

# Intellectual property rights as protected investments: How open are the gates?

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## I. Introduction

The protection afforded to different legally-defined objects may overlap when different regimes apply to the same object. This article focuses on the overlap of two protective regimes, intellectual property rights (IPRs) and international investment agreements (IIAs)<sup>1</sup>, as applied to certain intangible objects, such as an

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<sup>1</sup> We use the term IIAs to encompass bilateral investment treaties (BITs) and free trade agreements with investment chapters (unless otherwise specified, we only refer to the investment chapters of FTAs).

invention, a distinctive mark or the expression of an artistic work. More specifically, we analyse the interactions between the different regulatory layers and provisions that govern the possibility of bringing IPRs under the protection of IIAs.

‘Protection’ in the context of IPRs law generally means that right-holders are granted the right to exclude others from the use of the covered intangibles. They essentially grant a *ius prohibendi*. Under IIAs, ‘protection’ has a different meaning: it provides right-holders the legal power to seek compensation for adverse acts/omissions by a sovereign State regarding IPRs recognized in its territory. Thus, while IPRs protect an asset against acts (infringement) by third parties, the ‘protection’ under IIAs is conferred against actions/omissions by States, such as direct or indirect expropriation or other impairments. Infringements by third parties may, in some cases, amount to an omission by a State in breach of an IIA, but the primary target of the two ‘protective’ frameworks is different. However, the interaction between intellectual property protection and that offered by investment law is important because, according to the stance one takes on it, the room to successfully challenge national decisions relating to the eligibility for or the scope of protection under IPRs could be significantly affected. Such a potential impact, together with the sense of reality given by some foreign investment claims brought to protect IPRs,<sup>2</sup> explains the increasing attention paid to this question in the last years, including in this journal.<sup>3</sup>

The purpose of this article is to focus on this interaction in order to clarify its legal implications. This question has been rather neglected so far with most of the literature focusing on either mapping the references to IPRs in investment agreements or on the substantive protection afforded to them by investment disciplines.<sup>4</sup> Yet, *the intermediate step between these two stages or, in other words, the provisions forming the ‘gate’ to the protective framework of the IIA remain to be systematically analysed.* Different understandings of the interactions

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<sup>2</sup> See *Philip Morris Brand Sàrl (Switzerland), Philip Morris Products S.A. (Switzerland) and Abal Hermanos S.A. (Uruguay) v Oriental Republic of Uruguay*, ICSID Case No. ARB/10/7 (‘Philip Morris v Uruguay’) (pending); *Philip Morris Asia Limited v. The Commonwealth of Australia*, UNCITRAL, PCA Case No. 2012-12 (‘Philip Morris v. Australia’) (pending); *Eli Lilly and Company v. The Government of Canada*, UNCITRAL, ICSID Case No. UNCT/14/2 (‘Eli Lilly v. Canada’) (pending). See also *Shell Brands International AG and Shell Nicaragua S.A. v. Republic of Nicaragua*, ICSID Case No. ARB/06/14, Settlement agreed by the parties (12 March 2007), *AHS Niger and Menzies Middle East and Africa S.A. v. Republic of Niger*, ICSID Case No. ARB/11/11, Award (15 July 2013) and, although it does not relate specifically to IPRs, *Apotex Holdings Inc. and Apotex Inc. v. United States of America*, ICSID Case No. ARB(AF)/12/1, Award (25 August 2014) (‘Apotex v. United States’).

<sup>3</sup> See Brian Mercurio, ‘Awakening the sleeping giant: intellectual property rights in international investment agreements’ (2012) 15 *Journal of International Economic Law* 871. See also, among an increasing number of studies: Carlos Correa, *Bilateral Investment Agreements: Agents for new Global Standards for the Protection of Intellectual Property Rights?*, GRAIN Study, August 2004; Simon Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsschutzverträge* (Carl Heymanns, 2011); Henning Grosse Ruse-Khan, ‘Investment Law and Intellectual Property Rights’, in Bungenberg et al (eds), *International Investment Law* (Munich/London: C.H. Beck/Hart/Nomos, 2015), pp. 1692-1713.

<sup>4</sup> See studies by Correa, Mercurio, Grosse Ruse-Khan, above n. 3; UNCTAD, ‘Intellectual Property Rights in International Investment Arrangements’, in *IIA Monitor 01 (2007)*, *International Investment Agreements*, UNCTAD/WEB/ITE/IIA/2007/1; Rachel Lavery, ‘Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements’ (2009) 6 TDM, 1, 4–7 and Annex 1; Lara Liberti, L. (2010), ‘Intellectual Property Rights in International Investment Agreements: An Overview’, *OECD Working Papers on International Investment*, 2010/01, OECD Publishing; Bertram Boie, ‘The Protection of Intellectual Property Rights through Bilateral Investment Treaties: Is there a TRIPS-plus Dimension?’, *NCCR Trade Regulation - Working Paper No 2010/19* (November 2010).

among such provisions are possible and each has its own non-trivial legal implications. After some general remarks on the references to IPRs in investment agreements (II), we focus on three main understandings (III), namely delegation (by an investment agreement to domestic law), autonomy (of the definition of IPRs in investment agreements), and articulation (of all the relevant regulatory layers to circumscribe the scope of the legally-protected object). In a final section, we draw some conclusions with a view to guide current and future practice (IV).

## II. Circumscribing the question

References to IPRs are pervasive in IIAs, whether in bilateral investment treaties (BITs) or in the chapters on investment protection of bilateral or multilateral free trade agreements (FTAs), particularly those signed by the United States.<sup>5</sup> Much attention has been devoted in the literature to such references from a trade and investment perspective.<sup>6</sup> It will therefore suffice to draw upon the main empirical findings of existing studies in order to introduce four analytical distinctions that will facilitate the subsequent legal analysis.

A first distinction can be made between, on the one hand, provisions in FTAs that seek to confirm or expand the minimum standards on IPRs protection arising from the TRIPS Agreement<sup>7</sup> and, on the other hand, provisions in IIAs that refer to IPRs as ‘investments’. The first category includes both ‘vertical’ obligations (the requirement to adopt domestic laws to give effect to certain standards or to adhere to certain treaties on IPRs and, thereafter, introduce the ensuing domestic laws) and ‘horizontal’ obligations dealing with ‘treatment’ and focusing on non-discrimination in IPR protection. By contrast, the protective framework of IIAs (whether bilateral investment treaties or investment chapters in FTAs) only contains ‘horizontal’ obligations requiring a certain treatment, such as non-discrimination, ‘fair and equitable treatment’ standard or the protection against illegal or uncompensated expropriation.

Within the provisions of IIAs, a second distinction can be introduced according to how IPRs are brought within the definition of the term investment. Aside from some variations in language, four main possibilities are relevant for our analysis, as they may have different legal implications. First, the investment agreement may make no express mention of IPRs, referring simply to ‘property’ or ‘assets’ of different types. Second, the treaty may contain only a general reference to IPRs or to ‘intangible property’, without going into further detail. Third, the reference to IPRs may be more specific including an enumeration of the intangible assets covered, whether or not the list is explicitly characterised as non-exhaustive, and whether or not it makes reference to intellectual assets that are not generally protected as IPRs (e.g. unregistered designs). Fourth, the definition of IPRs may or may not refer explicitly to domestic (or international) law.<sup>8</sup> References to IPRs

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<sup>5</sup> For overviews see studies by UNCTAD, Lavery and Liberty (OECD) above n. 4.

<sup>6</sup> See studies mentioned above nn. 3 and 4.

<sup>7</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, 15 April 1994, 1869 UNTS 299 (‘TRIPS Agreement’).

<sup>8</sup> Note that in this case the reference to domestic (or international) law is relevant for the definition of investment and not to determine whether an asset qualifying as an investment is protected or not under the treaty (which is a question of jurisdiction or admissibility). This question is further discussed in section D below.

may be relevant to define the term investment or to determine whether an asset may qualify as a ‘covert’ or ‘protected’ investment under the IIA.

The latter point introduces a third distinction between provisions that are relevant for the definition of ‘investment’ and those that circumscribe the scope of ‘protected’ investments. Assets clearly constituting investments may be excluded from protection, either generally or specifically (e.g. for some particular advantages offered by a treaty, such as access to the ICSID system), for a variety of reasons, including their territorial dimensions or their legality/illegality under the broader domestic legal framework. Limitations to protection are highly treaty- and fact-specific and their concrete operation is sometimes unsettled. Yet, this distinction remains important to explain why some IPRs, while qualifying as ‘investments’, may not benefit from some or all of the advantages arising from an IIA.

A fourth and final distinction may be useful to further circumscribe the object of this article. Whereas the preceding two paragraphs refer to provisions that define the term investment and clarify the requirements for investments to benefit from the protection of a given treaty, as noted in the first paragraph, the main contents of IIAs concern the substance of such protection (i.e. investment disciplines) and the procedures through which it can be claimed (typically, an investor-State arbitration clause). Such protection may entertain complex interactions with domestic and international IPRs law.<sup>9</sup> Much attention has been paid to common exceptions to non-discrimination standards in IPR protection, whether arising from the TRIPS or from FTAs granting TRIPS-plus advantages, and their relevance under unqualified non-discrimination disciplines in investment agreements.<sup>10</sup>

This article focuses primarily on the first type of provisions, i.e. the ‘gate-provisions’ (dealing with definitions of ‘investment’ and with the extent to which they qualify as ‘covert’ or ‘protected’ investments) that condition access to the protection offered by the second type of provisions (relating to ‘treatment’ obligations). Rather than simply mapping gate provisions, *our purpose is to systematically analyse their operation under different analytical prisms that are often implicit both in their wording and, more importantly, in the way they are interpreted by investment tribunals*. In what follows, after briefly introducing the three main approaches through which the interaction among different types of gate-provisions can be understood, we focus on each approach spelling out its legal implications for IPRs.

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<sup>9</sup> As noted earlier, the literature surveyed (see above n. 4) typically analyses the extent of IPR protection under different investment disciplines, such as non-discrimination standards, the fair and equitable treatment standard, or expropriation clauses, and whether such protection goes beyond TRIPS-standards or domestic law standards. Some other studies have a narrower scope focusing on specific forms of State action (e.g. compulsory licensing) as potential breaches of investment disciplines. See e.g. Carlos Correa, ‘Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses’ (2004) 26 *Michigan Journal of International Law* 331; Tsai-Yu Lin, ‘Compulsory Licenses for Access to Medicines, Expropriation and Investor State Arbitration under Bilateral Investment Agreements – Are there Issues beyond the TRIPS Agreement?’ (2009) 40 *International Review of Intellectual Property and Competition Law* 152; Christopher Gibson, ‘A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation’ (2010) 25 *American University International Law Review* 357.

<sup>10</sup> See e.g. Correa, above n. 3 (regarding national treatment) or, more generally, Boie, above n. 4.

### III. Intellectual property rights as protected investments

#### A. *Three approaches*

If IPRs and investments as legally-defined objects interact to a significant extent and such interaction may condition access to the protective framework offered by IIAs, then it becomes important to understand how to address this interaction from a legal standpoint. There is some discussion in the aforementioned literature, often prompted by allegations made in investment disputes, as to the proper manner in which the interaction of investment law and IPR law must be framed, but no attempt has been made so far to address this question specifically and systematically.

The views expounded in this article can be concisely stated, namely (i) *that there are three main possible characterisations or legal approaches to frame this interaction*, (ii) *that each approach has its own non-trivial legal implications for the question of whether and to what extent IPRs can benefit from the protection of IIAs*, and (iii) *that the approach followed is not entirely in the hands of treaty drafters as it largely results from different interpretations admitted by similar wording*. We also take position, in our concluding section, on what we see as *the approach that is most consistent with international law, preserves the regulatory power of the host State and protects the legitimate interests of investors*.

The first approach is to consider that defining ‘investment’ and circumscribing what investments benefit from protection amount to a *delegation* or a referral (some speak of a choice of laws rule<sup>11</sup>) to the domestic laws defining IPRs and their scope of protection. The second approach is to consider that terms such as ‘investment’, ‘IPRs’, know-how or goodwill have an autonomous meaning in international law, which is detached from domestic law. The third approach views the gate-provisions as a composite array of regulatory layers and norms that must be *articulated* to determine the availability of a protective framework or certain advantages arising from it in a given case. The articulation approach can be seen as a refinement of the previous two approaches to the extent that it takes into account a thicker – yet necessary and more realistic – layer of gate provisions. It therefore operates in addition to rather than instead of either one of the other approaches.

B. In what follows, we discuss the features and, more importantly, the implications of these three approaches by reference to relevant instruments and cases. *Delegation: how deferent are IIAs?*

#### 1. Overview

The rationale underpinning the delegation approach is simple. International law neither purports nor can be expected to address the detail of all types of transactions. In fact, in many cases, it deliberately relies upon domestic law to become operational.

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<sup>11</sup> See Grosse Ruse-Khan, above n. 3, at 7; Klopschinski, above n. 3, at 194-201.

Major examples in the practice of international law include the granting of nationality,<sup>12</sup> the determination of the baselines from which the territorial sea and exclusive economic zone are measured,<sup>13</sup> or the determination of the content of an environmental impact assessment for activities with potentially significant transboundary impact.<sup>14</sup>

But the type of delegation that can be derived from this rationale may vary. In order to spell out the two main forms that we encounter in practice, it is useful to bear in mind the second distinction introduced in section II above (i.e. according to whether the IIA makes no mention of IPRs, or only a general reference, or a specific reference, or a referral to domestic law).

## 2. The *referral* model

The most complete form of delegation, a full *referral* or *renvoi*, is rarely found at a definitional level. Under this model, domestic law does not play a supplementary role addressing matters not covered by international law; it plays a controlling role, whereby international law contains a referral that makes its content variable depending on the state of domestic law. One potential illustration is provided by Article 1(a)(iv) of the Benin-Ghana BIT, signed in 2001 and not yet in force, which defines the term ‘investment’ as ‘every kind of asset and in particular [ ... ] intellectual property rights, goodwill, technical processes and know-how and all similar rights *recognized by the national laws of both Contracting Parties*’.<sup>15</sup>

Under such a formulation, recognition by domestic law is a constitutive element of the existence of an ‘investment’. The referral does not operate to determine what investments are ‘protected’, as will be discussed later in connection with legality clauses, but to identify what rights or assets constitute an ‘investment’.<sup>16</sup> The practical difference between the two understandings is that, in the latter case, a change in domestic law may exclude the characterisation of an asset as an ‘investment’ whereas, in the former case, not any type of illegality (material/immaterial, initial/subsequent) may be sufficient to deprive an investment from the protection of the treaty at the jurisdictional/admissibility stage and, depending on the circumstances, the illegality question may be addressed at the merits stage.<sup>17</sup>

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<sup>12</sup> See e.g. *Nottebohm Case (second phase)*, Judgment (6 April 1955), ICJ Reports 1955, p. 4, at pp. 20-21.

<sup>13</sup> See United Nations Convention on the Law of the Sea, 10 December 1982, 1833 UNTS 397 (‘UNCLOS’), Article 5, and Robin Churchill, ‘Coastal waters’, in David Attard, Malgosia Fitzmaurice, Norman Martinez Gutierrez (eds.), *The IMLI Manual on International Maritime Law, vol 1: The Law of the Sea* (Oxford University Press, 2014), at 3, footnote 8.

<sup>14</sup> See *Pulp Mills on the River Uruguay (Argentina v. Uruguay)*, Judgment, ICJ Reports 2010, p. 14, para. 204-205.

<sup>15</sup> Illustration given in UNCTAD, above n. 4, at 3-4.

<sup>16</sup> This distinction is not always clear-cut in practice. A commentator refers to two cases where the tribunals excluded from protection certain assets because a condition required by domestic law (to which the relevant agreement made a *renvoi*) was not met. See Zachary Douglas, *The International Law of Investment Claims* (Cambridge University Press, 2009), referring to *Philippe Gruslin v. Malaysia*, ICSID Case No. ARB/99/3, Award (27 November 2000), and *Yaung Chi Oo Trading Pte. Ltd. v. Government of the Union of Myanmar*, ASEAN ID Case No. ARB/01/1, Award (31 March 2003). The unfulfilled condition, e.g. a governmental approval, may be considered to exclude the characterization of an asset as an ‘investment’ or, more accurately in our view, it may operate to exclude the ‘protection’ of the treaty to transactions/assets that can nevertheless be investments. In the latter case, the nature of the transaction/asset is not in question, only the extent to which it benefits from protection under the treaty.

<sup>17</sup> See the discussion of recognition as legality later in this article.

Another caveat concerns the respective roles of domestic and international law in a referral situation. In a referral situation, domestic law is controlling. An investment that does not qualify as such under domestic law will not qualify as an investment under the treaty. To continue with the illustration above, if domestic law does not recognise unregistered trademarks, then such trademarks (with the possible exception of ‘well know trademarks’) will not constitute an investment under Article 1(a)(iv) of the Benin-Ghana BIT, even if they are seen as IPRs abroad.

An additional question is whether such a referral would have a limiting effect in that it would prevent the investor from claiming that the unregistered trademark and the investment underpinning it constitute an investment under a different paragraph of the same provision. The practical answer to this question is that a tribunal would, in all likelihood, accept such an argument, unless it can be inferred that the will of the parties was to protect IPRs only to a limited extent.<sup>18</sup>

### 3. The *reliance* model

The preceding conclusion moves the analysis to the second, far more frequent, form of delegation, which is best described as *reliance*. As a general matter, international law does not regulate the same relationships as domestic law. Exceptionally, there may be overlaps (e.g. between a human rights treaty and constitutional human rights, or between the definition of a given crime in international and domestic criminal law) but, aside from such specific areas or questions, international law does not purport nor can be expected to provide a comprehensive regulation of the horizontal relations between private persons (e.g. contractual- or tort-based relations or business associations). Such matters remain the province of domestic law.

The definition of different forms of tangible and intangible property is an important example for our discussion. Indeed, the definition of what constitutes a property right is a matter for which international law relies on domestic law.<sup>19</sup> The specificity of the reliance model as compared to the referral model is that, under the former, international law delegates the characterisation of an asset or a transaction to domestic law but retains its final characterisation as an ‘investment’.<sup>20</sup> For analytical purposes, it is useful to recall the distinction

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<sup>18</sup> Definitions of investment are generally not drafted as closed or ‘exhaustive’ enumerations, but that depends, of course, upon each treaty. See Rudolf Dolzer, Christoph Schreuer, *Principles of International Investment Law* (Oxford University Press, 2012), at 63. On the qualifications that can be introduced in such definitions, with an impact on the IPRs, see section D below.

<sup>19</sup> See Higgins, R., ‘The Taking of Property by the State: Recent Developments in International Law’ (1982) 176 *RCADI* 263, at 270 (Higgins does not explicitly mention here the reference by international law to domestic law for purposes of defining property but, more generally, she considers that property cannot be defined otherwise than by reference to domestic law and general principles of law). More recently, Douglas (above n. 16, at 56) refers to *EnCana Corporation v. Republic of Ecuador*, LCIA Case No. UN3481, Award (3 February 2006), para 184. Dolzer and Schreuer (above n. 18), recognise that ‘[m]any of the transactions take place under the local law’ (at 288) and that ‘if the definition of an investment in treaties refers to rights governed by the domestic law of the host state [ ... ] the existence of an investment will depend upon an examination of the relevant national law’ (at 64).

<sup>20</sup> As noted by Dolzer and Schreuer (above n. 18) ‘the international tribunal will take into account the understanding of the law by the organs of the host state and may defer to this understanding. But the final ruling falls to the international tribunal’ (at 64). Douglas (above n. 16, at 72) reasons, by reference to the case-law of the ECtHR, that the definition of investment is to be treated autonomously. Sornarajah also seems to consider that IIAs define IPRs autonomously, M. Sornarajah, *The International Law on Foreign Investment* (Cambridge University Press, 2010), at 13.

between treaties that specifically refer to IPRs (or specific forms of IPRs such as patents) and treaties that only make general references to ‘investments’ or ‘property’ or ‘intangible property’.

Where a treaty *specifically refers to an IPR or a form thereof* as an investment, the delegation rationale would naturally lead to the conclusion that the existence or not of such IPR (e.g. a patent) depends upon the domestic law of the host State. Thus, if a patent requires registration under domestic law and such registration has not (yet) been made, then the investor will not be able to claim that it holds a ‘patent’ in the meaning of the treaty list. The asset held by the investor may qualify as some other form of investment (e.g. know-how) if allowed under the applicable investment provisions but it will not be a patent. Conversely, if it is registered, it will be a patent and therefore it will qualify as an investment irrespective of whether or not a patent is conceptually an investment (i.e. whether or not it involves a financial contribution, a certain duration, a risk element and so on<sup>21</sup>). The effect of this ‘safe harbour’ offered by the inclusion of the term ‘patent’ is that all the limitations entailed by patents under the domestic law on which international law relies will be automatically incorporated into the treaty regime. This point may be important in connection with the revocation of patents or other limitations of the scope of IPRs. An apposite hypothetical can be derived from a pending case. Eli Lilly, a major US pharmaceutical company, initiated an investment complaint under the North American Free Trade Agreement (NAFTA)<sup>22</sup> challenging a Canadian Federal Court decision to invalidate two patents obtained by Eli Lilly in Canada. The claimant refers *inter alia* to NAFTA chapter 17 (IPRs), the TRIPS Agreement, and the laws of the United States and Mexico (Canada’s NAFTA partners) to argue that the way the requirement of ‘utility’ of patents is understood under Canadian law is in breach of the NAFTA. Specifically, the claimant argues that the breach arises from the interpretation of this requirement by Canadian courts since 2005. If one understands Canadian domestic law as meaning the relevant provisions of domestic law as interpreted by the proper judge, i.e. Canadian courts,<sup>23</sup> then relying on the ‘safe harbor’ (i.e. the inclusion of patents in the treaty provisions defining the term ‘investment’) would prevent the claim from proceeding, as the very concept of patent would cover neither non-useful inventions nor the assets that are entirely dependent on the existence of a patent. This is, of course, a hypothetical illustration, as Article 1139 of NAFTA, defining the term investment, does not mention ‘patents’ specifically. But the reference gives a better idea of the legal implications for cases involving IIAs which specifically mention ‘patents’ or other IPRs. The absence of a reference in Article 1139 explains why the claimant in *Eli Lilly v. Canada* has

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<sup>21</sup> This may not always be the case. As suggested by chapter 9 of the Trans-Pacific Partnership (available at: <https://ustr.gov>), even when an asset is listed in the provision defining investment, it may still need to have the conceptual characteristics of an investment to qualify as an investment. For example, the terms ‘licence, authorisations, permits and similar rights’ are listed in Article 9.1. letter (g). However, footnote 4 states that ‘[whether a particular type of licence, authorization, permit or similar 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 Party’s law’. Thus, listing may or may not, according to the terms of the treaty, be automatically equated to qualifying as an investment.

<sup>22</sup> North American Free Trade Agreement, 17 December 1992, 32 ILM 296 (‘NAFTA’).

<sup>23</sup> In accordance with generally accepted principles of international law, the courts of the country of grant of a patent enjoy exclusive jurisdiction to address issues of invalidation. See International Law Association, *Intellectual Property and Private International Law*, First Report, Sofia Conference (2012), pp. 5-6.



attempted to characterize its investment broadly, referring to ‘rights’ and ‘intangible property’,<sup>24</sup> which leads us to the next question.

For treaties that *do not refer specifically to IPRs*, the legal situation is different. In such cases, the treaty will rely upon domestic law (i) to determine the defining features of the rights held or claimed by the investor (whether they constitute IPRs, or another form of property, or an authorisation, or a sales transaction, etc.) and, on this basis, (ii) to determine whether these features meet the requirements to qualify as an ‘investment’ under the treaty. Here, there is no ‘safe harbour’. The question of whether the asset is indeed an ‘investment’ remains to be debated by the parties. An IPR may be considered as such by domestic law and, yet, depending on its features, not constitute an ‘investment’ for the purpose of the treaty (e.g. lack elements of financial contribution, time, risk, etc.). In *Eli Lilly v. Canada*, the respondent has not challenged the characterisation of the assets at stake as an investment (Article 1139) for jurisdictional purposes.<sup>25</sup>

Thus, reliance on domestic law performs two different roles depending on whether the treaty makes a specific reference or not to IPRs. Such a difference can be easily illustrated by selecting an extreme example. If a treaty lists a mere sale of goods as an example of ‘investment’, it will suffice to characterise the transaction as a sale of goods under domestic law to consider that it is an investment. Conversely, if the treaty only makes general references to property or intangible property, the delegation to domestic law will be relevant to understand the key features of the transaction which, once understood as a mere sale, will in all likelihood be deemed not to be ‘property’ or an ‘investment’. An intermediate possibility, closer to the latter hypothesis, is illustrated by the TPP, which contains a list referring to licences, authorisations, permits, etc., but conditions their acceptance as ‘investments’ upon the very features of these objects (financial contribution, time, risk) as shaped by domestic law.

From a practical perspective, this difference may be important for IPRs because, depending on the circumstances of the transaction, an IPR may be interpreted as a mere protection to export goods into a major market (analogous to an authorisation to commercialise) rather than as an investment. Indeed, a producer of good *x* who is based in State A may seek a patent for good *x* in State B in order to protect its exports there. If the investment treaty expressly refers to patents as investments, then the producer may be able to bring an investment claim against State B. At the same time, while using a specific IPR reference in a treaty as a ‘safe harbour’ may be useful for the asset to qualify as an investment, the effect may be that all the limitations on the scope of IPRs contemplated in domestic law will be imported into the IIA. Conversely, if the treaty only makes general references to intangible property, the producer’s contention that its patent in State B qualifies as an investment in State B will have to overcome the counterargument that it operates as a mere regulatory permit and, therefore, it is not an investment.

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<sup>24</sup> *Eli Lilly v. Canada*, above n. 2, Claimant’s memorial, para 163.

<sup>25</sup> *Eli Lilly v. Canada*, above n. 2, Respondent’s Counter-memorial, para 209.

The latter point can be illustrated by reference to *Apotex Inc. v. United States of America*.<sup>26</sup> Although this case does not raise specifically issues relating to IPRs, as it concerns the issuance of marketing approvals for two generic drugs in the USA, a useful analogy can be made nevertheless. Apotex alleged a violation of investment protection standards under NAFTA Articles 1102 (national treatment), 1105 (fair and equitable treatment) and 1110 (expropriation without fair compensation). The tribunal declined jurisdiction concluding *inter alia* that the allegedly harmed ‘intangible property’ was not an investment under Article 1139 of NAFTA, as it merely consisted of applications to obtain approval by the US Food and Drug Administration (FDA) for the commercialisation of drugs produced abroad (in Canada).<sup>27</sup> This is also relevant for the assessment of whether patent applications can be considered as ‘investments’ when they are not specifically mentioned in the relevant provisions. This is particularly the case if one considers that such applications may not qualify as ‘investments’ even when the expenditures in securing them have been incurred in the host State.<sup>28</sup> As discussed next, a similar reasoning would apply to the characterization of ‘investment’ under Article 25(1) of the ICSID Convention.

#### 4. Delegation and Article 25(1) of the ICSID Convention

One significant implication of the delegation approach concerns the availability of the ICSID arbitration system, the gates of which are guarded by Article 25 of the ICSID Convention. There has been significant controversy as to the proper interpretation of the term ‘investment’ in Article 25(1).<sup>29</sup> Although, initially, a largely autonomous conception of this term prevailed limiting access to jurisdiction even when the investment in question qualified as such under the applicable BIT,<sup>30</sup> a number of decisions have signalled the possibility of a different understanding.<sup>31</sup> It would be inaccurate to state that the initial approach is no longer being followed or that a new trend has emerged. For better or for worse, one major feature of investment jurisprudence is a low level of consistency among different decisions, at least on some questions. But this is not the place to open such a vast debate.<sup>32</sup> Our focus in this article is on the implications of following the delegation approach for purposes of Article 25.

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<sup>26</sup> *Apotex v. United States*, above n. 2.

<sup>27</sup> *Ibid.*, para 188 (italics added).

<sup>28</sup> Award, para 193 (italics added).

<sup>29</sup> See Schreuer, C., L. Malintoppi, A. Reinisch and A. Sinclair, *The ICSID Convention. A Commentary* (2<sup>nd</sup> edn., Cambridge University Press, 2009), pp. 106-141.

<sup>30</sup> The most influential precedent in this regard is *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco*, ICSID Case No. ARB/00/4, Decision on Jurisdiction (31 July 2001), para 52, setting out the so-called ‘Salini test’.

<sup>31</sup> According to Dolzer and Schreuer, the most elaborate criticism of the ‘Salini test’, paving the way for an interpretation of the term investment in Article 25(1) of the ICSID Convention in a manner more deferent to the State parties to the applicable IIA, is the decision of the ad hoc committee in *Malaysian Historical Salvors v. Malaysia*, ICSID Case No. ARB/05/10, Decision on the application for annulment (16 April 2009) (‘Malaysian Salvors – Annulment’). Although the main bone of contention was the fourth criterion of the Salini test, i.e. the contribution to the economic development of the host State, the critique addressed more generally the autonomous character of the definition of investment in Article 25 (see para 62-63, 69, 71-72). Dolzer and Schreuer acknowledge, however, that the decision was not unanimous.

<sup>32</sup> See Frank Spoorenberg and J. E. Vinuales, ‘Conflicting Decisions in International Arbitration’ (2009) 8 *The Law and Practice of International Courts and Tribunals* 91; Pierre Mayer, ‘Conflicting Decisions in International Commercial Arbitration’ (2013) 4 *Journal of International Dispute Settlement* 407.

Generally speaking, consistency can be sought at different levels, ranging from the entire body of investment jurisprudence, to those cases concerning the same investment treaty, to the more specific level of a single case calling for the application of several instruments. A delegation approach, particularly under a referral model or a deferent reliance model, would be effective to ensure consistency from the level of domestic law, to that of the applicable BIT, to the interactions of the latter with Article 25 of the ICSID Convention. If the term ‘investment’ in this provision is interpreted by reference to what the contracting parties agreed in the IIA and such agreement refers or relies on domestic law to characterise the nature of an asset, the chain going from a locally registered patent to its recognition as an investment for Article 25 purposes would stand. On the contrary, the less reliant each regulatory layer is on the subsequent one, the more important the obstacles that must be overcome to align domestic law, the BIT and the ICSID Convention will be. To use the extreme example referred to above, an IIA may include a mere sales of goods – to be characterised according to domestic law – as an investment, but such transaction is unlikely to meet the requirements of an autonomous interpretation of Article 25.<sup>33</sup>

However, if consistency is sought at a broader level, whether that of a given IIA or of the ICSID Convention, more autonomy in the definition of ‘investment’ could lead to a higher degree of consistency across different cases. This result assumes, of course, that arbitral tribunals pay due regard to the autonomous concept of ‘investment’ rather than (mis-)using autonomy to neglect the intention of the parties to the IIA.

Thus, depending on what treatment of the term investment in Article 25(1) of the ICSID Convention eventually prevails, and particularly on whether a relatively autonomous definition is preserved, the delegation model may have significant implications for the admission of different forms of assets in ICSID arbitration. As far as IPRs are concerned, the key question is whether such rights would meet the requirements of an autonomous definition of investment, a question that will be discussed in the next section.

### C. *Autonomy: how independent are IIAs?*

#### 1. Overview

The rationale underpinning the autonomy approach is composite. In the relations between domestic and international law, autonomy is based on the rule granting international law priority over domestic law<sup>34</sup> and the ensuing corrective or controlling character of international law.<sup>35</sup>

In the relations between two international norms, a non-hierarchical variation of the first rationale stems from two other considerations, namely the degree of

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<sup>33</sup> Sales of goods are generally not seen as investments either under Article 25(1) of the ICSID Convention (see *Malaysian Salvors – Annulment*, above n. 31, para 69; and *Global Trading Resource Corp. and Globex International, Inc. v. Ukraine*, ICSID Case No. ARB/09/11, Award (1 December 2010), rejecting the claim under Article 41(5) of the ICSID Arbitration Rules as manifestly without legal merit) or under IIAs (see *Romak S.A.(Switzerland) v. The Republic of Uzbekistan*, UNCITRAL, PCA Case No. AA280, Award (26 November 2009), para 242).

<sup>34</sup> Vienna Convention on the Law of Treaties, 23 May 1969, 1155 UNTS 331, Article 27.

<sup>35</sup> See e.g. *Compañía del Desarrollo de Santa Elena S.A. v. Republic of Costa Rica*, ICSID Case No. ARB/96/1, Award (17 February 2000) (*‘CDSE v. Costa Rica’*), para 64-65.

self-sufficiency displayed by some treaty-regimes and, more prosaically, the need to interpret the terms of a norm or a treaty in accordance with its own wording and purpose. An example of this rationale is provided by the oft-asserted autonomy of Article 25(1) of the ICSID Convention with respect to the definition of investments in the relevant BITs.<sup>36</sup>

From a legal perspective, the main analytical task is to clarify the legal implications of considering provisions in IIAs (or Article 25(1) of the ICSID Convention) defining investment as autonomous rather than as a delegation (under either the referral or reliance model). As in the previous section, we will first discuss the more extreme form of autonomy, i.e. the potential creation of IPRs by IIAs, and then move to a more moderate – and frequent – one, autonomy understood as conceptual independence. Finally, we discuss the implications for the operation of Article 25(1) of the ICSID Convention.

## 2. Creation of IPRs?

At the outset, it must be noted that there is no authority for the proposition that IIAs create new IPRs that would not exist under domestic law. But the question has been raised by the references found in many IIAs to assets such as ‘goodwill’, ‘know-how’ or ‘technological processes’, which are not generally recognised by IPR law as IPRs. More generally, the question concerns the extent to which IIAs expand the protection offered to recognised IPRs by other treaties, particularly IPR treaties and FTAs.

Analytically, the first question to be addressed is what does it mean for an IIA to create an IPR? There are different degrees to which a right can be said to be created by an international instrument. The most complete form would be a directly enforceable right recognised at the international level irrespective of its recognition in domestic law. Although the references in the practice of international courts and tribunals are seldom clear cut, one potential illustration is given by how the ICtHR has interpreted the right to property provided in Article 21 of the American Convention.<sup>37</sup> In a series of cases starting with the *Awas Tingni* decision, the Court has developed a detailed conception of the requirements arising for States in connection with the right of indigenous and tribal peoples to their property.<sup>38</sup> A summary of such requirements and of their level of detail is provided in the *Sawhoyamaxa* case.<sup>39</sup> *In casu*, the domestic law of Paraguay recognised the title of indigenous peoples to their traditional lands, but there are several indications that the Court understood its conclusions as autonomous and, as a result, a State would be held to such requirements irrespective of the contents of its domestic law, including the obligation to

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<sup>36</sup> See above n. 30.

<sup>37</sup> American Convention on Human Rights, 22 November 1969, 1144 UNTS 123 (‘ACHR’).

<sup>38</sup> *Mayagna (Sumo) Awas Tingni Community v. Nicaragua*, ICtHR Series C No. 79, Judgment (31 August 2001). For an overview see Inter-American Commission on Human Rights, *Indigenous and Tribal Peoples’ Rights over their Ancestral Lands and Natural Resources: Norms and Jurisprudence of the Inter-American Human Rights System*, doc OEA/Ser.L/V/II, doc. 56/09, 30 December 2009. See also *Oneryildiz v. Turkey*, ECtHR Application no. 48939/99, Judgment (30 November 2004), para. 124-129.

<sup>39</sup> *Sawhoyamaxa v. Paraguay*, above n. **Error! Bookmark not defined.**, para. 128.

‘formally and effectively convey’ the relevant land to the Sawhoyamaxa community.<sup>40</sup>

The preceding case also provides an illustration of a second understanding of the ‘creation’ of rights, namely when the relevant international norm creates an obligation for the State to specifically enact a framework recognising a new right or entitlement.<sup>41</sup> This is what we called, in section II, a ‘vertical’ obligation. An illustration of this scenario is provided by obligations – common in the FTA practice of the United States and the European Union – to join the UPOV Convention, which in turn requires States parties to enact a *sui generis* form of intellectual property protection tailored to the specificities of new plant varieties.<sup>42</sup>

A third – far broader – understanding of the term ‘creation’ would merely require a State to provide some level of protection to certain assets. Using the term ‘creation’ to refer to this hypothesis is an obscuring oversimplification. Providing for an obligation to protect certain objects is not the same as creating a specific entitlement that benefits from a specific type of protection. The system of the Convention on Biological Diversity recognizes the parties’ sovereign rights over their genetic resources and protects them against ‘bio-piracy’ (by requiring prior informed consent and mutually agreed terms for access), but it does not create new forms of property.<sup>43</sup> Similarly, foreign goods and even some services may benefit from a given level of protection in accessing the territory of a State party to a trade agreement but the recognition of such entitlements cannot be equated to the ‘creation’ of new forms of property. In both cases, the protection afforded is best described as a ‘horizontal’ inter-State obligation.

The next question is: which of the preceding meanings of ‘creation’ best describes the situation of IIAs with respect to IPRs? As mentioned above, there is no authority for the proposition that IIAs ‘create’ entitlements if such creation is understood in either the first or the second form. This is clearly acknowledged by legal commentators.<sup>44</sup> At the same time, it is unquestionable that IIAs offer some protection to assets/transactions that qualify as protected investments. Analytically then, it is only by a rather loose use of language that IIAs could be said to ‘create’ IPRs. A more appropriate terminology would state that IIAs may ‘protect’ IPRs, which leads us to a different understanding of autonomy, namely an autonomous level of protection (accorded by investment disciplines) granted to an autonomously defined concept.

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<sup>40</sup> The operative part of the ruling required Paraguay to ‘adopt all legislative, administrative and other measures necessary to formally and physically convey to the members of the Sawhoyamaxa community their traditional lands, within three years’, *ibid.*, operative part, para 6.

<sup>41</sup> See ACHR, above n. 37, Article 2, and *ibid.*, operative part, para 12.

<sup>42</sup> See International Convention for the Protection of New Varieties of Plants of December 2, 1961, as revised at Geneva on 10 November 1972, 23 October 1978 and 19 March 1991 (‘UPOV Convention’), Article 30, available at: [www.ecolex.org](http://www.ecolex.org) (TRE-001119). A list of relevant laws appears on the UPOV website: <http://www.upov.int/upovlex/en/> (visited on 23 June 2015).

<sup>43</sup> Convention on Biological Diversity, 5 June 1992, 1760 UNTS 79, Articles 15 and 8(j). See, more specifically, Nagoya Protocol on access to genetic resources and the fair and equitable sharing of the benefits arising from their utilization to the Convention on Biological Diversity, 29 October 2010, Articles 6 and 7, available at: <http://www.cbd.int/abs/doc/protocol/nagoya-protocol-en.pdf> (visited on 23 June 2015). Of note is the wording in Article 6(2) according to which: ‘each Party shall take measures, as appropriate, with the aim of ensuring that the prior informed consent or approval and involvement of indigenous and local communities is obtained for access to genetic resources *where they have the established right to grant access to such resources*’ (italics added).

<sup>44</sup> See e.g. Grosse Ruse-Khan, above n. 3, at para. 1 (referring, however, to the exception of EU trademark and design rights).

### 3. Conceptual independence

The autonomy of a concept can be legally understood as something more than reliance (delegation to domestic law while international law retains the final characterisation) without going as far as asserting either the direct creation of new forms of property or the obligation to effect such creation. In this model, autonomy means conceptual independence or, more specifically, the assertion of a general definition of certain IPRs, which would be the same for all cases relating to the same treaty or even all treaties referring to them, irrespective of how the domestic law of the host State defines a given right.

The main difference between the reliance and conceptual independence models lies in the extent to which domestic limitations to IPRs are taken into account. By way of illustration, in the aforementioned case opposing the American pharmaceutical company Eli Lilly to Canada, one point of contention is the interpretation given by Canadian courts to the ‘utility’ requirement in patent registration. Under a reliance model, the utility of an invention is to be assessed under the domestic law of the place of registration. An invention that does not meet the utility requirement under such a law will not qualify as a patent. It may still be argued that the amounts invested in securing exclusivity rights for a given invention qualify as ‘intangible property’ under Article 1139 and, hence, are an ‘investment’ for NAFTA purposes, as both parties to the dispute seem to agree, but it will not be a patent (and cannot expect, as it is not entitled to, protection as a patent). By contrast, under a conceptual independence model the requirement of ‘utility’ will be given a general characterisation, which may not correspond to the understanding given in the domestic laws of the host State or their interpretation by domestic courts. Such a model seems indeed to underpin the claimant’s references to the understanding of ‘utility’ in international IPR law as well as in the domestic laws of the United States and Mexico, Canada’s NAFTA partners.<sup>45</sup>

The practical implications of this difference should not be underestimated. An invention that does not qualify technically as an IPR must be shown to be an ‘investment’ under the applicable treaty, which as discussed previously is not necessarily obvious given the nature of IPRs. In addition, whereas an unrecognised IPRs may qualify as an investment, it does not follow that the protection enjoyed by such ‘investment’ will be the same as that enjoyed by IPRs, i.e. as monopolies. Specifically, whereas the holder of an asset recognised as an IPR may claim that the host State breaches its investment obligations if it does not grant or protect the abnormal legal monopoly associated with IPRs ownership, mere investments – including unrecognised IPRs – cannot easily claim to be protected as monopolies under investment disciplines. Thus, gaining jurisdiction comes at a prize at the merits phase. If an asset is not defined as, say, a ‘patent’ for jurisdictional purposes then there is no clear basis to claim that it must be protected as ‘patents’ are, i.e. through a grant of abnormal exclusivity rights to the

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<sup>45</sup> *Eli Lilly v. Canada*, above n. 2, Claimant’s memorial, para 145-160. Specifically, Eli Lilly has argued that the interpretation of the utility requirement under the ‘promise-doctrine’ applied by the Canadian court was established after its ‘investment’ was made and that that its expectations were allegedly frustrated by the introduction of this requirement. The ‘promise-doctrine’ applies when the applicant promises in the specification that the claimed invention would have a certain utility; it does not have to be demonstrated but only soundly predicted at the time of the patent application.

detriment of competitors. Regulation (or de-regulation) that places the product under normal market conditions would, in fact, be only natural and no breach (e.g. of the fair and equitable treatment standard) could be reasonably claimed. Conversely, when there is a valid patent, the State would have the obligation to distort competition by granting a monopoly to the patent-holder as well as the means to prevent patent infringement. Thus, to claim a breach of an investment discipline because exclusivity rights have been denied, the asset must be construed not just as a mere investment but as a patent (or another IPR), if not under domestic law at least under a general and autonomous definition of a patent. This is why a conceptual independence model provides investors both better insulation and potentially a more specific type of protection than a reliance model.

The general understandings on which a conceptual independence model is based could be derived from different sources, including the domestic laws of different countries – not only the host State – but also relevant treaties and agreements, as suggested in the argumentation of the claimant in *Eli Lilly v. Canada*. However, the problem when it comes to IPRs lies in the fact there is no general understanding of the concepts of patent, trademark, or copyright law arising from international law. International treaties on IPRs only contain some elements that contracting parties need to incorporate into their domestic laws. Moreover, there are many differences in how patentability standards (which determine whether a patent will be granted or not) are defined and applied.<sup>46</sup> Thus, IPRs lack a general definition or understanding capable of giving independent content to the terms of IIAs. This view is in line with the territorial nature of IPR protection systems. Furthermore, and consistently with the rationale of the autonomy approach, there would have to be evidence that the intent of the IIA contracting parties was to rely on a general understanding of the term ‘IPR’ or ‘patent’ rather than on the one arising specifically from the host State’s laws. Alternatively, the reference to such general understandings (assuming *ratio arguendi* they indeed existed) would have to be established by other interpretation principles (e.g. teleological or contextual interpretation). As suggested by the foregoing considerations, the conceptual autonomy model rests, as far as IPRs are concerned, on thin legal grounds.

In practice, to avail itself of the insulation provided by the conceptual independence model, the claimant would need to establish (i) that conceptual independence is the appropriate frame to interpret the applicable IIA (here, it is important not to conflate such model with the reliance model, which has a much more solid grounding in international law), and (ii) the existence of a general understanding of the relevant IPR. In addition, in the context of an ICSID arbitration, it would also have to establish that such understanding falls within the autonomous definition of investment under Article 25(1) of the ICSID Convention.

#### 4. Autonomy and Article 25(1) of the ICSID Convention

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<sup>46</sup> See, e.g., Sarah R. Wasserman Rajec, ‘Evaluating Flexibility in International Patent Law’ (2013) 65 *Hastings Law Journal* 153, at 178; Carlos Correa, *Guidelines for the examination of pharmaceutical patents: developing a public health perspective*, Working Paper, WHO, ICTSD and UNCTAD, available at <http://apps.who.int/medicinedocs/en/d/Js21419en/> (visited on 3 July 2015).

The autonomy approach has significant practical and policy implications for the operation of Article 25(1) of the ICSID Convention and, more generally, for the debate on consistency of investment jurisprudence.

It is easy to understand why adopting the autonomy approach for the interpretation of the term investment in Article 25(1) may lead to inconsistencies between what the IIA on which consent is based views as an investment and what qualifies as such under Article 25(1). An important line of investment arbitration awards has affirmed the conceptual independence of the term ‘investment’ in Article 25(1), often expressed through the so-called ‘Salini test’,<sup>47</sup> with regard to definitions included in IIAs. In some cases, this position has led certain tribunals to decline jurisdiction over an investment dispute.<sup>48</sup> As noted earlier, other tribunals have, instead, departed from such a position and followed a delegation approach under which Article 25(1) would refer or rely on the characterisation of investment given by the IIA.<sup>49</sup> Depending on the approach followed, the legal implications for the protection of IPRs under IIAs will be different.

At the level of a specific case, an autonomous approach may raise an obstacle to the protection of IPRs to the extent that these would need to be characterised as investments in accordance with the requirements of the autonomous definition of investment in Article 25(1). These requirements for the existence of an investment vary somewhat from one case to another and some of them (e.g. the contribution of the investment to the development of the host State) are not uniformly accepted.<sup>50</sup> But the main point remains, namely that the operation of these requirements may limit the availability of ICSID arbitration for the protection of IPRs, whether these are expressly or implicitly recognised as investments under the relevant IIA.

Friction between the ICSID Convention and some IIAs may give the impression that the autonomy approach favours inconsistency. However, this conclusion depends on the level at which the search of consistency is conducted. At the broader level of the entire body of ICSID jurisprudence, an autonomous interpretation of the term investment in Article 25(1) of the ICSID Convention may provide some degree of consistency in respect of the admissibility of claims

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<sup>47</sup> See above n. 30. For a recent illustration see *OI European Group B.V. v. Bolivarian Republic of Venezuela*, ICSID Case No. ARB/11/25, Award (10 March 2015), para 216, 229-231.

<sup>48</sup> One notable case is *Malaysian Historical Salvors v. Malaysia*, ICSID Case No. ARB/05/10, Award (17 May 2007), which declined jurisdiction based on an objective understanding of the term investment in Article 25(1)(para 54-55), and was subsequently annulled, although debatably so and with a dissenting opinion of one of the ad hoc committee members. Another notable case, characterised by two commentators as the ‘high water mark’ in the application of the Salini approach (Dolzer and Schreuer, above n. 19, at 72), is *Phoenix Action, Ltd. v. The Czech Republic*, ICSID Case No. ARB/06/5, Award (15 April 2009). In paragraph 114 of its Award (which declined jurisdiction) the tribunal identified six criteria that need to be present for a transaction/asset to qualify as an investment under Article 25(1) of the ICSID Convention. Although, debatably, the tribunal brought into this definition two criteria that would more appropriately belong to an assessment of legality (i.e. that the investment is made in accordance with the laws of the host State and in good faith), the reasoning is rigorous and complete (discussing not only the ICSID Convention and the applicable BIT but also general international law).

<sup>49</sup> See e.g. *Malaysian Salvors – Annulment*, above n. 31; *Alpha Projektholding GmbH v. Ukraine*, ICSID Case No. ARB/07/16, Award (8 November 2010), para 314; *Ambiente Ufficio S.P.A. and Others (formerly Giordano Alpi and Others) v. Argentine Republic*, ICSID Case No. ARB/08/9, Decision on Jurisdiction and Admissibility (8 February 2013), para 462.

<sup>50</sup> See e.g. *Saba Fakes v. Republic of Turkey*, ICSID Case No. ARB/07/20, Award (14 July 2010), para 108-111 (upholding the view that Article 25(1) entails an objective definition of investment but excluding the ‘contribution to the host State development’ as part of it).



based on IIAs in relation to IPRs and, more generally, to a variety of investment forms recognised expressly or implicitly in IIAs. But absolute consistency is neither an end in itself nor necessarily a superior option. Indeed, consistency may lead to undesirable outcomes if tribunals disregard domestic laws concerning when and under which conditions intangible property is protected as an IPR. In addition, ICSID jurisprudence is only one part of the broader body of investment arbitration jurisprudence and these other types of proceedings, which are often made available by arbitration clauses (particularly ad hoc arbitration under UNCITRAL rules), are not subject to the filter of Article 25(1) of the ICSID Convention.

As discussed next, in practice, the delegation or the autonomy approaches are seldom adopted in a ‘pure’ or clear-cut fashion. More frequently, a more complex articulation of different regulatory layers filters the extent to which IPRs, as well as other assets and transactions, can benefit from the protection provided by IIAs.

#### D. *Articulation: protected IPRs as a composite legally-defined object*

##### 1. Overview

The set of provisions that govern whether – and to what extent – IPRs can benefit from the protection offered by IIAs is of a composite nature, combining not only definitional provisions in IIAs but also domestic law and other treaty norms that condition the availability of the protective framework. Assets qualifying as investments under the relevant IIA may not, whether as a result of their very nature or due to the factual circumstances of the case, qualify as ‘protected’ investments. Recalling the fourth distinction made in section II above, these provisions do not operate as treatment standards (i.e. assessing whether a protected investment has been treated as required by the IIA); the intervener earlier by circumscribing the province of ‘protected’ or ‘covert’ investments, as distinguished from non-protected or non-covert investments.<sup>51</sup> In other words, the gates of IIA have not yet been crossed.

These provisions are important for the analysis of IPRs because these rights present specificities that may be captured by the additional layer of filtering organised by such provisions. By way of illustration, if the investment on research and development (R&D) of a pharmaceutical product or a seed or in the branding/marketing campaign of a product has been made abroad (typically in the home State), IPRs recognised as such by an IIA should not be considered as investments ‘in the territory’ of the host State. Similarly, even if IPRs were to be viewed as conceptually independent from domestic law (under the autonomy approach) or as investments (under the reliance model of delegation) they may still not be investments ‘in accordance with the domestic laws’ of the host State for a variety of reasons not related to their definitional features (e.g. ranging from corruption and bad faith to the absence of a health or environmental authorisation required for the introduction or commercialisation of a product). In some cases,

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<sup>51</sup> For an overview see J. Salacuse, *The Law of Investment Treaties* (Oxford University Press, 2010), pp. 166-176 (although this author refers to limitations on the ‘definition’ of investment).

even broader norms protecting transnational public policy may come into play to exclude the protection of a controversial technology.<sup>52</sup>

The practical importance of these provisions is underscored by their use in the arguments made by the parties in recent or pending IPR-related investment claims. From an analytical standpoint, these provisions are not always easily distinguishable from the definition of investment. Indeed, whether an investment is ‘in the territory’ of the host State may be implicit in the fact that only ‘enterprises’ with a sufficient presence in such territory qualify as ‘investments’ and IPRs are only assets ‘possessed’ by such enterprise-investments. In some other cases, the very nature of an IPR (e.g. patents or industrial models, but not well known trademarks) may require to be made ‘in accordance with domestic law’ to be at all protected or, more precisely, to even exist as legal entities in the host State. Still, in other cases, an investment may be excluded from protection by virtue of a provision carving it out from an investment discipline.

The picture that arises from this thicker layer of ‘gate provisions’ is therefore more blurred. It is halfway between the definition of investment and the requirements for an investment to be protected. In order to avoid, as much as possible, giving a blurred picture of a blurred reality, in what follows, we introduce a distinction between, on the one hand, ‘gate provisions’ operating at the level of the definition of investment, i.e. ‘enterprise-based’ definitions, and, on the other hand, those provisions excluding from ‘asset-based’ definitions of investment some assets, typically because of their location or their reception by the domestic law of host States.

## 2. Enterprise-based definitions of investment and IPRs

An enterprise-based definition of investment requires the establishment or acquisition of an enterprise in the host country to give rise to investors’ rights. This corresponds to the conventional concept of ‘foreign direct investment’ (FDI). The assets owned by such enterprise, as defined by the IIA, are part of – in fact they are owned by – the protected investment.

The enterprise-based approach would not allow the right-holder of IPRs to claim investors’ rights in a country where it has not established or acquired an enterprise, thereby limiting the possibility of using IIAs as a basis to challenge national decisions on the validity or enforceability of IPRs. This approach is suggested as one option in the Model BIT of the Southern African Development Community (‘SADC Model BIT’),<sup>53</sup> which notes that ‘Investment is perhaps the most controversial and critical issue to define. The definition will determine which foreign capital flows will be covered by the Agreement.’<sup>54</sup> This option in the SADC Model BIT spells out the concept of ‘enterprise’ and lists, among the

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<sup>52</sup> On this concept and its operation see Pierre Lalive, ‘Ordre public transnational (ou réellement international) et arbitrage international’ (1986) 3 *Revue de l’arbitrage* 329. An English translation of this study appeared as P. Lalive, ‘Transnational (or Truly International) Public Policy and International Arbitration’, in *ICCA Congress Series* 1987 no. 3; *World Duty Free Company Limited v. Republic of Kenya*, ICSID Case No. ARB/00/7, Award, 4 October 2006, para 138-139.

<sup>53</sup> SADC Model Bilateral Investment Treaty Template with Commentary, 2012, SADC Model BIT, available at: <http://www.iisd.org/itn/wp-content/uploads/2012/10/sadc-model-bit-template-final.pdf> (visited on 23 June 2015).

<sup>54</sup> *Ibid.*, at 12.

assets that an enterprise ‘may possess’, copyrights, know-how, goodwill and industrial property rights such as patents, trademarks, industrial designs and trade names, ‘to the extent they are recognized under the law of the Host State’.<sup>55</sup> The last phrase may be relevant in different situations that will be further discussed in the following section.

A variant of the enterprise-based approach, which may generate a scope of protection narrower than the one just described, has been incorporated into the Indian Model BIT (2015).<sup>56</sup> The adoption of an enterprise-based definition of investment marks a major difference with respect to the assets-based definition contained in the Indian Model BIT of 1993. This change reflects a growing criticism about the way in which BITs have worked in India, which has signed 83 of such agreements.<sup>57</sup> Seventeen foreign investors brought multi-billion claims under existing BITs in response to various regulatory measures adopted by the Indian government, such as cancellation of telecom licences and imposition of retrospective taxes.<sup>58</sup> Yet, it has been reported that most foreign investment so far originated from the US and Canada, with which no BITs have been signed.<sup>59</sup> In accordance with the new Indian Model BIT, ‘investment’ means ‘an Enterprise in the Host State, constituted, organised and operated in compliance with the Law of the Host State and owned or controlled in good faith by an Investor’ (Article 1.6). An ‘enterprise’, in turn, must have ‘its management and real and substantial business operations in the territory of the Host State’. This requirement is further clarified ‘[f]or greater certainty’ by stipulating that ‘real and substantial business operations’ require an enterprise to have, without exception, all the following elements: ‘ma[ke] a substantial and long term commitment of capital’ and ‘engag[e] a substantial number of employees in the territory of the host State’, ‘assum[e] entrepreneurial risk’ and ‘mak[e] a substantial contribution to the development of the Host State through its operations along with transfer of technological know-how, where applicable’ (Article 1.2.1). These conditions reflect to some extent, the aforementioned ‘Salini test’ developed under ICSID jurisprudence.

The narrowing down of the scope of protected investments under the new Indian Model BIT has clear implications regarding IPRs. The mere acquisition of such rights would not be allowed to ‘cross the gates’ guarded by such provisions. Any acts affecting the validity or enforceability of patents, trademarks, etc. would not provide sufficient ground for an investment claim, unless the right-holder has established an enterprise that meets the requirements mentioned above. In particular, compliance with the condition requiring a contribution to development, along with transfer of technological know-how, would be difficult to prove if the acquisition of IPRs is not followed by the local exploitation of the IPR in the Indian territory. Even if an enterprise were established, the nature of its activities

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<sup>55</sup> *Ibid.*, at 9.

<sup>56</sup> Model text for the Indian Bilateral Investment Treaty, 2015, available at : <https://mygov.in> (visited on 23 June 2015).

<sup>57</sup> See <http://investmentpolicyhub.unctad.org/IIA/CountryBits/96> (visited on 23 June 2015).

<sup>58</sup> See Prabhash Ranjan, ‘India and Bilateral Investment Treaties—A Changing Landscape’ (2014) 29 *ICSID Review* 419.

<sup>59</sup> See Kavaljit Singh, ‘India and bilateral investment treaties – are they worth it?’, available at: <http://blogs.ft.com/beyond-brics/2015/01/21/guest-post-india-and-bilateral-investment-treaties-are-they-worth-it/> (visite don 23 June 2015).

would determine, in the last instance, whether an IPR may constitute a protected investment. Thus, a foreign subsidiary undertaking mere distribution activities would not satisfy that requirement; even a manufacturing facility may not do so, if it fails to comply with the development test ‘along with transfer of technological know-how’.

In summary, the enterprise-based approach offers a model that may minimize the use of IIAs to challenge measures of the host country that may affect the integrity or use of IPRs, unless the right-holder has established an enterprise and the investment complies with other requirements that may be established, in line with the Salini test, or other elements provided for in the IIA. The Indian Model 2015 represents a reaction to the increased reference to IIAs as a means to shield foreign investors from State regulatory action.<sup>60</sup>

### 3. Asset-based definitions of investment and their qualification

#### 3.1. Examples of a qualified asset-based approach

Many BITs have included a general asset-based definition to determine what a protected investment is, accompanied by a list of covered assets. However, the inclusion of an asset in the list does not automatically qualify it as a protected investment, where the IIA provides for additional conditions that need to be met in order for treaty protection to be available. This approach may lead to a scope of protection broader than the enterprise-based approach, as the presence of an enterprise in the host State is not an explicit condition for an asset to be protected, but still narrower than the scope created by other options where such conditions are not spelled out.<sup>61</sup>

One early reference to the qualified asset-based approach was suggested during the negotiation of the Multilateral Agreement on Investment (MAI).<sup>62</sup> A proposal was made then to include an interpretive note indicating that in order to qualify as an investment, certain characteristics had to be present, such as the commitment of capital or other resources, the expectation of gain or profit or the assumption of risk.<sup>63</sup> Such qualifications would have the effect of bringing the notion of ‘asset’ closer to that of ‘enterprise’ without of course equating both (notably, the

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<sup>60</sup> The increase in investment claims has led certain countries not to renew or to exit BITs. See e.g., Martin Khor, ‘Global Trends: Investment treaties come under fire’ (2012) *Third World Network*, available at: <http://www.twn.my/title2/FTAs/info.service/2012/fta.info.239.htm> (visited on 23 June 2015).

<sup>61</sup> The BIT between Switzerland and Uruguay invoked by Philip Morris to challenge the tobacco ‘plain-packaging legislation’ of Uruguay - which restrains the use of the claimant’s trademarks - is based on a non-exhaustive list of ‘assets’, including ‘trade or service marks’ (article 1(2)(d)). No qualification is made in the treaty regarding what characteristics such asset should present to be protectable. In its Decision on jurisdiction on the pending arbitration between Philip Morris and Uruguay, the tribunal dismissed Uruguay’s defense that there was lack of contribution, or rather, negative contribution to the economic development of the country. In the view of the tribunal, ‘the four constitutive elements of the Salini list do not constitute jurisdictional requirements to the effect that the absence of one or the other of these elements would imply a lack of jurisdiction’ (*Philip Morris Brands Sàrl, Abal Hermanos S.A. v. Oriental Republic of Uruguay*, ICSID Case No. ARB/10/7, Decision on Jurisdiction, 2 July 2013, para 206). If the listed assets that constitute an investment are not qualified by certain characteristics, purely asset-based definitions may open the possibility of claims grounded on the nullification or impairment of IPRs, even in the absence of any effective presence or assumption of risk in the country where investment protection is sought. This kind of broad provisions would have to be avoided by countries wishing to prevent investment claims in cases where IPRs are merely used to control an export market without any contribution of capital, local value added or job creation.

<sup>62</sup> See the OECD website for further information on this initiative: [www.oecd.org](http://www.oecd.org) (visited on 23 June 2015).

<sup>63</sup> See Manfred Schekulin, ‘Scope of the MAI: Definition of Investor and Investment’, in *Multilateral Agreement on Investment State of Play as of February* (Paris: OECD, Paris, 1997), at 12.

requirement of management and/or real substantial operations in the host State is not present).

Another possible illustration is provided by the definition of investment in the NAFTA. In accordance with Article 1139 ‘investment’ means, *inter alia*, ‘real estate or other property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes (Article 1139 (g)’. Although IPRs are not specifically mentioned, they could be encompassed by the reference to ‘intangible’ property. *Prima facie*, the requirements set out by this provision would be easily met, as IPRs are generally acquired with ‘the expectation or used for the purpose of economic benefit’. Indeed, the monopolistic rights conferred by an IPR, such as a patent, would normally allow the right-holder to charge prices above the marginal cost and to obtain an extraordinary profit.<sup>64</sup> However, Article 1110(7) of the NAFTA introduces a qualification according to which the expropriation clause:

‘does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights, or to the revocation, limitation or creation of intellectual property rights, to the extent that such issuance, revocation, limitation or creation is consistent with Chapter Seventeen (Intellectual Property)’.

An investor may bring a challenge on the basis of another provision of Chapter 11 (e.g. Article 1105) but, as discussed earlier in this article, it would need to prove that the right invoked constitutes an ‘investment’ in the meaning of Article 1139.

A third, more recent, illustration is provided by the definition of investment in the US Model BIT 2012.<sup>65</sup> This instrument defines ‘Investment’ as:

‘every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include: [ ... ] (f) intellectual property rights’ (Article 1).

The Model follows the NAFTA approach with respect to the carve-out introduced into the expropriation clause. Like article 1110(7) of NAFTA, Article 6.5 of the Model states that the provision on ‘Expropriation and Compensation’:

‘does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement’.

This specific reference to IPRs clearly goes beyond NAFTA in two ways, namely the reference to the TRIPS Agreement and the specific mention of IPRs as investments which, as already noted, are not expressly mentioned in Article 1139 of the NAFTA. While the various components of IPRs are not spelled out in the commented Model BIT, they may be deemed to cover a broad range of items. For instance, if the coverage of the TRIPS Agreement were to be taken as a reference, it would include copyright and related rights, designs, trademarks, geographical indications, patents, integrated circuits’ designs, undisclosed information and test

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<sup>64</sup> See e.g. F.M. Scherer, *Patents: Economics, Policy and Measurement* (Cheltenham: Edward Elgar, 2005).

<sup>65</sup> The text is available at : <https://ustr.gov/sites/default/files/BIT%20text%20for%20ACIEP%20Meeting.pdf> (visited on 23 June 2015).

data relating to pharmaceuticals and agrochemicals.<sup>66</sup> Yet, the mere acquisition of any of these rights would not to meet *per se* the conditions relating to ‘the commitment of capital or other resources’ or ‘the assumption of risk’. Firstly, the costs incurred in the registration of an IPR, such as a trademark or patent are normally a small or insignificant proportion of the income that the right-holder may obtain by shielding a particular market from third parties’ competition. In the case of some IPRs, such as copyrights and know-how, as well as designs and trademarks in some countries, no registration is needed to obtain protection. In addition, IPRs allow the right-holder to exploit a protected market through exports; IPRs do not require the establishment of an enterprise or local manufacturing to be valid or enforceable. What is known as the ‘working obligation’ under patent law does not oblige a patent-holder to industrially exploit a patent in the country of grant; it only exposes it to the risk of issuance of a compulsory license in favour of a third party in case of non-working.<sup>67</sup> Secondly, the acquisition of IPRs does not imply the assumption of any risk. Even when registration is required, the applicant does not expose its capital to any loss. It simply asserts rights against third parties who would be thereafter excluded from the use of the protected subject matter. It may be concluded, hence, that a patent or trademark or other IPR does not constitute a protected investment in the absence of other qualifying factors.

At this level, two more specific difficulties arise, whether in the context of the NAFTA, the US Model BIT 2012 or elsewhere, relating to the ‘location’ of the investment and its ‘reception’ in domestic law.

### 3.2. ‘Location’ of the investment

As suggested by the foregoing discussion, an important question is whether the mere acquisition of IPRs in a host State gives rise to a protected investment, independently of the way such rights are put to use in that territory. If, for instance, such rights were used to merely protect imports, that is, if the right-holder has not developed the IPR-protected technology in the host State or it has not even a manufacturing facility in it, could an investment claim be brought? While there are no precedents directly addressing this issue, the rulings in some analogous investment cases suggest that the acquisition of an IPR as such would not necessarily be a protected investment under the terms of treaties such as the NAFTA or other similarly drafted IIAs. More may be needed. Specifically, a stronger link between the territory of the host State and the R&D investment leading to the development of the IPR or, at least, the manufacturing activities based on the IPR would have to be present.

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<sup>66</sup> See TRIPS Agreement, above n. 7, Article 1.2. Trade names, although not explicitly referred to in the TRIPS Agreement have also been considered as subject to its disciplines in the WTO ‘Havana Club’ case (*DS176: United States — Section 211 Omnibus Appropriations Act of 1998*). The TRIPS Agreement does not specifically mention plant variety protection (although Article 27.3(b) requires some form of protection for such varieties) and utility models.

<sup>67</sup> Only a limited number of patent laws currently provide for compulsory licenses in such circumstances. In the XIXth century, however, a patent could be revoked in some countries (e.g. France) if it was not industrially worked in the country. See e.g., M. Halewood, ‘Regulating Patent Holders: Local Working Requirements and Compulsory Licences at International Law’ (1997) 35 *Osgoode Hall Law Journal* 243, at 252.

Such matters of location were addressed in at least three NAFTA cases. The first illustration is provided by *Bayview v. Mexico*,<sup>68</sup> where the US based claimants argued that the diversion by Mexico of the waters of the Rio Grande River amounted to a breach of NAFTA Chapter 11. This argument supposed that water rights held by the US claimants in the US territory could constitute a protected investment under NAFTA. However, in a submission made before the tribunal on the basis of Article 1128 of NAFTA, the United States government itself argued against this proposition.<sup>69</sup> Eventually, the tribunal concluded that such water rights were not protected under Article 1101 of NAFTA. The tribunal noted, in this regard, that:

‘in order to be an ‘investor’ within the meaning of NAFTA Art. 1101(a), an enterprise must make an investment in another NAFTA State, and not in its own. Adopting the terminology of the *Methanex v. United States* Tribunal, it is necessary that the measures of which complaint is made should affect an investment that has a ‘legally significant connection’ with the State creating and applying those measures. The simple fact that an enterprise in a NAFTA State is affected by measures taken in another NAFTA State is not sufficient to establish the right of that enterprise to protection under NAFTA Chapter Eleven: it is the relationship, the legally significant connection, with the State taking those measures that establishes the right to protection, not the bare fact that the enterprise is affected by the measures’<sup>70</sup>

Closer to the hypothesis under consideration in this article is the approach followed in *Grand River Enterprises, Inc. v. United States*, where the tribunal refused to consider the existence of an ‘investment’ in the host State (the US) on the grounds that claimants manufactured cigarettes at Grand River’s plant in Canada for export to the United States.<sup>71</sup> As a result, the tribunal found that ‘such activities and investments by investors in the territory of one NAFTA party do not satisfy the jurisdictional requirements for a claim against another NAFTA party’.<sup>72</sup>

The third illustration takes us another step closer to the area of IPRs. In the already mentioned *Apotex v. United States* case, the tribunal declined jurisdiction *inter alia* on the grounds that:

‘Apotex’s actual development and manufacture of generic drugs, all its activities in relation to both its sertraline and pravastatin products take place outside of the United States (including, *inter alia*, the development, manufacture; processing; testing; packaging; and labelling of each drug) [ ... and ... ] Apotex’s products, once manufactured outside the United States, are then exported by Apotex to United States-based distributors’.<sup>73</sup>

The tribunal further observed that:

‘Apotex could, of course, have invested in U.S.-based manufacturing, development, or testing facilities, but opted instead to create and manufacture its generic pharmaceuticals in Canadian

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<sup>68</sup> See *Bayview Irrigation District v. United Mexican States*, ICSID Case No. ARB(AF)/05/1, Award (19 June 2007) (‘*Bayview v. Mexico*’).

<sup>69</sup> The United States Article 1128 Submission states that: ‘[a]ll three NAFTA Parties thus agree that the scope and coverage of NAFTA Chapter Eleven is restricted to investors of a NAFTA Party that are seeking to make, are making or have made investments in the territory of another NAFTA Party’, Submission of the United States of America, 27 November 2006, para. 14, available at: [http://www.naftaclaims.com/Disputes/Mexico/Texas/TexasClaimsMexico-USA\\_1128-Jurisdiction.pdf](http://www.naftaclaims.com/Disputes/Mexico/Texas/TexasClaimsMexico-USA_1128-Jurisdiction.pdf) (visited on 23 June 2015).

<sup>70</sup> See *Bayview v. Mexico*, above n. 68, para. 101.

<sup>71</sup> *Grand River Enterprises Six Nations Ltd. v. United States*, NAFTA/UNCITRAL, Award (12 January 2011), para. 85-89.

<sup>72</sup> *Ibid.*, para 5 (of the initial summary contained in the award).

<sup>73</sup> *Apotex v. United States*, above n. 2, para. 146.



factories [ ... ] It follows that Apotex's formulation, development, and manufacture of the pharmaceuticals in issue does not qualify for the purposes of NAFTA Chapter Eleven'.<sup>74</sup>

In summary, in the tribunal's view, Chapter 11 of the NAFTA is not intended to protect a company's activities as a foreign exporter of goods into the territory of a NAFTA Party.<sup>75</sup> The same reasoning would apply in a case where a patent, trademark or other IPR were not associated with a presence in the host country that could be qualified as an investment.

The stance taken in *Apotex v. United States* is important for the interpretation of IIAs that contain definitions of investment based on or equivalent to those contained in the NAFTA or, to some extent, the US Model BIT. Governmental measures affecting the validity or enforceability of IPRs would not necessarily provide sufficient grounds for an investment claims in the absence of other factors that locate the activities underpinning an IPR (e.g. R&D or manufacturing) within the territory of the host State.

### 3.3. 'Reception' of the investment in the host State's domestic law

#### 3.3.1. General observations

Another important question relating to the protection of IPRs concerns their reception in domestic law. The way in which such 'reception' is envisioned under the 'articulation' approach and, specifically, under a qualified asset-based definition of investment, is more fine-grained than under either the 'delegation' or the 'autonomy' approaches. Rather than 'legality' as such, it is the 'reception' in the domestic law of the host State that must be analysed. 'Reception' includes both matters of 'legality' (i.e. whether an investment has been made 'in accordance with domestic law') and questions relating to the 'recognition' (i.e. with or without registration) of different IPRs in a domestic legal system.

The two are of course closely related. There may be situations where a certain subject-matter is off-protection in the host country while it is protected in the home country of the investor or elsewhere. And such situations may arise for a variety of 'legality' or 'reception' based reasons, e.g. when the IPR-holder has not claimed its rights in the host country, when the IPR has expired or has been revoked, or when the subject-matter is deemed not protectable in the host country.<sup>76</sup> Since IPRs are of territorial nature, the subject matter that is not protected in a given country belongs to the public domain there; it cannot be deemed an asset owned or controlled by a juridical or natural person, even if such person holds rights in other jurisdictions.

This said, from an analytical perspective, it is useful to distinguish the 'recognition' and 'legality' inquiries. As a matter of reasoning, the recognition inquiry must be addressed first, as the requirements imposed by a domestic legislation to register a given IPR (reception as legality) suppose that such rights need registration in the first place.

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<sup>74</sup> *Ibid.*, para. 175-176.

<sup>75</sup> *Ibid.*, para. 143.

<sup>76</sup> For instance, if the host country does not grant patents on plants, in accordance with the exception allowed by Article 27.3(b) of the TRIPS Agreement.



### 3.3.2. Reception as recognition

Understanding *reception as recognition* is important because some IPRs, such as copyright and trade secrets, do not require, registration to be acquired and enforced. The lack of registration does not seem to affect the status of such rights as covered investments, at least when they are specifically listed in a definitional clause. Conversely, patents, trademarks, industrial designs, utility models and other IPRs can only be acquired, through a registration process, upon application by the interested party. The right is conferred once the application is processed and approved.<sup>77</sup> Within the context set by this distinction, two peculiar cases call for further scrutiny.

First, although trademarks must as a rule be registered, well-known trademarks benefit from an exception and receive protection without prior registration.<sup>78</sup> Some IIAs have not only confirmed this exception but also expanded it beyond the TRIPS standard, by incorporation of the WIPO's *Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks* (1999).<sup>79</sup>

The second case concerns registration applications. Given that some IPRs (patents, trademarks, industrial designs) require registration, a registration application creates a mere expectation of obtaining an exclusive right and, eventually, a profit, if it is effectively exploited. However, some applications may be traded and, in some countries, they generate rights even before grant, for instance, to obtain a retrospective compensation for the unauthorized use of the subject-matter by a third party. Although it is clear that a still unregistered invention, mark or design is not an IPR, it might be argued that the application is, in any case, 'intangible property', as long as it is 'owned' and can be sold to third parties. Some investment agreements (e.g. Canada-Argentina BIT, 1993) refer in the definition of 'investment' to 'rights with respect to patents' (Article 1 (a)(iv))<sup>80</sup> rather than to 'patents'. The US-Jamaica BIT refers to 'patentable' inventions (Article I.1.(a)(iv)).<sup>81</sup> The question arises whether this type of wording could be understood as covering inventions which are potentially patentable in the host country but for which a patent has not yet been obtained. While there has been no investment case that specifically addresses this issue, in *Apotex v. United States* the tribunal considered whether applications for the marketing approval of pharmaceuticals filed by Apotex constituted a protected investment under NAFTA Chapter 11. Apotex had submitted Abbreviated New Drug Applications (ANDAs) for two products (sertraline and pravastatin) which were not approved by the Food and Drug Administration, despite the efforts that Apotex made to obtain US courts' decisions in support of its applications. Apotex alleged a violation of the principles of national treatment and fair and equitable treatment, and the expropriation of the property rights in its ANDAs. It had the initial burden of proving that the issue fell under Chapter 11 of the NAFTA, that is, that its applications actually constituted a protected investment. It articulated several

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<sup>77</sup> Depending on the type of IPR and the national law, a substantive examination to establish compliance with substantive standards is necessary to obtain registration.

<sup>78</sup> See TRIPS Agreement, above n. 7, Article 16.2.

<sup>79</sup> The text is available at : <http://www.wipo.int/edocs/pubdocs/en/marks/833/pub833.pdf> (visited on 23 June 2015).

<sup>80</sup> The text is available at : <http://www.bilaterals.org/?canada-argentina-bit-1993> (visited on 23 June 2015).

<sup>81</sup> The text is available at : <http://investmentpolicyhub.unctad.org/Download/TreatyFile/1726> (visited on 23 June 2015).

arguments to establish the jurisdiction of the NAFTA tribunal on the case, including that it had made significant investments to prepare and file its applications and also to commercialise its products once the FDA would have granted approval. As already noted, the tribunal declined jurisdiction. With respect to the specific issue of ANDAs, it reasoned that:

‘whilst an ANDA may be characterised for certain purposes as “property”, the Tribunal does not consider that the nature of an ANDA is such as to fall within the contemplated scope of NAFTA Article 1139(g), as that provision must be understood as a whole, by reference to the objects and purposes of NAFTA Chapter Eleven. Notwithstanding its very substantial nature, and the time and cost required for its compilation, an ANDA, ultimately, remains simply an application for revocable permission to (in this case) export a product for sale (by others) in the United States. Even if, as a technical matter, the application may be “owned”, unlike Apotex’s approach, the Tribunal does not consider that NAFTA Article 1139(g) can be approached by divorcing the concept of “property” from its context, and applying it in the abstract’<sup>82</sup>

It seems logical to extend the tribunal’s reasoning in this case to applications for IPRs, which can be revoked and, more fundamentally, also rejected by the competent authority when the prescribed requirements are not met. Even if considered as ‘property’,<sup>83</sup> such applications would still have to meet the other qualifications to be deemed a protected investment under the enterprise-based or the asset-based approach (e.g. the location requirement discussed above). In the absence of other factors, the mere refusal of an application could not as such provide a basis for an investment claim.

### 3.3.3. Reception as legality

Moving now to the analysis of reception as legality, a key question is whether IPRs that qualify as investments for definitional purposes benefit from protection under the applicable IIA in a variety of hypotheses out of which two deserve closer scrutiny, namely when a State intervention is expressly excluded from the scope of a provision and when an investment has not been ‘made in accordance with domestic law’ as required by a clause in the IIA.

Regarding the first case, as mentioned earlier in this article, some treaties including the NAFTA and US Model BIT 2012 explicitly exclude certain governmental interventions from the ‘Expropriation and Compensation’ clause stating that the latter:

‘does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement’.<sup>84</sup>

Although the operation of such exclusions has not been addressed yet in the investment law jurisprudence, it is worth noting that the wording ‘does not apply’

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<sup>82</sup> *Apotex v. United States*, above n. 2, para. 207.

<sup>83</sup> Differences between common and continental law should be noted in this regard, since under the latter property rights are subject to the principle of ‘*numerus clausus*’ and could not be properly invoked in relation to an application to obtain an IPR or other right.

<sup>84</sup> Article 6.5. of the Model BIT is based on the wording of Article 1110(7) of the NAFTA, according to which the ‘expropriation and compensation’ clause: ‘does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights, or to the revocation, limitation or creation of intellectual property rights, to the extent that such issuance, revocation, limitation or creation is consistent with Chapter Seventeen (Intellectual Property)’.

strongly suggests this provision is not intended as an ‘exception’, in the technical meaning of a provision justifying what would otherwise be a breach, but rather to clarify that the host State’s IPR-related measures (whether administrative or judicial) falling under this carve-out (whether administrative or judicial) cannot be challenged under this provision unless a breach of the TRIPS Agreement (for the Model) or of Chapter 17 of the NAFTA (for the NAFTA) is ascertained. The latter reference is however problematic as it seems to require an assessment of an external norm or a different chapter by investment tribunals. Such an assessment raises the question of whether the tribunal has indeed the power to take a stance on this issue and, if yes, at what stage of an investment proceeding. Depending on the scope of a jurisdictional clause, a tribunal may have more or less leeway to take on claims for breach of norms other than those explicitly formulated in the treaty (e.g. a counterclaim for breach of domestic law). Where the jurisdictional clause is narrow, such as in the NAFTA, it seems clear that a tribunal cannot assess a breach of an external law as an independent head of claim.<sup>85</sup> What is less clear is whether the proof of such inconsistency necessarily requires a decision from the appropriate body (e.g. a NAFTA Chapter 20 panel for breaches of Chapter 17 or the WTO Dispute Settlement Body for breaches of the TRIPS), which can only be triggered by a State party, or whether the investment tribunal may consider the consistency of a conduct with respect to such a norm as a matter of applicable law for the analysis of the head of claim for which it would have jurisdiction. In the latter solution is adopted, that may move the operation of the IPR carve-out from its proper place, i.e. at a jurisdictional stage of an investment proceeding, to a subsequent phase. Of course, a tribunal could decide to have the consistency with the TRIPS Agreement or NAFTA Chapter 17 litigated at the jurisdictional level with the claimant carrying the burden of proving inconsistency. But, in practice, the proof of inconsistency may entail not only questions of law but also questions of fact leading the tribunal to merge jurisdiction and merits. The rule remains, however, that when ‘inconsistency’ can at all be raised, it must be dealt with at the jurisdictional level and the claimant carries the full burden of proving such inconsistency. As we shall see next, matters relating to the appropriate stage at which an argument must be addressed also arise in the operation of ‘in accordance with’ clauses.

A number of investment treaties subject the definition of protected investments to their conformity with the laws of the host State.<sup>86</sup> As a result, domestic IPRs laws may have an impact on whether an investment is protected.<sup>87</sup> Most tribunals have considered that such a reference to the host State’s laws concerns the validity of an investment and not the definition of the term investment itself. As noted by the tribunal in *Salini v. Morocco*, the provisions in BITs requiring the conformity of the investments with the host State’s laws refer ‘to the validity of the investment and not to its definition. More specifically, [such provisions seek] to

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<sup>85</sup> See e.g. Jorge E. Vinuales, *Foreign Investment and the Environment in International Law* (Cambridge University Press, 2012), at 92-94. See also *Eli Lilly v. Canada*, above n. 2, Canada Statement of Defence, para 83-85.

<sup>86</sup> See e.g. Egypt—Pakistan BIT (2000), art 1(1); Bahrain—Thailand BIT (2002), art 2, reproduced in A. Joubin-Bret, ‘Admission and Establishment in the Context of Investment Protection’ in A. Reinisch (ed.) *Standards of Investment Protection* (Oxford University Press, 2008), at 17.

<sup>87</sup> *Ibid.*, 19.

prevent the Bilateral Treaty from protecting investments that should not be protected because they would be illegal.<sup>88</sup> In *Fraport v. Philippines*, the tribunal made a distinction which is now generally accepted – despite its some lack of clarity – between initial and subsequent illegality, considering that, whereas the latter could only operate as a defence on the merits, the former could potentially limit jurisdiction.<sup>89</sup> This was so irrespective of whether the investment had been accompanied by some explicit agreement with or communication from the host State,<sup>90</sup> as even where the host State had issued an authorisation, a potential estoppel argument could be dismissed if the arrangements making an investment illegal were covert.<sup>91</sup> That was, as a matter of fact, the conclusion of the tribunal in this case.<sup>92</sup> A question that arises in connection with IPRs is whether in cases where an investor has received a license to invest but the IPRs on which, e.g., the manufacturing plant is based, are not recognised by the domestic law or are revoked. Specifically, is domestic IPR law part of the ‘domestic law’ relevant to assess legality *ab initio*? We believe the answer should obviously be affirmative as the entire investment transaction cannot be deemed to be ‘made’ unless the IPR is validly granted. Yet, some tribunals have, perhaps for fact-specific reasons, concluded that only the laws on foreign investment are relevant to assess legality *ab initio*.<sup>93</sup> This position has been criticized as being too restrictive.<sup>94</sup> Our view is that IIAs are not only about investment ‘protection’ as the tribunal seems to assume. More generally, IIAs are not meant to totally deprive the State from its power to regulate admission to operation through a variety of statutes and regulations. It would be unreasonable to consider that because an investor receives one permit (e.g. license to invest in the host State) it is automatically entitled or has a reasonable expectation to receive all remaining approvals, which depend on very different requirements (e.g. registration of an IPR, environmental permit to operation, banking license, license to exploit an oil well, etc.). And until all the necessary permits to start operation have been obtained, can an investment be reasonably considered to be made? If an investor decides to set up a manufacturing plant before obtaining an IPR (or another form of approval, such as an FDA approval), that is only one step – and risky one from a business judgment perspective – towards making the investment. The investor may still claim that its investment was made irrespective of the IPR registration, but such an argument has a price: it concedes that the initial investment could not expect to be protected in the abnormal form of a monopoly and, thereby, while it may gain jurisdiction it will lose in terms of the level of protection required and, of course, the potential damages claimed. This simple conceptual issue, the meaning of ‘made’, has been

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<sup>88</sup> *Salini v. Morocco*, above n. 30, para 46.

<sup>89</sup> *Fraport AG Frankfurt Airport Services Worldwide v. Republic of the Philippines*, ICSID Case No. ARB/03/25, Award (16 August 2007) (*Fraport v. Philippines*), para. 345. The award was subsequently annulled but the distinction remains relevant: *Fraport AG Frankfurt Airport Services Worldwide v. Republic of the Philippines*, ICSID Case No. ARB/03/25, Decision on the Application for Annulment (17 December 2010) (*Fraport Annulment*), para 218-247.

<sup>90</sup> (*Fraport v. Philippines*), above n. 89, para 343.

<sup>91</sup> *Ibid.*, para 346-347.

<sup>92</sup> *Fraport v. Philippines*, above n.88, para 404.

<sup>93</sup> *Saba Fakes v. Turkey*, above n. 50, para 119.

<sup>94</sup> See S. Manciaux, ‘Chronique des sentences arbitrales’ (2011) 138 *Journal du droit international (Clunet)* 565, at 581.

widely overlooked despite its importance for the operation of legality clauses as filters or gate-provisions regulating access.

#### 4. Concluding remarks: what is the best approach?

The foregoing analysis of gate-provisions and the way they regulate whether and the extent to which IIAs offer protection to IPRs can now be stated in a concise and formalised manner. Figure 1 shows the three approaches, each with its possible models:

**Figure 1: Understandings of gate-provisions as they relate to IPRs**

Approaches	Related models
<i>Delegation</i>	Model 1 : <i>Referral</i> Model 2 : <i>Reliance</i>
<i>Autonomy</i>	Model 1 : <i>Creation of IPRs</i> Model 2 : <i>Obligation to establish IPRs</i> Model 3 : <i>Conceptual independence</i>
<i>Articulation</i>	Model 1 : <i>Enterprise-based definitions</i> Model 2 : <i>Qualified asset-based definitions (location/reception)</i> Model 3 : <i>Unqualified asset-based definitions (reception)</i>

The broad conclusions that arise from the analysis, as anticipated earlier in this article, are that the operation of gate-provisions as they concern IPRs is significantly different in each different approach and model. Such differences have been neglected so far in the analysis of gate-provisions, whether in connection with IPRs or with other potential forms of investment. Importantly, the approach/model followed is unlikely to be entirely set by pure drafting, as it would require wording that is too polarised to be easily agreed between parties, except of course in case of strong bargaining asymmetries. The interpretation of gate provisions is therefore key and, in order for practitioners not to be caught off guard when negotiating treaties or litigating disputes, a fine-grained cartography of models and implications may be useful.

One practical example will help illustrate this point. Failing to distinguish the ‘delegation/reliance’ model from ‘autonomy/conceptual-independence’ may have important practical implications for a case such as *Eli Lilly v. Canada*. Indeed, whereas there is much authority for the proposition that international law is controlling on the question of what constitutes an investment (as discussed under the delegation/reliance model), that does not mean that patents or other IPRs have an autonomous meaning that prevails over the meaning and requirements (e.g. the utility requirement) set out in domestic law (as under an autonomy/conceptual independence model). Thus, references to ‘autonomy’ or ‘objectivity’ in investment jurisprudence must not be misinterpreted so as to smuggle purported ‘implications’ (as to objective concepts of IPRs) that, on closer inspection, are not at all ‘implied’ in the controlling character of the definition of investment.

Beyond the *Eli Lilly v. Canada* case, which is used here only as a hypothetical example, the main point remains. In contemporary international law, the approach enjoying most acceptance and authority is the delegation/reliance model. To further understand its operation – as a constant interaction of treaty drafting and

interpretation – it is important to go a step further and take into account a thicker layer of provisions, as under the articulation approach. The balance between the interests of investors and those of host States depends, indeed, on a wider set of treaty provisions addressing matters such as carve-outs, location and reception in domestic law. Enterprise-based definitions of investments and, to a lesser extent, qualified asset-based definitions condition the protection of IPRs to their embeddedness in a wider transaction, entailing a real presence and contribution of the investment (e.g. location in the form of R&D and/or manufacturing activities in the host State) as well as their reception in domestic law (both in terms of recognition and legality). Whereas unqualified asset-based definitions of investment condition protection to the recognition of IPRs in the host State's domestic law, they require far less in terms of location.

It is submitted then that an enterprise-based or, as a minimum, an adequately qualified asset-based definition of investment, interpreted from the perspective of a delegation/reliance model, offers the best options to formulate 'gate provisions' to deal with IPRs as protected investments.