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The Concept of IP in International Investment Law and Arbitration

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General Note about the Content

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Abstract

This paper examines the intricate interplay between domestic law concepts and international investment law through the lens of intellectual property (IP). In the realm of international investment, where treaties often rely on domestic law concepts, such as property, to define and protect investor rights, the proper interpretation of these concepts becomes paramount.

This paper argues that, unless explicitly stated otherwise, international treaties referencing domestic law concepts must be applied by renvoi to the relevant domestic law. Making this point, the case of *Philip Morris v Uruguay*, is presented as a compelling illustration of the challenges and complexities inherent in interpreting domestic law concepts (in this case trademarks) within the context of international investment law. The case analysis delves into the intricacies of jurisdiction, emphasizing that intellectual property rights (IPRs) and other investments do not exist independently of domestic legal frameworks.

This paper hence argues that IPRs are intrinsically tied to domestic legal orders and emphasizes that domestic courts, not international investment tribunals, hold jurisdiction over the granting, revocation, and limitation of IPRs. I underscore the significance of maintaining respect for the diversity of national legal systems and their policy objectives in the interpretation of domestic law concepts. In conclusion, the study advocates for caution in avoiding the development of an international law of property through the actions of international investment tribunals and calls for a consistent approach to referencing domestic law concepts in international investment arbitration.

Contents

1. Introduction

Writing in 1927, Hersch Lauterpacht found frequent recourse to private law in the settlement of international disputes. This is done directly when international tribunals state expressly that they apply a particular rule of private law, or indirectly when a corresponding private law rule is found to be a general principle of law or as a rule of 'universal jurisprudence'.[1] Private law has been an

[1] Hersch Lauterpacht, *Private Law Sources and Analogies of International Law* (Longmans, Green and Co 1927) 302–303. Another instance now appears more often in practice, ie the use of domestic law concepts to give concrete meaning to an otherwise vague treaty term or standard. An example for this would be the use of the concept of legitimate expectations in the interpretation of the fair and equitable (FET) treatment standard found in almost all international investment agreements. See Stephan Schill, 'International Investment Law and Comparative Public Law- An Introduction' in Stephan W Schill (ed), *International Investment Law and Comparative Public Law* (Oxford University Press 2010) 28; Benedict Kingsbury and Stephan W Schill, 'Public Law Concepts to Balance Investors' Rights with State Regulatory Actions in the Public Interest—the Concept of Proportionality' in Stephan W Schill (ed), *International Investment Law and Comparative Public Law* (Oxford University Press 2010). A detailed study of these phenomena and particularly its basis in the sources of international law is beyond the scope

important source of international law and contributed significantly to the principles and concepts used in international law.[2] Their significance for international economic relations between states and between states and investors can hardly be overstated.

Recourse to domestic (private) law concepts is inevitable because international law does not have its own code of company law nor substantive rules that govern contracts, property rights, shares and shareholders' rights, etc. But international law might need to refer to these concepts.[3] This is particularly the case in international investment law, where international investment agreements[4] rely on domestic law concepts such as property, intellectual property, shares, companies etc., to regulate the protection of such assets under international law rules specified in those treaties.[5] Without precise substantive content of such concepts and rights in international law (absent an international law of property[6], IP, company law, contracts, etc), international investment tribunals called on to determine the content of such rights must turn to the relevant domestic law.[7]

This necessary recourse to domestic law concepts in international investment arbitration practice is, however, inconsistent.[8] In some cases, the relevant domestic law provisions are not properly

of this paper but see the forthcoming work by this author on Domestic Law Concepts in International Investment Arbitration (forthcoming 2024).

[2] Of course public law concepts have also been (perhaps more recently than their private law counterpart) important for the development of international law, see Stephan W Schill (ed), *International Investment Law and Comparative Public Law* (Oxford University Press 2010).

[3] Carlos Correa and Jorge E Viñuales, 'Intellectual Property Rights as Protected Investments: How Open are the Gates?' (2016) 19(1) Journal of International Economic Law 91, 95.

[4] Comprising of bilateral investment treaties, investment chapters in free trade or other comprehensive trade and investment treaties and other international treaties between states regulating the protection of foreign investment.

[5] Monique Sasson, *Substantive Law in Investment Treaty Arbitration: The Unsettled Relationship between International Law and Municipal Law* (2nd edn, Wolters Kluwer 2017) 244.

[6] On the international law protection of property, see generally Ursula Kriebaum, *Eigentumsschutz im Völkerrecht: Eine vergleichende Untersuchung zum internationalen Investitionsrecht sowie zum Menschenrechtsschutz* (Duncker & Humblot 2008).

[7] Sasson (n 5) 244.

[8] For an overview of examples regarding different questions of law, see ibid 112–122 On the difficulty of domestic law in international investment law generally, see Jarrod Hepburn, *Domestic law in international investment arbitration* (Oxford University Press 2017).

and sufficiently considered. Rather, it appears that arbitrators at times import substantive content to these concepts without regard to the requirements of international law to have recourse to the relevant domestic law. In this paper, which is part of a much larger research project[9], I argue that unless explicitly stated otherwise, domestic law concepts used in international treaties must (absent indications for a different interpretation) be applied by *renvoi* to the relevant domestic law. In so doing, I build on Monique Sasson's study on substantive law in investment treaty arbitration[10] and discuss the case of *Philip Morris v Uruguay*, as a prime example of tribunals having difficulty in applying domestic law concepts in concrete cases. I choose this case because it very clearly illustrates the fundamental relevance of a proper domestic law analysis for the determination of IP rights. It is also a suitable case study as it is more intuitive that IP are only created by domestic law than regarding, for example, rights in real property. Further reasons for looking at IP specifically is their particular relevance in international economic relations, with potential consequences for public health, economic development and the right to regulate IP generally.

The next section will provide some background for understanding domestic law concepts in international law. What follows is a detailed case study of Philip Morris v Uruguay, an investment arbitration case about state measures affecting an investor's trademarks. It first discusses the decision on jurisdiction and then the merits. Next is a critical account of the proper interpretation of domestic law in that case, specifically regarding the question of trademarks as exclusive rights and trademarks as property. The final section concludes.

[9] See Gabriel M. Lentner, *Domestic Law Concepts in International Investment Law and Arbitration* (*forthcoming* 2024).

[10] Sasson (n 5).

2. Domestic Law Concepts Between International Obligations and Domestic Definitions

Hersch Lauterpacht concluded his study on private law sources and analogies of international law in 1927 by finding that

> 'Whenever in a treaty a generally accepted term of private law is being used, the interpretation and construction of the treaty must, unless the contrary is stipulated in the treaty itself, follow the principles generally recognised as implied in this particular term. The acceptance of the view that a conception of private law when used in a treaty loses its usual meaning, would deprive international law of an important source of development and of a working rule of interpretation.'[11]

In general, the PCIJ in the cases *Certain German Interests in Polish Upper Silesia* (Merits)[12] and *Panevezys-Saldutiskis Railway* case[13] as well as later the ICJ in Barcelona Traction[14] and Diallo[15], established that international law and domestic[16] law are separate and different in scope when defining property claims. But they also showed that international law may need to refer to domestic law when rights defined in a particular domestic legal order are at issue. This dichotomy has been generally accepted by investment tribunals, but exceptions that obscured the distinction exist.[17]

In fact, domestic law concepts are often at issue and involve high stakes international investment law, as they determine whether there is jurisdiction and/or interference with a right in the first place. The legal questions at issue are often particularly complex in their relationship between international and domestic law.

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[11] Lauterpacht (n 1) 302.
[12] PCIJ, Certain German Interests in Polish Upper Silesia (Merits), Judgment, (25 May 1926) Series A, 7, 1.
[13] PCIJ, Panevezys-Saldutiskis Railway case, Judgment (28 February 1939) Series A/B, No. 76, 4, at 18.
[14] *Barcelona Traction* [1970] [1970] ICJ Rep 114 (ICJ).
[15] *Case Concerning Ahmadou Sadio Diallo (Guinea v DRC)* [2010] [2010] ICJ Reports 639 (ICJ).
[16] Municipal, national, domestic, internal, state law, is used here interchangeably.
[17] Sasson (n 5) 112 (et seq for the examples).

Investment agreements protect foreign investors and their investments through international law standards that are independent from a particular domestic law. These standards include fair and equitable treatment and the prohibition against expropriation without compensation. However, neither general international law nor investment treaties regulate the substantive content of the rights it protects.[18] When a bilateral investment treaty (BIT) refers to 'intellectual property rights' as an example of forms an investment that is protected under the treaty can take, the treaty does not provide any substantive content and extent of such right.[19] Therefore, applying the protection standard will in most cases require *reliance or renvoi* to domestic law.[20]

A useful example is discussed by Sasson, who points out that

> '[t]he determination of whether a contractual right constitutes an investment first requires an analysis under the relevant municipal law to determine whether the right exists, and any limits to which it may be subject. The second step is to determine whether this right gives rise to investment protection. The enquiry into the relevant municipal law, however, does not determine whether there has been a violation of international law.'[21]

This has been recognized by the ad hoc committee in *Vivendi*, observing that 'a State may breach a treaty without breaching a contract and vice versa'.[22] It also follows from Art 3 of the ILC's Articles on State Responsibility, which states that the 'characterization of an act of a State as internationally wrongful' is not 'affected by the characterization of the same act as lawful by internal law'.'[23] Zachary Douglas equally states that investments

> 'are, therefore, given an "objective" treaty definition. But this definition does not in some way detach the rights in rem that underlie those investments from municipal law that

[18] ibid 9.
[19] Pratyush N Upreti, 'The Role of National and International Intellectual Property Law and Policy in Reconceptualising the Definition of Investment' (2021) 52(2) IIC 103; Correa and Viñuales (n 3)
[20] See also Correa and Vinuales distinguish different models with respect to the definition of IPRs for the purposes of the definition of investment, see Correa and Viñuales (n 3) This paper adopts in general the delegation/reliance model, see ibid 97-100 but depending on the specific wording in the treaty, the full renvoi might be applicable, see ibid 96-97.
[21] Sasson (n 5) 9–10.
[22] Vivendi v Argentine, Decision on Annulment (3 July 2002) ILM 41 (2002) 1135, para 95.
[23] ibid.

> creates and gives recognition to those rights. Investment treaties do not contain substantive rules of property law. There must be a renvoi to a municipal property law'.[24]

And while many investment agreements have provisions on applicable law, they merely state the problem without resolving it. Even in cases where parties exclude domestic law, international law needs to refer to the law of the host state to provide content to property rights to be protected.[25] Additionally, but beyond the scope of this paper, procedural domestic law concepts and domestic law analogies that are used in investment arbitration (such as regards document production, discovery, rules on evidence) also pose interesting questions regarding their validity and applicability in light of the sources of international law.[26]

Given the absence of a substantive law of property in international law, it will usually be the case that domestic law regulates the substantive aspects of property. However, arbitral tribunals that attempt to define property exclusively and directly by international law will have gone astray from proper legal analysis at the outset.[27]

The misunderstanding regarding the domestic/international law relation seems to stem from an early case decided by renowned and widely respected international law scholar Jean-Marie Dupuy in *Texaco* in 1977. Here, he found that '[i]t is therefore [referring to the Sapphire International

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[24] Zachary Douglas, 'The Hybrid Foundations of Investment Treaty Arbitration' (2003) 74 British Yearbook of International Law 151, 197–198. Rosalyn Higgins pointed to the general relevance of domestic law in regard to the definition of what constitutes a property right in her general course in 1982, see Rosalyn Higgins, 'The Taking of Property by the State: Recent Developments in International Law' (1982) 176 Collected Courses of the Hague Academy of International Law 263, 270 (For 'what is meant by "property" […] [w]e necessarily draw on municipal law sources and on the general principles of law.'). See also with respect to IPRs as investments depending on domestic law Correa and Viñuales (n 3).

[25] Sasson (n 5) 11.

[26] Anthea Roberts, 'Clash of Paradigms: Actors and Analogies shaping the Investment Treaty System' (2013) 107 American Journal of International Law 45-94; Valentina Vadi, *Analogies in international investment law and arbitration* (Cambridge University Press 2015). See also focusing on domestic law concepts and their proper placing in the sources of international law, Gabriel M. Lentner, *Domestic Law Concepts in International Investment Law and Arbitration* (forthcoming 2024).

[27] Sasson (n 5) 103 See also for a rejection of autonomous international law definitions of property, Correa and Viñuales (n 3).

Petroleum Ltd. Award[28]] unquestionable that the reference to international arbitration is sufficient to internationalize a contract, in other words, to situate it within a specific legal order– the order of the international law of contracts.'[29]

To him, internationalizing a contract also implicitly meant that any rights and obligations were defined by international law and not domestic law. And absent any international law rules on the existence and scope of private law rights, tribunals will have to play a quasi-legislative role in finding substantive rules of property and contract deducible from international law.

In the practice of tribunals this has at times entailed blurring the distinction between legally protected rights and other commercial/economic interests of foreign investors, as Zachary Dougles put it.[30] However, that would entail that the basic distinction between rights and interests is disregarded: any tribunal would have the authority to transform an interest, such as an economic interest, into a right.[31] The resolution of a dispute would therefore be left to international tribunals' vast discretion, independent of legal principles.[32]

Still, the central question remains: if domestic law is to be applied, is the reference intended to be to some autonomous concept of domestic law, as the ICJ majority stated in *Barcelona Traction*,[33] or to a specific municipal law, as proposed by Judge Morelli in his separate opinion[34]?

[28] 35 Int'l L.R. 136 (1963) 172

[29] Texaco Overseas Petroleum Company/California Asiatic Oil Company v. The Government of the Libyan Arab Republic, Award on the Merits (19 January 1977) (French original), 17 ILM (1978) 1, 53 ILR (1979) 389 (English translation) para 44; See also J. Cantegreil, 'The Audacity of the Texaco/Calasiatic Award: Rene-Jean Dupuy and the Internationalization of Foreign Investment Law' (2011) 22(2) European Journal of International Law 441.

[30] Zachary Douglas, 'Property, Investment, and the Scope of Investment Protection Obligations' in Zachary Douglas, Joost Pauwelyn and Jorge E Viñuales (eds), *The Foundations of International Investment Law* (Oxford University Press 2014) 372–373.

[31] Sasson (n 5) 244.

[32] ibid.

[33] *Barcelona Traction* (n 14) para 50.

[34] *Barcelona Traction Case Separate Opinion of Judge Morelli* [1970] [1970] ICJ Reports 222-243 (ICJ) 234–236.

I argue that only specific municipal law is the correct answer, because no such 'autonomous' concept exists independently of an actual domestic legal order (at least not to the extent that it can be used in concrete determinations of the scope or existence of a right[35]). And it is difficult to justify why certain concepts of law from one state should be applied – or transplanted– instead of those of another. Indeed, in *Diallo*, the ICJ looked to Congolese law, rather than some type of generalized system, to determine the content of shareholders' rights.[36]

The reference to domestic law in this context does not mean, however, that international obligations are then placed under the sovereign will of one state's law. It simply means that the domestic law needs to be considered accordingly.[37] For example, no protected rights exist when they are null and void under the law of the host state, as investment treaties are not autonomous sources for rights.[38] The same goes for 'expectations' that cannot be considered property rights without the relevant domestic law recognizing them as such in their domestic legal system.[39]

But even beyond the question of the existence of a right, it is the precise scope and nature of the right that is determined by the domestic law and not international law, as the following case study of *Philip Morris v Uruguay* illustrates.

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[35] Here I adopt the distinction between real-type that is actually existing domestic law concepts and ideal-type, that is abstractions from real-type domestic law concepts. See further Ake Frändberg, for example, introduces in reference to Max Weber the distinction between ideal-type and real-type definitions of legal concepts. Ideal-type definitions are conceptual definitions that aim to capture the essential features or characteristics of a phenomenon by creating an abstract or idealized representation of it. See Ake Frändberg, 'An Essay on Legal Concept Formation' in Jaap C Hage and Dietmar von der Pfordten (eds), *Concepts in Law* (vol 88. Springer Netherlands 2009) 6–7.

[36] *Case Concerning Ahmadou Sadio Diallo (Guinea v DRC)* (n 15) para 114.

[37] Sasson (n 5) 245 Correa and Viñuales (n 3) 97.

[38] See the Wena, CME and Eureko awards criticized by Andrew Newcombe and Lluis Paradell, *Law and Practice of Investment Treaties: Standards of Treatment* (Kluwer Law International 2009) 351–352 ('[…] the awards in Wena, CME and Eureko, in which tribunals found investments were expropriated, might be criticized for failing to address adequately the specific nature of the contractual rights in question under domestic law.') Eureko v. Poland. See the criticism of the Eureko majority for not referencing Polish law, Zachary Douglas, 'Nothing if Not Critical for Investment Treaty Arbitration: Occidental, Eureko and Methanex' (2006) 22(1) Arbitration International 27, 44 ('what is disturbing is the total absence of any reference to Polish law or any other law in the reasoning'). See also the dissenting opinion in *Eureko v Poland* (2005) para 5 (ad hoc) Sasson (n 5) 103.

[39] See Tecnicas Medioambientales Tecmed SA v. Mexico, Award (29 May 2003) ILM 43 (2004), 133, and the comments of the Annulment Committee, paras 67–69, in MTD Equity Sdn Bhd. & MTD Chile S.A v. Republic of Chile, Decision on Annulment (21 March 2007). Cf Sasson (n 5) 103.

3. Philip Morris v Uruguay: A Case Study on Domestic Law Concepts

This ICSID case is particularly interesting with respect to interpretation of domestic law concepts in international investment agreements (IIAs). The domestic law concept at issue here is that of 'trademarks'. As an intellectual property right (IPR) the protection of a trademark is primarily a matter of domestic law. The discussion of the concept of a trademark in this case as either a negative right to exclude or a positive right to use points to the importance of clarifying the use of domestic law concepts in investment arbitration.

3.1. Decision on Jurisdiction: Domestic Law Defining Protected Rights

In its decision on jurisdiction[40] the tribunal first looked at Article 1 of the applicable BIT between Switzerland and Uruguay.[41] That provision provides the following definition of 'investment':

> (2) The term "investment" shall include every kind of assets and particularly:
> (a) movable and immovable property as well as any other rights in rem, such as charges on real estate, mortgages, liens, pledges;
> (b) shares, certificates or other kinds of participation in companies;
> (c) money claims and any entitlement of economic value;
> (d) copyrights, industrial property rights (such as patents of inventions, utility models, industrial designs or models, trade or service marks, trade names, indications of source or appellation of origin), know-how and good-will;
> (e) concessions under public law, including concessions to search for, extract or exploit natural resources as well as all other rights given by law, by contract or by decision of a public entity in accordance with the law.

As to the question of which law governs the determination of jurisdiction, the tribunal argued that it 'adheres to the predominant opinion that this issue is to be decided according to Article 25 of the ICSID Convention, the applicable rules of the relevant treaty and the applicable rules and

[40] *Philip Morris v Uruguay* (2013) ICSID Case No ARB/10/7 (ICSID).
[41] Agreement between the Swiss Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments, signed 7 October 1988, entered into force on 22 April 1991 (the 'Switzerland-Uruguay BIT' or 'the BIT').

principles of international law, Article 42(1) of the ICSID Convention governing only the merits of the case.'[42] In the footnote following this statement, the tribunal referenced Schreuer's ICSID commentary that states in this respect that '[t]ribunals have held consistently that questions of jurisdiction are not subject to Art. 42 which governs the law applicable to the merits of the case'.[43] Article 42(1) provides as follows:

> 'The Tribunal shall decide a dispute in accordance with such rules of law as may be agreed by the parties. In the absence of such agreement, the Tribunal shall apply the law of the Contracting State party to the dispute (including its rules on the conflict of laws) and such rules of international law as may be applicable.'

Besides other objections to the jurisdiction of the tribunal not relevant for present purposes, Uruguay argued that the 'Claimants' interests in Uruguay do not constitute a protected investment since not only do they fail to make any contribution to the Country's development, but they actively prevent and interfere with such development.'[44] Uruguay referred to the 'Salini' test and referred to the negative impact of tobacco consumption to the economy, causing not only deaths but estimated direct health costs of approximately USD 150 million per year.[45] These numbers, according to the state, mean that the 'contributions' to the economic development by Philip Morris has been overwhelmingly negative and therefore their economic activities not fulfill the jurisdictional requirement under Art 25 of the ICSID convention.[46]

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[42] ibid para 30 [footnote omitted]
[43] Christoph Schreuer and others, *The ICSID Convention: A Commentary* (2nd ed. Cambridge University Press 2009) 248, cases referenced there are *Azurix* v. *Argentina*, Decision on Jurisdiction, 8 December 2003, paras. 48–50; *Enron* v. *Argentina*, Decision on Jurisdiction, 14 January 2004, para. 38; *Siemens* v. *Argentina*, Decision on Jurisdiction, 3 August 2004, paras. 29–31; *AES* v. *Argentina*, Decision on Jurisdiction, 26 April 2005, paras. 34–39; *Camuzzi* v. *Argentina I*, Decision on Jurisdiction, 11 May 2005, paras. 15–17, 57; *Jan de Nul* v. *Egypt*, Decision on Jurisdiction, 16 June 2006, paras. 65–68.
[44] *Philip Morris v Uruguay* (n 40) para 177.
[45] ibid para 181.
[46] ibid para 182.

In its analysis, the tribunal dismissed the authority of the 'Salini' test in a detailed discussion and rejected particularly the notion that the element of contribution to the development of the economy of the host state is a mandatory jurisdictional requirement under Art 25 of the ICSID convention.[47] It sided with the tribunal in *Pey Casado v Chile* which held that

> '[a]n investment could prove useful or not for a country without losing its quality [as an investment]. It is true that the Preamble to the ICSID Convention mentions contribution to the economic development of the host State. However, this reference is presented as a consequence and not as a condition of the investment: by protecting investments, the Convention facilitates the development of the host State. This does not mean that the development of the host State becomes a constitutive element of the concept of investment.'[48]

The tribunal concluded that it 'sees no basis for concluding that the Claimants' long-term, substantial activities in Uruguay do not qualify as "investments" under the BIT and the ICSID Convention.'[49] Those activities included a manufacturing facility, shares in a subsidiary, and rights to royalty payments and trademarks.[50] In addition, 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.[51]

[47] On the trend in investment arbitration eroding the meaning of 'development' see 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, 362–364. See also the initial importance of development and capital inflow in the International Bank for Reconstruction and Development, 'Report of the Executive Directors on the Convention on the Settlement of Investment Disputes between States and Nationals of other States' (18 March 1965) para 9 ('[T]he Executive Directors are prompted by the desire to strengthen the partnership between countries in the cause of economic development. The creation of an institution designed to facilitate the settlement of disputes between States and foreign investors can be a major step toward promoting an atmosphere of mutual confidence and thus stimulating a larger flow of private international capital into those countries which wish to attract it.').

[48] *Victor Pey Casado and President Allende Foundation v. Republic of Chile* (2008) ICSID Case No ARB/98/2 para 232 (ICSID). It also referred to *Electrabel S.A. v Republic of Hungary* (2012) ICSID Case No ARB/07/19 para 5.43 (ICSID) (which reached the same conclusion).

[49] *Philip Morris v Uruguay* (n 40) para 209.

[50] ibid paras 183, 190, 194.

[51] *Philip Morris v Uruguay* (2016) ICSID Case No ARB/10/7 paras 278, 283 (ICSID). See on this further, Pratyush N Upreti, 'Intellectual Property Rights in Investment Treaty Arbitration: A Critical Examination of the Philip Morris & Eli Lilly Awards' [2020] TTLF Working Paper No 67 1.

Hence, the question of the qualification of the trademarks as such as covered investment was not at issue at this stage of the proceedings. It is worth noting that to date only one tribunal had to deal with the question under what circumstances trademarks or licenses can be considered covered investments.[52] For present purposes, the existence of IPRs belonging to the investor is determined by the domestic law of the host state, as investment agreements do not create IPRs.[53]

However, the more difficult question will in practice be about the scope and nature of the IPRs under domestic law. This is where the decision on the merits in this case is very illuminating.

3.2. Decision on the Merits: Domestic Law Irritants

Composed of Prof. Piero Bernadini as President, Gary Born and Judge James Crawford as arbitrators, the tribunal issued a lengthy award on the merits, with Gary Born dissenting. On substance, the tribunal did have to extensively discuss the relationship between international law and domestic law with respect to the legal nature of trademarks.

From the outset, the tribunal clarified that – by reference to Art 42 of the ICSID Convention – the 'governing law in this case is the BIT, supplemented by such rules of international law as may be applicable.'[54] Nevertheless, the arbitrators recognized that domestic law – in this case Uruguayan

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[52] See *Bridgestone v Panama* (2017) ICSID Case No. ARB/16/34 (ICSID). On this see e.g. Gabriel M Lentner, 'Bridgestone v Panama: When Are Trademarks Covered Investments?' (2019) 34(3) ICSID Review 569; 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).
[53] *Philip Morris v Uruguay* (n 51) para 234; Simon Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (Heymanns, Carl 2011) 147–221; 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, 285; 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). It is important to note however that of course it does create autonomous protection on the international level for certain assets, depending on the wording of the treaty at issue. See on this further Correa and Viñuales (n 3) 103.
[54] *Philip Morris v Uruguay* (n 51) paras 176-7.

law – was important in two respects.[55] Firstly, domestic law was viewed as relevant in that it 'informs the content of the Claimants' rights and obligations within the Uruguayan legal framework, as in the field of trademarks.'[56] Secondly, domestic law was viewed as relevant in that it 'informs the content of commitments made by the respondent to the Claimants that the latter alleges have been violated.'[57] It continued to find that 'Uruguayan law may be relevant for establishing the rights the State recognizes as belonging to the Claimants.'[58]

However, the tribunal clarified that the 'legality of a modification or cancellation of rights under Uruguayan law, while relevant, would not determine whether such an act may constitute a violation of a BIT obligation.'[59] It explained on the basis of its determination of the applicable law that 'whether a violation has in fact occurred is a matter to be decided on the basis of the BIT itself and other applicable rules of international law, taking into account every pertinent element, including the rules of Uruguayan law applicable to both Parties.'[60]

Those clarifications on the role of domestic law in this dispute were decisive for the first claim regarding an alleged expropriation of Philip Morris' brand assets (including the intellectual property and goodwill associated with their brand variants). Uruguay put forward several arguments against the expropriation claim, but most important for present purposes was an argument based on domestic law. Uruguay contended that the investor did not even possess rights that would be capable of being expropriated under the law creating them, since 'under Uruguayan law, trademark registrants are conferred only a negative right, the right to exclude others from their

[55] ibid para 177.
[56] ibid.
[57] ibid.
[58] ibid para 178.
[59] ibid.
[60] ibid para 179.

use, and not an affirmative right to use them.'[61] So – according to the respondent state – the claimants 'have kept their right to prohibit third-parties from using their registered trademarks. Thus, there is no expropriation.'[62]

In response to those arguments, the tribunal made several points. First, it clarified that the legal title to the investment was not affected by the state measures at issue, because they remained the registered owner or licensee of the relevant trademarks and continued to be entitled to protect them by an action for infringement.[63] It also stated – without much explanation due to the fact that Uruguay did not contested it – that 'trademarks and goodwill associated with the use of trademarks are protected investments under Article 1(2)(d) of the BIT.'[64] It then turned to the following decisive questions in order to establish whether there has been an expropriation:

a. Did the Claimants own the banned trademarks?

b. Does a trademark confer a right to use or only a right to protect against use by

others?

c. Have the Challenged Measures expropriated the Claimants' investment?

[61] ibid para 181.
[62] ibid para 234.
[63] ibid para 191.
[64] ibid para 235 [footnote omitted] It is interesting to note that the footnote here referred to the tribunal's decision on jurisdiction and specifically to para 194 of that decision. However, there the tribunal refers to the claimant's investments in Uruguay 'as described by them' falling within the definition of investment under the applicable BIT. But in the reference to that description only states that 'the Claimants' investments include manufacturing facilities (Article 1(2)(a)), shares in Abal (Article 1(2)(b)), rights to royalty payments (Article 1(2)(c)) and trademarks (Article 1(2)(d)).' Ibid para 183. What is missing is a reference to the goodwill associated with the brand assets, so the question whether that is part of the covered investment was not actually decided. On the other hand, Art 1(2)(d) does expressly good-will, so it seems that this was simply overlooked by the tribunal and it would be uncharitable to interpret this to mean that the tribunal did intentionally exclude good-will from their finding of covered investments made by the investor.

As regards the first query, the tribunal again emphasized the role of domestic law and stated that the 'question of ownership of the trademarks is one to be determined under Uruguayan law governing intellectual property since the trademarks here in issue are registered in Uruguay and exist, if they exist at all, under Uruguayan law.'[65] On that basis, it rejected the claimant's objection that Uruguay is barred from challenging the ownership of the claimant's trademarks at the merits stage 'since this objection should have been raised during the jurisdictional phase'.[66] The issue here was that according to the respondent, Uruguayan trademark law did not allow for modifications to the representation of the registered trademarks.[67] Philip Morris did, however, make slight modifications to the representation to adapt to changes in the law that prohibited certain descriptors, such as changing the names of brands, such as 'Malboro light' to 'Malboro gold'.[68] The tribunal reasoned that 'the Claimants did not set out during the jurisdictional phase their precise trademarks, instead simply stating in general terms that their investment included certain trademarks. The Tribunal was only concerned during that phase with establishing that there was an "investment" for the purposes of Article 25(1) of the ICSID Convention, not with creating an inventory of that investment. Therefore, the question remains properly before the Tribunal.'[69]

Therefore, the tribunal found it necessary to analyze the question of ownership in more detail. This presented the tribunal with a challenge since the experts called to determine the meaning of Uruguayan law were not in agreement.[70] After reviewing the expert testimony on Uruguayan trademark law, the tribunal avoided making a determination on this issue because it found that in

[65] ibid para 243.
[66] ibid para 238.
[67] ibid para 236.
[68] ibid para 241.
[69] ibid para 239 [footnote omitted].
[70] ibid para 243.

light of its other findings regarding the claim of expropriation, this was not necessary.[71] As a result, the tribunal continued with the analysis on the assumption that the trademarks in question were protected under Uruguayan trademark law.[72]

The crux of the matter was then whether a trademark confers a (positive) right to use or only a (negative) right to protect against use by others. Only the former would constitute a right of a trademark owner that is capable of being expropriated, according to the respondent. This question also depended on Uruguayan law.[73] The investor claimed that because of the challenged measures it had to distort and truncate its trademarks to comply with the new regulations and that this violated its right to use those trademarks unconstrained by any such rules.[74] Uruguay on the other hand contended that no provision in the trademark law provided for such right to use but only granted an 'exclusionary right' ie. a negative right to prevent others from registering or using an identical or similar mark.[75]

The state argued in reliance of an expert's report that the key provision, Article 14 of Law 17,011 provides that '[t]he right to oppose the use or registration of any trademark that could lead to confusion between goods or services shall belong to the person that meets all the requirements of the present law.'[76] It accordingly followed that the trademark holder has the exclusive possibility to use the trademarks in commerce, but that the mere registration does not give a right to use the mark.[77]

[71] ibid para 254.
[72] ibid.
[73] ibid para 255.
[74] ibid.
[75] ibid para 256.
[76] ibid para 257.
[77] ibid.

Uruguay further contended that it is clear from the Paris Convention (to which it is a party) that the registration of a mark is separate from the question of its use. For this, Uruguay relied on an exchange in 1994 between tobacco companies and WIPO in which they also drew that distinction but the tribunal did not accept this as an authoritative statement on the meaning of the Paris Convention, while agreeing that this separation might be the case for patents[78].[79] For trademarks the convention points in the other direction, according to the tribunal, referring to Art 6(1) Paris convention which provides that 'the conditions for the filing and registration of trademarks shall be determined in each country of the Union by its domestic legislation'.[80] On this point the tribunal concluded that 'there is nothing in the Paris Convention that states expressly that a mark gives a positive right to use, although it is clear that a trademark can be cancelled where it has not been used for a reasonable period.'[81]

Similarly, the claimant's invocation of Art 20 of TRIPS was not conclusive. They relied on Professor Gibson's Opinion in which he stated that Art 20 TRIPS implied a right to use, arguing that 'if there is no right or legitimate interest in use, there is no need … for Article 20'.[82] However, the tribunal rejected this maintaining that 'to imply a right to use from a provision that prohibits WTO Member States to encumber the use of trademarks would elevate to a "right to use" a provision that does no more than simply acknowledging that trademarks have some form of use in

[78] Article 4 *quater* Paris Convention states: 'The grant of a patent shall not be refused and a patent shall not be invalidated on the ground that the sale of the patented product or of a product obtained by means of a patented process is subject to restrictions or limitations resulting from the domestic law.' Paris Convention for the Protection of Industrial Property (as amended on September 28, 1979), signed 28 September 1979, entered into force 3 June 1984.
[79] ibid paras 258-9.
[80] ibid para 259.
[81] ibid para 260 (referring to the conclusions of M Davison, 'The legitimacy of plain packaging under international intellectual property law: why there is no right to use a trademark under either the Paris Convention or the TRIPS Agreement' in Tania Voon et al (eds.) *Public Health and Plain Packaging of Cigarettes: Legal Issues* (2012) 82).
[82] ibid para 261 (citing Prof. Gibsons opinion).

the course of trade which should not be "unjustifiably" encumbered by special requirements.'[83] It concluded that the TRIPS Agreement nowhere provides a right to use, referring to its Article 16 which provides only for the exclusive right of the owner of a mark to prevent third parties from using the same mark in the course of trade.[84]

Finally, the claimants also relied on Article 11 of the MERCOSUR Protocol that mentions 'an exclusive right of use' to the owner of a trademark. According to the claimants this shows that a trademark grants two separate rights, an exclusive right of use and a right of prevention.[85] The tribunal rejected this argument reasoning that the better interpretation of that provision is that the exclusive right to use is 'simply the other side of the coin of the "right to prevent any person from performing [certain acts without the trademark owner's consent]".'[86] It found confirmation of this interpretation in the Spanish original of the provision as it did in a similar phrase in the Montevideo Treaty[87] that was invoked as well. On that basis the tribunal did not consider it necessary to further investigate the issue of the effects of the incorporation of the MERCOSUR Protocol into Uruguayan law and related issues regarding the TRIPS Agreement.[88]

The tribunal then turned to the key issue of the scope of the property right of a trademark owner under Uruguayan IP laws. It made clear that for these purposes it needed to 'refer back to the *sui generis* industrial property regime in Uruguay.'[89] It found no support for the claimant's argument that a trademark grants 'an inalienable right to use the mark.'[90] Indeed, one of the claimant's experts, Professor Fischer, confirmed in a paper not prepared for this dispute that a trademark

[83] ibid para 262.
[84] ibid.
[85] ibid para 263.
[86] ibid para 264.
[87] Convention on Commercial and Industrial Trademarks of 16 January 1889, art 1.
[88] ibid paras 264-5.
[89] ibid para 266 (italics in the original).
[90] ibid.

confers on its owner only a negative right to prevent others from using a mark that may be confused with their own.[91]

In the following analysis, the tribunal reframed the issue at hand not as a question of a right to *use* vs a right to *protect* but as an issue of an *absolute* vs an *exclusive* right to use. This distinction was key for its conclusion on this matter. It held that '[o]wnership of a trademark does, in certain circumstances, grant a right to use it. It is a right of use that exists *vis-à-vis* other persons, an exclusive right, but a relative one. It is not an absolute right to use that can be asserted against the State *qua* regulator.'[92] To this end it recalled Professor Barrios' expert report (further backed up by publications by Professor Fischer, expert for the claimant) and found that nothing in the legal sources cited by the claimants supported an absolute, inalienable right to use.[93] Rather, the tribunal observed that most countries, including Uruguay, placed restrictions on the use of trademarks, such as in advertisement. Indeed, the tribunal gave an example where if a food additive is shown to cause cancer, it must be possible for the government to legislate, so as to prevent its sale notwithstanding a registered trademark for that product.[94] It concluded that '[t]here is nothing in the relevant legal materials to support a carve-out of trademarks from the legitimate realms of regulation. Uruguayan trademark law (like trademark law in other countries following the Paris Convention system) provides no such guarantee against regulation that impinges on the use of trademarks.'[95] Hence the tribunal concluded that 'the trademark holder does not enjoy an absolute right of use, free of regulation, but only an exclusive right to exclude third parties from the market

[91] ibid.
[92] ibid para 267 (italics in the original).
[93] ibid paras 268-9.
[94] ibid para 269.
[95] ibid para 270.

so that only the trademark holder has the possibility to use the trademark in commerce, subject to the State's regulatory power.'[96]

As regards the expropriation claim, the tribunal turned on that basis to the question whether trademarks constituted property capable of being expropriated. According to Uruguay, since its trademark law does not recognize a right to use there is no right of a trademark owner that is capable of being expropriated.[97] The tribunal disagreed, finding that '[a]bsence of a right to use does not mean that trademark rights are not property rights under Uruguayan law,' as explained by one of Uruguay's experts (while another disagreed).[98] It held that '[t]rademarks being property, their use by the registered owner is protected.'[99] The tribunal based this on the assumption that 'trademarks have been registered to be put to use, even if a trademark registration may sometime only serve the purpose of excluding third parties from its use.'[100] As a result it found that the claimant made use of all of its thirteen trademark variants before the state measures 'effectively banned seven of them'.[101] The tribunal concluded 'that the Claimants had property rights regarding their trademarks capable of being expropriated.'[102]

On the facts of the case, the tribunal was not convinced of even a *prima facie* case of indirect expropriation through the 80/80 Regulation. That regulation limited the display of trademarks on cigarette packages to 20% of the space available. Because the brand and other distinctive elements

[96] ibid para 271 The tribunal reiterated this absence of 'a right to use' under Uruguayan trademark law also in para 431.
[97] ibid para 272.
[98] ibid.
[99] ibid para 273 (reference to the Carvalho report omitted, see on this further below in the analysis).
[100] ibid.
[101] ibid para 274.
[102] ibid.

remained on the packs, as well as being recognizable as such, it did not have a substantial effect on the claimant's business.[103]

The so-called single presentation requirement (SPR) required a more elaborate analysis. That SPR required each cigarette brand to have a 'single presentation' and prohibits different packaging or 'variants' for cigarettes sold under a given brand (e.g. variants of Marlboro, such as Marlboro Red, Marlboro Gold, Marlboro Blue, Marlboro Green (Fresh Mint) could from now on only use a single variant, in this case only Marlboro Red).[104] The claimant contended that because of this measure, seven of the thirteen variants sold at the time were effectively expropriated, as they constitute individual investments in their own right.[105] Assessing this claim of indirect expropriation, the tribunal adopted the view that it had to consider the claimant's business as a whole and how 'the measure affected its activities in their entirety'.[106] It concluded that because of the fact that sufficient value remained of the investment, there was no expropriation.[107]

Still, the tribunal offered additional reasons in support of that conclusion and invoked the police powers doctrine. According to the tribunal, '[p]rotecting public health has since long been recognized as an essential manifestation of the State's police power'.[108] After reviewing case law, authorities and customary international law, it held that the challenged measures were a valid exercise of the state's police powers for the protection of public health.[109]

As regards the alleged violation of the FET standard, the tribunal did not specifically address the nature of IP rights. Suffice to note here that the tribunal found that the SPR was 'a reasonable

[103] ibid para 276.
[104] ibid para 10.
[105] ibid para 279.
[106] ibid para 283.
[107] ibid para 286.
[108] ibid para 291.
[109] ibid paras 290-307.

measure, not an arbitrary, grossly unfair, unjust, discriminatory or a disproportionate measure, and this is especially so considering its relatively minor impact on Abal's business.'[110] In effect the 80/80 regulation was equally viewed as not constituting a violation.[111] On the issue of the SPR, arbitrator Gary Born dissented.

For present purposes more relevant was the discussion of the alleged violation of the umbrella clause. The claimants contended that the state breached its commitments to protect their right to use their marks by implementing the challenged measures.[112] Here, the tribunal proceeded on the same assumption (without deciding as with regards to the expropriation claim) that the claimants owned the investments under Uruguayan trademark law.[113] Because of the previous finding that the right to use was not absolute, it found that no 'commitments' for the right to use were made with regard to the trademarks of the investors.[114]

As regards the grant of trademarks through their registration, the central question for the tribunal was then whether 'a trademark falls between the two categories, i.e. whether it can be considered a commitment under general legislation or by reason of the individual consideration involved in the initial grant as a specific commitment to as specific investment or investor.'[115] Only the latter would fall within the scope of the umbrella clause. Because the grant of a trademark is not a unique commitment agreed to in order to encourage or permit a specific investment, the tribunal held that Uruguay entered into no commitment 'with respect to the investment' by granting a trademark.[116] It simply 'allowed the investor to access the same domestic IP system available to anyone eligible

[110] ibid para 410.
[111] ibid para 420.
[112] ibid para 450.
[113] ibid para 457.
[114] ibid para 458.
[115] ibid para 479.
[116] ibid para 480.

to register a trademark.'[117] The tribunal continued to reason that because '[a] trademark gives rise to rights, but their extent, being subject to the applicable law, [it] is liable to changes which may not be excluded by an umbrella clause'.[118] In conclusion, the tribunal held that trademarks are not commitments under the umbrella clause of the BIT.[119]

As regards the final claim of a denial of justice that did not give rise to questions of interest for present purposes, the tribunal held that 'the procedural improprieties were not sufficient in this case to rise to the standard of a denial of justice and decides that there was no denial of justice also in the SPR proceedings.'[120]

3.3. The Relevance of Domestic Law Proper

As seen above, the tribunal offers clear instructions for the use of domestic law. Domestic law was viewed as relevant in that it 'informs the content of the Claimants' rights and obligations within the Uruguayan legal framework, as in the field of trademarks.'[121] Secondly, domestic law was viewed as pertinent in that it 'informs the content of commitments made by the respondent to the Claimants that the latter alleges have been violated.'[122] It continued to find that 'Uruguayan law may be relevant for establishing the rights the State recognizes as belonging to the Claimants.'[123] Clearly this means that domestic law answers the question of the existence and scope of rights in IP. This is in line with the general view on the issue.[124] But it also follows that the use of domestic

[117] ibid.
[118] ibid para 481.
[119] ibid para 482.
[120] ibid para 580.
[121] ibid para 177.
[122] ibid.
[123] ibid para 178.
[124] Ursula Kriebaum, 'Article 42' in Stephan W Schill and others (eds), *Schreuer's Commentary on the ICSID Convention* (Cambridge University Press 2022) para 29 et seq.

law concepts such as IP and trademarks specifically is likewise determined by domestic law.[125] As noted above, these concepts still have as their source the specific domestic law absent specific norms under international law. It is worth stressing here that also the concept of property as such will have to be determined by the domestic law of the host state, as those domestic law concepts even when used in treaties do not have any referent in international law.

The difficulty in this case was that the state measures in question interfered with an investment taking the form of domestic IP through legislation under Uruguayan trademark law. In other words, the crux of the matter is that the protection of an asset depends on its existence under domestic law, but at the same time, the existence of a violation cannot be judged against the legality under domestic but only treaty law. This is not controversial[126] and the tribunal noted as much saying that the 'legality of a modification or cancellation of rights under Uruguayan law, while relevant, would not determine whether such an act may constitute a violation of a BIT obligation.'[127]

Still, beside a basic clarification, this does say very little about how then to apply domestic law vis-à-vis international legal obligations in a specific case. The arbitrators continued that 'whether a violation has in fact occurred is a matter to be decided on the basis of the BIT itself and other

[125] Upreti, 'The Role of National and International Intellectual Property Law and Policy in Reconceptualising the Definition of Investment' (n 19).

[126] See already Nielsen, the American Commissioner in the American-Mexican Claims Commission in the Cook Case (No. I), writing: 'The nature of such contractual rights or rights with respect to tangible property, real or personal, which a claimant asserts have been invaded in a given case is determined by the local law that governs the legal effects of the contract or other form of instrument creating such rights. But the responsibility of a respondent government is determined solely by international law', cited in K. Lipstein, 'Conflict of Laws before International Tribunals (ii)' (1943) 29 Transactions of the Grotius Society 51, 55. This was also the view of the PCIJ in the Chorzów case, see Certain German Interests in Polish Upper Silesia (Merits) stating in regard to the question whether the Polish government took the property of the Chorzów factory in breach of the Geneva Convention, 'it would not examine, save as an incidental or preliminary point, the possible existence of rights under German municipal law'. *Certain German Interests in Polish Upper Silesia* (Merits), Judgment, 25 May 1926, PCIJ Series A, No. 7, 1. Subsequently the PCIJ held in the Panevezys-Saldutiskis Railway case that 'the property rights and the contractual rights of individuals depend in every state on municipal law and fall therefore more particularly within the jurisdiction of municipal tribunals'. *Panevezys-Saldutiskis Railway* case, Judgment of 28 Feb. 1939, PCIJ, Series A/B, No. 76, 4, at 18. See also Sasson (n 5) 111 et seq.

[127] *Philip Morris v Uruguay* (n 51) para 178.

applicable rules of international law, taking into account every pertinent element, including the rules of Uruguayan law applicable to both Parties.'[128] Again, this is clearly the correct view. What remains unclear is how exactly to take domestic law into account.

The reason for why the difficulty arises in the first place lies in the fact that without an international law of (intellectual) property many cases before tribunals in investment arbitration would be impossible to be resolved without recourse to domestic law. The case of *Philip Morris v Uruguay* is a good example of this. Key for the resolution of the case was –as mentioned above– whether the investors' IPRs were conferring a positive right to use or only a negative right to exclude and whether the trademark constituted property (and hence subject to the rules on uncompensated expropriations in the BIT). In case it is found that only a negative right exists or that trademarks do not constitute property capable of being expropriated, the contended measures as a result cannot affect the investors' investment, as they 'have kept their right to prohibit third-parties from using their registered trademarks.'[129]

It is important to note that the relevant domestic law is decisive even though treaties governing international intellectual property law exist and are applicable to the state. This is because these treaties do not establish complete substantive and exhaustive rules regarding IP existing under international law independent of any domestic law creating them.[130] IP treaties provide for certain minimum standards and elements to be incorporated into domestic law, but those obligations are clearly not complete property law systems.[131]

[128] ibid para 179.
[129] ibid para 234.
[130] Correa and Viñuales (n 3) 97. See for an overview of international law instruments harmonizing IP and providing for minimum standards, John G Sprankling, *The International Law of Property* (Oxford University Press 2014) 100 et seq.
[131] Correa and Viñuales (n 3) 105. See generally on the protection of IP in international law, Henning Grosse Ruse-Khan, *The Protection of Intellectual Property in International Law* (Oxford University Press 2016).

The tribunal hence correctly stated that the 'question of ownership of the trademarks is one to be determined under Uruguayan law governing intellectual property since the trademarks here in issue are registered in Uruguay and exist, if they exist at all, under Uruguayan law.'[132] However, what is particularly interesting about the tribunals approach in this regard is that it seemed to adopt a somewhat autonomous understanding of IP generally and trademarks specifically. The tribunal concluded that 'the trademark holder does not enjoy an absolute right of use, free of regulation, but only an exclusive right to exclude third parties from the market so that only the trademark holder has the possibility to use the trademark in commerce, subject to the State's regulatory power.'[133] But in doing so, it did rely on specific domestic norms or various experts on domestic IP law. Instead, it also gave weight to international IP law experts. But if it is solely a question of domestic IP law, why should international IP treaties be relevant at all?[134]

3.4. Trademarks as Exclusive Rights and/or an Exclusive Right to Use?

The tribunal did, however, correctly find that the designation as a property right does not automatically establish a right to use– a question, again, for domestic law. It held that

> '[…] As the Respondent rightly points out, the scope of the property right is determined by Uruguayan IP laws, such that, in order to work out the legal scope of the property right, it is necessary to refer back to the sui generis industrial property regime in Uruguay. Professor Fischer, one of the Claimants' experts, confirms in a paper prepared not for the purposes of this dispute that a trademark confers on its owner only "the right to prevent others from using a trademark or trademarks that may be confused with their own."'[135]

[132] *Philip Morris v Uruguay* (n 51) para 243.
[133] ibid para 271. The tribunal reiterated this absence of 'a right to use' under Uruguayan trademark law also in para 431.
[134] Absent some indication that domestic law sought to implement some international standards that would point to one or the other more plausible interpretation of the domestic law at hand. Also note that international IP regulation leaves many issues unregulated leaving that to the states, see on this further Carlos M Correa, 'Is a right to use trademarks mandated by the TRIPS Agreement?' (2016) 1 Journal of International Trade 91.
[135] *Philip Morris v Uruguay* (n 51) para 266 (footnotes omitted).

Being correctly committed to the relevance of domestic law, it is thus disappointing that on the right to use, the tribunal failed to clearly base their findings on domestic law. It even expressly concluded that '[i]t is not an absolute right to use that can be asserted against the State *qua* regulator.'[136] It is true that they did explain that the right to exclude implies a right to use, subject to regulation. But put in that way, it does not mean much, as this is true for virtually any right that is granted in a legal system, which is by definition subject to the regulation of that system.[137]

More useful would have been a reference to Hohfeldian legal conceptions.[138] His seminal article 'Some Fundamental Legal Conceptions as Applied in Judicial Reasoning' of 1913[139] and its 1917[140] sequel sought to clarify the basic concepts underlying legal reasoning. According to this conception, legal rights and duties are not simple, monolithic concepts, but rather are composed of a complex network of fundamental legal relations. Hohfeld distinguished between four basic types of legal relations: rights and duties, privileges and no-rights, powers and liabilities, and immunities and disabilities. He argued that each of these types of relations has a specific meaning and legal consequence, and that understanding these distinctions is essential for legal reasoning and analysis.[141]

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[136] ibid para 267 (emphasis in the original).

[137] This is certainly the case for any private property right, as Felix Cohen points out: 'In fact, private property as we know it is always subject to limitations based on the rights of other individuals in the universe. These limitations make up a large part of the law of taxation, the law of eminent domain, the law of nuisances, the obligations of property owners to use due care in the maintenance and operation of their property, and so on.' Felix S Cohen, 'Dialogue on Private Property' (1954) 9(2) Rutgers Law Review 357, 362.

138 Wesley N Hohfeld, 'Some Fundamental Legal Conceptions as Applied in Judicial Reasoning' (1913) 23 Yale Law Journal 16; Wesley N Hohfeld, 'Fundamental Legal Conceptions as Applied in Judicial Reasoning' (1917) 26(8) Yale Law Journal 710. See also Luís Duarte d'Almeida, 'Fundamental Legal Concepts: The Hohfeldian Framework' (2016) 11(10) Philosophy Compass 554; Pierre Schlag, 'How to Do Things with Hohfeld' (2015) 78 Law and Contemporary Problems 185.

[139] Hohfeld, 'Some Fundamental Legal Conceptions as Applied in Judicial Reasoning' (n 138).

[140] Hohfeld, 'Fundamental Legal Conceptions as Applied in Judicial Reasoning' (n 138).

[141] Schlag (n 138) 188.

What was unique to his approach was to 'describe these basic legal conceptions as *relations of legal form*—that is to say, stripped so far as possible of *substantive content*. This attempt to isolate legal conceptions into pure relations of form is what gives his approach its austere, formalist, almost mathematical aura. Indeed, Hohfeld himself likened his jural relations to "lowest common denominators" and claimed for them both universality and irreducibility.'[142]

Applied to the case at hand, two important insights can be gained. First, the right to exclude of a trademark owner is a claim right in Hohfeld's terminology against third parties from using them.[143] This includes the correlative duty to the owner of the trademark not to use the mark.[144] Of course there may be some exceptions to this duty, such as prior continuous use or honest concurrent use of the trademark.[145] The precise content of these exceptions differ from jurisdiction to jurisdiction at least to some extent but should generally follow the principles set out in IP treaties.[146] This is the horizontal dimension.

In addition to this clarification, Hohfeldian taxonomy also elucidates the concept of the right to use the trademark, ie the vertical dimension. From this perspective, a trademark owner (merely) has the privilege of using the mark but not a claim right to use it. This is because there is no correlative duty attached to the privilege of use. That seems to be the position of the UK Court of Appeal, for instance.[147] Rights against the state arising from the grant of trademarks is a matter of

[142] ibid 189.
[143] Mark Davison and Patrick Emerton, 'The Treatment of Public Health Measures Affecting Intellectual Property under Multilateral and Plurilateral Trade and Investment Agreements' (2019) 20(5) Journal of World Investment & Trade 759, 768.
[144] ibid.
[145] ibid.
[146] For example, Article 17 of the TRIPS Agreement allows for 'limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties'. Cf Davison and Emerton (n 143), 768.
[147] R (British American Tobacco and others) v Secretary of State for Health [2016] EWCA Civ1182, [2018] QB 149, para 30. Cf Davison and Emerton (n 143), 768–769.

constitutional/human rights law protection and should therefore not be conflated with the rights a trademark provides vis-á-vis third parties.

In the end all of this is still a question of interpretation of Uruguayan law, but the Hohfeldian perspective helps thinking clearer about what type of rights are conferred and against whom. Most importantly, the nature of the trademark as exclusive rights means that we are in no position to infer any claim that the trademark owner has against the state. This would be the case, for example, in regard to using the mark in commerce, using certain marks in certain places, etc. The exclusive rights are rights against third parties using them in commerce, not rights against the state. That is simply not part of what trademark law generally regulates. The assumption then being that any use of the marks is – as a matter of course – subject to regulation (as the tribunal correctly points out). Carlos Correa makes this point very well[148] referencing the Advocate General of the Court of Justice of the European Union, stating that

> ‘the essential substance of a trademark right does not consist in an entitlement as against the authorities to use a trademark unimpeded by provisions or public law. On the contrary, a trademark right is essentially a right enforceable against other individuals if they infringe the use made by the holder.’[149]

Similarly, a WTO panel rejected the argument that the TRIPS Agreement provided for positive rights to use, clarifying: ‘[t]he right to use a trademark is a right that WTO members may provide under national law’ (para 7.611). This is, of course, something completely different from arguing that there is an obligation under the TRIPS Agreement to recognize such right.’[150] Hence, it is

[148] Correa (n 134) 98–99.
[149] The Queen v. Secretary of State for Health, ex parte British American Tobacco (Investments) Ltd and Imperial Tobacco Ltd, Case C-491/01 (December 10, 2002) para. 266. Cf Correa (n 134), 99.
[150] Panel Report, European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs, WT/DS174R, (April 20, 2005). See further on this Correa (n 134), 102.

simply not possible to infer any limits to state regulation from the concept of trademarks as such. The tribunal appears to have conflated these two dimensions of the trademark.

Interpreting the concept of trademark in Uruguayan law is then a question of what inferences the norms in relation to Uruguayan trademark law provide.[151] What is not possible is to import certain notions from outside the Uruguayan legal system (such as assumed content of trademark rights deduced from TRIPS[152] or the US legal system etc)[153] to concretize the concept of a trademark as an IPR that is protected by the treaty.[154] If it is the case that– as the tribunal held – the existence of the right and its scope and extent depends on the domestic law, the same must be true for the inferences that the legal system as a whole provides with respect to that specific domestic law concept. It is not possible to isolate the concept of a trademark and separate it from its legal system to then fill it with content from another or from an attempted autonomous interpretation of the concept as such. It is the legal inferences the norms of the legal system around the concept term that establishes the legal meaning of a concept in a particular domestic law.[155] In case a treaty uses these terms from domestic law, it must refer to the real-type concept and not to an ideal-type

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[151] As the leading legal theorist Guivanni Sartor makes clear, legal concepts are defined by the legal inferences the respective norms allow with respect to a legal concept, such as trademarks here under Uruguayan law in this case, see, Giovanni Sartor, 'Understanding and Applying Legal Concepts: An Inquiry on Inferential Meaning' in Jaap C Hage and Dietmar von der Pfordten (eds), *Concepts in Law* (vol 88. Springer Netherlands 2009).

[152] See the critique of assuming some kind of international trademark law by Carlos M. Correa, Is the Right to use trademarks mandated by the TRIPS Agreement? (South Centre Research Paper No 72, Nov. 2016) 7.

[153] The tribunal in Eli Lilly v Canada appears to have adopted this view when it dismissed the relevance of comparative arguments with regards to the promise utility doctrine under (then) Canadian law. See *Eli Lilly v Canada* [2017] Case No. UNCT/14/2, [2017] (UNCITRAL) paras 377-378.

[154] That some borrowing occurs is of course not surprising but a common feature of law in general. Roscoe Pound wrote a century ago that the 'history of a system of law is largely a history of borrowings of legal materials from other legal systems and of assimilation of materials from outside the law.' Roscoe Pound, 'The Theory of Judicial Decision I. The Materials of Judicial Decision' (1923) 36(6) Harvard Law Review 641, 642.

[155] Sartor (n 151).

concept.[156] That real-type concept is then 'internationalized' in the sense of being protected by the treaty standards once in existence in domestic law.[157]

In this case it is clear that the tribunal did apply some ideal-type concept of the concept of a trademark, while it should have simply inquired into the domestic law of Uruguay more deeply.

3.5. Trademarks as Property?

The reliance on authorities other than domestic law in the tribunal's reasoning is particularly evident as regards the question whether trademarks constituted property capable of being expropriated. On this issue the tribunal was relatively brief. It simply concluded that '[t]rademarks being property, their use by the registered owner is protected.'[158] The tribunal based this conclusion on the assumption that 'trademarks have been registered to be put to use, even if a trademark registration may sometime only serve the purpose of excluding third parties from its use.'[159] On this question the experts were not in agreement[160] and answering it would require an in depth analysis of the nature of Uruguayan trademark law.

Instead of a detailed analysis of domestic law, the tribunal appears to have arrived at its conclusion by agreeing with the claimant's arguments and also because they viewed their findings supported

[156] Ideal-type concepts are conceptual definitions that aim to capture the essential features or characteristics of a phenomenon by creating an abstract or idealized representation of it. These definitions are not intended to be descriptive of any particular real-world instance (these would be real-type definitions), but rather provide a conceptual framework for understanding and analyzing different instances of the phenomenon. Ideal-type definitions identify and isolate the key features of a phenomenon, which are then used to make meaningful comparisons across different cases or to develop theoretical models. However, ideal-type definitions also have limitations, as they may oversimplify or distort the complexity of real-world phenomena and may not fully capture the nuances and variations of different instances. See Frändberg (n 35) 6–7.

[157] M. Sornarajah, *The International Law on Foreign Investment* (3rd ed. Cambridge University Press 2010) 13 (Writing in the context of IP in IIAs: 'The treaty internationalised the rights once they had been created and required them to be protected in accordance with the standards of the treaty.'

[158] *Philip Morris v Uruguay* (n 51) para 273 (reference to the Carvalho report omitted, see on this further below).

[159] ibid.

[160] ibid para 272.

by one of the respondent's experts, Prof. Carvalho. Even though, according to his testimony, he stated 'the fact that trademarks are protected as private property does not mean that they convey the right to use.'[161] On the basis that the claimant made use of all of its thirteen trademark variants before the state measures 'effectively banned seven of them'[162] the tribunal concluded 'that the Claimants had property rights regarding their trademarks capable of being expropriated.'[163]

On this point the tribunal seems to be too quick to draw definite conclusions from that passage during the expert testimony for several reasons. First, the statement was directed at the question of whether there is a positive right to use a trademark under Uruguayan law and not whether trademarks constituted property. So, the statement is taken out of context. Second, it is not self-evident that the English term for the concept of 'private property' is legally the equivalent of what the experts referred to as property under Uruguayan law. As comparative law demonstrates, similar, or even identical legal concepts in one legal system can have several meanings even in the same system. It can therefore be necessary to precisely analyze the legal concept in question and how it translates to the same concept in a different legal system.

This is why the leading comparativist Alan Watson cautioned that

> 'What in other contexts would be regarded as good knowledge of a foreign language may not be adequate for the comparatist. Homonyms present traps. The French *contrat, domicile, tribunal administratif, notaire, prescription and juge de paix,* are not the English 'contract', 'domicile', 'administrative tribunal', 'notary public', 'prescription' and Justice of the peace.'[164]

[161] Carvalho Report (REX-017) para 9 available at https://jusmundi.com/en/document/other/en-philip-morris-brand-sarl-switzerland-philip-morris-products-s-a-switzerland-and-abal-hermanos-s-a-uruguay-v-oriental-republic-of-uruguay-report-by-nuno-pires-de-carvalho-wednesday-16th-september-2015#other_document_7732 accessed 29 August 2023.
[162] ibid para 274.
[163] ibid.
[164] Alan Watson, *Legal Transplants: An Approach to Comparative Law* (2nd edn, University of Georgia Press 1993) 11.

And even within a specific legal order, legal concepts are not entirely fixed. Consider the various meanings of 'Besitz' (possession) in German law: In private law it is considered a wider concept than 'Besitz' used in the criminal narcotics law, for instance.[165] Therefore, using domestic law concepts in international law raises difficult interpretive questions that a tribunal needs to analyze carefully.

Just consider the difficulty of defining property in US law. Blackstone defined it as the 'sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe.'[166] But as Felix Cohen pointed out, this cannot possibly be a correct in its absolutism:

'What does Von Jhering mean when he says, in the passage quoted by Ely […] that an absolute right of property would result in the dissolution of society? […] I suppose he means that society could not exist without laws of taxation, eminent domain, public nuisances, etc., and if any property owner could really do anything he pleased with his own property, the rights of all his neighbors would be undermined. […] In fact, private property as we know it is always subject to limitations based on the rights of other individuals in the universe. These limitations make up a large part of the law of taxation, the law of eminent domain, the law of nuisances, the obligations of property owners to use due care in the maintenance and operation of their property, and so on. Property in the Blackstonian sense doesn't actually exist either in communist or in capitalist countries.'[167]

[165] Tatjana Chionos, *Zur Übertragung innerstaatlicher Begriffe und Rechtsgrundsätze in das Völkerrecht* (Mohr Siebeck 2020) 109.
[166] Blackstone, .P 2, The Rights of Things. Book II. Ch. i., https://avalon.law.yale.edu/18th_century/blackstone_bk2ch1.asp
[167] Laura S Underkuffer, 'On Property: An Essay' (1990) 100(1) Yale Law Journal 127.

In a similar vein, the renowned US IP law expert, Mark Lemley, cautioned against analogizing IP with real property: 'The absolute protection or full-value view draws significant intellectual support from the idea that intellectual property is simply a species of real property rather than a unique form of legal protection designed to deal with public goods problems.'[168] US courts have also adopted a reluctant approach. For example, in *Christy v. United States,* the US Court of Appeals held that there is no legal basis for the protection of patents under the Takings Clause.[169] This question has also been picked up by scholarship and opinions appear to be divided.[170]

All of these examples suggest that the legal issues surrounding IP as property are more complex than the tribunal appears to admit. Of course, such questions are not entirely novel. In fact, investment tribunals had to deal with similar issues on several occasions. In *Emmis v Hungary* a functional approach toward the question what constitutes property (as used in a treaty) was adopted. It held that '[property] constitutes a right held by its owner to the exclusion of others […] [and] a valuable asset, capable of being alienated.'[171]

In *Philip Morris v Uruguay*, the tribunal's conclusions regarding IP as property appears partly based on a misreading of Prof. Carvalho's argument. First of all, his testimony does not address Uruguayan law specifically, but instead seems to suggest some generic concept of IP norms. He writes about 'the very concept and nature of intellectual property in general, including trademarks.'[172] Adding that 'Intellectual property is private property, indeed', referring to the

168 Mark A Lemley, 'Property, Intellectual Property, and Free Riding' (2005) 83 Texas Law Review 1031-1075, 1031–1032. Along these lines also with regards to data, see Gabriel M Lentner, 'Treating Data as Property? A View from International Investment Arbitration' [2018] Medien & Recht International 71. But see for the argument that trademarks should be viewed as a property right ('use-right property') under US law, Adam Mossoff, 'Trademark as a Property Right' (2018) 107(1) Kentucky Law Journal 1 ('[T]he key conceptual insight is that a trademark is a use-right property interest appurtenant to a commercial enterprise's goodwill. As such, trademark law shares many doctrinal similarities to other use-right property regimes, such as easements appurtenant.' at 33). The US Court

169 *Christy v United States* (2020) 19-1738 141 Fed Cl 641, 658–59 (US Court of Appeals).

170 Mossoff (n 168).

171 *Emmis v Hungary* [2014] ICSID Case No. ARB/12/2, [2014] (ICSID) para 253-254.

172 Carvalho Report (REX-017), para 7.

TRIPS agreement and 'case law and statutes of a vast number of countries' that 'have established that those rights are of a proprietary nature.'[173] However, this seems to assume the existence of some international IP law that governs the nature of IPRs without recognizing (potential) differences in actual legislation.[174] And even if it is correct that under Uruguayan law trademark rights are rights of property, that does not imply the precise nature of what the tribunal then took as property being capable of being expropriated. Again, this must depend on the specific domestic law that could, for example, have two very different regimes regarding the protection of property for tangible goods and intangible goods, as most legal systems have. That distinction was what Prof. Carvalho was arguing for, noting that '[b]ecause of such a nature, the rights that stem from them are not the same as those rights that are associated with property in tangible goods.'[175]

But relying on Prof. Carvalho's expertise on this issue at all could be viewed as erroneous by the very own standards the tribunal says it is applying. On the issue of the specific Uruguayan law, he has no qualifications as he is a Brazilian trained lawyer who earned degrees in Brazil, Portugal and the US. Indeed, he does not claim to authoritatively speak about Uruguayan law but only (international) IP law generally. He does possess impressive expertise in international intellectual property law as evidenced by his publications on the topic. But he himself would perhaps not claim that he is an authority of Uruguayan IP law.

But even if one can deduce, as implicitly suggested by the tribunal, from the TRIPS agreement or the Paris convention specifically required contours of IP in domestic legal systems, that cannot mean that the applicable domestic law in this instant case provides for those *in concreto*. In fact, Prof. Carvalho himself writes elsewhere that 'what constitutes intellectual property in one country

[173] Carvalho Report (REX-017), para 7.
[174] Cf Correa (n 134) 98.
[175] Carvalho Report (REX-017), para 8.

may not be so in another. Recently, for example, non-original data bases have become the subject matter of a sui generis regime of intellectual property in the European Union, which continues being a pioneer in that specific field. Even more recently, a number of countries have started enacting statutes on the protection of traditional knowledge.'[176] In one of his major works Prof. Carvalho actually defends the 'exclusive nature of intellectual property law'.[177] There, he also emphasizes the competition element of IP, which is far more important than any of the functions usually associated with property.[178] Again, the issue needs to be clarified based on the domestic law of the host state, since a violation of separate treaties such as TRIPS or an IP chapter cannot as such constitute a breach of investment law.[179]

The experts with expertise in Uruguayan IP law, Prof. Andrea Barrios and Prof. Gustavo Fischer, disagreed on this question. In her expert opinion prepared for the Respondent, Prof. Barrios contended that '[i]ntellectual property is a sui generis regime, that is not assimilable to the right of ownership or property,' the ownership or property rights and their limitations under the Constitution and the Civil Code being not attributable to trademark owners.[180] Prof. Fischer disagreed arguing that IPRs are property rights under Uruguayan law.[181]

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[176] Nuno P de Carvalho, *The TRIPS Regime of Antitrust and Undisclosed Information* (Kluwer Law International 2008) 7 (footnote omitted)
[177] Carvalho (n 176) 1.
[178] ibid 6–13. See also on the functions of trademarks Correa (n 134) 99–101.
[179] See in the tribunal's indirect rejection of Eli Lilly's argument relating to legitimate expectations that the IP obligations contained in Chapter 17 of NAFTA, *Eli Lilly v Canada* (n 153) fn 515. See also Eli Lilly and Company v The Government of Canada, UNCITRAL, ICSID Case No UNCT/14/2, Statement of Defence of the Government of Canada (30 June 2014) para 84.
[180] Barrios Report (REX-004) para 11.
[181] Expert Rebuttal Opinion by Professor Gustavo Fischer

In summary, the trademark regime in Uruguay is perhaps best interpreted in light of Hohfeldian legal relations. As a result, the right to exclude third parties should not be confused with a right to use against the state, as the tribunal itself recognized.[182]

The difficulties surrounding this question similarly exemplifies the importance as well as the complexity of domestic law in the interpretation of domestic law concepts in international investment law and arbitration.

4. Conclusion

As this case study has shown, the interpretation of domestic law concepts in international investment law is complex; several conclusions can be drawn. First, IPRs do not exist independently from a specific domestic legal order. International law (including TRIPS/IP chapters or IIAs) does not create IPRs,[183] nor does it define their precise scope. Just as '[b]y referring to "land" in the definition of an investment, the investment treaty does not create new land over which an investor can assert an interest, nor does it create new "intellectual property rights" or "claims to performance under contract having a financial value." Rights over these things can only exist by reference to their proper law—the national system of law that created them.'[184] That is specifically true for the question of jurisdiction, ie whether an investment in the form of an IPR exists in the first place. Differences in the definitions in IIAs exist, but in general only the respective domestic law can answer the question regarding whether a specific IPR exists.[185] If domestic law does not recognize a specific IPR, it cannot be considered an investment under an

[182] *Philip Morris v Uruguay* (n 51) para 267.
[183] Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 141) 188.
[184] Zachary Douglas, 'Property, Investment, and the Scope of Investment Protection Obligations' in Zachary Douglas, Joost Pauwelyn and Jorge E Viñuales (eds), *The Foundations of International Investment Law* (Oxford University Press 2014) 402.
[185] Klopschinski, *Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge* (n 141) 188.

IIA (although it might be recognized as another asset that fulfills the criteria of the respective definition).[186] This means that the registration of an IP claim cannot be considered a covered investment unless domestic law grants specific rights attached to the registration.[187] It also means that in principle the revocation, limitation, and granting of IPRs are issues that fall within the jurisdiction of domestic courts, not international investment tribunals. It is the decisions of domestic courts that form the basis for the existence of IPRs in the first place.

Another important conclusion is the importance of a proper interpretation of domestic law when the scope or nature or inherent exceptions, policy space, etc is at issue. Caution must be exercised not to import substantive content from another legal system when interpreting the domestic law concept at issue. While comparative insights might elucidate the issues at stake in the interpretation of domestic law, they should not distract from the tribunal's task of interpreting the domestic law at hand. The case study shows that this is easy in theory but difficult to do in practice. The careful analysis above showed that this was particularly problematic regarding the right to use and the question whether IP constitutes property. While these topics are contentious in many jurisdictions, the terms of those debates have to be carefully considered as not directly bearing on the case at hand. It must be remembered that while investment treaties contain absolute standards of treatment, they do not require the adoption of a specific property law system. And directed fundamentally at the public good, different states may arrive at different IP norms, relating to limitations and exceptions with a view to particular domestic welfare policy.[188] So those should

[186] Correa and Viñuales (n 3) 97.

[187] Fina and Lentner, 'The European Union's New Generation of International Investment Agreements and Its Implications for the Protection of Intellectual Property Rights' (n 138). See also the tribunal in Bridgestone v Panama stating "It seems to the Tribunal 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." *Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama*, Decision on Expedited Objections, ICSID Case No. ARB/16/34 (13 December 2017) para 171.

[188] Ruth L Okediji, 'Is Intellectual Property "Investment"? Eli Lilly v. Canada and the International Intellectual Property System' (2014) 35 University of Pennsylvania Journal of International Law 1121, 1133 See also Upreti,

not be challenged on the basis of some comparison with an ideal or another existing property law system. Much is at stake here and international investment tribunals should not assume the role of a quasi-legislative body that develops an international law of property.

'The Role of National and International Intellectual Property Law and Policy in Reconceptualising the Definition of Investment' (n 19) 106–109. Similarly on the 'distributional consequences between the parties and the dynamic consequences for the social and economic system of choosing one or another mode of property protection.' see David Kennedy, 'Some Caution about Property Rights as a Recipe for Economic Development' (2011) 1(1) Accounting, Economics, and Law, 29.