LITIGATING INTELLECTUAL PROPERTY RIGHTS IN INVESTOR-STATE ARBITRATION: FROM PLAIN PACKAGING TO PATENT REVOCATION

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Overview

Introduction and Context

• Constraints in Enforcing IP Rights Abroad

Protecting IP rights via International Investment Law

• ISDS involving Niger, Australia & Uruguay, Canada

Does Investor-State Dispute Settlement (ISDS) allow to litigate compliance with International IP Norms?

• Inroutes to Invoke International IP Norms

Conclusions
While the international protection of IP has been shaped by rightholders, enforcement remains their key problem.

Starting point is the fact that int. IP rules do not create global IP rights. Instead, right holders must rely on a bundle of national rights granted by local authorities.

This leads to the following constraints in challenging:

- IP infringements conducted by third parties abroad
- Foreign laws providing insufficient IP protection
1. The writ petitioner in both the writ petitions is one and the same. In the first writ petition, Novartis - a foreign company represented by its Indian Power of Attorney holder, is the writ petitioner. In the second writ petition, Novartis India represented by its power agent is the writ petitioner. The respondents in both the writ petitions are one and the same. The prayer in both the writ petitions is one and the same namely, for a declaration that Section 3(d) of the Patents Act, 1970, amended by Patents (Amendment) Act 15/2005, is unconstitutional. However, in the first writ petition there was an additional prayer in addition to the relief asked for. The additional
2) International treaty standards are subject to national court’s interpretation

Case C-428/08

Monsanto Technology LLC

v

Cefetra BV and Others

(Reference for a preliminary ruling from the Rechtbank ’s-Gravenhage)

(Industrial and commercial property – Legal protection of biotechnological inventions – Directive 98/44/EC – Article 9 – Patent protecting a product containing or consisting of a plant – Protection – Conditions)

Summary of the Judgment


4. International agreements – Agreement on trade-related aspects of intellectual property rights (TRIPs)

Article 9 of Directive 98/44 on the legal protection of biotechnological inventions is to be interpreted as not conferring patent right protection in circumstances where the patented product is contained in the soy meal, where it does not perform the function for which it is patented, but did perform that function previously in the soy meal.
3) No standing in the WTO dispute settlement system (but considerable influence on governments bringing cases)
4) WTO Panels increasingly recognize the flexibilities of TRIPS
5) Challenging health-related government measures causes bad publicity

Activists supporting the South African government against multinational pharmaceutical companies that had sued the government over a law intended to protect public health. The drug companies eventually dropped the case because of public pressure. April 2001. (Source: www.who.int)

Photo: © Christian Schwetz
Recent Investment Disputes on IPRs

1) Tobacco Packaging in Australia, Uruguay

2) Patent Invalidation in Canada

- ISDS offers an alternative forum to protect their IP Rights abroad:
  - Right holders can **rely on general IIA standards** (expropriation, FET, FPS, NT, MFN) vis-a-vis their IPRs
  - Can ISDS also serve as a tool to invoke **international IP norms** (TRIPS, PC, BC) against the host state?
BITs and Investment Chapters in FTAs

• Due to controversies over the scope and substance of customary IIL, a vast network of BITs has been negotiated since the late 1950ies…

• Regional FTAs (NAFTA, CAFTA, now also EU FTAs) contain similar investment protection

• Main Contents:
  • Definition of Investment and Investor
  • Relative Protection Standards
  • Absolute Protection Standards
  • Investor – State Arbitration
IP Protection under BITs

- IP rights as protected investment (see e.g. HK – AUS BIT; US – Ecuador BIT Art.1 (a) (iv))

- What follows from the application of substantive investment protection standards to IP rights?
  - ‘fair and equitable treatment’ (FET)
  - ‘full protection and security’
  - prohibition of (direct or indirect) ‘expropriation’
  - prohibition of performance requirements relating to technology transfer or ‘other proprietary knowledge’

→ In particular, do these standards afford protection for IP which curtails the flexibilities under TRIPS?

- Role of investor – state arbitration for IP
Investors increasingly use ISDS

Source: The Economist | 9 October 2014
Can Investors claim a breach of an Int IP treaty?


Diori Hamani International Airport, Niamey (Niger)
The Plain Packaging Disputes

Plain Packaging in **Australia**

Measures in **Uruguay**

- **single presentation requirement**: prohibition to sell more than one pack variation per cigarette brand (to respond to ‘colour-coding’ of brand lines)

- **Mandatory health warnings**: covering up to 80% of the front and back panels of cigarette packages; and

- **Requirement for pictograms**: as part of the health warnings on cigarette packaging
“Tobacco companies are pushing back against a worldwide rise in anti-smoking laws, using a little-noticed legal strategy to delay or block regulation. The industry is warning countries that their tobacco laws violate an expanding web of trade and investment treaties, raising the prospect of costly, prolonged legal battles, health advocates and officials said.”
Plain Packaging in Australia

In November 2011, Philip Morris Asia (PMA) initiated Investor – state arbitration against Australia under the HK-AUS BIT – alleging that Australia is in breach of the BIT because plain packaging (PP)

- amounts to “unlawful expropriation of PMA’s investments and valuable intellectual property without compensation”;

- “fails to provide fair and equitable treatment to PMA’s investments”; and

- “breaches Australia’s international obligations in relation to PMA’s investments” by violating the WTO TRIPS Agreement, the Paris Convention for the Protection of Industrial Property

PMA is seeking suspension of the legislation and billions of dollars in compensation for the loss of the company’s trademarks (such as Marlboro)
Arguments in the Tobacco Packaging Cases

1. PMA claims a “legitimate expectation that Australia would comply with its international trade treaty obligations”, in particular under TRIPS, the TBT and the Paris Convention (PC).

2. PMA argued that the umbrella clause requires Australia to comply with “international obligations binding on the host state that affect the way in which property is treated in Australia” (incl. TRIPS, PC) as ‘obligations it has entered into with regard to investments’ of protected foreign investors (see Art.2:2 HK-AUS BIT).

3. Similarly, PM claims that Uruguayan measures are “unfair and inequitable because they are incompatible, inter alia, with Uruguay’s treaty obligations under TRIPS as well as the Paris Convention”.

ELI LILLY AND COMPANY

Claimant

v.

GOVERNMENT OF CANADA

Respondent
U.S. pharmaceutical giant Eli Lilly and Co. has escalated a challenge it launched last year against Canada’s patent rules under the North American free-trade agreement, and is now demanding $500-million in compensation after the company lost its Canadian patents on two drugs.

Indianapolis-based Lilly has expanded the NAFTA case over the loss of its patent for Strattera, a drug used to treat attention deficit hyperactivity disorder, to also include Canada’s invalidation of the company’s patent for Zyprexa, which is used to treat schizophrenia.

This latest move follows the Supreme Court of Canada’s decision in May to not hear Lilly’s appeal of the revocation of its Zyprexa patent.

The drug giant alleges that the loss of its patents violates Canada’s obligations under international treaties, including NAFTA, which, under that agreement’s controversial Chapter 11 provisions, allows foreign investors from member countries to sue governments for allegedly violating the treaty.

Lilly claims that Canadian Federal Court judges, using what the drug company calls a “promise doctrine,” are demanding that patents include too much scientific proof of the efficacy of a drug at early stages.

The company’s NAFTA filing says 19 pharmaceutical or biopharmaceutical patents have been struck down in court challenges launched by generic drug companies in Canada on this basis since 2005.
Eli Lilly claims expropriation and a breach of FET because the Canadian court decisions which invalidate its patents ‘are contrary to Canada’s international treaty obligations’ (under TRIPS, NAFTA Ch.17 & the Patent Cooperation Treaty (PCT)):

(1) the “promise doctrine” imposes an utility standard which violates Art.1709:1 NAFTA and Art.27:1 TRIPS to make available patents for inventions which are new, non-obvious and useful;

(2) the judicial decisions amount to a de facto discrimination of biopharma patents contrary to the NAFTA / TRIPS obligation not to discriminate among different fields of technology; and

(3) infringe the Patent Cooperation Treaty (PCT) by imposing additional form and content requirements relating to international patent applications.

→ These breaches of international IP treaties are argued to violate investment protection standards because Eli Lilly claims to have a reasonable expectation that Canada complies with these IP treaties…
The Role of Int IP Norms in ISDS

Does **ISDS** offer a **forum** for rightholders to **litigate host state compliance with Int. IP Norms**?

Against the background of current **challenges against Uruguay, Australia & Canada**, the tools to invoke Int. IP norms are:

1. Claiming **legitimate expectations** that host state complies with Int IP Norms (FET, expropration standard)
2. Invoking Int IP as obligations the host state entered into with regard to IPR as investment (**Umbrella Clauses**)
3. Asking for Int IP standards as treatment more favourable to IPRs as protected investments (**MFN**)
4. Arguing that IP limitation breaches Int IP and amounts to expropriation (**contra Safeguard Clauses**)


Does the Host State owe TRIPS compliance to the Investor?

The **Merits** of claiming legitimate expectations in Int IP compliance

- **Expectations based on the grant of an IPR?** The expectations of IP holders are a priori limited by the regulatory tools the domestic IP law of the host state foresees and by the internationally accepted limits to IPRs (TRIPS flexibilities)

- The investor can only derive any **legitimate expectations from Int IP norms** which are

  - **directly applicable** as part of the domestic law;
  - **sufficiently concrete** to be applied by domestic institutions; &
  - **give rise to individual rights** of the investor
The **Merits** of invoking Umbrella Clauses for IL treaty obligations

- Even broad umbrella clauses (duty to “*observe any obligation it may have entered into with regard to investments of investors*”), do **not** suggest an intention to **serve as door opener to invoke any host state obligation under IL** that may have a bearing on the investment.

- No available **ISDS Award** so far has extended umbrella clauses to IL obligations of the host state.

- **Pacta Sunt Servanda** rationale does **not apply**.

- Need for a **narrow interpretation of Umbrella clauses** in light of [Art.23 DSU](https://www.wto.org) (for IIAs amongst WTO Members).
Does MFN cover Int IP standards as more favourable treatment?

The **Merits** of Claiming MFN to extend to Int IP Standards

- **States** arguably did **not intend to allow** an investor to rely on an IIAs **MFN** rule in order to **challenge compliance of the host state with** obligations under **int IP treaties** by arguing that such protection must be made available to him as a more favourable treatment of his IP rights as investments.

- Art.9 ILC Draft Articles on MFN limits the type of **rights falling under a MFN clause** to those **covered by “the subject matter of the clause”** (*ejusdem generis* principle).

- **IIAs** and **Int IP treaties** define their protected **subject matter differently** and apply **distinct requirements** as to their **scope**.
Eli Lilly vs Canada

In its submissions so far, Eli Lilly focusses much on the revocation of its patents by Canadian Courts as breaching international IP rules (NAFTA, PCT, TRIPS, etc).

→ Why is there a need for Lilly to place such an emphasis on the revocations breaching NAFTA Ch.17, TRIPS and PCT rules?

→ Is it not sufficient for Lilly to argue direct expropriation since the Eli Lilly actually looses its patent right completely?
Eli Lilly vs Canada

See NAFTA Article 1110.7 according to which the NAFTA investment protection against expropriation:

"does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights, or to the revocation, limitation or creation of intellectual property rights, to the extent that such issuance, revocation, limitation or creation is consistent" with NAFTA’s IP chapter

→ In the IP Chapter, Art.1709.8 provides that “A Party may revoke a patent only when:

(a) grounds exist that would have justified a refusal to grant the patent; or

(b) the grant of a compulsory license has not remedied the lack of exploitation of the patent
What is the effect of TRIPS Flexibility Safeguard Clauses?

Claiming Breaches of Int IP under ‘Safeguard Clauses’

• NAFTA Art.1110:7 essentially requires Canada to make a case for consistency of its national patent law with international standards, such as NAFTA Chapter 17 (or in case of Art.6:5 of the US Model BIT, TRIPS and perhaps other int IP treaties)

• Safeguard clauses essentially create options for investors to challenge compliance of host state measures with Int IP treaties

• What about interpretative context and burden of proof?

→ Safeguard clauses take away de facto policy space that follows from state-to-state DS in the WTO
For greater certainty, the revocation, limitation or creation of intellectual property rights to the extent that these measures are consistent with TRIPS and Chapter X (Intellectual Property) of this Agreement, do not constitute expropriation. Moreover, a determination that these actions are inconsistent with the TRIPS Agreement or Chapter X (Intellectual Property) of this Agreement does not establish that there has been an expropriation.”

→ Still leaves option for investors to challenge compliance of host state measures with TRIPS (Eli Lilly vs Canada), but breach of TRIPS is not sufficient

→ Still raises questions about interpretative context and burden of proof: Canada needs to show TRIPS consistency
Additional CETA Declaration on IP, motivated by *Eli Lilly* case:

“Mindful that investor state dispute settlement tribunals (…) are not an appeal mechanism for the decisions of domestic courts, the Parties recall that the domestic courts of each Party are responsible for the determination of the existence and validity of intellectual property rights. The Parties further recognize that each Party shall be free to determine the appropriate method of implementing the provisions of this Agreement regarding intellectual property within their own legal system and practice.

The Parties agree to review the relation between intellectual property rights and investment disciplines within 3 years after entry into force of the agreement or at the request of a Party. Further to this review and to the extent required, the Parties may issue binding interpretations to ensure the proper interpretation of the scope of investment protection under this Agreement in accordance with the provisions of Article X.27: Applicable Law and Rules of Interpretation of Chapter x (Investment)."
ISDS as Forum to Invoke Int IP? My Conclusions

• None of the ‘inroutes’ based on investment protection standards (FET, umbrella clauses, MFN) to invoke int IP norms appears promising for investors

• Ironically, the most promising route for right holders to invoke breaches of int IP norms in investment disputes is based on clauses which aim to safeguard flexibilities in the international IP system

• Here, reform proposals or the reliance on general IL concepts (Art.31 (3) c) VCLT) can achieve sufficient integration of int IP norms – without the dangers of abuse
Thank you for your attention!

For the full paper, see

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