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

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ABSTRACT

Victories by states in two investor-state dispute settlements (ISDS), one involving Uruguay's regulation of tobacco trademarks and the other challenging a doctrine of Canadian patent law, have suggested to some that ISDS is not a threat to state regulation involving intellectual property rights. In this Article, we dispute that notion. We show how these awards open pathways for future disputes and we argue that neither the resolution of these cases nor changes in more recent investment agreements meaningfully alter the threat of ISDS and the chill it imposes on legitimate regulatory activity. We suggest that there would be fewer disputes and less interference with regulatory authority if tribunals took into account the intangibility of intellectual property rights when determining their locus and deciding whether an investment has been made in the host state. Additionally, tribunals should consider the contingent nature of intellectual property rights when calculating the appropriate remedy (if, in short, compensatory relief were substituted for expectation damages). We also argue that if the class of investors entitled to bring ISDS challenges included those who invest in reliance on the limits of protection, right holders would be exposed to the consequences of the principles they advocate and may become less inclined to challenge state action.

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In a 2015 article, we suggested that shifts in international lawmaking—from the World Intellectual Property Organization (WIPO), to the World Trade Organization (WTO), and then to bilateral investment treaties (BITs) and free trade agreements (FTAs)—have reconceptualized intellectual property (IP); that IP rights have been transformed from an incentive to a commodity, and finally, through commitments to investor-state dispute settlement (ISDS), to an asset.[1] In that process, we argued, states are losing the authority to regulate in ways that maintain an appropriate balance between IP rights and other societal interests, such as concerns over health and (ironically) promoting innovation. Since that piece appeared, two investor-state disputes involving IP have been resolved by final award, one challenging the interface between trademark law and Uruguay's regime for packaging tobacco;[2] the other complaining about the impact of Canada's approach to the utility requirement of patent law.[3] The states prevailed in both cases, suggesting that the normative basis for IP has successfully withstood reconceptualization through assetization.

In this Article, we argue that this view is, unfortunately, wrong. First, we show that the awards in these ISDS cases, while closing the door on specific contentions, were framed in a manner that invites further challenges to IP-related regulations. Second, we note that the appetite for investment protection has not diminished. More cases are emerging and newer international instruments do not appear (as we had hoped) to be carving out IP from their investment chapters. To be sure, the ideas for standing arbitral tribunals and appeals, which we endorsed in our earlier piece, are being explored, though we question

1. *See* Rochelle Dreyfuss & Susy Frankel, *From Incentive to Commodity to Asset: How International Law Is Reconceptualizing Intellectual Property*, 36 MICH. J. INT'L L. 557 (2015).

2. Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award, ¶¶ 2, 7, 9 (July 8, 2016) [hereinafter *Philip Morris*, Award], https://www.italaw.com/sites/default/files/case-documents/italaw7417.pdf [https://perma.cc/92NP-VGJN].

3. Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Final Award, ¶46e (Mar. 16, 2017) [hereinafter *Eli Lilly*, Final Award], https://www.italaw.com/sites/default/files/case-documents/italaw8546.pdf [https://perma.cc/94P2-KS23].

how well. And the next generation of agreements may be including language that softens the impact of ISDS. We are, however, skeptical as to the efficacy of these provisions. Furthermore, because these agreements are being negotiated in the aftermath of the Canada and Uruguay disputes, states can no longer claim that they did not intend to be bound to an agreement that could expose their IP lawmaking to challenges by investors; they must now be said to understand and fully accept the risk that actions in this sphere can be subject to ISDS as expropriations or denials of fair and equitable treatment. Thus, we maintain our view that IP does not sit comfortably within investment law.

Essentially, we argue that ISDS must itself be reconceptualized. Determinations of jurisdiction must take account of the intangibility of IP rights. Thus, tribunals must consider when IP is sufficiently localized in the host state such that it should be considered protectable by that state's investment obligations. Further, we recommend that tribunals adopt a more realistic view of remedies. Because expectation damages are highly speculative in the IP space, states should be responsible only for compensatory relief. Finally, we suggest that investment law must recognize that right holders and those who use knowledge products have equivalently weighty interests in the balance that IP laws strike. On that view, we would include in the class of protected investors *all* those who invest based on that balance—both IP holders and those who invest in reliance on the limits of IP rights. We believe that exposing right holders to the consequences of the principles they advocate would (like our other recommendations) reduce ISDS challenges to IP-related lawmaking.

I. INVITING DISPUTES

An examination of the two IP disputes that have been resolved to date demonstrate why we remain concerned about ISDS, even though the states prevailed in both. In each, the Tribunal's reasoning does not close the gate for future disputes. Indeed, in some ways, the resolutions provide investors with a roadmap for using ISDS to chill legitimate IP-related regulation. The costs and procedures associated with these disputes highlight why even the threat of ISDS can be enough to discourage states from furthering their domestic policies.

A. Eli Lilly and Company v. Canada

This dispute was brought in 2012 by Eli Lilly and Company ("Lilly"), a US company, under the investment chapter of the North

American Free Trade Agreement (NAFTA)[4] and the arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).[5] It is the poster child for a substantive resolution in favor of the state that nonetheless invites investors to bring more challenges. The dispute concerned Canada's rejection of patents covering two drugs—Strattera, which is said to treat attention deficit disorder, and Zyprexa, an antipsychotic—on the ground that they failed to meet Canada's "promise utility doctrine."[6] That doctrine required adjudicators (patent examiners, or in the case of legal challenges, judges) to determine the uses promised in the patent, and then decide whether, as of the filing date, the applicant had either proved the claimed advance performed as promised or had provided enough evidence to soundly predict it would work as promised.[7] In its complaint, Lilly argued that the doctrine and its implementation represented a radical departure from former law, that it was an arbitrary and unpredictable standard, and that Canadian courts had articulated the doctrine after NAFTA went into force, thereby undermining Lilly's legitimate expectations[8]—presumably, that it would be able to exploit the Strattera and Zyprexa patents until they were due to expire. As a result, Lilly claimed, Canada had breached its obligation to provide a minimum standard of treatment and had expropriated Lilly's investment assets.[9] In addition, Lilly argued that the promise utility doctrine discriminated against the pharmaceutical industry and against foreign firms.[10]

Canada prevailed. The Tribunal held that the record contradicted the claim that there was a radical change in the law. Instead, it found that the promise utility doctrine had evolved over time, that prior law included the requirement that evidence on utility must predate the filing of the application, and that the standard of utility was not arbitrary but rather served legitimate purposes.[11] Furthermore, the Tribunal rejected Lilly's statistical evidence, including on discrimination against the pharmaceutical industry. It

4. *Eli Lilly*, Final Award, *supra* note 3, ¶¶ 1, 4; *see also* North American Free Trade Agreement, Can.-Mex.-U.S., Ch. 11, Dec. 17, 1992, 32 I.L.M. 289 (1993) [hereinafter NAFTA]. A new agreement will replace NAFTA. *See infra* note 110.

5. UNITED NATIONS COMM'N ON INT'L TRADE LAW, UNCITRAL ARBITRATION RULES (2013), http://www.uncitral.org/pdf/english/texts/arbitration/arb-rules-2013/UNCITRAL-Arbitration-Rules-2013-e.pdf [https://perma.cc/4MDX-ARAC].

6. *See Eli Lilly*, Final Award, *supra* note 3, ¶¶ 5, 73, 88.

7. *Id.* ¶ 235.

8. *Id.* ¶ 5.

9. *Id.* ¶ 5; *see also* NAFTA, *supra* note 4, arts. 1105, 1110.

10. *Eli Lilly*, Final Award, *supra* note 3, ¶¶ 5, 440.

11. *See id.* ¶¶ 331–32, 349–51, 423–24, 469.

called the argument about discrimination against foreigners not "fully develop[ed]."[12]

But despite Canada's victory, the award cannot be said to foreclose opportunities for investors to challenge national laws that affect IP rights. Quite the opposite. Because the Tribunal saw Lilly's claims as turning on factual assertions that Lilly failed to prove,[13] it was not forced to decide any important legal questions on when changes in patent law could amount to a violation of NAFTA's investment chapter. Yet by offering its observations on these issues, the Tribunal opened new avenues to challenge IP laws and provided many reasons to think that conceptualizing IP as an asset will have an enduring impact on state regulatory authority.

First, the case demonstrates how investment commitments create grounds for challenging national laws that are not available when the law is evaluated for compliance with international IP obligations. Although in Lilly's Notice of Intent to Submit a Claim to Arbitration it suggested that the promise utility doctrine and its implementation violated the TRIPS Agreement,[14] the United States did not attempt to challenge Canadian law in the WTO under its Dispute Settlement Understanding.[15] It is not known why the United States did not bring such an action, given that starting in 2014, it cited the promise utility doctrine as a reason to place Canada on its Special 301 Watch Lists, which serve as warnings to countries the United States asserts are violating their obligations to protect IP.[16] However, it is clear that a WTO action would have put the United States in an awkward position that would have had little chance of success. TRIPS

12. *Id.* ¶ 441; *see also id.* ¶¶ 376, 433.

13. *Id.* ¶ 442, 469 ("[T]he Tribunal concludes that Claimant has failed to establish the factual premise of its claims.").

14. Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Notice of Intent to Submit a Claim to Arbitration Under NAFTA Chapter Eleven, ¶ 42 (Nov. 7, 2012), https://www.italaw.com/sites/default/files/case-documents/italaw1172.pdf [https://perma.cc/NPE2-NE37]; Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 (1994) [hereinafter TRIPS].

15. *See* Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401 (1994).

16. *See* OFFICE OF U.S. TRADE REP., 2014 SPECIAL 301 REPORT 8 (2014); OFFICE OF U.S. TRADE REP., 2015 SPECIAL 301 REPORT 4 (2015); OFFICE OF U.S. TRADE REP., 2016 SPECIAL 301 REPORT 57 (2016). The United States also made two submissions in the ISDS case, but neither was fully supportive of the positions taken by Lilly. *See* Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Submission of the United States of America, ¶1 (Mar. 18, 2016), https://www.italaw.com/sites/default/files/case-documents/italaw7175.pdf [https://perma.cc/6DYU-AUFR]; Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Supplemental Submission of the United States of America, ¶1 (June 8, 2016), https://www.italaw.com/sites/default/files/case-documents/italaw7393.pdf [https://perma.cc/ASN8-MD2C].

(along with NAFTA) requires patent protection for inventions that are "useful," but it does not define the term—thereby leaving considerable discretion to each member state to decide what it means for itself.[17] Since, at the time the two agreements came into force, US courts were also grappling with details concerning the utility requirement,[18] the United States would have had a hard time pressing arguments that TRIPS (or NAFTA) required a particular standard or froze the applicable law.

As important, US law on the treatment of compounds such as Strattera and Zyprexa, which were known before Lilly (allegedly) discovered new uses, was not entirely dissimilar from Canada's. Like Canada, the United States was using the flexibility available under the TRIPS Agreement to define terms for itself. Furthermore, it was using that flexibility to further goals similar to Canada's. In order to acquire secondary patent protection—a patent based on a compound that is already known—applicants in both countries had to show that they accomplished something nonobvious (inventive): that they made a discovery (in this case, found a utility) that was not foreseeable by a person of ordinary skill in the art. Whereas Canada interpreted the patent to promise an unexpected new use and thus demanded that showing under the *utility* requirement, the United States demanded proof of the unexpected use as part of its *nonobviousness* (inventiveness) requirement.[19] In either case, the applicant had to submit the relevant evidence as of the filing date.[20] While it is true that the two countries disagreed on the factual question of whether Lilly had provided enough evidence on the new utility,[21] both countries were pursuing the identical goals of preventing evergreening, ensuring that advances already in the public domain were not reprivatized, and verifying that the applicant was not merely speculating, but had actually invented the invention before applying for a patent. Thus, had the United States brought an action in the WTO, it would have had to claim that the *rubric* (utility versus nonobviousness) for requiring the identical proof, which was needed to further identical goals, made a difference in terms of TRIPS

17. *See* TRIPS, *supra* note 14, art. 27(1) n. 5; NAFTA, *supra* note 4, art. 1709(1).

18. *See In re* Brana, 51 F.3d 1560, 1564 (Fed. Cir. 1995) (standard of utility); Irving N. Feit, *Does a Utility That Is "Unproved" at the Time of Filing Violate § 112?*, 93 J. PAT. & TRADEMARK OFF. SOC'Y 1, 2 (2011) (timing of proof).

19. 35 U.S.C. § 103 (2012); *see, e.g*, Pfizer, Inc. v. Apotex, Inc., 480 F.3d 1348 (Fed. Cir. 2007); *In re* Papesch, 315 F.2d 381 (C.C.P.A. 1963).

20. *See, e.g.*, Galderma Labs., L.P. v. Tolmar, Inc., 737 F.3d 731, 737 (Fed. Cir. 2013) (nonobviousness); *In re* Vaeck, 947 F.2d 488, 495–96 (Fed. Cir. 1991) (utility).

21. In fact, the trial court in the United States reached the same conclusion as the Canadian court on the Strattera patent but the Federal Circuit reversed, in part on the timing issue. *See* Eli Lilly & Co. v. Actavis Elizabeth LLC, 435 F. App'x 917, 919, 926 (Fed. Cir. 2011).

compliance. Because it is highly unlikely that it could have won on the ground that Canada chose the wrong rubric, there was essentially no sustainable argument that Canada was violating its obligations under international IP law. Furthermore, it is improbable that the United States would have wanted to bring a challenge that would have exposed it to similar complaints. In other words, the only way Lilly could challenge Canada's patent law was to tie the complaint to Canada's investment obligations, rather than to TRIPS requirements. And because all states wish to retain their flexibility to define TRIPS (and NAFTA) terms as they wish, only investors—not states—would be likely to bring such a challenge.

Second, the Tribunal's ability to decide the case on its facts and avoid the legal issues—or more to the point, its obfuscation of the legal issues—invites future complaints. Lilly's claim was somewhat novel in that the challenge was not to legislation (as is typical in these actions), but rather to a judicial interpretation of the Canadian utility requirement. The Tribunal nonetheless entertained the case,[22] reasoning (uncontroversially) that obligations regarding investment protection must apply equally to common law and civil jurisdictions.[23] At the same time, it recognized the danger that such cases could turn ISDS into a new layer of judicial review. Thus, it was careful to note that "a NAFTA Chapter Eleven tribunal is not an appellate tier in respect of the decisions of national judiciaries"[24] and that Canada had "asserted a legitimate public policy justification for the promise doctrine."[25]

Still, the Tribunal could have done more to discourage future disputes—it could have agreed with Canada (and, on this point, the United States) that a judicial decision must amount to a denial of justice to be considered a violation of investment obligations.[26] It refused to do so. Instead, it "brief[ly] observ[ed]"[27] that decisions that are "sufficiently egregious and shocking," "manifest[ly] arbitrar[y]," or "blatant[ly] unfair[]" could qualify as denials of minimum standards of treatment[28] and that an expropriation could occur when "a judicial decision crystallizes a taking alleged to be contrary to NAFTA article

22. *Eli Lilly*, Final Award, *supra* note 3, ¶ 221.
23. *See id.* ¶¶ 178, 187, 218–19, 221, 224–25.
24. *Id.* ¶ 221; *see also id.* ¶¶ 224–25.
25. *Id.* ¶ 423.
26. *Id.* ¶¶ 214–15. Significantly, on this issue, the United States agreed with Canada. *See id.* ¶¶ 204–06.
27. *Id.* ¶ 220.
28. *Id.* ¶¶ 222–23.

1110 [on expropriation]."[29] However, because Lilly's case floundered on the facts, the Tribunal was able to avoid setting out a test for determining when a decision is shocking, arbitrary, or unfair, or explaining what it meant by crystallizing a taking.

The Tribunal was similarly opaque on the other legal issues raised by the dispute. Lilly claimed its legitimate expectations were undermined because of the radically new utility requirement.[30] Again, the Tribunal could have adopted a clear rule by acknowledging that patents are contestable throughout their terms; that because they are, at best, probabilistic rights, patent holders cannot harbor robust expectations of validity.[31] But it did not. Rather, it examined Canadian law in incredible detail to determine whether the changes were—as Lilly claimed—dramatic, or incremental and evolutionary.[32] Since the Tribunal found considerable evidence that the promise doctrine, the timing for evidentiary support, and the sound prediction feature could all be found in prior law,[33] it left open the question of what would constitute a change radical enough to violate investment obligations.

As to the allegation of arbitrariness, the Tribunal acknowledged that "[s]ome level of unpredictability is present in the application of all law" and that "inconsistency in judicial interpretation . . . is to be expected."[34] But it left the gate open for future disputes by noting that it "understands the difficulty for companies in innovative industries described by Claimant, in terms of timing investments and patentability requirements."[35] And although the Tribunal recognized that the doctrine was not arbitrary, but rather a rational policy choice and that under such circumstances "it is not the role of a NAFTA Chapter Eleven tribunal to question the policy choices of a NAFTA Party,"[36] it nonetheless left open the question of the circumstances in which it would be appropriate to question policy choices. Furthermore, the Tribunal never provided any guidance on the level of unpredictability or inconsistency that would be sufficient to sustain a claim under NAFTA's investment chapter.

Admittedly, soon after *Lilly*, the Canadian Supreme Court decided *AstraZeneca v. Apotex,*[37] where it overturned the promise utility

29. *Id.* ¶ 221.

30. *Id.* ¶ 261.

31. *See, e.g.*, Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 75, 95 (2005).

32. *Eli Lilly*, Final Award, *supra* note 3, ¶¶ 349–50.

33. *Id.* ¶¶ 351, 386.

34. *Id.* ¶ 421.

35. *Id.* ¶ 426.

36. *Id.*

37. AstraZeneca Can. Inc. v. Apotex Inc., [2017] 1 S.C.R. 943 (Can.).

doctrine. This has allowed some to argue that, for all its defects, ISDS is, in the long run, effective at protecting investors' expectations.[38] There is, however, a difference between using an ISDS award (or the threat of a challenge) to limit a government's authority and an independent decision by a country to advance its domestic agenda in ways that are compatible with its international obligations. A comparison between *Lilly* and *AstraZeneca* illustrates the point. As noted earlier, because Zyprexa and Strattera were in the prior art, the *only* way that Lilly could acquire patents on the products was by demonstrating unexpected new uses—something the Canadian courts found Lilly had failed to do in a timely fashion. *AstraZeneca* was different: there, the patentee had demonstrated a patent-worthy utility for the product as of the filing date.[39] However, the lower court, after hearing Apotex's challenge, read the patent as making *other* promises, and required proof of them as well.[40] At that point—well after the patent had issued—it was obviously too late for AstraZeneca to adduce proof regarding these other uses. Accordingly, the promise utility doctrine had the effect of invalidating a patent on a genuine inventive compound. Once the Canadian Supreme Court saw the mischief that could arise when courts impose new proof requirements retroactively, it rejected the promise utility doctrine (but not, necessarily, the obligation of those claiming protection for known compounds to prove that a new use is surprising and inventive). In short, it was not the ISDS case that led the Canadian Supreme Court to alter the doctrine but rather the doctrine's unintended effects.

The case thus reveals the wisdom underlying international IP law: IP agreements set out minimum standards and allow adjudicators to scrutinize compliance with these standards. But these agreements paint with a broad brush and leave it wholly to the institutions of the member states to implement the standards to appropriately incentivize innovation and balance proprietary and other social interests within their own national cultures. This system empowered Canada to both adopt the promise utility doctrine (so long as it was compliant with the international IP law) and then change the law (to another compliant regime) when it recognized that the measure was not in Canada's interest.

Even though Canada won, the *Lilly* dispute significantly threatens this allocation of governance authority. Canada was able to

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38. *See,* Brook K. Baker & Katrina Geddes, *The Incredible Shrinking Victory:* Eli Lilly v. Canada*, Success, Judicial Reversal, and Continuing Threats from Pharmaceutical ISDS*, 49 LOY. U. CHI. L.J. 479, 481 (2017) ("Despite winning the ISDS battle, Canada has conceded the war.").

39. AstraZeneca Can. Inc. v. Apotex Inc., [2017] 1 S.C.R. 943, paras. 62–63 (Can.).

40. AstraZeneca Can. Inc. v. Apotex Inc., [2014] F.C. 638, paras. 133–34 (Can.).

avoid a finding that it had undermined Lilly's legitimate expectations by showing that the law had progressed in an evolutionary fashion.[41] However, sometimes circumstances require countries to change their laws abruptly. For example, the US Supreme Court suddenly altered the law on injunctive relief in patent cases.[42] Justice Kennedy explained the change in a concurring opinion:

> In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.[43]

It is hard to see the normative desirability of stripping states of the power to respond immediately to new circumstances—such as, in Justice Kennedy's case, the rapid rise of patent trolls—when the shift is to a law that is compatible with international obligations.[44]

The Tribunal's rule requiring that laws change in an evolutionary fashion also interjects new uncertainties. For example, over the course of its existence, the Federal Circuit diluted the nonobviousness requirement.[45] In 2007, the US Supreme Court, worried that this case law had led to a proliferation of low-quality patents, significantly raised the standard, citing for support *Graham v. John Deere Co.*, a case it had decided in 1966.[46] It is not clear how the *Lilly* Tribunal would have regarded that change. Would it have considered the existence of that forty-year-old case sufficient to put investors on notice that the rule on nonobviousnesss could be made more rigorous? Or would it have reasoned that since the Federal Circuit had been specifically established to stabilize the patent system, investors had a right to rely on its view of nonobviousness, and that the

41. *Eli Lilly*, Final Award, *supra* note 3, ¶¶ 351, 376, 418 ("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 . . . .").

42. eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006) (specifically noting the Federal Circuit's "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances").

43. *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

44. *See* Robert Howse, Eli Lilly v. Canada*: A Pyrrhic Victory Against Big Pharma*, INT'L ECON. L. & POL'Y BLOG (Mar. 26, 2017, 3:53 PM), http://worldtradelaw.typepad.com/ielpblog/2017/03/eli-lilly-v-canada-a-pyrrhic-victory-against-big-pharma-.html [https://perma.cc/M7SD-8ECU].

45. Rochelle Cooper Dreyfuss, *In Search of Institutional Identity: The Federal Circuit Comes of Age*, 23 BERKELEY TECH. L.J. 787, 789–90, 793–94 (2008).

46. KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398, 415 (2007) (citing Graham v. John Deere Co., 383 U.S. 1, 18 (1966)).

dramatic change effected by the Supreme Court therefore violated NAFTA investment obligations?[47]

B. Philip Morris v. Uruguay

Lilly's case failed because it did not provide factual predicates for its complaints, and that allowed the Tribunal to opine on the law without having to demonstrate how to apply it. This dispute was different in that respect, as here there were facts galore. Philip Morris submitted the request for arbitration against Uruguay in 2010 under a BIT between Switzerland and Uruguay and ICSID arbitration rules.[48] In its complaint, Philip Morris alleged that three Uruguayan tobacco measures—a limit on the size of the trademark, a required pictogram health warning on 80 percent of the packaging, and a requirement that tobacco companies sell only "a single presentation," that is, one variant of their product (for example, Marlboro Red or Gold, not both)—constituted indirect expropriations of property and a denial of fair and equitable treatment.[49] Further, it claimed that decisions of Uruguayan courts holding that one of its tobacco measures was constitutional amounted to a denial of justice.[50] The laws at issue followed Guidelines made under the World Health Organization's (WHO) Framework Convention on Tobacco Control (FCTC),[51] which had adopted the view that smoking could be controlled and health could be improved if tobacco products were sold in packaging that prohibited figurative, logo, and color trademarks and included health warnings.[52] Since these limitations were specifically intended to decrease the cognitive salience of tobacco trademarks, there were clearly facts to support the allegations that the impact of the Philip Morris marks was diminished.

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47. *Id.* at 407 ("[T]he Court of Appeals addressed the question of obviousness in a manner contrary to . . . our precedents . . . ."). There are similar examples of rapid changes in the law of other jurisdictions, including the UK's Supreme Court decision to change its analysis of the scope of the claim and the Australia High Court's decision to deny patents on genetic sequences. *See* Actavis UK Ltd. v. Eli Lilly & Co. [2017] UKSC 48; D'Arcy v Myriad Genetics Inc., [2015] HCA 35 (Austl.).

48. Acord entre la Confédération suisse et la République orientale de l'Uruguay concernant la promotion et la protection réciproques des investissements, Switz.-Uru., Oct. 7, 1988, 1976 U.N.T.S. 389; *Philip Morris*, Award, *supra* note 2, ¶¶ 1–15.

49. Philip Morris Brands Sàrl v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Claimants' Memorial on Merits, ¶¶ 1, 203, 214 (Mar. 3, 2014) [hereinafter *Philip Morris*, Claimants' Memorial on Merits].

50. *Id.* ¶¶ 1, 267, 273.

51. WHO Framework Convention on Tobacco Control, May 21, 2003, 2302 U.N.T.S. 166 [hereinafter FCTC]; WORLD HEALTH ORG. [WHO], GUIDELINES FOR IMPLEMENTATION OF ARTICLE 11 OF THE WHO FRAMEWORK CONVENTION ON TOBACCO CONTROL (2008) [hereinafter ARTICLE 11 GUIDELINES], http://www.who.int/fctc/guidelines/article_11.pdf [https://perma.cc/6WTZ-4847].

52. ARTICLE 11 GUIDELINES, *supra* note 51, ¶ 46.

Thus, the arbitrators were necessarily required not only to construe the law but also to apply it to the facts—to determine whether the diminution in value violated Uruguay's international obligations to investors. The ISDS Tribunal that entertained the case did a decent enough job deciding the dispute. Nonetheless, this case, like the Canada dispute, demonstrates the many ways in which countries that seek to regulate remain vulnerable to challenges from investors.

The expropriation analysis centered on the question whether the impact of the measures on Philip Morris's assets "substantially deprive[d] the investment of its value."[53] Philip Morris had based its claim that value was diminished on the notion that, under international and Uruguayan law, it had an affirmative right to use its marks, a right that was substantially curtailed by these requirements.[54] But the Tribunal rejected the argument, deciding instead that its right was only to exclude other traders (a right with which the packaging regulations did not directly interfere).[55] Nevertheless, the arbitrators held that trademarks are property and that even the right to exclude has a value, which could be diminished to the point of expropriation.[56] To be sure, the Tribunal found that in this case there was not a sufficient loss of value.[57] However, it did not provide a method for determining how much of a loss would be too much. Nor was it clear what the Tribunal would have said if the measures had proved successful at eliminating smoking (and hence all sales) in Uruguay. Finally, part of the analysis depended on the Tribunal's decision to view Philip Morris's assets as a whole, rather than to determine whether the change in value of each trademark, viewed separately, was an expropriation.[58] Because the Tribunal also failed to fully explain how it arrived at that method of analysis, the award on this issue provides little guidance for other cases; indeed, it invites investors to frame future claims of lost value on an asset-by-asset basis.

Significantly, on the expropriation claim, the Tribunal found for Uruguay on another ground as well: it held that the measures were a valid exercise of Uruguay's police powers and thus could not be considered expropriations.[59] In so doing, the Tribunal relied on article 2(1) of the BIT, which permits states to refuse to admit investments "for

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53. *Philip Morris*, Award, *supra* note 2, ¶¶ 191–92.
54. *Id.* ¶¶ 180, 183–86.
55. *Id.* ¶¶ 260–64, 266, 271.
56. *Id.* ¶¶ 273–74.
57. *Id.* ¶¶ 276, 284.
58. *Id.* ¶¶ 282–83.
59. *Id.* ¶ 287.

reasons of public security and order, public health and morality."[60] It also applied article 31(3)(c) of the Vienna Convention on the Law of Treaties (VCLT),[61] which requires interpretation of the BIT to take account of "any relevant rules of international law applicable in the relations between the parties," laws that it acknowledged as recognizing states' rights to maintain public order, health, and morality. This conclusion is clearly helpful to states wishing to regulate for health reasons. However, it is unclear how far the exercise of police powers might validly extend. Could, for example, a state use these powers to protect other human rights, such as the right to privacy, to receive information, or to get an education?[62] The Tribunal (for reasons that are difficult to understand) cited the European Convention for the Protection of Human Rights,[63] which includes other fundamental rights, as does the Universal Declaration of Human Rights and its associated covenants.[64] Indeed, Daniel Gervais has proposed that ISDS panels consider human rights norms when "interpreting the scope and depth of the regulatory leeway used by the State before an unjustified (that is, one that leads to an obligation to compensate the investor) violation of its investment obligations is found."[65] However, because the connection between human rights and police powers remains an open question, states cannot currently confidently rely on them to justify regulatory activity.

Furthermore, to support the conclusion that Uruguay could validly exercise its police powers, the Tribunal required Uruguay to show that the measures it enacted were, in fact, related to health.[66] That issue also came up in connection with the question whether the regulations amounted to a denial of fair and equitable treatment, where Philip Morris contended that the regulations were arbitrary.[67] For two

60. *Id.* ¶¶ 287, 290–91.

61. Vienna Convention on the Law of Treaties art. 31(3)(c), *opened for signature* May 23, 1969, 1155 U.N.T.S. 331 (entered into force Jan. 27, 1980) [hereinafter VCLT].

62. *See* Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms art. 2, Mar. 20, 1952, 213 U.N.T.S. 262; Convention for the Protection of Human Rights and Fundamental Freedoms arts. 8, 10, Nov. 4, 1950, 213 U.N.T.S. 221.

63. *Philip Morris*, Award, *supra* note 2, ¶ 304 n.403.

64. International Covenant on Economic, Social and Cultural Rights, Dec. 16, 1966, 993 U.N.T.S. 3; G.A. Res. 217 (III) A, Universal Declaration of Human Rights (Dec. 10, 1948).

65. Daniel J. Gervais, *Investor-State Dispute Settlement: Human Rights and Regulatory Lessons from* Lilly v. Canada*,* 8 U.C. IRVINE L. REV. 459, 506 (2018). Outside the IP context, investment law appears to be taking greater consideration of human rights into account. *See, e.g.*, Urbaser S.A. v. Arg. Republic, ICSID Case No. ARB/07/26, Final Award (Dec. 8, 2016), https://www.italaw.com/sites/default/files/case-documents/italaw8136_1.pdf [https://perma.cc/AQ3A-TLTB] (entertaining a human rights counterclaim, but deciding under the circumstances that the investor had not violated a human rights obligation).

66. *Philip Morris*, Award, *supra* note 2, ¶¶ 305–06.

67. *Id.* ¶¶ 311–12, 323, 325–26.

of the regulations (the size and pictogram requirements), proving the relationship to health was relatively straightforward, as they were recommended in the FCTC and backed by the Pan-American Health Organization (PAHO).[68] However, the "single presentation" requirement was more difficult in that it was not a part of the FCTC. Here, the Tribunal relied on WHO and PAHO submissions and—because Uruguay claimed the goal was to prevent the public from being deceived into thinking smoking was safe—the judgment in a US case on whether Philip Morris engaged in a conspiracy to deceive the public.[69] The Tribunal was thus able to conclude that the regulation was "an attempt to address a real public health concern, that the measure taken was not disproportionate to that concern and that it was adopted in good faith."[70]

Tellingly, however, the conclusion on the single presentation requirement attracted a dissent by one of the arbitrators, Gary Born. In his view, there was "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."[71] Therefore, he found that "the requirement [did] not bear a rational relationship to its stated legislative objective" and "disproportionately injure[d] important investor rights."[72] Born's approach is dependent on his interpretation of the "margin of appreciation" (deference to the state) as being a matter of analysis of the BIT at issue, rather than a reference to a general standard applicable to all BITs.[73] And his demand for more empirical evidence on the effectiveness of limiting tobacco companies to a single presentation is questionable. The balance between the right to regulate and investor protection is far from settled,[74] but part of the right to regulate includes the discretion to experiment based on lesser evidence

68. *Id.* ¶¶ 304, 306.

69. *Id.* ¶¶ 391–95 (citing United States v. Philip Morris USA, Inc., 449 F. Supp. 2d 988 (D.D.C. 2006)).

70. *Id.* ¶ 409.

71. Philip Morris Brands Sàrl v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Concurrence and Dissent, ¶¶ 2, 159 (July 8, 2016) [hereinafter *Philip Morris*, Concurrence and Dissent], https://www.italaw.com/sites/default/files/case-documents/italaw7428.pdf [https://perma.cc/9L9L-JUFC] (concurrence and dissent by Born, Arb.).

72. *Id.* ¶ 129.

73. *Id.* ¶ 181.

74. David Gaukrodger, *The Balance Between Investor Protection and the Right to Regulate in Investment Treaties: A Scoping Paper* 3 (Org. for Econ. Cooperation & Dev., Working Paper No. 2017/02, 2017), http://dx.doi.org/10.1787/82786801-en [https://perma.cc/H8T9-X3WY] (noting that there is a "vigorous debate about the balance between investor protection and the right to regulate").

than Born would require.[75] His dissent also calls into question measures based on precautionary principles, which are essentially premised on a recognition of uncertainty.[76] Even the majority's analysis is troubling. It allowed Uruguay to rely on external support because it lacked its own resources.[77] Presumably, absent the support of external international institutions, countries would be required to generate their own evidence to justify novel regulatory actions; it is not clear all countries would have the resources to undertake such assessments. Nor is it clear what sorts of scientific evidence would be persuasive.[78]

The denial of justice claim, which was also asserted as part of the challenge based on fair and equitable treatment,[79] largely revolved around the fact that one of the tobacco measures was considered twice, once on the question of its constitutionality in Uruguay's Supreme Court of Justice (SCJ), and once on its legality in an administrative forum, the Tribunal de lo Contescioso Administrivo (TCA). Philip Morris argued this amounted to a denial of justice because the first decision should have, under principles of res judicata, foreclosed further consideration of the case.[80] Furthermore, the SCJ and TCA judgments were very different. While there was no way to logically reconcile them, there was also no mechanism to base a further appeal on the discrepancy.[81] Unlike in *Lilly*, this Tribunal opted for a high standard of proof for a denial of justice claim, requiring "*clear evidence* of an *outrageous* failure of the judicial system."[82] It rejected the challenge on several grounds: the dual system of courts had been in place long before Philip Morris had made its investment; under that system, the TCA is only bound by SCJ decisions of unconstitutionality; the TCA had acknowledged the SCJ decision; and administrative legality and

75. Michael C. Dorf & Charles F. Sabel, *A Constitution of Democratic Experimentalism*, 98 COLUM. L. REV. 267, 267 (1998) (arguing that democratic experimentalism allows problem solving to suit local conditions while maintaining constitutional order); *see also* Joel Colon Rios, *Experimentation and Regulation*, *in* FRAMING THE COMMONS: CROSS-CUTTING ISSUES IN REGULATION 94, 96 (Susy Frankel & John Yeabsley eds., 2014).

76. *Philip Morris*, Concurrence and Dissent, *supra* note 71, ¶ 126. Some uncertainty is regulated internationally. *See, e.g.*, Agreement on Sanitary and Phytosanitary Measures art. 5.7, Apr. 15, 1994, 1867 U.N.T.S. 493 [hereinafter SPS Agreement] (regulating the precautionary principle in relation to health and safety regulations); *see also* Jonathan B. Wiener, *The Real Pattern of Precaution*, *in* THE REALITY OF PRECAUTION: COMPARING RISK REGULATION IN THE UNITED STATES AND EUROPE 519, 536 (Jonathan B. Wiener et al. eds., 2011).

77. *Philip Morris*, Award, *supra* note 2, ¶¶ 393, 396.

78. José Alvarez, *The Quest for Objectivity: The Use of Experts in* Philip Morris v. Uruguay, 9 J. INT'L DISP. SETTLEMENT 411 (2018).

79. *Philip Morris*, Award, *supra* note 2, ¶¶ 483, 498.

80. *Id.* ¶ 508.

81. *Id.* ¶ 483.

82. *Id.* ¶ 500 (emphasis in original).

constitutionality were, in a sense, different things.[83] Labelling the dual system of courts a "quirk," the Tribunal held that even though the procedure may appear "unusual, even surprising, . . . it is not shocking and it is not serious enough in itself to constitute a denial of justice."[84]

Once again, Born dissented. He did not question "Uruguay's sovereign right to structure its judicial system as it deems fit, including with independent and co-equal courts with overlapping competence."[85] However, he argued that "[q]uirkiness is not a defense under international law"[86] and that the state must provide a way for the TCA decision to be appealable to the SCJ.[87] In short, to pass muster under the Born view, Uruguay must enact new procedural laws that, in essence, reorganize its judicial system. While this may not be as difficult to accomplish as ensuring sufficient levels of predictability, as the *Lilly* Tribunal required of Canada, Born's view represents a remarkably significant intrusion into sovereign authority. Together with his dissent on the single presentation requirement, it also would impose high costs on states wishing to regulate in ways that affect IP rights.

C. Costs and Procedures

Even without getting to the problems of determining whether respondents have complied with their IP and investment obligations, ISDS presents a formidable challenge to legitimate regulation. Canada faced a claim in excess of CDN $500 million,[88] which presumably represented Lilly's expected profits from selling Strattera and Zyprexa. It laid out CDN $6 million before being reimbursed 75 percent of that sum.[89] The damages in the Uruguay case were partly specified at approximately USD $22 million,[90] but if Philip Morris claimed expectation damages as Lilly had, they might have exceeded the gross national product of Uruguay.[91] Not only would Uruguay have had trouble paying the damage award had it lost, it was only able to mount a defense because it was financed by Michael Bloomberg, who is deeply

83. *Id.* ¶¶ 523–28.
84. *Id.* ¶¶ 527, 529.
85. *Philip Morris*, Concurrence and Dissent, *supra* note 71, ¶ 72.
86. *Id.* ¶ 62.
87. *Id.* ¶ 64.
88. *Eli Lilly*, Final Award, *supra* note 3, ¶ 95.
89. *Id.* ¶¶ 95, 453, 460.
90. *Philip Morris*, Award, *supra* note 2, ¶ 12.
91. *Philip Morris vs the Government of Uruguay*, TOBACCO TACTICS (Oct. 24, 2017), http://www.tobaccotactics.org/index.php/Philip_Morris_vs_the_Government_of_Uruguay [https://perma.cc/4582-A2GC].

interested in reducing deaths from tobacco products. Further, it received assistance from WHO and PAHO.[92] Given the cost and risk, less well-financed countries may well think twice before regulating IP in the public interest. Indeed, it is worth noting that according to an exposé by satirist John Oliver, Philip Morris also sent letters threatening an "incalculable" amount of international litigation to Togo, Namibia, and the Solomon Islands—three countries with extremely limited resources, which were also trying to reduce smoking.[93] In response, Togo withdrew its tobacco measures.[94] It is not alone in backing off from regulations affecting IP. As Brook Baker and Katrina Geddes have noted, Colombia was dissuaded by a threat of ISDS from issuing a compulsory license that would have made Novartis's Glivac more accessible to patients suffering from chronic myeloid leukemia. Similarly, the threat of an ISDS complaint led Ukraine to deregister a generic drug that would have competed with Gilead Science's hepatitis C medication, sofosbuvir, and lowered its price.[95]

Investors can also employ forum shopping and regime shifting to considerable advantage. Consider, for example, the situation of Australia. Philip Morris and a consortium of other tobacco companies first challenged its packaging legislation in the Australian courts on the ground that it amounted to a taking under Australian law. The High Court of Australia rejected the challenge in 2012.[96] But in 2011, while that case was pending, Philip Morris brought an investment dispute against Australia, alleging that Australia's tobacco measures amounted to an indirect expropriation of its property and that their passage without evidence they would improve health amounted to a denial of fair and equitable treatment.[97] Bringing that case was not easy: Philip Morris could not rely on protection as a US firm because Australia and the United States do not have an investment agreement. So that it could use a BIT between Hong Kong and Australia,[98] the firm restructured its business. Philip Morris (Asia), located in Hong Kong,

92. *Philip Morris*, Award, *supra* note 2, ¶ 141; *see also* Wyre Davies, *Michael Bloomberg Fights Big Tobacco in Uruguay*, BBC NEWS (Apr. 7, 2015), https://www.bbc.com/news/world-latin-america-32199250 [https://perma.cc/VE83-T357].

93. John Oliver, *Tobacco: Last Week Tonight with John Oliver (HBO)*, YOUTUBE (Feb. 15, 2015), https://www.youtube.com/watch?v=6UsHHOCH4q8 [https://perma.cc/5HAX-PEGK].

94. *Id.*

95. Baker & Geddes, *supra* note 38, at 509–12.

96. *JT International SA v Commonwealth* [2012] HCA 43 (Austl.).

97. Philip Morris Asia Ltd. v. Austl., PCA Case No. 2012-12, Notice of Arbitration, ¶ 1.5 (Nov. 21, 2011) [hereinafter *Philip Morris*, Notice of Arbitration], https://www.italaw.com/sites/default/files/case-documents/ita0665.pdf [https://perma.cc/KNM7-7CA4].

98. Agreement Between the Government of Australia and the Government of Hong Kong for the Promotion and Protection of Investments, Austl.-H.K., Sept. 15, 1993, 1748 U.N.T.S. 385.

acquired a subsidiary—an investment—in Australia, Philip Morris (Australia) Limited, which was engaged in the tobacco business in Australia.[99] Eight months later, in March 2012, Ukraine requested WTO consultations and later filed a complaint, alleging that the same tobacco measures were inconsistent with Australia's trademark obligations under the TRIPS Agreement.[100] Ukraine lacks resources (as well as a strong tobacco industry that trades with Australia); the thinking is that this complaint was likewise instigated by the tobacco industry.[101]

Admittedly, these maneuvers were not entirely successful. The ISDS case failed. Although the Tribunal found that Philip Morris had "admitted" the investment into Australia, as was required under the BIT,[102] Australia had signaled its plan to introduce plain packaging legislation in 2008—well before Philip Morris changed its corporate structure. The Tribunal concluded that since the restructuring was made at a time when the dispute was foreseeable, the action was an abuse of rights, and that the Tribunal lacked jurisdiction over the dispute.[103] Philip Morris was thus required to settle for bringing its case against Uruguay. Furthermore, Ukraine withdrew its WTO challenge.[104] However by then, Honduras and Cuba (which also lack resources but do substantial business growing and selling tobacco) had initiated WTO disputes of their own and their cases did proceed against Australia;[105] indeed, their complaints were joined by complaints of the

99. Philip Morris Asia Ltd. v. Austl., PCA Case No. 2012-12, Award on Jurisdiction and Admissibility, ¶ 7 (Dec. 17, 2015) [hereinafter *Philip Morris*, Award on Jurisdiction and Admissibility], https://www.italaw.com/sites/default/files/case-documents/italaw7303_0.pdf [https://perma.cc/U5XD-DHES].

100. Request for the Establishment of a Panel by Ukraine, *Australia—Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS434/11 (Aug. 17, 2012) (panel composed May 5, 2014). For an in-depth analysis discussing interpretation of article 20 of the TRIPS Agreement, see Susy Frankel and Daniel Gervais, *Plain Packaging and the Interpretation of the TRIPS Agreement*, 46 VAND. J. TRANSNAT'L L. 1149 (2013).

101. Harold Hongju Koh, *Global Tobacco Control As a Health and Human Rights Imperative*, 57 HARV. INT'L L.J. 433, 449 (2016) (describing the WTO case as brought by "nations acting at the behest of the global tobacco industry").

102. *Philip Morris*, Award on Jurisdiction and Admissibility, *supra* note 99, ¶¶ 514, 523.

103. *Id.* ¶¶ 564, 585.

104. *See Australia—Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO: DISP. SETTLEMENT, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds434_e.htm [https://perma.cc/TU89-8NB4] (last visited Oct. 17, 2018).

105. Request for the Establishment of a Panel by Cuba, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS458/15 (Apr. 14, 2014) (panel composed May 5, 2014); Request for Consultations by Honduras, *Australia – Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products*

Dominican Republic and Indonesia.[106] Although Australia prevailed at the WTO[107] and avoided the ISDS dispute entirely, it nonetheless had to defend itself in three different fora nearly simultaneously with no assurance the outcomes would be consistent with one another. Even the best resourced country may think twice before regulating in a way that exposes itself to that level of attention.[108] The strategy thus maximizes what James Gathii and Cynthia Ho term "regulatory chill" and "the destabiliz[ation] [of] . . . one regime by actions in a second regime."[109]

II. NEW AGREEMENTS

Given the problems we just saw in connection with ISDS cases that challenge state action touching on IP, one might have expected that new agreements would approach the IP/investment interface more gingerly. Indeed, several proposals have been made to alter investment chapters in ways that are more responsive to the impact of ISDS on sensitive national concerns, such as health, safety, and cultural development. Thus, some countries have withdrawn, or threatened to withdraw, from investment treaties altogether.[110] In contrast, infojustice.org has recommended focusing on the problems with IP, and not with other types of investments; it has suggested that "investor-state dispute settlement mechanisms shall not apply to any claim of indirect expropriation or fair and equitable treatment with respect to

and Packaging, WT/DS435/1/Corr.1, IP/D/31/Corr.1. G/TBT/D/40/Corr.1, G/L/986/Corr.1 (July 23, 2012).

106. Panel Report, *Australia–Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Docs. WT/DS435/R, WT/DS441/R, WT/DS458/R, WT/DS467/R (June 28, 2018). At the time of writing, Honduras and the Dominican Republic have filed appeals, which for the time being are delayed. *See* Communication from the Appellate Body, *Australia – Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Docs. WT/DS435/24, WT/DS441/25 (Sept. 20, 2018).

107. *Id.*

108. Significantly, Australia has since debated whether to enter into new investment agreements. *See* Luke R. Nottage, *Investor-State Arbitration Policy and Practice in Australia*, *in* SECOND THOUGHTS: INVESTOR-STATE ARBITRATION BETWEEN DEVELOPED DEMOCRACIES 377 (Armand de Mestral ed., 2017).

109. James Gathii & Cynthia Ho, *Regime Shift of IP Lawmaking and Enforcement from the WTO to the International Investment Regime*, 18 MINN. J.L. SCI. & TECH. 427, 429, 437 (2017).

110. Clint Peinhardt & Rachel L. Wellhausen, *Withdrawing from Investment Treaties but Protecting Investment*, 7 GLOBAL POL'Y 571, 571 (2016). Under the recently negotiated United States-Mexico-Canada Agreement, Can.-Mex.-U.S., art. 14.2(4), https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/united-states-mexico [https://perma.cc/ZS6K-RXJ2] (not yet entered into force), which will replace NAFTA, Canada will withdraw from the ISDS mechanism for most disputes, including IP disputes.

intellectual property."[111] India's model BIT is somewhat less radical. It would permit challenges based on IP rights. However, it provides that the host state's own law (and not international law) should be determinative of its IP obligations. Thus, the BIT would not apply 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."[112]

Other countries would permit IP-based challenges, but would avoid many of the issues that arose in the *Lilly* and *Philip Morris* disputes. Brazil's model BIT ensures that investors do not manipulate jurisdiction. Accordingly, it requires that investors "exert control or significant degree of influence over the management of the production of goods and provisions in the territory of the other Party."[113] Further, it defines expropriation to include only direct nationalization.[114] Because indirect expropriation is not included, measures that affect the value of IP, but which do not place ownership of the affected IP rights in the state's hands, cannot be challenged. An example would be the measures at issue in *Philip Morris*. An early version of the EU-Canada Comprehensive Economic and Trade Agreement (CETA)[115] would have left the protection against all forms of expropriation in place. However, during the negotiations, Canada proposed a measure that would have sheltered host state decisions (such as the one in the *Lilly* dispute) from challenge, unless they amount "to a denial of justice or an abuse of a right."[116]

Nevertheless, the agreements that have been negotiated subsequent to *Philip Morris* and *Lilly* have so far failed to significantly diminish the impact ISDS can have on IP-related regulation. For

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111. Sean Flynn, *TTIP Stakeholder Statement: Protect IP from ISDS*, INFOJUSTICE.ORG (Apr. 23, 2015), http://infojustice.org/archives/34319 [https://perma.cc/8SUJ-MD2U].

112. MODEL TEXT FOR THE INDIAN BILATERAL INVESTMENT TREATY art. 2(2.6)(v) [hereinafter INDIA MODEL BIT], https://www.mygov.in/sites/default/files/master_image/Model%20Text%20for%20the%20Indian%20Bilateral%20Investment%20Treaty.pdf [https://perma.cc/HV9Y-L33P] (last visited Oct. 17, 2018).

113. COOPERATION AND FACILITATION INVESTMENT AGREEMENT BETWEEN THE FEDERATIVE REPUBLIC OF BRAZIL AND [__] art. 3(1.3) (2015) [hereinafter BRAZIL MODEL BIT], http://investmentpolicyhub.unctad.org/Download/TreatyFile/4786 [https://perma.cc/RG7W-AP8Q]; INDIA MODEL BIT, *supra* note 112, art. 2(2.6)(v).

114. BRAZIL MODEL BIT, *supra* note 113, art. 3(1.3).

115. *See generally* Comprehensive Economic and Trade Agreement Between Canada of the One Part, and the European Union and its Member States, of the Other Part, Can.-E.U., Oct. 30, 2016 [hereinafter CETA], https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22017A0114(01) [https://perma.cc/N57Q-ZE3P].

116. Michael Geist, *Crumbling CETA?: The Investor-State Dispute Settlement Rules Threaten to Take Down the Canada–EU Trade Agreement*, MICHAEL GEIST (July 28, 2014), http://www.michaelgeist.ca/2014/07/crumbling-ceta-investor-state-dispute-settlement-rules-threaten-take-canada-eu-trade-agreement/ [https://perma.cc/7PCZ-YCXN].

example, the Trans Pacific Partnership Agreement (TPP) repeated the language in NAFTA—the same language that permitted the *Lilly* case to go forward.[117] The only difference was aimed directly at *Philip Morris*: it allowed parties to deny the benefits of the Investment Chapter with regard to "claims challenging a tobacco control measure."[118] For anyone concerned about ISDS more generally, this carve out is less than helpful. In our earlier article, we suggested that narrow exemptions, when coupled with language supportive of public health, could be useful as illustrations of broader policy objectives and help adjudicators trying to interpret the notoriously contentious three-step general exemption tests.[119] However, the TPP measure would arguably do the opposite. Since there is no general exemption for public health, the tobacco provision could have operated as a negative pregnant, signaling that other health (or public-regarding) measures can be considered violations of TPP obligations.

The United States withdrew from the TPP in 2017, and it is possible that the investment provisions—ironically, the exemption for challenges to tobacco regulations—played a role in that decision.[120] But the other potential signatories have gone forward with the TPP, which is now known as the Comprehensive Progressive Trans Pacific Partnership Agreement (CPTPP),[121] and several are also involved in negotiating the Regional Comprehensive Economic Partnership

117. Trans-Pacific Partnership art. 9.8(5), Feb. 4, 2016 [hereinafter TPP], https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text [https://perma.cc/3M75-6MC5] (not in force) ("This Article 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."); *see also id.* art. 9.10(3)(b) (exempting compulsory licenses and related actions from performance requirements); *id.* art. 9.15(5) (permitting TRIPS exceptions to national treatment and MFN obligations).

118. TPP, *supra* note 117, art. 29.5. A tobacco control measure is defined as "a measure of a Party related to the production or consumption of manufactured tobacco products (including products made or derived from tobacco), their distribution, labeling, packaging, advertising, marketing, promotion, sale, purchase, or use, as well as enforcement measures, such as inspection, recordkeeping, and reporting requirements." *Id.* art. 29.5 n. 12.

119. Dreyfuss & Frankel, *supra* note 1, at 598; *see, e.g.*, TRIPS, *supra* note 14, art. 30; NAFTA, *supra* note 4, art. 1709(6).

120. *See* Simon Lester, *Will Tobacco Kill the Trans-Pacific Partnership?*, NAT'L INT. (Oct. 14, 2015), http://nationalinterest.org/feature/will-tobacco-kill-the-trans-pacific-partnership-14066 [https://perma.cc/S6TJ-63F8] (noting the likely concerns of Senator Mitch McConnell of Kentucky).

121. *See* Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Mar. 8, 2018 [hereinafter CPTPP], https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text/#side#CPTPP [https://perma.cc/3NX5-V6RX].

Agreement (RCEP).[122] Although the CPTPP made changes to both the IP and the investment provisions of the TPP, the changes do not affect the ability of investors to challenge IP obligations that are in force among the parties. In fact, despite the experiences of Canada, Australia, and Uruguay, the IP chapter includes a clause similar to that which was part of Lilly's claim against Canada.[123] Significantly, however, on the basis of several side letters, some of the parties to the agreement will not permit ISDS between them.[124]

The RCEP text is not yet finalized or public, but it is also said to have an investment chapter. Indeed, the documents on RCEP that have become available suggest that challenges to IP laws will be permitted.[125] But if Australia's approach is any indication, RCEP could soften the interface between IP and ISDS. Thus, it may explicitly recognize a state's right to regulate, exempt claims on regulations that are nondiscriminatory and for "legitimate public welfare objectives," exclude changes in specific policy areas—including health and creative arts,[126] and include an articulation of the standard for determining when an investor's expectations are reasonable.[127]

CETA, which entered into force provisionally on September 21, 2017, attempts to steer a middle course between the India approach, which would virtually eliminate all IP disputes, the Brazil approach, which would limit them, and the CPTPP, which invites them. CETA's investment chapter affirms the parties' right to regulate to achieve "legitimate policy objectives," including public health and cultural diversity, even if the legislation "negatively . . . interferes with an

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122. *See* Ass'n of Southeast Asian Nations [ASEAN], *Regional Comprehensive Economic Partnership (RCEP)*, (Oct. 3, 2016), http://asean.org/?static_post=rcep-regional-comprehensive-economic-partnership [https://perma.cc/2QN7-5GCH].

123. CPTPP, *supra* note 121, art. 9.8(5) ("This Article shall not apply to the issuance of compulsory licenses 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.").

124. *See, e.g.*, Letter from Hon. David Parker, Minister for Trade & Exp. Growth, N.Z., to H.E. J.Jayasiri, Sec'y Gen., Ministry of Int'l Trade & Indus., Malay. (Mar. 8, 2018), https://www.mfat.govt.nz/assets/CPTPP/New-Zealand-Malaysia-ISDS.pdf [https://perma.cc/CGE3-7E72].

125. *See* Peter K. Yu, *The RCEP and Trans-Pacific Intellectual Property Norms*, 50 VAND. J. TRANSNAT'L L. 673, 705–06 (2017).

126. Regional Comprehensive Economic Partnership (RCEP) Negotiations, Discussion Paper on Investment 4 (May 26, 2017) (unpublished discussion paper) (on file with Department of Foreign Affairs and Trade of the Government of Australia), https://dfat.gov.au/trade/agreements/negotiations/rcep/Pages/rcep-discussion-paper-on-investment-may-2017.aspx [https://perma.cc/TU39-L7ZA].

127. James Love, *2015 Oct 16 Version: RCEP Draft Text for Investment Chapter*, KNOWLEDGE ECOLOGY INT'L (Apr. 22, 2016), https://www.keionline.org/23065 [https://perma.cc/9KAQ-NVUP].

investor's expectations."[128] It defines the standard of fair and equitable treatment.[129] An annex adds that except in rare circumstances where the impact is "severe," measures do not amount to indirect expropriation if they "protect legitimate public welfare objectives, such as health."[130] For IP, the text specifically states that measures consistent with TRIPS and CETA's investment chapter are not to be considered expropriatory.[131]

It remains to be seen how much of a difference these provisions can make. The measure ensuring the right to regulate appears aimed at staunching complaints such as the one regarding Lilly's expectations that it would have valid patents to exploit. However, all indirect expropriations are regulatory in nature. The provision may therefore not decrease disputes. Instead, future claimants will question whether the regulation furthers a "legitimate policy objective" and does so in an appropriate manner. As noted above, both awards left the gate open for future investment disputes on these questions. The definitions for what constitutes fair and equitable treatment go beyond denial of justice and include terms such as "manifest arbitrariness."[132] Because they are susceptible to multiple interpretations, their inclusion is unlikely to lead to fewer disputes. Moreover, allusions to "public health and cultural diversity" may be too general to provide arbitrators with meaningful guidance. Even the affirmation of a right to regulate is unlikely to achieve very much. Worse still, it potentially gives rise to a negative inference. Tribunals should understand a state's right to regulate as deriving from its sovereign authority and responsibility to its citizens, not from a (potentially contestable) provision of investment law.

As to the exemption for measures valid under TRIPS and CETA, consistency is in the eye of the beholder. CETA arbitrators may or may not agree with a WTO panel on what constitutes a violation of TRIPS.[133] Although CETA also includes a specific provision on overlapping arbitral authority, that provision only requires a CETA Tribunal to "stay its proceedings or otherwise ensure that proceedings brought pursuant to another international agreement are taken into account in its decision, order or award."[134] This could lead to a more orderly

128. CETA, *supra* note 115, art. 8.9.

129. *Id.* art. 8.10(2).

130. *Id.* annex 8-A(3).

131. *Id.* art. 8.12(5)–8.12(6).

132. *Id.* art. 8.10(2)(d).

133. Henning Grosse Ruse-Khan, *Protecting Intellectual Property Under BITs, FTAs, and TRIPS: Conflicting Regimes or Mutual Coherence?*, *in* EVOLUTION IN INVESTMENT TREATY LAW AND ARBITRATION 485, 493–94 (Chester Brown & Kate Miles eds., 2011).

134. CETA, *supra* note 115, art. 8.24.

procedure and less manipulation than we saw in the tobacco dispute. However, the measure does not impose a principle of either res judicata or stare decisis, as recommended by observers such as Xavier Seuba.[135] Thus, conflicting outcomes could still occur.

CETA also includes a Joint Declaration on the expropriation provision for IP.[136] Seemingly in response to Canada having its common law scrutinized in detail in *Lilly*, the Joint Declaration states that dispute settlement tribunals "are not an appeal mechanism for the decisions of domestic courts."[137] The Declaration also says that "the domestic courts of each Party are responsible for the determination of the existence and validity of intellectual property rights."[138] And consequently, in a vein analogous to the obligations of the TRIPS Agreement, "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."[139] The Parties also agree to review the relationship between IP rights and investment disciplines "within three years after entry into force of this Agreement or at the request of a Party."[140]

This too may prove to be less than helpful. The Declaration applies only to claims of expropriation, not to claims concerning fair and equitable treatment. Furthermore, the analogous TRIPS provision giving states authority to implement their obligations has not stopped *states* from bringing challenges;[141] *investors* may be even less likely to be deterred. Certainly, the Declaration falls far short of Canada's original proposal that the standard for adjudication should be a denial of justice or abuse of right. Besides, the Declaration is not a treaty so, under rules of treaty interpretation found in the VCLT, it can be taken into account only as context when interpreting the ordinary meaning of the terms of the treaty rather than a rule in and of itself.[142]

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135. XAVIER SEUBA, THE GLOBAL REGIME FOR THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS 95–130 (2017).

136. CETA, *supra* note 115, annex 8-D; *id.* art. 8.12(6).

137. *Id.* annex 8-D.

138. *Id.*

139. *Compare id.*, *with* TRIPS, *supra* note 14, art. 1(1) ("Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.").

140. CETA, *supra* note 115, annex 8-D.

141. *See, e.g.*, Panel Report, *China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, ¶ 7.513, WTO Doc. WT/DS362/R (adopted Mar. 20, 2009) (noting that article 1(1) "does not permit differences in domestic legal systems and practices to justify any derogation from the basic obligation to give effect to the provisions on enforcement," which leaves states free to challenge implementation methods).

142. VCLT, *supra* note 61, art. 31(2)(a) ("The context for the purpose of the interpretation of a treaty shall comprise, in addition to the text, including its preamble and annexes: (a) Any agreement relating to the treaty which was made between all the parties in connection with the

To be sure, CETA includes not only new substantive standards, but also novel procedural arrangements. Aside from the provision on overlapping adjudicatory authority, it provides for early dismissal of claims that are "manifestly without legal merit"[143] and shifts the costs of the proceeding to the unsuccessful party.[144] However, there is a real question as to whether these provisions can reduce the costs states face to the point where the chill of ISDS is removed.

In addition, CETA requires the appointment of a standing body of arbitrators (a "Tribunal"), appointed for five-year terms that can be renewed once.[145] It further mandates the establishment of an "Appellate Tribunal" to review the awards rendered.[146] In our earlier piece, we suggested that a standing body replace ad hoc panels because we thought the adjudicators would be more likely to be cognizant of public values and receptive to the state's interest in regulating.[147] However, it is not clear that this will be true of the bodies CETA contemplates. CETA requires appointees to have "expertise in public international law" and states that it is desirable that there also be experts in international investment law, in trade law, and in the resolution of disputes arising under international investment or trade agreements.[148] There is no specific mention of expertise in IP law or experience in government. Given the requirements, the people who are most likely to be early appointees are those who have participated in ad hoc panels in the past—presumably, they will bring whatever biases they already have with them.[149] Thus, the perspectives we saw in the *Philip Morris* and *Lilly* cases could easily become instantiated in CETA practice. While the members of the Tribunal must be independent, free of direct or indirect conflicts of interests, and refrain from acting as counsel or party-appointed experts or witnesses in other cases during their appointment,[150] a seat on the Tribunal and Appellate Tribunal is not a full-time job. In any event, appointment lasts only for a brief time,

conclusion of the treaty."); *see also* James T. Gathii, *The Legal Status of the Doha Declaration on TRIPS and Public Health Under the Vienna Convention on the Law of Treaties*, 15 HARV. J.L. & TECH. 291, 292–93 (2002) ("[T]he Doha Declaration should now be regarded as an interpretive element in the interpretation of the TRIPS Agreement under customary international law.").

143. CETA, *supra* note 115, art. 8.32.

144. *Id.* art. 8.39.

145. *Id.* art. 8.27.

146. *Id.* art. 8.28.

147. Dreyfuss & Frankel, *supra* note 1, at 593–94.

148. CETA, *supra* note 115, art. 8.27(4).

149. *See generally* Joost Pauwelyn, *The Rule of Law Without the Rule of Lawyers? Why Investment Arbitrators are from Mars, Trade Adjudicators from Venus*, 109 AM. J. INT'L L. 761 (2015) (examining the effect of the different experiences of WTO and ISDS arbitrators).

150. CETA, *supra* note 115, art. 8.30(1).

relative to the length of arbitrators' careers. Thus, it is possible that other activities and career objectives will color their positions.

CETA also requires the parties to pursue the establishment of "a multilateral investment tribunal and appellate mechanism."[151] That would represent a better solution than a forum devoted only to disputes between the European Union and Canada. The volume of cases flowing from a multilateral tribunal would more likely require full-time decision makers, thus avoiding conflicts of interest. However, it is not clear if and when this arrangement will come to fruition. In addition, we advocated for greater transparency, and CETA provides for open hearings.[152] But it is not evident that third parties will have a right to provide input. Moreover, the guarantees of confidentiality may allow much of the proceedings to remain secret.[153]

III. NEW APPROACHES

As in our previous work, we do not question the proper use of ISDS to protect IP investments. However, experience with dispute settlement suggests that new investment agreements, while helpful, do not sufficiently reduce the possibility for using ISDS as leverage against state action. At best, the newer provisions ensure that states will prevail more often. They do not address the core problem raised by the *Philip Morris* and *Lilly* cases, which is that defending ISDS is too difficult and expensive. For reform to be meaningful, the goal must be to reduce the potential for challenges. One way to do that is through an assessment of jurisdiction that takes the intangibility of IP into account; another is by adopting a more realistic view of damages, one that is better attuned to the nature of IP rights and values; a third is by revising ISDS in a manner that would expose investors to the lawmaking consequences of their claims. We consider each in turn.

A. Jurisdiction

One issue that deserves closer consideration is whether there is a sufficient investment in the state to trigger rights under the relevant investment agreement. After all, an investor must make an investment in the host state for an investment agreement to be relevant.[154] While

151. *Id.* art. 8.29.

152. *Id.* art. 8.36; Dreyfuss & Frankel, *supra* note 1, at 599–600.

153. CETA, *supra* note 115, art. 8.36(5)–(6).

154. Although this section discusses whether the claimant has made an investment in the host state, much of it applies to the question whether the investor is entitled to use the BIT to bring an investment dispute. This issue arose in the Philip Morris-Australia case under the

it is true that these agreements define "investment" or "asset" to include IP, investment tribunals—when deciding non-IP issues—often interrogate investments that at face value fall within the definition in order to decide whether they in fact constitute investments in the state.[155] For intangibles, localization is difficult in many situations, including for determinations of jurisdiction, choice of law, enforcement of judgments, and for taxation purposes.[156] Thus, it is somewhat surprising that there has been so little discussion of whether there has been an in-state investment in the context of investor-state disputes involving IP.

To be sure, BITs have long defined IP as investment assets. Thus, the 1962 agreement between Germany and Pakistan defined investments to include patents and technical knowledge.[157] Later BITs carried that protection forward, expanded on the category of IP assets, and adopted more modern terminology.[158] However, during the relevant period, much about the acquisition of IP rights changed. In 1962, it was difficult to obtain foreign IP registrations. The Patent Cooperation Treaty (PCT), adopted in 1970 and effective in 1978, has become an increasingly popular way to obtain multiple patent registrations efficiently.[159] And the Madrid Protocol, adopted in 1989 and effective in the United States in 2003, has made it even easier to register trademarks multinationally.[160] Accordingly, where at one time

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Australia-Hong Kong BIT. *See Philip Morris*, Award on Jurisdiction and Admissibility, *supra* note 99, ¶ 244.

155. *See, e.g.*, Andrea K. Bjorklund, *Building the Civilization of Arbitration: The Emerging Civilization of Investment Arbitration*, 113 PENN ST. L. REV. 1269, 1280 (2009).

156. ORG. FOR ECON. COOPERATION & DEV. (OECD), CONFORMING AMENDMENTS TO CHAPTER IX OF THE TRANSFER PRICING GUIDELINES (2016) [hereinafter OECD, CONFORMING AMENDMENTS], https://www.oecd.org/tax/transfer-pricing/conforming-amendments-chapter-ix-transfer-pricing-guidelines.pdf [https://perma.cc/PF9W-J4TN]; *see, e.g.*, Graeme B. Dinwoodie, *Developing a Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 723–24, 726 (2009).

157. *See, e.g.*, Treaty for the Promotion and Protection of Investments, Ger.-Pak., art. 8(1)(a), Nov. 25, 1959, 457 U.N.T.S. 24 (entered into force Nov. 28, 1962) (defining "investment" to include patents and technical knowledge).

158. Dreyfuss & Frankel, *supra* note 1, at 571 & n. 89.

159. Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231. There are also regional agreements that simplify the acquisition of patent rights. *See, e.g.*, Convention on the Grant of European Patents (European Patent Convention), Oct. 5, 1973, 1065 U.N.T.S. 199. For data on use of the system, see *WIPO IP Statistics Data Center*, WORLD INTELL. PROP. ORG. (WIPO), https://www3.wipo.int/ipstats/index.htm [https://perma.cc/7DY2-FC64] (last visited Oct. 17, 2018).

160. Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, June 27, 1989, S. TREATY DOC. No. 106-41 [hereinafter Madrid Protocol]. A much earlier instrument, the Madrid Agreement Concerning the International Registration of Marks, Apr. 14, 1891, 828 U.N.T.S. 389, was adopted by many countries, but not the United States. For data on use of the Madrid System, see *Madrid System Statistics*, WORLD INTELL. PROP. ORG., http://www.wipo.int/madrid/en/statistics/index.jsp?type=2 [https://perma.cc/2R3V-FB8R] (last visited Oct. 17, 2018).

an IP registration may have signified a decision to engage with a particular state, mere ownership can no longer be said to serve as a proxy for significant in-state investment. In fact, thanks to the Paris Convention, the Berne Convention, and the TRIPS Agreement, some rights can be acquired without *any* activity in the state: trademarks, through becoming well known; and copyrights, through creation (or fixation, or in some cases, publication) in any WTO country.[161] If these rights were alone enough to enjoy investment protection, then an "investor" could bring an ISDS complaint without *any* involvement with the host country.

Lilly raised precisely this problem. Lilly's investments in Canada did not apparently include inventing the compounds at issue in Canada, finding their new uses there, or testing or manufacturing them there. Instead, the firm based its challenge on making "significant investment decisions in relation to the drugs, such as investing in regulatory approvals and marketing."[162] Given that the Canadian rights were counterparts to US patents (and one was applied for under the PCT)[163] and the similarities in pharmaceutical regulation in the two countries, these investments in Canada were minimal.[164] In a prior NAFTA case, a Tribunal held that the expense incurred in a regulatory approval process (in that case, to obtain clearance to sell a product) was not an "investment;"[165] that "a company's activities undertaken in its capacity as a foreign exporter of goods into the territory of a NAFTA

161. Berne Convention for the Protection of Literary and Artistic Works, art. 5(1), (2), (4), Sept. 9, 1886, S. TREATY DOC. No. 99-27 (revised July 24, 1971) [hereinafter Berne Convention]; Paris Convention for the Protection of Industrial Property art. 6bis, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305 (revised July 14, 1967) [hereinafter Paris Convention]. Significantly, the United States did not join Berne until 1988. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988). The agreements also ensure that foreign nationals can obtain the same protection as locals. *See* TRIPS, *supra* note 14, art. 3; Berne Convention, *supra*, art. 3; Paris Convention, *supra*, art. 2.

162. *Eli Lilly*, Final Award, *supra* note 3, ¶ 265. Or as Lilly put it, "Lilly's Zyprexa and Strattera patents – which each encompass a bundle of exclusive property rights and the ability to enforce those rights – qualify as 'investments' under Article 1139 because they are intangible property acquired in the expectation, or used for the purpose, of economic benefit or other business purposes." Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Claimant Memorial, ¶ 163 (Sept. 29, 2014), https://www.italaw.com/sites/default/files/case-documents/italaw4046.pdf [https://perma.cc/JP49-Y4NA].

163. *See Eli Lilly*, Final Award, *supra* note 3, ¶ 267.

164. *See* Patricia I. Carter, *Federal Regulation of Pharmaceuticals in the United States and Canada*, 21 LOY. L.A. INT'L & COMP. L.J. 215, 215 (1999).

165. Apotex Inc. v. Gov't of U.S., ICSID Case No. UNCT/10/2, Award on Jurisdiction and Admissibility, ¶¶ 146(f), 158, 243 (June 14, 2013), https://www.italaw.com/sites/default/files/case-documents/italaw1550.pdf [https://perma.cc/5EG2-SZE5]; *see also* Grand River Enters. Six Nations, Ltd. v. United States, ICSID Case No. ARB/10/5, Award, ¶¶ 87–89 (Jan. 12, 2011), IIC 481 (finding that investments made in one county are not protected from regulatory activity in another country that impairs their value).

Party are not addressed by [the investment chapter of NAFTA]."[166] As we suggested in our earlier work, in the context of the *Lilly* case, patent registration is likewise merely a prelude to importation.[167] Thus, Canada could have objected to the Tribunal's jurisdiction under NAFTA. Success on that objection would have obviated the need to address the merits and would have substantially reduced the cost of defending the action. More generally, a fuller understanding of when IP constitutes an in-state investment would potentially limit the threat of overreaching in IP-related disputes.

This is not to say that this issue has been ignored. In two disputes based on trademark-related investments, the respondents challenged jurisdiction. In *Philip Morris v. Uruguay*, Uruguay's objection did not prevail. It argued that Philip Morris's activities were not "investments" in accordance with the ICSID Convention[168] or the BIT because its activities did not make a contribution to development, but instead detracted from it.[169] The Tribunal held that the requirement of economic development in the state was a characteristic of some investments but not a mandatory jurisdictional requirement.[170] In any event, it found that it had jurisdiction over the dispute because of Philip Morris's "long-term, substantial activities in Uruguay."[171] These activities included a local manufacturing facility, shares in a local company, rights to royalty payments, and trademarks.[172] Consequently, the Tribunal did not investigate in what circumstances a trademark registration could, in and of itself, amount to an in-state investment. Indeed, the Award confused the question with references to the investment as "'brand assets,' including the associated intellectual property rights."[173]

166. *Apotex*, Award on Jurisdiction and Admissibility, *supra* note 165, ¶ 143.

167. Dreyfuss & Frankel, *supra* note 1, at 590 n.197. It is not known why Canada did not elect to challenge jurisdiction along these lines.

168. Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Decision on Jurisdiction, ¶¶ 176–78 (July 2, 2013) [hereinafter *Philip Morris*, Decision on Jurisdiction], https://www.italaw.com/sites/default/files/case-documents/italaw1531.pdf [https://perma.cc/HJW7-PNXD]; *see also* Convention on the Settlement of Investment Disputes between States and Nationals of Other States art. 25, Mar. 18, 1965, 17 U.S.T. 1270, 575 U.N.T.S. 159 [hereinafter ICSID Convention].

169. *See Philip Morris*, Decision on Jurisdiction, *supra* note 168, ¶¶ 177–82, 210.

170. *Id.* ¶ 206.

171. *Id.* ¶ 209.

172. *See id.* ¶ 190.

173. *See Philip Morris*, Award, *supra* note 2, ¶¶ 70, 235 (stating that it is "undisputed" that a trademark is an investment). As noted below, in another case based on a trademark-related investment, Panama failed to contest jurisdiction based on the existence of a trademark right; it only questioned whether a license amounted to an in-state investment. Bridgestone Licensing Servs. Inc. v. Republic of Pan., ICSID Case No. ARB/16/34, Decision on Expedited Objections, ¶¶ 60–61 (Dec. 13, 2017) [hereinafter *Bridgestone*, Decision on Expedited Objections],

In the second ICSID dispute, filed in late 2017, the companies that owned the FIRESTONE and BRIDGESTONE trademarks brought proceedings against the government of Panama.[174] They asserted that they suffered a lack of fair and equitable treatment and expropriation of their trademark-related investments through a decision imposing penalties for unsuccessfully objecting to the registration of a somewhat similar mark, RIVERSTONE, for similar goods.[175] The alleged investments included both trademarks and licensing rights derived from the trademarks.[176] In an expedited proceeding, the Tribunal discussed in some detail the characteristics of when trademark expenditures amount to an in-state investment. It began by noting that there was no other decision that had considered whether a trademark can be an investment when it is not accompanied by other forms of investment, "such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment."[177] In particular it noted that *Philip Morris v. Uruguay* did not cover this point.[178] The Tribunal then concluded that the mere registration of a trademark is not an investment.[179] It also rejected the notion that mere sales of trademarked products amount to an investment.[180] Rather, it stated that:

> 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.[181]

In addition, the Tribunal considered that licensing "the use of a trademark under a franchise agreement that grants to the licensee the

https://www.italaw.com/sites/default/files/case-documents/italaw9453.pdf [https://perma.cc/R9J3-8STY].

174. *See Bridgestone*, Decision on Expedited Objections, *supra* note 173, ¶ 56.
175. *Id.* ¶¶ 48, 62.
176. *Id.* ¶¶ 50, 61.
177. *Id.* ¶ 166.
178. *Id.*
179. *Id.* ¶ 171.
180. *Id.* ¶¶ 175–77.
181. *Id.* ¶ 172.

right to exploit the trademark for its own benefit" may constitute an investment on the part of the owner.[182]

The criteria listed by the Tribunal echo considerations articulated in the jurisdiction decisions in two other ICSID cases, *Salini v. Morocco* and *Fedax v. Venezuela*,[183] both of which have spawned a considerable literature on when an investment meets the requirements of ICSID.[184] A discussion of that debate is beyond the scope of this Article. We instead focus on the investment requirements of the BIT under which the dispute is brought.[185] For that purpose, the better way to evaluate the sufficiency of an investment is through reference to article 31 of the VCLT, which requires that a treaty term be given its ordinary meaning in context, which includes "any relevant rules of international law applicable in the relations between the parties."[186] Under either the ordinary meaning step or via context,[187] tribunals should refer not only to the goals of investment agreements, but also to the objectives of the relevant international IP agreements.[188]

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182. *Id.* ¶¶ 173–74.

183. *See* Salini Costruttori S.p.A. v. Kingdom of Morocco, ICSID Case No. No ARB/00/4, Decision on Jurisdiction, ¶ 52 (July 23, 2001), 6 ICSID Rep. 398 (2004); Fedax N.V. v. Republic of Venez., ICSID Case No. ARB/96/3, Award on Jurisdiction, ¶ 43 (July 11, 1997), 5 ICSID Rep. 200 (2000). The characteristics of investment are referred to in the preamble of the agreement that establishes one of the main investment hearing bodies; the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (1965) frames "[t]he role of private international investments" as part of "international cooperation for economic development." *See* ICSID Convention, *supra* note 168, pmbl. Rule 23 expanded on this to say that "the economic materialisation of an investment requires the commitment of resources to the economy of the host state by the claimant entailing the assumption of risk in expectation of a commercial return." ZACHARY DOUGLAS, THE INTERNATIONAL LAW OF INVESTMENT CLAIMS 161 (2009) (discussing ICSID Rule 23).

184. *See, e.g.*, Wolfgang Alschner, *The Impact of Investment Arbitration on Investment Treaty Design: Myth Versus Reality*, 42 YALE J. INT'L L. 1, 54–55 (2017); Kathleen S. McArthur & Pablo A. Ormachea, *International Investor-State Arbitration: An Empirical Analysis of ICSID Decisions on Jurisdiction*, 28 REV. LITIG. 559, 584 tbl. A1 (2009); Julian Davis Mortenson, *The Meaning of "Investment": ICSID's Travaux and the Domain of International Investment Law*, 51 HARV. INT'L L. J. 257, 272 n.55 (2010); Brigitte Stern, *The Contours of the Notion of Protected Investment*, 24 ICSID REV. 534, 536 (2009).

185. Depending on the terms of the BIT, such disputes can be brought under ICSID or UNICITRAL rules.

186. *See supra* note 142 and accompanying text. Interestingly, the Uruguay Tribunal used the VCLT for other purposes: to discuss expropriation, and analyze fair and equitable treatment. *See Philip Morris*, Award, *supra* note 2, ¶¶ 289–91, 315–17.

187. In the WTO dispute relating to requirements for turtle friendly shrimp nets, the Appellate Body referred to the relevant international law by looking at the ordinary meaning of "exhaustible natural resources" found in Article XX(g) of the GATT. Appellate Body Report, *United States—Import Prohibition of Certain Shrimp and Shrimp Products*, ¶ 129, WTO Doc. WT/DS58/AB/R (Oct. 12, 1998) [hereinafter *US—Shrimp*]. It used the relevant international law to discern the ordinary meaning in context, as required under VCLT art. 31(1), rather than under art. 31(3)(c). *See* VCLT, *supra* note 61, art. 31; *US—Shrimp*, *supra*.

188. *See* Susy Frankel, *Interpreting the Overlap of International Investment and Intellectual Property Law*, 19 J. INT'L ECON. L. 121, 123–24 (2016).

All the major international IP instruments include goals related to fostering local economies and development. The TRIPS Agreement explicitly describes its objectives as including "the promotion of technological innovation and . . . the transfer and dissemination of technology."[189] NAFTA speaks of "creat[ing] new employment opportunities and improv[ing] working conditions and living standards."[190] Other measures target more specific goals. An appendix to the Berne Convention evinces concern for local culture by permitting states to translate books into local languages under certain conditions.[191] In the patent sphere, working requirements, rules permitting compulsory licensing, and the Doha Declaration allow member states to ensure local training, jobs, and production capacity, as well as the availability of products that meet local needs.[192] Older agreements reflect the same purposes. For example, under the Universal Copyright Convention (UCC), the United States maintained a law that fostered local production of copyrighted works through a requirement that English language books be manufactured in the United States or Canada.[193]

The mere acquisition of local IP rights does not fulfill the goals of these agreements. What does further them is investment in local enterprises such as laboratories, experimental farms, printing presses, studios, and factories. These give rise to domestic employment and training opportunities and thus enhance development. They also ensure that locals enjoy the capacity to create cultural products of local interest, including books and films in local languages, that are reflective of local traditions, as well as newspapers and magazines that carry stories of local concern. And they enable the state's citizens to develop and adapt technical materials to satisfy their unique needs such as medicines that cure local diseases (dengue fever and malaria are examples), to respond to local limitations (such as the lack of

189. TRIPS, *supra* note 14, art. 7.

190. NAFTA, *supra* note 4, at pmbl.

191. Stockholm Revision of the Berne Convention, art. 3(9), July 14, 1967, 828 U.N.T.S. 221 (Jan. 1, 1970 was the effective date for the administrative provisions; the substantive provisions were incorporated into the later Paris Revision).

192. *See* TRIPS, *supra* note 14, arts. 31, 31bis; Paris Convention, *supra* note 161, art. 5; World Trade Organization, Ministerial Declaration of 14 November 2001, ¶¶ 4–5, WTO Doc. WT/MIN(01)/DEC/1, 41 I.L.M. 746 (2002) [hereinafter Doha Declaration]. As we note in our earlier piece, these provisions survive TRIPS. *See* Dreyfuss and Frankel, *supra* note 1, at 563.

193. Universal Copyright Convention, art. III(1), Sept. 6, 1952, 25 U.S.T 1341; *see, e.g.*, Annette V. Tucker, *The Validity of the Manufacturing Clause of the United States Copyright Code as Challenged by Trade Partners and Copyright Owners*, 18 VAND. J. TRANSNAT'L L. 577, 583 (1985).

refrigeration), or to develop plants that grow under local conditions and satisfy local taste.[194]

Significantly, a move to scrutinize the locus of IP investments is also afoot in the tax domain, where the Organisation for Economic Co-operation and Development (OECD) has also recognized that "intangibles raise difficult questions."[195] There, the problem is tax-base erosion, which is caused when firms structure their business arrangements so that their IP is nominally localized in a region where profits are taxed at a low rate, irrespective of where the activities that generate these profits are physically located.[196] To correct the distortion, the OECD suggests that states tax intangibles based on where value is created, looking at such factors as where "controlling functions related to the development, enhancement, maintenance, protection, or exploitation" are performed;[197] the ratio of royalties received to expenditures in research and development;[198] the conduct of the parties; and the commercial rationality of the claimed business arrangements.[199] Although the issue of whether an investment takes place in a state for purposes of ISDS is clearly different from the price-erosion question, the goal in both cases is to attach legal significance to real-world events. Thus, similar factors could be used to determine when an investor has done enough in a state to invoke the protection of investment agreements.

In sum, in determining whether a state's action is compatible with international IP obligations, arbitrators should take into account both the object and purpose of the investment chapter under which they are operating and the IP agreement that gave rise to the investor's rights. One consequence is that an investor cannot always enjoy both trade and in-state investment benefits. It should not be able to reap comparative advantage by making its substantial investments out of state and still claim the benefits of ISDS (and tax law) in the state.

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194. *Cf.* Keith Aoki et al., *Pastures of Peonage: Tracing the Feedback Loop of Food Through IP, GMOs, Trade, Immigration, and U.S. Agro-Maquilas*, 4 NE. U. L.J. 1, 12–13 (2012); Hafiz Aziz ur Rehman, *India's Slumdog Millions: New Models of Medical Innovation*, 44 CREIGHTON L. REV. 463, 475 (2011); Lea Shaver, *The Right to Read*, 54 COLUM. J. TRANSNAT'L L. 1, 5 (2015).

195. OECD, CONFORMING AMENDMENTS, *supra* note 156, ¶ 9.55.

196. *See, e.g.*, COMM. ON WAYS & MEANS, JCX-33-11, BACKGROUND AND SELECTED ISSUES RELATED TO THE U.S. INTERNATIONAL TAX SYSTEM AND SYSTEMS THAT EXEMPT FOREIGN BUSINESS INCOME 11, 34, 38, 45–46 (2011) (discussing what is popularly known as "patent boxes" in a series of states), https://www.jct.gov/publications.html?func=startdown&id=3793 [https://perma.cc/3H4Z-AZ83]; Org. Econ. Cooperation & Dev. [OECD], *Measuring and Monitoring BEPS, Action 11: 2015 Final Report*, at 85, OECD/G20, (2015) [hereinafter OECD, *Measuring and Monitoring BEPS*], http://dx.doi.org/10.1787/9789264241343-en [https://perma.cc/KQ3B-RVWN].

197. OECD, CONFORMING AMENDMENTS, *supra* note 156, ¶ 9.57–.58.

198. *See* OECD, *Measuring and Monitoring BEPS*, *supra* note 196, at 60.

199. *Id.* at 201–02.

B. Damages

Another approach to taking the sting out of ISDS is to reduce the benefits of bringing these claims. Expectation damages can be viewed as one culprit in popularizing these actions. As the Canada and Uruguay disputes demonstrate, claims for relief can be extremely high. They are also quite problematic. If successful, they would give investors a reward based on what they would have earned—without having to engage in the work or bear the risk of actually earning it. As Rob Howse has noted, expectation damages also eliminate the need to mitigate, thus creating moral hazard.[200] For example, investors can challenge a law instead of figuring out ways to use their in-state assets in ways that comply with the state's regulatory regime.

For our purposes, however, the main problem with expectation damages is that they are speculative, for IP generally and in the health context in particular. For the most part, IP rights are open to challenge throughout their existence. Thus, in reality, investors must discount their expected profits by the possibility that their trademark will be found to be confusingly similar or dilute a local mark, or that prior art will be found that invalidates their patent, or that their copyrighted material is held more functional than expressive. Furthermore, they must consider the fact that IP laws are highly contingent. The delicate balance IP laws strike between proprietary and public interests means that these rights are dynamic and may be continually restructured to respond to changing technological and business ecosystems, social imperatives, and cultural environments.

Firms that invest in assets related to health must also realize that ongoing medical, biological, pharmacological, proteomic, and genomic research continually improves society's understanding of risks, treatment, and therapies. As risks—such as the dangers of smoking or dosing children with drugs for attention deficit disorder—become better understood, governments, the medical community, and consumers may well respond in ways that can frustrate investors' profit projections. Profits must also be discounted because the goal of IP law is to promote innovation. Thus, there is always a risk of superseding inventions—cures or better treatment for psychosis, for example—which will alter the investor's business prospects.

Given these considerations, a tribunal considering the merits of a case ought to regard a right holder's legitimate expectations as

200. Robert Howse, *International Investment Law and Arbitration: A Conceptual Framework* 44, 49–50 (Inst. for Int'l Law & Justice, Working Paper No. 2017/1, 2017), https://www.iilj.org/wp-content/uploads/2017/04/Howse_IILJ_2017_1-MegaReg.pdf [https://perma.cc/G8TW-ZVS8].

congruent with those contingencies. They should extend no further than the expectation that IP rights will be judged under law that is compliant with international obligations, that local courts will adjudicate their cases in accordance with the norms of due process, and that whatever constraints the state imposes on foreigners, it does the same for locals.

For calculating damages, we propose going one step further. Because expectation damages raise so many questions, the award should be limited to compensation for the investor's actual in-state investments. Where there is only a registered right, these will usually be minimal—in many situations, minimal enough to discourage investors from undertaking the expense of bringing the investment dispute in the first place. In one sense, then, limiting damages accomplishes the same goal as requiring an in-state investment for purposes of determining jurisdiction. However, the results are not entirely equivalent. ISDS claims are not brought only to secure damages. They are also used to urge (or scare) states to change their laws. Moreover, they can establish new norms, which may work their way into trade agreements or the decisions of other tribunals (such as WTO panels).[201]

C. Exposure to Consequences

ISDS disputes could be reconceptualized more radically. Currently investment chapters define an investment to include IP, using terminology such as "intangible [property], acquired in the expectation or used for the purpose of economic benefit or other business purposes."[202] Thus, the only parties who appear to be entitled to bring IP-related investment disputes are the holders of IP rights. They are not, however, the only parties to invest in reliance on the contours of IP law. Rather, IP law encourages investment strategies that turn on the expectation that protection is *not* available. For example, a firm might expend resources inventing around a patented invention in the expectation that the claims will be interpreted in a particular way. Similarly, a generic drug firm might invest in bioequivalence testing and new manufacturing methods in the belief that a primary patent is invalid or will soon expire and that attempts like Lilly's, to acquire secondary patents on account of surprising new uses, will fail. An artist might create a work in reliance on a copyright

201. Ruth L. Okediji, *Is Intellectual Property "Investment"?* Eli Lilly v. Canada *and the International Intellectual Property System*, 35 U. PA. J. INT'L L. 1121, 1129–32 (2014).

202. *See, e.g.*, NAFTA, *supra* note 4, art. 1139(g).

exception, such as fair use.[203] Or a large internet platform that hosts third-party content might rely on copyright exceptions, such as fair use or use for research and private study. These investments, when made in a host state, could also be considered sufficiently related to IP rights to be considered protectable by investment agreements.

It is not unknown for these investments to be protected under domestic law. For instance, when the United States entered the Berne Convention and restored the copyright on certain works that had fallen into the public domain under the UCC system, it gave "reliance parties"—parties that had invested in the expectation that protection had lapsed—the right to continue to use their works under specified conditions.[204] Similarly, many states protect parallel importers' expectations that a right holder's interests are exhausted when the imported embodiments have been the subject of an authorized sale.[205] In addition, states may tailor remedies to partially shield from liability defendants with a good faith, reasonable belief that their use was not infringing.[206] The international IP system, in particular the TRIPS Agreement, is not as direct. However, it recognizes as one of its objectives the interests of both producers and users, and it provides frameworks for members to develop exceptions and limitations to rights.[207]

Thus, it can be argued that such investors also have legitimate interests and that investment law should accord them equivalent avenues for redress, including the ability to challenge any changes in the scope of IP rights that undermine their investments as expropriations or denials of fair and equitable treatment. For example, had Apotex been a US firm, shouldn't it have had a right to challenge the *AstraZeneca* holding on the ground that it invested in the expectation that the patent would be adjudicated under the promise utility doctrine, which was suddenly overturned? Or consider the safe harbors currently available to internet platforms. Were the film industry successful at limiting them—as it is trying to do[208]—it would

203. *See* Jessica Litman, *The Public Domain*, 39 EMORY L.J. 965, 966–67 (1990) (noting the importance of the public domain to creative production); Eric Shimanoff, *The Odd Couple: Postmodern Culture and Copyright Law*, 11 MEDIA L. & POL'Y 12, 12–13, 18 (2002) (discussing appropriation art).

204. 17 U.S.C. § 104A (2012).

205. *See, e.g.*, Impression Prods., Inc. v. Lexmark Int'l, Inc., 137 S. Ct. 1523, 1535 (2017); Kirtsaeng v. John Wiley & Sons, Inc., 568 U.S. 519, 525, 553–54 (2013).

206. *See, e.g.*, 17 U.S.C. § 504(c)(2) (2012).

207. TRIPS, *supra* note 14, art. 7 (objectives); *id.* arts. 13, 17, 26.2, 30 (general exceptions).

208. *See, e.g.*, Eriq Gardner, *Entertainment Industry Sends U.S. Trade Office a NAFTA Negotiation Wish List*, HOLLYWOOD REP. (June 20, 2017, 8:18 AM), https://www.hollywoodreporter.com/thr-esq/entertainment-industry-sends-us-trade-office-a-nafta-negotiation-wish-list-1015056 [https://perma.cc/8J2R-VJBR].

be consistent with the use of ISDS by IP holders such as Lilly and Philip Morris for the platforms to have a right to complain that the limitations on safe harbors undermine their investments. Given that some of these investments involve physical assets located in the host state, certain claims of this type could even be made under current law. For example, a generic drug firm that invested in a local plant could use that investment to challenge a regulation that extended the terms of protection.[209]

Our point is not to increase the number of ISDS challenges (although we admit this approach might do so), but rather, to correct the asymmetry in the ISDS system by exposing IP holders to the consequences of their advocacy. As we noted earlier, in the WTO, states must consider the impact of their claims and will often desist from challenging measures that they may be using (or wish to use) themselves; IP holders might be similarly circumspect if the actions they favored could be challenged in ISDS. For example, Lilly might have been less inclined to argue that countries cannot change their laws in a dramatic fashion if it knew that any dramatic change that it succeeded in having enacted could be challenged on the same ground.[210] Or, since IP holders enjoy the benefits of the "quirky" Federal Circuit and other national courts established to stabilize IP rights, they might be discouraged from complaining, as Philip Morris did, about how state judicial systems are constituted.[211]

Allowing those who rely on the limits of IP to bring challenges would have another advantage: it would help eliminate the systemic bias that occurs because investors, using ISDS to safeguard the perceived value of their IP, and states, in the context of WTO disputes, generally push the law towards recognizing ever stronger protection. *Philip Morris* is an example: as we saw, the claim there was that

209. *Cf.* Al Jazeera Media Network v. Arab Republic of Egypt, ICSID Case No. ARB/16/1, Press Release on the Notice of Dispute, at 1–2 (Apr. 28, 2014), https://www.italaw.com/sites/default/files/case-documents/italaw8632.pdf [https://perma.cc/9EJW-SCNL] (challenging Egypt's actions against Al Jazeera, including attacks on and closure of facilities in the host state, as well as harassment of its reporters and the cancellation of its broadcast license as expropriations under a BIT between Egypt and Qatar, citing obligations of international law to protect the right of journalists to report freely).

210. *See generally* Ariad Pharms., Inc. v. Eli Lilly & Co., 598 F.3d 1336 (Fed. Cir. 2010) (en banc) (changing the written description requirement); Eli Lilly & Co. v. Actavis UK [2017] UKSC 4 (appeal taken from EWCH) (changing the scope of patents).

211. *See* U.S. PATENT & TRADEMARK OFFICE & INT'L INTELLECTUAL PROP. INST., STUDY ON SPECIALIZED INTELLECTUAL PROPERTY COURTS 2–3 (2012), http://iipi.org/wp-content/uploads/2012/05/Study-on-Specialized-IPR-Courts.pdf [https://perma.cc/7BNL-NUQM]; Rochelle C. Dreyfuss, *Percolation, Uniformity, and Coherent Adjudication: The Federal Circuit Experience*, 66 SMU L. REV. 505, 506–08 (2013); Hon. Diane P. Wood, *Keynote Address: Is It Time to Abolish the Federal Circuit's Exclusive Jurisdiction in Patent Cases?*, 13 CHI.-KENT J. INTELL. PROP. 1, 5–8 (2014).

trademark holders enjoy an affirmative right to use their marks. That imbalance would be corrected if claims about the limits of IP were also cognizable. In the process, public interest safeguards would receive stronger protection. In effect, recognizing these other IP-related investments would establish a ceiling on how far states can go in expanding IP rights.[212] This approach could, for example, temper a state's temptation to lengthen the term of protection; to extend protection more widely; to lower the standard of inventiveness, distinctiveness, or originality; to change how infringement is determined; to diminish the availability of exceptions and limitations; and perhaps even to challenge public-regarding legislation in the WTO.

Finally, such a system would make ISDS (and WTO) adjudicators more sensitive to the public interest side of the IP equation. It would, in essence, constitute a recognition of user rights, which many observers have advocated,[213] but which have not yet been achieved through direct negotiations over IP instruments.

IV. CONCLUSION

Although states facing IP-related ISDS disputes have been successful in mounting defenses, we maintain what we said in our earlier piece: the transformation of IP rights into an investment can potentially alter the contours of IP law. We do not see current agreements as going far enough to correct the imbalances. As long as disputes can be brought only by IP holders, there is a systemic bias. And because these disputes are so expensive, risky, and amenable to procedural manipulation, the mere filing of a notice of claim can constitute a threat to legitimate regulatory activity. Accordingly, we make three suggestions that we believe would limit the incidence of ISDS challenges. First, there likely would be fewer disputes if more attention were paid to the question whether the claimant has made an in-state investment. The mere existence of an IP right is not a proxy for actual investment; more is required. That might include engaging in the activities that create goodwill, local jobs, and cultural development or are targeted at unique problems experienced in the host

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212. *See* GRAEME B. DINWOODIE & ROCHELLE C. DREYFUSS, A NEOFEDERALIST VISION OF TRIPS: THE RESILIENCE OF THE INTERNATIONAL INTELLECTUAL PROPERTY REGIME 112, 183, 198–201 (2012).

213. *See, e.g.*, P. BERNT HUGENHOLTZ & RUTH L. OKEDIJI, OPEN SOC'Y INST., CONCEIVING AN INTERNATIONAL INSTRUMENT ON LIMITATIONS AND EXCEPTIONS TO COPYRIGHT 11–25 (2008), http://www.ivir.nl/publications/hugenholtz/limitations_exceptions_copyright.pdf [https://perma.cc/HN2M-W6NQ]; Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469, 510–11 (2000). *See generally* Rochelle Cooper Dreyfuss, *TRIPS-Round II: Should Users Strike Back?*, 71 U. CHI. L. REV. 21 (2004).

state. Second, we propose limiting relief to the recovery of in-state investments, rather than expectation damages. Taking such benefits out of winning ISDS cases might reduce the zeal with which investors pursue these actions. Third, we suggest viewing IP holistically, which would permit those engaging in strategies based on the limits of IP law to challenge measures that undermine their investments. That possibility would, we think, make investors suffer the consequences of the principles they propound and discourage them from bringing ISDS challenges. Furthermore, the possibility of such claims would ameliorate the current systemic bias in favor of IP holders.