seek to limit some claims against state measures that negatively affect IPRs in the host state. Still, this article has shown that questions remain open. In the end it will be up to the tribunals to clarify these outstanding issues.

[63] *Eli Lilly v Canada* (n 51) para 381.