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The Investment-Related Aspects of Intellectual Property Rights

Peter K. Yu

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The Investment-Related Aspects of Intellectual Property Rights

Keywords

Investor-State Dispute Settlement, ISDS, Trans-Pacific Partnership, TPP, TRIPS

THE INVESTMENT-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

PETER K. YU*

This Article critically examines the investment-related aspects of intellectual property rights with a focus on the use of investor-state dispute settlement (ISDS) to address international disputes involving intellectual property investments. It begins by exploring the growing trend of using investment law and fora to set international intellectual property norms. It also closely evaluates the strengths and weaknesses of the ISDS mechanism. This Article then examines the various upgrades that the Trans-Pacific Partnership (TPP) Agreement has provided to the ISDS mechanism. It further outlines the conceptual and institutional improvements that could make ISDS even better than the mechanism provided in the TPP Agreement. This Article concludes by exploring whether the TPP ISDS mechanism has provided any silver linings if it is adopted without modification.

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INTRODUCTION

Three decades ago, the United States and other contracting parties to the General Agreement on Tariffs and Trade (GATT) launched the Uruguay Round of Multilateral Trade Negotiations (“Uruguay Round”) to develop new international norms concerning the trade-

related aspects of intellectual property rights.¹ These norms eventually became the Agreement on Trade-Related Aspects of Intellectual Property Rights² (“TRIPS Agreement”). This oft-criticized agreement not only transformed the international intellectual property landscape but also necessitated a revision—and for many countries, a complete overhaul—of the domestic intellectual property system. It is therefore no surprise that some leading commentators have described the TRIPS Agreement as a “sea change” or “tectonic shift” in international intellectual property law and policy.³

Today, we are at a similar crossroads. Through bilateral, regional, and plurilateral trade and investment agreements, new norms are being developed to address the investment-related aspects of intellectual property rights.⁴ Even more importantly, these norms will strengthen the ability of private investors, such as intellectual property rights holders, to sue foreign governments without the support of their home governments.⁵ One therefore cannot help but wonder whether we are now approaching yet another “sea change” or “tectonic shift” in international intellectual property law and policy.

In the past few years, the developments concerning the investment-related aspects of intellectual property rights have garnered considerable policy, scholarly, and media attention. Frequently

1. General Agreement on Tariffs and Trade, Ministerial Declaration on the Uruguay Round of Multilateral Trade Negotiations of 20 Sept. 1986, 25 I.L.M. 1623, 1626 (1986).

2. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

3. FREDERICK M. ABBOTT ET AL., INTERNATIONAL INTELLECTUAL PROPERTY IN AN INTEGRATED WORLD ECONOMY 3 (2007) (stating that “the TRIPS Agreement represented a sea change in the international regulation of IPRs [intellectual property rights]”); Charles R. McManis, *Teaching Current Trends and Future Developments in Intellectual Property*, 52 ST. LOUIS U. L.J. 855, 856 (2008) (noting that “the field of international intellectual property law underwent a tectonic shift with the promulgation of the [TRIPS Agreement]”); see also JAYASHREE WATAL, INTELLECTUAL PROPERTY RIGHTS IN THE WTO AND DEVELOPING COUNTRIES 2 (2001) (“TRIPS is, by far, the most wide-ranging and far reaching international treaty on the subject of intellectual property to date and marks the most important milestone in the development of international law in this area.”).

4. See, e.g., Peter K. Yu, *The Non-Multilateral Approach to International Intellectual Property Normsetting*, in INTERNATIONAL INTELLECTUAL PROPERTY: A HANDBOOK OF CONTEMPORARY RESEARCH 83, 110–12 (Daniel J. Gervais ed., 2015) [hereinafter Yu, *Non-Multilateral Approach*] (discussing the investment-related aspects of intellectual property rights).

5. See discussion *infra* Section II.A.

criticized is the Trans-Pacific Partnership (TPP),⁶ whose agreement the United States and its eleven trading partners in the Asia-Pacific region signed on February 4, 2016.⁷ The TPP investment chapter and its attendant investor-state dispute settlement (“ISDS”) mechanism have generated quite a controversy, as this mechanism will allow private investors to resolve international disputes with host states concerning all forms of investments, including those in the intellectual property field.⁸

Senator Elizabeth Warren (D–Mass.) is among the most vociferous critics of ISDS, which she condemned for giving large multinational corporations “the right to challenge laws they don’t like—not in court, but in front of industry-friendly arbitration panels that sit outside any court system.”⁹ In the run-up to last year’s presidential election, the candidates from both the Democratic and Republican Parties also offered similarly harsh criticisms. While Hillary Clinton described ISDS as “flawed” and called for “a new paradigm for trade agreements that doesn’t give special rights to corporations, but not to workers and NGOs,”¹⁰ Donald Trump made his opposition loud and clear by lambasting the TPP as “another disaster, done and pushed by special interests who want to rape our country.”¹¹ Upon taking office, President Trump quickly followed through by signing a presidential memorandum that directed the United States Trade Representative

6. Trans-Pacific Partnership Agreement, Feb. 4, 2016 [hereinafter TPP Agreement], <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

7. Press Release, Office of the U.S. Trade Rep., Trans-Pacific Partnership Ministers’ Statement (Feb. 4, 2016) [hereinafter Trans-Pacific Partnership Ministers’ Statement], <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/February/TPP-Ministers-Statement>. The twelve TPP partners are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Peter K. Yu, *TPP and Trans-Pacific Perplexities*, 37 *FORDHAM INT’L L.J.* 1129, 1129 (2014).

8. TPP Agreement, *supra* note 6, art. 9.1 (defining “investment” to include “intellectual property rights”).

9. Deirdre Fulton, *As Countries Line up to Sign Toxic Deal, Warren Leads Call to Reject TPP*, COMMONDREAMS (Feb. 3, 2016), <http://www.commondreams.org/news/2016/02/03/countries-line-sign-toxic-deal-warren-leads-call-reject-tpp>.

10. Press Release, Oregon Fair Trade Campaign, Clinton and Sanders Oppose “Lame Duck” Vote on the Trans-Pacific Partnership (May 6, 2016), <http://www.citizenstrade.org/ctc/oregon/2016/05/05/clinton-and-sanders-oppose-lame-duck-tpp-vote>.

11. Jessica Hopper & Ines de la Cuetara, *Donald Trump Slams Trans-Pacific Partnership as “A Continuing Rape of Our Country,”* ABC NEWS (June 29, 2016, 7:17 AM), <http://abcnews.go.com/Politics/donald-trump-slams-trans-pacific-partnership-continuing-rape/story?id=40213090>.

“to provide written notification to the Parties and to the Depository of the TPP . . . that the United States withdraws as a signatory of the TPP and withdraws from the TPP negotiating process.”¹²

Apart from the TPP Agreement and its ISDS mechanism, intellectual property-related investor-state disputes involving Philip Morris have also received significant attention. Since February 2010, this multinational corporate giant began challenging the plain-packaging regulations for tobacco products in Uruguay¹³ and Australia.¹⁴ Both efforts have since failed.¹⁵ From March 2012 to September 2013, Ukraine, Honduras, the Dominican Republic, Cuba, and Indonesia also filed complaints challenging the tobacco control measures in Australia before the Dispute Settlement Body of the World Trade Organization (WTO).¹⁶ These ongoing cases have since been consolidated,¹⁷ and the WTO panel plans to issue its decision later this year.¹⁸

12. White House, Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement (Jan. 23, 2017), <https://www.whitehouse.gov/the-press-office/2017/01/23/presidential-memorandum-regarding-withdrawal-united-states-trans-pacific>.

13. Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Request for Arbitration (Feb. 19, 2010), <http://www.italaw.com/sites/default/files/case-documents/ita0343.pdf>.

14. Philip Morris Asia Ltd. v. Commonwealth of Austl., UNCITRAL, PCA Case No. 2012-12, Notice of Claim (June 22, 2011), <http://www.italaw.com/sites/default/files/case-documents/ita0664.pdf> [hereinafter Philip Morris Asia's Notice of Claim].

15. Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award, ¶ 235 (July 8, 2016), <http://www.italaw.com/sites/default/files/case-documents/italaw7417.pdf>; Philip Morris Asia Ltd. v. Commonwealth of Austl., PCA Case No. 2012-12, Award on Jurisdiction and Admissibility, ¶ 588 (Dec. 17, 2015), http://www.italaw.com/sites/default/files/case-documents/italaw7303_0.pdf.

16. Request for Consultations by Indonesia, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS467/1 (Sept. 20, 2013); Request for Consultations by Cuba, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS458/1 (May 7, 2013); Request for Consultations by the Dominican Republic, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS441/1 (July 23, 2012); Request for Consultations by Honduras, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS435/1 (Apr. 10, 2012); Request for Consultations by Ukraine, *Australia—Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS434/1 (Mar. 15, 2012). Ukraine requested the WTO panel to suspend its panel proceedings on May 28, 2015. See Communication from the Chairperson of the Panel, *Australia—Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS434/1 (June 3, 2015).

Another widely reported ISDS dispute that has yet to be decided is Eli Lilly's high-profile CDN\$500 million complaint¹⁹ against Canada under chapter 11 of the North American Free Trade Agreement (NAFTA).²⁰ This case concerned the Canadian courts' invalidation of Eli Lilly's patents on the hyperactivity drug Strattera and the anti-psychotic drug Zyprexa.²¹ The multinational pharmaceutical giant claims that the "promise doctrine,"²² which the courts used to invalidate its patents is inconsistent with Canada's obligations under NAFTA, the TRIPS Agreement, and the Patent Cooperation Treaty.²³

17. See Communication from the Panel, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Docs. WT/DS434/12, WT/DS435/17 WT/DS441/16, WT/DS458/15, WT/DS467/16 (Apr. 28, 2014) ("The Director-General will compose the panels in DS434, DS435, DS441, DS458 and DS467 on 5 May 2014, and the same panelists will be appointed in all these disputes, pursuant to Article 9.3 of the DSU [Dispute Settlement Understanding].").

18. See Communication from the Panel, *Australia—Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WTO Doc. WT/DS467/21 (Dec. 6, 2016) ("The Panel wishes to advise that it now expects to issue its final report to the parties not before May 2017, in light of the complexity of the legal and factual issues that arise in this dispute."). For an early analysis of this dispute, see generally LUKAS VANHONNAEKER, *INTELLECTUAL PROPERTY RIGHTS AS FOREIGN DIRECT INVESTMENTS: FROM COLLISION TO COLLABORATION* 200–20 (2015); Susy Frankel & Daniel Gervais, *Plain Packaging and the Interpretation of the TRIPS Agreement*, 46 VAND. J. TRANSNAT'L L. 1149 (2013).

19. *Eli Lilly & Co. v. Government of Can.*, ICSID Case No. UNCT/14/2, Notice of Arbitration, ¶¶ 3, 85 (Sept. 12, 2013), http://icsidfiles.worldbank.org/icsid/icsidblobs/onlineawards/c3544/dc4612_En.pdf.

20. North American Free Trade Agreement, Can.-Mex.-U.S., Dec. 17, 1992, 32 I.L.M. 289 (1993) [hereinafter NAFTA].

21. *Eli Lilly & Co.*, ICSID Case No. UNCT/14/2, ¶ 4.

22. As Cynthia Ho explained,

Since 2005, Canadian courts have invalidated roughly a dozen patents for failing to satisfy this doctrine. Pursuant to this doctrine, a patent that promises something is only useful if it does what it "promises." If the patent does not make a promise, a scintilla of utility can establish usefulness. For patents and patent applications that make a promise, whether the promise is fulfilled can either be demonstrated in the patent or "soundly predicted." In the many cases where the promise relies on a sound prediction, there are three components to satisfy. First, there must be a [sic] factual basis for the prediction. Tested compounds can supply this. Second, the inventor must have a sound basis from which the desired result can be inferred from the factual basis as of the date of the application. Third, there must be proper disclosure in the patent application to justify the quid pro quo of a patent monopoly.

Cynthia M. Ho, *Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions*, 30 BERKELEY TECH. L.J. 213, 236–37 (2015).

23. Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231.

The breach of these obligations has, in turn, prevented Eli Lilly from meeting its reasonable investment-backed expectations.²⁴

Taken together, these developments have created a general impression that investment law has now rudely entered the intellectual property domain. Such an intrusion is important because ISDS arbitrations involving intellectual property disputes represent “not only a new frontier in investment arbitration, but more importantly, uncharted territory in the increasingly complex and contested landscape of international intellectual property obligations.”²⁵ There has also been a growing concern about an ongoing shift of intellectual property norm-setting activities from the trade regime to the investment regime.²⁶ Such a shift could take away the traditional limitations, safeguards, and flexibilities that have been built into the international intellectual property regime.²⁷

To a large extent, the current debate on the investment-related aspects of intellectual property rights has raised similarly far-reaching questions as the intellectual property debate at the launch of the Uruguay Round three decades ago. These questions are particularly troubling considering the higher level of intellectual property protection and enforcement now demanded by bilateral, regional, and plurilateral trade and investment agreements. The TPP Agreement, for instance, has called for intellectual property term extension, special provisions for internet service providers, expansion of eligibility for trademark rights, and greater protection of trade secrets and clinical trial data.²⁸

Against this backdrop, this Article critically examines the investment-related aspects of intellectual property rights with a focus on the use of ISDS to address international disputes involving intellectual property investments. Part I explores the growing trend

24. *Eli Lilly & Co.*, ICSID Case No. UNCT/14/2, ¶¶ 3–4.

25. Ruth L. Okediji, *Is Intellectual Property “Investment”?* *Eli Lilly v. Canada and the International Intellectual Property System*, 35 U. PA. J. INT’L L. 1121, 1122 (2014) [hereinafter Okediji, *Is Intellectual Property “Investment”?*].

26. See, e.g., Rochelle Dreyfuss & Susy Frankel, *From Incentive to Commodity to Asset: How International Law Is Reconceptualizing Intellectual Property*, 36 MICH. J. INT’L L. 557, 566 (2015) (“While TRIPS laid the platform for commodification, much of the current regime shifting is reconceptualizing IP [intellectual property] as an asset and progressively detaching it from its grounding in incentive-based principles.”); James Gathii & Cynthia Ho, *Regime Shifting of IP Law Making and Enforcement from the WTO to the International Investment Regime*, 18 MINN. J.L. SCI. & TECH. (forthcoming 2017) (discussing the shift from the intellectual property regime to the investment regime).

27. See *infra* text accompanying notes 125–26.

28. See TPP Agreement, *supra* note 6, ch. 18.

of using investment law and fora to set international intellectual property norms. Although this Part recognizes the existence of many new developments concerning the intellectual property rights holders' use of ISDS, it notes that intellectual property has been linked to foreign investment as early as the 1960s. This Part therefore cautions against treating the linkage between intellectual property and investment as a mostly recent development.

Part II closely evaluates the ISDS mechanism. This Part begins by discussing its strengths in relation to investments in developing countries, including those in the intellectual property field. It then catalogues the mechanism's myriad weaknesses. To help facilitate a systematic analysis, this Part divides these weaknesses into three distinct categories: process-related, interpretation-related, and outcome-related. It then discusses each weakness in turn.

Part III examines the various upgrades that the TPP Agreement has provided to the ISDS mechanism. Although ISDS is available in other agreements, such as NAFTA,²⁹ this Part focuses on the specific arrangements in the TPP for three reasons. First, such a focus will reveal what concrete measures can be instituted to improve ISDS. Although this Part finds that the TPP Agreement has not alleviated many of the weaknesses documented in Section II.B, it welcomes the various substantive and procedural safeguards that have been built into the Agreement. Second, the discussion aims to illuminate the debate on whether countries such as the United States should ratify the TPP Agreement. After all, ISDS remains one of the Agreement's most controversial features. Even though the Trump administration has already announced the United States' withdrawal from the TPP, ISDS is likely to remain a highly sensitive issue for future international trade or investment agreements. Third, the compromise reached in the TPP Agreement reflects the complex considerations precipitated by the groundbreaking ISDS complaints Philip Morris and Eli Lilly filed in the middle of the negotiations. The added safeguards not only highlight the concerns of many TPP partners but also provide useful suggestions on how to further improve ISDS.

Taking account of the various safeguards the TPP Agreement now contains, Part IV outlines two different sets of improvements that could make ISDS even better than the mechanism provided in the TPP Agreement. The first set of improvements focuses on ways to better conceptualize intellectual property investments. The second set of improvements covers institutional arrangements that could

29. See NAFTA, *supra* note 20, arts. 1115–1120 (providing an ISDS mechanism).

strengthen the overall ISDS mechanism. While many of these improvements can be introduced without modifying the TPP Agreement, others may require at least some modification.

Part V concludes by exploring whether the TPP ISDS mechanism has provided any silver linings if it is adopted without modification. Such an exploration will provide important guidance to developing countries, considering that many of these countries lack the ability to resist the introduction of ISDS through international trade or investment agreements. Even if the TPP Agreement failed in the wake of the United States' withdrawal, TPP-like ISDS mechanisms would still be introduced to these countries through other bilateral, regional, or plurilateral trade or investment agreements. Thus, developing countries should consider the benefits and drawbacks of TPP-like ISDS mechanisms as well as the various safeguards that can be proactively introduced to reduce the mechanisms' deleterious impacts.

I. INTELLECTUAL PROPERTY AND INVESTMENT

With the arrival of lengthy investment chapters in the TPP Agreement and other international trade or investment agreements as well as the unprecedented ISDS proceedings initiated by Philip Morris and Eli Lilly, there is an inevitable assumption that investment law has only recently entered the intellectual property domain. This view, however, is not historically accurate. The linkage between intellectual property and investment can be traced back many decades. Indeed, the 1960s was the first time when these two sets of issues received considerable international policy and scholarly attention.

On the investment front, it is worth recalling that Pakistan and West Germany signed the first bilateral investment treaty in 1959.³⁰ Many commentators have traced the origin of recent bilateral, regional, and plurilateral investment agreements back to this particular treaty.³¹ In addition, the Convention on the Settlement of

30. Treaty for the Promotion and Protection of Investments, Ger-Pak., Nov. 25, 1959, 457 U.N.T.S. 6575; *see also* Chester Brown, *The Evolution of the Regime of International Investment Agreements: History, Economics and Politics*, in INTERNATIONAL INVESTMENT LAW: A HANDBOOK 153, 177–79 (Marc Bungenberg et al. eds., 2015) [hereinafter INTERNATIONAL INVESTMENT LAW HANDBOOK] (discussing the agreement).

31. *See, e.g.*, SCOTT MILLER & GREGORY N. HICKS, INVESTOR-STATE DISPUTE SETTLEMENT: A REALITY CHECK 6 (2015), https://cis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150116_Miller_InvestorStateDispute_Web.pdf (noting that the era of bilateral investment treaties (BITs) began in 1959); Bryan Mercurio, *Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements*, 15 J. INT'L ECON. L. 871, 874 n.8 (2012) [hereinafter Mercurio, *Awakening the Sleeping Giant*] (referring to the agreement as the “the first BIT”);

Investment Disputes Between States and Nationals of Other States (“ICSID Convention”) was adopted in March 1965.³² As Tagi Sagafinejad and John Dunning reminded us,

The period from 1945 to the 1960s can be called the golden era of foreign direct investment [FDI]. During this phase, FDI grew dramatically both in volume and in spread. The number of foreign affiliates of U.S.-based [transnational corporations] grew from around 7,400 in 1950 to 23,000 in 1966, with an annual growth rate averaging near 10 percent. Meanwhile, outward flow of FDI from the United States increased from \$1.7 billion in 1960 to \$4.4 billion in 1970, while inward FDI into the United States from the rest of the world went from \$140 million in 1960 to \$1 billion a decade later.³³

It was in the 1960s when developing countries first sought to “regulate foreign investment through an international instrument rather than leaving the matter to customary international law.”³⁴ Since then, the global stock of FDI has greatly increased from \$60 billion in 1960 to \$25 trillion in 2013, as estimated by the World Bank.³⁵ Today, more than 3000 bilateral, regional, or plurilateral investment agreements have been signed.³⁶

The 1960s was also the era when developing countries became increasingly dissatisfied with the international intellectual property regime.³⁷ At that time, many newly independent countries seriously questioned whether succeeding to obligations that the former colonial powers entered into on their behalves was a good idea.³⁸ As I

Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1124 (“European countries negotiated the first wave of BITs, starting with a Germany-Pakistan BIT in 1959.”).

32. Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, *opened for signature* Mar. 18, 1965, 17 U.S.T. 1270, 575 U.N.T.S. 159. This Convention is known widely as the ICSID Convention, drawing its name from the World Bank’s International Centre for Settlement of Investment Disputes (ICSID).

33. TAGI SAGAFI-NEJAD & JOHN H. DUNNING, *THE UN AND TRANSNATIONAL CORPORATIONS: FROM CODE OF CONDUCT TO GLOBAL COMPACT* 26 (2008).

34. SURYA P. SUBEDI, *INTERNATIONAL INVESTMENT LAW: RECONCILING POLICY AND PRINCIPLE* 215 (2d ed. 2012).

35. MILLER & HICKS, *supra* note 31, at 6.

36. See *Fact Sheet: Investor-State Dispute Settlement (ISDS)*, OFF. U.S. TRADE REPRESENTATIVE (Mar. 11, 2015) [hereinafter *ISDS Fact Sheet*], <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2015/march/investor-state-dispute-settlement-isds> (“Various forms of ISDS are now a part of over 3,000 agreements worldwide, of which the United States is party to 50.”).

37. See Peter K. Yu, *A Tale of Two Development Agendas*, 35 OHIO N.U. L. REV. 465, 471–75, 505–07 (2009) [hereinafter Yu, *Two Development Agendas*].

38. *Id.* at 471.

observed in relation to the Berne Convention for the Protection of Literary and Artistic Works³⁹ (“Berne Convention”),

When [this] Convention was revised in Brussels in 1948, only India and Pakistan participated as fully independent nations. While other less developed countries were previously subject to the Berne provisions, the Convention applied to them only by virtue of their status “as dependent territories.” Once they became independent, they therefore began to question the extant international copyright relationship—in particular, whether they should continue as members of the Berne Convention in their own right or whether they should withdraw from the Union. While India, Pakistan, the Philippines, and many former French and Belgian African colonies elected to remain bound by the Convention, Indonesia decided to withdraw from the Union.⁴⁰

It was against this post-colonial background that a large number of pro-development documents or instruments were developed. The widely cited examples included Brazil’s draft 1961 resolution on “The Role of Patents in the Transfer of Technology to Under-Developed Countries,”⁴¹ the 1967 Stockholm Protocol to the Berne Convention,⁴² the 1974 Declaration on the Establishment of a New International Economic Order,⁴³ the draft International Code of Conduct on the Transfer of Technology,⁴⁴ and the draft U.N. Code of Conduct on Transnational Corporations.⁴⁵

39. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 221 (revised at Paris July 24, 1971) [hereinafter Berne Convention].

40. Yu, *Two Development Agendas*, *supra* note 37, at 471–72 (footnotes omitted).

41. For discussions of this draft declaration, see generally Andréa Koury Menescal, *Changing WIPO’s Ways? The 2004 Development Agenda in Historical Perspective*, 8 J. WORLD INTELL. PROP. 761 (2005); Yu, *Two Development Agendas*, *supra* note 37, at 505–06.

42. Protocol Regarding Developing Countries to the Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886 (revised at Stockholm July 14, 1967). For discussions of the Stockholm Protocol, see generally I SAM RICKETSON & JANE C. GINSBURG, *INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS: THE BERNE CONVENTION AND BEYOND* 120–24 (2d ed. 2005); Charles F. Johnson, *The Origins of the Stockholm Protocol*, 18 BULL. COPYRIGHT SOC’Y U.S.A. 91 (1970); Dorothy M. Schrader, *Analysis of the Protocol Regarding Developing Countries*, 17 BULL. COPYRIGHT SOC’Y U.S.A. 160 (1970); Yu, *Two Development Agendas*, *supra* note 37, at 471–84.

43. Declaration on the Establishment of a New International Economic Order, G.A. Res. 3201, at 527, U.N. GAOR, 6th Special Sess., Supp. No. 1, U.N. Doc. A/9559 (1974), 13 I.L.M. 715 (1974).

44. Draft International Code of Conduct on the Transfer of Technology, United Nations Conference on Trade and Development, U.N. Doc. TD/CODE TOT/47 (1985), *reprinted in* UNITED NATIONS CONFERENCE ON TRADE & DEV. [UNCTAD], *COMPENDIUM OF INTERNATIONAL ARRANGEMENTS ON TRANSFER OF TECHNOLOGY: SELECTED INSTRUMENTS* 261–77 (2001), <http://unctad.org/en/docs/psiteipcm5.en.pdf>; see also Peter K. Yu, *International Technology Contracts, Restrictive Covenants and the*

Although pro-development activities slowed down significantly in the late 1970s and the 1980s, due in large part to the developing countries' weakening economic power⁴⁶ and the developed countries' active push for the Uruguay Round negotiations,⁴⁷ renewed attention was paid to the linkage between intellectual property and investment following the adoption of the TRIPS Agreement.⁴⁸ Such attention grew even further with the expiration of the TRIPS transition periods for developing countries on January 1, 2000,⁴⁹ and the developed countries' active negotiation of TRIPS-plus bilateral, regional, and plurilateral trade agreements.⁵⁰

In the mid-2000s, around the time when these negotiations accelerated, a growing number of academic commentators began discussing international intellectual property law in the investment context. For instance, Peter Drahos explored the relationship between bilateral investment treaties and bilateral intellectual

UNCTAD Code, in EMPLOYEES, TRADE SECRETS AND RESTRICTIVE COVENANTS 41 (Christopher Heath & Anselm Kamperman Sanders eds., 2017) (discussing the draft International Code of Conduct in relation to international technology contracts and employee-related restrictive covenants); Yu, *Two Development Agendas*, *supra* note 37, at 493–505 (providing a historical discussion of the draft International Code of Conduct).

45. See Karl P. Sauvant, *The Negotiations of the United Nations Code of Conduct on Transnational Corporations: Experience and Lessons Learned*, 16 J. WORLD INV. & TRADE 11, 13–20 (2015).

46. See SAGAFI-NEJAD & DUNNING, *supra* note 33, at 29 (noting that the early 1980s “reflected a weakening of the position of developing countries as debt rose and the Bretton Woods institutions imposed adjustment policies”).

47. For discussions of the active push by developed countries and their industries for the TRIPS Agreement, see generally DUNCAN MATTHEWS, *GLOBALISING INTELLECTUAL PROPERTY RIGHTS: THE TRIPS AGREEMENT* (2002); SUSAN K. SELL, *PRIVATE POWER, PUBLIC LAW: THE GLOBALIZATION OF INTELLECTUAL PROPERTY RIGHTS* 96–120 (2003).

48. This renewed attention is understandable considering that developing countries have been made aware of the benefits of stronger intellectual property protection in attracting foreign investment and “were told to overlook the distasteful aspects of introducing or increasing intellectual property protection and enforcement in exchange for longer-term economic health.” Daniel J. Gervais, *The TRIPS Agreement and the Doha Round: History and Impact on Economic Development*, in 4 *INTELLECTUAL PROPERTY AND INFORMATION WEALTH: ISSUES AND PRACTICES IN THE DIGITAL AGE* 23, 43 (Peter K. Yu ed., 2007).

49. See TRIPS Agreement, *supra* note 2, art. 65 (providing a five-year transition period for developing countries).

50. See Peter K. Yu, *Currents and Crosscurrents in the International Intellectual Property Regime*, 38 LOY. L.A. L. REV. 323, 392–400 (2004) [hereinafter Yu, *Currents and Crosscurrents*] (discussing the increased negotiation of bilateral and regional trade agreements).

property agreements.⁵¹ Carlos Correa analyzed the implications of international investment agreements for the grant of compulsory licenses.⁵² Ermias Tekeste Biadgleng detailed the public interest implications of TRIPS-plus international investment agreements.⁵³ Frederick Abbott underscored the investment angle that drove the global pharmaceutical industry's push for stronger patent protection worldwide.⁵⁴ As he reminded us,

A patent is essentially a financial instrument that entitles its bearer to achieve greater than competitive market rates of return on investment. The Pharma companies are market-oriented enterprises that seek to maximize shareholder returns on investment. Pharma treats potential intrusion on the security of the patent and related regulatory support as a threat to return on investment. Pharma justifies its rent seeking as necessary to the funding of research and development for new medicines. . . . The Pharma companies demand rules and enforcement that will protect their income streams, justifying a high return on investment as necessary to drug development.⁵⁵

Like these commentators, I registered my concern about an emerging “incentive-investment divide” among policymakers who were responsible for developing intellectual property regimes.⁵⁶ While policymakers in developed countries were obsessed with the protection of the investments made by their exporting intellectual

51. Peter Drahos, *BITs and BIPs: Bilateralism in Intellectual Property*, 4 J. WORLD INTELL. PROP. 791 (2001).

52. Carlos M. Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, 26 MICH. J. INT'L L. 331 (2004) [hereinafter Correa, *Investment Protection*].

53. Ermias Tekeste Biadgleng, *IP Rights Under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protection of Public Interest* (South Centre, Research Paper No. 8, 2006).

54. Frederick M. Abbott, *The Cycle of Action and Reaction: Developments and Trends in Intellectual Property and Health*, in NEGOTIATING HEALTH: INTELLECTUAL PROPERTY AND ACCESS TO MEDICINES 27, 36 (Pedro Roffe et al. eds., 2006) [hereinafter NEGOTIATING HEALTH].

55. *Id.*

56. See Peter K. Yu, *The International Enclosure Movement*, 82 IND. L.J. 827, 892–901 (2007) [hereinafter Yu, *International Enclosure Movement*]; see also Peter K. Yu, *The Strategic and Discursive Contributions of the Max Planck Principles for Intellectual Property Provisions in Bilateral and Regional Agreements*, 62 DRAKE L. REV. DISCOURSE 20, 30 (2014) (stating that “the negotiation of intellectual property provisions in [bilateral and regional agreements] should not take on a heavy gloss of trade, investment, or security” (emphasis added)).

property industries,⁵⁷ their developing country counterparts were equally obsessed with international compliance and the acquisition of foreign investments.⁵⁸ In the end, the policymakers on both sides focused so much on investments that they ignored a primary justification for intellectual property protection—that is, to provide incentives for creativity and innovation. Such a focus is dangerous from a public interest standpoint. As I noted earlier,

When policymakers and trade negotiators focus on the protection of intellectual property investments by their own nationals, they will likely be less interested in evaluating the economic efficiency of the intellectual property system and the welfare gains that system produces. Instead, they will push for the development of a system that protects foreign investors[,] often at the expense of the public interest . . . , the local innovative environment and the country's social-economic conditions.⁵⁹

Given the decade-long existence of this body of literature, the discussion of intellectual property issues in the investment context is clearly not as new as many commentators have suggested. To a large extent, the discussion of the investment-related aspects of intellectual property rights is only as “new” as the discussion of the trade-related aspects of these rights in the late 1980s and the early 1990s.⁶⁰ Although

57. For discussions of the relationship between intellectual property protection and foreign direct investment (FDI), see generally Keith E. Maskus, *The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer*, 9 DUKE J. COMP. & INT'L L. 109 (1998) [hereinafter Maskus, *Role of Intellectual Property Rights*]; Carlos A. Primo Braga & Carsten Fink, *The Relationship Between Intellectual Property Rights and Foreign Direct Investment*, 9 DUKE J. COMP. & INT'L L. 163 (1998).

58. See CAROLYN DEERE, *THE IMPLEMENTATION GAME: THE TRIPS AGREEMENT AND THE GLOBAL POLITICS OF INTELLECTUAL PROPERTY REFORM IN DEVELOPING COUNTRIES* 242 (2009) (“TRIPS implementation in the OAPI [African Intellectual Property Organization] countries was shaped by a pro-IP and ‘compliance-plus’-oriented political environment.”); Keith E. Maskus & Jerome H. Reichman, *The Globalization of Private Knowledge Goods and the Privatization of Global Public Goods*, in *INTERNATIONAL PUBLIC GOODS AND TRANSFER OF TECHNOLOGY UNDER A GLOBALIZED INTELLECTUAL PROPERTY REGIME* 3, 18 (Keith E. Maskus & Jerome H. Reichman eds., 2005) (expressing concern that many developing countries are “compliance oriented”).

59. Yu, *Non-Multilateral Approach*, *supra* note 4, at 112.

60. Timothy Armstrong recently provided the following observation:

Given the Berne Convention and the very lengthy history of international negotiations over copyright . . . , [one] might very well conclude that it was entirely foreseeable, even inevitable, that copyright would come to be a contentious trade issue as global markets for the import and export of expressive works matured. Perhaps it was not inevitable that the United States would yoke copyright policy to the WTO trading system via the TRIPS Agreement, thereby enabling bigger countries to threaten smaller ones with

the Paris Convention for the Protection of Industrial Property⁶¹ (“Paris Convention”) and the Berne Convention were established to address the growing needs for international standards governing the cross-border trade of intellectual property goods,⁶² trade rules were not applied to the intellectual property context until the completion of the Uruguay Round and the founding of the WTO.⁶³

The same can be said about today’s growing use of investment law in the intellectual property field. As noted earlier, policymakers in both developed and developing countries have, for many decades, viewed technology and intellectual property through the investment lens. Indeed, the ISDS mechanism that Eli Lilly has utilized to challenge the Canadian “promise doctrine” was instituted by NAFTA more than two decades ago.⁶⁴ The only new development was that private intellectual property investors, such as Philip Morris and Eli Lilly, have now begun using ISDS to resolve international intellectual property disputes and to shape international intellectual property norms.⁶⁵

Until the early 2010s, there were in effect only two general types of international processes for resolving cross-border intellectual property disputes. The first type involves the International Court of Justice.⁶⁶ Both the Paris and Berne Conventions provide this process as an optional dispute settlement mechanism.⁶⁷ Yet no country has ever

trade sanctions if they did not bring their domestic copyright laws up to the standards favored by the large copyright-exporting nations

Timothy K. Armstrong, *Two Comparative Perspectives on Copyright’s Past and Future in the Digital Age*, 15 J. MARSHALL REV. INTELL. PROP. L. 698, 759 (2016).

61. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1538, 828 U.N.T.S. 305 (revised at Stockholm July 14, 1967) [hereinafter Paris Convention].

62. See Yu, *Currents and Crosscurrents*, *supra* note 50, at 333–34 (noting that international intellectual property protection did not become a major issue until transportation and communication had substantially improved and until cross-border markets had greatly expanded).

63. See *id.* at 357–66 (discussing the marriage of intellectual property to trade through the TRIPS Agreement).

64. See NAFTA, *supra* note 20, arts. 1115–1120 (providing a mechanism for settling disputes between a party and an investor of another party).

65. See *supra* text accompanying notes 13–24.

66. See *International Court of Justice*, HAGUE JUST. PORTAL, <http://www.haguejusticeportal.net/index.php?id=305> (last visited Feb. 5, 2017) (“The International Court of Justice is the principal judicial organ of the United Nations. . . . The Court has a dual role: to settle in accordance with international law the legal disputes submitted to it by States, and to give advisory opinions on legal questions referred to it by duly authorised international organs and agencies.”).

67. See Berne Convention, *supra* note 39, art. 33(1) (“Any dispute between two or more countries of the Union concerning the interpretation or application of this

used it to resolve any international intellectual property dispute.⁶⁸ The second type involves trade agreements, such as NAFTA and the WTO Agreement.⁶⁹ Although successful dispute settlement through these agreements will undoubtedly benefit intellectual property industries, the WTO's state-to-state dispute settlement process does not give private actors legal standing to sue national governments.⁷⁰ As a result, these industries will have to rely on the assistance of governments in either their home states or other supportive states.

In sum, what is new about the investment-related aspects of intellectual property rights is not that intellectual property rights have now been viewed or treated as investments—which has happened for many decades. Nor is it that ISDS mechanisms have now emerged to enable private investors to sue national governments—as NAFTA and other bilateral and regional investment agreements have already empowered them to do so. Rather, it is the beginning of the private investors' effort to take intellectual property norm-setting activities into their own hands by initiating ISDS proceedings against those foreign governments that do not offer their preferred levels of protection and enforcement. These efforts were unprecedented in the intellectual property field.

II. INVESTOR-STATE DISPUTE SETTLEMENT

Thus far, policymakers, commentators, and civil society organizations have widely criticized the use of ISDS to resolve international intellectual property disputes.⁷¹ While policymakers and commentators in developing countries are understandably concerned about the heavy burden imposed by this increasingly used

Convention, not settled by negotiation, may, by any one of the countries concerned, be brought before the International Court of Justice by application in conformity with the Statute of the Court, unless the countries concerned agree on some other method of settlement.”); Paris Convention, *supra* note 61, art. 28(1) (containing the same language as in the Berne Convention).

68. See Yu, *Currents and Crosscurrents*, *supra* note 50, at 355 (“So far, no member state of the Berne or Paris Unions has ever pursued intellectual property litigation before the [International Court of Justice].”).

69. See TRIPS Agreement, *supra* note 2, art. 64 (mandating that disputes arising under the TRIPS Agreement be settled by the WTO dispute settlement process).

70. See Understanding on Rules and Procedures Governing the Settlement of Disputes arts. 2–3, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401, 401–02 [hereinafter DSU] (outlining the dispute settlement process and limiting access to WTO member states).

71. See sources cited *infra* note 332.

mechanism,⁷² their counterparts in the developed world are equally concerned about the mechanism's potential impact on their ability to regulate harmful conducts, including those committed by transnational corporations.⁷³ To provide an understanding of the full impact of ISDS, this Part explores in turn the mechanism's myriad strengths and weaknesses.

A. *Strengths*

1. *General strengths*

ISDS is particularly attractive to businesses entering countries that have either a limited respect for the rule of law or an underdeveloped, or even undeveloped, judicial system.⁷⁴ While

72. See MILLER & HICKS, *supra* note 31, at 6 (“According to [UNCTAD], about 100 claims were initiated during the 15-year period 1987–2002, but from 2003 until 2013, the number of filed claims more than quadrupled, reaching a total of 568.”); Ho, *supra* note 22, at 219 (“[I]nvestors filed only one dispute in 1982, over fifty new cases in 2012, and today there are currently five hundred claims pending in over fifty countries.”); see also ANNA JOUBIN-BRET, ESTABLISHING AN INTERNATIONAL ADVISORY CENTRE ON INVESTMENT DISPUTES? 2 (2015) (“It should be noted that the number of cases compiled by UNCTAD does not reflect all disputes between foreign investors and states. With the increase of transparency in several arbitration institutions and treaties, the number of treaty-based cases is easier to access. However, a host of cases brought under investment contracts or before the International Chamber of Commerce (ICC) or regional arbitration institutions are not publicly known, and it is fair to say that the total number can easily be doubled.”); Gary B. Born & Ethan G. Shenkman, *Confidentiality and Transparency in Commercial and Investor-State International Arbitration*, in THE FUTURE OF INVESTMENT ARBITRATION 5, 28 (Catherine A. Rogers & Roger P. Alford eds., 2009) (“The UNCITRAL Rules . . . provide for *ad hoc* arbitration with no central registry or requirement that the existence of UNCITRAL cases be publicly registered. For this reason, investors seeking to keep their disputes with states out of the public eye may decide, treaty permitting, to opt for an *ad hoc* arbitral mechanism rather than ICSID. Some non-trivial percentage of investor-state arbitrations are thus never made public.”).

73. See *supra* text accompanying notes 9–12; see also Ho, *supra* note 22, at 220 & n.21 (noting the concerns among Australian and German policymakers about the problems posed by ISDS).

74. As Charles Brower and Stephan Schill observed,

In many developing and transitioning countries, independent courts that decide cases in accordance with pre-established rules of law in a timely fashion are missing altogether. Corruption in the judiciary is a sad but daily business in the courts of many countries. Additionally, lengthy and inefficient court proceedings dragging on over years, if not decades, remain too commonplace. Under such circumstances, it is difficult to argue convincingly that dispute resolution in many host states' courts constitutes a way for investors to make a recalcitrant host state comply with its investment-treaty commitments.

business or contractual disputes are inevitable, they are highly problematic if injured investors cannot seek compensation through a fair and independent judicial system. The lack of such a system would make it difficult for businesses to recoup or benefit from their investments, such as those made when “buying or leasing land, building new facilities, establishing relationships, and recruiting and training employees.”⁷⁵ Having mechanisms that prevent foreign investors from being subjected to unreasonable political risks would also send important signals to attract investments from abroad.⁷⁶

In addition, providing an internationalized process for businesses to seek redress directly from governments is important considering that courts, especially those in developing countries, tend to be protective of their own governments.⁷⁷ For example, these courts may provide

Charles N. Brower & Stephan W. Schill, *Is Arbitration a Threat or a Boon to the Legitimacy of International Investment Law?*, 9 CHL. J. INT'L L. 471, 479 (2009) (footnotes omitted); see also MILLER & HICKS, *supra* note 31, at v (“Disputes are also most frequent in states with weak legal institutions. Argentina (53 claims) and Venezuela (36 claims) are the leading respondent states.”).

75. MILLER & HICKS, *supra* note 31, at 13; see also Christoph Schreuer, *Do We Need Investment Arbitration?*, in RESHAPING THE INVESTOR-STATE DISPUTE SETTLEMENT SYSTEM: JOURNEYS FOR THE 21ST CENTURY 879, 879 (Jean E. Kalicki & Anna Joubin-Bret eds., 2015) [hereinafter RESHAPING THE ISDS SYSTEM] (“An investor typically must commit considerable resources before it can hope to reap the expected profits. In doing so, it makes itself dependent on the benevolence of the host State. This situation of dependence calls for strong legal protection.”).

76. See LONE WANDAHL MOUYAL, INTERNATIONAL INVESTMENT LAW AND THE RIGHT TO REGULATE: A HUMAN RIGHTS PERSPECTIVE 8 (2016) (noting the political risks concerning “the likelihood of changes to the operation and profitability of the investment as a result of the policy or administration, which impacts on the existence and/or an investor’s ownership of the investment, on the continuous operation of the investment as well as on the possibility of transfer of returns”); SUBEDI, *supra* note 34, at 87 (discussing the role of BITs as “insurance against political risks”); August Reinisch, *The Future of Investment Arbitration*, in INTERNATIONAL INVESTMENT LAW FOR THE 21ST CENTURY: ESSAYS IN HONOUR OF CHRISTOPH SCHREUER 894, 899 (Christina Binder et al. eds., 2009) [hereinafter INTERNATIONAL INVESTMENT LAW] (stating that a legal framework that includes the potential for highly enforceable investment awards “creates a positive investment climate that attracts foreign investment that is beneficial to the economy of recipient states”); Schreuer, *supra* note 75, at 879 (“From the host State’s perspective, the most obvious advantage of investment protection is improvement of its investment climate.”); Ho, *supra* note 22, at 231–32 (“All of these rights help to ensure that host governments will not subject foreign investors to inappropriate risks, and consequently induce them to invest.”).

77. See Peter Muchlinski, *Policy Issues*, in THE OXFORD HANDBOOK OF INTERNATIONAL INVESTMENT LAW 3, 40 (Peter Muchlinski et al. eds., 2008) [hereinafter OXFORD HANDBOOK] (“[I]nvestors may perceive host country laws and procedures not to be sufficient as a means for the resolution of disputes with the host country. They may prefer an internationalized approach to dispute settlement. This

sovereign immunity, thereby taking away the businesses' opportunities to file lawsuits against local governments in the first place.⁷⁸ The courts may also be biased,⁷⁹ especially if corruption is involved.⁸⁰ For businesses in locations with armed conflicts or civil strife, resolving disputes through local means can be quite dangerous.⁸¹

allows the investor the freedom to choose between national and international dispute settlement mechanisms.”).

78. As Andrea Bjorklund observed,

Municipal courts in the home state of the investor will often be unavailable either for lack of jurisdiction over the host state, or because foreign sovereign immunity protects the host government. All the western European nations, and many beyond, have adopted the restrictive theory of sovereign immunity, holding that foreign governments do not enjoy immunity when they are acting *jure gestionis* (in a private capacity), but that they retain immunity when acting *jure imperii* (in a public capacity). The United States followed the lead of the European countries and codified the restrictive theory of immunity in the Foreign Sovereign Immunities Act of 1976. In the investor-state dispute settlement context, foreign states sometimes act in a private capacity, but very often act in a public capacity as they enact a government measure with deleterious effects on a foreign investor or his investment.

Andrea K. Bjorklund, *Private Rights and Public International Law: Why Competition Among International Economic Law Tribunals Is Not Working*, 59 HASTINGS L.J. 241, 254 (2007) (footnotes omitted); see also Brower & Schill, *supra* note 74, at 479 (“Various legal obstacles—including state immunity and doctrines of judicial restraint such as the act-of-state doctrine—constitute significant limits to the subjection of host states to third-country jurisdiction.”); Ho, *supra* note 22, at 232 (“Although foreign investors previously might have attempted to sue the state in its own courts, those courts could be biased; alternatively, the state might be able to claim sovereign immunity. Sometimes the investor could not even directly pursue an action.”).

79. As Christoph Schreuer elaborated,

From an investor's perspective, the alternative of resorting to a host State's domestic courts is of limited attractiveness. Domestic courts are organs of the State and judges are State employees. In arbitration, the appointment of employees of one of the parties as arbitrators is taboo. There is no persuasive argument why different standards should apply to domestic courts in cases against forum States. Lack of independence and impartiality of these courts and a sense of loyalty towards local interests are recurring problems that arise for foreign investors that try to vindicate their rights before domestic courts against the forum State.

Schreuer, *supra* note 75, at 883; see also *ISDS Fact Sheet*, *supra* note 36 (“While countries with weak legal institutions are frequent respondents in ISDS cases, American investors have also faced cases of bias or insufficient legal remedies in countries with well-developed legal institutions.”).

80. See Hilmar Raeschke-Kessler & Dorothee Gottwald, *Corruption*, in OXFORD HANDBOOK, *supra* note 77, at 584 (examining the “legal effects of corruption on international investment”).

81. See MILLER & HICKS, *supra* note 31, at 17–19 (discussing the change of investment policy from gunboat diplomacy to BITs); Ho, *supra* note 22, at 232 (“In the worst-case scenario, home states used, or at least threatened to use, military force.”).

At the macro level, ISDS can promote global harmony by “insulat[ing these] disputes from the realm of politics and diplomacy.”⁸² As Christoph Schreuer, a leading commentator on the ICSID Convention, pointed out,

A major benefit that is often overlooked is the impact on the relations between the States concerned. Diplomatic protection by the investor’s State of nationality has been a frequent source of irritation and discord. In the presence of an effective system of investor-State arbitration, the host State and the investor’s home State are less likely to get drawn into investment disputes. Where investment arbitration is available, these disputes are transferred from the political arena to a judicial forum especially charged with the settlement of mixed investor-State disputes. The dispute settlement process is depoliticized and subjected to objective legal criteria.⁸³

Diplomatic benefits aside, greater protection of investment—through ISDS or otherwise—could help to ensure “the introduction and promotion of principles of good governance in domestic legal systems.”⁸⁴ Indeed, according to Professor Schreuer, “Investment protection treaties provide for the rule of law and its effective implementation with respect to foreign investors. The relevant standards have begun to show spill-over effects on the internal systems of the countries concerned.”⁸⁵

Finally, it will be worthwhile to compare ISDS with state-to-state dispute settlement. Compared with the process in the WTO, which limits complaints to those brought by state governments,⁸⁶ ISDS will give investors independence and more control over the dispute resolution strategies. The latter process will enable investors to determine for themselves when to file complaints and whether to focus on the short term or the long term.⁸⁷ The ability to make these

82. Schreuer, *supra* note 75, at 882 (quoting Aron Broches, the chair of the preparatory meetings for the ICSID Convention).

83. *Id.* at 881; *see also* VANHONNAEKER, *supra* note 18, at 161 (stating that ISDS arbitrators will be “able to issue a directly enforceable award holding the Host Government accountable for [an international investment agreement] violation without risking the political interferences that may occur in conflicts between States”); Reinisch, *supra* note 76, at 900 (noting that ISDS “is supposed to lead to a de-politicization of investment disputes”).

84. Schreuer, *supra* note 75, at 882.

85. *Id.*

86. *See supra* text accompanying note 70.

87. *See* Christopher Gibson, *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*, 25 AM. U. INT’L L. REV. 357, 407–08 (2010) (“[T]he investor in an investor-state arbitration will have the greatest degree of control over its case without any involvement from its own government. . . . [It]

decisions is particularly important because governments do not always meet industry demands for initiating WTO complaints.⁸⁸ As Charles Gibson observed,

[I]nvestors choosing the WTO forum will be forced to rely upon their government's willingness to bring a claim, which is not a foregone conclusion and may be subject to the vagaries of other considerations in the relations between the two countries concerned. The private investor will thus need considerable political sway to induce its government to initiate the state-to-state dispute.⁸⁹

2. *Strengths specific to intellectual property*

In the intellectual property arena more specifically, ISDS can provide some additional benefits. For instance, in cases in which the government is complicit in acts of piracy or counterfeiting, investors may be able to obtain compensation for their losses even if they cannot stop the government from participating in these illegal activities.⁹⁰ Complicity in this area can range from the government's direct participation in pirate and counterfeiting activities to its failure to take the requisite actions for addressing these problems.⁹¹ As Lukas Vanhonnaeker observed,

The involvement of the State can take different forms and does not necessarily need to amount to positive actions on the part of the state: the Host State can prove to be involved if it supported acts of piracy but also if it failed despite its awareness of the situation at stake to take the necessary measures to effectively restrict IPRs [intellectual property rights] infringement.⁹²

can prepare and implement its own strategy for litigating potential investment claims in connection with the compulsory license based only on the investor's assessment of the circumstances and merits of the case.”).

88. See Peter K. Yu, *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China*, 55 AM. U. L. REV. 901, 923–26 (2006) [hereinafter Yu, *From Pirates to Partners II*] (noting that the U.S. Trade Representative initially took a “wait-and-see” approach” and refused to file a WTO complaint against China despite repeated complaints and demands from the business community).

89. Gibson, *supra* note 87, at 407 (footnotes omitted).

90. See VANHONNAEKER, *supra* note 18, at 172–73 (describing the various claims that an investor could make when a government chooses to “look[] the other way”).

91. See *id.* at 173 (“[T]he investor will have to prove a failure of the state to act with due diligence for the full protection and security claim and he will have to bring evidence that the Host State’s enforcement authorities deliberately did not take appropriate action or were corrupt as far as the fair and equitable treatment claim is concerned.”).

92. *Id.* at 162.

A difficult question, however, concerns whether inadequate intellectual property enforcement could meet the burden of government complicity. Such a question is particularly important considering that developed country governments continue to have great difficulty in using the WTO dispute settlement process to strengthen intellectual property protection and enforcement in developing countries.⁹³

While there are apparent benefits to using ISDS as an alternative dispute resolution mechanism, it remains to be seen whether this mechanism can be transformed into an “effective tool[] in pressuring governments to strengthen their efforts to enforce intellectual property rights.”⁹⁴ At first glance, the claimants would likely face considerable challenges in linking inadequate intellectual property enforcement to the host government’s failure⁹⁵ in providing “fair and equitable treatment” or “full protection and security”—commitments commonly made under international investment agreements.⁹⁶ Indeed, as Vanhonnaeker reminded us, “given the often weak IP [(intellectual property)] legal regime in many developing countries, in which most acts of systemic IPRs piracy take place, investors will likely

93. The leading example of such difficulty is *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, in which the United States succeeded in some claims but failed in the others. See Panel Report, *China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WTO Doc. WT/DS362/R (Jan. 26, 2009) (finding for China on the claim regarding the high thresholds for criminal procedures and penalties related to intellectual property protection and for the United States on the claim regarding the denial of copyright protection to works that have not been authorized for publication or dissemination, with the remaining claim regarding the customs authorities’ failure to properly dispose of infringing goods seized at the border somewhat divided between the two parties). For the Author’s discussions of this dispute, see generally Peter K. Yu, *TRIPS Enforcement and Developing Countries*, 26 AM. U. INT’L L. REV. 727 (2011); Peter K. Yu, *The TRIPS Enforcement Dispute*, 89 NEB. L. REV. 1046 (2011).

94. VANHONNAEKER, *supra* note 18, at 161.

95. See *id.* at 162 (“[W]hile international investment law protects investors in their relationship with the Host State (and its bodies), acts of piracy are usually committed by private parties, thus not falling under the scope of [international investment agreements] that only cover government interferences with investors’ proprietary rights.”).

96. See, e.g., TPP Agreement, *supra* note 6, art. 9.6.1 (“Each Party shall accord to covered investments treatment in accordance with applicable customary international law principles, including fair and equitable treatment and full protection and security.”); Giuditta Cordero Moss, *Full Protection and Security*, in STANDARDS OF INVESTMENT PROTECTION 131 (August Reinisch ed., 2008) (discussing the standard of “full protection and security”); Katia Yannaca-Small, *Fair and Equitable Treatment Standard: Recent Developments*, in STANDARDS OF INVESTMENT PROTECTION, *supra*, at 111 (discussing the standard of “fair and equitable treatment”).

find it difficult to prove wrongdoing on the part of the State taking the form of insufficient efforts in their fight against IP piracy.”⁹⁷

B. Weaknesses

Despite the myriad benefits of ISDS, there are many reasons why this dispute settlement mechanism is undesirable and problematic, especially when viewed from the developing countries’ perspective. To help facilitate a systematic analysis, this Section catalogues the various weaknesses of ISDS, dividing them into three distinct categories: process-related, interpretation-related, and outcome-related. This Section then discusses each weakness in turn.

1. Process-based weaknesses

The current ISDS process has at least four types of weaknesses. First, arbitration costs can be very high. In general, the costs “have averaged over USD 8 million with costs exceeding USD 30 million in some cases.”⁹⁸ These costs could go up to as high as \$70 million, as in the highly unusual Yukos Oil case discussed in Section II.B.3.⁹⁹ Considering that each claim in a WTO dispute generally costs about only \$300,000 to \$400,000 (based on 2004 figures),¹⁰⁰ the costs of ISDS arbitrations are substantially higher.¹⁰¹ If developing countries already

97. VANHONNAEKER, *supra* note 18, at 163.

98. David Gaukrodger & Kathryn Gordon, *Investor-State Dispute Settlement: A Scoping Paper for the Investment Policy Community* 19 (Organisation for Economic Co-operation and Development, Working Papers on International Investment No. 2012/03, 2012); *see also* Matthew Hodgson, *Costs in Investment Treaty Arbitration: The Case for Reform*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 75, at 748, 749 (“The average Party Costs for Claimants and Respondents are in the region of U.S. \$4.4 million and U.S. \$4.5 million, respectively. To this can be added average Tribunal Costs of around U.S. \$750,000. The average ‘all in’ costs of an investment treaty arbitration are therefore just short of U.S. \$10 million. The median figure is notably lower, but still substantial, at around U.S. \$6 million.” (footnotes omitted)).

99. *See* JOUBIN-BRET, *supra* note 72, at 2 (stating that the “the legal fees [in the Yukos Oil case] for the claimant alone [were] US\$70 million”).

100. *See* Gregory Shaffer, *Recognizing Public Goods in WTO Dispute Settlement: Who Participates? Who Decides? The Case of TRIPS and Pharmaceutical Patent Protection*, 7 J. INT’L ECON. L. 459, 473 (2004) (finding that “an average WTO claim costs in the range of US\$300,000–400,000 in attorneys’ fees,” based on 2004 figures); *see also* Gregory Shaffer, *Developing Country Use of the WTO Dispute Settlement System: Why It Matters, the Barriers Posed*, in *TRADE DISPUTES AND THE DISPUTE SETTLEMENT UNDERSTANDING OF THE WTO: AN INTERDISCIPLINARY ASSESSMENT* 167, 183–84 (James C. Hartigan ed., 2009) (discussing the legal costs involved in WTO disputes).

101. *See* JOUBIN-BRET, *supra* note 72, at 2 (“Compared with cases brought to the WTO [Dispute Settlement Body], . . . investment treaty cases are within a range of 5 to 10 times more expensive than trade disputes.”).

have a difficult time affording the WTO dispute settlement process, the exceedingly high costs of ISDS arbitrations will certainly guarantee that most businesses in these countries will be shut out of the mechanism.¹⁰²

Second, ISDS arbitrators may be partial and unaccountable.¹⁰³ For example, these arbitrators may have worked in law firms that have clients in the same industry.¹⁰⁴ They may also have a tendency to serve corporate clients who are similar to those filing ISDS complaints.¹⁰⁵ Indeed, developing country policymakers, academic and policy commentators, and civil society organizations often lament

102. Thus far, commentators have proposed various measures to address the high costs of ISDS arbitrations. See, e.g., Hodgson, *supra* note 98 (discussing ways to reform costs in investment treaty arbitration); Adam Raviv, *Achieving a Faster ICSID*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 75, at 653, 695–96 (offering as solutions “a ceiling on fees for a specific matter” and “a hard time limit—say, six months—on issuing an award” so as to prevent arbitrators from “drag[ging] out deliberations simply to bill more time to the parties”); Jeffrey Sullivan & David Ingle, *Interim Costs Orders: The Tribunal’s Tool to Encourage Procedural Economy*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 75, at 731, 732 (“One procedural mechanism that may assist in preventing procedural misconduct and unmeritorious claims is the use of interim costs orders. If tribunals regularly used their case management powers to issue interim costs orders, they would be able to deter nefarious tactics while also balancing the two seemingly irreconcilable goals of due process and procedural economy.”).

103. See Ho, *supra* note 22, at 234 (“Some also contend that arbitrators lack the independence and impartiality of typical domestic or international tribunals.”); Joost Pauwelyn, *The Rule of Law Without the Rule of Lawyers? Why Investment Arbitrators Are from Mars, Trade Adjudicators from Venus*, 109 AM. J. INT’L L. 761, 783 (2015) (“[O]n average, WTO panelists tend to be relatively low-key diplomats from developing countries (very few U.S./EU nationals), with a government background, and often without a law degree or legal expertise, whereas ICSID arbitrators are likely high-powered, elite private lawyers or legal academics from western Europe or the United States[.] [In addition,] the pool of ICSID arbitrators [is] an ideologically divided, closed network with a small number of individuals attracting most nominations, whereas the universe of WTO panelists is ideologically more homogeneous, with a relatively low reappointment rate and nominations more evenly distributed (with the consequence that panelists, on average, have relatively little experience)[.]”).

104. Joost Pauwelyn recounted the frequent criticisms of ICSID arbitrators:

ICSID arbitrators . . . get referred to as “elite lawyers,” “ambitious investment lawyer[s] keen to make a lucrative living,” a “mafia,” “super arbitrators” who are “not just the mafia but a smaller, inner mafia,” adjudicators—not faceless—but with conflicts of interest and a “hidden agenda” (“one minute acting as counsel, the next framing the issue as an academic, or influencing policy as a government representative or expert witness”).

Pauwelyn, *supra* note 103, at 780 (footnotes omitted); see also Gaukrodger & Gordon, *supra* note 98, at 44 (“It appears that over 50% of ISDS arbitrators have acted as counsel for investors in other ISDS cases while it has been estimated about 10% of ISDS arbitrators have acted as counsel for States in other cases.”).

105. See Pauwelyn, *supra* note 103, at 764 (noting “the closed network of specialist ISDS arbitrators and lawyers” in “the terrain of subject-matter specialists”).

the process's bias toward the interests of transnational corporations.¹⁰⁶ As President Evo Morales of Bolivia declared, "Governments in Latin America and I think all over the world never win the cases. The transnationals always win."¹⁰⁷ These sentiments are understandable considering that the majority of the claimants in ISDS cases originated from developed countries.¹⁰⁸

Third, many of the ISDS proceedings have been kept in secret, and policymakers, commentators, and civil society organizations continue to have great difficulty uncovering what happens in these proceedings.¹⁰⁹ For instance, the notice of claim in Philip Morris

106. As Susan Franck observed,

In investment arbitration, there is a lurking concern that the development status of arbitrators, particularly presiding arbitrators who wield especially strong influence, may be inappropriately associated with certain outcomes. One author even explains that there is "some concern in developing countries over the selection of arbitrators" at entities such as ICSID, and such appointments may create a "systemic . . . bias in favor of Western legal concepts and the positions."

Susan D. Franck, *Development and Outcomes of Investment Treaty Arbitration*, 50 HARV. INT'L L.J. 435, 450 (2009) [hereinafter Franck, *Development and Outcomes*] (quoting AMAZU A. ASOUZU, INTERNATIONAL COMMERCIAL ARBITRATION AND AFRICAN STATES: PRACTICE, PARTICIPATION AND INSTITUTIONAL DEVELOPMENT 404–05 (2001)) (ellipses in original) (footnote omitted); see also *id.* at 451 ("In a 2005 speech, Roberto Dañino, then Secretary-General of ICSID, . . . explained that there is a concern 'expressed by a few . . . that ICSID arbitrators are predominantly nationals from developed countries, the implication being that they may be more favorably inclined towards investors' from the developed world and less favorably inclined towards governments from the developing world." (second ellipsis in original)).

107. Leslie Mazoch, *Chavez Takes Cool View Toward OAS, Says Latin America Better off Without World Bank*, HUFFINGTON POST (Apr. 30, 2007, 11:09 AM), <http://www.huffingtonpost.com/huff-wires/20070430/la-gen-venezuela-leftist-alternative>.

108. As stated in the latest *World Investment Report*,

Developed-country investors brought most of the 70 known cases in 2015. This follows the historical trend in which developed-country investors have been the main ISDS users, accounting for over 80 per cent of all known claims. The most frequent home States in ISDS in 2015 were the United Kingdom, followed by Germany, Luxembourg and the Netherlands . . .

UNCTAD, WORLD INVESTMENT REPORT 2016: INVESTOR NATIONALITY: POLICY CHALLENGES 105 (2016), http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf.

109. See Kate Miles, *Reconceptualising International Investment Law: Bringing the Public Interest into Private Business*, in INTERNATIONAL ECONOMIC LAW AND NATIONAL AUTONOMY 295, 295–96 (Meredith Kolsky Lewis & Susy Frankel eds., 2010) ("Although [ISDS] cases resolve questions that can affect significant matters of public policy, the public generally does not have access to the documents, the proceedings are conducted behind closed doors, and the submission of *amicus curiae* briefs is restricted, if permitted at all."); Ho, *supra* note 22, at 234 (noting that "the proceedings and decisions may lack the same level of transparency as most judicial decisions").

Asia's ISDS proceeding against Australia was made available only through a request for declassification¹¹⁰ under the Australian Freedom of Information Act.¹¹¹ Compared with ISDS, dispute settlement in the WTO is much more transparent—not only for complainants and respondents but also for third parties, regardless of whether they intervene or not. Virtually all of the key public documents in the WTO process have been made available on the international trading body's website.¹¹²

Finally, investors may file frivolous lawsuits, thereby wasting the host state's scarce resources.¹¹³ Even worse, those states that find it costly to go through the ISDS process may be just too eager to change their laws to avoid costly arbitrations.¹¹⁴ It is therefore no surprise that some commentators have criticized ISDS for providing “an oversized public insurance scheme for companies that are unwilling to assume the normal risks of doing business.”¹¹⁵

Even worse, given the high costs of ISDS arbitrations and the potential for losing even more money through damage awards,¹¹⁶

110. See Philip Morris Asia's Notice of Claim, *supra* note 14.

111. *Freedom of Information Act 1982* (Cth) s 11A (Austl.).

112. See *WTO Documents*, WORLD TRADE ORG., https://www.wto.org/english/docs_e/docs_e.htm (last visited Feb. 5, 2017).

113. See *ISDS Fact Sheet*, *supra* note 36.

114. See *TPP's ISDS: Moving from State-to-State to Company-to-World Dispute Resolution*, LEGAL READER (May 1, 2015), <http://www.legalreader.com/tpps-isds-moving-from-state-to-state-to-company-to-world-dispute-resolution> (surmising that New Zealand “decided against changing their smoking laws out of fear of . . . retribution through ISDS”); see also MOUYAL, *supra* note 76, at 68 (“In response to [the foreign mining industry's threat based on the U.K.–Indonesia BIT or the Australia–Indonesia BIT], Indonesia retreated from the ban [on open-cast mining in protected forest areas], first by exempting several of the companies from the ban and promising to assess the situation of other affected companies. Subsequently the government decided to repeal the ban.”).

115. Maude Barlow, *CETA Changes Make Investor-State Provisions Worse*, HUFFINGTON POST (Feb. 2, 2016, 3:59 PM), http://www.huffingtonpost.ca/maude-barlow/ceta-changes_b_9130538.html; see also Daniel J. Ikenson, *A Compromise to Advance the Trade Agenda: Purge Negotiations of Investor-State Dispute Settlement*, CATO INST. (Mar. 4, 2014), <http://www.cato.org/publications/free-trade-bulletin/compromise-advance-trade-agenda-purge-negotiations-investor-state> (“ISDS not only subsidizes MNCs [multinational corporations], but particular kinds of MNCs. What may be too risky an investment proposition without ISDS for Company A is not necessarily too risky for Company B. By reducing the risk of investing abroad, then, ISDS is a subsidy for more risk-averse companies.”).

116. See Susan D. Franck, *Empirically Evaluating Claims About Investment Treaty Arbitration*, 86 N.C. L. REV. 1, 57–58 (2007) (“Out of the eighty-two cases in the present study, only forty-four quantified an investor's claimed damages either fully or partially. The lowest amount claimed was in *Maffezini v. Spain* for approximately

many developing countries may settle disputes even when their laws have already met international standards, such as when they are in full compliance with the TRIPS Agreement or other multilateral agreements.¹¹⁷ Such coerced settlements regardless of compliance with international standards, in turn, would cause the dispute settlement process to lose legitimacy.¹¹⁸ To avoid the challenges posed by ISDS, countries such as Indonesia and South Africa have already started terminating international investment agreements.¹¹⁹

US\$155,314 (ESP 30 million) whereas the highest amount claimed was in *Generation Ukraine v. Ukraine* for US\$9.4 billion. Overall, the average amount of damages claimed in those forty-four cases was approximately US\$343.4 million.” (footnotes omitted)); *id.* at 58 (“There were fifty-two cases in which tribunals made awards that resulted in a damages determination (if any) for treaty-based claims. Out of these cases, there were thirty-one instances in which investors were awarded nothing. In the remaining twenty-one instances, . . . [t]he average amount of damages awarded by tribunals was approximately US\$10.4 million.” (footnotes omitted)); Susan D. Franck, *Using Investor-State Mediation Rules to Promote Conflict Management: An Introductory Guide*, 29 ICSID REV. 66, 79 (2014) [hereinafter Franck, *Using Investor-State Mediation Rules*] (“[U]sing data from 159 final publicly-available awards [in a more recent study], the average amount awarded (including settlements and discontinuances where public records reflected a State transferred funds to the claimants) was around US\$16.6 million.”); *see also* Ho, *supra* note 22, at 234 (“Although there is a huge diversity in awards, even a lower award would still be substantial for any developing country, such that a potential award . . . could have a substantial impact on domestic decisions.”).

117. *See* Ho, *supra* note 22, at 222 (“Eli Lilly’s suit may prompt other companies to challenge not only patentability standards they disagree with, but also exceptions to patent rights, even where these exceptions are permissible under TRIPS. This would threaten recent and proposed patent laws that commentators have hailed as promoting a better balance of patent rights and access to medicine.”).

118. *See* Peter K. Yu, *Digital Copyright Reform and Legal Transplants in Hong Kong*, 48 U. LOUISVILLE L. REV. 693, 718 (2010) (“[B]y coercing law-abiding citizens to pay settlements when they have not broken the law, the law will gradually lose its legitimacy, and the damage to the copyright system and the rule of law . . . could be quite high.”); Peter K. Yu, *Tales of the Unintended in Copyright Law*, 67 STUD. L. POL. & SOC’Y 1, 9 (2015) (“By forcing individual users to settle lawsuits regardless of the legality of their actions, the statutory damages provision has greatly undermined the attractiveness and legitimacy of not only copyright law but the entire legal system.”).

119. *See* Ben Bland & Shawn Donnan, *Indonesia to Terminate More than 60 Bilateral Investment Treaties*, FIN. TIMES (Mar. 26, 2014), <http://www.ft.com/cms/s/0/3755c1b2-b4e2-11e3-af92-00144feabdc0.html>

(“Indonesia is planning to terminate more than 60 bilateral investment treaties that allow disgruntled foreign investors to bypass local courts and seek compensation in international tribunals, amid a growing global backlash against such provisions.”); Adam Green, *South Africa: BITs in Pieces*, BEYONDBRICS (Oct. 19, 2012, 3:48 PM), <http://blogs.ft.com/beyond-brics/2012/10/19/south-africa-bits-in-pieces> (“South Africa has terminated a bilateral investment treaty with Belgium and Luxembourg in the

2. *Interpretation-based weaknesses*

The second type of weakness relates to interpretations by ISDS arbitrators. As far as ISDS decisions are concerned, there are no binding precedents.¹²⁰ Although *stare decisis* is a special feature of common law, as opposed to civil law, disputing parties from all around the world increasingly expect similar cases to be decided consistently and predictably.¹²¹ For example, WTO panels and the Appellate Body have used previous cases for explanation and support, even though they are not required to follow any precedent.¹²² As the

first of a series of planned shreadings of post apartheid-era agreements which are coming up for renewal.”).

120. Compare Marc Bungenberg & Catharine Titi, *Precedents in International Investment Law*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 1505, 1508 (“Despite the absence of a formal doctrine of binding precedent, investment tribunals generally rely on earlier awards to buttress their legal reasoning, often treating them as determinative or authoritative statements of applicable rules or principles of law.” (footnote omitted)), and Loretta Malintoppi, *Independence, Impartiality, and Duty of Disclosure of Arbitrators*, in OXFORD HANDBOOK, *supra* note 77, at 789, 792 (“While it cannot be said that the rule of legal precedent (*stare decisis*) applies in international arbitration in general, investment arbitration has witnessed a growth in reported jurisprudence. Litigation parties frequently rely on this jurisprudence to support their legal arguments and tribunals often apply these precedents as grounds for their findings.”), with Christoph Schreuer & Matthew Weiniger, *A Doctrine of Precedent?*, in OXFORD HANDBOOK, *supra* note 77, at 1188, 1196 (“[I]n some cases tribunals did not follow earlier decisions but adopted different solutions. At times, they simply adopted a different solution without distancing themselves from the earlier decision. At other times, they referred to the earlier decision and pointed out that they were unconvinced by what another tribunal had said and that, therefore, their decision departed from the one adopted earlier.”). For discussions of the doctrine of precedent in relation to international investment arbitration, see generally Bungenberg & Titi, *supra*; Joshua Karton, *Lessons from International Uniform Law*, in RESHAPING THE ISDS SYSTEM, *supra* note 75, at 48; Schreuer & Weiniger, *supra*; Andrés Rigo Sureda, *Precedent in Investment Treaty Arbitration*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 830.

121. See Reinisch, *supra* note 76, at 905–08 (discussing the danger of inconsistent investment arbitral awards).

122. As the WTO noted on its training materials,

Even if adopted, the reports of panels and the Appellate Body are not binding precedents for other disputes between the same parties on other matters or different parties on the same matter, even though the same questions of WTO law might arise. As in other areas of international law, there is no rule of *stare decisis* in WTO dispute settlement according to which previous rulings bind panels and the Appellate Body in subsequent cases. This means that a panel is not obliged to follow previous Appellate Body reports even if they have developed a certain interpretation of exactly the provisions which are now at issue before the panel. Nor is the Appellate Body obliged to maintain the legal interpretations it has developed in past cases. . . . If the reasoning developed in the previous report in support of

Appellate Body reasoned in *Japan—Taxes on Alcoholic Beverages*,¹²³ the use of earlier relevant cases could help “create legitimate expectations among WTO Members.”¹²⁴

Within the intellectual property field, there is also a considerable concern that ISDS arbitrators would subscribe to a narrow view of intellectual property rights. In doing so, they may focus primarily on the protection levels without adequately considering the corresponding limitations or exceptions. They may also ignore the many limitations, flexibilities, and safeguards that have been carefully built into the TRIPS Agreement.¹²⁵ From the standpoint of a host state, especially one in the developing world, overlooking these limitations, flexibilities, and safeguards is particularly problematic, considering that ISDS is often included in TRIPS-plus trade or investment agreements—agreements that are established outside the multilateral process to ratchet up the TRIPS standards.¹²⁶

Finally, ISDS arbitrators may have tunnel vision. With respect to intellectual property investments, they may focus narrowly on only the intellectual property side of the investment bargain. As a result, they may ignore the existence of concessions outside the intellectual

the interpretation given to a WTO rule is persuasive from the perspective of the panel or the Appellate Body in the subsequent case, it is very likely that the panel or the Appellate Body will repeat and follow it. This is also in line with a key objective of the dispute settlement system which is to enhance the security and predictability of the multilateral trading system

Legal Effect of Panel and Appellate Body Reports and DSB Recommendations and Rulings, WORLD TRADE ORG., https://www.wto.org/english/tratop_e/dispu_e/dispu_settlement_cbte/c7s2p1_e.htm (last visited Feb. 5, 2017).

123. Appellate Body Report, *Japan—Taxes on Alcoholic Beverages*, WTO Docs. WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (Oct. 4, 1996).

124. *Id.* at 14.

125. See Yu, *International Enclosure Movement*, *supra* note 56, at 863, 869–70 (discussing the limitations, flexibilities and public interest safeguards in the TRIPS Agreement). For commentaries emphasizing the flexibilities within the TRIPS Agreement, see generally CARLOS M. CORREA, *TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS: A COMMENTARY ON THE TRIPS AGREEMENT (2007)*; UNCTAD-ICTSD PROJECT ON IPRS AND SUSTAINABLE DEVELOPMENT, *RESOURCE BOOK ON TRIPS AND DEVELOPMENT (2005)*.

126. See Robert Burrell & Kimberlee Weatherall, *Exporting Controversy? Reactions to the Copyright Provisions of the U.S.-Australia Free Trade Agreement: Lessons for U.S. Trade Policy*, 2008 U. ILL. J.L. TECH. & POL'Y 259 (criticizing the U.S.-Australia Free Trade Agreement); Yu, *Currents and Crosscurrents*, *supra* note 50, at 392–400 (discussing the growing use of bilateral and regional trade agreements to push for higher intellectual property standards). See generally *INTELLECTUAL PROPERTY AND FREE TRADE AGREEMENTS* (Christopher Heath & Anselm Kamperman Sanders eds., 2007) (collecting essays discussing free trade agreements in the intellectual property context).

property field, such as free lands, tax breaks, exemption from export custom duties, and preferential treatment on foreign exchange.¹²⁷ Overlooking these offsetting concessions is particularly problematic because the concessions would not have been offered in the first place had intellectual property protection and enforcement been as strong as investors had anticipated.

3. *Outcome-based weaknesses*

The third type of weakness concerns the final outcomes of ISDS arbitrations. There are at least five widely documented weaknesses regarding arbitral awards. First, the total compensation can be very high. A case in point is the \$50 billion ISDS award that was given as compensation for Russia's wrongful expropriation of the now-defunct Yukos Oil, the country's once biggest oil producer.¹²⁸ To put this award in the right comparative context, it is important to recall that the gross domestic product (GDP) of many developing countries, including those in the European Union, does not reach that amount.¹²⁹ Even Peru and Vietnam, two of the twelve TPP partners,

127. As Peter Muchlinski observed,

Incentives are used by governments to attract investment, to steer investment into favoured industries or regions, or to influence the character of an investment, for example, when technology-intensive investment is being sought. They can take two major forms, fiscal incentives, based on tax advantages to investors, and financial incentives based on the provision of funds directly to investors to finance new investments, or certain operations, or to defray capital or operational costs. Other types of incentives may not be easy to discern but they can have a positive effect on the overall profitability of an investment. These may include general infrastructure development by the host country, market preferences or preferential treatment on foreign exchange.

Muchlinski, *supra* note 77, at 33 (footnote omitted); *see also* Anastasia Telesetsky, *A New Investment Deal in Asia and Africa: Land Leases to Foreign Investors*, in *EVOLUTION IN INVESTMENT TREATY LAW AND ARBITRATION* 539 (Chester Brown & Kate Miles eds., 2011) [hereinafter *EVOLUTION IN INVESTMENT TREATY*] (discussing the various concessions that states in Asia and Africa have made to attract FDI).

128. *See* Henry Meyer, *Russia Faces \$50 Billion Fight in U.S., U.K. for Yukos Damages*, BLOOMBERG (July 24, 2015, 9:40 AM), <http://www.bloomberg.com/news/articles/2015-07-24/russia-faces-50-billion-fight-in-u-s-u-k-for-yukos-damages> (reporting the \$50 billion arbitration award). The award is currently under appeal in the Netherlands, and Russia has no plan to pay the damages. *Id.*; Anthony Deutsch, *Russia Appeals Order to Pay \$50 Bln to Yukos Shareholders in Netherlands*, REUTERS (Feb. 9, 2016, 5:42 AM), <http://www.reuters.com/article/russia-yukos-appeal-netherlands-idUSL8N15O1P2>.

129. In 2015, those EU members that had a GDP lower than the Yukos Oil award included Bulgaria (\$48.95 billion), Croatia (\$48.73 billion), Cyprus (\$19.32 billion), Estonia (\$22.69 billion), Latvia (\$27.04 billion), Lithuania (\$41.24 billion), and

had a GDP of only less than four times the Yukos Oil award. According to World Bank data, the GDP of these countries was slightly above \$190 billion in 2015.¹³⁰

Second, ISDS allows transnational corporations to challenge legitimate regulations, such as those concerning public health, labor, and the environment.¹³¹ Such challenges would create what commentators, intergovernmental bodies, and civil society organizations have widely referred to as “regulatory chill”¹³²—a chilling effect that undermines a country’s sovereign ability to regulate harmful conducts, including those committed by transnational corporations.¹³³ Recent examples of such chill include Philip Morris’s attempts to use ISDS to challenge the plain-packaging regulations for tobacco products in Australia and Uruguay and Eli Lilly’s ongoing effort to challenge the patentability requirements in Canada.¹³⁴

Regulatory chill, while difficult to prove,¹³⁵ is particularly problematic in the intellectual property field,¹³⁶ an area in which

Slovenia (\$42.75 billion). *GDP (Current US\$)*, WORLD BANK, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (last visited Feb. 5, 2017).

130. *See id.* (listing the 2015 GDP of Peru and Vietnam at \$192.08 billion and \$193.6 billion, respectively).

131. *See* MOUYAL, *supra* note 76, at 68 (discussing the adverse implications of the foreign mining industry’s threat of using the U.K.–Indonesia BIT or the Australia–Indonesia BIT to challenge an Indonesian forestry act that bans open-cast mining in protected forest areas); Jane Kelsey & Lori Wallach, “Investor-State” Disputes in Trade Pacts Threaten Fundamental Principles of National Judicial Systems, PUBLIC CITIZEN (Apr. 2012), <https://www.citizen.org/documents/isds-domestic-legal-process-background-brief.pdf> (“Over \$350 million in compensation has already been paid out to corporations in a series of Investor-State cases under NAFTA alone. This included attacks on natural resource policies, environmental protection and health and safety measures, and more.”); *see also supra* text accompanying notes 13–24 (recounting Philip Morris’s attempts to use ISDS to challenge the plain-packaging regulations for tobacco products in Australia and Uruguay and Eli Lilly’s ongoing effort to challenge the patentability requirements in Canada).

132. *See, e.g.*, MOUYAL, *supra* note 76, at 67–68 (providing examples of “regulatory chill”); UNCTAD, WORLD INVESTMENT REPORT 2015: REFORMING INTERNATIONAL INVESTMENT GOVERNANCE 128 (2015) (considering “regulatory chill” to be a concern of ISDS); Kyla Tienhaara, *Regulatory Chill and the Threat of Arbitration: A View from Political Science*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 127, at 606 (using political science to analyze the “regulatory chill” hypothesis).

133. *See* Ho, *supra* note 22, at 233 (“A major issue is that the suits appear to improperly encroach on domestic authority and even have a chilling effect on legitimate state regulatory functions due to substantial awards, as well as legal costs of defending such cases.”).

134. *See supra* text accompanying notes 13–24.

135. As Jonathan Bonnitcha explained,

autonomy and policy space are badly needed for countries to tailor their intellectual property systems to local needs, interests, conditions, and priorities.¹³⁷ As Ruth Okediji lamented,

Intellectual property obligations in the investment context . . . pose a new threat to states' traditional lawmaking powers by providing foreign actors [with] a singular opportunity to challenge laws that have been enacted with the domestic public interest in full view, even when they are in conformity with international intellectual property treaties. Subverting a core judicial function—interpretation of a domestic law *already* infused with multilateral obligations—to the oversight of a private international tribunal precariously alters the contours of state power and responsibility for compliant domestic legislation and policy prescriptions.¹³⁸

Third, ISDS will provide new fora for private investors and their supportive states to sue developing country governments.¹³⁹ The typical fora in which complaints can be filed against these governments are domestic courts and international adjudicatory bodies, such as the WTO Dispute Settlement Body.¹⁴⁰ By providing

Chilling effects are difficult to identify because they require counterfactual evidence about the regulations that would have existed in the absence of the purported chilling. Regulatory chill due to [international investment treaty] protection is particularly difficult to isolate because, in addition to identifying a chilling effect, one must be able to exclude the possibility that it was attributable to some other cause.

Jonathan Bonnitcha, *Outline of a Normative Framework for Evaluating Interpretations of Investment Treaty Protections*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 127, at 117, 134 (footnote omitted).

136. See Okediji, *Is Intellectual Property "Investment"?*, *supra* note 25, at 1133 ("The conception of intellectual property as a tool to advance national welfare has long been part of multilateral intellectual property relations. The basis for determining the 'legitimate expectations' of an intellectual property 'investment' thus must resonate in domestic law.").

137. See Henning Grosse Ruse-Khan, *Protecting Intellectual Property Rights Under BITs, FTAs and TRIPS: Conflicting Regimes or Mutual Coherence?*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 127, at 485 (discussing the impact of the TRIPS Agreement and TRIPS-plus bilateral and regional trade and investment agreements on the state's enjoyment of its policy space); see also Yu, *International Enclosure Movement*, *supra* note 56, at 833–55 (discussing why policymakers need wide policy space to devise solutions to address internal problems).

138. Okediji, *Is Intellectual Property "Investment"?*, *supra* note 25, at 1122.

139. See *ISDS Fact Sheet*, *supra* note 36 ("For some critics there is a discomfort that ISDS provides an additional channel for investors to sue governments, including a belief that all disputes (even international law disputes) should be resolved in domestic courts.").

140. See Pauwelyn, *supra* note 103, at 767 ("[P]rivate actors are, in many cases, pulling the strings and paying private law firms to do the litigation, before whatever

alternative fora, ISDS will allow private actors to bypass these widely used processes. Even worse, the investors' home governments can still file complaints through traditional state-to-state dispute settlement processes. As a result, ISDS is likely to spark a vicious cycle that will generate more disputes. After all, diplomatic and other non-trade reasons may induce governments to exercise restraint in filing state-to-state complaints.

Fourth, and more specifically in the intellectual property context, ISDS may encourage arbitrators to focus on rights that do not fall squarely within the TRIPS Agreement or other multilateral intellectual property agreements, such as those administered by the World Intellectual Property Organization (WIPO). Although most international investment agreements define "investment" broadly to cover all forms of "intellectual property rights,"¹⁴¹ perhaps even including licenses to or applications of those rights,¹⁴² the TRIPS Agreement explicitly covers only eight categories of rights—namely, copyrights, patents, trademarks, trade secrets, geographical indications, industrial designs, layout designs of integrated circuits, and plant variety protections.¹⁴³ To be sure, one can make a strong argument that the TRIPS Agreement also covers "utility models, trade names, and other forms of unfair competition,"¹⁴⁴ due to its

forum or forums are best for the client: in some cases, it may be the WTO; in others, investor-state arbitration; in yet others, parallel proceedings.").

141. TPP Agreement, *supra* note 6, art. 9.1 (including "intellectual property rights" under subsection (f) of the definition of "investment").

142. *See id.* art. 9.1 n.4 ("Whether a particular type of licence, authorisation, permit or similar instrument (including a concession to the extent that it has the nature of such an instrument) has the characteristics of an investment depends on such factors as the nature and extent of the rights that the holder has under the Party's law."); *see also* Mercurio, *Awakening the Sleeping Giant*, *supra* note 31, at 878–79 (discussing whether an application for intellectual property rights would qualify as a covered investment). As Carlos Correa explained,

Patent applications . . . may be traded and, in some countries, patent applications generate rights even before they are granted, such as the ability to act against infringers. Though it is clear that a still-unregistered invention is not an IPR, it may be argued that the application is, in any case, an "intangible property" as long as it is "owned" and can be assigned to third parties. Further, some investment agreements refer in the definition of "investment" to "rights *with respect to* copyrights, patents . . ." This wording may be intended to encompass not only granted rights but also applications. Correa, *Investment Protection*, *supra* note 52, at 340 (footnotes omitted).

143. *See* TRIPS Agreement, *supra* note 2, arts. 9–40.

144. Peter K. Yu, *Enforcement, Enforcement, What Enforcement?*, 52 IDEA 239, 256 n.82 (2012).

incorporation of the Paris Convention.¹⁴⁵ Nonetheless, it remains debatable whether the Agreement covers *sui generis* database protection, broadcast rights, and exclusivity regimes used to protect clinical trial data. These additional protections are generally referred to as “TRIPS-extra” obligations—obligations that lie outside the scope of the TRIPS Agreement and that may not be subject to the mandatory WTO dispute settlement process.¹⁴⁶

Finally, ISDS may allow private investors to rewrite the TRIPS Agreement—or, for that matter, other multilateral trade or intellectual property agreements.¹⁴⁷ Such rewriting will undermine the hard-earned bargains developing countries have won through the WTO negotiations.¹⁴⁸ A case in point is the moratorium imposed on non-violation complaints—complaints of nullification or impairment of trade benefits when no substantive violation has occurred.¹⁴⁹ Since the adoption of the TRIPS Agreement, this moratorium has been

145. See TRIPS Agreement, *supra* note 2, art. 2.1 (“Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).”).

146. See Yu, *International Enclosure Movement*, *supra* note 56, at 868–69 (discussing “TRIPS-extra” obligations).

147. See Ho, *supra* note 22, at 223 (arguing that “permitting companies to challenge domestic decisions regarding intellectual property through investor-state disputes is problematic because they disrupt internationally agreed norms under TRIPS, and also because the historical justifications for protecting foreign investors do not apply”); Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1123–24 (“On face value, Eli Lilly’s claims could effectively constitute a revision of NAFTA. If Lilly is successful in its grander objective—a ruling that Canada is required to change its current utility standard—the implications for intellectual property multilateralism, and for intellectual property policy in all countries, would be stunning indeed.”).

148. See Susy Frankel, *Interpreting the Overlap of International Investment and Intellectual Property Law*, 19 J. INT’L ECON. L. 121, 124 (2016) (“The current investment disputes where investors claim indirect expropriation or the absence of fair and equitable treatment of IP are not just IP in a new forum, but point toward a shift away from the balancing mechanisms that are integral to IP (even if those mechanisms do not always operate as well as they might) to a sphere which has fewer (if any) equivalent balancing mechanisms.” (footnotes omitted)); Ho, *supra* note 22, at 250 (“Beyond interfering with an existing dispute resolution process and producing potentially inconsistent decisions, permitting investor-state arbitrations to overrule internationally agreed upon domestic flexibilities under TRIPS seems particularly unfair to countries since TRIPS already encroaches on traditional domestic authority in the area of intellectual property rights.”); see also Ruth L. Okediji, *Back to Bilateralism? Pendulum Swings in International Intellectual Property Protection*, 1 U. OTTAWA L. & TECH. J. 125, 129 (2004) (lamenting that bilateral free trade agreements threaten to “roll back both substantive and strategic gains” won by developing countries in multilateral process).

149. See generally Susy Frankel, *Challenging TRIPS-Plus Agreements: The Potential Utility of Non-Violation Disputes*, 12 J. INT’L ECON. L. 1023, 1059 (2009) (discussing non-violation complaints in the TRIPS context).

repeatedly extended—most recently during the Tenth WTO Ministerial Conference in Nairobi in December 2015.¹⁵⁰ Despite this extension, nothing can prevent ISDS arbitrators from considering complaints that are based on impaired benefits or frustrated expectations, as opposed to substantive violations.

Similarly, Brook Baker and Katrina Geddes expressed concern that “there is a risk that an IP rightholder might bring a claim because of a governmental failure to intercept alleged infringing products in-transit via stringent border measures.”¹⁵¹ In their view, such a failure “might be interpreted to violate the right to fair and equitable treatment in administrative border procedures.”¹⁵² Considering the controversy generated by in-transit seizures of pharmaceutical products during the negotiation of the Anti-Counterfeiting Trade Agreement,¹⁵³ their concern is well justified. At that time, the repeated seizures of in-transit generic drugs were so contentious that India and Brazil filed complaints against the European Union and the Netherlands before the WTO Dispute Settlement Body.¹⁵⁴ Although India and the

150. See World Trade Organization, TRIPS Non-Violation and Situation Complaints: Ministerial Decision of 19 December 2015, WTO Doc. WT/MIN(15)/41 (noting the agreement not to initiate any non-violation complaints under the TRIPS Agreement until the next WTO Ministerial Meeting in December 2017).

151. Brook K. Baker & Katrina Geddes, *Corporate Power Unbound: Investor-State Arbitration of IP Monopolies on Medicines—Eli Lilly v. Canada and the Trans-Pacific Partnership Agreement*, 23 J. INTELL. PROP. L. 1, 34 (2015) (footnote omitted).

152. *Id.*

153. See Peter K. Yu, *Six Secret (and Now Open) Fears of ACTA*, 64 SMU L. REV. 975, 1009 (2011) (“[I]n the middle of the negotiations, the discussion of the seizure of in-transit generic drugs became a very hot issue due to new developments in Germany, the Netherlands, and the United Kingdom.”); Peter K. Yu, *Virotech Patents, Viropiracy, and Viral Sovereignty*, 45 ARIZ. ST. L.J. 1563, 1588 (2013) (“During the ACTA negotiations, stories about the seizure of pharmaceuticals in Europe have raised important questions about the intellectual property enforcement standards set in the TRIPS Agreement and the handling of in-transit goods under the General Agreement on Tariffs and Trade.”). For discussions of the seizure of in-transit drugs, see generally CYNTHIA M. HO, ACCESS TO MEDICINE IN THE GLOBAL ECONOMY: INTERNATIONAL AGREEMENTS ON PATENTS AND RELATED RIGHTS 285–323 (2011); Frederick M. Abbott, *Seizure of Generic Pharmaceuticals in Transit Based on Allegations of Patent Infringement: A Threat to International Trade, Development and Public Welfare*, 1 WIPO J. 43, 44 (2009); Bryan Mercurio, “Seizing” Pharmaceuticals in Transit: *Analysing the WTO Dispute That Wasn’t*, 61 INT’L & COMP. L.Q. 389 (2012).

154. See Request for Consultations by India, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WTO Doc. WT/DS408/1 (May 19, 2010); Request for Consultations by Brazil, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WTO Doc. WT/DS409/1 (May 19, 2010).

European Union eventually reached an interim settlement in July 2011,¹⁵⁵ neither Brazil nor India has withdrawn its complaint.

4. *Summary*

Although ISDS has some benefits, it also has many major drawbacks, including those relating to the arbitration process, the arbitrators' interpretations, and final arbitral outcomes. Even more problematic, the proceedings Philip Morris and Eli Lilly initiated have revealed the major flaws of ISDS, as none of those proceedings actually intends to take advantage of the mechanism's purported benefits. Australia and Canada are not generally considered to be countries lacking in respect for the rule of law or a well-functioning judicial system. Nor have the governments in these countries been widely criticized for their complicity in acts of piracy and counterfeiting. Instead, these proceedings were merely initiated to challenge the host states' legitimate regulations, such as tobacco control measures or patentability requirements.

From a legal standpoint, challenging intellectual property standards is not only controversial but also highly problematic because any change in these standards could affect disparate players in different ways. As Peter Jaszi noted, "one nation's 'piracy[]' is another man's 'technology transfer.'"¹⁵⁶ Given the multifaceted impacts that a change in intellectual property standards will have, Eli Lilly's NAFTA complaint has put Canada in a catch-22 situation. If the promise doctrine is held to be inconsistent with the country's investment-related obligations, Canada will have to abandon the doctrine lest it be required to compensate multinational pharmaceutical companies for their lost expectations. Nevertheless, if Canada did abandon the doctrine in an effort to settle the investment dispute with Eli Lilly, it would have to stand ready to face ISDS complaints from generic drug manufacturers. As Professor Okediji insightfully observed,

[F]oreign generic pharmaceutical companies that have invested in the Canadian market arguably have benefitted from the very utility doctrine Lilly is contesting. If Canada changes its law to address Lilly's demands, could those firms successfully claim that the new

155. See *India, EU Ink Deal to End Drug Seizure for Now*, TIMES INDIA (July 29, 2011, 1:21 AM), <http://timesofindia.indiatimes.com/business/india-business/India-EU-ink-deal-to-end-drug-seizure-for-now/articleshow/9401916.cms>.

156. Peter Jaszi, *A Garland of Reflections on Three International Copyright Topics*, 8 CARDOZO ARTS & ENT. L.J. 47, 63 (1989).

standard amounts to an indirect appropriation since it would alter the competitive equilibrium between them and Lilly?¹⁵⁷

It is therefore understandable why Professor Okediji called for the development of an ISDS provision that is narrowly tailored to “a particular action, rather than the interpretation of an intellectual property standard.”¹⁵⁸

III. TPP INVESTMENT CHAPTER

On February 4, 2016, the United States and its eleven trading partners in the Asia-Pacific region signed the TPP Agreement in Auckland, New Zealand.¹⁵⁹ This Agreement contains thirty chapters, including one each on investment (Chapter 9), intellectual property (Chapter 18), and dispute settlement (Chapter 28).¹⁶⁰ Because policymakers, commentators, and civil society organizations have already widely criticized the intellectual property chapters in TRIPS-plus trade agreements,¹⁶¹ this Part does not rehash these criticisms. Instead, this Part devotes its analysis to the other two chapters, which help develop the TPP ISDS mechanism. In the view of its critics, this mechanism will not only allow private intellectual property investors to sue national governments without the support of their home governments, but it will also amplify the widely documented deleterious impacts of the TPP intellectual property chapter.¹⁶²

157. Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1127.

158. As Professor Okediji observed,

A narrowly tailored ISDS provision could be useful for situations where a host country specifically targets the intellectual property right of a particular investor. An example may be the issuance of a compulsory license without complying with the domestic process established to provide legal certainty for an investor pursuant to TRIPS. Because this type of dispute targets a particular action, rather than the interpretation of an intellectual property standard, the policy-making ability of the host state is not threatened, and the dispute would not undo the TRIPS balance or compel potentially inconsistent normative outcomes across countries.

Id. at 1137.

159. Trans-Pacific Partnership Ministers’ Statement, *supra* note 7.

160. TPP Agreement, *supra* note 6, chs. 9, 18, 28.

161. See sources cited *supra* note 126.

162. As Carlos Correa explained,

Intellectual property rights, registered or not, are protected investments under BITs and trade agreements that incorporate rules on investment. This adds another layer of treaty-based protection onto rights protected under the TRIPS Agreement and other international conventions. But this protection goes beyond TRIPS, because investment agreements apply to rights not covered by the TRIPS Agreement and incorporate the national

To provide a better understanding of the investment-related aspects of the TPP Agreement, this Part closely examines the ISDS mechanism outlined in the Agreement's investment chapter. Although this chapter goes beyond ISDS to cover other investment-related issues—such as freedom from discrimination, protection against uncompensated expropriation of property, protection against denial of justice, and the right to transfer capital¹⁶³—this Part will focus on the various safeguards that the TPP Agreement has put in place to improve this mechanism. This Part ends by briefly identifying the weaknesses that the Agreement has yet to address.

A. *Sovereignty and Regulatory Space*

The TPP Agreement has instituted at least four sets of improvements to address the current weaknesses of ISDS. The first set of improvements targets the concerns about sovereignty and regulatory space. These improvements help reserve to each TPP partner the ability to regulate in the public interest.¹⁶⁴ Article 9.16 of the TPP Agreement explicitly declares,

treatment principle clause without the exceptions provided for under IPR treaties.

Correa, *Investment Protection*, *supra* note 52, at 352.

163. As the United States Trade Representative (USTR) declared in its fact sheet on ISDS,

In U.S. agreements, the investment rules enforced by ISDS provide investors in foreign countries [with] basic protections from foreign government actions such as:

Freedom from discrimination: An assurance that Americans doing business abroad will face a level playing field and will not be treated less favorably than local investors or competitors from third countries.

Protection against uncompensated expropriation of property: An assurance that the property of investors will not be seized by the government without the payment of just compensation.

Protection against denial of justice: An assurance that investors will not be denied justice in criminal, civil, or administrative adjudicatory proceedings.

Right to transfer capital: An assurance that investors will be able to move capital relating to their investments freely, subject to safeguards to provide governments flexibility, including to respond to financial crises and to ensure the integrity and stability of the financial system.

ISDS Fact Sheet, *supra* note 36.

164. See OFF. U.S. TRADE REPRESENTATIVE, TPP CHAPTER SUMMARY—INVESTMENT 6 (2016) [hereinafter INVESTMENT CHAPTER SUMMARY], <https://ustr.gov/sites/default/files/TPP-Chapter-Summary-Investment.pdf> (“TPP includes new language underscoring that countries retain the right to regulate in the public interest, including to protect public health, safety, financial stability, and the environment.

Nothing in this Chapter shall be construed to prevent a Party from adopting, maintaining or enforcing any measure otherwise consistent with this Chapter that it considers appropriate to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental, health or other regulatory objectives.¹⁶⁵

To ensure financial stability, Article 9.3.3 further states that the investment chapter does not cover financial services.¹⁶⁶

During the TPP negotiations, Philip Morris's ISDS proceedings have sparked serious concerns among some TPP partners, most notably Australia and Malaysia.¹⁶⁷ To alleviate these concerns, Article 29.5 explicitly recognizes the health authorities' ability to introduce tobacco control measures:

A Party may elect to deny the benefits of Section B of Chapter 9 (Investment) with respect to claims challenging a tobacco control measure of the Party. Such a claim shall not be submitted to arbitration under Section B of Chapter 9 (Investment) if a Party has made such an election. If a Party has not elected to deny benefits with respect to such claims by the time of the submission of such a claim to arbitration under Section B of Chapter 9 (Investment), a Party may elect to deny benefits during the proceedings. For greater certainty, if a Party elects to deny benefits with respect to such claims, any such claim shall be dismissed.¹⁶⁸

Although this provision is important to intellectual property and investment policies, the provision interestingly cannot be found in either the intellectual property or investment chapter. Instead, it is available in the exceptions chapter—the second last chapter of the TPP Agreement.

TPP will also include a separate, explicit recognition of health authorities' right to adopt tobacco control measures in order to protect public health.”).

165. TPP Agreement, *supra* note 6, art. 9.16.

166. *Id.* art. 9.3.3.

167. See Julien Chaisse, *TPP Agreement: Towards Innovations in Investment Rule-Making*, in *THE TRANS-PACIFIC PARTNERSHIP: A QUEST FOR A TWENTY-FIRST CENTURY TRADE AGREEMENT* 147, 153 (C.L. Lim et al. eds., 2012) [hereinafter *TRANS-PACIFIC PARTNERSHIP*] (“Australia is trying to persuade all TPP members to do away with ISDS in the investment chapter.”); Bryan Mercurio, *Safeguarding Public Welfare?—Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements*, 6 *J. INT'L DISP. SETTLEMENT* 252, 273–75 (2015) [hereinafter Mercurio, *Safeguarding Public Welfare?*] (discussing Malaysia's proposal for “a complete carve-out from all TPP obligations for any tobacco control measure”).

168. TPP Agreement, *supra* note 6, art. 29.5.

B. ISDS Process

The second set of improvements addresses the procedural flaws of ISDS. Specifically, the TPP Agreement empowers arbitral tribunals to review and dismiss frivolous claims as well as to award costs and attorneys' fees.¹⁶⁹ Article 9.23.4 states that "a tribunal shall address and decide as a preliminary question any objection by the respondent that . . . a claim is manifestly without legal merit."¹⁷⁰ Article 9.29.4 states further, "[i]f the tribunal determines [the] claims to be frivolous, the tribunal may award to the respondent reasonable costs and attorney's fees."¹⁷¹ Although this fee-shifting arrangement is important to investors, it would limit the host state's ability to control arbitration costs.¹⁷² By adding these costs on top of compensation, this arrangement would also greatly increase the burden of any host state losing in the arbitration.

In addition, the TPP Agreement imposes on investors "the burden of proving all elements of [their] claims, consistent with general principles of international law applicable to international arbitration."¹⁷³ The Agreement also limits claims to those that have occurred within three-and-a-half years¹⁷⁴ and that involve more than

169. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 4 ("Ensuring, as under the U.S. Federal Rules of Civil Procedure, that panels are able, on an expedited basis, to review and dismiss frivolous claims and award costs and attorneys' fees to the respondent government.").

170. TPP Agreement, *supra* note 6, art. 9.23.4; see also INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 6 ("TPP expands existing rules discouraging frivolous suits by permitting governments to seek expedited review and dismissal of claims that are 'manifestly without legal merit.'").

171. TPP Agreement, *supra* note 6, art. 9.29.4.

172. See JOUBIN-BRET, *supra* note 72, at 4 ("Another recent development in investment arbitration, alongside the skyrocketing of costs, is the trend to shift costs to the losing party and to depart from the traditional rule in international arbitration that each party bears its costs. While this development could be seen as a positive way of restoring balance and barring frivolous claims, it also brings new risk for states in the defence and control over costs of investment arbitration and, of course, an increased responsibility for state actors in charge of investment arbitration cases.").

173. TPP Agreement, *supra* note 6, art. 9.23.7; see also INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 6 ("A new provision in TPP clarifies that the claimant—the investor bringing the case against the government—bears the burden to prove all elements of its claims, including claims of breach of the minimum standard of treatment . . . obligation, an obligation which guarantees investors due process and certain other protections in accordance with customary international law.").

174. See TPP Agreement, *supra* note 6, art. 9.21.1 ("No claim shall be submitted to arbitration . . . if more than three years and six months have elapsed from the date on which the claimant first acquired, or should have first acquired, knowledge of the breach alleged . . ."); see also ISDS Fact Sheet, *supra* note 36 ("A three-year statute of

mere expectations of profits.¹⁷⁵ For the minimum standards of treatment, Article 9.6.4 explicitly states that “the mere fact that a Party takes or fails to take an action that may be inconsistent with an investor’s expectations does not constitute a breach . . . even if there is loss or damage to the covered investment as a result.”¹⁷⁶

To prevent forum shopping, the TPP Agreement requires claimants in ISDS proceedings to “waive the right to initiate parallel proceedings in other fora challenging the same measures.”¹⁷⁷ Although Article 28.4.1 allows the claimant to “select the forum in which to settle the dispute,”¹⁷⁸ Article 28.4.2 states, “Once a complaining Party has requested the establishment of, or referred a matter to, a panel or other tribunal under an agreement referred to in paragraph 1, the forum selected shall be used to the exclusion of other fora.”¹⁷⁹ Thus, by “prevent[ing] a party from pursuing the same claims both in ISDS proceedings and domestic courts,”¹⁸⁰ this waiver will greatly reduce the host state’s burden of defending investor-state disputes simultaneously in multiple fora.

To further minimize burden, Article 9.28 permits the consolidation of ISDS claims that “have a question of law or fact in common and [that] arise out of the same events or circumstances.”¹⁸¹ Such consolidation will benefit the disputing parties on both sides as it will “increase efficiency, reduce litigation costs, and prevent strategic initiation of duplicative litigation.”¹⁸²

Finally, the TPP Agreement limits the ISDS mechanism to a specific group of complainants. Specifically, it “allows a TPP Party to deny benefits to ‘shell companies’ owned by persons of that Party or a non-Party that establishes in another TPP country in order to take advantage of treaty rights but that lack substantial business activities

limitations protects respondents against old claims, which are difficult for governments to defend in part because access to documents and witnesses becomes more difficult over time.”).

175. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 6 (“TPP explicitly clarifies that an investor cannot win a claim for breach of the [minimum standards of treatment] obligation merely by showing that a government measure frustrated its expectations (for example, its expectations of earning certain profits).”).

176. TPP Agreement, *supra* note 6, art. 9.6.4.

177. INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 5.

178. TPP Agreement, *supra* note 6, art. 28.4.1.

179. *Id.* art. 28.4.2.

180. ISDS Fact Sheet, *supra* note 36.

181. TPP Agreement, *supra* note 6, art. 9.28.1.

182. ISDS Fact Sheet, *supra* note 36.

in that country.”¹⁸³ Article 9.1 specifically defines the term “enterprise of a Party” as “an enterprise constituted or organised under the law of a Party, or a branch located in the territory of a Party and carrying out business activities there.”¹⁸⁴

C. Transparency

The third set of improvements concerns transparency. Under the TPP Agreement, arbitral proceedings will remain open and publicly accessible.¹⁸⁵ Article 9.24.1 specifically requires the respondent to make publicly available the following documents:

- (a) the notice of intent;
- (b) the notice of arbitration;
- (c) pleadings, memorials and briefs submitted to the tribunal by a disputing party and any written submissions submitted pursuant to Article 9.23.2 (Conduct of the Arbitration) and Article 9.23.3 and Article 9.28 (Consolidation);
- (d) minutes or transcripts of hearings of the tribunal, if available; and
- (e) orders, awards and decisions of the tribunal.¹⁸⁶

According to the Office of the United States Trade Representative (USTR), the State Department’s website will contain all submissions, hearing transcripts, and other key documents regarding TPP-based

183. INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 3; *see also* Carlos Correa & Jorge E. Viñuales, *Intellectual Property Rights as Protected Investments: How Open Are the Gates?*, 19 J. INT’L ECON. L. 91, 108 (2016) (“The enterprise-based approach would not allow the right-holder of IPRs to claim investors’ rights in a country where it has not established or acquired an enterprise, thereby limiting the possibility of using [international investment agreements] as a basis to challenge national decisions on the validity or enforceability of IPRs.”); Christina Knahr, *Investments “in the Territory” of the Host State*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 42, 42 (discussing what constitutes investments “in the territory” of the host state); Christina Knahr, *The Territorial Nexus Between an Investment and the Host State*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 590, 590 (discussing the nexus between the investment and the host state). For similar discussions, but with a focus on the investors, *see generally* Mark Feldman, *Distinguishing Investors from Exporters Under Investment Treaties*, in RESHAPING THE ISDS SYSTEM, *supra* note 75, at 760; Lucy F. Reed & Jonathan E. Davis, *Who Is a Protected Investor?*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 614 (discussing who is a protected investor within the meaning of an international investment agreement).

184. TPP Agreement, *supra* note 6, art. 9.1.

185. *Id.* art. 9.24.1–2.

186. *Id.* art. 9.24.1.

investment cases against the United States.¹⁸⁷ Such transparency will ensure high-quality decision making while promoting democratic values, public participation, accountability, and legitimacy.¹⁸⁸

In addition, TPP partners will establish a code of conduct for ISDS arbitrators to ensure independence and impartiality.¹⁸⁹ Article 28.10.1(d) of the TPP Agreement explicitly requires all members of the dispute settlement panels, including ISDS arbitrators, to “comply with the code of conduct in the Rules of Procedure.”¹⁹⁰ Before any final rulings, disputing parties will also have an opportunity to review and comment on proposed arbitral awards.¹⁹¹ Article 28.17.7 specifically grants to these parties the opportunity to “submit written comments to the panel on its initial report,”¹⁹² somewhat similarly to the interim review provided in the WTO dispute settlement process.¹⁹³ Through a decision of the Trans-Pacific Partnership Commission,¹⁹⁴ TPP partners can further agree on joint interpretations that will bind arbitral tribunals.¹⁹⁵

187. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 4 (“For investor-State cases against the United States under TPP, all submissions, hearing transcripts, and other key documents will be available on the U.S. State Department website.”).

188. See Joachim Delaney & Daniel Barstow Magraw, *Procedural Transparency*, in OXFORD HANDBOOK, *supra* note 77, at 721, 761–62.

189. INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 6. For discussions on issues relating to the independence and impartiality of international arbitrators, see generally Malintoppi, *supra* note 120; Audley Sheppard, *Arbitrator Independence in ICSID Arbitration*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 131.

190. TPP Agreement, *supra* note 6, art. 28.10.1(d).

191. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 4 (“Ensuring that disputing parties will be able to review and comment on proposed arbitral awards prior to their issuance, and to allow both disputing parties the option to challenge a tribunal award.”).

192. TPP Agreement, *supra* note 6, art. 28.17.7.

193. See DSU, *supra* note 70, art. 15 (providing for an interim review stage).

194. See TPP Agreement, *supra* note 6, art. 27.1–.2.2 (calling for the Commission’s establishment and outlining its functions); see also Sergio Puig, *The Role of Procedure in the Development of Investment Law: The Case of Section B of Chapter 11 of NAFTA*, in EVOLUTION IN INVESTMENT TREATY, *supra* note 127, at 339, 362–65 (discussing the binding interpretation of the Free Trade Commission within NAFTA).

195. See TPP Agreement, *supra* note 6, art. 9.25.3 (“A decision of the Commission on the interpretation of a provision of this Agreement . . . shall be binding on a tribunal, and any decision or award issued by a tribunal must be consistent with that decision.”); see also INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 5 (“Ensuring that TPP Parties, at any time, can agree on interpretations of the agreement that are binding on tribunals.”).

D. Tunnel Vision

The final set of improvements responds to concerns about the ISDS arbitrators' tunnel vision and their over-emphasis of intellectual property rights as investors' rights. As Rochelle Dreyfuss and Susy Frankel described,

Because investor rights and IP rights are both private rights, IP holders tend to equate the investment protectable under these instruments to the private economic value of their IP rights. Further, they see IP rights as reliance interests that are defined by the law at the time they made their investment or, more extremely, when the agreement references TRIPS or its own IP chapter, the law at the time when the investment agreement was made.¹⁹⁶

To avoid narrow interpretation and over-emphasis on the investment's economic value, the TPP Agreement allows civil society organizations, environmental groups, labor unions, and other interested stakeholders to file *amicus curiae* briefs¹⁹⁷—arrangements that can also be found in NAFTA¹⁹⁸ and the WTO.¹⁹⁹ Article 9.23.3 provides,

After consultation with the disputing parties, the tribunal may accept and consider written *amicus curiae* submissions regarding a matter of fact or law within the scope of the dispute that may assist

196. Dreyfuss & Frankel, *supra* note 26, at 589.

197. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 4 (“Ensuring that interested stakeholders, including labor unions, civil society organizations and other interested stakeholders, can submit *amicus curiae* or ‘friend of the court’ briefs.”); see also Andrea K. Bjorklund, *The Participation of Sub-National Government Units as Amici Curiae in International Investment Disputes*, in EVOLUTION IN INVESTMENT TREATY, *supra* note 127, at 298 (discussing the historically limited participation of sub-state actors in the filing of *amicus curiae* briefs); Delaney & Magraw, *supra* note 188, at 777–80 (discussing the advantages of public participation through the filing of *amicus curiae* briefs).

198. See Daniel Kalderimis, *Exploring the Differences Between WTO and Investment Treaty Dispute Resolution*, in TRADE AGREEMENTS AT THE CROSSROADS 46, 54–55 (Susy Frankel & Meredith Kolsky Lewis eds., 2014) (discussing the filing of *amicus curiae* briefs in NAFTA disputes); Puig, *supra* note 194, at 360–62 (discussing the filing of *amicus curiae* briefs in Chapter 11 cases).

199. See generally Steve Charnovitz, *Opening the WTO to Nongovernmental Interests*, 24 FORDHAM INT'L L.J. 173, 183–91 (2000) (examining the role that nongovernmental organizations do and should play in the WTO dispute settlement process, including the submission of *amici curiae* briefs); Jacqueline Peel, *Giving the Public a Voice in the Protection of the Global Environment: Avenues for Participation by NGOs in Dispute Resolution at the European Court of Justice and World Trade Organization*, 12 COLO. J. INT'L ENVIL. L. & POL'Y 47, 61–70 (2001) (discussing the opportunity that the WTO dispute settlement process provides to nongovernmental organizations for participating in environmental cases); Andrea Kupfer Schneider, *Unfriendly Actions: The Amicus Brief Battle at the WTO*, 7 WIDENER L. SYMP. J. 87, 95–101 (2001) (exploring the arguments supporting and criticizing the increased judicialization of WTO dispute resolution, with a particular emphasis on the battle over *amicus curiae* briefs).

the tribunal in evaluating the submissions and arguments of the disputing parties from a person or entity that is not a disputing party but has a significant interest in the arbitral proceedings.²⁰⁰

Likewise, Article 28.13(e) states that “the [dispute settlement] panel shall consider requests from non-governmental entities located in the territory of a disputing Party to provide written views regarding the dispute that may assist the panel in evaluating the submissions and arguments of the disputing Parties.”²⁰¹

As Professors Dreyfuss and Frankel reminded us, “More transparency, receptivity to amicus briefing, consultation with other international organizations (along the lines of the relationship between the WTO and WIPO), and references to the decisions of other tribunals would provide decision makers with a broader context in which to consider disputed issues.”²⁰² The filing of amicus curiae briefs can be highly beneficial as these briefs “can improve the quality of decisions by providing factual information of various types to the tribunal of which it would not otherwise be aware.”²⁰³ Such filing “can also provide [the relevant tribunal] with specialized expertise relating to public interest concerns in a case . . . [as well as] legal argumentation that the parties, for various reasons, do not provide to the tribunal.”²⁰⁴

In addition, the TPP Agreement allows non-disputing parties, such as the investors’ home states, to make submissions to arbitral tribunals.²⁰⁵ Article 28.14, which covers third-party participation, specifically declares,

A Party that is not a disputing Party and that considers it has an interest in the matter before the panel shall, on delivery of a written notice to the disputing Parties, be entitled to attend all hearings, make written submissions, present views orally to the panel, and receive written submissions of the disputing Parties.²⁰⁶

E. Summary

Taken together, the improvements in the TPP Agreement have provided the ISDS mechanism with some important upgrades. Nevertheless, the added substantive and procedural safeguards fail to alleviate many of the weaknesses documented in Section II.B. For

200. TPP Agreement, *supra* note 6, art. 9.23.3.

201. *Id.* art. 28.13(e).

202. Dreyfuss & Frankel, *supra* note 26, at 599.

203. Delaney & Magraw, *supra* note 188, at 778.

204. *Id.* (footnote omitted).

205. See INVESTMENT CHAPTER SUMMARY, *supra* note 164, at 4.

206. TPP Agreement, *supra* note 6, art. 28.14.

instance, arbitration costs remain high with averages of about \$8–10 million and amounts as high as over \$30 million.²⁰⁷ Any host state losing in ISDS arbitrations will also be liable for hefty damage awards in addition to suffering from reputation loss vis-à-vis both states and foreign investors.²⁰⁸ For developing countries, such awards will undoubtedly take away the money that could have been spent on addressing other competing, and at times more important, public needs.²⁰⁹

In addition, transnational corporations will have opportunities to directly challenge regulations in host states in the developing world without the assistance or intervention of their home governments.²¹⁰ Regulatory chill therefore remains a wide and continuous concern, not to mention the largely unsettled debate concerning whether the special carve-out for tobacco control measures in Article 29.5 has actually made it better or worse for host states to defend legitimate regulations not specifically identified by the TPP Agreement.²¹¹

207. See Gaukrodger & Gordon, *supra* note 98, at 19; Hodgson, *supra* note 98, at 749.

208. As Kyla Tienhaara observed,

In addition to the legal costs and fees associated with investment arbitration (which may be awarded to one party or divided between the parties), there is also the reputational effect that investor-State disputes have. Allee and Peinhardt have found that the existence of arbitral proceedings against a government, regardless of the eventual outcome of the dispute, has a negative impact on the State's reputation in the eyes of foreign investors. Their data suggests that States are likely to receive less foreign direct investment following an investor's lodging of a BIT claim. Other possible negative impacts that could worry a host government faced with a dispute include strained relations with the government of the investor's home State (which may be an important trading partner or provider of financial aid) and/or with the World Bank.

Tienhaara, *supra* note 132, at 613.

209. These needs include

purification of water, generation of power, improvement of public health, reduction of child mortality, provision of education, promotion of public security, building of basic infrastructure, reduction of violent crimes, relief of poverty, elimination of hunger, promotion of gender equality, protection of the environment and response to terrorism, illegal arms sales, human and drug trafficking, illegal immigration and corruption.

Peter K. Yu, *Enforcement, Economics and Estimates*, 2 WIPOJ. 1, 3–4 (2010).

210. TPP Agreement, *supra* note 6, art. 9.19.

211. While the carve-out has made clear the exemption of tobacco control measures from ISDS, it could undermine the efforts to exempt other equally important but unspecified regulations. See Mercurio, *Safeguarding Public Welfare?*, *supra* note 167, at 272–75 (discussing the difficulties in creating a carve-out for tobacco control measures at the TPP negotiations); Sean Flynn, *TPP Carve out for Tobacco Shows Core Flaws in Investor-State Dispute Settlement (ISDS)*, INFOJUSTICE.ORG

Within the intellectual property area, the ISDS mechanism will enable intellectual property rights holders to push for protection not yet covered by the TRIPS Agreement. Thus far, many host states have been actively avoiding additional intellectual property obligations under TRIPS-plus bilateral, regional, and plurilateral trade agreements. Yet the broad definition of covered investment may allow intellectual property rights holders to use ISDS to demand higher standards of intellectual property protection and enforcement even when those standards are not required. If ISDS-based strategies prove successful, developed country governments and multinational corporations may become more eager to rewrite international intellectual property rules outside the usual multilateral fora, such as the WTO and WIPO.²¹²

IV. MODEST PROPOSALS

The previous Part discusses both the substantive and procedural safeguards that the TPP Agreement has instituted to address ISDS-related concerns. The TPP still has many weaknesses, however, and this Part proposes two sets of improvements to address them. The first set consists of conceptual improvements, covering all forms of investments, including those in the intellectual property field. The second set contains institutional improvements. These improvements are important to the ISDS mechanism in not only the TPP Agreement but also other international trade or investment agreements. While many of the conceptual and institutional improvements discussed in this Part can be introduced without modifying the TPP Agreement, others may require at least some modification.

A. *Conceptual Improvements*

The first set of improvements consists of those aiming to strengthen our ability to conceptualize investments in the proper context. Because intellectual property rights are intangible and

(Oct. 1, 2015), <http://infojustice.org/archives/35107> (criticizing the inadequacy of the TPP carve-out for tobacco control measures).

212. See Yu, *Non-Multilateral Approach*, *supra* note 4 (discussing efforts to set international intellectual property norms outside the traditional multilateral fora). For further discussions of what commentators have referred to as the “country club” approach to international intellectual property norm-setting, see generally Daniel Gervais, *Country Clubs, Empiricism, Blogs and Innovation: The Future of International Intellectual Property Norm Making in the Wake of ACTA*, in *TRADE GOVERNANCE IN THE DIGITAL AGE*: WORLD TRADE FORUM 323 (Mira Burri & Thomas Cottier eds., 2012); Peter K. Yu, *The ACTA/TPP Country Clubs*, in *ACCESS TO INFORMATION AND KNOWLEDGE: 21ST CENTURY CHALLENGES IN INTELLECTUAL PROPERTY AND KNOWLEDGE GOVERNANCE* 258 (Dana Beldiman ed., 2014).

elusive by nature,²¹³ having proper conceptualization is especially significant in the intellectual property field. Such conceptualization is also important given the hitherto limited attention to the interplay of intellectual property and investment law.²¹⁴

Just as investment issues are new to those in the intellectual property field, intellectual property issues are also new to those in the investment field. For example, investment law experts may not be fully knowledgeable about the many complexities and nuances within intellectual property law and policy. Likewise, intellectual property law experts may be unfamiliar with the tradition and unique language of investment law, such as “direct and indirect expropriation of property,” “minimum standard of treatment,” “fair and equitable treatment,” and “full protection and security.”²¹⁵

To a large extent, the linkage between intellectual property and investment reminds us of the earlier challenges confronting the incorporation of intellectual property rights into the trade regime in the late 1980s and the early 1990s.²¹⁶ Such linkage also brings to

213. See Marshall Leaffer, *Character Merchandising in the U.K., a Nostalgic Look*, 11 U. MIAMI ENT. & SPORTS L. REV. 453, 454 (1994) (noting that “unlike physical property—land or chattels—intangible property, by its very nature, has vague boundaries”); Peter S. Menell, *Envisioning Copyright Law’s Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 67–68 (2002) (noting that copyright law is “a notoriously complex and subtle body of law”).

214. See Mercurio, *Awakening the Sleeping Giant*, *supra* note 31, at 871–72 (“While existing literature on international investment agreements . . . and investor-state dispute settlement is both rich and diverse the relative absence of literature reviewing and analyzing the legal requirements and potential effect of intellectual property . . . provisions in [international investment agreements] is striking. The absence of scholarly attention is even more surprising given the voluminous literature on IP chapters of [free trade agreements].”).

215. See TPP Agreement, *supra* note 6, art. 9.6.1 (“Each Party shall accord to covered investments treatment in accordance with applicable customary international law principles, including fair and equitable treatment and full protection and security.”); *id.* art. 9.6.2 (defining “fair and equitable treatment” to include “the obligation not to deny justice in criminal, civil or administrative adjudicatory proceedings in accordance with the principle of due process embodied in the principal legal systems of the world” and “full protection and security” as “requir[ing] each Party to provide the level of police protection required under customary international law”).

216. As I noted in the context of teaching international intellectual property law in the post-TRIPS era,

The entering into effect of the TRIPs Agreement has also brought to the field many teachers who have taught or researched in the areas of public international law, international organizations, international trade, or international business transactions. Those teachers therefore may not be interested in teaching the course as an intellectual property law course alone. Being “migrants” or “visitors,” they also may not have the standard

mind the discourse on intellectual property and human rights in the late 1990s and the early 2000s.²¹⁷ At that time, many “transnational corporations and their supporting developed countries . . . [have found] alien the human rights language and the forum structure.”²¹⁸ The same challenges exist today when intellectual property and investment are discussed together.²¹⁹

This Section will outline three sets of conceptual improvements. The first set is specifically related to intellectual property protection. It calls for a deeper inquiry concerning the investment-related aspects of intellectual property rights. The second and third sets are not as directly related but are still substantially related to intellectual property protection. While the second set calls for a more sophisticated understanding of the limited role of such protection in the investment environment, the final set underscores the need to interpret intellectual property provisions in international trade or investment agreements by reference to other multilateral agreements as well as national jurisprudence.

1. *What constitutes investment?*

A critical question concerning the investment-related aspects of intellectual property rights is what constitutes investment.²²⁰ This

experience or background expected from intellectual property law experts. As a result, these teachers are more likely to see the course as one that will help students better understand the changing global legal environment, the international and regional lawmaking processes, and techniques for resolving cross-border disputes.

Peter K. Yu, *Teaching International Intellectual Property Law*, 52 ST. LOUIS U. L.J. 923, 941–42 (2008).

217. For the Author’s earlier articles on intellectual property and human rights, see Peter K. Yu, *Digital Copyright Enforcement Measures and Their Human Rights Threats*, in RESEARCH HANDBOOK ON HUMAN RIGHTS AND INTELLECTUAL PROPERTY 455 (Christophe Geiger ed., 2015) [hereinafter RESEARCH HANDBOOK ON HUMAN RIGHTS]; Peter K. Yu, *The Anatomy of the Human Rights Framework for Intellectual Property*, 69 SMU L. REV. 37 (2016); Peter K. Yu, *Intellectual Property and Human Rights in the Nonmultilateral Era*, 64 FLA. L. REV. 1045 (2012); Peter K. Yu, *Reconceptualizing Intellectual Property Interests in a Human Rights Framework*, 40 U.C. DAVIS L. REV. 1039 (2007) [hereinafter Yu, *Reconceptualizing Intellectual Property Interests*]; Peter K. Yu, *Ten Common Questions About Intellectual Property and Human Rights*, 23 GA. ST. U. L. REV. 709 (2007).

218. Yu, *Reconceptualizing Intellectual Property Interests*, *supra* note 217, at 1136.

219. See Biadgleng, *supra* note 53, at 32 (“IP issues have their own dimension, jurisprudence and political economy completely different from investment.”).

220. For discussions of ways to identify an investment within the meaning of international investment agreements, see generally Jan Asmus Bischoff & Richard Happ, *The Notion of Investment*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 495; Emmanuel Gaillard, *Identify or Define? Reflections on the Evolution of the*

question is highly complicated because most international investment agreements have a broad definition of covered investment. For instance, Article 9.1 of the TPP Agreement defines “investment” as “every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk.”²²¹ Article 9.1 further states that “[f]orms that an investment may take include . . . intellectual property rights,”²²² without providing any definition of those rights.

The TPP investment chapter, however, does not further delineate the coverage of “intellectual property rights.” Instead, these rights are defined in Article 18.1, which states that “intellectual property refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II of the TRIPS Agreement.”²²³ Because Article 18.1 is not part of the investment chapter, one could argue against applying this definition to the chapter. Regardless of its applicability, however, an important inquiry can be made about what rights are covered as investments within the meaning of the TPP investment chapter.

However broad the coverage is, intellectual property rights should not be automatically equated with covered investments once they emerge or have been acquired in the host state.²²⁴ After all, many of

Concept of Investment in ICSID Practice, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 403; David A.R. Williams & Simon Foote, *Recent Developments in the Approach to Identifying an “Investment” Pursuant to Article 25(1) of the ICSID Convention*, in EVOLUTION IN INVESTMENT TREATY, *supra* note 127, at 42.

221. TPP Agreement, *supra* note 6, art. 9.1.

222. *Id.* (including “intellectual property rights” under subsection (f) of the definition of “investment”).

223. *Id.* art. 18.1.

224. See Henning Grosse Ruse-Khan, *Investment Law and Intellectual Property Rights*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 1692, 1696 (“The fact that BITs and [free trade agreements] include IPRs as a form of investment . . . is merely the starting point for analysing *how and when* IPRs are protected by the general guarantees provided to investors in these agreements.”); Correa & Viñuales, *supra* note 183, at 112 (“[T]he acquisition of IPRs does not imply the assumption of any risk. Even when registration is required, the applicant does not expose its capital to any loss. It simply asserts rights against third parties who would be thereafter excluded from the use of the protected subject matter.”); Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1125–26 (“At a minimum, a determination that an intellectual property rights owner is also an investor cannot plausibly be based solely on acquiring rights, particularly since member states of the WTO have no choice but to accord such rights, and to do so on the terms set by the TRIPS Agreement.”). See generally VANHONNAEKER, *supra* note 18, at 7–33 (discussing whether intellectual property and related rights would qualify as investments).

these rights can exist without any actual investments into that state. As Ruth Okediji reminded us,

Intellectual property rights can be held simultaneously in many countries and in some cases, like copyright, without any formalities or other domestic process that would indicate a specific investment purpose. Is merely having authorial works in circulation in a host country sufficient to constitute an “investment in a given country?” Similarly, where patent rights are acquired by mere registration, such as in many least-developed countries, should this alone confer the status of an “investment”? Should requirements of local working conditions that more firmly anchor the patent grant to domestic priorities make a difference in an assessment of a protected investment?²²⁵

In fact, if intellectual property rights acquired in the host state can automatically become investments regardless of whether investments have actually been made in the first place,²²⁶ many of the safeguards and adjustments provided by the TRIPS Agreement will be immediately lost. As Bryan Mercurio cautioned, “If ownership of an IPR is an ‘investment’, the question becomes whether a compulsory

225. Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1125.

226. As the tribunal in *Bayview Irrigation District v. United Mexican States* declared,

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

Bayview Irrigation Dist. v. United Mexican States, ICSID Case No. ARB(AF)/05/1, Award, ¶ 101 (June 19, 2007), http://icsidfiles.worldbank.org/icsid/icsidblobs/onlinewards/C246/DC653_En.pdf; *see also* ASEAN–Australia–New Zealand Free Trade Agreement art. 2(d) n.4, ASEAN–Australia–New Zealand, Feb. 27, 2009, <http://dfat.gov.au/trade/agreements/aanzfta/official-documents/Pages/agreement-establishing-the-asean-australia-new-zealand-free-trade-area-aanzfta.aspx> (“[T]he Parties understand that an investor that ‘seeks to make’ an investment refers to an investor of another Party that has taken active steps to make an investment.”); Correa & Viñuales, *supra* note 183, at 114 (“Chapter 11 of the NAFTA is not intended to protect a company’s activities as a foreign exporter of goods into the territory of a NAFTA Party. The same reasoning would apply in a case where a patent, trademark or other IPR were not associated with a presence in the host country that could be qualified as an investment.” (footnote omitted)).

license can be an expropriation of that investment.”²²⁷ Given the high stakes involved, it is important to develop analytical frameworks that can be used to determine whether investments have been made within the meaning of the TPP investment chapter or other international investment agreements. This question is important because the issuance of compulsory licenses is at the heart of the negotiations surrounding the Doha Declaration on the TRIPS Agreement and Public Health.²²⁸

One test that has garnered considerable support from commentators²²⁹ is the one adopted in *Salini Costruttori S.p.A. v. Kingdom of Morocco*,²³⁰ a case involving the construction of a Moroccan highway by Italian contractors.²³¹ This test took into consideration four distinct factors: “[1] contributions, [2] a certain duration of performance of the contract . . . [3] a participation in the risks of the transaction . . . [and] [4] the contribution to the economic development of the host State of the investment.”²³² Applied to the intellectual property context, Lukas Vanhonnaeker translated these factors as follows:

227. Mercurio, *Awakening the Sleeping Giant*, *supra* note 31, at 911. For discussions of the interplay between compulsory licenses and international investment agreements, see generally VANHONNAEKER, *supra* note 18, at 47–68; Correa, *Investment Protection*, *supra* note 52; Gibson, *supra* note 87; Lin Tsai-Yu, *Compulsory Licenses for Access to Medicines, Expropriation and Investor-State Arbitration Under Bilateral Investment Agreements—Are There Issues Beyond the TRIPS Agreement?*, 40 INT’L REV. INTELL. PROP. & COMPETITION L. 152 (2009); Peter B. Rutledge, *TRIPS and BITs: An Essay on Compulsory Licenses, Expropriation, and International Arbitration*, 13 N.C. J.L. & TECH. ONLINE 149 (2012).

228. World Trade Organization, Declaration on the TRIPS Agreement and Public Health, Nov. 14, 2001, WTO Doc. WT/MIN(01)/DEC/2, 41 I.L.M. 755 (2002); *see also* Yu, *International Enclosure Movement*, *supra* note 56, at 872–86 (discussing the negotiations surrounding the Doha Declaration).

229. *See* Gaillard, *supra* note 220, at 403 (describing *Salini* as “[a]n important milestone in the evolution of the ICSID case law on the notion of investment”); Correa & Viñuales, *supra* note 183, at 100 n.30 (describing *Salini* as providing the “most influential precedent” concerning qualifications to a broad definition of “investment”); Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1137 (“A [possible] approach is to require a complainant to establish that its intellectual property rights have had a clear economic benefit to the host country and thus constitutes an ‘investment.’ One key factor in such an ‘investment test’ could be requiring the claimant to establish the significance of the intellectual property to the host State’s economic development.”).

230. ICSID Case No. ARB/00/4, Decision on Jurisdiction (July 31, 2001), 6 ICSID Rep. 400 (2004).

231. *Id.* ¶ 1.

232. *Id.* ¶ 52.

(i) IP is susceptible to be invested for a certain duration; (ii) it is likely to generate profit and return on a regular basis; (iii) IP, and more precisely, IPRs “share the unique and constant *risk* of infringement by third parties not privileged in their use”; (iv) IP investment often represents a substantial commitment; and (v) such assets have a significant potential to contribute to the Host State’s development.²³³

Apart from developing analytical frameworks to determine whether investments have been made within the meaning of the international investment agreement concerned, it is also important to recall the contingent nature of intellectual property rights.²³⁴ Just because these rights have been granted does not mean that they can be enforced through the international investment agreement. There are at least four reasons for such non-enforcement.

The first reason concerns the limited duration of intellectual property rights. The international standard for copyright protection provided by both the Berne Convention and the TRIPS Agreement is the life of the author plus fifty years.²³⁵ When the copyright term is not calculated based on the author’s life, the TRIPS Agreement fixes that term at a minimum of fifty years.²³⁶ For trademark protection, the Agreement sets the term of both initial registration and subsequent renewal to a minimum of seven years.²³⁷ For patent protection, the Agreement stipulates that such protection “shall not end before the expiration of a period of twenty years counted from the filing date.”²³⁸

The TPP Agreement extends the minimum terms in all three areas. Article 18.63 increases the protection of copyright and related rights

233. VANHONNAEKER, *supra* note 18, at 26 (footnotes omitted).

234. See Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1126 (“[A]ll intellectual property rights are to some extent contingent rights only; whether a claimant is a rightful owner, has complied with national eligibility standards for protection, whether there are any applicable subject-matter limits or supervening policy considerations, or whether a granting agency has appropriately granted (or denied) such rights are always subject to question before national courts.”).

235. See Berne Convention, *supra* note 39, art. 7(1); TRIPS Agreement, *supra* note 2, art. 9 (“Members shall comply with Articles 1 through 21 of the Berne Convention . . .”).

236. See TRIPS Agreement, *supra* note 2, art. 12 (“Whenever the term of protection of a work, other than a photographic work or a work of applied art, is calculated on a basis other than the life of a natural person, such term shall be no less than 50 years from the end of the calendar year of authorized publication, or, failing such authorized publication within 50 years from the making of the work, 50 years from the end of the calendar year of making.”).

237. See *id.* art. 18.

238. *Id.* art. 33.

to the life of the author plus seventy years.²³⁹ When the copyright term is not calculated based on the author's life, the TPP Agreement extends the term to a minimum of seventy years.²⁴⁰ For trademark protection, Article 18.26 increases the terms of both initial registration and subsequent renewal to a minimum of ten years,²⁴¹ matching the terms found in the United States.²⁴² For patent protection, Article 18.46 allows for an adjustment of the patent term based on unreasonable delay on the part of the patent office.²⁴³ This adjustment achieves the same effect as the Hatch-Waxman Act of 1984 in the United States, which provides for a limited extension of the patent term.²⁴⁴ Notwithstanding these extensions, all the intellectual property terms identified in the TPP Agreement remain limited in duration.

The second reason pertains to renewal or maintenance fees, which are required for trademark and patent protections in most jurisdictions, including the United States. Although the TRIPS Agreement allows trademarks to be "renewed indefinitely,"²⁴⁵ section 9 of the Lanham Act allows "each registration . . . [to] be renewed for periods of 10 years at the end of each successive 10-year period following the date of registration *upon payment of the prescribed fee and the filing of a written application.*"²⁴⁶ Similarly, to maintain protection in the United States, patent holders are required to pay maintenance fees "three times during the life of a patent, and may be paid without surcharge at 3 to 3.5 years, 7 to 7.5 years, and 11 to 11.5 years after the date of issue."²⁴⁷

Given these renewal or maintenance requirements, intellectual property rights holders will have to take proactive actions to ensure that their protection remains in effect. Just because their rights have

239. See TPP Agreement, *supra* note 6, art. 18.63(a).

240. See *id.* art. 18.63(b).

241. See *id.* art. 18.26.

242. See 15 U.S.C. § 1058(a) (2012) ("Each registration shall remain in force for 10 years . . ."); *id.* § 1059(a) ("[E]ach registration may be renewed for periods of 10 years at the end of each successive 10-year period following the date of registration upon payment of the prescribed fee and the filing of a written application . . .").

243. See TPP Agreement, *supra* note 6, art. 18.46.

244. Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, § 156, 98 Stat. 1585, 1598 (codified as amended at 21 U.S.C. § 355 (2012)).

245. See TRIPS Agreement, *supra* note 2, art. 18.

246. 15 U.S.C. § 1059(a) (2012) (emphasis added).

247. *Maintain Your Patent*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/patents-maintaining-patent/maintain-your-patent> (last visited Feb. 5, 2017); see also *id.* ("A maintenance fee is a fee that is required for maintaining in force all utility and reissue utility patents based on applications filed on or after December 12, 1980 If a maintenance fee is not paid the patent protection lapses and the rights provided by a patent are no longer enforceable.").

been initially granted does not mean that they will enjoy the full protection for the entire duration of an international investment agreement. Indeed, some patent researchers, especially those in economics or other non-law fields, have mistaken the TRIPS term of twenty years as a proxy for the length of patent protection. Yet “[i]t is pointless to assume that the length of [such] protection to be a static 20 years without taking into consideration maintenance or renewal fees and potential regulatory delays.”²⁴⁸

The third reason relates to the potential subsequent invalidation of protected rights, even if those rights have been initially granted in the first place.²⁴⁹ This contingency is particularly salient in the ISDS proceeding *Eli Lilly* filed against Canada, which concerned two patents that the Canadian courts have subsequently invalidated despite the initial grants.²⁵⁰ Although such invalidations seem problematic from a property standpoint, the non-exclusive and non-excludable nature of intellectual property rights has made these rights an ill fit for an analysis based on traditional property rights.²⁵¹

Also complicating this analysis is that, unlike in most claims of direct expropriation of real or other tangible property, the ownership of intellectual property rights has not been transferred to Canada; instead, the drugs are now in the public domain, free for anybody to copy.²⁵² In expropriation cases, seeking compensation from the government concerned is logical because that government has obtained direct financial benefits. In intellectual property disputes, however, the government did not receive similar benefits. Instead, it merely performed the statutory duty of determining whether the

248. Yu, *Enforcement, Economics and Estimates*, *supra* note 209, at 8–9; *see also* Jeremy Phillips, “I Wouldn’t Want to Be Starting from Here,” or Why Isn’t Intellectual Property Research Better than It Is?, 1 WIPO J. 138, 140 (2009) (noting the mistaken claim that “it was ‘common knowledge’ that patents lasted for 20 years,” without regard to either jurisdiction or renewal procedures).

249. *See* Ho, *supra* note 22, at 243 (“Intellectual property rights are different than other types of property because they can be and often are later canceled. The cancellation of the rights means there were no legitimate rights to begin with, so in these cases there should be no recognized investment that would trigger the ability to file an investor-state dispute.”).

250. *Eli Lilly & Co. v. Government of Canada*, ICSID Case No. UNCT/14/2, Notice of Arbitration (Sept. 12, 2013), http://icsidfiles.worldbank.org/icsid/icsidblob/onlineawards/c3544/dc4612_En.pdf; *see supra* text accompanying notes 19–24.

251. For discussions of the non-rivalrous and non-excludable nature of intellectual property, *see generally* William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 344–61 (1989); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1033–46 (2005).

252. *See* Ho, *supra* note 22, at 263.

applicant of an intellectual property right has met eligibility requirements,²⁵³ such as the patentability requirement as qualified by the Canadian “promise doctrine.”²⁵⁴

Moreover, patent rights have been invalidated more often than one would expect. In a widely cited study published in the late 1990s, John Allison and Mark Lemley showed that U.S. courts had found a challenged patent invalid in 46% of the 300 final validity decisions examined.²⁵⁵ A few years ago, Carlos Correa also observed,

In the US . . . , patent owner’s likelihood of success in patent validity challenges is only 51 per cent if the trial is heard before a judge alone. If the trial is heard before a judge and jury: 68 per cent. Overall chances of success for the patent owner if the trial is held in Massachusetts and Northern California, respectively: 30 per cent, 68 per cent.²⁵⁶

Indeed, the widely documented patent quality problem in the United States sparked repeated calls for patent reform,²⁵⁷ which eventually resulted in a complete overhaul of the U.S. patent system through the adoption of the Leahy-Smith America Invents Act²⁵⁸ in September 2011. If these criticisms indeed reflected the problems of the U.S. patent system—a system that is far more developed than the systems in many other countries—one has to wonder whether mere patent invalidations would provide adequate support for an ISDS complaint.

253. See *id.* at 243 (“[U]nlike most forms of real property, which exist without state intervention, some types of intellectual property only exist if granted by the state For example, a patent right does not exist without a state agency such as the U.S. Patent and Trademark Office reviewing an application to evaluate whether a patent is deserved.” (footnote omitted)).

254. See *supra* text accompanying note 22.

255. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 *AIPLA Q.J.* 185, 205 (1998).

256. Carlos M. Correa, *The Push for Stronger Enforcement Rules: Implications for Developing Countries*, in INT’L CTR. FOR TRADE & SUSTAINABLE DEV., *THE GLOBAL DEBATE ON THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS AND DEVELOPING COUNTRIES* 27, 67–68 n.84 (2009), <http://www.ictsd.org/sites/default/files/research/2012/02/the-global-debate-on-the-enforcement-of-intellectual-property-rights-and-developing-countries.pdf>.

257. For discussions of problems within the U.S. patent system before the adoption of the Leahy-Smith America Invents Act, see generally U.S. FED. TRADE COMM’N, *TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY* (2003); ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* (2004); A *PATENT SYSTEM FOR THE 21ST CENTURY* (Stephen A. Merrill, Richard C. Levin & Mark B. Myers eds., 2004).

258. Pub. L. No. 112-29, 125 Stat. 284 (2011).

The final reason involves limits on intellectual property rights both within and outside the system. Endogenous limits are those constraints that have been internalized within the intellectual property system.²⁵⁹ Although those new to the intellectual property field, including many ISDS arbitrators, tend to focus only on protections, limitations and exceptions are just as important as the rights themselves.²⁶⁰ Among the widely cited endogenous constraints are those concerning fair use;²⁶¹ exhaustion of rights;²⁶² exceptions for research or experimental use,²⁶³ early working,²⁶⁴ and the development of diagnostics,²⁶⁵ as well as special arrangements for compulsory licensing, parallel importation, and government use.²⁶⁶

259. See *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (underscoring the various “built-in First Amendment accommodations” in existing copyright law); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985) (stating that the Framers of the Constitution “intended copyright itself to be the engine of free expression”).

260. See JAMES BOYLE, *SHAMANS, SOFTWARE AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY* 138 (1996); see also *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966) (noting that the intellectual property clause “is both a grant of power and a limitation”). For an important study on limitations and exceptions, see generally P. BERNT HUGENHOLTZ & RUTH L. OKEDIJI, *CONCEIVING AN INTERNATIONAL INSTRUMENT ON LIMITATIONS AND EXCEPTIONS TO COPYRIGHT: FINAL REPORT* (2008), http://www.ivir.nl/publicaties/download/limitations_exceptions_copyright.pdf.

261. See, e.g., 17 U.S.C. § 107 (2012).

262. See, e.g., *id.* § 109(a) (codifying the first sale doctrine).

263. See Karin Timmermans, *Ensuring Access to Medicines in 2005 and Beyond*, in *NEGOTIATING HEALTH*, *supra* note 54, at 41, 52 (noting the need for “a research exemption”). For discussions of the experimental use exemption, see generally Rochelle Dreyfuss, *Protecting the Public Domain of Science: Has the Time for an Experimental Use Defense Arrived?*, 46 *ARIZ. L. REV.* 457 (2004); Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 *U. CHI. L. REV.* 1017 (1989); Janice M. Mueller, *No “Dilettante Affair”: Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, 76 *WASH. L. REV.* 1 (2001); Katherine J. Strandburg, *What Does the Public Get? Experimental Use and the Patent Bargain*, 2004 *WIS. L. REV.* 81.

264. See *COMM’N ON INTELLECTUAL PROP. RIGHTS, INTEGRATING INTELLECTUAL PROPERTY RIGHTS AND DEVELOPMENT POLICY* 50 (2002) (discussing the importance of the Bolar exception, which “makes it legal for a generic producer to import, manufacture and test a patented product prior to the expiry of the patent in order that it may fulfill the regulatory requirements imposed by particular countries as necessary for marketing as a generic”).

265. See *TRIPS Agreement*, *supra* note 2, art. 27.3(a) (“Members may . . . exclude from patentability . . . diagnostic, therapeutic and surgical methods for the treatment of humans or animals . . .”); EDSON BEAS RODRIGUES JR., *THE GENERAL EXCEPTION CLAUSES OF THE TRIPS AGREEMENT: PROMOTING SUSTAINABLE DEVELOPMENT* 159–236 (2012) (discussing the research-and-development and genetic diagnostic test exceptions).

266. See ELLEN F.M. ’T HOEN, *THE GLOBAL POLITICS OF PHARMACEUTICAL MONOPOLY POWER: DRUG PATENTS, ACCESS, INNOVATION AND THE APPLICATION OF THE WTO DOHA DECLARATION ON TRIPS AND PUBLIC HEALTH* 39–59 (2009) (discussing compulsory

Limits on intellectual property rights can also be found outside the intellectual property system. Widely cited exogenous limits include those constraints found in human rights treaties,²⁶⁷ constitutions,²⁶⁸ competition law,²⁶⁹ or in relation to “morality, public order and the general welfare in a democratic society.”²⁷⁰ Exogenous limits are

licenses and parallel importation in relation to the flexibilities provided by the TRIPS Agreement).

267. See Carlos M. Correa, *Mitigating the Impact of Intellectual Property in Developing Countries Through the Implementation of Human Rights*, in RESEARCH HANDBOOK ON HUMAN RIGHTS, *supra* note 217, at 201, 208–11 (discussing the use of human rights obligations to mitigate the impact of high intellectual property standards in developing countries); HOLGER HESTERMEYER, HUMAN RIGHTS AND THE WTO: THE CASE OF PATENTS AND ACCESS TO MEDICINES 229–55 (2007) (discussing TRIPS flexibilities in relation to the protection of human rights); Geertrui Van Overwalle, *Human Rights’ Limitations in Patent Law*, in INTELLECTUAL PROPERTY AND HUMAN RIGHTS: A PARADOX 236 (Willem Grosheide ed., 2010) (discussing the human rights limitations in patent law); Yu, *Reconceptualizing Intellectual Property Interests*, *supra* note 217, at 1096–99 (discussing compulsory licensing based on human rights).

268. See U.S. CONST. amend. I. For excellent discussions of the relationship between copyright law and the First Amendment, see generally sources cited in Peter K. Yu, *The Escalating Copyright Wars*, 32 HOFSTRA L. REV. 907, 927 n.145 (2004).

269. See U.N. Econ. & Soc. Council, Sub-Comm’n on the Promotion & Prot. of Human Rights, *The Impact of the Agreement on Trade-Related Aspects of Intellectual Property Rights on Human Rights: Report of the High Commissioner*, ¶ 64, U.N. Doc. E/CN.4/Sub.2/2001/13 (June 27, 2001) (“The High Commissioner encourages States to consider the elaboration of competition laws that prevent abuses of IPRs that lead to violations of the right to health—in particular restrictive licensing practices or the setting of high prices for essential drugs.”); Jonathan Berger, *Advancing Public Health by Other Means: Using Competition Policy*, in NEGOTIATING HEALTH, *supra* note 54, at 181, 182 (exploring how developing countries can use competition policy to “increase access to a sustainable supply of affordable essential medicines”); Ernst-Ulrich Petersmann, *International Competition Rules for Governments and for Private Business: A “Trade Law Approach” for Linking Trade and Competition Rules in the WTO*, 72 CHI.-KENT L. REV. 545, 563 (1996) (“[D]eveloping countries with underdeveloped national competition and intellectual property rights laws . . . will need more systematic rules on the protection of competition among trade-related intellectual property rights and on the prevention of their anticompetitive abuse.”); J.H. Reichman, *From Free Riders to Fair Followers: Global Competition Under the TRIPS Agreement*, 29 N.Y.U. J. INT’L L. & POL. 11, 52–58 (1997) (proposing to use “competition law to curb the abuse of market power” as a pro-competitive strategy for implementing the TRIPS Agreement in developing countries).

270. See G.A. Res. 217 (III) A, Universal Declaration of Human Rights, art. 29(2) (Dec. 10, 1948) (“In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.”); see also International Covenant on Economic, Social and Cultural Rights art. 4, Dec. 16, 1966, 993 U.N.T.S. 3 (entered into force Jan. 3, 1976) (“The States Parties to the present Covenant recognize that, in the enjoyment of

important because they remind investors of their social responsibilities. As Kate Miles observed, “there is a need for more balanced international investment agreements that retain strong investor protection but impose corresponding levels of investor responsibility.”²⁷¹

When both endogenous and exogenous limits are taken into account, the intellectual property rights available under the international investment agreement may be more limited than what the three words “intellectual property rights” have suggested in the definition of covered investment. As far as international investment obligations are concerned, circumstances may also exist to preclude findings of violations. These circumstances include necessity, force majeure, and countermeasures taken to address actual and alleged breaches of international law by the investors’ home states.²⁷²

2. *Intellectual property protection and the investment environment*

The previous Section underscores the need to undertake a deeper inquiry into what constitutes investment. This Section turns to the need for a more sophisticated understanding of the role of intellectual property protection in an investment environment. Although there is a tendency to emphasize the role of such protection in attracting FDI, policymakers and commentators have

those rights provided by the State in conformity with the present Covenant, the State may subject such rights only to such limitations as are determined by law only in so far as this may be compatible with the nature of these rights and solely for the purpose of promoting the general welfare in a democratic society.”); Convention on the Grant of European Patents art. 53(a), Oct. 5, 1973, *as amended by* Decision of the Administration Council of the European Patent Organization of Dec. 21, 1978, 1065 U.N.T.S. 255 (“European patents shall not be granted in respect of . . . inventions the commercial exploitation of which would be contrary to ‘ordre public’ or morality . . .”); TRIPS Agreement, *supra* note 2, art. 27.2 (“Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect *ordre public* or morality . . .”).

271. Miles, *supra* note 109, at 296; *see also* Jacqueline Lipton, *Information Property: Rights and Responsibilities*, 56 FLA. L. REV. 135, 165 (2004) (“If information property rights are here to stay, we should consider ways in which responsibilities of property ownership can be developed and imposed on right holders as part of our legal system.”). For discussions of investors’ responsibilities, *see generally* Peter Muchlinski, *Corporate Social Responsibility*, in OXFORD HANDBOOK, *supra* note 77, at 637; Karsten Nowrot, *Obligations of Investors*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 1154.

272. *See* Christina Binder, *Circumstances Precluding Wrongfulness*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 442 (discussing the circumstances that may preclude findings of violations of international investment agreements).

widely questioned whether strong intellectual property protection actually causes greater FDI flows.²⁷³

To date, economists have provided an abundance of empirical studies demonstrating the ambiguity of this causal relationship.²⁷⁴ For example, Claudio Frischtak states that a country's overall investment climate is often more influential on FDI decisions than the strength of intellectual property protection it offers.²⁷⁵ Carsten Fink and Keith Maskus observed that "[a] poor country hoping to attract inward FDI would be better advised to improve its overall investment climate and business infrastructure than to strengthen its patent regime sharply, an action that would have little effect on its own."²⁷⁶ Professor Maskus further stated that, if stronger intellectual property protection always led to more FDI, "recent FDI flows to developing economies would have gone largely to sub-Saharan Africa and Eastern Europe . . . [rather than] China, Brazil, and other high-growth, large-market developing economies with weak IPRs."²⁷⁷

As if these studies were not enough, policymakers and commentators have questioned whether intellectual property protection should be strengthened indefinitely regardless of the local contexts. Indeed, there is no guarantee that stronger protection will promote further creativity and innovation even if the existing level of protection is needed to incentivize such creativity and innovation. As Judge Alex Kozinski warned us in his famous dissent in *White v. Samsung Electronics America, Inc.*,²⁷⁸ "Overprotecting intellectual

273. See Peter K. Yu, *Intellectual Property, Economic Development, and the China Puzzle*, in INTELLECTUAL PROPERTY, TRADE AND DEVELOPMENT: STRATEGIES TO OPTIMIZE ECONOMIC DEVELOPMENT IN A TRIPS PLUS ERA 173, 176–77 (Daniel J. Gervais ed., 1st ed. 2007) ("Conventional wisdom holds that strong intellectual property protection is needed to attract foreign investment However, recent empirical research questions this conventional wisdom.").

274. See generally *id.* at 176–80 (reviewing the economic literature that discusses this ambiguous relationship).

275. See Claudio R. Frischtak, *Harmonization Versus Differentiation in Intellectual Property Right Regimes*, in GLOBAL DIMENSIONS OF INTELLECTUAL PROPERTY RIGHTS IN SCIENCE AND TECHNOLOGY 89, 99–100 (Mitchel B. Wallerstein et al. eds., 1993) (noting that the nature of a country's intellectual property regime was traditionally a secondary concern in a company's FDI decision).

276. Carsten Fink & Keith E. Maskus, *Why We Study Intellectual Property Rights and What We Have Learned*, in INTELLECTUAL PROPERTY AND DEVELOPMENT 1, 7 (Carsten Fink & Keith E. Maskus eds., 2005).

277. Maskus, *Role of Intellectual Property Rights*, *supra* note 57, at 128–29 (footnotes omitted).

278. 989 F.2d 1512 (9th Cir. 1993) (Kozinski, J., dissenting).

property is as harmful as underprotecting it.”²⁷⁹ Likewise, Josh Lerner wrote, “Almost all economists would agree that some intellectual property protection is better than no intellectual property protection at all. But this does not mean that very strong protection is better than a more moderate level of protection.”²⁸⁰

To develop a more sophisticated understanding of investment protection, it is important to examine protection from the sides of both the investor and the host state. On either side, adjustments may have been made to increase or decrease the overall level of protection the host state has provided to the investor. Unfortunately, this type of complementary protection is generally not the focus of any inquiry into the level of intellectual property protection.

Consider, for instance, the evaluation of the moral rights protection offered to a foreign investor-artist in the United States. Thus far, policymakers and commentators have repeatedly noted that the country’s limited protection²⁸¹ can be enhanced by laws relating to unfair competition, breach of contract, defamation, and the right to privacy.²⁸² Yet those criticizing the United States for its failure to fully comply with the moral rights provision of the Berne Convention²⁸³ remain reluctant to recognize these substitutes. The critics’ narrower focus is understandable considering that the inquiry mostly concerns intellectual property rights—or, more specifically, copyright and related rights. As important as the protections offered by defamation laws and the right to privacy are, they are simply not part of the intellectual property system. Nevertheless, the analysis would be

279. *Id.* at 1513.

280. Josh Lerner, *The Patent System in a Time of Turmoil*, 2 WIPO J. 28, 32 (2010); see also Peter K. Yu, *Anticircumvention and Anti-anticircumvention*, 84 DENV. U. L. REV. 13, 17 (2006) (“[M]ore [copyright protection] is not always better, and small can be beautiful.”).

281. Visual Artists Rights Act of 1990, 17 U.S.C. § 106A (2012) (limiting the rights of attribution and integrity to a narrowly defined set of works of visual art).

282. See Roberta Rosenthal Kwall, *Copyright and the Moral Right: Is an American Marriage Possible?*, 38 VAND. L. REV. 1, 17–33 (1985) (discussing the non-copyright alternatives U.S. courts relied upon before the enactment of the Visual Artists Rights Act of 1990 to protect a creator’s moral rights, such as “unfair competition, breach of contract, defamation, and invasion of privacy”); see also Diane Leenheer Zimmerman, *Information as Speech, Information as Goods: Some Thoughts on Marketplaces and the Bill of Rights*, 33 WM. & MARY L. REV. 665, 665 (1992) (“A common device for privatizing speech is copyright; privatization can similarly be achieved using § 43(a) of the Lanham Act and such common law doctrines as trade secrets, rights of privacy and publicity, and unfair trade practices.” (footnotes omitted)).

283. See Berne Convention, *supra* note 39, art. 6*bis* (providing the rights of attribution and integrity).

different if the inquiry were not about what intellectual property rights had been offered but what rights—of whatever kind—had been offered to protect intellectual property investments. To answer this reframed question, one would have to consider protection from both inside and outside the intellectual property system.

On the investor's side, it is therefore important to consider both additive and subtractive adjustments. Additive adjustments are those adjustments that will enhance the overall protection of intellectual property investments. A case in point is the protection offered by a food and drug administration. When such an administration links the registration of pharmaceutical products to their patent status—a common requirement in TRIPS-plus bilateral, regional, and plurilateral trade agreements²⁸⁴—the overall protection provided by the host state to pharmaceutical investments will be stronger than the protection of pharmaceutical patents alone. This additional protection was indeed why commentators and civil society organizations have been highly critical of the demands for this type of linkage in TRIPS-plus trade agreements.²⁸⁵

By contrast, subtractive adjustments are those adjustments that will undermine the overall protections given to intellectual property investments. Typical examples are safeguards provided outside the intellectual property system, such as those exogenous limits discussed in the previous Section.²⁸⁶ A case in point is a process withholding patent protection from a pharmaceutical product until after health and medical experts have assessed its contribution to innovation and

284. See, e.g., Australia–United States Free Trade Agreement, U.S.–Austl., art. 17.10.4, May 18, 2004, <https://ustr.gov/trade-agreements/free-trade-agreements/australian-fta/final-text>; Central America–Dominican Republic Free Trade Agreement art. 15.10.2, May 28, 2004, <http://www.ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta/final-text>; Singapore–United States Free Trade Agreement, U.S.–Sing., art. 16.8.4, May 6, 2003, <https://ustr.gov/trade-agreements/free-trade-agreements/singapore-fta/final-text>.

285. As Carlos Correa observed,

The patent-registration linkage ignores that patents are private rights, as stated in the Preamble of the TRIPS Agreement, and that, whether a given product infringes or not, a patent is a legal matter entirely separate from the technical issues concerning safety and efficacy of drugs. Health authorities have no knowledge or experience whatsoever to assess the claims of a patent. Carlos M. Correa, *Bilateralism in Intellectual Property: Defeating the WTO System for Access to Medicines*, 36 CASE W. RES. J. INT'L L. 79, 88–91 (2004). Professor Correa further criticized the patent-registration linkage for “creat[ing] a presumption of validity of pharmaceutical product patents which health authorities are neither empowered nor have the capacity to challenge.” *Id.* at 91.

286. See *supra* text accompanying notes 267–71.

health welfare, such as the prior consent mechanism (*anuência prévia*) instituted by the Brazilian National Health Surveillance Agency (ANVISA).²⁸⁷ Although commentators have extolled the agency's effort in fostering coordination between patent offices and health and medical experts,²⁸⁸ there is no denying that this mechanism has also weakened the overall protection offered to intellectual property investments. Indeed, by October 2010, the conflicts between ANVISA and the Brazilian industrial property agency²⁸⁹ had become so intense that the country's attorney general (*Advocacia Geral da União*) felt compelled to step in to curtail ANVISA's role.²⁹⁰

Just as it is important to evaluate the protection given to the investor, it is equally significant to examine the protection provided by the host state. In regard to the latter, ISDS arbitrators should consider the inputs the state has provided to investors as part of its effort to protect intellectual property investments. Such

287. See Peter Drahos, "Trust Me": *Patent Offices in Developing Countries*, 34 AM. J.L. & MED. 151, 169–70 (2008) (discussing ANVISA's prior consent mechanism).

288. For example, Peter Drahos declared,

The Brazilian model is worth close study by other developing countries. It is a preventive strategy that avoids the high costs of attempting to remove patents that have been granted. It is also an integrative regulatory strategy. It links patentability criteria in the area of pharmaceuticals to the goal of welfare-enhancing innovation in the health sector. One of the real concerns with pharmaceutical patenting has been that patent offices are granting patents over essentially trivial steps in the innovation process. The reasons for this are complex, having to do with the incentives facing patent offices, the narrow training of patent examiners, the fact that patent examiners are not researchers, and that they are not integrated into communities of public health experts that know about what constitutes real innovation in a given field. From the perspective of the patent social contract, the grant of patents over trivial or obvious steps in the pharmaceutical innovation process constitutes a welfare loss to society. Involving public health experts in the process of patent administration is one way of helping to ensure that the patent social contract functions as it should in the health sector.

Id. at 169–70 (footnotes omitted); see also Peter K. Yu, *Access to Medicines, BRICS Alliances, and Collective Action*, 34 AM. J.L. & MED. 345, 378 (2008) (suggesting that the ANVISA model could be used to facilitate greater cooperation between intellectual property offices in the South and health and medical experts and related NGOs in the North).

289. For discussions of this conflict, see generally Kenneth C. Shadlen, *The Political Contradictions of Incremental Innovation: Lessons from Pharmaceutical Patent Examination in Brazil*, 39 POL. & SOC'Y 143 (2011); Kenneth C. Shadlen, *The Rise and Fall of "Prior Consent" in Brazil*, 3 WIPOJ. 103 (2011).

290. See Felipe Carvalho, *Brazil and the Defence of Public Health: Do as I Say, Not as I Do*, INTELL. PROP. WATCH (Feb. 17, 2011, 3:30 PM), <http://www.ip-watch.org/weblog/2011/02/17/brazil-and-the-defence-of-public-health-do-as-i-say-not-as-i-do> (reporting the October 2010 decision of the *Advocacia Geral da União* that undermined ANVISA's prior consent mechanism).

consideration is especially important in inquiries concerning the country's overall minimum standard of treatment.

As far as intellectual property investments are concerned, host states contribute to their overall protections through inputs within and outside the system. Those inputs that are within the system include the establishment of registration, examination, and enforcement infrastructures. Those outside the system include concessions offered to compensate for weaker intellectual property protections, such as free lands, tax breaks, exemption from export custom duties, and preferential treatment on foreign exchange.²⁹¹

To be sure, the existence of concessional benefits outside the intellectual property system does not reduce the host state's obligation under an international investment agreement. Nevertheless, ISDS arbitrators should take those benefits into account if they are to obtain a more complete picture of what attracts foreign intellectual property rights holders to invest in the first place. After all, if intellectual property rights were as strong as the claimants expected them to be, offsetting contributions would not have been needed in the first place.²⁹²

3. *International investment agreements and other multilateral obligations*

The final set of conceptual improvements concerns the interrelationship between an international trade or investment agreement containing ISDS, such as the TPP Agreement, and the host state's other, and often preexisting, multilateral obligations. These obligations include those under the TRIPS Agreement, the

291. See sources cited *supra* note 127.

292. For example, many transnational corporations outsource their operations to China because of location advantages unrelated to intellectual property protection. See Maskus, *Role of Intellectual Property Rights*, *supra* note 57, at 128–29 (noting that, if strong intellectual property protection and enforcement attracted foreign investors, “recent FDI flows to developing economies would have gone largely to sub-Saharan Africa and Eastern Europe . . . [rather than] China, Brazil, and other high-growth, large-market developing economies with weak IPRs” (footnotes omitted)); see also CATHERINE SUN, CHINA INTELLECTUAL PROPERTY FOR FOREIGN BUSINESS 4–5 (2004) (noting that many major Western companies, such as Coca-Cola, Kodak, Motorola, and Procter & Gamble, have enjoyed substantial profits for years despite the country's serious piracy and counterfeiting problems and that improvements in intellectual property protection will merely “increas[e the] already acceptable profit ratios,” rather than providing profitability in the first place); Yu, *From Pirates to Partners II*, *supra* note 88, at 983 (“[F]or those companies that have successfully adapted to the local market environment, rampant piracy and counterfeiting problems, though annoying, did not affect their ability to make profits.”).

Convention on Biological Diversity,²⁹³ the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from Their Utilization,²⁹⁴ the World Health Organization Framework Convention on Tobacco Control,²⁹⁵ and international and regional human rights treaties.²⁹⁶

When efforts are needed to fill in the gap, ISDS arbitrators may want to look at the developments in not only the host state and the investor's home state but also third states. National laws can indeed provide useful guideposts. In their book, Graeme Dinwoodie and Rochelle Dreyfuss called for the recognition of an international intellectual property *acquis*²⁹⁷—which they defined as “a set of basic principles that form the background norms animating the intellectual property system.”²⁹⁸ Aiming to clarify the normative underpinnings of intellectual property law and policy, this *acquis* would draw from not only international intellectual property treaties but also “national . . . intellectual property law along with associated jurisprudence and scholarship.”²⁹⁹ As Professors Dinwoodie and Dreyfuss explained,

[This *acquis*] would crystallize the international commitment to intellectual property protection. It would include both express and latent components of the international regime, put access-regarding guarantees on a par with proprietary interests, and enshrine the fundamental importance of national autonomy and national treatment. Although it is unlikely that the intellectual property system will ever be centrally administered in the manner of a true federal system, the *acquis* would facilitate a neofederalist

293. Convention on Biological Diversity, June 5, 1992, 1760 U.N.T.S. 79.

294. Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from Their Utilization, Oct. 29, 2010, <http://www.cbd.int/abs/doc/protocol/nagoya-protocol-en.pdf>.

295. World Health Organization Framework Convention on Tobacco Control, May 21, 2003, 2302 U.N.T.S. 166.

296. For discussions of the interplay between investment law and human rights, see generally MOUYAL, *supra* note 76, at 140–57; Pierre-Marie Dupuy & Jorge E. Viñuales, *Human Rights and Investment Disciplines: Integration in Progress*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 1739; Bruno Simma & Theodore Kill, *Harmonizing Investment Protection and International Human Rights: First Steps Towards a Methodology*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 678; Ernst-Ulrich Petersmann, *The Impact of Human Rights on International Investment Law and Investor-State Arbitration*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 877.

297. See GRAEME B. DINWOODIE & ROCHELLE C. DREYFUSS, A NEOFEDERALIST VISION OF TRIPS: THE RESILIENCE OF THE INTERNATIONAL INTELLECTUAL PROPERTY REGIME 175–203 (2012).

298. *Id.* at 176.

299. *Id.* at 177.

vision because it would coordinate international lawmaking while giving due regard to the role of nation-states in that process.³⁰⁰

To a large extent, the approach proposed in this Section is not that different from what the TPP negotiators have already developed in the investment chapter. For instance, Article 9.8.5 states that the provision on expropriation and compensation

shall not apply to the issuance of compulsory licences 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 the issuance, revocation, limitation or creation is consistent with Chapter 18 (Intellectual Property) and the TRIPS Agreement.³⁰¹

Article 9.3.1 further states that “[i]n the event of any inconsistency between this Chapter and another Chapter of this Agreement, the other Chapter shall prevail to the extent of the inconsistency.”³⁰² Thus, if inconsistencies arise between the TPP investment and intellectual property chapters, the latter shall prevail to the extent of those inconsistencies.

Notwithstanding these similarities, the approach proposed in this Section will take a holistic perspective. It will take into account the many obligations the host state has already assumed under other multilateral agreements.³⁰³ To make explicit the host state’s duty to interpret international agreements in good faith (*pacta sunt servanda*),³⁰⁴ TPP partners should consider writing into the ISDS arbitrators’ code of conduct a requirement that arbitrators consider a host state’s broad

300. *Id.* at 203.

301. TPP Agreement, *supra* note 6, art. 9.8.5.

302. *Id.* art. 9.3.1.

303. *See* Miles, *supra* note 109, at 296 (“There is . . . a need for greater engagement with principles from other areas of international law. Although international investment agreements do not exist in a vacuum, the logical consequences of this appreciation are not often embraced in arbitral awards or investment treaty negotiation. If they were, we would already have seen the development of more socially and environmentally responsible norms of international investment law—and more emphasis on protecting the host state’s right to regulate in the public interest.”); Okediji, *Is Intellectual Property “Investment”?*, *supra* note 25, at 1129 (noting that “an interpretation of NAFTA’s provisions must take place in the broader context of this network of treaties”).

304. *See* Vienna Convention on the Law of Treaties art. 26, May 23, 1969, 1155 U.N.T.S. 331 (“Every treaty in force is binding upon the parties to it and must be performed by them in good faith.”); Restatement (Third) of Foreign Relations Law § 321 (1987) (“Every international agreement in force is binding upon the parties to it and must be performed by them in good faith.”).

multilateral commitments. Such consideration can draw on the principles of the Vienna Convention on the Law of Treaties.³⁰⁵

B. Institutional Improvements

Section IV.A identifies three sets of conceptual improvements that are either directly or substantially related to intellectual property investments. This Section turns to their institutional counterparts that can help strengthen ISDS in regard to all forms of investments, including those in the intellectual property field. This Section discusses three institutional improvements in turn.

1. Advisory Center on Investor-State Disputes

The first institutional improvement concerns the need for an Advisory Center on Investor-State Disputes (“ACISD”),³⁰⁶ similar to the Advisory Centre on WTO Law (“ACWL”). Based in Geneva, the latter provides to the developing and least developed country members of the WTO “free advice and training on all aspects of WTO law, as well as assistance in WTO dispute settlement proceedings.”³⁰⁷ As the Centre explained in its guide,

Over the past 20 years, WTO law has become increasingly complex. While most developed countries have “in-house” legal expertise that enable[s] them to understand WTO law and to participate fully in the WTO legal system, most developing countries and LDCs [least developed countries] do not. Thus, the ACWL was created

305. Vienna Convention on the Law of Treaties, May 23, 1969, 1155 U.N.T.S. 331. For detailed discussions of the use of the Vienna Convention in TRIPS disputes, see generally Susy Frankel, *WTO Application of “the Customary Rules of Interpretation of Public International Law” to Intellectual Property*, 46 VA. J. INT’L L. 365, 384–90 (2006); Daya Shanker, *The Vienna Convention on the Law of Treaties, the Dispute Settlement System of the WTO and the Doha Declaration on the TRIPs Agreement*, 36 J. WORLD TRADE 721, 723–36 (2002).

306. Other commentators have advanced similar proposals. As Anna Joubin-Bret recounted,

The idea to establish an international centre to provide advice and defence services for states in international investment disputes is not new. It has been proposed and discussed by several Latin American states following the example of the successful Advisory Centre on WTO Law (ACWL) established to provide advice and defence services to states in [WTO] disputes.

JOUBIN-BRET, *supra* note 72, at 1; *see also id.* (calling for the establishment of an International Advisory Centre for Investment Disputes to provide assistance in defending investor-state disputes).

307. ADVISORY CENTRE ON WTO LAW, THE SERVICES OF THE ACWL 2 (n.d.), http://www.acwl.ch/download/ql/Services_of_the_ACWL.pdf.

to provide these countries with this legal capacity and to help them to understand fully their rights and obligations under WTO law.

At present, 74 countries—roughly half of the membership of the WTO—are entitled to the services of the ACWL. Since its establishment in 2001, the ACWL has provided these countries with over 1800 legal opinions free of charge, has conducted twelve annual training courses for Geneva-based delegates, and has trained 23 lawyers as part of its Secondment Programme for Government lawyers. In addition, it has assisted developing countries and LDCs in 44 WTO dispute settlement proceedings at modest fees. Thus, the ACWL has become an organisation that pools the collective experience of developing countries and LDCs in WTO legal matters and makes that expertise available to each of those countries.³⁰⁸

In the past two decades, ACWL has provided assistance to a large number of developing countries, including Bangladesh, Brazil, Chad, Chinese Taipei, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Nicaragua, Pakistan, Panama, Paraguay, Peru, the Philippines, Thailand, and Vietnam.³⁰⁹

Within the TPP, the establishment of an ACISD would be critically important, considering the Agreement's failure to offer special and differential treatment to poor TPP partners,³¹⁰ despite what policymakers and commentators have long advocated.³¹¹ After all, TPP partners are of varying sizes and economic strengths. While the United States and Japan had GDP per capita of \$55,836.79 and \$32,477.22 in 2015, respectively, the World Bank estimated that the comparable figures for Peru and Vietnam were only \$6027.13 and \$2111.14,

308. *Id.*

309. *WTO Disputes: Assistance in WTO Dispute Settlement Proceedings Since July 2001*, ADVISORY CENTRE ON WTO LAW, <http://www.acwl.ch/wto-disputes> (last visited Feb. 5, 2017).

310. The TPP Agreement does offer transition periods to select partners. Its intellectual property chapter, for example, offers transition periods to six of the twelve TPP partners—namely, Brunei Darussalam, Malaysia, Mexico, New Zealand, Peru, and Vietnam. See TPP Agreement, *supra* note 6, art. 18.83.4.

311. As Lim Chin Leng, Deborah Elms, and Patrick Low observed,

One of the unusual elements of the TPP is the fact that the members of the TPP represent a range of economic development, from the world's largest economy to a lower middle income economy. While members have been clear that the TPP will not have any sort of "two-speed" or explicit special and differential . . . treatment for developing country members, it is true that the final Agreement will need to have some provisions to account for the developmental aspects of some members.

C.L. Lim et al., *What Is "High-Quality, Twenty-First Century" Anyway?*, in TRANS-PACIFIC PARTNERSHIP, *supra* note 167, at 3, 12.

respectively.³¹² As a result, Peru and Vietnam are unlikely to have the same financial flexibility to handle investor-state disputes as the United States and Japan. These two poorer countries are also unlikely to have the same legal capacity to achieve success through ISDS.³¹³

2. *Small-claims procedure*

The second institutional improvement concerns the need for a small-claims procedure within the ISDS mechanism. This proposal builds on the proposal Håkan Nordström and Gregory Shaffer advanced a few years ago on the development of such a procedure within the WTO.³¹⁴ That earlier proposal sought to enable developing countries to make greater use of the WTO dispute settlement process. It further called for the provision of legal aid “by offering Members

312. *GDP per Capita (Current US\$)*, WORLD BANK, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (last visited Feb. 5, 2017).

313. As Kyla Tienhaara noted,

[W]hile hiring outside counsel can be advantageous, it may not always be a feasible option for developing countries. Large law firms often have long-term relationships with multinational corporations and such relationships may prevent a firm from representing a developing country in an investor-State dispute. If a law firm is available, the next question becomes whether a developing country can afford its services. [Eric] Gottwald notes that the hourly rates for lawyers in elite firms can range from US\$400 to US\$600.

When a team of lawyers is retained for arbitral proceedings that are drawn out over a period of several years, the result can be a colossal legal bill.

Tienhaara, *supra* note 132, at 612 (citing Eric Gottwald, *Leveling the Playing Field: Is It Time for a Legal Assistance Center for Developing Nations in Investment Treaty Arbitration?*, 22 AM. U. INT'L L. REV. 237 (2007)); *see also* Dreyfuss & Frankel, *supra* note 26, at 600 (“[The provision of] defense attorneys . . . would be particularly helpful for IP, because their availability could correct the current imbalance between developed and undeveloped countries in dispute resolution. Because most of the disputes are among the developed countries that can afford to be involved in these cases, the range of flexibilities considered are limited to those necessary to win.”); Franck, *Development and Outcomes*, *supra* note 106, at 484 (“A legal assistance center for developing countries could provide strategic advice to enhance the quality of arbitration and eliminate disparities in outcome related to development status.”).

314. *See* Håkan Nordström & Gregory Shaffer, *Access to Justice in the WTO: A Case for a Small-Claims Procedure?*, in DEVELOPING COUNTRIES IN THE WTO LEGAL SYSTEM 191 (Chantal Thomas & Joel P. Trachtman eds., 2009) (building the case for a small claims procedure within the WTO); *see also* Bernard M. Hoekman & Petros C. Mavroidis, *WTO Dispute Settlement, Transparency and Surveillance*, 23 WORLD ECON. 527, 536 (2000) (“Many cases that involve developing countries will generally pertain to relatively small trade volumes. Another way of recognising resource constraints is to consider adopting ‘light’ dispute settlement procedures for ‘small’ cases brought by developing countries (e.g., where the exports constitute less than one per cent of apparent consumption in the importing market).”).

legal counsel funded out of the regular WTO budget or a designated legal aid fund.”³¹⁵ As Professors Nordström and Shaffer explained,

What is insignificant for some Member states is highly significant to others. A million dollars in foregone export revenue may not matter much for the European Union or the United States; it would only be a few seconds worth of exports. For small developing countries like Burundi, Gambia, and Guinea-Bissau, on the other hand, \$1 million corresponds to about 1.45 percent of annual exports, or put in relationship to national income, between 0.17 and 0.42 percent of gross domestic product Forgone export revenue of this magnitude would not be a small order for them.

What is “small” is thus a relative concept. Yet the WTO Dispute Settlement . . . system does not take into account the inherent variation in exports across the WTO’s membership. A case worth \$1 million is treated in the very same way (at least formally) as a case worth \$1 billion. The timetable is the same, the submission requirements are the same, the standard of proof is the same, the appeal procedures are the same; *everything* is the same unless the parties opt for the alternative resolution mechanisms offered by the [Dispute Settlement Understanding]³¹⁶

Professors Nordström and Shaffer’s proposal for developing a small-claims procedure within the WTO could be used to improve the ISDS process in the TPP or other international trade or investment agreements. As noted earlier, the high costs of ISDS arbitrations will not only be immensely burdensome on host states in the developing world, but it will also virtually guarantee that most developing country businesses will be unable to afford ISDS arbitrations—other than to file, or threaten to file, ISDS complaints, perhaps. To avoid this grossly unfair arrangement and the one-sided benefits that the ISDS mechanism presently provides, establishing a small-claims procedure within this mechanism will be quite urgent.

3. *Appellate mechanism*

The final institutional improvement concerns the need for an appellate mechanism. As Cynthia Ho observed in regard to the problems raised by a lack of such a mechanism in ISDS proceedings,

A major complaint is that the system results in inconsistent decisions because there is no binding precedent, tribunals interpret provisions broadly, and there is no appeal system. Although tribunals often rely on prior decisions and awards, and counsel for

315. Nordström & Shaffer, *supra* note 314, at 195.

316. *Id.* at 193.

parties regularly cite prior decisions, the lack of hierarchy among tribunals as compared to traditional court systems, as well as the lack of an appellate system, may result in unpredictability.³¹⁷

Moreover, some commentators suggested that an appellate mechanism could provide some important benefits to investors, considering that they “historically have lost more often than they have won in investor-State arbitration.”³¹⁸ Nevertheless, only time will tell whether the appellate mechanism, once established, will be eager to overturn ISDS decisions as these commentators have surmised.

At the time of the TPP negotiations, the participating countries already anticipated the future need of an appellate mechanism. Given the language built into the TPP Agreement, the discussion of this mechanism is inevitably different from the discussion of the first two improvements, which the Agreement neither covers nor anticipates. Article 9.23.11 of the TPP Agreement explicitly declares,

In the event that an appellate mechanism for reviewing awards rendered by investor-State dispute settlement tribunals is developed in the future under other institutional arrangements, the Parties shall consider whether awards rendered under Article 9.29 (Awards) should be subject to that appellate mechanism. The Parties shall strive to ensure that any such appellate mechanism they consider adopting provides for transparency of proceedings similar to the transparency provisions established in Article 9.24 (Transparency of Arbitral Proceedings).³¹⁹

The conditional language in this provision suggests that the TPP negotiators did not oppose the introduction of an appellate mechanism. Instead, they might have merely failed to reach a consensus within the limited negotiation time on how this mechanism was to be set up or whether the mechanism was needed in the first place.³²⁰ The proverbial door therefore remains open.

The choice of language in the TPP Agreement regarding the possible future development of an appellate mechanism is consistent with the

317. Ho, *supra* note 22, at 234.

318. Barton Legum, *Appellate Mechanisms for Investment Arbitration: Worth a Second Look for the Trans-Pacific Partnership and the Proposed EU-U.S. FTA?*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 75, at 437, 441.

319. TPP Agreement, *supra* note 6, art. 9.23.11 (emphasis added).

320. Compare Hans von der Burchard, *EU Faces Tough Sell on TTIP Compromise*, POLITICO (Feb. 10, 2016), <http://www.politico.eu/article/eu-faces-tough-sell-on-ttip-compromise-malmstroem-froman> (reporting that USTR Michael Froman “question[ed] the need for the appeal tribunal”), with 19 U.S.C. § 3802(b)(3)(G)(iv) (2012) (including among the U.S. principal negotiating objectives regarding foreign investment the “provi[sion] for an appellate body or similar mechanism to provide coherence to the interpretations of investment provisions in trade agreements”).

ongoing negotiation of the Transatlantic Trade and Investment Partnership (T-TIP), a pact that has been widely considered to be the TPP's trans-Atlantic counterpart.³²¹ During the negotiations, the European Commission advanced a proposal for the establishment of an investment court system, which includes an Appeal Tribunal that consists of two members each from the European Union, the United States, and third countries.³²² It remains to be seen whether the United States will be receptive to this proposal, or even whether the Trump administration will continue the T-TIP negotiations.

To a large extent, the proposal for developing an appellate mechanism in the TPP Agreement is similar to the proposals that commentators have thus far advanced, which range from the creation of an ISDS court to the development of an appellate mechanism similar to the WTO Appellate Body.³²³ Such an appellate mechanism

321. *E.g.*, Hans Kundnani, *TTIP Must Die So That the West Can Live*, FOREIGN POL'Y (May 13, 2016), <http://foreignpolicy.com/2016/05/13/ttip-tpp-eu-trade-obama-asia>; David Lawder, *EU Trade Chief: U.S. Campaign Rhetoric Won't Stop TTIP Trade Talks*, REUTERS (Mar. 10, 2016, 12:52 AM), <http://www.reuters.com/article/us-trade-europe-usa-idUSKCN0WC0GU>.

322. *See* EUROPEAN UNION'S PROPOSAL FOR INVESTMENT PROTECTION AND RESOLUTION OF INVESTMENT DISPUTES § 3, art. 10.2 (2015), http://trade.ec.europa.eu/doclib/docs/2015/november/tradoc_153955.pdf; *see also* Stephan W. Schill, *The European Commission's Proposal of an "Investment Court System" for TTIP: Stepping Stone or Stumbling Block for Multilateralizing International Investment Law?*, ASIL INSIGHTS (Apr. 22, 2016), <https://www.asil.org/insights/volume/20/issue/9/european-commissions-proposal-investment-court-system-ttip-stepping> (discussing the European Commission's proposal).

323. *See* Dreyfuss & Frankel, *supra* note 26, at 601 (supporting "the creation of a central appellate body for investment disputes to address both consistency and substantive issues, on the theory that it would have the same appreciation for IP rationales as [Robert] Howse suggests the Appellate Body would have for public-regarding principles"); Ho, *supra* note 22, at 235 ("To combat these shortcomings there have been many proposals to reform the current system for investor-state disputes. Many have suggested some type of appellate body to address the problem of inconsistent as well as expansive interpretations of identical provisions. Alternatively, some suggest replacing private arbiters with an international investment court to promote impartiality and independence."); Ieva Kalnina & Domenico Di Pietro, *The Scope of ICSID Review: Remarks on Selected Problematic Issues of ICSID Decisions*, in INTERNATIONAL INVESTMENT LAW, *supra* note 76, at 221, 245–46 (discussing the potential creation of an ICSID Appeals Body); Okediji, *Is Intellectual Property "Investment"?*, *supra* note 25, at 1137 (calling for the provision of "a form of appellate review for investor-state disputes involving intellectual property, such as the type that exists in the WTO system or in national law"); Asif H. Qureshi, *An Appellate System in International Investment Arbitration?*, in OXFORD HANDBOOK, *supra* note 77, at 1154 (discussing the expediency and feasibility of having an appellate system in international investment arbitration); Reinisch, *supra* note 76, at 910–11 (discussing the need for an appellate mechanism in investment arbitration). For a collection of

will be particularly attractive if policymakers, commentators, and civil society organizations remain concerned about the “development bias”³²⁴ of ISDS arbitrators. As Susan Franck reasoned,

If outcome is linked to the development status of the presiding arbitrator and there is disparate pressure to favor the developed world, having standing judges with secure tenures may enhance integrity and independence. In order to eliminate pressure to join a club or secure repeat appointments, a standing body could provide judicial oversight and create an environment that favors rule of law adjudication. Moreover, such an institution could foster the judicialization of international economic law and provide a backstop to create certainty about contested legal issues, thereby increasing the integrity of the dispute resolution system.³²⁵

Given the wide range of proposals that experts have provided, many models now exist to improve the TPP ISDS mechanism. One model worth considering is the inclusion of some previous WTO panelists or Appellate Body members in the appellate mechanism.³²⁶ Such a cross-institutional setup will not only enhance the mechanism’s quality but will further promote coherence³²⁷ and cross-fertilization³²⁸ between the ISDS process and the WTO dispute

articles on the development of an appellate mechanism within ISDS, see generally RESHAPING THE ISDS SYSTEM, *supra* note 75, at 403–505.

324. Franck, *Development and Outcomes*, *supra* note 106, at 451.

325. *Id.* at 484.

326. Other commentators have similar suggestions. See, e.g., Theodore R. Posner & Marguerite C. Walter, *The Abiding Role of State-State Engagement in the Resolution of Investor-State Disputes*, in RESHAPING THE ISDS SYSTEM, *supra* note 75, at 381, 389–91 (discussing the use of state-to-state dispute settlement to support ISDS); Andreas R. Ziegler, *Investment Law in Conflict with WTO Law?*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 30, at 1784, 1800 (“[I]t may be useful to encourage arbitrators and the members of judicial bodies of multilateral organizations like the WTO and ICSID to refer to each other’s case law and engage in a judicial debate. This could avoid the scenario where each system operates in clinical isolation and would certainly be beneficial for the development of an inter-institutional debate on special issues affecting global trade and investment flows.”).

327. See Appellate Body Report, *United States—Standards for Reformulated and Conventional Gasoline*, WTO Doc. WT/DS2/AB/R, at 17 (Apr. 29, 1996) (declaring that “the *General Agreement [on Tariffs and Trade]* is not to be read in clinical isolation from public international law”); RESOURCE BOOK ON TRIPS AND DEVELOPMENT, *supra* note 125, at 130 (noting that, in *United States—Import Prohibition on Certain Shrimp and Shrimp Products*, the Appellate Body “moved firmly away from the notion of the WTO as a ‘self-contained’ legal regime”); Ho, *supra* note 22, at 247 (“[I]f investor-state disputes could challenge TRIPS-consistent decisions, there is a risk of decisions inconsistent with the built-in dispute resolution process of TRIPS.”).

328. See SUBEDI, *supra* note 34, at 158 (“Foreign investment law is . . . influenced by cross-fertilisation from other areas of public international law, especially those

settlement process. Such coherence and cross-fertilization will ensure the healthy development of the international intellectual property regime.³²⁹ They will also be particularly important in light of the increasing use of parallel proceedings to challenge intellectual property and intellectual property-related regulations in developing countries,³³⁰ such as those via the WTO and ISDS.³³¹ Indeed, in intellectual property-related investor-state disputes, ISDS arbitrators will increasingly have to address questions concerning the extent of protection and limitation as provided in the TRIPS Agreement.

Thus far, some commentators have already called for the exclusion of intellectual property investments in ISDS.³³² Although international investment agreements generally define investment broadly to cover all forms of investments, it is not unusual to exclude certain unique forms of investments from ISDS. In the TPP Agreement, for example, Article 9.3.3 states specifically that the investment chapter “shall not apply to measures adopted or maintained by a Party to the extent that they are covered by Chapter 11 (Financial Services).”³³³ If a carve-out can be created for financial

relating to human rights and environmental protection, as well as certain fundamental principles of international economic law such as the principle of economic self-determination of states, the right to develop, and the permanent sovereignty of states over their natural resources.”).

329. See Peter K. Yu, *International Enclosure, the Regime Complex, and Intellectual Property Schizophrenia*, 2007 MICH. ST. L. REV. 1, 18 (noting the growing “focus on the coherence of intellectual property policies, in addition to the maintenance of balance and flexibility in those policies”).

330. See Kalderimis, *supra* note 198, at 58 (discussing the various cases in which the “the same dispute has triggered both WTO and arbitration procedures”).

331. See discussion *supra* notes 13–17 (providing an example of parallel proceedings relating to efforts to challenge the plain-packaging regulations for tobacco products in Australia); see also Katia Yannaca-Small, *Parallel Proceedings*, in OXFORD HANDBOOK, *supra* note 77, at 1008 (discussing parallel proceedings in investment arbitration).

332. See, e.g., Baker & Geddes, *supra* note 151, at 58 (proposing “to rewrite the [TPP] Investment Chapter to explicitly exclude IPRs and to clarify that IPRs are not even indirectly protected by the definition of ‘investment’”); Ho, *supra* note 22, at 255 (“Intellectual property should be excluded from investor-state arbitration because providing enhanced protection of IP does not satisfy traditional justifications for investment arbitrations.”); Flynn, *supra* note 211 (“Tobacco should be carved out of free trade agreements. But so should all other claims of ‘indirect’ expropriation of expected profits of a company through health and safety regulations, including the regulation of intellectual property. At minimum, the treating of the IP chapter differently than all other substantive chapters (which remain subject only to state to state adjudication) needs to be fixed.”).

333. TPP Agreement, *supra* note 6, art. 9.3.3.

services—and, upon election, tobacco control measures³³⁴—a similar carve-out can certainly be created for intellectual property rights, at least when there is enough political will.

Notwithstanding the possibility of creating such a carve-out, it is worth remembering that ISDS is attractive to private investors because it provides finality.³³⁵ The more steps there are in a process—appellate or otherwise—the longer it will take for a dispute to be finally resolved. Ultimately, whether an appellate mechanism should be introduced will depend on how efficiency and expedition are to be balanced against fairness and legitimacy. Given the high stakes involved in ISDS arbitrations and the arbitrations' controversial nature and continuous opposition, having an appellate mechanism built into the ISDS process to ensure greater fairness and legitimacy is eminently sensible.

V. SILVER LININGS

The previous Part proposed a wide variety of conceptual and institutional improvements to address the weaknesses of ISDS. Although these improvements were created with the TPP Agreement in mind, the analysis is equally applicable to the T-TIP Agreement or other international trade or investment agreements containing ISDS. In fact, the application to the latter set of agreements is particularly attractive considering that those agreements have not yet been finalized and the ISDS mechanism they contain can be further improved.

One question that has not yet been asked in this Article is how bad the TPP ISDS mechanism will be if it is introduced without the improvements

334. See *id.* art. 29.5 (providing a carve-out for tobacco control measures). See generally Matthew Rimmer, *Plain Packaging for the Pacific Rim—Tobacco Control and the Trans-Pacific Partnership*, in *TRADE LIBERALISATION AND INTERNATIONAL CO-OPERATION: A LEGAL ANALYSIS OF THE TRANS-PACIFIC PARTNERSHIP AGREEMENT* 75 (Tania Voon ed., 2014) (discussing tobacco control measures in relation to the TPP negotiations).

335. See Chester Brown & Kate Miles, *Introduction: Evolution in Investment Treaty Law and Arbitration*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 127, at 3, 11 (“[I]nvestment arbitration has, until recently, been characterised by an approach traditionally seen in international commercial arbitration, being that of a simple desire for a quick and inexpensive decision to resolve the dispute.”); Kalnina & Di Pietro, *supra* note 323, at 245–46 (“The main disadvantages [of the creation of the ICSID Appeals Body] include jeopardy of the principle of finality, which has always been considered among the main advantages of arbitration over judicial settlement”); Jaemin Lee, *Introduction of an Appellate Review Mechanism for International Investment Disputes: Expected Benefits and Remaining Tasks*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 75, at 474, 493 (“[T]he benefit of arbitration lies in the promptness of the proceedings; this should not be undermined for the sake of having an appellate system.”).

proposed in this Article. More positively, given the weaknesses already documented in Parts II and III, can there be any silver linings for this mechanism? This Part seeks to answer this particular question, with a focus on developing countries—countries that the current version of the TPP ISDS mechanism will harm the most.

That ISDS has so many weaknesses and flaws certainly has made it difficult to locate silver linings. Nevertheless, as Part III points out, the TPP investment chapter did introduce some substantive and procedural safeguards to help improve ISDS.³³⁶ Even if this improved mechanism remains problematic for host states in the developing world, the TPP upgrades will provide at least some benefits. This Part discusses in turn four sets of benefits.

A. *Baseline for Minimum ISDS Safeguards*

The first set of benefits concerns the minimum safeguards in the ISDS process. Just as the TPP investment chapter has ratcheted up the standards of intellectual property protection and enforcement by allowing private investors to use ISDS to resolve international intellectual property disputes,³³⁷ this chapter has also raised the baseline expectations for substantive and procedural safeguards in the ISDS process.

Thus, if developing countries remain concerned about the demands for ISDS in new international trade or investment agreements, they should use the safeguards in the TPP investment chapter as the negotiation floor. In doing so, they will be able to demand safeguards that go beyond what the TPP Agreement provides. They will also be able to use the TPP investment chapter as a benchmark for the minimum safeguards that should be included in any international trade or investment agreement containing ISDS. Given the developing countries' difficulty in coming up with safeguards in a vacuum, the existence of the TPP safeguards and the related textual language is particularly useful.

B. *Protection of Developing Country Investments*

The second set of benefits pertains to the protection of intellectual property investments from developing countries. ISDS is likely to be useful for not only the intellectual property rights now enshrined in the TPP Agreement or the TRIPS Agreement but also other types of intellectual property rights that may be recognized in the future. As

336. See discussion *supra* Part III.

337. See *supra* text accompanying notes 139–55.

long as businesses in developing countries hold these rights, ISDS will benefit them.

Contrary to what many have believed,³³⁸ ISDS does not discriminate between the intellectual property investments of developed countries and those of developing countries. ISDS harms the latter group of countries so significantly because this group does not obtain the same range of benefits from the intellectual property system as its developed counterpart.³³⁹ ISDS merely perpetuates—and, at times, amplifies—the inequitable intellectual property system enshrined in the TRIPS Agreement and TRIPS-plus bilateral, regional, and plurilateral trade agreements.³⁴⁰

Interestingly, and somewhat counterintuitively, enforcement—including enforcement through ISDS—is an area where developed and developing countries can reach some common ground.³⁴¹ At the moment, developing countries hesitate to support stronger enforcement because they see limited benefits from such enforcement. Their view, however, may change in the future if the intellectual property system starts offering stronger protection to the developing countries' intellectual property interests. Possible benefits to these countries include greater protection of genetic resources, traditional knowledge, and traditional cultural expressions, as well as the expansion of geographical indications to cover such food products as Basmati rice and Darjeeling tea.³⁴²

338. *E.g.*, Rick Rowden, *9 Ways TPP Is Bad for Developing Countries*, FOREIGN POL'Y (July 7, 2015, 12:58 PM), <http://foreignpolicy.com/2015/07/07/9-ways-the-tpa-is-bad-for-developing-countries>.

339. *See* Biadgleng, *supra* note 53, at 1 (“[T]he industries in developing countries that do not have significant assets allocated in different jurisdictions do not gain a comparable advantage from these agreements.”).

340. *See supra* text accompanying notes 139–55.

341. *See* Peter K. Yu, *Cultural Relics, Intellectual Property, and Intangible Heritage*, 81 TEMP. L. REV. 433, 453 (2008) [hereinafter Yu, *Cultural Relics*] (“[B]ecause of the importance of enforcement in [the areas of online and offline piracy], enforcement issues may provide a promising opportunity for both developed and less-developed countries to cooperate.”); Peter K. Yu, *Enforcement: A Neglected Child in the Intellectual Property Family*, in THE INTERNET AND THE EMERGING IMPORTANCE OF NEW FORMS OF INTELLECTUAL PROPERTY 279, 299 (Susy Frankel & Daniel Gervais eds., 2016) (“[E]nforcement is actually one area in which developed and developing countries can team up with each other.”).

342. *Cf.* KEITH E. MASKUS, INTELLECTUAL PROPERTY RIGHTS IN THE GLOBAL ECONOMY 239 (2000) (noting the developing countries' demand for greater protection of geographical indications relating to “food products that could be protected to their advantage, such as Basmati rice and Darjeeling tea”).

In the ISDS context, the protection of traditional knowledge will present some inevitable challenges considering that such protection is generally introduced to address biopiracy.³⁴³ Instead of protecting foreign investors against uncompensated expropriation by the host state—a primary goal of ISDS—traditional knowledge protection shields the host state’s indigenous population from the expropriation of indigenous materials by foreign investors. Nevertheless, if traditional knowledge can be protected (and commodified) as intellectual property rights and if businesses holding those rights can have foreign investments, ISDS will allow these businesses to sue host states in the developed world the same way it allows transnational corporations to sue host states in the developing world.

To be sure, the above scenario is only possible when businesses holding traditional knowledge can make foreign investments in developed countries and when such knowledge is protected as an intellectual property right. Nevertheless, even if this scenario fails to materialize, ISDS does not favor the intellectual property rights of developed countries at the expense of their developing country counterparts. Indeed, other than privileging resourceful countries, ISDS has been fairly neutral to disputing parties.

C. *Reduced Volume of WTO Disputes*

The third set of benefits relates to the reduced use of the WTO dispute settlement process. Commentators have noted how transnational corporations have successfully worked with developed country governments to push for intellectual property reforms³⁴⁴ as well as successful WTO panel decisions.³⁴⁵ However, enough evidence has also shown that governments do not always meet the specific demands of domestic industries³⁴⁶ due partly to the overall trade picture and partly to other political and non-political considerations.³⁴⁷

343. For discussions of biopiracy, see generally sources cited in Yu, *Cultural Relics*, *supra* note 341, at 481 n.266.

344. See Paul C.B. Liu, *U.S. Industry’s Influence on Intellectual Property Negotiations and Special 301 Actions*, 13 UCLA PAC. BASIN L.J. 87, 87 (1994) (discussing the operation of the Section 301 process and how it relates to U.S. trade negotiations).

345. See GREGORY C. SHAFFER, *DEFENDING INTERESTS: PUBLIC-PRIVATE PARTNERSHIPS IN WTO LITIGATION* (2003) (discussing the partnerships between developed country governments and transnational corporations in WTO litigation).

346. See Dreyfuss & Frankel, *supra* note 26, at 572 (“In the WTO, states decide whether to bring a dispute to the [Dispute Settlement Body]. They may decline to pursue a perceived injury for political or policy reasons.”); Yu, *From Pirates to Partners II*, *supra* note 88, at 923–26 (noting that the USTR initially took a “wait-and-see”

In the trade arena, the complex decision-making process required can be illustrated by China's creative response to the USTR's relentless push for greater intellectual property reforms in the mid-1990s.³⁴⁸ Although the USTR's strong-arm tactics since the late 1980s had resulted in the negotiation of four bilateral instruments in 1989, 1992, 1995, and 1996,³⁴⁹ China slowly improved its ability to respond to U.S. pressure. In the run-up to the last negotiation in spring 1996, Chinese Premier Li Peng went to France to sign a \$1.5 billion order for thirty short-haul Airbus planes.³⁵⁰

On the surface, this purchase was irrelevant to the United States' intellectual property demands. In reality, however, the Airbus order completely changed the cross-industry dynamics within the USTR. Even though the U.S. intellectual property industries claimed that trade sanctions were badly needed to protect against a *potential* \$2 billion loss in intellectual property-based goods and services,³⁵¹ the USTR was confronted with Boeing's *immediate* loss of \$1.5 billion worth of contracts to its European archrival (assuming that China would have purchased those planes from Boeing).³⁵² One can only imagine how difficult it was for the USTR to explain to Boeing executives (and

approach and refused to file a WTO complaint against China despite repeated complaints and demands from the business community).

347. See Dreyfuss & Frankel, *supra* note 26, at 573 (“[I]nvestment arbitration is initiated by the investor right holders. Geopolitical considerations and social welfare are not necessarily relevant to their decisions to demand arbitration, settle disputes, or make particular assertions.”).

348. See Peter K. Yu, *From Pirates to Partners: Protecting Intellectual Property in China in the Twenty-first Century*, 50 AM. U. L. REV. 131, 140–51 (2000) [hereinafter Yu, *From Pirates to Partners I*] (recounting the USTR's aggressive effort toward China in the late 1980s and early 1990s).

349. See Memorandum of Understanding Between the People's Republic of China and the United States on the Protection of Intellectual Property, May 19, 1989, China-U.S., reprinted in *PRC Agrees to Push for Copyright Law That Will Protect Computer Software*, WORLD INTELL. PROP. REP., July 1989, at 151; Memorandum of Understanding on the Protection of Intellectual Property, Jan. 17, 1992, China-U.S., T.I.A.S. No. 12036 (1995); Agreement Regarding Intellectual Property Rights, Feb. 26, 1995, China-U.S., 34 I.L.M. 881 (1995); China Implementation of the 1995 Intellectual Property Rights Agreement, June 17, 1996, China-U.S., http://tcc.export.gov/trade_agreements/all_trade_agreements/exp_005361.asp (last visited Feb. 5, 2017).

350. Yu, *From Pirates to Partners I*, *supra* note 348, at 168.

351. The potential loss in the intellectual property area is likely to be much lower than the industry's reported figures, which tend to overstate the ability or interest of the local people to purchase protected foreign products at stated retail prices. See *id.* at 175–76; WILLIAM P. ALFORD, TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION 129 n.13 (1995).

352. Yu, *From Pirates to Partners I*, *supra* note 348, at 168.

shareholders) why their company had to suffer to help reduce the loss experienced by the U.S. entertainment and software industries.

Obviously, in situations where the USTR hesitates to act on the industries' behalf, ISDS will benefit those industries by allowing them to file complaints without governmental participation. Nevertheless, their growing ability to file independent complaints without government assistance or intervention may eventually backfire on them by discouraging the government from filing WTO complaints on their behalves in the first place. After all, governments do not want to incur political capital if they can avoid it. Incurring such capital will become less worthwhile if private industries can obtain compensation themselves through ISDS.

Thus, in an unexpected way, ISDS may actually reduce the total volume of WTO disputes targeting developing countries. That some WTO disputes have been converted to ISDS disputes does not, in and of itself, become a benefit. Nevertheless, there are serious benefits to avoiding WTO disputes with developed country governments, such as the European Union or the United States. Being sued by Philip Morris is just not the same as being sued by the U.S. government, not to mention that states have historically won about sixty percent of those ISDS cases involving the final resolution of the underlying disputes.³⁵³

D. Benefits to Small and Medium-Sized Enterprises

The last set of benefits involves small and medium-sized enterprises ("SMEs"). Although the analysis of SMEs is highly important considering that many businesses in developing countries are SMEs, this analysis can go either way, and the benefits are somewhat unclear.

Commentators have widely debated the benefits of ISDS to SMEs. As the USTR declared in its fact sheet, "ISDS can be of particular benefit to [SMEs], which often lack the resources or expertise to navigate foreign legal systems and seek redress for injury at the hands of a foreign government. Indeed, SMEs and individuals have accounted for about half of all cases brought under international arbitration."³⁵⁴ Similarly, the Center for Strategic and International Studies stated in its report,

353. See Franck, *Development and Outcomes*, *supra* note 106, at 447 ("[G]overnments (57.7%) were more likely than investors (38.5%) to win cases and have no damages awarded for alleged treaty breaches."); Franck, *Using Investor-State Mediation Rules*, *supra* note 116, at 79 ("[T]he 144 publicly available awards (up to January 2012) where arbitrators ended up resolving a treaty dispute included 57 investor wins (where investors were awarded some form of damages) and 87 State wins (where States suffered US\$0 in a liability finding).").

354. *ISDS Fact Sheet*, *supra* note 36.

“[i]n the 105 disputes filed at ICSID by American investors, two-thirds of the participants in the arbitrations were individuals or SMEs [defined as business entities with fewer than 500 employees].”³⁵⁵ Despite these numbers, the high arbitration costs have led one to wonder what type of SME these statistics actually cover. Were the covered SMEs mostly from developed countries? Developed and emerging countries? Or developed, emerging, and developing countries?

Although ISDS may benefit SMEs in developed countries as well as those in China, India, and other large developing countries, it is very likely that the high arbitration costs will put SMEs in smaller developing countries at a significant disadvantage³⁵⁶ or even prevent them from filing ISDS complaints against their host states in the first place. Thus, it remains to be seen how beneficial ISDS will be to businesses in developing countries.

CONCLUSION

Although developing country policymakers, academic and policy commentators, and civil society organizations continue to strongly oppose the use of investment law in the intellectual property arena, it seems inevitable that such law will be used to resolve international intellectual property disputes. After all, many industries and their supportive governments have already viewed intellectual property protection through an investment lens. Thus, it will be only a matter of time before the investment-related aspects of intellectual property rights are emphasized to the same extent as the trade-related aspects of these rights.

Nevertheless, implementing the type of ISDS mechanism provided by the TPP Agreement is not a foregone conclusion. Even with the various substantive and procedural safeguards that the TPP Agreement has instituted to improve ISDS, the mechanism remains flawed. This Article therefore proposes both conceptual and institutional improvements to address these flaws.

Some readers will undoubtedly be more optimistic about the developing countries' prospects for resisting the use of ISDS in the intellectual property field. If they are right, the harm that ISDS generates will not materialize—or will, at least, be significantly

355. MILLER & HICKS, *supra* note 31, at 10.

356. Gus Van Harten & Pavel Malysheuski, *Who Has Benefited Financially from Investment Treaty Arbitration? An Evaluation of the Size and Wealth of Claimants* 12 (Osgoode Hall Law School Legal Studies Research Paper Series, Research Paper No. 14, 2016), <http://ssrn.com/abstract=2713876> (“ISDS appears to have created among smaller and unknown investors a small number of lucky winners and a much larger number of apparent losers.”).

curtailed. Regardless, it will be important to start thinking more deeply about the investment-related aspects of intellectual property rights. After all, policymakers, commentators, and civil society organizations are unlikely to propose solutions to improve ISDS if they just focus on how to keep ISDS outside the intellectual property field. By the time they realize that the mechanism cannot be kept outside the field, it will just be too late to start studying the investment-related aspects of intellectual property rights.

The arrival of the TRIPS Agreement and the application of trade rules to the intellectual property field have woken up many commentators and civil society organizations.³⁵⁷ The TPP Agreement and other TRIPS-plus trade or investment agreements containing ISDS are likely to do the same. Thus, it is high time we started preparing for the growing use of investment law in the intellectual property field. Greater preparation and engagement in this area will help us improve ISDS while enhancing our understanding of this highly controversial mechanism. For those who want to keep ISDS outside the intellectual property field, a deepened understanding will also strengthen our ability to resist the use of investment law in the intellectual property field.

357. See SELL, *supra* note 47, at 181 (“When I asked some public-regarding copyright activists ‘where they had been’ during TRIPS, they told me they had been ‘sleeping’ but that *because* of TRIPS they had ‘woken up.’”); Ellen ’t Hoen, *The Revised Drug Strategy: Access to Essential Medicines, Intellectual Property, and the World Health Organization*, in ACCESS TO KNOWLEDGE IN THE AGE OF INTELLECTUAL PROPERTY 127, 131 (Gaëlle Krikorian & Amy Kapczynski eds., 2010) (stating that it was at the International Conference on National Medicinal Drug Policies in Sydney in 1995 that “for the first time public-health advocates raised the concern that the globalization of new international trade rules and the harmonization of regulatory requirements would restrict countries’ ability to implement drug policies that would ensure access to medicine for all”); Keith E. Maskus, *The WIPO Development Agenda: A Cautionary Note*, in THE DEVELOPMENT AGENDA: GLOBAL INTELLECTUAL PROPERTY AND DEVELOPING COUNTRIES 163, 164 (Neil Weinstock Netanel ed., 2008) (“Policymakers, non-governmental organizations, the media, and even many legal scholars have awakened to the fact that IP regulations have rather fundamental implications for the processes of economic development.”).