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**Research Report**

## IP rights under investment agreements: The TRIPS-plus implications for enforcement and protection of public interest

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# **RESEARCH PAPERS**

## **8**

### **IP RIGHTS UNDER INVESTMENT AGREEMENTS: THE TRIPS-PLUS IMPLICATIONS FOR ENFORCEMENT AND PROTECTION OF PUBLIC INTEREST**

**Ermias Tekeste Biadgleng\***

**SOUTH CENTRE**

**AUGUST 2006**

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## **THE SOUTH CENTRE**

In August 1995, the South Centre was established as a permanent inter-Governmental organization of developing countries. In pursuing its objectives of promoting South solidarity, South-South cooperation, and coordinated participation by developing countries in international forums, the South Centre has full intellectual independence. It prepares, publishes and distributes information, strategic analyses and recommendations on international economic, social and political matters of concern to the South.

The South Centre enjoys support and cooperation from the governments of the countries of the South and is in regular working contact with the Non-Aligned Movement and the Group of 77. The Centre's studies and position papers are prepared by drawing on the technical and intellectual capacities existing within South governments and institutions and among individuals of the South. Through working group sessions and wide consultations, which involve experts from different parts of the South, and sometimes from the North, common problems of the South are studied and experience and knowledge are shared.

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## **LIST OF ABBREVIATIONS**

BIT	Bilateral Investment Treaty
EC	European Commission
FTA	Free Trade Agreement
FTC	U.S. Federal Trade Commission
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade 1994
ICSID	The International Centre for the Settlement of Investment Disputes
ICT	Information and communication technology
IP	Intellectual Property
LDCs	Least Developed Country
MAI	Multilateral Investment Agreement
MFN	Most-favoured nation treatment
NAFTA	North-American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
SCM	Agreement on Subsidies and Countervailing Measures
TRIMS	Agreement on Trade-Related Investment Measures
TRIPS	Agreement on Trade-Related Intellectual Property Rights
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UPOV	The International Union for the Protection of New Varieties of Plants
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization





## EXECUTIVE SUMMARY

The proliferation of investment and intellectual property (IP) agreements recently has been accompanied by an increasing number and expanded scope of investment disputes. The agreements give rise to various issues that particularly affect developing countries. One of the issues that has recently started to influence the negotiations for new investment agreements involves the question of the status of IP rights and the impact of investment agreements on the rights, obligations and regulatory discretions of countries under the Agreement on Trade-Related Aspect of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO).

IP rights validly acquired in accordance with the domestic law can constitute investment. Domestic law determines the scope, content and form of IP rights that have the characteristics of investment. However, the definition of investment assets under the investment agreements may result in a higher standard of IP protection when it specifically includes, for example, encrypted program-carrying satellite signals, under an investment agreement involving a country that has not adopted similar rights under its domestic law or by ratifying multilateral instruments that protect similar rights. The protection of IP rights under investment agreements gives rise to a TRIPS-plus impact on developing countries in the determination of the scope, the availability and validity of IP rights that constitute investment assets. The investment standards also protect for the activities associated of investment including the acquisition, protection and enforcement of IP rights. In addition, the investment agreements protect undisclosed data and other information submitted for investment and other approval purpose.

The determination of the extent to which countries can take TRIPS-consistent measures to protect public interest and regulatory measures like competition policy, compulsory license, and technology transfer faces additional layers of standards under investment agreements. These include adherence to due process and transparency requirements, adoption and implementation of the measures in good faith and that do not involve arbitrary and unjustifiable discrimination or disguised restriction on investment, and consistency with specific requirements under the TRIPS or the IP section of the agreements, as in the case of the U.S. Free Trade Agreements (FTAs). These additional standards open the possibility of challenging the consistency of the measures and the application of the standards of compensation under the investment agreements.

The extent of the impact of investment agreements on the flexibilities and obligations of developing countries under the TRIPS Agreement varies depending on the language of each agreement. However, one general observation of investment agreements is that they leave government measures open for challenge by utilising the mechanisms for the settlement of investment disputes. In the absence of a clear exclusion of IP disputes from the scope of an investment dispute settlement, arbitration tribunals should give considerable weight to the existence of effective settlement mechanisms, with specialized expertise, and legal procedures for IP rights. IP issues have their own dimension, jurisprudence and political economy completely different from investments. Finally, the developing countries should adequately consider the provisions of investment agreements during negotiation and renewal of existing agreements in order to limit the protection of IP rights to the TRIPS and other agreements and their respective domestic laws.



## I. INTRODUCTION

The proliferation of investment and IP agreements raises fundamental questions on the relationship between such agreements and the implementation of national policies for economic development. The agreements may support technologically sophisticated and competitive industries of the developed countries. However, the industries in developing countries that do not have significant assets allocated in different jurisdictions do not gain a comparable advantage from these agreements. A review of the trends in investment and IP agreements reveals the history of intensive negotiation between developed and developing countries, as opposed to cutting across all nations of the world. Investment agreements especially are rare among developed countries. There are, however, several investment agreements among developing countries. Current IP agreements similarly reflect the proactive move from developed countries to influence the IP-related policies through bilateral agreements and multilateral treaties negotiated in the World Intellectual Property Organization (WIPO).

Since the conclusion of the North-American Free Trade Agreement (NAFTA), the negotiation of the failed Multilateral Investment Agreement (MAI) under the Organisation for Economic Co-operation and Development (OECD) and the re-emergence of bilateral trade and investment agreements in the form of Free Trade Agreements (FTAs), the interplay of IP rights and investment agreements have become the focus of negotiation. The negotiations continue to relate to both IP laws and outstanding investment and IP claims.<sup>1</sup> Substantively, the recent investment agreements have witnessed their intensive use to resolve some of the multilateral disagreements on IP, among others.

The agreements, when signed among Members of the World Trade Organization (WTO), tend to have a WTO-plus effect. Since there are challenges on the fairness of the WTO rules towards poor countries on several grounds by several developing countries, civil society and intergovernmental organisations, the WTO-plus agreements logically require a higher degree of assessment of their fairness. This research paper analyses the impact of investment agreements on rights and obligations under the Agreement on Trade-Related Intellectual Property Rights. The ultimate goal is to rethink the investment-IP interplay in the North-South investment agreements and their relation to the implementation of socio-economic and technological development policies.

The research builds on the South Centre's Analytical Note on 'Intellectual Property in Investment Agreements: The TRIPS-plus Implications for Developing Countries'.<sup>2</sup> The Analytical Note examined the trends and current developments on IP rights under investment agreements and the implications of the emerging approaches relating to the fair and equitable treatment and the national and most-favoured nation (MFN) treatment in investment agreements for the overall regimes for the protection of IP. The Analytical Note found that the extension of the fair and equitable standard treatment to IP assets of investment is a major TRIPS-plus aspect of investment agreements. Hence, the Analytical Note recommended that the definition of investment be subject to national laws and regulations, and for the provision of an explicit clause restricting resort to the investor-to-state dispute settlement mechanism on disputes arising from the protection and enforcement of IP rights, and implementation of 'waivers,' exceptions and regulatory discretions under multilateral IP agreements. This Research Paper primarily deals with public interest, competition, performance requirements and enforcement-related IP issues under investment agreements.

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<sup>1</sup> Nicholas and Rosen (2004), p. 200.

<sup>2</sup> South Centre (2005), p. 5-8.

The next section of the Research Paper reviews the legal aspects of the problem of treating IP as investment assets under investment agreements. The third section examines the relation of the provisions of investment agreements on the flexibilities and regulatory discretions available under the TRIPS Agreement for the promotion of public interest, innovation, technology transfer and competition policy and regulation. The fourth section examines the relationship between investment agreements and enforcement of IP rights. The last section concludes with observations on the findings of the paper.

The research utilises the UNCTAD database on bilateral investment agreements, available at the organization's website for the review of investment agreements. For the purposes of this research paper, the word 'investment' conveys the act of establishing a subsidiary or purchase of a share in a domestic company to constitute an investment. The term 'investment asset' refers to the asset-based definition of investment under investment agreements. The acronym BIT or BITs refers to Bilateral Investment Agreement(s). 'Covered investment' refers to the investor and investment asset covered under the investment agreements. The citation of BITs and FTAs here is not a confirmation of the entry into force of the agreements among their respective parties.

## II. IP RIGHTS AS INVESTMENT ASSETS

IP rights are increasingly dominating the asset structure of companies in the technologically advanced countries. When companies from the technologically advanced countries allocate their production, Research, and Development (R&D) facilities abroad, the capital structure of their subsidiaries can include trade secrets, trade names, technical process and other IP rights. For these reasons, investment agreements define investment assets as constituting intangibles, IP rights, licenses, claims and returns, among others. Box 1 below provides selected definitions of investment under various agreements.

The definition of investment assets as comprising IP rights creates the linkage between IP instruments, that are mainly multilateral, and investment agreements, which are mainly bilateral. Whether IP rights should be included in the definition of investment was the subject of major debate during the negotiations of the MAI. Some countries suggested the exclusion of IP from the definition of investment.<sup>3</sup> The issue was not resolved in further negotiation. However, where the definition of investment does not specifically include IP rights, it does not necessarily mean that IP rights do not constitute investment. This is because IP rights protecting the technologies of the foreign company can form part of investment assets as intangibles, claims, and other interests. As a result, the interface between the IP and investment agreements requires broad examination and legal and economic analysis, especially to determine the extent of rights and obligations arising from investment agreements.

The first question relates to when IP rights assume the characteristics of investment. The 2004 model of the U.S. BIT, under its definition of investment, with characteristics of investment as a key aspect of the definition states that:

“Investment means every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gains or profit, or the assumption of risk”<sup>4</sup>

The characteristic of investment associated with the asset is relevant in determining whether there is investment protected under the agreement.<sup>5</sup> The US FTAs provide that where an asset lacks the characteristics of an investment, that asset is not an investment regardless of the form it may take.<sup>6</sup> As a result, mere possession of rights, for example, trademarks and trade secrets that are not committed to the investment with expectation of gains or are unrelated to the assumption of risk of investments is not an investment.

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<sup>3</sup> OECD (1997), p. 4.

<sup>4</sup> USTR (2004), Model BIT, Article 1.

<sup>5</sup> In an ICSID case, *CSOB v. Slovak Republic* (1999), debt arising from a loan agreement was characterised as investment. In *Fedax v. Venezuela* (1998), promissory notes issued as payment for services were deemed to form an investment. Other tribunals have made important observations on the scope of assets protected under investment agreements. For the discussion, see Shackleton (April 2005), p. 6&7. See also *Pope & Talbot, Inc. v. Government of Canada* (2000), at para.98; *S.D. Myers, Inc. v. Government of Canada*, (2000), at para. 232- that gave rise to concern over liability for investment involving market access and market share.

<sup>6</sup> U.S.-Singapore FTA (2003) fn15-1; similar notes are found in the U.S.-Chile FTA (2003) at fn10, 11; and U.S.-CAFTA (2004) at fn7, 9.

**Box 1**  
**Definition of investment under selected agreements<sup>7</sup>**

<b>The first BIT: Germany and Pakistan: 1959, Article 8;</b>
(1) (a) The term "investment" shall comprise capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, patents and technical knowledge. The term "investment" shall also include the returns derived from and ploughed back into such "investment".
<b>Pre-TRIPS: Canada and Argentina, 1993, Article I</b>
(a) the term "investment" means any kind of asset defined in accordance with the laws and regulations of the Contracting Parties in whose territory the investment is made, .... It includes in particular, though not exclusively... (iv) intellectual property rights, including rights with respect to copyrights, patents, trademarks as well as trade names, industrial designs, good will, trade secrets and know-how; Any change in the form of an investment does not affect its character as an investment.
<b>Post-TRIPS: The MAI (negotiating text as of April 1998): Article II</b>
(2.) Investment means: Every kind of asset owned or controlled, directly or indirectly, by an investor, including: <sup>1</sup> ... (vi) intellectual property rights; (vii) rights conferred pursuant to law or contract such as concessions, licenses, authorisations, and permits; (viii) any other tangible and intangible, movable and immovable property, and any related property rights, such as leases, mortgages, liens and pledges.  1. The Negotiating Group agrees that this broad definition of investment calls for further work on appropriate safeguard provisions. In addition, the following issues require further work to determine their appropriate treatment in the MAI: indirect investment, intellectual property, concessions, public debt and real estate.
<b>The Era of FTAs: The U.S. Model BIT of 2004, Article 1</b>
<b>"investment"</b> means every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include: (a) an enterprise; (b) shares, stock, and other forms of equity participation in an enterprise; (c) bonds, debentures, other debt instruments, and loans; <sup>1</sup> (d) futures, options, and other derivatives; (e) turnkey, construction, management, production, concession, revenue-sharing, and other similar contracts; (f) intellectual property rights; (g) licenses, authorizations, permits, and similar rights conferred pursuant to domestic law; <sup>2,3</sup> and (h) other tangible or intangible, movable or immovable property, and related property rights, such as leases, mortgages, liens, and pledges.  1...2 Whether a particular type of license, authorization, permit, or similar instrument (including a concession, to the extent that it has the nature of such an instrument) has the characteristics of an investment depends on such factors as the nature and extent of the rights that the holder has under the law of the Party. Among the licenses, authorizations, permits, and similar instruments that do not have the characteristics of an investment are those that do not create any rights protected under domestic law. For greater certainty, the foregoing is without prejudice to whether any asset associated with the license, authorization, permit, or similar instrument has the characteristics of an investment. 3---

<sup>7</sup> The full definition is quoted for the German and Pakistan BIT of 1959 and the U.S. Model BIT of 2004. For the rest, the quotation is limited only to the definition as including IP rights.

Moreover, the asset must refer not merely to rights and claims but to 'rights and claims that have financial value' for the investment. The availability of financial value attached to the asset is crucial to determine whether assets like contracts, licenses and claims constitute investment. Contracts claiming to licence trade secrets already disclosed in the home or host country of the licensing foreign company may not qualify as investment where domestic law considers such assets as in public domain. In the words of an arbitration tribunal the determination of the financial value of the claimed assets:

"...creates a link with domestic law, since it is to a large extent the rules of domestic law that determine whether or not there is a financial value. In other words, value is not a quality deriving from natural causes but the effect of legal rules which create rights and give protection to them."<sup>8</sup>

The Chile-Argentina BIT of 1996, under Article 1(1) recognises domestic law as a validity requirement:

"investment" means any kind of asset admitted by one or the other Contracting Party, in accordance with its respective laws, regulations and investment policies..."

IP rights assume the characteristics of investment and receive financial value when acquired in accordance with domestic law. In this regard, a tribunal concluded that the reference to the laws and regulations of the host country refers to the validity of the investment but not to its definition-, 'it seeks to prevent the Bilateral Treaty from protecting investments that should not be protected, particularly because they would be illegal.'<sup>9</sup> On the other hand, the Chile-Australia BIT (1996), under its definition of investment qualifies the determination of scope of rights over investment assets in accordance with domestic law:

"The term 'investment' shall mean every kind of asset, including property and rights of any kind acquired or effected in accordance with the laws of the receiving state ...  
The meaning and scope of the assets above mentioned shall be determined by the laws and regulations of the Party in whose territory the investment was made."<sup>10</sup>

Similarly, the definition of investment under the Belgium-Luxembourg- Argentina BIT, (1990) provides that:

"The Content and scope of the rights corresponding to the various categories of assets will be determined by the law and regulations of the Contracting Party in whose territory the investment is located."<sup>11</sup>

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<sup>8</sup> SCC (2004), *Mr.X (United Kingdom) and The Republic (in Central Europe)*, p.158 & 161. The tribunal noted that the basis of [Mr X]'s claims in this case is the Investment Treaty and that Treaty should be interpreted in accordance with the rules of public international law. However, domestic law will be of some relevance, since the terms 'investment' and 'asset' in Article 1 of the Investment Treaty cannot be understood independently of the rights that may exist under [the law of the Republic]. It is therefore necessary to determine what the legal significance of that cooperation Agreement is under [the law of the Republic]."

<sup>9</sup> See ICSID (2001), *Salini et al. v Morocco*, para. 46.

<sup>10</sup> In *Gas Natural SDG S.A. v. the Argentine Republic* (2005), the tribunal noted that the definition follows almost universal practice to define the subject of BITs as comprehensively as possible.

<sup>11</sup> *Belgium-Luxembourg- Argentina BIT, (1990)* cited in *Camussi International S.A. v. the Argentine Republic*, (2005). The tribunal stated that though particular aspects relating to the meaning and scope of the rights relating to the assets are governed by the law and regulations of the Argentine Republic, it must be borne in mind that as regards jurisdiction the applicable law is that of the Treaty.



The relevance of the characteristics of investment and its relation with domestic law is particularly important for IP rights, since they are territorial in nature. Their acquisition and recognition for protection in a given territory do not amount to acquisition and recognition for protection in any other territory. Moreover, the granting states determine the extent and scope of rights and applicable limitations and exceptions to IP rights differently, as recognised under multilateral agreements. The categories and technologies as well as the applications of the criteria for the grant of the IP also differ from country to country. In this regard, some investment agreements, like several of the Indian BITs, clearly limit the IP forming an investment to the extent accepted in accordance with the relevant laws of the respective countries.<sup>12</sup> Some other investment agreements move one-step further, in order to require a formal capital registration process for IP rights to constitute an investment asset:

“Member Countries, ...., may consider as capital contributions, such intangible technological contributions like trademarks, industrial models, technical assistance and patented or non-patented know-how, that take the form of physical goods and technical documents and instructions.”<sup>13</sup>

As a result, IP rights can form an investment and benefit from the protection stipulated in the investment agreement in accordance with domestic law. The issue of copyrights, however, deserves a separate analysis. Correa observes that the lack of registration to confer rights in cases of copyright and trade secrets does not seem to affect the status of such rights as covered investment.<sup>14</sup> Similarly, in the case of well-known trademarks there is no need for prior registration for protection; hence, not in the public domain.<sup>15</sup> The domestic law may determine the scope of the right over material protected by copyright. However, the lack of registration does not affect the determination of whether a copyright is investment. Here, the availability of investment characteristics plays crucial role. During the negotiation of the MAI, there was no agreement on whether the definition of “investment” should exclude copyright and related rights and whether it should include only the “economic aspect” of IP.<sup>16</sup> Since, the protection of copyright and related rights by domestic law would accord validity and financial value to the rights, the proposed ‘economic aspect’ of copyrights would be unnecessary. The important element is the specific indication of the role of domestic law in determining the validity, scope and content of rights over intangibles and IP rights.

Not all investment agreements are explicit in defining the concept of investment and the role of domestic law in determining the validity, scope and content of the rights over investment assets. Even where domestic law is included as a validity requirement for investment assets, the broad definition of investment may provide higher protection of assets than that available under domestic law. Investment arbitration tribunals emphasise public international law interpretation of treaties, in which case legal terms in investment agreements considered as having an autonomous meaning appropriate to the contents of the specific treaty, are not necessarily the same as similar terms in the domestic law of the contracting parties.<sup>17</sup> Arguably, investors can claim protection of IP rights to the extent provided under investment agreements where such protection is not available or is less advantageous under the domestic laws of the host country. This creates a grey area where the IP rights recognised under the investment agreements are not available under domestic law.

The majority of investment agreements provide a list of IP rights that may include assets that are in the public domain for the purpose of domestic law. For example, some investment agreements have

<sup>12</sup> See Indian BIT with Ghana (2000), Indonesia (1999), Thailand (2001), Oman (1997) and Sri Lanka (1997).

<sup>13</sup> Andean Community, “Regime for the Common Treatment of Foreign Capital and Trademarks, Patents, Licensing Agreements and Royalties,” Decision 291, Article 1:

<sup>14</sup> Correa, Carlos M (2004), p. 19

<sup>15</sup> Id., p. 9

<sup>16</sup> OECD (1997), p. 4.

<sup>17</sup> SCC (2004), Mr. X. (*U.K. businessman*) v. *Respondent Republic (in Central Europe)*, p. 141.

become more explicit in specifying geographic indications, plant varieties, data and encrypted programs in their definition of investment. Some investment agreements diverge clearly from domestic laws on IP protection. The Ethiopia-Israel BIT of 2003, for example, defines geographic indications and plant-breeders' rights as investment assets, although Ethiopia, which is not a member of the WTO and the International Union for the Protection of New Varieties of Plants (UPOV), did not protect geographic indications and plant-breeders' rights in its domestic law at the time of signing the investment agreement. Can it be said that the inclusion of geographic indications or plant-breeders' under the definition of investment is without effect for Ethiopia? It is unlikely that in case of dispute tribunals would ignore the provisions of the investment agreement in favour of domestic laws. In which case, the host country is required to protect the plant-breeders' rights as investment assets by the operation of the investment agreements. In another example, the U.S. -Vietnam bilateral trade agreement defines investment agreements to include encrypted program-carrying satellite signals.<sup>18</sup> Vietnam has reserved investment in broadcasting, television, production, publication and distribution of cultural products.<sup>19</sup> Vietnam will start to protect encrypted program-carrying satellite signals only in July 2006 according to the country's new IP law.<sup>20</sup> In the absence of the new law, Vietnam would have been required to extend protection to encrypted program-carrying satellite signals to U.S. investors by the operation of the investment agreement.

In sum, IP rights obtained validly in accordance with the host country laws can constitute an investment asset. Domestic law of the host country will determine their scope, content and form. However, where investment agreements specifically include a given right as an investment asset which is not protected by domestic law, the host country will still be obliged to protect such rights as investment assets. For developing countries in as far as there are no specific advantages of creating additional sources of rights over IP for foreign investors, it is important always to provide clarity on the scope of property rights of investors and the role of domestic law. It is also necessary to avoid the listing of rights that are not protected under domestic law or multilateral instruments to which the state is signatory.

Once IP rights constitute investment assets, the substantive provisions of the investment agreement are applicable to their protection in addition to the TRIPS Agreement. The proprietary interest of investors protected under investment agreements is also broader than the TRIPS Agreement, since their IP rights constitute protected investment assets. The substantive obligations of the parties under the respective investment agreements relate to the scope of the protection of the IP rights of investors. The next step should be to examine the impact of investment agreements on rights and obligations of states under IP agreements. Such an examination requires extensive research, reviewing regional and bilateral investment agreements, several multilateral IP agreements administered by WIPO, the TRIPS Agreement and IP sections of the recent FTAs. The rest of the Paper is devoted to these analyses.

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<sup>18</sup> See the U.S.-Vietnam Bilateral Trade Agreement (2001), Chapter 4, Article 1 (1). Vietnam has also reserved broadcasting, television, press, published works, cinematic products, and distribution of services among other sectors in its BIT with UK (1 July 2002)

<sup>19</sup> *Id.*, Annex H.

<sup>20</sup> Vale (2006).

### III. PROTECTION OF THE PUBLIC INTEREST: THE TRIPS-PLUS IMPACT OF INVESTMENT AGREEMENTS

Public interest is a broad concept that varies in scope from state to state, depending on the level of development, culture, history and the demands of the present and the future generation in the respective context.<sup>21</sup> It usually refers to the general welfare and rights of the public at large that are to be recognized, protected, and advanced. The TRIPS Agreement has important elements relevant for recognition, protection and advancement of public interest. The protection of public health, environment, national security, and the maintenance of public order constitute the major domains of public interest along with other socio-economic interests.

The TRIPS Agreement, under Article 7, underlines that IP rights should be conducive to social and economic welfare. They should also balance the rights and obligations of right holders and users. For the purpose of dispute settlement, Article 6 limits the applicability of the TRIPS Agreement to the issues of exhaustion of IP rights. Promotion and protection of public interest is also one of the guiding principles in implementing the agreement in accordance with Article 8 and 40. The standards concerning the availability, scope and use of each category of IP rights in the TRIPS Agreement and the WIPO Agreements incorporated by reference also provide exceptions under each section. For example, under the patent section of the TRIPS Agreement, members may exclude patentability of certain inventions, provide limited exceptions to the exclusive rights conferred by a patent, and make other use of the subject matter of patents.<sup>22</sup> With regard to trademarks, the TRIPS Agreement authorises derogation based on the grounds under the Paris Convention for the Protection of Industrial Property, which includes morality, public order, deceptive use and general public interest.<sup>23</sup>

Investment agreements, on the other hand, follow two different approaches on public interest: a general exception clause applicable to the agreement as a whole or a specific exception under selected provisions.<sup>24</sup> However, several BITs omit exceptions based on public interest considerations.<sup>25</sup>

The general exception clauses provide exception subject to the standards of non-discrimination and fair and equitable treatment or shield the governments from any interpretation of the agreement as prohibiting or restricting the protection of the public interest. The Canadian Model BIT, the Japan BIT with Vietnam and the Agreement between Japan and Singapore for a New Age Economic Partnership

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<sup>21</sup> There is no definition of public interest under WTO agreements and hence, the States concerned define public interest. WTO Agreements use the word 'public interest' as an exception to obligations to disclose information. See, for example, Agreement on Trade-Related Investment Measures (TRIMS), Article 6 (3), Agreement on Safeguards, Article 12(11), The General Agreement on Tariffs and Trade (GATT), Article XVI (4)(d), General Agreement on Trade in Services (GATS), Article III*bis*. Some provisions in WTO Agreements provide that 'public interest' could be taken into consideration when implementing obligations - see Agreement on Government Procurement, Article XX (7) (a) and Agreement on Safeguard Article 3(1). The safeguard and balance-of-payment measures under various provisions of WTO Agreements also reflect the public interest. GATT Article XX, GATS Article XIV and XIV*bis*, permit derogation from some WTO rules in relation to public interest issues.

<sup>22</sup> The TRIPS Agreement (1994), Article 29 (2) & (3), 30 and 31.

<sup>23</sup> The TRIPS Agreement (1994), Article 15(2) and the Paris Convention for the Protection of Industrial Property (1979), Article 6(3) & 7(2)- as amended and revised.

<sup>24</sup> South Centre, (2005), p. 17.

<sup>25</sup> See, e.g., the Italian BITs with Bangladesh (1990), Tanzania (2002), Pakistan (1997), Jordan (1996), Republic of Korea (1989), Switzerland BITs with Lebanon (2000) and Thailand (1997), France BITs with Hong Kong (1995) and Uganda (date not given), Australian BITs with Egypt (2001), India (1999), Chile (1996) and Uruguay (2003).

provide general exception clauses. The exceptions are available for the adoption or enforcement of measures necessary to protect human, animal or plant life or health, the conservation of living and non-living exhaustible natural resources and to ensure compliance with laws and regulations that are consistent with the provisions of the agreement. Under the agreements, the application of the measures should not be in a manner that would constitute arbitrary or unjustifiable discrimination between investments or between investors, or a disguised restriction on international trade and investment.<sup>26</sup> These general exceptions are broad enough to accommodate the regulatory discretion of WTO Members under the TRIPS Agreement. However, the determination of when measures could be justifiably be considered as discrimination and when implementation is in good faith or disguised restriction on investment are open for interpretation.

Conversely, the German BITs do not consider measures taken for reasons of public security and order, public health or morality as discriminatory under the national and MFN treatment provision.<sup>27</sup> The BITs of Mauritius with Switzerland,<sup>28</sup> Egypt,<sup>29</sup> Pakistan<sup>30</sup> and Singapore<sup>31</sup> also declare that the agreement in no way limits the rights of the parties to apply prohibitions or restrictions or any other action directed to the protection of essential security interests, public health, diseases in animals or plants. Hence, the state parties to the German BITs have only to prove that the measures are indeed for protection and advancement of public interest. The Mauritius BITs, on the other hand, exclude any interpretation of the agreements as restricting governments' discretion to protect the public.

The U.S. Model, however, does not provide a general exception clause. Instead, it provides for exceptions under selected provisions. The provisions on transparency provide exceptions for measures to protect public interest. Measures to protect human health and life, the conservation of living and non-living exhaustible natural resources and to ensure compliance with laws and regulations are authorised as exceptions under the provisions on performance requirements.<sup>32</sup> Specific exceptions confine the public interest exceptions to the provisions under which they appear.

As a result, the utilisation of the regulatory discretions available under the TRIPS Agreement for the protection of the public interest are significantly affected by the lack of similar rights, or the inclusion of additional standards under the investment agreement. Countries have to satisfy the requirements under both the TRIPS Agreement and the applicable investment agreements, when they are taking measures on the IP rights of investment in order to protect the public interest. In *Methanex Corp v. United States*, an investor-state dispute under NAFTA, the tribunal emphasised that according to general international law, a non-discriminatory regulation for a public purpose, enacted in accordance with due process and, which affects a foreign investment is not expropriatory and compensable.<sup>33</sup> Here due process and non-discrimination are important standards to justify the public purpose.

There are additional features of investment agreements applicable more specifically to environment, health and national security. With respect to the environment, some investment agreements approach the issue only with the view of discouraging governments from lowering or failing to enforce environmental laws. Conversely, agreements like the U.S. – Mozambique BIT only guarantee

<sup>26</sup> DFA, (2004), Model BIT of Canada, Article 10 (1), Annex B.13 (1) C, Japan- Vietnam BIT, Article 15 (1) (c) and 15 (2) and Agreement between Japan and Singapore for a New Age Economic Partnership (JSEPA) (2002), Article 69.

<sup>27</sup> See German BIT with Pakistan (1959), Protocol, paragraph 2, with Botswana (2000), Protocol, paragraph 3, Ad Article 3, with China (2003), Protocol, paragraph 4, Ad Article 4(b), with Nigeria (2000), paragraph 4, Ad Article 4(b)

<sup>28</sup> Switzerland- Mauritius BIT (1998), Article 11 (3).

<sup>29</sup> Mauritius –Egypt BIT (2003), Article 12.

<sup>30</sup> Mauritius –Pakistan BIT (1997), Article 12.

<sup>31</sup> Mauritius –Singapore BIT (date not given), Article 11.

<sup>32</sup> See USTR (2004), Model BIT, Article 8: 3(c) (2), 11 & 19, 13, 32 and Annex B (4) (b).

<sup>33</sup> NAFTA (2005), *Methanex Corp v. United States* Final Award, Part IV, Chapter D, para 7

the discretion of the countries to require health and environment impact assessment as a condition for the establishment of foreign investment.<sup>34</sup> Here again the tribunal in *Methanex Corp v. United States* endorsed the measures by Californian state agencies as they were taken with the view to protecting the environmental interest of the citizens of California, and not with the intent to harm foreign producers.<sup>35</sup> The context for the implementation of the public interest measures significantly contributes to their assessment as lawful measures under international law or unjustifiable discrimination against investors. The examination of specific features of investment agreements on health and national security follows below in order to provide a full picture of the inter-linkage between investment agreements and IP rights.

### III. 1. Public Health and IP under Investment Agreements: the cases of tobacco-smoking control measures

Members of the WTO recognise that the TRIPS Agreement does not prevent states from taking measures to protect public health.<sup>36</sup> The main flexibilities identified under the TRIPS Agreement include compulsory licensing in accordance with Article 31, exclusion from patentability of certain inventions in accordance with Article 27 (2), exceptions to exclusive rights conferred by a patent in accordance with Article 30, and disclosure of data submitted for approval purposes in the interest of the public in accordance with Article 39. In addition, the flexibilities include the exhaustion of rights in accordance with Article 6, measures to prevent abuse of rights in accordance with Article 8(2) and competition and the control of anti-competitive practices in accordance with Article 40.<sup>37</sup>

Investment agreements vary in their approach to public health issues as do those described above with regard to public interest. Some agreements provide no exception for the protection of the public health,<sup>38</sup> others provide general exception clause,<sup>39</sup> and still others provide limited exceptions under the respective provisions.<sup>40</sup> In addition to the limited exceptions of the U.S. agreements and the general exceptions under the Canadian agreement for the protection of public health, their respective agreements also provide in their annex that non-discriminatory regulatory measures to protect public interest are not acts of indirect expropriation.<sup>41</sup>

The review of the investment agreements indicates the preservation of the flexibilities available for the protection of public health in many of the agreements. However, the ability of countries to take measures on IP rights of a foreign investment for the protection of public health should satisfy the ad-

<sup>34</sup> U.S.- Mozambique BIT (1998), Protocol, 1.

<sup>35</sup> Supra note 35, Part IV, Chapter D, para 7.

<sup>36</sup> WTO, WT/MIN(01)/DEC/2 (2001)

<sup>37</sup> For details of the regulatory flexibilities for public health purpose under the TRIPS Agreement, see Correa (2000) and Correa (2002).

<sup>38</sup> This is especially true for pre-NAFTA treaties, and most of European BITs. See U.K. – Vanuatu BIT(2003), France BITs with Uganda (date not given) , Hong Kong (1995) and Mexico (date of signature not provided), Australia BITs with Chile (1996), Uruguay(2003), Egypt (2001) and India (1999), Italian BITs with Jordan (1996), Tanzania (2002), Bangladesh (1990) and Republic of Korea (1989), Switzerland BITs with Lebanon (2000), Thailand (1997), India (1997), Iran (1998). Similarly, the Indian BITs with Ghana (2000), Oman (1997), Indonesia (1999) and Thailand (2001) do not provide general or specific exceptions for measures to protect public health.

<sup>39</sup> See the Japan-Vietnam BIT (2003), Article 15 (1) (c).

<sup>40</sup> Japan-Mexico Agreement for the Strengthening of Economic partnership (2004), Article 65(1)(f) & 5(b) and 74, U.S. 2004 Model BIT, Article 8(3)(c).

<sup>41</sup> USTR (2004), US Model BIT, Article 8 (3)(c) (2), Annex B (4) (b), DFA (2004), Canada Model BIT Annex B.13 (1) C.

ditional requirements under the investment agreements. These requirements are similar to those identified above in the general discussion on public interest and include good faith and non-discriminatory implementation, as well as the commitment not to use the measures as a disguised restriction on investment or to avoid obligations under the agreement.<sup>42</sup> The agreements occasionally demand the consistency of the measures with the TRIPS Agreement and with the IP section of the agreement in cases of the U.S. FTAs.<sup>43</sup>

The difficulty of utilising TRIPS flexibilities for public health purposes was a subject of discussion in the case of trademarks of cigarette products. There are several types of measures that countries adopt against cigarettes sales and the display of health-related information on cigarette packets. Discussion on a plain-packaging requirement is one of the controversial requirements in several countries that de-link the association of cigarette smoking with a specific brand. The introduction of a cigarette plain-package requirement to enhance control of tobacco smoking would mean that both domestic and foreign tobacco companies would be unable to use some or all of their existing trademarks, consequently breaking the relationship between an established trademark and cigarette packaging for advertisement purpose. Similarly, the World Health Organization (WHO) Framework Convention on Tobacco Control of 2005 advances the control of cigarette advertising by restriction the sponsoring of cultural and sporting events.<sup>44</sup> Prohibiting the display or use of trademarks in unrelated goods and services can de-link, to certain extent, the brand and the trademark from the market. Both plain-packaging requirements and restrictions on advertising may reduce the return from 'investment' and the value of the business and brand, though the assessment of such a loss can vary from case to case.

Arguably, a foreign investor can claim against the state requiring plain packaging and restricting advertising. That was exactly what happened when Canada was debating the introduction of a plain-packaging requirement on tobacco products. The former U.S. Trade Representative Carla Hills, on behalf of U.S. tobacco companies based in Canada, submitted a legal opinion claiming that such requirements, if introduced, would constitute a violation of the Paris Convention for the Protection of Industrial Property, the NAFTA as well as the TRIPS Agreement. The Patent and Trademark Institute of Canada and the Canadian Bar Association supported the argument.<sup>45</sup> Hills' legal opinion argued that the plain-packaging requirement would amount to expropriation of the tobacco companies' lawfully registered trademarks giving rise to compensation claims, since the requirement is inconsistent with the IP section of NAFTA. Other legal opinions also supported Hills' argument in relation to the draft MAI, since the latter does not include exceptions based on public health grounds. The MAI, if adopted, would have had a chilling effect on the ability of WHO member countries to implement the Framework Convention on Tobacco Control.<sup>46</sup> In the Canadian case, an intensive industry lobby succeeded in preventing the adoption of the plain-packaging requirement. There are, however, several disciplines in cigarette advertisement and health-warning label requirements implemented in several countries.

The TRIPS Agreement provides only negative rights for trademarks by preventing third parties in the course of trade identical or similar signs for goods or services, which are identical or similar to those in respect of which the trademark is registered and where such use would result in a likelihood of confusion.<sup>47</sup> For the purposes of national treatment and MFN treatment, protection of IP includes use of IP specifically addressed by the TRIPS Agreement. Article 20 of the TRIPS Agreement requires that the use of trademarks shall not be unjustifiably encumbered by special requirements, such as use in a special form or in a manner detrimental to its capability to distinguish the goods and services. A plain-packaging requirement, however, involves the outright prohibition or specific restriction on the

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<sup>42</sup> Japan-Singapore New Age Economic Partnership Agreement (2002), Article 83.

<sup>43</sup> See for example, U.S. FTA with Chile (2003), Article 10.9 (5).

<sup>44</sup> WHO (2005), Framework Convention on Tobacco Control, Article 6-14.

<sup>45</sup> See Appleton and Association (1998), p. 14.

<sup>46</sup> Taylor, *et al.* (2000), pp. 352-353.

<sup>47</sup> See Article 16 of the TRIPS Agreement.

use of a trademark in certain aspects as opposed to ‘encumbering’ the trademark with a corporation name, origin or local trademarks or in any other manner described under Article 20. Similarly, the restriction on advertising in non-related goods and services results in absolute de-linking of the trademark from the unrelated goods and services. Health warnings also do not necessarily require use of the trademark in a form different from the use without a health warning and result in confusion of the product or service with other competing products or services.

In addition to the consistency of the measures against cigarette packaging with the provisions of the TRIPS Agreement, non-discriminatory measures will be consistent with investment agreements. General international law will also allow such measures, where the investment agreements, like the draft MAI, do not explicitly provide exceptions for public health purposes.<sup>48</sup>

Hence, implementation of the WHO Framework Convention and national measures on advertisement and prohibition or restriction of the use of trademarks would be TRIPS consistent and non-compensable under investment agreements. However, all public health measures have to be consistent with the investment agreement, which means implementation in a manner that is not discriminatory and arbitrary or inconsistent with the fair and equitable treatment standard.<sup>49</sup> In the absence of consistency with the investment agreement, public health protection measures can be compensable and subject to investor-to-state dispute proceedings.

### III. 2. National Security and IP rights under Investment Agreements

Article 73 of the TRIPS Agreement guarantees that the agreement does not require a Member to furnish any information, the disclosure of which it considers contrary to its essential security interests. The Agreement does not prevent Members from taking any action, which they consider necessary for the protection of their essential security interests, in particular:

- (i) relating to fissionable materials or the materials from which they are derived;
- (ii) relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;
- (iii) taken in time of war or other emergency in international relations.

In utilizing the flexibility under the TRIPS Agreement, including Article 73, the U.S. statutory exceptions to patentability apply against inventions useful to utilize fissionable material or weapons grade materials and the government may deny a patent when an invention contains technology relating to weapons systems.<sup>50</sup> Furthermore, during the Second World War the U.S. government seized tens of thousands of patents belonging to citizens of nations at war with the U.S., namely Germany, Italy, Japan, Romania, Hungary and Bulgaria, and citizens of enemy-occupied countries such as France, Belgium and Norway.<sup>51</sup> The confiscated patent applications continue to appear in the Manual of Patent Examination Procedure that provides instructions for citing the documents for confiscated patent ap-

<sup>48</sup> Supra note 35, Part IV, Chapter D, para. 7.

<sup>49</sup> The European Court of Justice, (2001), in *Konsumentombudsmannen (KO) and Gourmet International Products AB (GIP)* para. 21 extended the non-discrimination principle, to *de facto* discrimination when it found that though Sweden applied its ban on alcohol advertising without discriminating between the advertising of foreign and local alcohol products, restraints on advertising have a greater negative impact on foreign companies trying to introduce their products in new markets.

<sup>50</sup> 42 United States Code (U.S.C., hereinafter), § 2181 (2000) and 35 U.S.C. § 181 (2000) - the applicant is compensated for the government’s use of the invention, U.S.C. 35 § 183 (2000).

<sup>51</sup> White (2003).

plications.<sup>52</sup> Similarly, at the end of the Second World War, the German Chemical factories were subject to a *de-facto* expropriation by the French and British governments.<sup>53</sup>

The limited scope of the exception and the additional requirements under the investment agreement undermines the flexibilities under the TRIPS Agreement. The Agreement between Japan and Singapore for a New Age Economic Partnership, and the Canadian model BIT, for example, provide security exceptions comparable to the TRIPS Agreement.<sup>54</sup> Similarly, Article 2102 of NAFTA exempts countries from the provisions of the agreement when taking any actions necessary for the protection of their respective national security interest. The German BITs, as noted earlier do not consider measures taken for reason of public security and order as less favourable treatment.<sup>55</sup> Most BITs, however, provide only a general reference to the national security interest or exceptions to limited situations. Article 18 of the U.S. Model BIT allows parties to apply measures necessary for the fulfillment of obligations with respect to international peace or security, or the protection of essential security interests of each party. Moreover, some other BITs are silent about national security exceptions.<sup>56</sup>

The additional standards under the investment agreement also affect the scope of deviation for the protection of national security interests. These relate to the requirements that the measures should not be taken in a discriminatory and arbitrary manner, or in bad faith and to avoid obligations under the investment agreements. There are specific requirements for the protection of national security interests, in some agreements. The Japan-Vietnam agreement, for example, requires that the party taking the measures shall, prior to the entry into force of the measure or as soon thereafter as possible, notify the other party of the affected sector and sub-sector, of the scope of the obligation and the legal source of the measure, description of the measure and its purpose.<sup>57</sup> A genuine and sufficiently serious threat to one of the fundamentals of society is required to invoke public order as an exception under the agreement.<sup>58</sup> The fulfillment of such qualifications in undertaking the measures are open to dispute, which may even involve the investor-to-state dispute settlement procedure.

For many, the threat to their essential security is not necessarily limited to situations of armed conflict but to situations that threaten the continuation of the society as a nation, which may include food security, extreme poverty and epidemics. In the U.S., the granting of compulsory licenses is available “where necessary in order to ensure an adequate supply of fiber, food or feed ... [if] the owner is unwilling or unable ... to supply the public needs ... at a price which may reasonably be deemed fair.”<sup>59</sup> In exchange for this license, the patentee is entitled to reasonable compensation from the government. Article 8 of the TRIPS Agreement requires that such measures should be consistent with its provisions, which should also include exceptions to the rights conferred by patents and other use of patented inventions without the authorization of the right holder in accordance with Article 30 and 31 of the TRIPS Agreement. Such measures could be justified under investment agreements that provide a general exception for national security or protection of human life and health.

In summary, TRIPS-consistent measures taken against the IP rights of investment for the protection of public interest should also be consistent with the investment agreements, when applied against the IP rights of protected investment. In this regard, the application of the measures should not constitute arbitrary or unjustifiable discrimination between investments or between investors, or a disguised restriction on investment. The implementation of the measures should also be in good faith. The use of the measures should not be to avoid the obligations of the parties. The investment agreements also fre-

<sup>52</sup> See U.S. Manual of Patent Examination Procedure (MPEP – last revised 2005), Section 901.06(c).

<sup>53</sup> Boldrin, Michael & Levine (2005), Chapter 9 p. 6.

<sup>54</sup> DFA (2004) Canada Model BIT, 10 (4), JSEPA, Article 4.

<sup>55</sup> See Germany- China BIT (2003), Protocol, Ad Article 4 (3) (a).

<sup>56</sup> See Switzerland- Lebanon BIT (2000) and Australia- Uruguay BIT (2003).

<sup>57</sup> See the Japan- Vietnam BIT (2003), Article 15 (2) & (3).

<sup>58</sup> *Id.*, Article 15 (1) (d),

<sup>59</sup> 7 U.S.C. § 2404 (2000) and 28 U.S.C. § 1498 (2000).



quently require the consistency of the measures to the TRIPS Agreement as a substantive obligation of the parties. Notification is also included under some investment agreements. In some agreements, specific exceptions result in confining the flexibilities within the provisions they appear. It is important to note that some investment agreements are silent about the public interest exceptions, while others provide broader exceptions. The additional requirements under investment agreements mean that the violation of the requirements would be linked to the fair and equitable, national and MFN treatment, possibly amounting to indirect expropriation claims.

#### **IV. IP RIGHTS, COMPETITION AND TECHNOLOGY TRANSFER UNDER INVESTMENT AGREEMENTS**

There is controversy on the conventional justifications for government-granted monopoly rights as an incentive for innovation, and the nature of the IP regime in developing countries to support their development endeavours.<sup>60</sup> Conversely, certain activities of multinational corporations in international manufacturing, service supply and distribution can be characterised by arrangements that fall outside the normal supply-demand nexus of partners trading at arms length.<sup>61</sup> The transfer of technology, with a high monopoly element, requires payment higher than the commercial rate, and if transferred, the technologies are supplied mainly in combination with other parts of a package for which alternative cheaper sources of supply are available either locally or in other competitive markets. Furthermore, the recent increase in mergers and acquisitions (M&A) and marketing agreements, for example among pharmaceutical companies, further brings into question the relation between IP rights and investment and their impact on the market.<sup>62</sup> In this context, regulation of foreign investment becomes especially important for developing countries in order to enhance the social and economic welfare of their citizens.

The recent rapid pace of discoveries and technological advancement in the pharmaceuticals, chemicals, biotechnology, and information and communication technology (ICT) industries also contribute to the regulation dilemma in order to ensure access to and transfer of technology. The industries have also witnessed increased use of the IP system for capitalisation, attracting venture capital, mergers and acquisitions and off-shoring components of investment activities, especially in ICT and to a certain extent in biotechnology, as well as foreign direct investment.<sup>63</sup> Whereas ICT industries have witnessed the emergence of models such as free and open sources for sharing information, the chemicals and pharmaceuticals industries continue to base their competitive advantage on patents and trade secrets.<sup>64</sup> These technology industries interact widely with national innovation policy, IP rights, technology standards and regulations of technology transfer. In this regard, international rule-making and standard-setting institutions, including the WTO and WIPO, have established a wide range of rules that influence the capacity of countries to implement active policies for development of domestic scientific and technological capabilities.<sup>65</sup>

There are wide divergences in innovation policies and applicable standards related to the technology sector because of ethical and safety concerns and levels of development. Some developing countries have used coordinated policies for liberalisation of investment accompanied by incentives, technology standards and industry regulation to accelerate development of their own technological base.<sup>66</sup> In other countries like the United States, proprietary information that uses encryption for protection of technological information in the ICT sector are highly regulated through export licensing

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<sup>60</sup> See Clement (2003) and McCalman (2002), pp.13-14. Japan and Korea advanced their industrial development through a competitive system of innovation and technological learning, which is also the path every developed country has taken in their past economic history. For further historical and economic analysis of liberalisation, investment and industrial and IP policy, see Chang and Green (2003), Maskus and Puttitanum, (2004).

<sup>61</sup> UNCTAD (2004) (a), p. 7.

<sup>62</sup> Rosenberg (2006).

<sup>63</sup> Danzon, Epstein and Nicholson (2004), p. 3 and UNCTAD, World Investment Report (2004).

<sup>64</sup> There are some efforts by non-profit organizations to establish open access databases for biotechnological innovations, See, CAMBIA for example, at [http://www.bios.net/daisy/bios/BiOS\\_licenses.html](http://www.bios.net/daisy/bios/BiOS_licenses.html)

<sup>65</sup> Juma and Yee-Cheong (2005), p. 11.

<sup>66</sup> USCC (2005), p. 178. See also Wong, *et al.* (2004).

laws.<sup>67</sup> Implementation of standards, on the other hand, is sought to achieve safety, enhance enforcement of regulations, assist the integration of the services and products of different industries, encourage the development of appropriate technologies to the domestic market and to induce foreign companies to exchange information and enter into technology-related arrangements with local enterprises. Though investment agreements interact with regulations affecting IP rights in various ways, under this section close examination is made of the relation to competition policies and technology transfer regulations.

#### **IV.1. Regulation of Anti-competitive Practices and the use of Compulsory License**

Members of the WTO agreed under Article 40 of the TRIPS Agreement that some licensing practices pertaining to IP rights that restrict competition may “have adverse effects on trade and impede the transfer and dissemination of technology.” Accordingly, the TRIPS Agreement allows countries to take measures against such practices that constitute an abuse of IP rights with an adverse effect on competition in the relevant market. Members are free to determine what constitutes restrictive practices. The TRIPS Agreement recognises, as examples of such practices, arrangements requiring the licensee to return all improvements of the licensed technology exclusively to the licensor, waiver of the right by the licensee to challenge validity of license and packaging of different technologies for the licensing purpose of one or some of the components of technology. Yet, the practical utility of the provision remains unclear.

In addition to the contractual licensing practices, the scope of IP rights, especially patents that protect basic information infrastructures, computer-readable databases, research tools, methods, underlining genes and gene sequences, has an impact on competing industries and R&D in general. The ‘essential facility’ doctrine is applied in European Commission (EC) competition laws in relation to protected IP that blocks other competitors from accessing essential information or infrastructure to compete with the dominant firm in the absence of a license and the possibility of reverse engineering at a reasonable cost. In the case involving Microsoft Corporation and Sun Microsystems Inc., the EC Commission rejected Microsoft’s arguments based on its IP rights as an objective justification for its behaviour in refusing to supply indispensable input to its competitors.<sup>68</sup> The case demonstrates that, though post-grant intervention by competition law, as envisaged by Article 40 and 8(2) of the TRIPS Agreement, has a role in promoting innovation and regulating restrictive practices, the scope of patents and potential adverse impact on competitors demands a corrective mechanism at patent granting stages.<sup>69</sup> The challenge emanates from both the practical difficulty of implementing Article 40 and 8 (2) of the TRIPS Agreement and the emergence of patent-granting practices in the developed countries that grossly affect competition. The challenge could be greater because of the broad scope of the definition of investment assets, under investment agreements, when applied to some patents with a broad scope.

Investment agreements provide different approaches to the regulation of competition. Some provide general exceptions and exclude competition regulations from the dispute settlement provisions. Others provide a limited exception to prohibitions of performance requirements. Many others are silent on the issue. The Canadian Model BIT provides as a general exception that the agreement does not prevent parties from ensuring compliance with laws and regulations that are consistent with the provisions of the agreement.<sup>70</sup> It also provides a specific exception to the restriction on the imposition

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<sup>67</sup> Crane (2001).

<sup>68</sup> EC Decision (2004), Case COMP/C-3/37.792 Microsoft, para. 190, 546, 710- 712.

<sup>69</sup> Lévêque (2005), Innovation, leveraging and essential facilities: Interoperability licensing in the EU Microsoft case, CERNA, available at [www.cerna.ensmp.fr](http://www.cerna.ensmp.fr)

<sup>70</sup> DFA, (2004), Model BIT of Canada, Article 10 (1) (b).

of performance requirements. It states that the parties shall not require transfer of technology except when the required by a court, administrative tribunal or competition authority, to remedy an alleged violation of competition laws or enforces the commitment or undertaking.<sup>71</sup> The Model further provides that issues pertaining to the administration or enforcement of Canada's Competition Act, its regulations, policies and practices, and any decision pursuant to the Competition Act made in any cases or patterns of cases by the relevant authorities shall not be subject to the dispute settlement provisions of the investment agreement.<sup>72</sup>

The U.S. Model BIT and its FTAs provide that the provisions of the agreement on the prohibition of performance requirements do not prevent a party from taking measures necessary to secure compliance with laws and regulations that are consistent with the agreement.<sup>73</sup> Similarly, technology transfer requirements are authorised when imposed by a court, administrative tribunal or competition authority, to remedy a practice determined to be anti-competitive under the parties' competition laws.<sup>74</sup> The FTAs' investment sections, on the other hand, have annexes confirming the understanding of the governments that "except in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations."<sup>75</sup> The Japan agreements also incorporate similar provisions.<sup>76</sup> Several other BITs are, however, silent on the issue.<sup>77</sup>

The investment agreements encumbered the flexibilities and regulatory discretions available under the TRIPS Agreement with additional requirements and limitations on their application. Yet customary international law applies for the determination of the status of the flexibilities in many of the agreements that are silent on the issue. Further delineation of the effect of investment agreements in squeezing the space for regulatory discretion requires the examination of compulsory licenses under investment agreements.

One of the important components of competition policy and regulation involves the use of compulsory licences, which is an authorisation given by a government for use of a protected IP right by a third party without the consent of the right-owner under prescribed restrictions, conditions and subject to payment of remuneration. The licence can be issued under the TRIPS Agreement and the WIPO treaties for different purposes, including public interest (like health and emergency situations), and as a remedy for non-working of protected rights. Recent investment agreements have started to address the specific issue of compulsory license, which indicates the increased awareness of the inter-linkage between IP rights and investment protection.

The U.S. model BIT excludes compulsory licenses from its performance requirement restriction in as far as the licenses are consistent with the TRIPS Agreement. There is no prohibition of other regulatory measures resulting in limitation, revocation and other use of IP rights under investment agreements, where such measures pertain to the IP investment asset.<sup>78</sup> Some of the U.S. FTAs declare that compulsory license issued in consistence with the TRIPS Agreement and the IP chapter of the

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<sup>71</sup> *Id.*, 7(1)(f).

<sup>72</sup> *Id.*, Annex IV.

<sup>73</sup> USTR, Model BIT (2004), Article 8 (3) (b) (ii).

<sup>74</sup> *Id.*, Article 8 (3) (c) (i).

<sup>75</sup> See U.S.-Chile FTA (2003), Annex 10-D (4); U.S.-Singapore FTA (2003), Letters of Exchange Regarding Expropriation, par. 4; U.S.-CAFTA (2004), Annex 10-C (4) (b).

<sup>76</sup> Japan- Vietnam BIT (2003), Article 4 (1) (g), Agreement between Japan and Singapore for a New Age Economic Partnership (JSEPA) (2002), Article 75 (1) (f), and Japan-Mexico Agreement for the Strengthening of Economic Partnership (2004), Article 65(1)(f)

<sup>77</sup> See for example, Australian BITs with Egypt (2001), India (1999), Chile (1996) and Uruguay (2003).

<sup>78</sup> There are also indications that the original draft Energy Charter Treaty provided for a sub-paragraph under its provision on expropriation that clarifies 'lawful reversion of properties and rights to a resource owner is not in itself an act of expropriation', see Brazell (1994), p. 330.

FTA is not an act of expropriation. However, many of the investment agreements are silent about the status of compulsory license as a regulatory measure affecting investment. The U.S. agreement with Vietnam and its BITs with Jordan and Bahrain are also silent about the issue. The provisions on indirect expropriation protect the investor from the arbitrary and discriminatory application of regulatory measures with the effect of indirectly expropriating the investment. Compulsory license and other competition regulations, price and tariff controls in the supply of basics like water, gas and electricity and the affordability of pharmaceutical products form part of a broad range of regulations that are disciplined by investment agreements in order to make sure that they are not used as indirect methods of expropriation. Even where the U.S. FTA declares TRIPS-consistent compulsory licenses as non-expropriatory, the provision still open the challenge of proving if an FTA partner indeed applied the license consistently with the TRIPS Agreement or IP chapter of the FTA. As a result, the important question is when compulsory licence could amount to indirect expropriation and how investment tribunals can adjudicate claims against such licenses.

Compulsory license does not deprive ownership to rights over the protected IP or technology. It only provides an exception to exclusive rights; hence, it is beyond the realm of direct expropriation. Yet compulsory license or exception to the exclusive rights of, for example, a patent, would affect the value and the return from the protected asset to the right holder. The decline in value or loss in returns because of lawful government action cannot be viewed as indirect expropriation by itself. In this regard, the model BIT of the U.S. provides that the “fact that an action or series of actions by a party has an adverse effect on the economic value of an investment, standing alone, does not establish that an indirect expropriation has occurred.”<sup>79</sup> Compulsory license, a system endorsed by an authoritative international convention, i.e., the TRIPS Agreement, is not an act of expropriation. TRIPS-consistent compulsory licenses issued against a foreign-owned investment asset involve the payment of remuneration and involve the attainment of legitimate public welfare. However, for the purpose of investment agreements, the expropriation provisions are potentially applicable for the determination of the availability of public purpose, non-discriminatory application, amount of remuneration and manner of payment.<sup>80</sup> In this regard,

Where the compulsory license is in violation of the fair and equitable standard of treatment, the investment agreements protect the IP rights, which are the subject of such measures. In cases of dispute on the amount of the remuneration subsequent to issuance of a compulsory license, the standard for payment and the assessment of the amount varies between the TRIPS and investment agreements. The TRIPS Agreement requires only the payment of *adequate* remuneration taking into account *the economic value* of the authorization for a compulsory license. The economic value relates to the authorisation and not to the IP right. The compulsory license granting authority determines the royalty payment commensurate with the expected economic value that the implementation of the specific compulsory license could bring and the objective of the license (e.g. affordability and accessibility of essential medicine) but not to the market value of the patent, which could be higher, especially under restrictive-licensing practice that triggered the compulsory license.

Furthermore, the authorities can have different options for determining the payment in cases of licenses. Since the objective is to remedy anti-competitive practice, the preferable means would be to determine the royalty fee payable by the licensee. The U.S. Federal Trade Commission (FTC), for example, issued a compulsory license on a Novartis patent relating to cytokines protein against a royalty or its equivalent, of no greater than three percent (3%) of the net sales price of the licensed products.<sup>81</sup> In another instance, the FTC required Dell to issue royalty-free licenses for its 481 patents to anyone using Dell’s VL-bus standard (a computer hardware device that carries instructions between a computer’s CPU -central processing unit- and its peripheral devices).<sup>82</sup> Furthermore, challenges

<sup>79</sup> USTR, Model BIT (2004), Annex B, 4 (a) (i)

<sup>80</sup> See Correa (2004), p. 14-16.

<sup>81</sup> FTC (1997), in *the matter of Ciba-Geigy Ltd. et al.*, p. 20.

<sup>82</sup> Muller, (2002), p.44.

against the decision by competent authorities on the remuneration are limited only to the domestic adjudication system involving independent review procedures in accordance with Article 31 (j) of the TRIPS Agreement.

Conversely, investment agreements provide for payment of compensation, though the language varies from treaty to treaty, to the fair market value of the expropriated investment asset itself. The payment of such an amount should be prompt, as opposed to forms such as royalty payments in case of compulsory license or other payment methods involving several instalments spread over a period or the collection of payments from third parties. As a result, where there is a dispute on the fairness of the issuance of the compulsory license, the payment and the amount of the remuneration for compulsory license against the IP of covered investment, investment agreements can result in a TRIPS-plus standard. This could raise questions on the competence of investment arbitration tribunals to deal with IP rights. Under the U.S. FTAs, such a dispute would primarily be subject to the IP Chapters, a rule that does not exist under many of investment agreements.<sup>83</sup>

## IV.2. Technology Transfer and IP Rights under Investment Agreements

The TRIPS Agreement identifies the promotion of technological innovation and transfer and dissemination of technology in a manner conducive to social and economic welfare as its objective. It also establishes a principle that members may adopt measures necessary to promote the public interest in sectors of vital importance to socio-economic and technological development.<sup>84</sup> Each WTO member has discretion to determine the scope of measures necessary to promote public interest, if such measures are consistent with the provisions of the TRIPS Agreement.<sup>85</sup> In addition, the sectors that are of vital importance to socio-economic and technological development are also to be determined by each country considering the socio-economic and technological needs that promote public investment. Furthermore, Article 66 of the TRIPS Agreement accords least developed countries (LDCs) a transition period with the objective of providing flexibilities to create a viable technological base and requires developed countries to take measures that would encourage technology transfer to LDCs. Other WTO agreements also have rules that determine the manner for the adoption of measures to promote R&D and transfer of technology.<sup>86</sup>

The IP and investment interface occurs in the context of provisions on performance requirements under investment agreements, among others. Performance requirements involve the measures by a country requiring foreign investment to undertake certain activities related to the investment, for example to purchase local raw materials as an input to the production process, that are imposed as a condition of the entry of the foreign investment or the receiving of incentives or any other advantage

<sup>83</sup> U.S.-Chile FTA (2003), Article 10.1&2, U.S.-Dominican Republic-CAFTA (2004), Article 10. 2.

<sup>84</sup> The WTO Panel on *Canada- Patent Protection of Pharmaceutical Products* (2000) found the TRIPS Agreement would want to *require* governments to apply exceptions in a non-discriminatory manner, in order to ensure that governments do not succumb to domestic pressure to limit exceptions to areas where right holders tend to be foreign producers-see para. 7.92. See also Article 40 of TRIPS Agreement.

<sup>85</sup> The qualification under Article 8 of the TRIPS Agreement suggests the accommodation of measures to advance public interest only when made in accordance with the Agreement, unlike GATT Article XX or GATS Article XIV and XIV *bis*.

<sup>86</sup> The Agreement on Technical Barriers to Trade (TBT) provides flexibilities for developing countries to maintain indigenous technology and production methods and processes compatible with their development needs, whereas the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) requires members to facilitate the provision of technical assistance in the areas of processing technologies, research and infrastructure. There are also vague uses of developments in technology and the export performance and productivity of the domestic industry as factors for the determination of injury under both the Anti-dumping and the Subsidies and Countervailing Measures agreements (ASCM).

from the government. Performance requirements respond to immediate and long-term development needs, integration of disadvantaged regions and new market entrants. Performance requirements that have a direct bearing on the IP rights of covered investment are justified under the TRIPS Agreement in as far as they are implemented consistently with the TRIPS Agreement that includes availing the opportunities provided under exceptions, limitations and flexibilities. However, further analysis is required on whether the WTO Agreements adequately permit such measures. The TRIMS Agreement, for example, restricts the use of local content, foreign currency and trade balancing measures and domestic sales requirements. Findings of local content requirements automatically amount to violation of the TRIMS Agreement and the GATT without the need to ascertain whether such measures have adverse trade effects to justify multilateral restriction.<sup>87</sup>

In *Indonesia- Autos*, the U.S. challenged Indonesia's National Car Programme relying on Article 3 & 20 of the TRIPS Agreement, among others, by claiming that the fiscal incentives and subsidies granted by the Indonesian government for manufacturers bearing an Indonesian trademark created a *de facto* impediment to the maintenance of foreign trademarks. The Panel rejected the U.S. claim stating that:

“... it would not be reasonable to construe the national treatment obligation of the TRIPS Agreement in relation to the maintenance of trademark rights as preventing the grant of tariff, subsidy or other measures of support to national companies on the ground that this would render the maintenance of trademark right by foreign companies wishing to export to that market relatively more difficult.”<sup>88</sup>

With respect to the use of trademarks in accordance with Article 20 of the TRIPS Agreement, the Panel concluded that:

“the provisions of the National Car Programme as they relate to trademarks cannot be construed as “requirements”; in the sense of Article 20 and that if a foreign company enters into an arrangement with a Pioneer company it does so voluntarily and in the knowledge of any consequent implications for its ability to use any pre-existing trademarks.”<sup>89</sup>

Despite this panel finding, it remains unclear whether governments can rely on Article 7 and 8 of the TRIPS Agreement to promote the public interest in sectors of vital importance to socio-economic and technological development, in as far as such an interest may involve the utilisation of local content, trade and foreign currency balancing and domestic sale requirements.<sup>90</sup> Though consistent with the TRIPS Agreement, the use of the local content requirement to encourage technology transfer is incompatible with the TRIMS. In addition to the TRIMS Agreement, the Agreement on Subsidies and Countervailing Measures (SCM) restricts the use of subsidies contingent upon export performance. Moreover, accession protocols contain more restrictive commitments than the WTO Agreements. For example, China's accession protocol requires the phasing out of R&D and technology transfer requirements, and elimination of export performance requirements without any qualification.

BITs are TRIPS-plus, TRIMS-plus and SCM-plus in many respects. The TRIMS does not prohibit export performance requirements, unless such requirements attempt to balance foreign exchange

<sup>87</sup> See Report of the Panel, *Indonesia- Certain Measures Affecting the Automobile Industry* (1998), para. 14.90.

<sup>88</sup> *Id.*, Para. 14.273

<sup>89</sup> *Id.*, 14.277-2779 (This is one reason why non-violation and situation complaints should not be implemented under TRIPS).

<sup>90</sup> Here, it is important to note that Brazil, India and the African Group have put proposals to the WTO under the on-going Doha Development Agenda negotiations that are relevance to addressing the inconsistencies of the TRIMS Agreement (see WTO doc. WT/COMTD/W/77/Rev.1; JOB(01)/152/Rev.1 and G/C/W/428, G/TRIMS/W/25)

or the trade of the foreign company or involve prohibited subsidies. On the contrary, several BITs and protocols of accession to the WTO explicitly prohibit export performance requirements.

Where investment agreements do not allow local content and export performance requirements, host countries would be obliged to establish direct voluntary or mandatory requirements to transfer technology, production process, or other proprietary knowledge to a person in their territories. BITs, especially those following the 1994 model BIT of the U.S., however, restrict technology transfer and R&D requirements.<sup>91</sup> Yet the outright prohibition of requirements to transfer technology and proprietary knowledge as well as to undertake R&D, without any exceptions, is rare under investment agreements. Such outright prohibitions, where they exist, seriously undermine the utilisation of any flexibility or the implementation of measures consistent with the TRIPS Agreement. On the other hand, several investment agreements do not prohibit performance measures in general.<sup>92</sup> Many of the investment agreements, especially those that involve U.S., Canada and Japan fall under the categories of those that:

- a) restrict requirements to transfer of technology, production process, or other proprietary knowledge and to undertake R&D, except when such requirements are imposed as a condition to receive advantages offered by the government;
- b) restrict the imposition of a technology transfer requirement except in accordance with the TRIPS Agreement, or implementation of competition laws and government procurement.

Under the 2004 U.S. model BIT, restriction on requirements to transfer a particular technology, a production process, or other proprietary knowledge do not apply to measures in accordance with Article 31, permitting other use of patented inventions without the authorisation of the right holder. The restriction does not also apply to measures requiring the disclosure of proprietary information that fall within the scope of, and are consistent with, Article 39 of the TRIPS Agreement; and to measures to remedy anti-competitive practices under competition laws.<sup>93</sup> It further provides that parties may condition the receipt of an advantage to the supply of a service, to train or employ workers, construct or expand particular facilities, or carry out research and development, in their respective territory.<sup>94</sup> Governments are free to impose performance requirements in relation to government procurement. Similarly, the Japanese agreements permit technology transfer requirements when the measures concern the transfer of intellectual property in accordance with the TRIPS Agreements.<sup>95</sup> Other investment agreements have less rigorous restrictions on measures on foreign investment and less detailed exceptions to the restrictions in order to promote research and development, access and transfer of technology. Some other U.S. BITs request parties only to seek to avoid the imposition of performance requirements, without any specificity.<sup>96</sup> Although mandatory technology transfer and R&D requirements could be consistent with the TRIPS and TRIMS Agreements, the review of the investment agreements indicates that many BITs permit only voluntary technology transfer and R&D requirements.

In summary, investment agreements tend to be TRIPS-plus or to undermine the regulatory discretion of countries in relation to measures regulating practices of the IP right holders and inducing the transfer of technology and know-how when they:

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<sup>91</sup> See, University of Michigan (1994), Prototype of the U.S. BIT, as revised 4/98.

<sup>92</sup> See e.g., Article 1603 of the US-Canada FTA (1989) that do not prohibit technology transfer and R&D requirements.

<sup>93</sup> USTR, 2004 US Model BIT, Article 8:3 (b)

<sup>94</sup> Id., Article 8. 2 and 3.

<sup>95</sup> See Agreement between Japan and Singapore for a New Age Economic Partnership (JSEPA) (2002), Article 75 (1) (f) (ii).

<sup>96</sup> See, for example, US-Bangladesh BIT, 1989, Article II (6) and the earlier U.S. - Morocco BIT (1991), Article II (7).



- Add additional requirements and limit the scope of discretion to regulate practices of foreign investment related to the IP rights and protected technologies. These requirements include a substantive obligation under the investment agreement that the measures are consistent with the TRIPS Agreement, are not applied in an arbitrary or unjustifiable manner, and do not constitute a disguised restriction on investment;
- Apply investment standards for the protection of the IP asset of investment, especially for a compulsory license in determining the public purpose, the manner of the issuance of the license and the determination of the amount of compensation;
- Expand the scope of prohibition on performance requirements, condition the use of transfer of technology and know-how, training and undertaking R&D to the availability of advantage or incentives or to government procurement

As a result, the status of IP rights under a number of investment agreements and their protection as investment assets entails several additional layers of protection and the narrowing down of the scope of deviation. The impacts clearly differ among BITs and FTAs with investment sections. The determination of the extent of the impact requires further analysis of the interface between investment agreements and IP instruments, in particular the TRIPS Agreement, with respect to the enforcement of IP rights in the context of the additional layers of protection.

## V. INVESTMENT AGREEMENTS, ENFORCEMENT OF IP RIGHTS AND DISPUTE SETTLEMENT

The history and jurisprudence of protection and dispute settlement differ widely between IP and investment agreements. The TRIPS Agreement provides norms on domestic judicial and administration procedures that should be available for the acquisition, availability, protection and enforcement of IP rights. Investment agreements primarily design a supra-state mechanism for the protection of investment assets and resolution of investment disputes. There is, however, convergence between IP instruments and recent investment agreements with respect to development of acceptable norms under the respective domestic laws and practices of states in relation to the protection and enforcement of private rights. In this chapter, the Research Paper discusses first how much convergence exists on standards of treatment or civil and administrative procedures for treatment of IP rights as investment assets and the implications arising from such convergence. Secondly, it discusses how investment agreements address violations of standards of treatment or acceptable civil and administrative procedures for enforcement of IP rights of covered investment.

### V. 1. Enforcement Standards: The TRIPS and Investment Agreements

The interface of the investment and TRIPS agreements in relation to the enforcement of IP rights occurs in terms of both the general obligations of parties under Part III of the TRIPS Agreement with regard to enforcement, and the obligations under Part IV of the TRIPS Agreement with respect to the acquisition and maintenance of IP rights.

Part III of the TRIPS Agreement requires civil and administrative procedures, remedies, criminal procedures for the protection on IP rights from infringement, and the application of penalties, at least, in cases of wilful trademark counterfeiting or piracy on a commercial scale. WTO Members are obliged to ensure the availability of enforcement procedures to permit effective action against any act of infringement. Enforcement procedures are required to be fair and equitable and not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays. Duly submitted evidence with a procedure that provides the opportunity to be heard is required as a basis for any decision on the merits of cases. Review procedures are also required to be available for parties under IP-related proceedings. The TRIPS Agreement, in laying down the minimum standards for the enforcement of IP rights, does not attempt to harmonise enforcement rules due to the wide divergence existing in domestic laws of WTO Member states. It provides a number of mandatory obligations, optional rules, principles for protection against abuse by right holders, proportionality of measures *vis-à-vis* the seriousness of the infringement and the protection of confidential information.<sup>97</sup>

Conversely, investment agreements stipulate standards of treatment and protection of investment assets, which in some investment agreements include the international minimum standard on the treatment of foreigners and their property. Accordingly, the host country is required to provide full protection, and fair and equitable treatment. Recent investment agreements have started to provide detailed stipulation on enforcement procedures. The U.S. – Uruguay BIT of 2004 provides under Article 11(4) that administrative proceedings should include a procedure for reasonable notice and a reasonable opportunity for interested persons to present facts and arguments in support of their positions. It further requires each party to maintain review and appeal procedures that provide a reasonable opportunity to

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<sup>97</sup> UNCTAD-ICTSID (2005), p. 520.

support or defend the case, as well as for decisions in accordance with submitted evidence. As a result, the convergence of the investment and the TRIPS agreements with respect to domestic enforcement norms is increasingly visible in recent investment agreements.

The examination of the impact of investment agreements on the enforcement of IP rights involves not just the entry and establishment of investment that comprises IP rights but also all associated investment activities. Several investment agreements clarify the concept of investment to include ‘associated activities of investment’ that consist of:

“The organization, control, operation, maintenance and disposition of companies, branches, agencies, offices, factories or other facilities for the conduct of business; the making, performance and enforcement of contracts; the acquisition, use, protection and disposition of property of all kinds including IP; the borrowing of funds; the purchase, insurance and sale of equity shares and other securities; and the purchase of foreign exchange for imports.”<sup>98</sup>

Hence, the scope of application of investment agreements, supported by the definition of associated activities of investment, covers the acquisition, use, protection and disposition of IP rights, creating links with Part IV of the TRIPS Agreement. The U.S. FTAs stipulate that in cases of inconsistency between the provisions of the IP and investment chapters, the former shall prevail to the extent of the inconsistency.<sup>99</sup> The majority of BITs do not have corresponding provisions in cases of inconsistency between their provisions and other agreements. The China- German BIT does not even have a provision on the scope of application but protects the investor, investment and associated activities.<sup>100</sup>

Since investment assets can comprise protected proprietary rights, and investment activities can involve the acquisition and maintenance of IP rights, licensing, collection of royalty payments, contracts and other transactions, the provisions of investment agreements would be applicable to enforcement of IP as provided under Part IV of the TRIPS Agreement. This requires detailed examination of the impact of investment protection norms on IP rights.

#### *V.1.1. Fair and Equitable Treatment*

Investment agreements provide full protection and security of investment - the level of police protection required under customary international law.<sup>101</sup> The obligation requires the host country to adopt all reasonable measures to protect assets and property from threats or attacks, which may target particularly foreigners.<sup>102</sup> The obligation for the host country is to exercise due diligence or to be vigilant by taking all measures necessary to ensure the full enjoyment of protection and security of foreign investment as opposed to creating strict liability.<sup>103</sup> This will not allow host countries, for example, to invoke their own legislations to detract from any such obligation. Furthermore, investment agreements accord fair and equitable treatment as a substantive requirement encompassing due process of the law, measures that amount to denial of justice, and arbitrariness and other matters arising from state responsibility for its injurious conduct towards aliens and their property.

<sup>98</sup> U.S.-Sri Lanka BIT (1991), Article I.1 (e), See also the US BITs with Ecuador (1993), DRC (1991) Tunisia (1990), Argentina (1991), Bangladesh (1986), emphasis added.

<sup>99</sup> U.S.-Chile FTA (2003), Article 10.1&2, U.S.-Dominican Republic-CAFTA (2004), Article 10. 2.

<sup>100</sup> China-German BIT (2003), Article 2(4), 3(2) & (3).

<sup>101</sup> See, e.g., U.S.-Chile FTA (2003), Article 10.4(2) (b); U.S.-Singapore FTA (2003), Article 15.5(2) (b); U.S.-CAFTA (2004), Article 10.5(2) (b).

<sup>102</sup> OECD (2004), p. 9.

<sup>103</sup> ICSID, *American Manufacturing & Trading Inc. (AMT) (US) v. Republic of Zaire*, reprinted in 36 International Legal Materials (1997), and *Wena Hotels Ltd. (U.K.) v. Arab Republic of Egypt*, reprinted in 41 International Legal Materials, 896(2002)

The major problem with the application of full protection and security, and fair and equitable treatment of investment has been the lack of clarity on the scope of the standards and the autonomy of the state. The tribunal in *MTD Equity Sdn. Bhd. and MTD Chile S.A. v. Republic of Chile*, for example, linked the standard with the creation of conditions favourable to investment.<sup>104</sup> Despite its vagueness, fair and equitable treatment is the most frequently invoked standard in investment arbitration.<sup>105</sup> The Kyrgyz Republic was found to be in clear breach of its obligation towards a foreign investor under Article 10(12) of the Energy Charter treaty solely for failing to ensure that its domestic law provides an effective means for the assertion of claims and the enforcement of rights with respect to investment. For this the investor was considered as the victim of unpredictability and inconsistency and the Republic failed to provide effective means by which the investor could assert its legitimate claims and enforce its rights.<sup>106</sup>

There is no explicit distinction between intangible and tangible property rights for the application of the full protection and security requirements under investment agreements. The requirement applies to the investment asset in general. The tribunal under the International Centre for the Settlement of Investment Disputes (ICSID) has concluded that there can be no doubt that the minimum standard of treatment provision under NAFTA applies to intangible property, including contract claims.<sup>107</sup> In effect, investors can claim against the state where the state fails to adopt reasonable measures or exercise due diligence or fails to be vigilant in providing full protection and security for the IP asset, licenses and contracts, and other intangible properties of the covered investment. However, the kind of omissions or commission of reasonable measures with regard to IP rights, licenses and other related intangible property rights that can constitute a violation may not be the same as those relevant for equipment, plant, land and other tangible property rights.

The application of full protection and security of investment relates to the due diligence by the state in protecting the investment asset from destruction or loss due to riots, civil disturbances and threats or attacks that target foreigners in particular, which are quite different from ordinary penal matters like thefts, violation of privacy, fraud or other criminal conduct. Infringement of IP rights that give rise to the application of criminal procedures and penalties, as required by the TRIPS Agreement and IP chapters of FTAs can undermine the enjoyment of the investment asset by the investor. However, tribunals have used fair and equitable treatment and full protection and security almost simultaneously, blurring the specific aspect of full protection and security which only give rise to the obligation for due diligence by the state in protecting the investment asset from destruction or attack by third parties. As the US Model BIT clarified, the full protection and security relates only to the level of police protection required under customary international law. This refers exclusively to the protection from imminent danger coming from a mob action or civil unrest that requires reasonable protection by the police to avert the danger.

IP rights are not susceptible to such a danger, at least, to the extent that the destruction of the physical manifestation of the IP does not dispossess or minimise the value of the embodied IP right. As a result, the provision of full protection and security is not relevant for infringements of IP rights of foreign investors. This, however, is not applicable in situations where government officials actively sought or incited third parties to infringe the IP rights of the investor, which would likely breach the fair and equitable treatment.<sup>108</sup>

Although the obligation of the state to provide *full protection and security* may not cover infringement of IP rights, the standard of fair and equitable treatment as applied to *due process of the law and protection from denial of justice* requires host countries to make available acceptable proce-

<sup>104</sup> ICSID (2004), *MTD Equity Sdn. Bhd. and MTD Chile S.A. v. Republic of Chile*.

<sup>105</sup> Schreuer, Christoph (2005), p. 3.

<sup>106</sup> SCC (2005), *Petrobart Limited v. Kyrgyz Republic*, Arb., p.28.

<sup>107</sup> ICSID (2002), *Mondev International Ltd v. United States of America*, Award, para. 98.

<sup>108</sup> Newcombe (1999), p.144.

dures for protection of the investment asset and sometimes the investor. Where the state fails to provide, by either omission or commission, the procedure for due process of the law and availability of remedies for IP rights of foreign investors, the state violates the investment agreement as well, since IP rights constitute investment assets. This, however, is limited to standards of investment agreements involving claims against denial of justice or arbitrary process for the protection of the IP assets that amount to a violation of the investment agreement, independent from the TRIPS or any other agreement.

Mere breach of the TRIPS Agreement or other agreements does not constitute a breach of the fair and equitable standard of treatment involving the concept of denial of justice under investment norms. The requirement of fair and equitable treatment and full protection and security provide due process and protect investors from abusive state conduct but do not necessarily enforce international agreements.<sup>109</sup> The NAFTA Free Trade Commission in its binding interpretation has stated that “a determination that there has been a breach of another provision of the NAFTA, or of a separate international agreement, does not establish that there has been a breach of Article 1105 (1) [the minimum standard of treatment] [of NAFTA].”<sup>110</sup>

The international minimum standard of treatment available under certain investment agreements does not necessarily enforce the TRIPS Agreement, though the latter establishes international minimum standards on recognition, protection and enforcement of IP rights. However, recent investment chapters of FTAs and the 2004 model BIT of the U.S. as well as Canada’s model, provides a link between fair and equitable treatment and international minimum standards<sup>111</sup> and arguably as part of the evolving international minimum standard that develops through practices of states.<sup>112</sup> The 2004 model BIT of the U.S. affirms customary international law as evolving and developing through consistent practice of States.<sup>113</sup> Reference to state practice and international law as part of the fair and equitable treatment may lead to the assumption that agreements like the TRIPS that establish minimum standards of treatment provide for the source of customary international law in determining the minimum standard available for the protection of foreigners and their property. In a narrow scope, the provisions of TRIPS could form part of the applicable law under investment agreements where the provisions of investment agreements, for example, refer to them by requiring the consistency of a compulsory license with the provisions of the TRIPS Agreement.

Except in circumstances where the provisions of investment agreements specifically refer to the provisions of the TRIPS Agreement, providing investors with the opportunity to challenge governments on the violation of the TRIPS or any other WTO agreement would be a radical departure from the self-contained system of negotiation, implementation and dispute settlement of the WTO.<sup>114</sup> However, the provisions of investment agreements declaring international minimum standards as evolving through state practice may actually end up providing such opportunity for private actors to claim for consistency with the WTO agreements in interpreting the fair and equitable standard of treatment. That would end up providing higher international norm-setting status for the WTO rules.<sup>115</sup>

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<sup>109</sup> *Id.*, p.143.

<sup>110</sup> The Free Trade Commission of NAFTA (2001).

<sup>111</sup> USTR (2004), Model BIT of the U.S., Article 5:5.

<sup>112</sup> See: OECD (2004), pp.11-12.

<sup>113</sup> Annex A of the 2004 Model BIT of the U.S., provides that: “The Parties confirm their shared understanding that “customary international law” generally and as specifically referenced in Article 5 [Minimum Standard of Treatment] and Annex B [Expropriation] results from a general and consistent practice of States that they follow from a sense of legal obligation. With regard to Article 5 [Minimum Standard of Treatment], the customary international law minimum standard of treatment of aliens refers to all customary international law principles that protect the economic rights and interests of aliens.”

<sup>114</sup> Verill (2005), p. 2.

<sup>115</sup> *Id.*

Investment agreements specialize in laws, regulation and practices specifically designed by governments to regulate investment, but not IP rights or trade. Hence, the standards of investment protection should not be applied to or derive substantive interpretation from other unrelated domains of international law as it may lead, in the case of IP rights of investment, to protection higher than agreed under the specialised TRIPS Agreement. State parties to investment agreements should fully consider the implications of the provisions of their agreements to obligations under other multilateral instruments.

### V.1.2. Transparency

The TRIPS Agreement contains important transparency requirements. It requires WTO Members to establish contact points for international cooperation, publication of laws, regulations, judicial decisions or administrative rulings of general application, notification of laws and regulations to the TRIPS Council, and supply of information upon written request by other Member states.<sup>116</sup> There is an important exception that the transparency provisions do not require Members to disclose confidential information that would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.<sup>117</sup>

Recent investment agreements have started to provide specifically for the transparency obligations of host-countries.<sup>118</sup> Earlier BITs developed a relatively narrow transparency requirement relating to publication and accessibility of laws and regulations pertaining to investment or affecting investment and consultation with a view to explaining specified laws and policies.<sup>119</sup> Recent investment agreements have broadened the transparency obligation of host-countries towards the home country and the investor. The U.S. FTAs have extended the transparency obligations to procedures and administrative rulings, transparency, an opportunity to comment on draft legislation, establishment of contact points to facilitate communication, publication of laws, regulatory measures, judicial decisions and administrative rulings and notification of measures that materially affect the investment as well as transparency in dispute settlement.<sup>120</sup>

Where the investment agreement covers investment and associated activities defined broadly to include acquisition, maintenance and use of IP rights and transparency obligations, they protect the IP of the investment in addition to the TRIPS agreement. The transparency obligation under investment agreements could be higher than that provided under the TRIPS Agreement, when the obligation forms part of the fair and equitable standard of treatment or the international minimum standard depending on the language of the investment agreement. In *Metalclad Corporation v. Mexico* the tribunal concluded that the absence of a clear rule concerning construction permit requirements in Mexico failed to ensure a transparent and predictable framework for the investors' planning and investment. The tribunal found the failure as breach of the fair and equitable treatment, amounting to expropriation.<sup>121</sup> The review of the award rejected the conclusion of the tribunal for going beyond the scope of the submission to arbitration because there are no transparency obligations contained in the investment chapter of the NAFTA.<sup>122</sup> As a result, investment agreements which specifically provide transparency obligations independently or as part of the fair and equitable standard, depending on their scope of coverage and the extent of obligations, would lead to a TRIPS-plus transparency obligation when applied to the IP of the covered investment. As stated in other parts of this research paper, there are no

<sup>116</sup> The TRIPS Agreement (1994), Article 63 and 79

<sup>117</sup> *Id.*, Article 63 (4)

<sup>118</sup> See, e.g., U.S. – Uruguay BIT (2004), Article 11.

<sup>119</sup> See, for example, Australia-China BIT (1998). Review of selected Indian BITS with Thailand, Ghana and Oman shows that transparency obligations are not included in some BITS.

<sup>120</sup> See, e.g., the 2004 Model BIT of the U.S. and Article VI and Canada-Croatia BIT (2001), Article XIV.

<sup>121</sup> ICSID (2000), *Metalclad Corporation v. Mexico*, para. 99.

<sup>122</sup> Supreme Court of British Columbia (2001), *The United Mexican State and Metalclad Corp.*, para. 78.

restrictions on investors to rely on investment agreements to challenge governments' practices relating to IP rights. Finally, as in *Metalclad Corporation v. Mexico*, the lack of a clearly established mechanism for the enforcement of IP rights of investors may give rise to claims of violation of the transparency obligation. Here, the danger is more obvious to developing countries with limited resources to implement fully the TRIPS Agreement.

### *V.1.3. Special Formalities and Undisclosed Information under Investment Agreements*

Investment agreements provide norms regarding special formalities and information requirements. The U.S. - Chile FTA, for example, allows for maintaining a measure that prescribes special formalities if such formalities do not materially impair the protection afforded by a Party to investors of the other Party and covered investments. A Party may require an investment to provide information. However, confidential information should be protected from any disclosure that would prejudice the competitive position of the covered investment, except in connection with the equitable and good faith application of its domestic law or measures consistent with Article 39 of the TRIPS Agreement. According to the dispute settlement provision, countries are not required to disclose confidential business information and information related to essential security. The tribunals also protect confidential business information submitted during dispute proceedings.

Under Article 39.3 of the TRIPS Agreement, countries must protect "undisclosed" information and data submitted to government agencies for regulatory purposes such as in the case of pharmaceuticals and agro-chemicals, from unfair competition and commercial use as well as from disclosure, except where necessary to protect the public interest. Recent agreements like CAFTA have significantly transformed the provisions of the TRIPS Agreement on protection of undisclosed information. Under CAFTA, countries agreed not to permit third persons to market a product based on the information, or the approval granted to the person who submitted the information for at least five years for pharmaceutical products and ten years for agricultural chemical products from the date of approval. The countries should also take measures to prevent such other persons from marketing a product covered by a patent, unless by consent of the patent owner.<sup>123</sup>

Information requirements usually apply in the form of disclosure of information during incorporation, listing of a company in the stock market, approval of M&A, and as safety requirements for the operation of the investment. These requirements interact with IP rights primarily in the form of protection of undisclosed information. Undisclosed information or trade secrets constitute an investment in many investment agreements. The Ethiopia -Israel investment agreements, for example, specifically recognize undisclosed business information, trade secrets and expertise as investment. Information requirements are important in relation to technical expertise and trade or business secrets, but so is other information disclosed on finance, shares and corporate structure, as might be required for listing a corporation, registering capital and issuing investment permits by the domestic law. A U.S. Court, in the case of *Ruckelshaus v. Monsanto Co.*, ruled that disclosure of a trade secret by a government agency could frustrate reasonable investment-backed expectations and amount to a taking of its property, since once others have access to a trade secret, the property interest and the value of the property right is effectively lost.

Special formalities apply in relation to the screening of investment and issuance of an investment permit in accordance with domestic laws to enforce requirements like joint venture. Some formalities interact with IP rights in cases of regulation of capital contribution and establishment of residence as requirement for investment. Regulations of capital contribution forming initial investment determine the extent to which IP can form initial capital and restrict intra-firm royalty payments.<sup>124</sup>

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<sup>123</sup> CAFTA (2004), Article 15.10.

<sup>124</sup> Regulations of the People's Republic of China on Chinese-Foreign Cooperation in Running Schools (2003), Article 10.

The new Cooperative Education Regulations of China, for example, specify that while each party to a joint investment may contribute its capital according to the agreed ratio, no more than one-third of a party's total contribution may be in the form of IP. This regulation is less strict than the regulation in venture capital in medical services, software, wireless applications, and biotechnology, which imposes a 20% limitation on enterprises registering IP rights as initial equity.<sup>125</sup> These Chinese laws do not discriminate between foreign and domestic investors. However, regulations on registration of capital could specifically target foreign investors for different public purposes. In this regard, the TRIPS Agreement does not stand in the way of capital regulations at market access level. Investment agreements affect such regulations where there are liberalisation commitments and parties have agreed to provide national treatment to a pre-establishment phase - when the foreign investor requests admittance.

Special formalities and information requirements may also interact with Article 62 of the TRIPS Agreement that maintains flexibility on the imposition of conditions for the acquisition or maintenance of the IP rights upon compliance with reasonable procedures and formalities, if such procedures and formalities are consistent with the provisions of the TRIPS Agreement. The provisions of investment agreements are applicable to investment activities that include the acquisition and maintenance of IP rights of investment covered by the treaty. Hence, companies that submit protected information in compliance with disclosure requirements applicable to foreign companies or sectors that are subject to rigorous health and safety standards can rely on the investment agreement for protection from any disclosure that would prejudice their competitive position, and lack of equitable and good faith application of domestic law in disclosing such information. Comparison of a foreign company submitting test data for marketing approval in a country where it does not have commercial presence and an investor that submitted test data in country of commercial presence can help to assess the impact of investment agreements. In case of disclosure of the data to a competing industry, the foreign company that does not have commercial presence in the host-country will have resort only under civil/statutory law for unfair trade practices. The foreign company domiciled in the host country, however, can rely on investment agreements to challenge the State for denial of protection and may even have an indirect or direct disposition of property claim depending on the share of the data in its investment under the investment agreement. In this regard, Correa notes that:

'...claims grounded on investors' rights could only arise if the State took measures that prevented the database owner to exploit its "asset" or reduced the benefits that may be derived therefrom. For instance, if the State enacted legislation stipulating that genomic data would be freely accessible for public institutions, including for use in research with potential commercial application, investors' rights-based claims might be raised with some likelihood of success.'<sup>126</sup>

However, competition regulations can help to implement the implementation of the statutory disclosures in the example provided by Correa above. The claim will be limited to the consistency of the statute with investment agreement, especially if it is discriminatory or if its implementation was in bad faith and amounted to expropriation. The protection from disclosure primarily relates to disclosure in violation of the threshold established under investment agreements. Government agencies may disclose, for example, test data submitted for approval of a pesticide, violating the threshold established under the domestic law and the investment agreement. They may also fail to deny approval or prevent entry into the market by third persons relying on the unlawfully disclosed information. It is, however, doubtful if unlawful disclosure and omission to prevent the disclosure or subsequently approval of entry into the market by unfair competitors can constitute a ground for investment disputes by themselves, in the absence of serious prejudice and loss of competitiveness of the foreign company in the market.

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<sup>125</sup> Vaughn, (2002-2003), p. 237

<sup>126</sup> Correa (2004), p. 25.



## V.2. Dispute Settlement: the Interface between the TRIPS and Investment Agreements

Violations of the standards for acquisition, protection and enforcement of IP rights are sanctioned by the WTO dispute system in accordance with Article 64.1 of the TRIPS Agreement, Article XXII and XXIII of the GATT 1994 and the Understanding on the Rules and Procedures Governing the Settlement of Disputes, to which only states have access. Under investment agreements, unlike the TRIPS Agreement, violation of the standard of treatment of investment may give rise to state-to-state or investor-to-state dispute settlement. The establishment of arbitration tribunals, the applicable rules of procedures and the institutional arrangements vary depending on the language adopted in each investment agreement and FTA, or under the ICSID, United Nations Commission on International Trade Law (UNCITRAL) rules and those adopted by arbitration institutes of chambers of commerce.

There are fundamental differences on the institutional and procedural arrangements of investment arbitration and the WTO dispute settlement mechanism, including on the finality of decisions, and the types and enforcement of awards. While the WTO dispute settlement is limited to disputes concerning rights and obligations under the WTO agreements, the investment dispute resolution covers the provisions of the investment agreements, and sometimes commitments made with respect to specific investments. The interplay of the WTO dispute settlement system and investment arbitration can arguably occur under the GATS, where disappointed investors have the choice of seeking diplomatic protection in order to reverse or bring into compliance the host country's measures affecting their investment through GATS or of directly lodging an indirect expropriation claim under the applicable investment agreement. Such a possibility could be limited to where commercial presences for the supply of services qualify as foreign investment. Similarly, in Canada's debate on the introduction of a cigarette plain-packaging requirement, there was argument favouring that the NAFTA investors could rely not only on the TRIPS Agreement but also on investor-to-state disputes settlement mechanisms, which, if applied, would result in an additional layer of protection and enforcement of IP.

Investment agreements are an open invitation to unhappy investors to threaten and influence weak governments in promotion of their commercial interests, since the rather imprecise provisions can support broad claims of damages. The mere existence of investment agreements provides foreign investors with influence in the policymaking and the regulation of the host economy. Moreover, the BITs give rise to so much uncertainty and contradiction - leading to different possible interpretations. MFN clauses, if not interpreted restrictively when it comes to jurisdiction, may lead to treaty shopping, undermining predictability and certainty of rights and obligations.<sup>127</sup> The major investment disputes involve direct or indirect expropriation rather than the mere violation of provisions of investment agreements that do not amount to expropriation. Here, there should be no presumption that countries and multinational corporations that are increasingly dependant on technology and IP rights to maximise the rate of corporate profit and competitiveness in international market, will decline the resort to investment agreements for the protection of IP rights. As the value of IP and information-based assets grows, the application of the expropriation provisions can protect these assets. In *Methanex*, the tribunal noted that:

“[T]he restrictive notion of property as a material “thing” is obsolete and has ceded its place to a contemporary conception which includes managerial control over components of a process that is wealth producing. In the view of the Tribunal, items such as goodwill and market share

<sup>127</sup> ICSID (2000), *Emilio Augusti 'n Maffezini v Kingdom of Spain* - para.56: the tribunal extended the MFN to jurisdictional matters as opposed to substantive rights. It stated that: “if a third-party treaty contains provisions for the settlement of disputes that are more favourable . . . than those in the basic treaty, such provisions may be extended to the beneficiary of the [MFN] clause as they are fully compatible with the *ejusdem generis* principle.” See also ICSID (2004), *Salini Costruttori SpA and Italstrade SpA v. The Hashemite Kingdom of Jordan*, ICSID Case No.ARB/02/13, and ICSID (2005) *Plama Consortium Ltd v. Republic of Bulgaria* - where the tribunals interpreted the MFN provision restrictively as limited to content of substantive rights.

may ... constitute [] an element of the value of an enterprise and as such may have been covered by some of the compensation payment.”<sup>128</sup>

Hence, the Tribunal concluded that in ‘comprehensive expropriation, items like goodwill and market share may figure in valuation, but it is difficult to see how they might stand alone in the case before the Tribunal.’<sup>129</sup> The conclusion of the tribunal is strictly limited to valuation of compensable assets. It has found it difficult to see how items like goodwill and market share can stand alone for the valuation purpose. Similarly, the Permanent Court of International Justice also found in the 1926 case of *German Interests in Polish Upper Silesia – the Chorzow Factory* case that the seizure by the Polish government of a factory plant and machinery was also an expropriation of the closely interrelated patents and contracts of the management company. In recent NAFTA cases, the NAFTA tribunals in *Pope & Talbot, Inc v. Canada*, (Interim Award of 2000), and *S.D. Myers, Inc. v. Canada*, (Partial Award of 2000) addressed claims concerning market access and market share and suggested that these might be property rights for purposes of expropriation. However, the conclusion of the tribunals did not amount to a finding that market accesses and market shares are capable of being expropriated by themselves.<sup>130</sup>

Though limited, the discussion of intangible property and IP rights in the cases cited above can suggest that expropriation of investment can also be expropriation of the closely related IP rights, and intangibles. Ultimately, the value of the investment would involve the value of the IP rights and intangibles expropriated, together with the factory plant or businesses. An important question for the determination of the amount of compensation is this: when are IP rights capable of expropriation? Expropriation of a company could be limited to the physical assets without transferring the title over the trade and service mark, and business name. Investors could maintain their exclusive rights to the trade and service mark and business name. Unlike the conclusion under *German Interests in Polish Upper Silesia – the Chorzow Factory* expropriation of physical assets, may result only in inferring patent rights, since the expropriation results in the use of the equipment without payment for the IP rights of the investment. The investor still maintains the patent in all the protected markets. The disposition of inventions yet to be patented - in effect transferring the invention into the public domain and the specific extension of the expropriation to include trademarks, patents and other IP rights held by the investment is an effective expropriation of the investment assets that can be considered in the valuation of compensable assets.

Direct expropriation of IP rights can take place independent of comprehensive expropriation of the investment. Several countries maintain under their law the possibility of expropriation of patents and other IP rights for the public purpose against the payment of compensation. During the Second World War, as discussed in section III.2, the U.S. expropriated the IP rights of enemy and occupied states. Here the most important question would be whether the expropriation of a patent or any other IP rights can amount to expropriation of investment for the purpose of investment agreements. Under international law state measures, *prima facie* a lawful exercise of powers of governments, may affect foreign interests considerably without amounting to expropriation.<sup>131</sup>

In addition to direct expropriation of the IP rights of the covered investment, measures that amount to expropriation, otherwise called indirect expropriation could also affect IP rights. From the discussion in this research paper, there are several instances where IP rights could surface in investment-related issues. These include, but are not limited to:

<sup>128</sup> ICSID (2005), *Methanex Corporation v. United States of America*, Part IV – Chapter D- Page 7-8.

<sup>129</sup> *Id.*

<sup>130</sup> OECD (2004), fn6.

<sup>131</sup> UNCITRAL Arbitration Proceedings, *CME Czech Republic B.V. (the Netherlands) and the Czech Republic*, (2001) para. 320.

1. the determination of the consistency of measures to protect and advance public interest on IP rights of covered investment to the provisions of the investment agreement and, where provided, to the TRIPS Agreement;
2. the determination of the availability of public purpose, and the necessity of the measures to achieve the public purpose;
3. whether regulatory measures, including competition policy, compulsory license, and technology transfer requirements that affect the IP rights of the covered investment, are non-discriminatory regulations for a public purpose, enacted in accordance with due process;
4. whether the disclosure of trade secrets or data submitted for approval purposes and failing to prevent third parties from utilising or acquiring approval relying on unlawfully disclosed information amounts to indirect expropriation; and
5. claims of discriminatory treatment, lack of fair and equitable treatment, due process and enforcement mechanisms in relation to investment activities such as including the acquisition, protection and enforcement of IP rights.

Furthermore, the determination of the extent to which IP rights constitute an investment asset, and the relevance of domestic laws in defining the availability, validity and scope of the IP rights of the covered investment are also legal issues that can arise in investment disputes. There could also be several instances involving IP rights of investment assets resulting in diminishing investment and giving rise to expropriation and compensation claims. Here the possibility of claims related to IP in investment disputes can occur as part of comprehensive investment expropriation claims that include IP rights or partial expropriation claims involving IP assets.

In the case of a comprehensive investment expropriation, directly or indirectly, it is established that IP rights and other intangibles can form part of the value of the property for compensation, if the investment is effectively relieved of its IP rights. However, the question of jurisdiction and competence of investment tribunals is problematic when it comes to partial expropriations affecting only the IP rights of investment assets. There are no investment agreements known to this author that restrict investors from claiming against partial expropriations. It would have been appropriate for countries to restrict recourse to investment dispute settlement where the claims relate only to the protected IP assets. In a related subject, the Canadian Model bars investors from claiming against measures adopted pursuant to a waiver decision under Article IX: 3 of the WTO Agreement. Such exclusionary provisions are important for disputes involving the availability, protection and enforcement of IP rights, because of the existence of effective IP rights disputes settlement mechanisms and expertise in the WTO and WIPO. In the absence of the clear exclusion of a subject matter from the scope of investment dispute settlement, investment arbitration tribunals may not decline competence by the mere fact of the existence of effective dispute settlement avenues in other agreements, such as multilateral environment agreements, WTO, WIPO or even other alternative dispute settlement mechanisms stipulated in investment contracts. In the opinion of this author, investment tribunals should defer jurisdiction where effective settlement mechanisms exist, with specialised expertise and facilities, for reasons of competence and the fact that access by private legal persons to international dispute settlement mechanisms should be available only to comprehensive claims of investment. It is especially true for the competence and governance of investment arbitration tribunals entertaining claims of expropriation of IP assets, since such claims involve the determination of validity, availability and protection, and since:

- a) IP issues have their own dimension, jurisprudence and political economy completely different from investment. States have developed norms and principles on IP rights in multilateral, regional and bilateral forums independent of norms and principles on investment.

- b) Procedures and fora for effective settlement of IP disputes are available under the IP rights instruments and the national legal systems.

As in the conclusion of the tribunal in *Methanex v. United States*, IP rights by themselves should not constitute a ground for claim. There is strong justification for set aside claims purely related to the IP rights of investment. In cases of the FTAs, the investment dispute mechanisms are not applicable to measures that are consistent with the IP section, which conveys the desire of the parties to treat IP rights differently. In addition, the international law on IP rights, as developed through the WIPO treaties and the TRIPS Agreement, has emphasised domestic law remedies for the enforcement of IP rights, and a state-to-state dispute settlement mechanism where the domestic laws and institutions are below the established standards under the treaties, as opposed to an international arbitration accessible to right holders. The taking up of IP disputes to investment arbitration will worsen the imbalance of interest in IP rights and significantly affect the global governance structure on negotiation, implementation and dispute settlements with respect to IP rights.

## VI. SYNTHESIS OF IMPLICATIONS AND OPTIONS FOR DEVELOPING COUNTRIES

The complex relationship between investment and IP right norms identified in this Paper and those under several studies requires a cautious approach by developing countries when negotiating the agreements. The issues identified in the research paper help to demonstrate that investment agreements are complex instruments and not a mere expression of political will for cooperation.

Recently developing countries have been involved in investment agreements with different approaches. Many developing countries have continued to engage in new investment agreements, although they have fought against the development of multilateral investment agreements at the WTO. There are numerous investment agreements signed among developing countries. Few countries, like Brazil and Egypt, showed cautionary approaches. UNCTAD's investment review process questioned Egypt's record of limited ratification of investment agreements since 1998. Yet there were no findings of any questionable practices undermining investment protection.<sup>132</sup> Brazil has no bilateral investment treaties in force. However, the lack of investment agreements has not impeded investment flows to Brazil.<sup>133</sup> Other countries are renegotiating investment agreements. China has entered into a new BIT with Germany. China's earlier BITs limited the investor-state arbitration to a narrow scope dealing with disputes over the amount of compensation. The new BIT signed with Germany, by contrast, extends the investor-state arbitration to cover "any dispute concerning investments between a contracting Party and an investor of the other Contracting Party."<sup>134</sup> Colombia is also renegotiating its investment agreements.<sup>135</sup> Most of these renegotiations are taking place in order to update and agree to stronger commitments. Some other renegotiations brought the provisions of the BITs with the commitment of the parties in other agreements.<sup>136</sup> Several other renegotiations are taking place and their number is expected to increase, since most BITs signed in the 1990s have a 10-30 years life span.<sup>137</sup>

Considering the trends in negotiation and renegotiation of BITs, developing countries need to address the interplay of IP rights and investment agreements. The use of memoranda of understanding, protocols and amendments can help to revisit the specific issues. Investment agreements in particular should not circumvent the achievements in multilateral negotiations that are more favourable for developing countries. Developing countries can consider the following elements in their negotiations, renegotiations or by initiating amendment of investment agreements in order to address their impact on the rights and flexibilities under the IP instruments:

1. ascertaining the role of domestic laws for validity, determination of scope and applicable exceptions to IP rights and avoiding categories of rights not protected under the domestic laws;
2. providing a general exception that the agreement does not affect the parties' rights and obligations under multilateral IP rights agreements to which they are parties, including the TRIPS Agreement;

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<sup>132</sup> UNCTAD (2005a), p. 6.

<sup>133</sup> UNCTAD (2005b), p.39.

<sup>134</sup> See IISD, *Investment Treaty news* of February 2006.

<sup>135</sup> UNCTAD (2006a), p.24.

<sup>136</sup> The EU acceding countries signed a memorandum of understanding concerning the applicability of the BITs because of the accession. See UNCTAD (2005b), p.6.

<sup>137</sup> *Id.*, p.7.

3. in the case of a country with bilateral or regional IP rights instruments, the agreement should not require the extension of the treatment accorded to third countries by virtue of bilateral/regional agreements on IP rights; and
4. the exclusion of the administration, acquisition, maintenance, enforcement and protection of IP rights from the dispute settlement provisions of the investment agreement.

The Research Paper examined the impact of investment agreements on the regulatory discretion of states under the TRIPS Agreement to promote socio-economic and technological development and protect the public interest as well as on enforcement obligations. The conclusion of the examination of the interface between IP and investment norms is clear: provisions of investment agreements have important implications pertaining to IP rights of investment, regulations protecting the public interest, encouraging the development and transfer of technology, competition policies, and the enforcement of IP rights. The implication of investment agreements largely lies in determining the scope of IP rights forming investment assets, hence, protected under investment agreements. Once the IP of covered investment forms investment assets, the provisions of the investment agreements are applicable, though they could be different from IP instruments.

The impact of investment agreements on the promotion of public interest in the IP policies is significant in relation to public health, national security, public order and the environment. Although recent investment agreements attempt to address the impact of their provisions on regulatory discretions available under the TRIPS Agreement, especially with regard to compulsory licenses, revocation and limitation of IP rights, they fail to address adequately the relationship between the rights of investors under the investment agreements and the rights and duties of states under multilateral IP instruments. Investment agreements uniquely prescribe standards for regulatory measures, including competition policy and regulation, by applying the national and MFN treatment, and sanctioning violations of such standards through investment dispute resolution.

The IP and investment interface also occurs in the context of provisions on performance requirements, among others. Investment agreements apply additional restrictions that are largely TRIPS and TRIMS plus. In some agreements, the restrictions on technology transfer requirements, however, do not apply to measures in accordance with Articles 31 and 39 of the TRIPS Agreement, and to measures to remedy anticompetitive practice under competition laws. Other investment agreements have less rigorous restrictions on foreign investment measures and less detailed exceptions to the restriction in order to promote research and development, access and transfer of technology.

There is a limited level of convergence between IP instruments and recent investment agreements with respect to acceptable norms under the respective domestic laws and practices of states for the protection and enforcement of private rights. The TRIPS Agreement, in laying down the minimum standards for the enforcement of IP rights, does not attempt to harmonise enforcement rules due to the wide divergence existing in domestic laws of WTO Member states. Conversely, investment agreements stipulate standards of treatment for investment, which in some investment agreements constitute the international minimum standard on the treatment of foreigners and their property. The standard of fair and equitable treatment under investment agreements as applied to due process of the law and protection from denial of justice requires host-countries to make available acceptable procedures for protection of IP rights. This, however, is limited to the standards of investment agreements. Reference to state practice and international law as part of the fair and equitable treatment, may lead to the assumption that agreements like the TRIPS that establish minimum standards of treatment provide a source of international law in determining the minimum standard available for the protection of foreigners and their property under investment agreements. Developing country parties to investment agreements should fully consider the implications of the provisions of their agreements to obligations under other multilateral instruments.














Recent investment agreements have broadened the transparency obligation of host countries towards the investor and associated activities of investment. Information requirements under investment agreements interact with IP rights primarily in the form of the protection of undisclosed information. Undisclosed information and trade secrets constitute an investment in many of the investment agreements. The determination of the consistency of measures relate IP rights of an investment to the provisions of the investment agreement and, where provided, to the TRIPS Agreement.

The observations of this research Paper are not generalised conclusions applicable to all investment agreements, since individual investment agreements, even when signed by the same country differ widely. Investment agreements often represent imprecise norms and are manifestly inconsistent and contradictory between each other. This might discredit investment agreements from contributing to the evolving customary international law. Yet, they have come up with the most powerful mechanisms – investor-to-state and state-to-state dispute settlements with enforcement mechanisms that are more effective than any other mechanism under international law.















For developing countries, the desired scope of the investment agreements needs to be examined very thoroughly, as opposed to being considered as a mere expression of political good will. There should be a concerted effort to determine the impact on public interest, industrial development, innovation, transfer of technology and competition policies. Developing countries should consider supplementing existing investment agreements with legal instruments that provide greater certainty to the scope and application of the provisions, in particular their relation with the enforcement of IP rights.

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