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**Regime Shifting in Action: The Case of  
Bridgestone v Panama and Trademarks  
before Investment Tribunals**

**Gabriel M. Lentner**

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# **TTLF Working Papers**

**Editors: Siegfried Fina, Mark Lemley, and Roland Vogl**

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## Abstract

Regime shifting in international IP law has been observed for some time now. In a groundbreaking piece, Larry Helfer saw in the years after the WTO TRIPS agreement entered into force a strategy by developing countries and NGOs to actively seek other international fora to ‘recalibrate, revise, or supplement the treaty’. In 2015, Rochelle Dreyfuss and Suzy Frankel detected an overlooked aspect of regime shifting in international law that reconceptualized IP from incentive to commodity and to asset, particularly through looking at developments in investment law. Henning Ruse-Khan similarly noticed in the changes surrounding Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs) an eradication of so-called TRIPS flexibilities, i.e. policy space left for mostly developing countries to adopt sensible regulation of IP tailored towards their needs. From a law and political economy (LPE) approach, Katharina Pistor identified in this regime shifting a problematic contribution to global inequality, because investment law results in expanding private property rights in IP without regard to legitimate policy decisions by states.

How the regime shifting takes place in the legal realm and manifests itself in important cases is less studied. The recent award rendered in *Bridgestone v Panama*, adds an important legal piece to the puzzle of how this regime shifting plays out at the level of legal argumentation and jurisprudence.

Against this background, this paper builds on previous research and contributes to the existing discussion on regime shifting by offering a detailed analysis of the legal arguments and the reasoning behind the decision of an investment arbitration tribunal in *Bridgestone v Panama*. It thus seeks to add the legal-doctrinal aspect to the debate for future research being able to identify the argument patterns adopted to expand private property rights of big corporations in the realm of IP.

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## I. Introduction

Regime shifting in international IP law has been observed for some time now. In a groundbreaking piece, Larry Helfer saw in the years after the WTO TRIPS agreement entered into force a strategy by developing countries and NGOs to actively seek other international fora to ‘recalibrate, revise, or supplement the treaty’.<sup>1</sup> In 2015, Rochelle Dreyfuss and Suzy Frankel detected an overlooked aspect of regime shifting in international law that reconceptualized IP from incentive to commodity and to asset, particularly through looking at developments in investment law.<sup>2</sup> Henning Ruse-Khan similarly noticed in the changes surrounding Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs) an eradication of so-called TRIPS flexibilities, ie. policy space left for mostly developing countries to adopt sensible regulation of IP tailored towards their needs.<sup>3</sup> From a law and political economy (LPE) approach,

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<sup>1</sup> Laurence R Helfer, ‘Regime Shifting: The TRIPs Agreement and New Dynamics of International Intellectual Property Lawmaking’ (2004) 29 Yale Journal of International Law 1-83, 6.

<sup>2</sup> Rochelle Dreyfuss and Susy Frankel, ‘From Incentive to Commodity to Asset: How International Law is Reconceptualizing Intellectual Property’ (2015) 36 Michigan Journal Of International Law 557-602.

<sup>3</sup> Henning G Ruse-Khan, ‘The International Law Relation between TRIPS and subsequent TRIPS-plus Free Trade Agreements: Towards safeguarding TRIPS Flexibilities?’ (2011) 18 Journal of Intellectual Property Law 325; Henning G Ruse-Khan, ‘Protecting Intellectual Property under BITs, FTAs, and TRIPS: Conflicting Regimes or Mutual Coherence?’ [2011] Max Planck Institute for Intellectual Property and Competition Law Research Paper No 11-02 1; Henning Grosse Ruse-Khan, ‘Challenging Compliance with International Intellectual Property Norms in Investor–state Dispute Settlement’ (2016) 19(1) Journal of International

Katharina Pistor identified in this regime shifting a problematic contribution to global inequality, because investment law results in expanding private property rights in IP without regard to legitimate policy decisions by states.<sup>4</sup>

How the regime shifting takes place in the legal realm and manifests itself in important cases is less studied. The recent award rendered in *Bridgestone v Panama*,<sup>5</sup> adds an important legal piece to the puzzle of how this regime shifting plays out at the level of legal argumentation and jurisprudence. To fully understand these implications, a closer look at this case is a worthy endeavor. This is because it is the first publicly available arbitral award rendered by an ICSID tribunal addressing whether a judgment arising out of a dispute relating to trademarks constitutes a denial of justice.<sup>6</sup>

The foreign investors in this case, the Bridgestone entities, argued that Panama through a decision by its Supreme Court holding them liable for having unsuccessfully opposed the registration of a competitor's trademark violated its investment obligations.<sup>7</sup> In resolving this issue, the tribunal also had to deal with important questions with wide ranging implications for future IP related cases under international investment law and the case exemplifies not only regime shifting<sup>8</sup> but also commodification of IP<sup>9</sup> – specifically, as they relate to questions of when trademarks constitute covered investments, how to classify IP licensing agreements and regarding ownership or control over licenses in investment arbitration.

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Economic Law 241; Henning G Ruse-Khan, 'From TRIPS to FTAs and Back Re-Conceptualising the Role of a Multilateral IP Framework in a TRIPS-Plus World' [2017] Max Planck Institute for Innovation and Competition Research Paper No 18-02 1; Henning G Ruse-Khan, 'A Conflict-of-Laws Approach to Competing Rationalities in International Law: The Case of Plain Packaging Between Intellectual Property, Trade, Investment and Health' (2013) 9(2) J Private Int Law 309.

<sup>4</sup> Katharina Pistor, *The Code of Capital* (Princeton University Press 2019) 108–131. For an introduction to the LPE approach, see Jedediah Britton-Purdy and others, 'Building a Law-and-Political-Economy Framework: Beyond the Twentieth-Century Synthesis' (2020) 129 Yale Law Journal 1784; Gabriel M Lentner, Hanna Palmanshofer and Antonia Reiss, 'Recht und Politische Ökonomie' [2021] *juridikum* 72.

<sup>5</sup> *Bridgestone Licensing Services, Inc and Bridgestone Americas, Inc v Republic of Panama*, ICSID Case No ARB/16/34, Award (14 August 2020).

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid* para 128.

<sup>8</sup> See section on the Relationship between IP and Investment Chapters.

<sup>9</sup> See section on trademarks as investments.

Hence it is clear that this case has consequences beyond legal-doctrinal aspects that dominate existing scholarship and commentary.<sup>10</sup> Indeed, this case can be viewed as exemplifying the regime-shifting in IP law from the multilateral to the bilateral level (from the WTO TRIPS agreement to BITs) and from IP as tools for incentivizing innovation to investment assets and commodification.<sup>11</sup>

Against this background this paper builds on previous research<sup>12</sup> and contributes to the existing discussion on regime shifting by offering a detailed analysis of the legal arguments and the reasoning behind the decision taken. It thus seeks to add the legal-technical aspect to the debate for future research being able to identify the argument patterns adopted to expand private property rights of big corporations.

The remaining parts of this paper are structured as follows. The next section gives a short overview of the facts of the case. Then, the paper looks at the reasons the tribunal gave for concluding that trademarks and licenses are indeed covered investments for the purposes of the applicable investment agreement. What follows is a discussion of ownership/control over these investments and whether the dispute at issue did in fact arise directly out of that investment. The tribunal also had to discuss a denial of benefits clause and a charge of abuse of process in this particular context. Looking at the merits decision in the case, the following sections address the locus standi of a licensee in those proceedings. Finally, the paper addresses the relationship between the IP and investment chapters of the applicable treaty to show that the shift from IP

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<sup>10</sup> See the recent (and first) full-length monograph on the issue of investment arbitration and IP that does not discuss either regime-shifting or commodification, see Simon Klopschinski, Christopher S Gibson and Henning Grosse Ruse-Khan, *The protection of intellectual property rights under international investment law* (Oxford international arbitration series, Oxford University Press 2021). Instead, the book discusses doctrinal classification, systematization of existing jurisprudence on these matters without fully addressing the broader aspects of regime-shifting in and commodification of IP, as Dreyfuss and Frankel observed in 2015, see Dreyfuss and Frankel (n 2). This was a time however when the writing was on the wall, but few cases actually existed. Now, this case exemplifies that this shift and the commodification of IP already happened. For the role of law and lawyers in this regime shift and the argument that it contributes to global inequality, see Pistor (n 4) 108-131.

<sup>11</sup> Dreyfuss and Frankel (n 2), 559.

<sup>12</sup> Gabriel M Lentner, 'Bridgestone v Panama: When Are Trademarks Covered Investments?' (2019) 34(3) ICSID Review 569; Gabriel M. Lentner and Dayana Zasheva, 'Bridgestone v Panama: Denial of Justice in a Trademarks Dispute and the Locus Standi of a Licensee in International Investment Arbitration' *forthcoming*.

regulation to investment arbitration could also be challenged on legal grounds, before the paper concludes.

## II. Facts of the Case

The dispute is best understood against the backdrop of an international competition between two international tire makers, the Chinese entity, the ‘Luque Group’ on the one hand, and the Japanese entity the ‘Bridgestone Group’ (‘BSJ’) on the other. Both companies manufacture and sell tires under marks with the suffix ‘STONE’. When Muresa Intertrade S.A. (‘Muresa’), a subsidiary of the Chinese entity, applied in 2002 to register the mark ‘RIVERSTONE’ for tires in Panama, the Japanese rival BSJ and its United States subsidiary BSLS, holders of the registered Panamanian marks ‘BRIDGESTONE’ and ‘FIRESTONE’, objected the registration by claiming likelihood of confusion.<sup>13</sup> The First Instance Court found the trademark opposition without legal merit and the Bridgestone entities withdrew their appeal on 5 September 2006.<sup>14</sup> Subsequently, the distributors of the RIVERSTONE tires, Muresa and Tire Group of Factories Ltd. Inc. (‘TGFL’), commenced tort proceedings against BSJ and BSLS. They argued that the trademark opposition was wrong and had caused them to cease the sales of RIVERSTONE tires out of fear that the inventory would be seized if the opposition succeeded.<sup>15</sup> Muresa and TGFL alleged that this cease resulted in US\$5 million losses. Their claim was initially dismissed at first instance and later by the Panamanian Court of Appeal. But, on a subsequent final appeal, the decision in favor of the Bridgestone entities was reversed by the Panamanian Supreme Court in its judgement of 2014.<sup>16</sup> The Supreme Court considered the fact that BSJ and BSLS had not appealed the adverse trademark opposition decision of 2006, together with their letter,

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<sup>13</sup> *Bridgestone v Panama* (n 5) para 126.

<sup>14</sup> *ibid* para 127.

<sup>15</sup> *ibid* para 128.

<sup>16</sup> *ibid*.



threatening to take worldwide action against the RIVERSTONE mark, to be a proof that the Bridgestone entities had initiated the opposition with the intent to harm their tire rival. Thus, the Supreme Court held the Bridgestone entities liable for damages pursuant to Article 217 of the Panamanian Judicial Code for reckless conduct in judicial proceedings. The Bridgestone entities were awarded to pay the Luque Group companies US\$5 million in losses and US\$431,000 in attorneys' fees.<sup>17</sup>

It is this ruling that serves as the basis for the denial of justice claim brought by the foreign investors, BSLS and BSAM, the latter being a licensee of the 'RIVERSTONE' and 'BRIDGESTONE' marks, under Article 10.5 of the United States–Panama Trade Promotion Agreement ('TPA')<sup>18</sup>. The TPA was found applicable as both claimants were incorporated in the United States and performed substantial business activities there.<sup>19</sup> On the denial of justice allegation, the claimants contended that the Panamanian Supreme Court '(i) incurred fundamental breaches of due process; (ii) produced an arbitrary decision; (iii) produced a grossly incompetent decision; and (iv) there was corruption in the process'.<sup>20</sup>

On 13 December 2017, the tribunal held that it has jurisdiction to render a decision on the merits.<sup>21</sup> That decision is particularly interesting for trademark disputes under investment law, as the tribunal had to deal with complex issues regarding questions around ownership and control over trademarks and licenses to use these trademarks. On 14 August 2020 the Award was issued, dismissing all claims against Panama. The peculiar decision of the Supreme Court of Panama at issue in the context of trademark registration proceedings, something that the claimants argued constitutes a shocking decision, undermining the legal right of a trademark

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<sup>17</sup> *ibid.*

<sup>18</sup> United States–Panama Trade Promotion Agreement (signed 28 June 2007, entered into force 31 October 2012) ('TPA' or 'BIT').

<sup>19</sup> *Bridgestone Licensing Services, Inc and Bridgestone Americas, Inc v Republic of Panama*, ICSID Case No ARB/16/34, Decision on Expedited Objections (13 December 2017) paras 293 and 302.

<sup>20</sup> *Bridgestone v Panama* (n 5) para 321.

<sup>21</sup> *Bridgestone v Panama*, Decision on Expedited Objections (n 19). For an analysis of the tribunal's decision on jurisdiction and specifically whether trademarks constitute covered investments *see* Gabriel M. Lentner, 'When Are Trademarks Covered Investments?' (2019) 34(3) ICSID Review - Foreign Investment Law Journal 569.

owner to oppose the registration of another very similar trademark.<sup>22</sup> Because of its potential for serving as a precedent in future cases, a closer look at the case is warranted.

### III. Trademarks as Covered Investments

The first question the tribunal had to resolve was whether the trademarks at issue constituted an investment in the host State.<sup>23</sup> Under Article 10.29 of the applicable BIT, investment is defined as any asset capable of being owned or controlled having the ‘characteristics’ of an investment, such as commitment of capital or other resources, expectation of gain or profit, and assumption of risk.<sup>24</sup> In addition to those listed characteristics of investments, the Tribunal noted that others are to be found in many investments, too, referring to *Salini v Morocco*,<sup>25</sup> such as a reasonable duration of the investment and a contribution made by the investment to the host State’s development.<sup>26</sup> In this respect, the Tribunal held that ‘there is no inflexible requirement for the presence of *all* these characteristics, but that an investment will normally evidence most of them’.<sup>27</sup>

Clearly, a trademark is a type of intellectual property,<sup>28</sup> but no other publicly available decision has yet had to resolve the question whether a trademark in itself could constitute an investment ‘when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State,

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<sup>22</sup> *Bridgestone v Panama* (n 5) para 314.

<sup>23</sup> For an in depth critique of the approach taken by the tribunal see Lentner, ‘Bridgestone v Panama: When Are Trademarks Covered Investments?’ (n 12).

<sup>24</sup> *Bridgestone v Panama, Objections* (n 19) para 163ff.

<sup>25</sup> *Salini Costruttori SpA and Italstrade SpA v Kingdom of Morocco*, ICSID Case No ARB/00/4, Decision on Jurisdiction (23 July 2001).

<sup>26</sup> *Bridgestone v Panama, Objections* (n 19) para 165.

<sup>27</sup> *ibid* (emphasis in the original).

<sup>28</sup> *ibid* para 166.

the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment’.<sup>29</sup> Indeed, in *Philip Morris v Uruguay*, which also dealt with trademarks, the ‘long-term, substantial activities in Uruguay’ were qualified as ‘investments’.<sup>30</sup> Those included a manufacturing facility, shares in a subsidiary, and rights to royalty payments and trademarks.<sup>31</sup> Indeed, the tribunal, when examining Philip Morris’ expropriation claim, the tribunal reasoned that the investor’s business interests in Uruguay should ‘be considered as a whole’ rather than each trademark as a separate investment.<sup>32</sup>

In agreement with existing scholarship,<sup>33</sup> the tribunal held that ‘the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country.’<sup>34</sup> According to the Tribunal, that is because of the negative effect of a registration of a trademark: it merely prevents competitors from using it on their products and does not confer benefits on the country in which the registration takes place, nor does it of itself create any expectation of profit for the owner of the trademark.<sup>35</sup>

However, when the trademark is exploited, the exploitation accords to the trademark, ‘by the activities to which the trademark is central, the characteristics of an investment.’<sup>36</sup> It continued that this exploitation

will involve devotion of resources, both to the production of the articles sold bearing the trademark, and to the promotion and support of those sales. It is likely also to

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<sup>29</sup> Ibid.

<sup>30</sup> *Philip Morris Brand Sarl (Switzerland), Philip Morris Products SA (Switzerland) and Abal Hermanos SA (Uruguay) v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Decision on Jurisdiction (2 July 2013) para 209. (There was no further discussion of trademarks as investments.)

<sup>31</sup> Ibid paras 183, 190, 194.

<sup>32</sup> *Philip Morris Brand Sarl (Switzerland), Philip Morris Products SA (Switzerland) and Abal Hermanos SA (Uruguay) v Oriental Republic of Uruguay*, ICSID Case No ARB/10/7, Award (8 July 2016) paras 278, 283. See on this further, Pratyush Nath Upreti, Intellectual Property Rights in Investment Treaty Arbitration: A Critical Examination of the Philip Morris & Eli Lilly Awards, Stanford-Vienna TTLF Working Paper No. 67, <http://tlf.stanford.edu>.

<sup>33</sup> Siegfried Fina and Gabriel M Lentner, ‘The European Union’s New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights’ (2017) 18(2) *The Journal of World Investment & Trade* 271, 283; Klopschinski, Gibson and Grosse Ruse-Khan (n 10) 143–169.

<sup>34</sup> *Bridgestone v Panama, Objections* (n 19) para 171.

<sup>35</sup> *ibid* para 171.

<sup>36</sup> *Bridgestone v Panama, Objections* (n 19) para 172.

involve after-sales servicing and guarantees. This exploitation will also be beneficial to the development of the home State. The activities involved in promoting and supporting sales will benefit the host economy, as will taxation levied on sales.

Reviewing the way in which trademarks can be promoted in a host State's market, it found that:

[T]he promotion involves the commitment of resources over a significant period, the expectation of profit and the assumption of the risk that the particular features of the product may not prove sufficiently attractive to enable it to win or maintain market share in the face of competition.<sup>37</sup>

Key to the characterization of a trademark as an investment for the tribunal is therefore its exploitation.<sup>38</sup> The same goes – according to the tribunal – for licenses. Here, the tribunal held that another way of exploiting a trademark is licensing it, ie granting the licensee the right to exploit the trademark for its own benefit.<sup>39</sup> In support of these conclusions, the Tribunal cited the *Philip Morris v Uruguay* and *CSOB v Slovak Republic*<sup>40</sup> cases, in which the tribunals found the existence of a qualifying investment on the basis of a number of interrelated transactions.<sup>41</sup> Again, key for the Tribunal was the 'exploitation' of the license. This was important because only then did it constitute an

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<sup>37</sup> *Bridgestone v Panama, Objections* (n 19) para 169.

<sup>38</sup> It is interesting to note that the term 'exploitation' is generally not used in the context of trademarks. Instead, international agreements regulating intellectual property refer to 'use'. Furthermore, under the Agreement on Trade-Related Aspects of Intellectual Property Rights (opened for signature 15 April 1994, entered into force 1 January 1995) (TRIPS Agreement) non-use of a trademark does not exclude protection unless extending to an uninterrupted period of at least three years (unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner) [art 19(1) TRIPS Agreement].

<sup>39</sup> *ibid* para 173.

<sup>40</sup> *C' eskoslovenska obchodn'í banka, as v Slovak Republic*, ICSID Case No ARB/97/4, Decision on Jurisdiction (24 May 1999).

<sup>41</sup> *Bridgestone v Panama, Objections* (n 19) para 175.

investment;<sup>42</sup> the mere existence of a licensing agreement, for example, would not suffice, as the Tribunal made clear.<sup>43</sup>

Also, important for the tribunal was the controversial element of the *Salini* test,<sup>44</sup> the contribution to economic development. It specifically mentioned that those activities involved in promoting and supporting sales will benefit the host economy, as will taxation levied on sales.<sup>45</sup> Indeed, it seems sensible – and in line with the object and purpose of both legal regimes – to require that IPRs are not ‘merely being used to secure an export monopoly without any form of local exploitation.’<sup>46</sup>

However, this only answered the question whether the trademark or a license to use the trademark can be considered an investment under the applicable BIT and Art 25 of the ICSID Convention. The tribunal still had to resolve other issues regarding ownership and control among others.

#### IV. Ownership/Control over Trademark Licenses

Specifically, the tribunal had to deal with the question of whether the claimant owned or controlled, directly or indirectly, the rights granted by each license at issue. This is, as the tribunal noted itself, the first case in which it has been necessary to analyze the different types

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<sup>42</sup> *ibid* para 198.

<sup>43</sup> *ibid*. See also footnote 9 of the TPA (‘For greater certainty, the foregoing is without prejudice to whether any asset associated with the license, authorization, permit, or similar instrument has the characteristics of an investment’).

<sup>44</sup> See e.g. Anthony Anghie, ‘Deutsche Bank AG v Democratic Socialist Republic of Sri Lanka: ‘All that is Solid Melts into Air’ (2015) 30(2) ICSID Review 356.

<sup>45</sup> *Bridgestone v Panama, Objections* (n 19) 172.

<sup>46</sup> Emmanuel Oke, ‘Defining Intellectual Property as an Investment’ in Daniel Gervais (ed), *Recreating Copyright Law, Redesigning Design Law, Rebranding Trademark Law, Reinventing Patent Law, ATRIP Intellectual Property Series*, (Edward Elgar, 2021), 18; Ivan Stepanov, ‘Economic development dimension of intellectual property as investment in international investment law’ (2020) 23(5-6) *J World Intellect Prop* 736, 745.

of investments that can arise in relation to trademarks.<sup>47</sup> It started with analyzing the footnote to Article 10.29(g) of the BIT, which states that a license will not have the characteristics of an investment unless it creates rights protected under domestic law.<sup>48</sup> And while no such clarification exists for ‘intellectual property rights’, the tribunal was in no doubt that they must be IPRs under the law of Panama.<sup>49</sup>

On the concrete question whether the FIRESTONE Trademark License constituted an investment in Panama owned or controlled by BSAM, the tribunal dealt with BSAM’s argument that it summarized as follows:

- (i) the FIRESTONE Trademark License fell within the definition both of “*intellectual property rights*” under Article 10.29(f) of the TPA, and of a “*license*” under Article 10.29(g);
- (ii) the rights granted by the License were protected under the law of Panama;
- (iii) the total of the activities carried on by BSAM in relation to those rights, coupled with the License itself as the core investment, had the characteristics of an investment.<sup>50</sup>

In opposition of this position, Panama argued that

- (i) the rights granted by the License were so restricted that (a) they could not properly be described as intellectual property rights, or a license, or an asset; and (b) BSAM could not properly be said to own or control the rights;
- (ii) the rights were not recognized or protected by the law of Panama;
- (iii) the rights were not in Panama;
- (iv) there were insufficient activities carried on by BSAM in Panama under or in relation to the License to give the two together the characteristics of an investment.<sup>51</sup>

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<sup>47</sup> *Bridgestone v Panama, Objections* (n 19) para 222.

<sup>48</sup> *Ibid* para 178.

<sup>49</sup> *Ibid*. See also *Fina and Lentner* (n 33).

<sup>50</sup> *Bridgestone v Panama, Objections* (n 19) para 181.

<sup>51</sup> *Ibid* para 182.

In the licensing agreement,<sup>52</sup> BSLS made the use of the license conditional upon written approval but the tribunal did not accept that the effect of this agreement was to ‘render it impossible to describe the FIRESTONE Trademark License as intellectual property rights or as a license, or as an asset, or as being owned or controlled by BSAM.’<sup>53</sup> This is because – the tribunal argued – once the necessary approval was given (and subject to domestic law) the license conferred BSAM the valuable right to sell tires bearing the FIRESTONE mark in Panama. In practice, this right was granted exclusively and through the exercise of that right BSAM would benefit from the goodwill attached to the mark, regardless of title.<sup>54</sup> Under the license, BSAM was granted a contractual right to use the mark. The tribunal therefore needed to answer the question whether this right can properly be described as an ‘asset’. Only then is BSAM the owner of that asset.<sup>55</sup>

In order to answer this question, the tribunal turned to the effect of the license under domestic law.<sup>56</sup> Relying on an expert on the question of Panamanian law, the tribunal concluded that the license constitutes an intellectual property right. And while the owner of the trademark has to use the trademark to keep it alive, the use by the licensee counts as use by the owner.<sup>57</sup> It continued that the licensee cannot take proceedings to enforce the trademark without the participation of the owner, but can join with the owner in enforcement proceedings. The right is a right to use the Panamanian registered trademark in Panama. It follows that the location of the right is Panama.<sup>58</sup>

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<sup>52</sup> See *ibid* para 183.

<sup>53</sup> *Ibid* para 184.

<sup>54</sup> *Ibid* para 184. Dealing with a provision that the use of the marks should “inure to the benefit” of BSLS, the tribunal held that it ‘would not accept, were it to be suggested, that this required BSAM to account to BSLS for any profits earned from sales under the FIRESTONE Trademark License of tires bearing the FIRESTONE mark. Even if it had, this would not have detracted from the fact that the FIRESTONE Trademark License granted BSAM the right to use the FIRESTONE mark in Panama, when this would otherwise have been prevented by the registration of the mark. What happens to the fruits of an investment after they have been harvested does not impact on the value of those fruits.’ 185.

<sup>55</sup> *Bridgestone v Panama, Objections* (n 19) para 186.

<sup>56</sup> *Ibid* para 186.

<sup>57</sup> *Ibid* para 187.

<sup>58</sup> *Ibid*.

Responding to the argument raised by Panama that BSAM did not ‘own or control’ the rights, the tribunal held that it is ‘axiomatic that a license must be obtained from the licensor’ and thus the fact that this is so does not lead to the conclusion that the licensee does not own the license.<sup>59</sup> The tribunal also clarified that the claimant should ‘own *or* control the license’<sup>60</sup>, not both, adding that ‘In any event, although the terms of the license purported to impose quite strict control over the use of the license, BSLS did not, in practice control the manner in which the license was exploited.’<sup>61</sup>

In conclusion, the tribunal decided that ‘a license to use a registered trademark will not, without more, constitute an investment. In each case, exploitation of the trademark is necessary in order to turn the relevant right into an investment.’<sup>62</sup> The next step in the analysis was to decide whether, in showing that necessary exploitation of the trademark registered in Panama constitutes an investment, BSAM can rely on various activities of BSCR in Panama in this connection.<sup>63</sup>

BSAM itself played a limited part in the activities, such as involvement in the promotion of the mark, that exploited the FIRESTONE trademark in Panama.<sup>64</sup> The major activities of promotion, the manufacture of the tires (which took place outside Panama) and the sales of these tires bearing the FIRESTONE mark in Panama, were carried out by BSCR.<sup>65</sup> On the evidence presented, the tribunal found that ‘BSCR had been selling tires bearing the FIRESTONE and BRIDGESTONE marks in Panama.’<sup>66</sup>

After reviewing the evidence and dealing with missing documentation of the various agreements within the Bridgestone group, the tribunal concluded that

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<sup>59</sup> Ibid para 197.

<sup>60</sup> Ibid (emphasis in the original).

<sup>61</sup> Ibid.

<sup>62</sup> Ibid para 198.

<sup>63</sup> Ibid para 199.

<sup>64</sup> Ibid para 200.

<sup>65</sup> Ibid para 200.

<sup>66</sup> Ibid para 202.



BSLS entered into the FIRESTONE Trademark License with BSAM in order to confer on BSAM the right, either directly or through its subsidiaries, to sell tires bearing the FIRESTONE mark in countries where the mark was registered. In reliance on that right, BSAM has procured BSCR to sell tires bearing the FIRESTONE mark in Panama and has itself assisted with the marketing of those tires. Whether or not BSCR acted under a formal sub-license granted by BSAM, it was plainly authorized by BSAM to act as it did.

In conclusion and based on domestic law, the tribunal found that BSAM, itself and through BSCR, has been exploiting its right to sell tires bearing the FIRESTONE trademark in Panama, and has thereby invested directly and through its subsidiary in Panama. The license at issue was thus found to be an investment in Panama owned by BSAM.<sup>67</sup>

The tribunal then turned to the question whether the other trademark concerned, ie the BRIDGESTONE trademark license constituted an investment in Panama owned or controlled by BSAM. As regards that trademark license, the tribunal viewed it similar to the issue above, but noted the difference in that

the BRIDGESTONE Trademark License granted a license to use the BRIDGESTONE trademark not to BSAM but to BATO, a wholly owned subsidiary of BSAM, and unlike the FIRESTONE trademark, which is owned by BSLS outside of the United States, the BRIDGESTONE trademark is owned by BSJ, a Japanese entity that holds no rights under the [BIT].<sup>68</sup>

In this respect, the Tribunal found that the right to use the trademarks was indirectly owned and controlled by BSAM as the owner of 100% of BATO.<sup>69</sup> On the basis of the evidence, the tribunal found that the ‘activities carried on in respect of the use of this right, coupled with the

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<sup>67</sup> Ibid para 204

<sup>68</sup> Ibid para 211.

<sup>69</sup> Ibid para 214.

right itself, constituted an investment that BSAM, as BATO's parent, indirectly owned and controlled. It follows that the BRIDGESTONE Trademark License was an investment in Panama owned or controlled by BSAM.<sup>70</sup> The conclusion drawn was that the rights in respect of IP, granted under licenses, constituted investments owned by BSAM.<sup>71</sup>

In *Philip Morris v Uruguay*,<sup>72</sup> this was much more straight-forward. Here, Philip Morris acted through two Swiss companies that owned a Uruguayan subsidiary and the IPRs licensed to that subsidiary.<sup>73</sup> This complicated set of arrangements between trademark owners and licensees points to the importance of this case as it will serve as a future reference and source for authority for subsequent IP disputes brought before investment tribunals.

In an overall assessment of the decision with respect to the tribunal's understanding of IP as property rights one issue stand out. It seems clear that with this decision property rights of investors have been significantly strengthened. The tribunal did not hesitate to consider trademarks and the licenses to use trademarks assets that will constitute an investment when exploited. That the actual investments made into product quality, possibly research and development of products (in this case tires) bearing the mark, took place elsewhere, did not feature in the discussion. It seems rather odd for investment law with the purpose of protecting investors and their investments abroad does not consider the fact that the very investments made so that a trademark gains in value and can be exploited abroad as well did not really take place in the host state where protection is sought. When the tribunal correctly found that the mere registration of a trademark is not sufficient to constitute a covered investment, it then appears questionable why the simple fact that those activities, which were directed towards selling products bearing the mark in a foreign market, change the nature of those transactions and turn them into investments. This is particularly striking as the products in question were

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<sup>70</sup> Ibid para 216.

<sup>71</sup> Ibid para 217.

<sup>72</sup> *Philip Morris v Uruguay*, Jurisdiction (n 29).

<sup>73</sup> Klopschinski, Gibson and Grosse Ruse-Khan (n 10) 105 (fn 175)

manufactured elsewhere and by licensing the trademark and registering it in Panama, the claimants simply sought to exploit previous investments made into the trademark and its supposed product quality in a novel market.

The very fact that this line of reasoning was not even argued for on part of Panama shows how the regime shifting already took place. No mention was made that questions relating to IP disputes, particularly those regarding IP enforcement and opposition proceedings used to be regulated by state-to-state IP treaties, the WTO TRIPS and other more specific chapters in FTAs. The paper will return to this question of the relationship between IP and investment chapters later, suffice to note here that this case seems to show that the expansion of private property rights in international law through investment arbitration is a successful legal strategy.

## V. Dispute „Arising Directly Out” of An Investment

The tribunal also had to deal with the question whether BSAM, the licensee of the respective trademark, even if established to constitute an investment, was part of the investment dispute at issue. Panama argued that the dispute did not arise directly out of BSAM’s investment because ‘there is no “*immediate ‘cause and effect’*” or “*causal link*” between the host-State actions at issue and the effects of such actions on the alleged investment’.<sup>74</sup> The dispute arose out of a Panama Supreme Court’s decision to impose more than 5 Mio US\$ penalty on BSJ and BSLS, later paid by BSLS, in the context of the opposition proceedings.<sup>75</sup> Panama argued that on that basis that no such required link or cause and effect relationship existed with respect to BSAM, as it was not a party to that Supreme Court proceeding, did not pay (nor had the obligation to pay) the imposed penalty, nor owned any of the trademarks at issue.<sup>76</sup>

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<sup>74</sup> *Bridgestone v Panama, Objections* (n 19) para 224.

<sup>75</sup> See above.

<sup>76</sup> *Bridgestone v Panama, Objections* (n 19) para 225.

The tribunal noted that there has been little jurisprudence on the test to be applied when deciding whether a dispute arises directly out of an investment.<sup>77</sup> Relying on *Metalpar v Argentina*,<sup>78</sup> the unofficial translation of the test articulated there requires that

there must be an immediate ‘cause and- effect’ relationship between the actions of the host State and the effects of such actions on the protected investments; one must be able to establish firsthand a causal link between the investment and the actions of the host State that produce the harm. This does not mean, however, that the measures taken by the State must be aimed specifically against the investment. It is sufficient that an immediate (as opposed to a remote) link can be established between the harm to the investment and the actions that cause it.

Without further discussion, the tribunal concluded that this ‘seems to the Tribunal a sound and sensible test and it is happy to adopt it.’<sup>79</sup>

Regarding the investment of BSLS there was no contestation that the dispute did indeed arise directly out of this investment in Panama.<sup>80</sup> Regarding the position of BSLS and BSAM, the tribunal finds that both claims ‘must stand or fall together’.<sup>81</sup> Both, BSLS as the owner and BSAM as the licensee, have an interest in the FIRESTONE trademark, as both were benefitting from the exploitation of the trademark.<sup>82</sup> For the tribunal it followed then that the case presented by the claimants is about an ‘aberrant decision’ of the Supreme Court to award damages that has allegedly caused damage to the value of those investments.<sup>83</sup> This is the subject of the dispute and in the view of the tribunal that dispute arises directly out of the investments of BSLS and BSAM.<sup>84</sup>

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<sup>77</sup> Ibid para 238.

<sup>78</sup> *Metalpar S.A. and Buen Aire S.A. v. Argentine Republic*, ICSID Case No. ARB/03/5, Decision on Jurisdiction (27 April 2006)

<sup>79</sup> *Bridgestone v Panama, Objections* (n 19) para 239.

<sup>80</sup> Ibid para 239.

<sup>81</sup> Ibid para 242.

<sup>82</sup> Ibid para 242.

<sup>83</sup> Ibid para 246.

<sup>84</sup> Ibid para 246.

As regards the alleged damages to have been caused outside Panama by the Supreme Court judgment, the tribunal found that there is no ‘immediate cause-and-effect relationship’ between the judgment and the effects outside Panama, for they are merely speculative and remote.<sup>85</sup>

## VI. Denial of Benefits and Abuse of Process

Another legal hurdle had to be taken by the claimants regarding Panama’s contention that Art 10.12 of the BIT, a ‘Denial of Benefits’ clause applied with respect to BSLS.<sup>86</sup> The issue revolved around the question whether BSLS had ‘no substantial business activities in the territory of [the United States].’<sup>87</sup> Basing its decision on the evidence, the tribunal concluded that BSLS did indeed perform business activities in the US, such as protecting the trademarks and licensing it for the use on games, toys and other similar merchandise.<sup>88</sup> This objection was therefore dismissed.

Panama also argued that BSLS’s claims constituted an abuse of process when it paid the damages awarded by the Supreme Court so to come under the protection of the BIT.<sup>89</sup> In support of its argument, Panama invoked the decision *Philip Morris v Australia*<sup>90</sup>, in which the tribunal dismissed the claim due to abuse of rights, when it used corporate restructuring in order to bring the company within the protection of a BIT at a time when it was foreseeable that a dispute might arise.<sup>91</sup> The tribunal, however, distinguished this case from the situation regarding BSLS noting that the ‘consequences of BSLS’s payment is an issue that will fall to be resolved if and

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<sup>85</sup> Ibid para 247.

<sup>86</sup> Ibid paras 286-287.

<sup>87</sup> Ibid para 287.

<sup>88</sup> Ibid paras 295-302.

<sup>89</sup> Ibid paras 303-315.

<sup>90</sup> *Philip Morris v Australia*, PCA Case No. 2012-12, Award on Jurisdiction and Admissibility (17 December 2015).

<sup>91</sup> *Bridgestone v Panama, Objections* (n 19) para 326.

when quantum comes to be considered. It does not follow that the whole of the payment will be recoverable as loss sustained by BSLS.’<sup>92</sup>

On the final objection the tribunal had to respond to, the claimants attempted to include potential loss through the decision of the Panamanian Supreme Court as it ‘may be followed in other Latin American countries as a matter of government policy’.<sup>93</sup> The tribunal held that ‘In the opinion of the Tribunal, a dispute as to whether States other than Panama are likely to copy Panama’s alleged abuse of the Claimants’ intellectual property rights to the detriment of the Claimants is both speculative and remote from each of the Claimants’ investments. That part of the overall dispute cannot possibly be said to “*arise directly out of*” either Claimant’s investment.’<sup>94</sup> This was reiterated in the final award in this case, where claimants tried to base its claim ‘on a different basis’ but failed to convince the tribunal.<sup>95</sup>

Here the tribunal limited the potential for damage claims in a reasonable way. It would be absurd to use investment protection to claim damages from the host state for any hypothetical negative effect a domestic decision has for a transnational corporation abroad.

## VII. Locus Standi of a Licensee

On the merits,<sup>96</sup> the first question the tribunal had to address was whether the licensee BSAM had locus standi in this denial of justice claim. The issue here was that the licensee was not a party to the underlying proceedings in which the alleged denial of justice occurred. The tribunal drew a distinction between ‘the position under international law in respect of a party who asserts

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<sup>92</sup> Ibid para 329. See also the tribunal’s analysis on this in the final award, paras 217-2

<sup>93</sup> *Bridgestone v Panama, Objections* (n 19) para 348.

<sup>94</sup> Ibid para 354.

<sup>95</sup> *Bridgestone Licensing Services, Inc and Bridgestone Americas, Inc v Republic of Panama*, ICSID Case No ARB/16/34, Award (14 August 2020) 199-200.

<sup>96</sup> *Bridgestone Licensing Services, Inc and Bridgestone Americas, Inc v Republic of Panama*, ICSID Case No ARB/16/34, Award (14 August 2020). For a detailed analysis of this see Gabriel M. Lentner and Dayana Zasheva, ‘Bridgestone v Panama: Denial of Justice in a Trademarks Dispute and the Locus Standi of a Licensee in International Investment Arbitration’ *forthcoming*.

that it has suffered a denial of justice'<sup>97</sup> and the specific wording of applicable Article 10.5.1 TPA. The latter provision protects the covered investment itself against unfair and inequitable treatment.<sup>98</sup> Therefore, the key question for the tribunal was not whether a *party* to a local proceeding has been denied justice, as required under international customary law, but whether the investment itself has been treated unfairly due to a denial of justice.<sup>99</sup> Thus, it is according to the tribunal not necessarily always the case that the investor will be a party to the proceedings in which the denial of justice to the detriment of its investment occurs.<sup>100</sup>

For the tribunal, the licensee should have standing as it was found to be an investor within the meaning of the applicable TPA. The tribunal stated that:

given the way in which the TPA has prescribed the rules of standing and defined “investment,” the answer is clear; there are no cogent reasons of principle to interpret the TPA as precluding BSAM from alleging a denial of justice on the part of the Supreme Court as constituting a failure to accord to its covered investment fair and equitable treatment, in the same way that it is open to BSLS to advance this case.<sup>101</sup>

Due to a lack of jurisprudence addressing this issue directly, the tribunal reasoned by analogy. It referred to the *Arif v. Moldova*<sup>102</sup> case to conclude that the trademark licensee has a right to bring a claim in respect of an alleged denial of justice suffered by its investment, just as a shareholder can bring a claim for denial of justice experienced by its investment in proceedings to which it was not a party, but to which its wholly owned company that owns the investment was a party.<sup>103</sup> The rationale behind this being that in both cases the investors’ interest is to protect rights arising out of their covered investment.<sup>104</sup>

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<sup>97</sup> *Bridgestone v Panama* (n 96) para 165.

<sup>98</sup> *ibid.*

<sup>99</sup> *ibid.*

<sup>100</sup> *ibid.*

<sup>101</sup> *Bridgestone v Panama* Merits (n 95) para 176.

<sup>102</sup> *Mr. Franck Charles Arif v. Republic of Moldova*, ICSID Case No. ARB/11/23 Award (8 April 2013).

<sup>103</sup> *ibid* paras 166 and 176.

<sup>104</sup> *ibid* paras 174.

Another issue was the question of the exhaustion of local remedies. The tribunal in *Arif*<sup>105</sup> found that it is not necessary for the shareholder to have been a party to the underlying proceeding to assert denial of justice provided that local remedies are exhausted.<sup>106</sup> Therefore, it appears to be implied that in the event that the trademark owners had not exhausted all local remedies, the licensee could not have been able to succeed with a denial of justice under this precedent.

However, there is an additional requirement of substance to be satisfied.<sup>107</sup> Whether a licensee has standing will depend also on the extent of the legal rights the licensee possesses towards this covered investment and how the denial of justice affected those rights. The tribunal noted here that neither of the parties had presented any jurisprudence addressing the relationship between the licensee and the licensor.<sup>108</sup> The tribunal looked at the domestic Panamanian law to find that, although the licensee cannot start proceedings to enforce the trademark without the participation of the owner, it can nevertheless join with the owner in enforcement proceedings.<sup>109</sup> Thus, if the licensee had joined the Bridgestone entities in the opposition proceedings, the licensee would have inevitably been a party in the Supreme Court's case dealing with this opposition. Were that the case, the tribunal stated that the question of the standing of the licensee would not have arisen. Because of this, the tribunal held in the Expedited Objections that although the licensee cannot claim recovery of the judgement debt, as it was not a party to the underlying proceedings, it has a right to claim damages for diminished value of its investment caused by the ruling in these proceedings.<sup>110</sup> Since Panama's liability to pay such damages would be invoked if the Supreme Court's judgement amounted to a denial of justice, the tribunal held that the licensee should have the right to assert it.

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<sup>105</sup> *Mr. Franck Charles Arif v. Republic of Moldova*, ICSID Case No. ARB/11/23 Award (8 April 2013).

<sup>106</sup> *ibid* paras 438-445.

<sup>107</sup> Zachary Douglas, *The international law of investment claims* (Cambridge University Press 2009) 403–406.

<sup>108</sup> *Bridgestone v Panama* Merits (n 95) para 175.

<sup>109</sup> *ibid* para 195.

<sup>110</sup> *ibid* paras 237-248.



On the merits, the denial of justice claim failed<sup>111</sup> as the claimants could not show that the decision of the Supreme Court was so egregiously wrong that no honest or competent court could possibly have given it.’<sup>112</sup> On damages, the tribunal held as well that the claimants had not proved that the Supreme Court’s ruling to hold them liable for reckless trademark opposition had diminished the value of their trademarks.<sup>113</sup> Accordingly, had they succeeded in establishing denial of justice, their victory would have been ‘pyrrhic’.<sup>114</sup>

Despite this outcome, the award on the merits does highlight again the expansion of property rights through investment arbitration. It granted standing to a licensee based on the alleged reduced value of the underlying trademark because of a Supreme Court decision that imposed a penalty on the trademark owner in accordance with domestic law. That means in principle any state measures that negatively impact the value of a trademark might give licensees of those trademarks direct access to investor-state arbitration.

## VIII. Relationship between IP and Investment Chapters

Another important aspect of regime shifting seen in this case is the question if and to what extent IP matters can be examined in ISDS proceedings under FTAs which subject IP disputes exclusively to state-to-state dispute settlement.<sup>115</sup> This question is specifically pertinent since in the present case the applicable treaty between the United States and Panama contains separate Investment and IP chapters and subjects them to distinct dispute settlement mechanisms. Since the dispute involves damages arising out of a dispute over trademarks, it could be argued that

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<sup>111</sup> See further Gabriel M. Lentner and Dayana Zasheva, ‘Bridgestone v Panama: Denial of Justice in a Trademarks Dispute and the Locus Standi of a Licensee in International Investment Arbitration’ *forthcoming*.

<sup>112</sup> *Bridgestone v Panama* Merits (n 95) para 223.

<sup>113</sup> *Bridgestone v Panama* Merits (n 86) paras 568-570.

<sup>114</sup> *ibid* para 570.

<sup>115</sup> See also on this Gabriel M. Lentner and Dayana Zasheva, ‘Bridgestone v Panama: Denial of Justice in a Trademarks Dispute and the Locus Standi of a Licensee in International Investment Arbitration’ *forthcoming*. On the question of the relationship between the IP and investment chapter in the CPTPP see Gabriel M Lentner, ‘CPTPP’s Investment Chapter and the Protection of IP’ (2019) 16(5) *Transnational Dispute Management* 1-12.

this question is to be settled through the general settlement mechanism provided in Chapter 20 (Dispute Settlement) of the TPA and not the specific ISDS mechanism under the Investment chapter. Whereas Article 20.2 of the TPA provides for state-to-state dispute settlement and stipulates that ‘except as otherwise provided in this Agreement, the dispute settlement provisions of this Chapter shall apply [...]’, Article 10.16 of the TPA limits the investor’s right to bring claims against a State exclusively to violations of the Investment Section A. Although the Investment Section allows the investor to claim unfair treatment of its investment<sup>116</sup>, which can be in the form of intellectual property<sup>117</sup>, it is the chapter on IP rights that specifically deals with trademarks (Art 15.2) and sets out minimum standards for regulating the enforcement of these (Art 15.11). Specifically, the states parties are obliged to ensure protection of trademarks against likelihood of confusion<sup>118</sup> and to provide a mechanism for opposition to applications for registration of marks<sup>119</sup>. This is precisely the context of the case *Bridgestone* brought against Panama. In addition, the IP chapter provides requirements for provision of due process and damage ordinance in respect to trademark disputes.<sup>120</sup>

Thus, a breach of these provisions in the IP Chapter, which is subject to the state-to-state dispute resolution provided in Chapter 20 of the TPA, may be the basis of a claim by one State Party against another. The question then is whether that same infringement still allows for a separate and additional cause of action for an investor. In this respect it must be pointed out that the TPA Investment chapter stipulates in Article 10.2 that ‘[i]n the event of any inconsistency between this chapter and another chapter, the other Chapter shall prevail to the extent of the inconsistency.’ Thus, taken together and interpreted as a whole, one could argue that the specific obligations regarding enforcement of trademarks point to the conclusion that the IP

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<sup>116</sup> TPA Article 10.5.

<sup>117</sup> *ibid* Article 10.29(f).

<sup>118</sup> *ibid* Article 10.2.3.

<sup>119</sup> *ibid* Article 10.2.6(c).

<sup>120</sup> *see* for due process TPA Article 15.11.3 which requires ‘final judicial decisions ... shall be in writing and shall state any relevant findings of fact and the reasoning or the legal basis on which the decisions and rulings are based’; *see* for damages TPA Articles 15.11.7 and 15.11.9.

dispute is to be settled under Chapter 20 and not under the investment chapter.<sup>121</sup> Whether this alone deprives an investment tribunal of jurisdiction over this case seems doubtful, but it does follow that an investment tribunal should take norms provided in IP chapters or IP treaties into account through the concept of systemic integration as per Article 31.3(c) Vienna Convention on the Law of Treaties ('VCLT').<sup>122</sup>

A stricter delineation between those two legal regimes seems to be supported by arguments offered by states. In respect to the patent dispute between Eli Lilly and Canada concerning a violation of the NAFTA Investment Chapter<sup>123</sup>, Canada and the other State parties to the treaty argued that the investor cannot claim breach of IP rights under the fair and equitable treatment provision.<sup>124</sup> The reasoning behind this being that IP rights are regulated separately in the IP chapter of NAFTA as international obligations owed to the other States' parties and that the ISDS is confined to disputes under the Investment Chapter.<sup>125</sup> Mexico further asserted that 'if the NAFTA Parties had intended that a Party should be liable to compensate an investor or another Party for an alleged non-compliance with an obligation under Chapter Seventeen [Intellectual Property], they would have so provided expressly.'<sup>126</sup> These arguments were, however, not addressed by the tribunal and the claim was rejected on the merits.<sup>127</sup>

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<sup>121</sup> Gabriel M. Lentner, 'Investor-State Dispute Settlement and the Relationship between IP and Investment Chapters in Free Trade Agreements' (2020) TTLF Working Papers 1, 8. On this issue regarding the similarly worded conflict norm in the CPTPP see also Gabriel M. Lentner, 'CPTPP's Investment Chapter and the Protection of Intellectual Property Rights' (2019) 5 Transnational Dispute Management Journal 1.

<sup>122</sup> Simon Klopschinski, Christopher S. Gibson and Henning Grosse Ruse-Khan, *The Protection of Intellectual Property Rights under International Investment Law* (OUP 2021) 51.

<sup>123</sup> *Eli Lilly v Canada* (n 137). See Gabriel M Lentner, 'Litigating patents in investment arbitration: Eli Lilly v Canada' (2017) 12(10) Journal of Intellectual Property Law & Practice 815.

<sup>124</sup> *Eli Lilly and Company v the Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, Government of Canada Observations on the Issues Raised in *Amicus* Submission (22 April 2016) para 19.

<sup>125</sup> *ibid* para 16.

<sup>126</sup> *Eli Lilly and Company v the Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, NAFTA Article 1128 Submission of Mexico pursuant (18 March 2016) para 30; see also para 22 ('Article 1110(7) does not invite an arbitral tribunal constituted under Section B of Chapter Eleven to determine whether the host Party has complied with Chapter Seventeen when revoking or limiting intellectual property rights owned by an investor of another Party.').

<sup>127</sup> *Eli Lilly v Canada* (n 137).

Nevertheless, the relationship of different regulatory chapters in FTAs, such as NAFTA, has been discussed by other tribunals. In *S.D. Myers, Inc. v Canada*, an investment tribunal addressed Canada and Mexico's argument that the investor's claim under the Investment Chapter 11 is barred, as it concerns matter within the scope of other NAFTA Chapters- Chapter 3 (Trade in Goods) and/or Chapter 12 (Trade in Services).<sup>128</sup> By referring to a WTO panel report, the tribunal found that the Chapters of the NAFTA are part of a 'single undertaking,' meaning that different provisions are 'cumulative' and complementary and the application of a more specific norm does not exclude *per se* the application of a more general one.<sup>129</sup> Thus, the tribunal adopted a restricted definition of 'conflict' which was established by WTO precedents<sup>130</sup> and adopted as well by another NAFTA tribunal in *Pope & Talbot*<sup>131</sup>. Accordingly, the tribunal held that a special provision may disengage the application of a general one only if there is some actual conflict between them 'in the sense that adherence to one provision would cause a violation of the other.'<sup>132</sup> In light of this, the tribunal found that '[t]here is no reason why a measure which concerns goods (Chapter 3) cannot be a measure relating to an investor or an investment (Chapter 11).'<sup>133</sup>

As to the relationship between Chapter 11 (Investment) and Chapter 12 (Trade in Services) the tribunal held that the fact that S.D. Myers, as a cross-border provider, could invoke Chapter 12 to recover its losses did not prevent him from claiming these losses under the Investment Chapter as an investor instead.<sup>134</sup> The reasoning behind this being that '[t]he grant of a right generally does not take away other rights unless they are mutually exclusive, or the grant is

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<sup>128</sup> *SD Myers, Inc v Government of Canada*, UNCITRAL, Partial Award (13 November 2000).

<sup>129</sup> *ibid* paras 291-292.

<sup>130</sup> *ibid* para 293.

<sup>131</sup> *Pope & Talbot Inc. (U.S.) v. Canada*, UNCITRAL, Award by the Arbitral Tribunal in relation to Preliminary Motion by Government of Canada to Dismiss the Claim because it Falls Outside the Scope and Coverage of NAFTA Chapter 11 "Measures Relating to Investment" Motion) (Jan. 26, 2000) para 26.

<sup>132</sup> *Myers v Canada* (n 116) para 293.

<sup>133</sup> *ibid* para 294.

<sup>134</sup> *SD Meyers, Inc v Government of Canada*, UNCITRAL, Second Partial Award (21 October 2002) para 138.

stated expressly to abrogate another right'.<sup>135</sup> Thus, the coverage of a given situation by a Chapter other than Chapter 11 (Investment) is not sufficient to remove the matter from the scope of the Investment Chapter under NAFTA. Instead, there must be a conflict between the provisions of the Chapters.<sup>136</sup>

Similar to *S.D. Mayers*, an earlier tribunal dismissed out of hand an issue concerning the relationship between the Investment Chapter and another Chapter of NAFTA. In the case of *Ethyl v Canada*, the tribunal in its Award on Jurisdiction, dealt with Canada's argument that the state measure at issue (a legislative act that prohibited inter-provincial trade of the gasoline additive MMT) should be viewed as affecting trade in goods and therefore falling within Chapter 3 and state-to-state dispute settlement to the exclusion of ISDS.<sup>137</sup> The tribunal declined to hold that its jurisdiction was precluded arguing that Canada did not cite any authority to that end and only invoked Article 1112(1), which requires that '[i]n the event of any inconsistency between this Chapter [11] and another Chapter [e.g., 3], the other Chapter shall prevail to the extent of the inconsistency.' Instead of examining on its own motion whether there is in fact conflict between the two Chapters, the tribunal was persuaded that it 'cannot presently exclude Ethyl's claim on this basis'.<sup>138</sup> The issue was not further discussed, as the tribunal was eventually discontinued.

Nevertheless, Canada's argument concerning the scope of Article 1112(1) of NAFTA, has been addressed by a later NAFTA tribunal. In the case *Terminal Forest v USA*<sup>139</sup> the NAFTA tribunal held that the Investment Chapter's limitation under Article 1112(1) to 'any inconsistency' with the other Chapters is restricted to 'differences in text, possibly as interpreted, and not to decisions resulting from dispute resolution mechanisms contemplated by

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<sup>135</sup> *ibid* para 132.

<sup>136</sup> Meg Kinnear, Andrea Bjorklund, and John F.G Hannaford, *Investment disputes under NAFTA: an annotated guide to NAFTA Chapter 11* (Kluwer Law International 2006) 1116.

<sup>137</sup> *Ethyl Corporation v. The Government of Canada*, UNCITRAL, Award on Jurisdiction (24 June 1998) para 62.

<sup>138</sup> *ibid* paras 63-64.

<sup>139</sup> *Canfor Corporation v. United States of America; Terminal Forest Products v. United States of America*, UNCITRAL, Decision on Preliminary Question (6 June 2006).

those texts'.<sup>140</sup> Thus, the tribunal rejected the United States' claim that its jurisdiction was precluded under Article 1112(1) on the basis that the case concerned the application of antidumping and countervailing duty laws, which are subject to state-to-state dispute settlement according to Chapter 19 (Antidumping and Countervailing Duty Laws). Still, the tribunal found that there is inconsistency between Chapter 19 and the Investment Chapter based on the clear wording of the exclusivity clause. Pursuant to this clause contained in Article 1903(1) of Chapter 19 'no provision of any other Chapter of this Agreement shall be construed as imposing obligations'. Relying on the differences of the texts, the tribunal held that it lacked jurisdiction, as a review of the antidumping and countervailing duty laws with respect to obligations under the Investment Chapter would have been a violation of this Article.<sup>141</sup>

This reluctance of tribunals to accept the existence of direct norm conflicts between IP and investment chapters is understandable. Indeed, the International Law Commission ('ILC') has recognized in its Fragmentation Report that the implementation of the principle *lex specialis* is affected by the institutional context and the institutional hierarchy in which it is applied<sup>142</sup> and its role may be limited to only a subsidiary instrument in conflict resolution<sup>143</sup>. Still, investor-state arbitral tribunals should be careful not to overstep their competence. In particular, in the context of IP Chapters, which provisions are set as vis-à-vis State obligations and shall prevail in case of inconsistency with other Chapters, it is clear that investor-state tribunals have competence only to determine whether the State has violated an investment protection standard and should not be used as a vehicle to enforce other IP norms.<sup>144</sup> As a result, in situations like in the instant case, the question whether the State's judiciary denied an investor justice by egregiously misapplying its municipal law is a matter of investment protection but deference

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<sup>140</sup> *ibid* para 228.

<sup>141</sup> *ibid* para 273.

<sup>142</sup> Report of the Study Group of the International Law Commission, Fifty-eighth Session 1 May-9 June and 3 July-11 August 2006 'Fragmentation of International Law: Difficulties Arising from the Diversification and Expansion of International Law' (13 April 2006) UN Doc A/CN.4/L.682 para 75.

<sup>143</sup> *ibid* para 76.

<sup>144</sup> Klopschinski, Gibson and Ruse-Khan (n 110) 64.

should be given to questions relating to issues governed specifically by IP chapters subject exclusively to the state-to-state dispute settlement mechanism. This interpretation is supported by the inclusion in FTAs and IIAs of a limitation clause to the right of an investor to claim expropriation of its investment in IP related disputes.<sup>145</sup> For example, Article 1110(7) of NAFTA (Expropriation and Compensation) stipulates that the provision on expropriation ‘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 the Chapter Seventeen (Intellectual Property)’<sup>146</sup>. In respect to this provision, Mexico, in its submission to the *Eli Lilly* dispute, stated that:

the most a Chapter Eleven arbitral tribunal can do in considering the application of Article 1110(7) is to determine whether or not it is plainly obvious or clear on its face that measure allegedly amounting to termination or limitation of the intellectual property rights at issue is inconsistent with Chapter Seventeen. If not, that would be the end of the inquiry. If there appeared to be a genuine dispute as to whether the impugned measure conforms with the requirements of Chapter Seventeen, in the absence of a finding of nonconformity by a Chapter Twenty dispute settlement panel, the exception stipulated by Article 1110(7) would apply.<sup>147</sup>

While such a limitation provision is not generally contained under other investment protections standards provided for in FTAs and IIAs, such as the FET standard and the MFN clause, it

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<sup>145</sup> see further on this Klopschinski, Gibson and Ruse-Khan (n 110) 52ff. see also the explicit provision in the CETA agreement that limits the scope of investment protection in the IP context in Annex 8-D, Siegfried Fina and Gabriel M. Lentner, ‘The European Union’s New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights’ (2017) 18 Journal of World Investment and Trade 271, 299ff.

<sup>146</sup> The applicable TPA contains an identical provision in Article 10.7 para 5 on Expropriation and Compensation: ‘This Article 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 Chapter Fifteen (Intellectual Property Rights).’

<sup>147</sup> *Eli Lilly v Canada*, Submission of Mexico pursuant (n 168) para 31.

should nevertheless serve as a guidance for the jurisdiction of the investor-state tribunals under these standards as well. This is due to the fact that it would be inconsistent for an investor-state tribunal to examine State obligations under the IP Chapter, in cases when the IP Chapter is subject exclusively to state-to-state dispute settlement mechanism and the IP Chapter provisions should prevail in cases of inconsistencies.

The NAFTA Investment Chapter tribunals jurisdiction is limited strictly to adjudicating claims for breach of a NAFTA Party's obligations under the Investment Chapter. Accordingly, the tribunal in *UPS v Canada* held that although Article 1116(1) of NAFTA allowed an investor to bring a claim for violation of Articles 1503(2) and 1502(3)(a) of Chapter 15 (Monopolies and State Enterprise), the investor-State tribunal jurisdiction in respect to such claims extends only so far as these claims concern investment protection standards under the Investment Chapter.<sup>148</sup> Thus, the tribunal dismissed the investor's claims for violation of NAFTA provisions outside of Chapter 11, holding that although substantive provisions elsewhere in the agreement may impose broader obligations than those in the Investment Chapter, this did not affect its jurisdiction, which is limited.<sup>149</sup> Similarly, the NAFTA tribunal in *Grand River v USA* rejected that Article 1131(1), requiring it to decide the 'dispute in accordance with [...] applicable rules of international law', allows the tribunal to consider other treaties in establishing a violation of the Minimum Standard of Treatment under the Investment Chapter.<sup>150</sup> The tribunal warned that 'interpreting Article 1131(1) to create a jurisdiction extending beyond Section A of Chapter 11 would indeed be to transform it [...] into an unqualified and comprehensive jurisdictional regime, in which there would be no limit *ratione materiae* to the jurisdiction of a tribunal established under Chapter 11 NAFTA'.<sup>151</sup>

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<sup>148</sup> *United Parcel Service of America Inc. v. Government of Canada*, NAFTA/UNCITRAL, Award on Jurisdiction (22 November 2002) paras 62-69.

<sup>149</sup> *ibid.*

<sup>150</sup> *Grand River Enterprises Six Nations, Ltd., et al. v. United States of America*, UNCITRAL, Award (12 January 2011) para 71.

<sup>151</sup> *ibid.*



Still, there are opposing views. Interestingly, the United States does not consider that it would be inconsistent for an investor-state tribunal to examine whether a State has complied with its obligations under the IP Chapter of NAFTA, despite the fact that this chapter is subject to the state-to-state dispute settlement mechanism.<sup>152</sup> Unlike Mexico, the United States does not interpret Article 1110(7) to serve as a bar to the investor-state tribunal competence. Instead, the United States considers that the Article requires the investor-state tribunal to first establish that there is expropriation before having the right to proceed with assessment as to whether the measure was in accordance with the IP Chapter.<sup>153</sup>

In final analysis, the issues discussed above suggest a certain level of restraint on investment tribunals not to exercise jurisdiction to effectively determine violations of IP norms found in IP Chapters/TRIPS and/or other IP treaties.<sup>154</sup> At the same time, this does not *per se* exclude IP disputes being brought before ISDS, but tribunals should take into account by way of systemic integration and mutual coherence as per Article 31.3(c) VCLT the broader context of IP regulation and the policy objectives pursued therein when assessing potential violations of investment protection standards.

## IX. Conclusion

This case is not the first IP-related dispute to come before an investment tribunal. Indeed, the ‘practical relevance’ of the intersection between IP and investment law due to the inclusion of IP rights as a form of investment has for long been overlooked.<sup>155</sup> However, in today's globalized knowledge economy, a shift from viewing IP as an incentive-commodity to an asset

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<sup>152</sup> *Eli Lilly and Company v the Government of Canada*, UNCITRAL, ICSID Case No UNCT/14/2, NAFTA Article 1128 Submission of the United States of America (18 March 2016) paras 31-38.

<sup>153</sup> *ibid* paras 34-36.

<sup>154</sup> Klopschinski, Gibson and Ruse-Khan (n 110) 64.

<sup>155</sup> Henning Grosse Ruse-Khan, ‘Challenging Compliance with International Intellectual Property Norms in Investor–State Dispute Settlement’ (2016) 19 *Journal of International Economic Law* 241, 244.

has been observed.<sup>156</sup> This case has now clearly established that the regime shifting has been happening.

This decision is important because it contributes to that shift by expanding the pool of investors who can bring lawsuits for losses related to IPRs. It also elucidates the many complex legal issues surrounding trademark owners and licensees and their respective position in investment arbitration claims. The tribunal was careful to give sound reasons to the positions adopted here and in the analyses of these issues. Therefore, this case will surely be referenced in future cases dealing with trademarks in investment arbitration.

On the merits, the tribunal also clarified that the applicable FET standard, which protects the covered investments against unfair and inequitable treatment, gives standing not only to the owner of such covered investment (in this case in the form of a trademark), but also to the licensee of the intellectual property right 'IPR'. This decision further stands out as it dispensed with some obstacles for bringing a denial of justice claim under international law, thereby also facilitating investor access to such claims. The tribunal held that where the FET clause protects the covered investment itself against unfair treatment, the investor has locus standi to bring a claim for denial of justice even when it was not a party in the underlying dispute, as was the situation of the trademark licensee. Such a ruling raises a number of issues relating to whether the tribunal's decision is consistent with the principle of judicial finality and whether the licensee has the requisite legal interest in the investment to bring a denial of justice claim. It will be interesting to see how future tribunals will assess these questions.

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<sup>156</sup> Pratyush Nath Upreti, 'Enforcing IPRs through Investor-State Dispute Settlement: A Paradigm Shift in Global IP Practice' (2016) 19 J World Intell Prop 53, 74.