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Bilateral investment treaties may be new way to protect IP rights

Global IP

By Doris Estelle Long

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I am a great believer in the belief that there are no unintended consequences, only unexplained ones. I have discussed previously the potential adverse impact that the termination of free-trade agreements such as the TransPacific Partnership and the North American Free Trade Agreement will have on the ability of U.S. IP owners to protect their rights.

Recent news regarding plans to "renegotiate" NAFTA and other trade agreements have not relieved my concerns. (See my column on Dec. 5, 2016.) While the planned agenda for the NAFTA renegotiations includes "ensur[ing] standards of protection and enforcement that keep pace with technological developments," such negotiations generally take years to accomplish.

Fortunately, there are other non-IP focused multinational "trade-related" agreements that could provide some measure of relief for IP owners. They could form a bulwark against many countries' new local innovation strategies that impose equity limitations and forced technology transfers on U.S. companies as the cost of doing business.

These strategies are not a new development. To the contrary, in the 1970s the Indian government required foreign multinationals to disclose critical proprietary information as part of its "India self-reliant" policy. Coca-Cola refused to disclose its formula and withdrew from the Indian market for nearly 20 years. The burgeoning popularity of these practices and the recent focus on them by the Trump administration, however, is new.

On Aug. 18, the U.S. trade representative initiated a formal Section 301 investigation "to determine whether acts, policies and practices of the government of China related to technology transfer, intellectual property and innovation" are "unreasonable or discriminatory and burdens or restricts United States commerce."

Among the enumerated practices are "made in China" policy initiatives requiring technology transfers and information disclosures on non-negotiable terms, government facilitation of U.S. companies and asset acquisitions to secure cutting-edge technologies and foreign equity limitations.

them.

Despite the present administration's avowed dislike of free trade agreements, BITs do to not appear to have suffered an equivalent fall from grace. Investment treaties have long been included in free trade agreements as a separate chapter and have suffered a similar fate to the IP chapters.

Fortunately for U.S. companies, however, there are also numerous stand-alone bilateral and regional investment treaties that could still provide relief against enforcement abuses. They could also be used against these newly emerging trade abuses, including forced technology transfers.

At their heart, BITs are focused on protecting foreign direct investments. They generally require signatory countries to treat foreign investments "fairly and equitably." Such fairness generally includes treating foreign investments at least as favorably as investments of a country's own nationals.

BITs also restrict rights of expropriation. Expropriation can only occur in the public interest and with payment of prompt, adequate and fair compensation in accordance with obligations of due process. For IP owners, regulations that "substantially negatively effect" the value of an investment might qualify as an "expropriation" under the treaty. Such "expropriations" could arguably include obligatory technology transfers and other forced rights licenses.

Because BITs increasingly include "intellectual property" as an express form of protectable "investment," IP owners have a direct basis on which to challenge a country's failure to protect IP rights — investor-state dispute settlements, or ISDS.

These proceedings allow an IP holder or investor to challenge directly a harmful regulation or practice of a foreign government through a private arbitration proceeding, conducted outside local court systems that may reflect domestic biases.

Despite what appears to be increasing popularity in using ISDS to protect IP rights, such proceedings still pose significant challenges. Precedents involving IPs are often difficult to find since ISDS often lack transparency. In fact, under arbitration procedures established by the United Nations Commission on International Trade Law, transparency was only required for ISDS brought under investment treaties executed on or after April 1, 2014. ISDS also often restricts third party participation.

For example, even under the arbitration rules of the more transparent International Centre for Settlement of Investment Disputes, "non-disputing party submissions" are only allowed if they "would assist the [t]ribunal … by bringing a perspective, particular knowledge or insight that is different from that of the disputing parties. Thus, in a well-known ISDS involving plain packaging restrictions on tobacco products, the [t]ribunal accepted a non-disputing party submission from the World Health Organization but rejected one by the Inter-American Association of Intellectual Property. (*Philip Morris Brands Sarl v. Oriental Republic of Uruguay*, ICSID ARB/0/7)

application of a heightened utility standard for patentability incorporating a “promise doctrine,” neither party contested the appropriateness of bringing an ISDS under NAFTA’s investment chapter with regard to the patents at issue.

By contrast, in Philip Morris, the parties hotly contested whether trademarks qualified as an investment form covered by expropriation protections under the applicable BIT. The [t]ribunal held that the [c]aimants “had property rights regarding their trademarks capable of being expropriated.”

Ultimately, however, the [t]ribunal found that Uruguay’s plain packaging laws did not qualify as such an expropriation. Although these laws limited Philip Morris to using only a single brand (Marlboro Red) on tobacco products and required health warnings to cover 80 percent of the package, the [t]ribunal found that such restrictions were “a valid exercise by Uruguay of its police powers for the protection of public health.”

Indirect expropriation through regulations and quantifiable adverse impact on the value of IP rights holders’ foreign investment remain challenging issues in BITs.

Each treaty and case presents its own unique factors that make the current predictability of outcomes under ISDS uncertain, at best. But with the rising tide of business regulations squeezing IP rights owners internationally, ISDS could provide a useful alternative avenue of relief for those willing to try.