Eli Lilly and the International Investment Law Challenge to a Neo-Federal IP Regime

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ABSTRACT

This Article examines the implications of the Eli Lilly *case—and international investment law (IIL) more generally—for the operation of an international intellectual property (IP) regime that functions along the lines of the "neo-federalist" model developed by Professors Dinwoodie and Dreyfuss. The neo-federalist model involves a world in which the international IP regime grants national political communities substantial discretion to pursue their own visions of the normatively proper balance between the rights of IP creators and of those who seek to use it. Importantly, that discretion involves the ability to alter the existing normative balance in either the direction of* more *or* fewer *rights for IP creators. Under this view, the international IP regime is not, and should not be construed, either as a universal and comprehensive IP "code," nor as a one-way ratchet that only permits member-state experimentation in favor of IP creators. Yet, that sort of systemic rigidity is precisely what the claimant in* Eli Lilly *sought to impose through the IIL regime. While it is true that the claimant, Eli Lilly, lost its case, a close reading of the award, along with an appreciation of the dynamics of IIL, suggests that substantial danger remains. Using* Eli Lilly *as a case study, this Article explores the challenges that the IIL system poses for the realization of the neo-federalist vision.*

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I. INTRODUCTION

In this Article, the Authors explore the implications of the *Eli Lilly* case for the operation of an international intellectual property (IP) regime that functions along the lines of the "neo-federalist" model developed by Professors Dinwoodie and Dreyfuss in a series of articles[1] and their book.[2] Dinwoodie and Dreyfuss imagine a world in which the international IP regime grants national political communities substantial discretion to pursue their own visions of the normatively proper balance between the rights of creators of IP and of those who seek to use it.[3] Importantly, that discretion involves the ability to change the particular normative balance of the day in either the direction of *more* or *fewer* rights for IP creators. For Dinwoodie and Dreyfuss, the international IP regime is not, and should not be construed, either as a universal and comprehensive IP "code," or as a one-way ratchet that permits member-state experimentation.[4] Yet, that sort of systemic rigidity is precisely what the claimant in *Eli Lilly* sought to impose—not through the international IP regime, but through the parallel and partially overlapping regime of international investment law (IIL), a regime that was created to solve a much different set of problems than the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and similar IP-focused

1. *See* Graeme B. Dinwoodie & Rochelle C. Dreyfuss, *TRIPS and the Dynamics of Intellectual Property Lawmaking*, 36 CASE W. RES. J. INT'L L. 95, 95–96 (2004) [hereinafter Dinwoodie & Dreyfuss I]; Graeme B. Dinwoodie & Rochelle C. Dreyfuss, *International Intellectual Property Law and the Public Domain of Science*, 7 J. INT'L ECON. L. 431, 432, 447–48 (2004) [hereinafter Dinwoodie & Dreyfuss II]; Graeme B. Dinwoodie & Rochelle C. Dreyfuss, *Designing a Global Intellectual Property System Responsive to Change: The WTO, WIPO, and Beyond*, 46 HOUS. L. REV. 1187, 1197 (2009) [hereinafter Dinwoodie & Dreyfuss III].

2. *See* GRAEME B. DINWOODIE & ROCHELLE C. DREYFUSS, A NEOFEDERALIST VISION OF TRIPS: THE RESILIENCE OF THE INTERNATIONAL INTELLECTUAL PROPERTY REGIME 5, 202–03 (2012).

3. *See id.* at 202–03.

4. *See id.* at 5; Dinwoodie & Dreyfuss I, *supra* note 1, at 106; Dinwoodie & Dreyfuss III, *supra* note 1, at 1224.

treaties.[5] While it is true that the claimant, Eli Lilly, lost its case,[6] a close reading of the award, along with an appreciation of the dynamics of IIL, suggests that substantial danger remains. As this Article argues, *Eli Lilly* illustrates the challenge that the IIL system poses for the realization of the neo-federalist vision.

This Article proceeds as follows: Part I introduces the neo-federalist framework. Part II provides a brief overview of the IIL system. Part III summarizes Eli Lilly's core claims in its arbitration with Canada, as relevant to the ability of states to enjoy substantial IP policy autonomy. Part IV considers whether a private right of action to litigate IP claims under IIL is justified under standard rationales for the IIL system. Part V concludes.

II. THE NEO-FEDERALIST VISION

The neo-federalist model seeks to push back on a vision of TRIPS that views the treaty as imposing strict and inflexible limits on IP-related state sovereignty. As Dinwoodie and Dreyfuss describe the vision that they challenge, it is the view that TRIPS is a "supranational code[ ] instructing countries on *what* they must do and *when* and *how* they must do it."[7] They seek to replace that view with what they call a "neo-federalist" understanding of TRIPS.[8] Federalism can be viewed as an "essentially contested concept," devoid of any universally accepted meaning.[9] Dinwoodie and Dreyfuss, however, do not cite or otherwise engage with the extensive literatures in law or in political science debating the best understanding of what federalism means or why it might be a good thing. Their model nonetheless seems to reflect, more

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5. *See infra* Part II.

6. *See* Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Final Award, ¶ 480 (Mar. 16, 2017) [hereinafter *Eli Lilly*, Final Award], https://www.italaw.com/sites/default/files/case-documents/italaw8546.pdf [https://perma.cc/X8ZL-8886].

7. DINWOODIE & DREYFUSS, *supra* note 2, at 5 (emphasis in original) (internal quotation marks omitted).

8. *See id.*

9. *See* Abbe R. Gluck, *Our [National] Federalism*, 123 YALE L.J. 1996, 1997–98 (2014) ("Modern state-federal relationships have given rise to many new and difficult legal questions—ranging from those of state-versus-federal-court jurisdiction to matters of administrative deference, statutory enforcement, and standards of review. Such questions have split the lower courts, have yet to be resolved by the U.S. Supreme Court, and are affecting how major federal laws are being carried out across the country. Half the time, the courts do not even recognize these questions as federalism questions, even though they unquestionably concern the discretion, influence, and sovereignty of states in a national legal landscape."); Jeremy Waldron, *Is the Rule of Law an Essentially Contested Concept (in Florida)?*, 21 L. & PHIL. 137, 148 n.29 (2002) (defining the "essentially contestable concept" through an analysis of the Rule of Law) (citing W.B. Galliem, *Essentially Contested Concepts*, 56 PROC. OF THE ARISTOTELIAN SOC'Y 167, 167 (1955)).

or less, a "dual federalism" or "separate spheres" variant.[10] In dual federalism, the two levels of government—national and subnational—enjoy plenary authority (e.g., sovereignty) over distinct issue areas.[11] By referring to their model of TRIPS as "neo-federalist," Dinwoodie and Dreyfuss seem to suggest that TRIPS should be understood and applied as reflecting a similar kind of duality, albeit in a "neo" (or new) way.

Applied to the IP regime, one can understand the international community, coming together periodically in the forum of international trade negotiations, to retain sovereignty to decide certain rules and standards governing national-level treatment of IP rights. The core of TRIPS is a more or less hard rule that imposes antidiscrimination as a global norm.[12] Member states can deviate from the TRIPS regime only by invoking a handful of arguably narrow excuses or exceptions.[13] The international community has thus assumed "sovereignty" over the issue of IP-related discrimination, having decided that such discrimination is undesirable as a policy matter and should no longer be tolerated as an international legal matter. TRIPS also provides a number of other hard rules that effectively preclude contrary member-state action. These rules are typically set up as minimums (or floors) that member-state policies cannot fall below. For example, TRIPS requires that trademark registrations shall be granted for periods of at least seven years;[14] copyrights for phonograms must run at least fifty years.[15]

But outside of these and a few other issues, in which the international community—through TRIPS or its equivalents—has said "this and nothing else," member states have retained authority to go their own way based on their own understandings of the goals that IP policy should aim to achieve and of how IP policy should be designed

10. On dual federalism, see Ernest A. Young, *The Puzzling Persistence of Dual Federalism*, *in* 55 NOMOS LV: FEDERALISM AND SUBSIDIARITY 34, 36–37 (James E. Fleming & Jacob T. Levy eds., 2014). The main competitor to dual federalism is the model of "cooperative federalism," in which the two units of government assist each other in implementing policies. *Id.* at 44; *see also* Jessica Bulman-Pozen & Heather K. Gerken, *Uncooperative Federalism*, 118 YALE L. J. 1256, 1261–62 (2009).

11. *See* Young, *supra* note 10, at 37.

12. *See* Margaret Chon, *Intellectual Property and the Development Divide*, 27 CARDOZO L. REV. 2821, 2839–40 (2006) ("TRIPS binds its signatories to the principle of national treatment such that a country cannot treat a foreign intellectual property rights holder any worse than it would treat its own nationals. National treatment substitutes a rule of non-discrimination for the principle of reciprocity." (footnote omitted) (internal quotation marks omitted)).

13. *See, e.g.*, Agreement on Trade-Related Aspects of Intellectual Property Rights art. 14.5, 18, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

14. *See id.* art. 18.

15. *See id.* art. 14.5.

and implemented to achieve those goals.[16] Under a neo-federalist view, allowing member states to retain such authority is especially important given that rapid technological changes predictably give rise to normative dilemmas that the preexisting international IP regime has not authoritatively settled and that—because of the lack of a functioning, legitimate world legislature—it cannot readily settle.[17] Dinwoodie and Dreyfuss provide as an example the problem of gene patenting—an issue that simply did not exist until quite recently, and for which "there is no obviously correct approach for dealing with the negative side of exclusivity."[18] Given that the international community has not reached a consensus on the appropriate resolution of such issues (and because the international community is unable to easily adjust such consensus to changing circumstances), member states should be free to come to their own solutions, even if the lack of international uniformity risks distorting incentives to produce a globally optimal amount of IP.

It is important to recognize that Dinwoodie and Dreyfuss are not suggesting a model of the international IP regime that is, in Rubin and Feeley's terms, merely "managerial." In a managerial model, the authority to decide all or virtually all policy goals is located at the higher political level, which delegates implementation downward based on the theory that local implementation will be more effective at achieving the centrally set goals than would top-down implementation.[19] Thus, their justification for the neo-federalist model is not that it allows member states to experiment with ways to best achieve a policy goal set by TRIPS, identifying along the way best practices for setting up national IP rules and institutions compliant with global rules. Instead, they suggest that their model provides necessary flexibility for member states to design domestic IP regimes—within noncomprehensive international constraints—that reflect the member states' own "political, institutional, economic, and social conditions" as those conditions vary and change over time.[20]

16. *See* Molly K. Land, *Rebalancing TRIPS*, 33 MICH. J. INT'L L. 433, 438–45 (2012) (describing TRIPS flexibilities).

17. *See* DINWOODIE & DREYFUSS, *supra* note 2, at 5; Land, *supra* note 16, at 436–38 (providing various policy justifications for interpreting TRIPS as allowing states to adjust their implementation of TRIPS to suit local conditions).

18. *See* DINWOODIE & DREYFUSS, *supra* note 2, at 19.

19. *See* Edward L. Rubin & Malcolm Feeley, *Federalism: Some Notes on a National Neurosis*, 41 UCLA L. REV. 903, 911 (1994).

20. *See* Dinwoodie & Dreyfuss I, *supra* note 1, at 96–97.

III. THE INTERNATIONAL INVESTMENT LAW SYSTEM

To understand how one might apply the neo-federalist model to the *Eli Lilly* case, it is necessary to have a basic understanding of the IIL system's history and functioning. IIL, in its modern form, emerged relatively soon after the end of World War II, as it became widely appreciated that should newly independent countries wish to develop economically, they would certainly need access to international capital.[21] While some of that capital could be provided through the Bretton Woods institutions, such as the International Monetary Fund (IMF) and the World Bank, large amounts of private capital would be necessary as well.[22] Certain kinds of risks—which one might refer to in shorthand as "political risks"[23]—were seen as a major impediment to private investment. In particular, potential investors were seen as being especially sensitive to the possibility of opportunistic behavior by host state governments. One example of "opportunistic behavior" involves the dilemma of the obsolescing bargain, under which the host state has an increasing incentive to expropriate a foreign investment in an industry characterized by high fixed costs, such as mining, once the investment has been sunk and is now capable of generating income.[24] Spectacular natural-resource nationalizations in the 1960s and 1970s in Kuwait,[25] Libya,[26] Chile,[27] and elsewhere—arguably evidencing obsolescing-bargain dynamics—lent a particular sense of urgency to find a solution.

In response, the international community created an increasingly dense network of bilateral investment treaties (BITs).[28]

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21. *See* A. A. FATOUROS, GOVERNMENT GUARANTEES TO FOREIGN INVESTORS 12, 19, 29 (1962). On that early history, see TAYLOR ST. JOHN, THE RISE OF INVESTOR-STATE ARBITRATION: POLITICS, LAW, AND UNINTENDED CONSEQUENCES 1, 68 (2018).

22. *See* FATOUROS, *supra* note 21, at 12, 19–20 (describing developing countries' need for foreign capital in the context of the development of international investment law).

23. For a critique of the concept of political risk as it relates to IIL, see Jason Webb Yackee, *Political Risk and International Investment Law*, 24 DUKE J. COMP. & INT'L L. 477, 479–81, 493–94 (2014).

24. *See* Erik J. Woodhouse, *The Obsolescing Bargain Redux? Foreign Investment in the Electric Power Sector in Developing Countries*, 38 N.Y.U. J. INT'L L. & POL. 121, 127–28, 130 (2005) (describing the obsolescing bargain dilemma).

25. *See* F. A. Mann, *The Aminoil Arbitration*, 54 BRIT. Y.B. INT'L L. 213, 213 (1984).

26. *See* Evrett W. Benton, Comment, *The Libyan Expropriations: Further Developments on the Remedy of Invalidation of Title*, 11 HOUS. L. REV. 924, 937–38 (1974).

27. *See* THEODORE MORAN, MULTINATIONAL CORPORATIONS AND THE POLITICS OF DEPENDENCE: COPPER IN CHILE 4–5 (1974).

28. *See* Abbey Stemler, Scott Shackelford & Eric Richards, *Paris, Panels, and Protectionism: Matching US Rhetoric with Reality to Save the Planet*, 19 VAND. J. ENT. & TECH. L. 545, 550 (2017). Scholarship on the subject is too vast to comprehensively cite here,

There are now thousands of BITs in force,[29] and they follow a largely common model of providing foreign investors with substantive rights—often including the right to adequate compensation in the event of expropriation, along with the procedural right of a private right of access to international arbitration for alleged treaty violations.[30] This procedural aspect is the real innovation. Until BITs, it was exceedingly rare for private actors to have any right or ability to directly access the machinery of international adjudication.[31] Prior to this development, private actors had to convince their home state governments to "espouse" their claims on the international stage or rely on an arbitration clause in a concession contract.[32] Now that many investors have that procedural right, they tend to see violations of their substantive treaty rights as arising from government policy actions that are far removed from the sorts of opportunistic expropriations that motivate justifications for the IIL system but which, in reality, are exceedingly rare.[33] The result has been an explosion in IIL-related litigation,[34] including claims—like *Eli Lilly*—that changes in domestic IP law violate IIL.

IIL and BITs are designed to cover investments, not property. IIL, therefore, protects IP only if IP rights are considered investments themselves. In fact, they are considered investments, thanks to expansive treaty-based definitions of "investment" that often contain, as part of an open-ended illustrative list, an explicit mention of IP as one kind of "investment" that the particular treaty is meant to protect.[35]

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but for a recent empirical overview, see Daniel Behn, *Legitimacy, Evolution, and Growth in Investment Treaty Arbitration: Empirically Evaluating the State-of-the-Art*, 46 GEO. J. INT'L L. 363, 364, 368, 370, 412–13 (2015).

29. *See International Investment Agreement Navigator*, INV. POL'Y HUB, http://investmentpolicyhub.unctad.org/IIA [https://perma.cc/XSM8-668C] (last visited Oct. 13, 2018).

30. *See* Yackee, *supra* note 23, at 491; Jason Webb Yackee, *Conceptual Difficulties in the Empirical Study of Bilateral Investment Treaties*, 33 BROOK. J. INT'L L. 405, 416 (2008) (describing the substantive core of most BITs).

31. *See* Maximilian Koessler, *Government Espousal of Private Claims Before International Tribunals*, 13 U. CHI. L. REV. 180, 180–81 (1946).

32. On this earlier regime of espousal, see *id.*

33. *See* Yackee, *supra* note 23, at 487, 491–92.

34. *See* Behn, *supra* note 28, at 365.

35. *See* OFFICE OF THE U.S. TRADE REPRESENTATIVE, EXEC. OFFICE OF THE PRESIDENT, 2012 U.S. MODEL BILATERAL INVESTMENT TREATY art. 1 (2012) [hereinafter 2012 U.S. MODEL BIT]. Many investment treaties, especially those of more recent vintage, specifically define covered "investments" through very broad and open-ended lists of examples that explicitly include intellectual property rights, a concept which may be further defined into component categories such as "patents" and so on. *See id.* For example, the 2012 Model US BIT defines "investment" as "every asset that an investor owns or controls, directly or indirectly," and provides a long list of "forms" that such an investment might take,

IIL thus sidesteps the longstanding debate in IP circles about whether IP should be conceptualized and legally treated the same as "property" more generally.[36] In IIL, the relevant question is whether IP should be treated differently than *investments*. So far, the answer seems to be that IP rights are just like any other kind of investment.[37]

Current US treaty practice admittedly provides a partial exception.[38] The 2012 Model US BIT expressly excludes certain TRIPS-compliant policy actions from the scope of the treaty's expropriation

including "intellectual property rights" (IPR). *Id.* Earlier US BITs provide even more detailed specifications of what counts as a covered IPR. *See* Treaty Between the United States of America and the Republic of Moldova Concerning the Encouragement and Reciprocal Protection of Investment, Mold.-U.S., art. 1(1)(a)(iv), Apr. 21, 1993, S. TREATY DOC. NO. 103-14 (1993). For example, article 1 of the 1994 US-Moldova BIT covers "investments" including "intellectual property which includes, inter alia, rights relating to: literary and artistic works, including sound recordings, inventions in all fields of human endeavor, industrial designs, semiconductor mask works, trade secrets, know-how, and confidential business information, and trademarks, service marks, and trade names." *Id.* While some BITs do not provide a treaty-based definition of "investment," arbitral tribunals interpreting the concept tend to adopt very broad conceptions. *See* KRISTA NADAKAVUKAREN SCHEFER, INTERNATIONAL INVESTMENT LAW: TEXT, CASES AND MATERIALS 60 (2013) ("When in doubt, tribunals are often generous in setting the boundaries of what is included within the scope of the term [investment].").

36. *See, e.g.*, Henry E. Smith, *Intellectual Property As Property: Delineating Entitlements in Information*, 116 YALE L.J. 1742, 1744 (2007) ("At the core of controversies over the correct scope of intellectual property lie grave doubts about whether intellectual property is property. Property covers a broad range of resources, from solid objects like land and cars to fugitive resources like water to intangibles like debts. But, as a resource, information is different from all of these.").

37. On the debate concerning whether IP rights are "investments" under IIL, see 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, 1125 (2014).

38. *See* 2012 U.S. MODEL BIT, *supra* note 35, art. 6(5). However, not all US BITs contain IP-related exceptions. *See, e.g.*, Treaty Between the United States of America and Ukraine Concerning the Encouragement and Reciprocal Protection of Investment, Ukr.-U.S., art. III(1), Mar. 4, 1994, S. TREATY DOC. NO. 103-37 (1996); Treaty Between the United States of America and the Argentine Republic Concerning the Reciprocal Encouragement and Protection of Investment, Arg.-U.S., art. IV(1), Nov. 14, 1991, S. TREATY DOC. NO. 103-2 (1993); Treaty Between the United States of America and the Republic of Poland Concerning Business and Economic Relations, Pol.-U.S., art. VII(1), Mar. 21, 1990, S. TREATY DOC. NO. 101-18 (1990) [hereinafter U.S.-Poland BIT]. Moreover, the Authors' impression is that most non-US BITs do not contain limited IP carve-outs along the lines of the US model. That is, in most BITs (including many early US BITs), IP-related expropriation claims are treated the same as non-IP expropriation claims, and compliance with TRIPS or other international IP instruments will not serve as an automatic excuse from liability. *See, e.g.*, Agreement Between the Government of Canada and the Government of the Republic of Armenia for the Promotion and Protection of Investments, Arm.-Can., art. VII(1), May 8, 1997, 2468 U.N.T.S. 381; Agreement Between the Government of Australia and the Government of the Republic of Chile on the Reciprocal Promotion and Protection of Investments, Austl.-Chile, art. 6(1), July 9, 1996, 2116 U.N.T.S. 379; U.S.-Poland BIT, *supra* note 38, art. VII(1).

article.[39] Specifically, investors may not raise expropriation claims to challenge the granting of compulsory licenses "in accordance with" TRIPS; nor may they challenge—as an expropriation—"the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement."[40] NAFTA chapter 11, which served as the basis for Eli Lilly's claim against Canada,[41] contains similar language limiting the availability of IP-related expropriation claims to actions that violate NAFTA's IP chapter.[42]

However, the Model Treaty does not preclude challenges to IP policies under other substantive treaty provisions, such as the treaty's fair and equitable treatment clause (FET);[43] nor does it preclude expropriation challenges to non-TRIPS-compliant IP revocations, limitations, or creations.[44] NAFTA's investment chapter contains a similar qualification.[45] And indeed, in its NAFTA case, Eli Lilly proffered both an expropriation claim, alleging that the Canadian court decision was both an expropriation *and* a violation of NAFTA's IP chapter, and an FET claim.[46]

A key implication of the neo-federalist model—and one at the core of the *Eli Lilly* case—is that member states enjoy, or should be viewed as enjoying, significant latitude to adjust their IP-related policies to provide IP creators with either more or less generous rights, so long as those adjustments respect the antidiscrimination norm and other hard rules embedded in TRIPS.[47] For Dinwoodie and Dreyfuss, this policy flexibility necessarily includes the right to adjust IP law to provide either more protection to IP creators, *or less*.[48] The IIL system interferes with the neo-federalist model precisely because it provides IP rights holders, understood as "investors," with a legal vocabulary and a

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39. *See* 2012 U.S. MODEL BIT, *supra* note 35, art. 6(5).

40. *Id.*

41. *See* 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, at 1 (Nov. 7, 2012) [hereinafter *Eli Lilly*, Notice of Intent], https://www.italaw.com/sites/default/files/case-documents/italaw1172.pdf [https://perma.cc/S8R6-PWSA]; North American Free Trade Agreement ch. 11, art. 1110, ¶ (7), Can.-Mex.-U.S., Dec. 17, 1992, 107 Stat. 2057, 32 I.L.M. 289 [hereinafter NAFTA].

42. *See* NAFTA, *supra* note 41, ch. 17, arts. 1701–02.

43. *See* 2012 U.S. MODEL BIT, *supra* note 35, art. 6(5); *infra* Section IV.B.

44. *See* 2012 U.S. MODEL BIT, *supra* note 35, art. 6(5); *infra* Section IV.A.

45. *See* NAFTA, *supra* note 41, ch. 11, art. 1110(7)–(8).

46. *See infra* Part IV.

47. *See* Dinwoodie & Dreyfuss I, *supra* note 1, at 97–102; Dinwoodie & Dreyfuss II, *supra* note 1, at 432, 434.

48. *See* Dinwoodie & Dreyfuss I, supra note 1, at 97.

legal procedure through which to challenge diminutions of their existing rights. That vocabulary may, but need not, include "expropriation." In fact, Eli Lilly's most potent argument was not that the invalidation of their patents was expropriatory, but rather that it violated the company's "legitimate investment-backed expectations" of a stable IP legal regime, and that, as such, they were denied their right to fair and equitable treatment under NAFTA article 1105.[49]

IV. THE *ELI LILLY* CASE

NAFTA chapter 11 provided Eli Lilly with the substantive and procedural law necessary to bring its international claim.[50] Investors who bring such claims are typically challenging the international legality of actions undertaken by the executive, administrative, or legislative officers of the host state.[51] The *Eli Lilly* case is unusual, and all the more interesting, because the company challenged the actions of Canadian courts. While such challenges are not unprecedented,[52] they are relatively rare; moreover, they raise certain sensitivities in relation to the proper role of international courts in reviewing decisions by other judicial institutions.[53] These challenges also question the propriety of the internal domestic separation of powers principles.[54]

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49. *See infra* Section IV.C.

50. *See* NAFTA, *supra* note 41, ch. 11, art. 1102, 1105, 1110; *Eli Lilly*, Notice of Intent, *supra* note 41, at 1.

51. *See* M. SORNARAJAH, THE INTERNATIONAL LAW ON FOREIGN INVESTMENT 330 (Cambridge Univ. Press 2004) (1994) (noting that international investment law tribunals show "extreme reluctance . . . to find that judicial organs of states [have] acted improperly").

52. *See, e.g.*, Loewen v. United States, No. Civ.A. 04-2151 (RWR), 2005 WL 3200885, at *1–2 (D.D.C. Oct. 31, 2005). Indeed, perhaps the most notorious NAFTA chapter 11 case to date involved an investor's attack on a US state court judge's behavior during trial. *See* Lucien J. Dhooge, The Loewen Group v. United States*: Punitive Damages and the Foreign Investment Provisions of the North American Free Trade Agreement*, 19 CONN. J. INT'L L. 495, 497 (2004); William S. Dodge, Loewen v. United States*: Trials and Errors Under NAFTA Chapter Eleven*, 52 DEPAUL L. REV. 563, 565–66 (2002).

53. *See* Dodge, *supra* note 52, at 570–72.

54. *Cf. Eli Lilly*, Notice of Intent, *supra* note 41, ¶¶ 37–43. For example, it is unclear how the Canadian government should respond to the threat of IIL lawsuits challenging ongoing litigation in Canadian courts. *See* Martha A. Field, *The Differing Federalisms of Canada and the United States*, 55 LAW & CONTEMP. PROBS. 107, 118 (1992); *Separation of Powers in Canada*, CONST. L. CAN., http://www.constitutional-law.net/index.php?option=com_content&view=article&id=24&Itemid=38 [https://perma.cc/R2V7-BHSS] (last visited Oct. 15, 2018) ("[I]t has become common in [Canadian] constitutional doctrine to conceive that the institutions of government have proper roles to play in Canadian democracy. In carrying out their functions, each branch should have proper regard and 'mutual respect' for the role of the other branches."). Separation of powers principles may limit the ability or acceptability of political intervention in ongoing litigation. *See id.*

Eli Lilly's complaint, at the most basic level, was that Canadian courts wrongfully refused to enforce certain drug patents that generic competitors challenged as invalid.[55] Interestingly, Eli Lilly pitched its claim as a larger attack on Canada's common-law tradition. That tradition, unlike its civil law counterpart, recognizes as legitimate the notion that courts evolve the law to reflect local conditions and to respond to changed social and political environments.[56] The challenged adaptation here was the "promise utility doctrine," under which Canadian federal courts would assess a patent's "utility"—utility being a necessary condition of patent validity—against the promised utility disclosed in the patent specification.[57]

Eli Lilly cared about the promise utility doctrine because the doctrine itself promised to impose a certain amount of rigor into patent-utility analysis. As Eli Lilly emphasized repeatedly in its memorial, the essential problem with the promise utility doctrine was that the doctrine had teeth.[58] Eli Lilly preferred what it characterized as a "mere scintilla" standard, under which even the barest whiff of utility would be enough to sustain a patent.[59] In Eli Lilly's world of patent law, virtually no pharmaceutical patent would be denied or revoked because of a lack of utility. In contrast, in the world of Canada's promise utility doctrine, pharmaceutical patents sometimes were.[60] According to Eli Lilly, two NAFTA chapter 11 articles prevented Canadian courts from developing their promise utility doctrine: article 1110, governing expropriaton, and article 1105, providing Eli Lilly with the right to "fair and equitable treatment."[61] Both arguments sought to lock in Eli Lilly's

55. *See Eli Lilly*, Notice of Intent, *supra* note 41, ¶¶ 102–03. For a summary of the domestic court claims and proceedings, see Freedom-Kai Phillips, *Promise Utility Doctrine and Compatibility under NAFTA: Expropriation and Chapter 11 Considerations*, 40 CAN.-U.S. L.J. 84, 86–93 (2016).

56. *See* Allan C. Hutchinson, *Work-in-Progress: Evolution and Common Law*, 11 TEX. WESLEYAN L. REV. 253, 261 (2005).

57. Phillips, *supra* note 55, at 93–95 (describing the promise utility doctrine).

58. *See* Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Claimant's Memorial, ¶ 57 (Sept. 29, 2014) [hereinafter *Eli Lilly*, Claimant's Memorial], https://www.italaw.com/sites/default/files/case-documents/italaw4046.pdf [https://perma.cc/Q392-K7A9] (arguing that "the promise utility doctrine has created additional hurdles to patentability" beyond the minimal hurdles under Lilly's preferred "mere scintilla" standard of utility).

59. *Id.* ¶ 197 ("[The test requires only a] slight amount of utility . . . . As long as an invention was neither inoperable nor purely abstract, it typically passed Canada's objective test" for utility." (internal quotations omitted)).

60. *See id.* ¶¶ 221–22 (describing instances of Canadian courts declaring pharmaceutical patents to fail the promise utility test).

61. *See id.* ¶¶ 167–291 (making the expropriation argument in ¶¶ 167–250 and making the FET argument in ¶¶ 251–91).

right to enjoy a utility doctrine resistant to legal development and change.

A. *The Expropriation Claim*

NAFTA article 1110 establishes, as a matter of international law, that the NAFTA parties may not "expropriate" foreign investments without paying prompt and adequate compensation.[62] But expropriatory actions that are compliant with NAFTA's IP chapter—chapter 17—are excluded from the scope of article 1110.[63] Eli Lilly's expropriation argument, therefore, necessarily had to include the claim that the Canadian court's development of the promise utility doctrine violated chapter 17. However, while chapter 17 does require the NAFTA parties to grant patents for "useful" inventions, the chapter nowhere defines what that broad standard should entail in practice.[64] The natural implication would seem to indicate that the NAFTA drafters intended—by their failure to define a more precise rule—to allow the parties to go their own way, perhaps within certain generous bounds.

Eli Lilly argued that because all of the NAFTA parties recognized the "mere scintilla" test *in their national laws* at the time of NAFTA's signature, and because they continued to do so for some years later, the parties intended to freeze that common national practice into place as an international standard implicitly embodied within chapter 17.[65] That basic argument was combined in an unruly fashion with a handful of others, including argument by dictionary and the puzzling claim that the Patent Cooperation Treaty—which explicitly states in article 27(5) that "[n]othing in this Treaty and the Regulations is intended to be construed as prescribing anything that would limit the freedom of each Contracting State to prescribe such substantive conditions of patentability as it desires"—nonetheless supported the claim that the "mere scintilla" test was the only one that Canada could adopt.[66]

The Tribunal barely gave the company's expropriation argument the time of day. Its analysis of the issue spans just nine relatively unenlightening paragraphs.[67] The Tribunal absolved itself of any

62. NAFTA, *supra* note 41, ch. 11, art. 1110.

63. *See id.*

64. *See id.* ch. 17, art. 1709.

65. *Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶¶ 8, 145–60.

66. *See id.* ¶ 280; Patent Cooperation Treaty art. 27(5), June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231.

67. *See Eli Lilly*, Final Award, *supra* note 6, ¶¶ 218–26.

further obligation to wrestle with the claim on the ground that regardless of what IIL has to say about IP expropriations, Eli Lilly failed to prove that Canada's common law utility test represented a radical departure from past practice.[68] This Article discusses that factual contention in more detail below, in the context of Eli Lilly's FET claim.

Eli Lilly's expropriation claim nonetheless usefully illustrates some of the problems with using IIL to pursue international IP claims. IIL does not operate as a closed set of legal rules. Rather, its broad standards of treatment allow claimants to easily import into IIL's dispute-settlement procedures various substantive legal rules that reside in other international instruments and regimes. The porosity of the IIL regime thus allows investors to use IIL to challenge state compliance with other international legal regimes even where the challenged regime itself does not give nongovernmental actors a private right of action. The private right of action—while perhaps sensible in cases involving breaches of foreign investment contracts and other discrete public-private commercial relationships—has long been deemed by states as disruptive or even dangerous to the operation of other international regimes.[69] The disruption arises, in part, from the fact that private actors, with their own narrow interests and agendas, are able to avoid the political and diplomatic filter that state-to-state dispute settlement provides.[70] A further problem is that IIL's remedial scheme—money damages—may be wholly different from, if not

68. *See id.* ¶ 308. Despite the Tribunal's cursory treatment of it, the company's expropriation argument raised a sensitive and difficult international legal question that would have, had the Tribunal ruled on the merits for the company, made the award highly controversial. That question is the extent to which decisions of domestic courts should be reviewable by IIL tribunals on the same grounds as the actions of other governmental actors, or whether court decisions could only be reviewed under a narrow standard of "denial of justice." *See id.* ¶¶ 174–88. The issue—and its sensitivity—has domestic parallels. For example, it remains hotly contested in US jurisprudence whether judicial decisions should be treated just like administrative or legislative acts for the purposes of the US Constitution's Takings Clause. *See* Laura S. Underkuffler, *Judicial Takings: A Medley of Misconceptions*, 61 SYRACUSE L. REV. 203, 203 (2011). As the Tribunal seems to have recognized, Eli Lilly's position—that domestic court decisions are just as reviewable for expropriation-clause violations as any other government action—risked pushing the Tribunal into treacherous waters. As the Tribunal made sure to note, it accepted the truism that IIL tribunals are not to serve as an "appellate tier in respect of the decisions of national judiciaries." *Eli Lilly*, Final Award, *supra* note 6, ¶¶ 221–25.

69. *See* Philip M. Moremen, *Private Rights of Action to Enforce Rules of International Regimes*, 79 TEMP. L. REV. 1127, 1129–30, 1142 (2006) (explaining the costs and benefits of private rights of action in international treaties).

70. *See id.* at 1129; Claus D. Zimmermann, *The Neglected Link Between the Legal Nature of WTO Rules, the Political Filtering of WTO Disputes, and the Absence of Retrospective WTO Remedies*, 4 TRADE L. & DEV. 251, 261 (2012).

incompatible with, the remedial schemes of other international regimes.[71] Disputes in the WTO, for example, are resolved purely through a state-to-state mechanism in which only governments are authorized to initiate a claim of noncompliance with the WTO instruments.[72] Moreover, the only remedy available for the winning government is the opportunity to impose roughly equivalent trade sanctions ("suspension of concessions") on the noncompliant party.[73] Philip Morris was able to disrupt this institutional balance by raising claims of IP-related WTO violations in its investment-treaty-based anti-smoking litigation with Australia.[74]

In terms of dispute settlement, NAFTA chapter 17, by its own terms, was intended to operate similarly to the WTO: claims of noncompliance with chapter 17, like disputes over compliance with most other substantive NAFTA obligations, are addressable only through state-to-state dispute settlement under chapter 20, subject to NAFTA's denial-of-benefits remedial scheme.[75] And yet, IIL allowed Eli Lilly to skirt around both limitations by equating alleged noncompliance with chapter 17 to an expropriation and to a violation of its legitimate expectations of regulatory stability.

Another problematic consequence of allowing investors to litigate the meaning and application of international IP treaties in an IIL setting is that adjudicators without expertise ultimately must interpret and apply IP.[76] IIL arbitrators are almost always selected by the relevant parties for their reputation in and connections to the highly specialized and elite world of international commercial litigation.[77]

71. *See* Marcos D. García Domínguez, *Calculating Damages in Investment Arbitration: Should Tribunals Take Country Risk into Account?*, 34 ARIZ. J. INT'L & COMP. L. 95, 118 (2016) ("[ILL] often requires fair market value compensation."); Zimmermann, *supra* note 70, at 252 (explaining that the WTO does not allow monetary rewards for party seeking a remedy).

72. *See* Zimmermann, *supra* note 70, at 261.

73. *Id.* at 253 n.5, 254.

74. *See* Stephanie Hartmann, *When Two International Regimes Collide: An Analysis of the Tobacco Plain Packaging Disputes and Why Overlapping Jurisdiction of the WTO and Investment Tribunals Does Not Result in Convergence of Norms*, 21 UCLA J. INT'L L. & FOREIGN AFF. 204, 224–29 (2017).

75. *See* NAFTA, *supra* note 41, ch. 20, arts. 2004, 2019.

76. *See, e.g.*, *Eli Lilly*, Final Award, *supra* note 6, ¶ 311 (explaining that the Members of the Tribunal must reach conclusions of Canadian patent law, which it was previously unfamiliar with); *cf.* Jürgen Kurtz, *The Use and Abuse of WTO Law in Investor–State Arbitration: Competition and its Discontents*, 20 EUR. J. INT'L L. 749, 749–51 (2009) (describing the tendency of investor-state tribunals to misunderstand and misapply international law from other international legal regimes).

77. *See* Sergio Puig, *Social Capital in the Arbitration Market*, 25 EUR. J. INT'L L. 387, 397 (2014).

That was the case in *Eli Lilly*, and it is not surprising, then, to note that none of the arbitrators had any existing expertise in IP law.[78] Indeed, all three were—as is quite typical in IIL—mercenary commercial litigators who make quite good livings working all sides of the IIL system, including as counsel for claimants and host states in IIL arbitrations, as arbitrators, and as quasi academics opining on what IIL means.[79] Their incentive—and it is a quite direct and substantial monetary one[80]—is to keep the IIL system going by allowing investors broad rights to sue states for alleged international wrongs and furthermore, allowing investors to win frequently enough that they continue to use the system, but not to win so frequently that states abandon it. The risk is that this incentive, combined with ignorance, will lead to arbitral articulations of international IP law that are at odds with what state-parties desire or that are in conflict with what state-to-state tribunals directly charged with interpreting international IP treaties might say that it means.

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78. *See Eli Lilly*, Final Award, *supra* note 6, ¶ 311 ("[T]he Tribunal observes that the present case is one in which the facts are the law. Thus, this analysis necessarily touches upon aspects of Canadian patent law previously unfamiliar to Members of the Tribunal.").

79. *See id.* ¶¶ 12–16 (listing Sir Daniel Bethlehem and Gary Born as arbitrators of the Tribunal, and Albert Jan van den Berg as President of the Tribunal); *Albert Jan Van Den Berg*, HANOTIAU & VAN DEN BERG, http://www.hvdb.com/albert-jan-van-den-berg/ [https://perma.cc/DG3R-WVDW] (last visited Oct. 15, 2018) (listing Albert Jan van den Berg's involvement in arbitration matters); *Gary Born*, WILMERHALE, https://www.wilmerhale.com/en/people/gary-born [https://perma.cc/XBG4-3V5R] (last visited Oct. 15, 2018) (listing Gary Born's involvement in arbitration matters); *Sir Daniel Bethlehem*, 20 ESSEX STREET, https://www.20essexst.com/member/daniel-bethlehem [https://perma.cc/R9FB-UKCM] (last visited Oct. 15, 2018) (listing Sir Daniel Bethlehem's involvement in arbitration matters); *infra note* 80 and sources cited. For a description of this practice of "double hatting," see generally Fernando Dias Simões, *Hold on to Your Hat! Issue Conflicts in the Investment Court System*, 17 LAW & PRAC. INT'L CTS. & TRIBUNALS 98 (2018).

80. ICSID's official schedule of fees sets arbitrator fees at a minimum of USD $3,000 per day plus expenses. *Schedule of Fees*, ICSID, https://icsid.worldbank.org/en/Pages/icsiddocs/Schedule-of-Fees.aspx [https://perma.cc/2EVN-E94N] (last visited Oct. 15, 2018). This amount is lower than what elite lawyers regularly charge in private practice. *See, e.g.*, Sara Randazzo & Jacqueline Palank, *Legal Fees Cross New Mark: $1,500 an Hour*, WALL ST. J. (Feb. 9, 2016, 10:11 AM), https://www.wsj.com/articles/legal-fees-reach-new-pinnacle-1-500-an-hour-1454960708 [https://perma.cc/J822-HL2V]. However, arbitrators can negotiate for higher rates than the ICSID minimum. *See Schedule of Fees*, *supra*. More importantly, they can earn market rates (probably in excess of USD $1,000 an hour) representing clients (investors or host states) in other arbitrations. *See* Puig, *supra* note 77, at 400; Deborah Rothman, *Trends in Arbitrator Compensation*, ABA DISP. RESOL. MAG., Spring 2017, at 8, 8. A lawyer's ability to obtain these more lucrative appointments as counsel are presumably greatly improved by having endured the relative sacrifice of $3,000 per day, as having "arbitrator" on one's CV effectively signals the lawyer's reputation and influence in the small and exclusive world of investor-state arbitration. *See* Puig, *supra* note 77, at 407. For a sense of the amount of money involved in the system (and available for lawyers to enjoy), see the discussion of costs in the *Lilly* litigation. *See Eli Lilly*, ICSID Case No. UNCT/14/2, ¶¶ 443–60.

B. The FET Claim

Expropriation claims in modern IIL usually fail,[81] so it is not surprising that investors have looked to other treaty text to supply a more favorable cause of action. The FET clause, ubiquitous in IIL treaties, serves that purpose well. Investors routinely cast their claims as violations of their right to FET, as Eli Lilly did here.[82] The great benefit of FET as a cause of action is that no one really knows what it entails.[83] Moreover, claimant-investors—including Eli Lilly—tend to argue that FET, whatever it means, is tied to constantly evolving customary international law standards.[84] These standards, as articulated by IIL tribunals, are progressively developing into something significantly stricter than they were at their murky origins.[85] This contrasts with tribunal treatment of expropriation claims, which seems to reflect a comparatively rigid and ungenerous notion of expropriation under international law.[86]

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81. *See* UNITED NATIONS CONFERENCE ON TRADE & DEV., UNITED NATIONS, EXPROPRIATION: UNCTAD SERIES ON ISSUES IN INTERNATIONAL INVESTMENT AGREEMENTS II 64 (2012) ("In the majority of cases to date, claims of indirect expropriation have been dismissed because the negative impact of the measure did not rise to the level of a taking.").

82. *See, e.g.*, Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Claimant's Reply on the Merits, ¶ 322 (Sept. 11, 2015), https://www.italaw.com/sites/default/files/case-documents/italaw4384.pdf [https://perma.cc/A3XS-HM2C]; Kenneth J. Vandevelde, *A Unified Theory of Fair and Equitable Treatment*, 43 N.Y.U. J. INT'L L. & POL. 43, 44 (2010) ("Since the beginning of the decade, international arbitral tribunals have struggled unsuccessfully to define the obligation of 'fair and equitable treatment' required by the vast majority of the world's 2,600 bilateral investment treaties (BITs). Although by the end of 2008 more than fifty awards had been issued by international tribunals interpreting the standard, none of them purported to offer a unified theory of the standard.").

83. *See* Vandevelde, *supra* note 82, at 44. This point may sound more controversial than the Authors think it is. Even system insiders, such as Dolzer and Schreuer, admit that the FET standard is a "broad one"—akin to the good faith standard—whose meaning "will depend on the specific circumstances of the case at issue." *See* RUDOLF DOLZER & CHRISTOPH SCHREUER, PRINCIPLES OF INTERNATIONAL INVESTMENT LAW 139, 142 (2d ed. 2012). If such esteemed authorities are taken seriously, the implication is that FET is not terribly effective at addressing the bugaboo of "legal uncertainty" because, as Jerome Frank argued long ago, the primary "uncertainty" in many cases will revolve around factual disputes and the difficulty of predicting how the fact-finder will resolve them. *See* Jerome Frank, *Legal Thinking in Three Dimensions*, 1 SYRACUSE L. REV. 9, 14–15 (1949).

84. *See Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶ 254 ("[A]s a product of customary international law, the Minimum Standard of Treatment has continually evolved . . . ."); Vandevelde, *supra* note 82, at 66.

85. *See* Marcela Klein Bronfman, *Fair and Equitable Treatment: An Evolving Standard*, 10 MAX PLANCK Y.B. UNITED NATIONS L. 609, 613, 618 (2006) (tracing the evolution of the standard).

86. *See* UNITED NATIONS CONFERENCE ON TRADE & DEV., *supra* note 81, at 6–7, 27.

The full debate on these legal points is lengthy and complicated.[87] The Authors need not suggest a resolution here, because, as this Article describes more fully below, the Tribunal again ducked the difficult international legal questions to resolve the dispute on a mostly factual inquiry.

Eli Lilly largely framed its FET claim around the concept of "legitimate expectations."[88] The basic idea was famously articulated in its most extreme form in *Tecmed v. Mexico*:

> The foreign investor expects the host State to act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations.[89]

The *Tecmed* rule fetishizes legal certainty and exaggerates the inability of potential investors to plan around it or their willingness to invest in the presence of it.[90] It is nonetheless unsurprising—indeed, it is quite expected—that foreign investors would continually seize upon *Tecmed*'s incautious language to claim an international legal right to "know beforehand *any and all rules*"—the very language that Eli Lilly cites and italicizes for emphasis as supporting its FET claim.[91]

Interestingly, the *Eli Lilly* tribunal completely avoids citing to the *Tecmed* case, and it does not offer any explicit sense of what *it* thinks FET means. It does accept, however, at least provisionally, Eli Lilly's claim that a "dramatic change" in Canadian patent law would violate article 1105. Under the Tribunal's interpretation of its task, it had to determine whether Eli Lilly had succeeded in proving that the Canadian courts had "depart[ed] dramatically from prior Canadian

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87. For an overview of complex debates about the meaning of FET, see generally DOLZER & SCHREUER, *supra* note 83.

88. *Eli Lilly*, Final Award, supra note 6, ¶ 261. Eli Lilly made subsidiary FET arguments around the concepts of arbitrariness and discrimination. *See id.* ¶¶ 390, 397. The Authors discuss these alternatives only in passing, as they were rejected rather cursorily by the Tribunal. *See id.* ¶ 442.

89. Técnicas Medioambientales Tecmed, S.A. v. The United Mexican States, ICSID Case No. ARB (AF)/00/2, Award, ¶ 154 (May 29, 2003) [hereinafter TECMED], https://www.italaw.com/sites/default/files/case-documents/ita0854.pdf [https://perma.cc/4LTA-CJDJ].

90. *See id.*; *cf.* Diane Lourdes Dick, *Confronting the Certainty Imperative in Corporate Finance Jurisprudence*, 4 UTAH L. REV. 1461, 1466–67 (2011) (describing how an exaggerated emphasis on legal certainty in business and financial law undesirably dissuades judges from reforming the law in ways that advance other societal goals); A. A. Fatouros, *International Economic Development and the Illusion of Legal Certainty*, 57 PROC. AM. SOC'Y INT'L L. 117, 120–25 (1963) (arguing that analysts exaggerate the extent to which foreign direct investors are incapable of dealing with legal uncertainty).

91. *Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶ 272 n.500.

patent law."[92] The Tribunal's embrace of a "dramatic change" theory of FET is not unprecedented; a tribunal in one of several claims against Spain's changes to its solar energy subsidy regime accepted such a theory as well.[93] However, in the Spanish case, there was at least some evidence that the investor had been specifically induced to make a substantial investment on the basis of a promise of legal stability.[94] Moreover, in the Spanish case, the tribunal's analysis of the FET standard was not chained to a restrictive notion of customary international law, as is FET under NAFTA chapter 11 and the FTC interpretive note.[95] The *Eli Lilly* tribunal's embrace of the dramatic change theory is thus quite remarkable, both because it does not seem to require a specific commitment of legal stability or evidence of reliance on such a commitment, and because it ignores the FTC's attempt to cabin FET as a truly "minimum" standard of treatment.

The determination of dramatic domestic legal change required, as the Tribunal describes it, an essentially "factual" inquiry of Canadian law.[96] That inquiry led the Tribunal to closely read a handful of Canadian court cases that, in the Tribunal's view, illustrated that while the promise utility doctrine played no significant role in Canadian jurisprudence or patent practice until 2005, the basic idea was nonetheless "out there"—or at least hinted at—in earlier cases.[97] This meant that Eli Lilly was effectively on notice of the possibility that a Canadian court might formally adopt the doctrine, a possibility "to be ignored at a patentee's peril."[98] As to other aspects of the Canadian patent law regime that Eli Lilly also characterized as impermissible dramatic changes, the Tribunal disagreed: "based on the record, that change is more incremental and evolutionary than dramatic."[99]

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92. *Eli Lilly*, Final Award, *supra* note 6, ¶ 307.

93. *See* Eiser Infrastructure Ltd. & Energía Solar Luxembourg S.à r.l. v. Kingdom of Spain, ICSID Case No. ARB/13/36, Final Award, ¶¶ 363–87 (May 4, 2017), https://www.italaw.com/sites/default/files/case-documents/italaw9050.pdf [https://perma.cc/8Z32-5JYX].

94. *See id.* ¶¶ 110–12, 126.

95. This is because the Spanish case was not brought under NAFTA, but rather under the Energy Charter Treaty, which is not subject to the FTC interpretation. *See id.* ¶¶ 155, 357; *North American Free Trade Agreement: Notes of Interpretation of Certain Chapter 11 Provisions*, ORG. AM. STATES: FOREIGN TRADE INFO. SYS. (July 31, 2001), http://www.sice.oas.org/tpd/nafta/Commission/CH11understanding_e.asp [https://perma.cc/C3P5-CTSA].

96. *Eli Lilly*, Final Award, *supra* note 6, ¶ 311.

97. *See id.* ¶ 324.

98. *See id.*

99. *Id.* ¶ 350.

C. Eli Lilly *As a Threat to the Neo-Federalist Vision?*

"Drama," then, was declared to be the touchstone of a violation of IIL, and the evolution of Canada's IP law was found to lack it. Although the case raised a number of difficult and sensitive questions, and could easily have proven a blockbuster of a decision, the arbitrators chose not to address these issues. Instead, what we have is a rather dull and slimly reasoned award that largely repeats the parties' arguments while dodging the exciting legal questions.

The case nonetheless raises bigger, systemic issues that are worth discussing. In particular, it serves as a wonderful example of how investors invoke international IP instruments—such as NAFTA chapter 17—as setting regional, or even global, standards from which states may not deviate. By invoking international IP instruments, investors place inexpert arbitrators in the uncomfortable position of having to opine authoritatively on a field of law about which they know very little or nothing.[100] This creates the obvious risk of undesirable and inconsistent statements regarding what ILL permits or requires. To the extent that IIL arbitrators are conditioned to protect such investor-friendly values as legal predictability and stability, operationalized through the concept of "legitimate expectations," they may be especially prone to interpret flexible or even nonbinding international IP law as establishing global standards from which states shall not stray.

Eli Lilly argued that chapter 17, along with the Patent Cooperation Treaty, implicitly established the mere scintilla standard of utility as the NAFTA standard.[101] But its "international standard" argument went beyond formal international treaties to rely on the alleged uniformity of *national* practices to create binding global norms. Eli Lilly emphasized again and again that Canada's promise utility doctrine was "unique," a deviation not just from Mexican and US practice, but from the practice of virtually every other country in the world.[102] Eli Lilly's argument was that if every other relevant country applied a mere scintilla test, then Canada had to as well.

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100. As the *Eli Lilly* arbitrators admitted themselves, see *id.* ¶ 311 ("Finally, the Tribunal observes that the present case is one in which the facts are the law. Thus, this analysis necessarily touches upon aspects of Canadian patent law previously unfamiliar to the Members of the Tribunal.").

101. *See Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶¶ 185–86.

102. *See id.* ¶¶ 1, 4, 8–9; *Eli Lilly*, Final Award, *supra* note 6, ¶¶ 377–79. Eli Lilly uses the word "unique" eleven times in its Claimant's Memorial to describe Canada's promise utility doctrine. *See Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶¶ 1, 4, 8–9, 12, 20, 79, 213–14, 243, 279.

The *Eli Lilly* Tribunal admittedly did not take the bait. It avoided saying anything about what chapter 17 meant, and it did little analytically with the extensive expert testimony that the parties presented on Mexican and US IP law.[103] But it is not hard to imagine a different IP case taking a global standard argument more seriously. Indeed, a good example involves Eli Lilly's own arbitrator, Gary Born, in a remarkable partial dissent to the award in Philip Morris's (PM) IIL challenge to Uruguay's anti-smoking legislation.[104] In that case, PM

103. *See Eli Lilly*, Final Award, *supra* note 6, ¶¶ 377–79. The Tribunal disposes with Lilly's extensive comparative-law analysis in three laconic paragraphs. *See id.*

104. *See* Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Concurring and Dissenting Opinion of Co-Arbitrator Gary Born, ¶ 86 (July 8, 2016) [hereinafter *Philip Morris*, Gary Born Dissenting Opinion], https://www.italaw.com/sites/default/files/case-documents/italaw7428.pdf [https://perma.cc/M79X-KMMZ]. Born is well-known in investment arbitration circles as having established a reputation as a claimant's arbitrator, with reliably pro-investor views of IIL. *See, e.g.*, Antaris Solar GmbH v. Czech, PCA Case No. 2014-01, Dissenting Opinion of Gary Born, ¶¶ 10, 32 (May 2, 2018), https://www.italaw.com/sites/default/files/case-documents/italaw9810.pdf [https://perma.cc/GYT9-LBM8] (taking a pro-investor position); *Gary Born*, *supra* note 79 ("Gary Born is the chair of the International Arbitration Practice Group. Mr. Born is widely regarded as the world's preeminent authority on international commercial arbitration and international litigation."). Born has served or is serving as arbitrator for eleven ICSID disputes and has been appointed by the investor-claimant in ten of those disputes. *See, e.g.*, Biwater Gauff (Tanz.) Ltd. v. United Republic of Tanz., ICSID Case No. ARB/05/22, Award, ¶ 25 (July 24, 2008), https://www.italaw.com/sites/default/files/case-documents/ita0095.pdf [https://perma.cc/BZ7J-ZEER]; *Eli Lilly*, Final Award, *supra* note 6, ¶ 12; KS Invest GmbH & TLS Invest GmbH v. Kingdom of Spain, ICSID Case No. ARB/15/25, Decision on the Proposal to Disqualify Professor Gary Born, Arbitrator, ¶ 6 (Apr. 30, 2018), https://www.italaw.com/sites/default/files/case-documents/italaw9735.pdf [https://perma.cc/KCR7-KNZD]; Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award, ¶ 18 (July 8, 2016) [hereinafter *Philip Morris*, Award], https://www.italaw.com/sites/default/files/case-documents/italaw7417.pdf [https://perma.cc/76FD-8Q69]; *Case Details: B-Mex, LLC and others v. United Mexican States (ICSID Case No. ARB (AF)/16/3)*, ICSID, https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=ARB(AF)/16/3 [https://perma.cc/5PC9-WS8S] (last visited Oct. 15, 2018); *Case Details: Global Telecom Holding S.A.E. v. Canada (ICSID Case No. ARB/16/16)*, ICSID, https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=ARB/16/16 [https://perma.cc/J256-PMPC] (last visited Oct. 15, 2018); *Case Details: JSC Tashkent Mechanical Plant and others v. Kyrgyz Republic (ICSID Case No. ARB(AF)/16/4)*, ICSID, https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=ARB(AF)/16/4 [https://perma.cc/7N98-93BF] (last visited Oct. 15, 2018); *Hanocal Holding B.V. and IPIC International B.V. v. Republic of Korea (ICSID Case No. ARB/15/17)*, INVEST. POL'Y HUB, http://investmentpolicyhub.unctad.org/ISDS/Details/635 [https://perma.cc/6ZS6-YFUL] (last visited Oct. 15, 2018). In the eleventh, he serves as president. *See* PNG Sustainable Development Program Ltd. v. Independent State of Papua N.G., ICSID Case No. ARB/13/33, Award, ¶ 7 (May 5, 2015), https://www.italaw.com/sites/default/files/case-documents/italaw4257.pdf [https://perma.cc/S2TV-3GPA]. These statistics are taken from the ICSID and italaw websites. *See Arbitrator: Gary Born*, ITALAW, https://www.italaw.com/arbitrators/gary-born [https://perma.cc/QB9G-UPCB] (last visited Oct. 15, 2018); *ICSID Arbitrator/Conciliator: Mr. Gary B. Born*, ICSID,

challenged Uruguay's limitations on the use of the PM trademark as an expropriation and violation of FET.[105] PM lost, no doubt due to arbitrator concerns that a ruling in PM's favor would risk spurring a backlash against IIL as giving legal cover to a socially harmful and irresponsible industry.[106] Born, though, would have given PM at least a partial victory. In his view, Uruguay's "single presentation" requirement—which strictly limited the forms in which PM could use its trademarks—was impermissibly arbitrary.[107] Uruguay's single-presentation rule was arbitrary, Born emphasized, because it was "internationally unique" and "not adopted by any other country in the world."[108] Born also found it relevant that the WHO's Framework Convention on Tobacco Control did not discuss single presentation as a policy instrument.[109]

For Born, this uniform global practice imposed a heightened burden on Uruguay to prove that its deviation from that practice was "rational" in a policy sense.[110] Because Uruguay had not proven that its "unique" single-presentation restriction on PM's trademark rights was a rational means of achieving Uruguay's public health goals, Born opined that the restriction should have been found to be a violation of PM's right to be treated fairly and equitably under IIL.[111] The

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https://icsid.worldbank.org/en/Pages/arbitrators/ViewProfile.aspx?cvid=223 [https://perma.cc/8NNG-Z5SU] (last visited Oct. 15, 2018).

105. *See Philip Morris*, Award, *supra* note 104, ¶¶ 9, 12.

106. *See id.* ¶¶ 270, 271; Ankita Ritwik, Note, *Tobacco Packaging Arbitration and the State's Ability to Legislate*, 54 HARV. INT'L L.J. 523, 536, 537 (2013). In fact, PM's aggressive use of IIL to challenge anti-smoking regulations in Australia and Uruguay did lead to a backlash. *See* Christopher Knaus, *Philip Morris Cigarettes Charged Millions After Losing Plain Packaging Case Against Australia*, GUARDIAN, (July 9, 2017, 8:47 PM), https://www.theguardian.com/business/2017/jul/10/philip-morris-cigarettes-charged-millions-after-losing-plain-packaging-case-against-australia [https://perma.cc/8CUR-SJSU]; Cecilia Olivet & Alberto Villareal, *Who Really Won the Legal Battle Between Philip Morris and Uruguay?*, GUARDIAN (July 28, 2016, 7:42 AM), https://www.theguardian.com/global-development/2016/jul/28/who-really-won-legal-battle-philip-morris-uruguay-cigarette-adverts [https://perma.cc/95PW-BN5K]; Ryan Parker, *John Oliver Targets Cigarettes on 'Last Week Tonight'; Philip Morris Reacts*, L.A. TIMES (Feb. 16, 2015, 3:55 PM), http://www.latimes.com/entertainment/tv/showtracker/la-et-st-philip-morris-john-oliver-20150216-story.html# [https://perma.cc/GX3V-MKKZ]. The last draft of the Trans-Pacific Partnership (TPP) allowed member states to exclude the tobacco industry from TPP's investor-state arbitration mechanism. *See* OFFICE OF THE U.S. TRADE REPRESENTATIVE, EXEC. OFFICE OF THE PRESIDENT, TRANS-PACIFIC PARTNERSHIP ch. 29, art. 29.5 (2015) [hereinafter TPP AGREEMENT], https://ustr.gov/sites/default/files/TPP-Final-Text-Exceptions-and-General-Provisions.pdf [https://perma.cc/2MJX-G6WZ].

107. *Philip Morris*, Gary Born Dissenting Opinion, *supra* note 104, ¶ 86.

108. *Id.*

109. *See id.* ¶¶ 94, 99.

110. *See id.* ¶¶ 86–88.

111. *See id.*

implication of Born's position for a neo-federalist model is quite clear: through the intersection of IIL, comparative global practice, and international treaties, a state's ability to experiment with particular IP arrangements is restricted.

Eli Lilly also demonstrates that the IIL system can be used to limit domestic IP policy autonomy without reference to global or comparative IP rules or norms. It does so through the operation of the "legitimate expectations" doctrine, articulated in the *Tecmed* decision and quoted above.[112] That doctrine suggests that investors have an international law right—in at least some circumstances—to stability in the domestic laws and regulations governing their investment.

"Stabilization clauses" have long been a part of international practice of state contracts, particularly in the natural-resource sectors.[113] In those cases, the foreign investor negotiates a clause in a contract with the state through which the state formally and explicitly promises not to change relevant laws in ways that prejudice the investment project.[114] While the legal effect and the policy wisdom of such clauses was much debated in the 1970s,[115] these days it is quite clear that international arbitral tribunals will enforce them in most circumstances.[116] The modern legitimate expectations doctrine takes this concept a step further by threatening to expand a rather extraordinary right of legal stability outside of the contract setting, in which rights were enforceable only when specifically negotiated on a project-by-project basis.

On the basis of this expanded modern doctrine, Eli Lilly insisted that it was entitled to a stable domestic legal environment "even in the absence of specific promises by the government."[117] This is because the foreign investor is fundamentally concerned with "planning and stability" when making the investment, such that its "legitimate expectations . . . will be grounded in the legal order as it stands at the time the investor acquires the investment."[118] The state must then

112. *See supra* Section IV.B.

113. *See* Thomas Walde, *Negotiating for Dispute Settlement in Transnational Mineral Contracts: Current Practice, Trends, and an Evaluation from the Host Country's Perspective*, 7 DENVER J. INT'L L. & POL'Y 33, 33, 64, 68 (1977).

114. *See id.* at 66–67.

115. *See, e.g.*, Thomas Walde, *Revision of Transnational Investment Agreements: Contractual Flexibility in Natural Resources Development*, 10 LAW. AMS. 265, 265–66, 272 n.25 (1978) (advocating the use of renegotiation clauses rather than stability clauses).

116. *See* Alisher Umirdinov, *The End of Hibernation of Stabilization Clause in Investment Arbitration: Reassessing Its Contribution to Sustainable Development*, 43 DENVER J. INT'L L. & POL'Y 455, 455–56 (2015).

117. *Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶ 272.

118. *Id.* ¶ 273.

"take into account" those expectations when deciding whether to proceed with a law reform effort.[119] The more "dramatic" and "outside the acceptable margin of change" the reform is, the more likely that the state will, under FET, be required to pay compensation to the investor.[120]

Eli Lilly's position on FET and the legitimate expectations doctrine is controversial among IIL scholars,[121] and the Tribunal did not explicitly adopt it as the proper understanding of NAFTA article 1105. All the same, it is important to note that the Tribunal did not reject it either. Moreover, it proceeded, without much legal analysis, to analyze the factual basis of Eli Lilly's claim of "dramatic" legal change *as if dramatic legal change would have violated FET*.[122] The *Eli Lilly* award may thus be seen as a tactical loss, but also as a strategic win for investors who plan to make FET claims in the future—including claims against the United States, whose IP laws have also been known to change "dramatically" on occasion.[123] The award now enters into the stream of IIL jurisprudence as an example of a tribunal apparently taking quite seriously the notion that investors enjoy a freestanding and enforceable international legal right to be free from uncompensated "dramatic" changes in domestic law. While NAFTA chapter 11 awards technically have no precedential value for future cases, the IIL system's most influential insiders are quite open in claiming their arbitral jurisprudence develops into binding norms of customary international law that, as custom, are especially difficult for states to alter or avoid.[124]

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119. *Id.*

120. *Id.* ¶ 279.

121. *See, e.g.*, 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, 480–81 (2017); Okediji, *supra* note 37, at 1129.

122. *See Eli Lilly*, Final Award, supra note 6, ¶ 307.

123. For example, the 2011 America Investments Act has been described as the "most dramatic change in the history of U.S. patent law" and as having "far-reaching effects in both patent prosecution and litigation." *See* GESMER UPDEGROVE LLP, CLIENT ADVISORY: HISTORIC NEW PATENT LAW ENACTED, IMPOSING WIDE RANGING CHANGES (Sept. 2011), https://www.gesmer.com/uploads/29/doc/Advisory_Sept_2011.pdf [https://perma.cc/5HCU-3GHS]. US IP case law also sometimes produces allegedly "dramatic" changes. *See, e.g.*, Teva Pharm. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831, 835–36 (2015) (overturning a long line of federal circuit precedent on the standard of review for district court factual determinations regarding claim construction).

124. *See* International Thunderbird Gaming Corp. v. The United Mexican States, UNCITRAL, Separate Opinion of Thomas Wälde, ¶ 16 (Dec. 1, 2005), https://www.italaw.com/sites/default/files/case-documents/ita0432.pdf [https://perma.cc/X6JB-JFU5] ("While individual arbitral awards by themselves do not as yet constitute a binding precedent, a consistent line of reasoning developing a principle and a particular interpretation of specific treaty obligations should be respected; if an authoritative jurisprudence evolves, it will acquire the character of customary international law and must

From a neo-federalist perspective, the *Eli Lilly* award exists as a persuasively authoritative example of a unanimous IIL tribunal taking seriously an investor's legal claim that IIL serves to prohibit the state from, at least in some circumstances, making adjustments to IP law where such changes serve to weaken IP protections and, especially, where such changes represent deviations from international practice. And while Eli Lilly's factual argument was focused on the role of Canadian *courts* in the allegedly dramatic adoption of the promise utility doctrine, it is important to note that nothing in Eli Lilly's argument limits its application to court-led legal change. The IIL principles upon which Eli Lilly relied (and which the Tribunal seems to have accepted) apply just as well to executive and legislative policy changes. In other words, *Eli Lilly* does *not* simply stand for the principle that courts cannot "dramatically" change IP law; instead, it stands for the proposition that no state governing body can do so without triggering potentially massive financial liability.

V. THE QUESTION OF COSTS

Investment treaty arbitration, like international commercial arbitration, is sometimes justified on the ground that it promotes more efficient settlement of international disputes.[125] A closely related argument is that investment treaty arbitration serves to "depoliticize" investor-state dispute settlement.[126] It is striking, then, to observe how complex, expensive, and political investment arbitration of IP disputes has proven to be. In some ways, the PM litigation against Australia is an even better example of this phenomenon. PM's expropriation claim against Australia for the latter's anti-smoking legislation followed a full litigation of the essence of its claim before the High Court of

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be respected. . . . An increasingly continuous, uncontested and consistent modern arbitral jurisprudence is part of the authoritative source of international law . . . ." (footnote omitted)). For a more detailed discussion of this point, see Jason Webb Yackee, *Controlling the International Investment Law Agency*, 53 HARV. INT'L L.J. 391, 427 (2012).

125. *See* Ryan Thomas, *International Arbitration & Global Governance: Contending Theories and Evidence*, 7 Y.B. ON ARB. & MEDIATION 377, 380 (2015). In this sense, efficiency does not refer to economists' technical concept, but rather, more colloquially, that arbitration might be faster, cheaper, and less complex than alternative modes of dispute settlement, such as domestic court litigation or diplomatic protection. *See* Lars Markert, *Improving Efficiency in Investment Arbitration*, 4 CONTEMP. ASIA ARB. J. 215, 216 (2011).

126. *See* Martins Paparinskis, *The Limits of Depoliticisation in Contemporary Investor-State Arbitration*, *in* 3 SELECT PROC. EUR. SOC. INT'L L. 271, 271 (James Crawford and Sarah Nouwen eds., 2010) ("The contemporary State practice, case law and legal writings consider it almost axiomatic that depoliticisation is the purpose of investment protection regime (even if differing about its implications and the degree of successful achievement." (footnotes omitted)).

Australia.[127] The Australian court issued an extensively reasoned 41,000 word opinion detailing its reasons for holding that the legislation did not amount to a taking of tobacco-company IP under Australian law.[128]

While in domestic legal systems, such a decision by the territory's highest court would have precedential effect that would quash future attempts to litigate the same issue, PM was able to seek the proverbial second bite at the apple by recasting the claim as a violation of the Hong Kong-Australia BIT, raising highly complicated and contentious issues touching on both the right of states under international law to regulate in the public interest, as well as the relation between international trade, international health, and international investment treaties.[129] Moreover, in the BIT proceedings, the Australian High Court's interpretation and application of Australian law would be entirely irrelevant, because the international legal concept of "expropriation" exists relatively autonomously from domestic conceptions.[130]

PM filed its BIT claim in June 2011.[131] Nearly five years and sixteen procedural orders later, the Tribunal threw out the claim on a jurisdictional technicality.[132] Philip Morris's lawsuit proved highly politically controversial, as perhaps best evidenced by a biting monologue by television comedian John Oliver.[133] The lawsuit was seen

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127. *See JT Int'l SA v. Commonwealth* [2012] HCA 43, 250 CLR 1, 24, 50 (Austl.). Philip Morris was not a party to that litigation, though it did participate as an official intervenor. *See id.*

128. *See id.* at 2–3. It is interesting to note, too, that the domestic proceedings were efficient in the sense of taking just nine months to complete—from the writ of summons in December of 2011 to the judgment in August 2012. *See* Daniel Fletcher, *JT International SA v. Commonwealth: Tobacco Plain Packaging*, 35 SYDNEY L. REV. 827, 830 n.39 (2013).

129. *See* Sergio Puig, *The Internationalization of Tobacco Tactics*, 28 DUKE J. COMP. & INT'L L. 495, 497, 498–99, 506–07 (2018) (describing the complex, multiregime aspects of Philip Morris's tobacco litigation).

130. *See* Rudolf Dolzer, *New Foundations of the Law of Expropriation of Alien Property*, 75 AM. J. INT'L L. 553, 569–70 (1981).

131. *See* Philip Morris Asia Ltd. v. The Commonwealth of Austl., UNCITRAL, PCA Case No. 2012-12, Notification of Claim, ¶ 1 (June 22, 2011), https://www.italaw.com/sites/default/files/case-documents/ita0664.pdf [https://perma.cc/EB8D-ZC45].

132. *See* Philip Morris Asia Ltd. v. The Commonwealth of Austl., UNCITRAL, PCA Case No. 2012-12, Award on Jurisdiction and Admissibility, ¶¶ 11–12, 88, 588 (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/9RVL-FPL7].

133. *See* Sergio Puig, *Tobacco Litigation in International Courts*, 57 HARV. INT'L L.J. 383, 396 (2016); Parker, *supra* note 106. The monologue was delivered on February 15, 2015 for the television show "Last Week Tonight." *See* Parker, *supra* note 106.

as such a threat to the general public's acceptance of the ILL regime that the negotiators for the now-defunct Trans-Pacific Partnership specifically excluded much of the tobacco industry from investor-state dispute-settlement provisions.[134] In the process of defending itself, Australia's government spent, by some accounts, AUD $50 million in legal costs.[135] Because of the great political sensitivity of the matter in Australia, the actual costs are, literally, a state secret. The Australian government refuses to disclose them, and they are redacted from the tribunal's order on cost sharing.[136] The lack of transparency is striking, given that the trend in investor-state arbitration has been precisely in the opposite direction, especially as to disputes that so obviously raise concerns of wide public interest.[137] The *Philip Morris* case illustrates how using investment treaties to litigate the boundaries between domestic and international IP and expropriation-type laws can ironically be highly *inefficient* from a cost and time perspective, and highly politically controversial.[138]

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134. *See* TPP AGREEMENT, *supra* note 106, art. 29.5.

135. *See* Knaus, *supra* note 106.

136. *See* Philip Morris Asia Ltd. v. The Commonwealth of Austl., UNCITRAL, PCA Case No. 2012-12, Final Award Regarding Costs, ¶ 72 (Mar. 8, 2017), https://www.italaw.com/sites/default/files/case-documents/italaw9212.pdf [https://perma.cc/49WY-RBX4]; Knaus, *supra* note 106.

137. *See* Jarrod Wong & Jason Yackee, *The 2006 Procedural and Transparency-Related Amendments to the ICSID Arbitration Rules: Model Intentions, Moderate Proposals, and Modest Returns*, *in* THE YEARBOOK ON INTERNATIONAL LAW & POLICY 2009–2010 at 233, 250, 265, 268 (Karl P. Sauvant ed., Oxford Univ. Press 2010) (discussing increasing transparency in international investment arbitration); Julia Salasky & Corinne Montineri, *Transparency in Investor-State Arbitration: The New UNCITRAL Rules on Transparency*, INVEST. POL'Y HUB (Mar. 26, 2014), http://investmentpolicyhub.unctad.org/Blog/Index/29 [https://perma.cc/S2J3-6NAQ].

138. *See Philip Morris*, Award on Jurisdiction and Admissibility, *supra* note 132, ¶¶ 11–12, 88; Knaus, *supra* note 106; Parker, *supra* note 106. Pfizer's ongoing litigation against Ecuador for allegedly improper interference with its Ecuadorian patent rights to Viagra provides another example. *See* Craig C. Martin, *Avoiding the Inefficiency of Litigation*, 15 PRETRIAL PRAC. & DISCOVERY, Spring 2007, at 1, https://jenner.com/system/assets/publications/2105/original/PP_D_Martin_Spring07.pdf?1315506713 [https://perma.cc/J6F3-LKKP]. For a description of this dispute, see Zoe Williams, *Another Big Pharma Company (Pfizer) Invokes Investment Treaty Protections, Complaining That Local Courts Are Wrongfully Infringing on Patents*, IA REP. (Oct. 12, 2017), https://www.iareporter.com/articles/another-big-pharma-company-invokes-investment-treaty-protections-complaining-that-local-courts-are-wrongly-infringing-on-patents/ (on file with authors). The account contains evidence that the US government intervened diplomatically in the dispute in an almost comically juvenile way—it withdrew a visa issued to a former Ecudorian minister and politician in retaliation for his legal involvement in domestic court proceedings against Pfizer. *See id.* The (well-supported) allegation of diplomatic sanctions is striking because the sanctions occurred *despite the presence of the US-Ecuador investment treaty*. *See* LISE JOHNSON ET AL., COLUMBIA CTR. ON SUSTAINABLE INV., COSTS AND BENEFITS OF INVESTMENT TREATIES: PRACTICAL CONSIDERATIONS FOR STATES 9 (2018) ("Another key

The *Eli Lilly* case never achieved the same level of public notoriety, perhaps because of the way it was framed around the legalistic and technical issue of the utility doctrine, but it nonetheless offers some similar lessons. Eli Lilly submitted its notice of intent in November 2012.[139] The final award was not rendered until over four years hence, in March of 2017.[140] The claimant alone submitted "almost 600 pages of submissions, 545 exhibits, and 22 expert reports and witness statements."[141] The entire process produced over ninety publicly available documents, included eight days of hearings, and involved an astounding quantity of witnesses and interveners.[142] Six amici presented their views, as did a battle royale of experts and counter-experts offering their opinions and "reply" opinions.[143]

Both sides, unsurprisingly, incurred high litigation expenses. Eli Lilly spent nearly USD $1 million on experts and witnesses alone.[144] The company's total expenses amounted, it claimed, to USD $9.43 million, the majority of which was allocated to white-shoe international law firm Covington and Burling.[145] There are lesser, but still

purported benefit of investment treaties is that, by enabling investors to bring claims directly against the states in which they have invested, the treaties 'depoliticize' those disputes."). *See generally* Treaty Between the United States of America and the Republic of Ecuador Concerning the Encouragement and Reciprocal Protection of Investment, Ecuador-U.S., Aug. 27, 1993, S. TREATY DOC. NO. 103-15 (1993). The depoliticization justification for IIL, however, typically asserts that investment treaties are valuable because they discourage home state governments from "politicizing" investment disputes precisely in the way that the Pfizer dispute seems to have been politicized. *See* JOHNSON ET AL., *supra*.

139. *See Eli Lilly*, Notice of Intent, *supra* note 41, at 27.

140. *See generally Eli Lilly*, Final Award, supra note 6.

141. Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Government of Canada Submission on Costs, ¶ 11 (Aug. 22, 2016) [hereinafter *Eli Lilly*, Government of Canada Submission on Costs], https://www.italaw.com/sites/default/files/case-documents/italaw7527.pdf [https://perma.cc/S3J7-3CQD] [hereinafter *Eli Lilly*, Government of Canada Submission on Costs].

142. *See generally Case Details: Eli Lilly and Company v. Canada (ICSID Case No. UNCT/14/2)*, ICSID, https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=UNCT%2f14%2f2 [https://perma.cc/T4T7-3VPV] (last visited Oct. 16, 2018); *Eli Lilly and Company v. The Government of Canada, UNCITRAL, ICSID Case No. UNCT/14/2*, ITALAW, https://www.italaw.com/cases/1625 [https://perma.cc/U9GT-WJFJ] (last visited Oct. 16, 2018).

143. *See Case Details: Eli Lilly and Company v. Canada (ICSID Case No. UNCT/14/2)*, *supra* note 142; *Eli Lilly and Company v. The Government of Canada, UNCITRAL, ICSID Case No. UNCT/14/2*, *supra* note 142.

144. *See* Eli Lilly & Co. v. Gov't of Can., ICSID Case No. UNCT/14/2, Claimant's Submission on Costs, ¶ 13 (Aug. 22, 2016), https://www.italaw.com/sites/default/files/case-documents/italaw7526.pdf [https://perma.cc/D442-ECAW].

145. *See id.* ¶¶ 12–13.

significant, expenditures on Canada's side too.[146] Canada estimated its total expenditures at CAD $5.9 million, or roughly USD $4.4 million at the 1:0.75 exchange rate at the time of this Article.[147] More strikingly, Canada's response to the case consumed over twenty thousand hours of legal work by government attorneys and paralegals, in addition to the time expended (and billed) by any of Canada's numerous experts, the services of outside counsel Dimock Stratton, and other consultants and contractors.[148]

On the one hand, the Tribunal awarded partial costs to Canada, ordering Eli Lilly to pay 75 percent of Canada's bills, and so the point here is not necessarily that the litigation depleted Canada's wallet.[149] On the other hand, the amount of time and expense incurred in the litigation overall illustrates that whatever investment-treaty arbitration is, it is very far from the idealized model of a fast and efficient "alternative" mode of dispute settlement. Indeed, the *Eli Lilly* litigation was expensive, complicated, and time consuming. It appears all the more wasteful and redundant given that the Canadian Supreme Court overturned the promise utility doctrine line of cases in a judgement issued just three months after the signature of the Tribunal's final award.[150]

VI. CONCLUDING THOUGHTS

The *Eli Lilly* case illustrates, in part, the more questionable aspects of the modern system of investor-state arbitration. This Article highlights some of those aspects above, but further notes that the regime allows, and even encourages, investors to denigrate as hopelessly inept domestic politico-legal systems generally recognized as being of the highest order. For example, the World Bank's Worldwide Governance Indicators rank Canada at the 94th percentile or higher in terms of "Rule of Law," "Government Effectiveness," and "Regulatory Quality."[151] And yet IIL provided Eli Lilly with a framework in which

146. *See Eli Lilly*, Government of Canada Submission on Costs, *supra* note 141, ¶¶ 14, 16–17.

147. *See id.* at 10–11; *Currency Converter*, OANDA CORP., https://www.oanda.com/currency/converter/ [https://perma.cc/FGT4-VX9Z] (last visited Dec. 8, 2018).

148. *See Eli Lilly*, Government of Canada Submission on Costs, *supra* note 141, at 10–11.

149. *See Eli Lilly*, Final Award, *supra* note 6, ¶¶ 478–79 (Mar. 16, 2017), https://www.italaw.com/sites/default/files/case-documents/italaw8546.pdf [https://perma.cc/X8ZL-8886].

150. *See* AstraZeneca Can. Inc. v. Apotex Inc., [2017] 1 S.C.R. 943, 944 (Can.).

151. *See DataBank: Worldwide Governance Indicators*, WORLD BANK, http://databank.worldbank.org/data/source/worldwide-governance-indicators

to argue—in all apparent seriousness—that Canadian courts, steeped in hundreds of years of common-law tradition, were functionally incapable of applying the promise utility doctrine in anything other than an "arbitrary and unpredictable" way.[152]

The *Eli Lilly* case also illustrates certain ironies, two of which will follow. The first is that while Eli Lilly made much in the arbitral proceedings of the company's exquisite sensitivity to legal instability and of Canada's deviation from an alleged global uniformity of IP law, its communications to investors contrastingly emphasize that legal instability and a lack of uniformity are an inherent and inescapable part of the world in which it does business and in which it regularly earns billions of dollars in annual net income.[153] The second is that while Eli Lilly was castigating Canadian courts for their supposed inability to fairly manage and apply vague legal standards, it was expressly entrusting the IIL tribunal to do the same. If the promise utility doctrine is too meaningless for judicial management and application, then so too, presumably, should be the doctrine of fair and equitable treatment. And yet Eli Lilly is not only more than comfortable with an IIL tribunal—inexpert in IP law, amateur at judging—applying such a contentless standard, it is further comfortable with it doing so in a legal environment in which the FET doctrine—emphasized with approval by Eli Lilly—itself "continually evolve[s]" through a common-law process.[154]

To return to the bigger picture: IIL's private right of action is typically justified as necessary to combat certain pathological state tendencies, such as the obsolescing-bargain dynamic mentioned above, or perhaps a more general tendency to discriminate against foreigner owners of capital, who may be systematically disadvantaged in their

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[https://perma.cc/T398-GTXU] (last visited Oct. 16, 2018). Rankings are from 2016, and are available at http://databank.worldbank.org/data/reports.aspx?source=Worldwide-Governance-Indicators. *See id.* Canada scores equivalently high in earlier years. *See id.*

152. *See Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶ 61 ("Identifying the patent's 'promise' is inherently arbitrary and unpredictable."). *Id.* ¶ 263 ("[T]he promise utility doctrine requires judges to undertake the inherently unpredictable task of identifying the 'promises' contained in a patent.") *Id.* ¶ 265 ("[T]he promise utility doctrine is arbitrary and unpredictable because [it allows] judges [to] second guess the scientific evidence . . . .").

153. *See id.* ¶¶ 26, 35–36, 56–57; ELI LILLY AND CO., 2017 FINANCIAL REPORT at F18, F22 (2017), https://assets.ctfassets.net/hadumfdtzsru/4RVXuVcg9ai0gWWCoIYeGc/9060d43866886d7bb5ce492f0329ac79/2017_Lilly_Financial_Report___2018_Proxy_Statement.pdf [https://perma.cc/X622-DPNQ] ("Intellectual property protection varies throughout the world and is subject to change over time."). For data on Eli Lilly's financial performance, see *Eli Lilly and Co.*, MORNINGSTAR, http://financials.morningstar.com/ratios/r.html?t=LLY [https://perma.cc/KKP7-X7S4] (last visited Oct. 16, 2018).

154. *See Eli Lilly*, Final Award, *supra* note 6, ¶ 311; *Eli Lilly*, Claimant's Memorial, *supra* note 58, ¶¶ 250, 254.

ability to access and influence the domestic political process.[155] But neither scenario applied to Eli Lilly's case. Eli Lilly did not claim that the development or application of the promise utility doctrine was motivated by anti-foreigner bias—perhaps because its opponent in the underlying, original IP litigation was itself a subsidiary of an Israeli drug company.[156] Nor was Canada seizing Eli Lilly's capital-intensive investments for its own enjoyment. Instead, Canadian courts were wrestling in apparent good faith with how best to apply and adapt a relatively open-ended and somewhat outdated statute—the Canadian Patent Act of 1985—to an industry whose activities raise difficult and contested questions of public policy.[157] It is by no means clear, by the justificatory logic of the IIL regime itself, why Canadian courts and the Canadian political system were not a perfectly adequate forum for deciding whether the promise utility doctrine was or was not permitted under Canadian law. The desirability of a preference for domestic solutions is especially high, as Dinwoodie and Dreyfuss persuasively argue, in the rapidly changing and morally fraught worlds of pharmaceuticals and biotechnology.

This does not mean, of course, that domestic regimes can be trusted to always get international IP "right." But it is also probably true that states do not have serious incentives to get it "wrong" very often, at least not in a serious way. Internal political as well as international competitive pressures should serve to disincentivize

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155. *See* John F. Coyle & Jason Webb Yackee, *Reviving the Treaty of Friendship: Enforcing International Investment Law in U.S. Courts*, 49 ARIZ. ST. L.J. 61, 63 (2017); Kenneth J. Vandevelde, *The Economics of Bilateral Investment Treaties*, 41 HARV. INT'L. L.J. 469, 469–70, 488 (2000). On investment treaties as tools to prevent discrimination against foreign-owned capital, see Vandevelde, *supra*, at 500.

156. *See* E. Richard Gold, *Eli Lilly's Canadian Odyssey to Use a Fake Rule and Fake News to Protect Bad Patents*, STAT NEWS (Aug. 16, 2017), https://www.statnews.com/2017/08/16/eli-lilly-canada-patents-zyprexa-strattera/ [https://perma.cc/PNG5-RTLH]. The underlying Canadian litigation over the relevant patents was between Eli Lilly and Novapharm, a Canadian drug company acquired by Teva, an Israeli drug company, in 2000. *See Teva Announces Completion of Novopharm Acquisition*, TEVA (Apr. 5, 2000) https://www.tevapharm.com/news/teva_announces_completion_of_novopharm_acquisition_04_00.aspx [https://perma.cc/MD6G-UXTQ]. In fact, the only "discrimination" claim that Lilly raised was that the promise utility doctrine impermissibly discriminated against a particular field of technology (pharmaceuticals), in arguable violation of certain NAFTA IP provisions. *See* Gold, *supra*.

157. *See Eli Lilly*, Final Award, *supra* note 6, ¶¶ 312–16; Jeremy Sugarman, *The Body Hunters: Testing New Drugs on the World's Poorest Patients*, 355 NEW ENG. J. MED. 425, 425 (2006), https://www.nejm.org/doi/full/10.1056/NEJMbkrev57619 [https://perma.cc/3AYX-M6F5]. This is especially so as to the impact of IP protection on access to and affordability of pharmaceuticals in the developing world. *See* Cynthia M. Ho, *Global Access to Medicine: The Influence of Competing Patent Perspectives*, 35 FORDHAM INT'L L.J. 1, 3 (2016). For an overview of the access to medicine debate, see *id.*

states from weakening IP protections "dramatically." Domestic interests (and foreign investors) can often be counted upon to vigorously lobby governments to maintain strong standards,[158] and governments will often be receptive to those arguments, especially where those who are disadvantaged by strong standards (e.g., consumers of IP) are dispersed and politically weak, as they typically are.[159] And states have an ongoing incentive to compete for foreign capital by providing foreign investors with the kinds of IP protections that foreign investors are generally able to demand. Moreover, state-to-state dispute settlement, as through the WTO's Dispute Settlement Understanding or analogous procedures in free trade agreements, is readily available for serious departures from those global minimum IP standards within which states otherwise should enjoy wide regulatory latitude.[160]

This Article closes by briefly suggesting three possibilities. First, states could specify in their investment treaties that IP-related

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158. *See* Layna Mosley, *Private Governance for the Public Good? Exploring Private Sector Participation in Global Financial Regulation*, *in* POWER, INTERDEPENDENCE, AND NONSTATE ACTORS IN WORLD POLITICS 126, 134–35 (Helen V. Milner & Andrew Moravcsik eds., Princeton Univ. Press 2009). For example, Canada enjoys a robust domestic pharmaceutical industry that can be expected to lobby the government on IP issues. *See Pharmacare Watchdog: 'Industry Influence Corrupts the Public Policy Process,'* CBC NEWS (June 18, 2015, 1:32 PM), https://www.cbc.ca/news/canada/british-columbia/pharmacare-watchdog-industry-influence-corrupts-the-public-policy-process-1.3118914 [https://perma.cc/3XJT-CH8R]; *Pharmaceutical Industry Profile*, GOV'T CAN., https://www.ic.gc.ca/eic/site/lsg-pdsv.nsf/eng/h_hn01703.html [https://perma.cc/Q94A-33RU] (last visited Oct. 16, 2018). The Canadian government views that industry and its interests as highly important to the Canadian economy, as evidenced by the extensive "industry profile" provided on the government's economic development website. *See Pharmaceutical Industry Profile*, *supra*. Eli Lilly also regularly lobbies Canadian government officials. *See Eli Lilly Canada Inc./Lisa Matar, President and General Manager*, OFF. COMMISSIONER LOBBYING CAN., https://lobbycanada.gc.ca/app/secure/ocl/lrs/do/clntSmmry?clientOrgCorpNumber=6034&sMdKy=1538356990234 [https://perma.cc/NPV2-N52V] (last visited Oct. 16, 2018). As of writing, Canada's Office of the Commissioner of Lobbying of Canada reports sixteen contacts between Eli Lilly lobbyists and officials in the past twelve months. *See id.*

159. *See* Jonathan D. Aronson, *Intellectual Property Rights in a Networked World*, *in* POWER, INTERDEPENDENCE, AND NONSTATE ACTORS IN WORLD POLITICS 185, 188–89 (Helen v. Milner & Andrew Moravcsik eds., 2009). On the relevance of consumer dispersion to IP law, see Jonathan Reich, *The Class Defense: Why Dispersed Intellectual Property Defendants Need Procedural Protections*, 9 DUKE L. & TECH. REV. 1, ¶¶ 3–9 (2010).

160. *See Intellectual Property: Protection and Enforcement*, WORLD TRADE ORG., https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm7_e.htm [https://perma.cc/Z648-WASZ] (last visited Oct. 16, 2018). And even though states, not private actors, have access to the WTO dispute settlement mechanism, Philip Morris has shown that it is possible for companies to pay WTO members for bringing IP-related WTO claims on their behalf. *See* Understanding on Rules and Procedures Governing the Settlement of Disputes art. 1, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401; Puig, *supra* note 133, at 384. This is precisely what Philip Morris appears to have done in the WTO corollary to its investment treaty lawsuit against Australia. *See* Puig, *supra* note 133, at 384.

policy actions that comply with TRIPS or with relevant IP chapters in free trade agreements do not amount to a violation of FET. Such a move would merely extend existing NAFTA practice as applied to IP-related expropriation while also reflecting the reality that FET has become the most problematic cause of action under modern investment treaties.[161]

Second, states could specify that investment tribunals do not have jurisdiction to independently declare state actions as non-compliant with international IP rules. Instead, a finding by a WTO or FTA panel of noncompliance could be a prerequisite—essentially on ripeness grounds—to the investment tribunal's consideration of whether the violation of international IP rules *also* amounts to a violation of international investment law. This reform would address the problem of inexpert and potentially conflicting international decisions declaring particular conduct to violate international IP law.

Third, states could consider limiting remedies for IP-related investment treaty violations to the investor's sunk costs. Limiting damages to sunk costs may do a better job of aligning the business and regulatory risks the IP investor has actually taken with the state's liability for damages in the event of an investment treaty violation.

In the end, then, the *Eli Lilly* case suggests the potential for the IIL system, in its current form, to interfere with the realization of a neo-federalist vision of global IP law. While Eli Lilly lost on the merits (and wasted significant resources in doing so), it is quite likely that the company, or its pharmaceutical brethren, will file similar challenges as to other drugs and other changes in domestic IP laws. In the meantime—and especially in the context of the ongoing renegotiation of NAFTA—states like Canada should seriously consider whether they might attempt to limit the ability of foreign IP rights holders to challenge domestic IP policy through the investor-state dispute settlement mechanisms of IIL.

161. *See supra* Part III; *supra* Section IV.B.