TPP Carve Out for Tobacco Shows Core Flaws in Investor-State Dispute Settlement (ISDS)

Posted by Sean Flynn on October 1, 2015 Add comments
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USTR has reportedly tabled a new provision for the Trans-Pacific Partnership Agreement (TPP) that would carve out tobacco regulation from the effect of its investor-state dispute settlement (ISDS) chapter, which allows private companies to challenge domestic regulations in secretive and unaccountable international arbitration forums. ISDS challenges can generally be brought against domestic regulations whenever a company claims an "indirect" expropriation by regulation of an "investment," which is defined to include "the expectation of gain or profit."

Those with knowledge of the new tobacco text have revealed **that the language proposed to be added to the investment chapter reads:**

Exception Article X Tobacco control measures *Tobacco control measures shall not be subject to the dispute resolution procedures under section B (Investor-State Dispute Settlement) of Chapter II (Investment).*

Associated *definition Tobacco control measure means a measure relating to the production or composition of manufactured tobacco products (including products made or derived from tobacco), their distribution, labelling, packaging, wrapping, advertising, marketing, promotion, sale, purchase, or use, as well as enforcement measures, such as inspection, recordkeeping, and reporting requirements.*

The new exception validates, rather than assuages, the concerns of those who have been criticizing ISDS systems for many years. Without express carve outs, ISDS provisions do threaten common health and safety regulations.

The carve out does nothing to halt the disturbing recent trend of companies using ISDS provisions in trade agreements to enforce international intellectual property norms through ISDS tribunals. This is, indeed, the claim at the heart of the tobacco cases now being litigated in ISDS systems. The claim is that tobacco regulations requiring plain packaging violate the trademark rights of tobacco companies protected by the World Trade Organization agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The pharmaceutical company Eli Lilly has also claimed that the denial of a new use patent on an old (off-patent) medicine violates rights granted by TRIPS and the North Atlantic Free Trade Agreement (NAFTA).

Neither TRIPS nor the IP chapters of NAFTA or any other free trade agreement give an explicit cause of action to private companies to enforce them. International IP laws are generally enforced only through state-to-state adjudication. But through a poorly drafted clarification in the investment chapter of NAFTA, replicated and expanded in the leaked draft of the TPP, ISDS clauses invite IP claims.

The language in TPP leaked last year states that the ISDS chapter does not apply "to the revocation, limitation or creation of intellectual property rights, *to the extent that such issuance, revocation, limitation, or creation is consistent with Chapter QQ._ (Intellectual Property Rights) and the TRIPS Agreement."* That last sentence invites private companies to bring IP claims in ISDS tribunals, which should give us all pause. Every time domestic law expands a limitation or exception in copyright or patent law – for example to allow consumers to break digital locks on their phones, or to reduce the ability of drug companies to evergreen their patents with follow on applications – private corporations can challenge the law in a foreign arbitration.

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. To accomplish this, the carve out for IP in the investment chapter needs to be re-written, e.g., to say:

This Article does not apply to any claim of indirect expropriation of intellectual property. For further clarity, it 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.

For an extended discussion of this issue, see Sean Flynn, How the Leaked TPP ISDS Chapter Threatens Intellectual Property Limitations and Exceptions http://infojustice.org/archives/34189

How the Leaked TPP ISDS Chapter Threatens Intellectual Property Limitations and Exceptions

Posted by Sean Flynn on March 26, 2015 Add comments
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I released a statement earlier today opining that the today's leak of the Investor State Dispute Settlement (ISDS) chapter proposed for the Trans Pacific Partnership (TPP) agreement (available at https://wikileaks.org/tpp-investment/WikiLeaks-TPP-Investment-Chapter.pdf) would give new rights to private companies to challenge limitations and exceptions to copyrights, patents, and other intellectual property rights in unaccountable international arbitration forums. This note gives further background and analysis supporting that statement.

A.

Following a recent trend, explained below, the leaked ISDS chapter of the TPP proposes to give private companies the ability to enforce public international law whenever a local regulation "either directly or indirectly" expropriates any "investment." (Art. 11.7). The term "indirectly" opens the process to consideration of what in U.S. constitutional law is referred to as a "regulatory taking" – that is a regulation or regulatory action that diminishes the value of property, even if the government does not take ownership of the property.

The term "investment" is incredibly broad, including

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.

Like the 2012 U.S. Model Bilateral Investment Treaty, the definition of "investment" explicitly includes "intellectual property," as well as "other tangible or intangible, movable or immovable property."

The extension of the investment chapter to intellectual property raises complicated issues about the relation between the two. The separate intellectual property chapter is subject only to the traditional public international law enforcement mechanism of state-to-state consultation or litigation. To address the connection between the two chapters and their divergent enforcement mechanisms, the proposed treaty states (Art. 11.7(5)):

The Article does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with Chapter QQ._ (Intellectual Property Rights) and the TRIPS Agreement.

The TPP leak adds a new footnote (18) not included in the model BIT or any other agreement, which states:

For greater certainty, the Parties recognize that, for the purposes of this Article, the term “revocation” of intellectual property rights includes the cancellation or nullification of such rights, and the term “limitation” of intellectual property rights includes exceptions to such rights.

On first glance, it may appear that these passages protect intellectual property policy decisions from ISDS cases. The problem is in the qualifications – limitations and exceptions are only protected from ISDS attack “to the extent that such issuance, revocation, limitation, or creation is consistent with Chapter QQ._ (Intellectual Property Rights) and the TRIPS Agreement.” These qualifications invite ISDS tribunals to determine the extent that revocations, nullifications or exceptions to rights are consistent with TRIPS and the IP chapter of the agreement – a broad jurisdiction indeed.

B.

The TPP clause appears to be the least protective of several recent options for dealing with intellectual property in the ISDS chapter.

The Comprehensive Trade and Economic Agreement (CETA) between Canada and the European Union http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/text-texte/10.aspx?lang=eng states Art. X.11(6):

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.

A separate “Declaration to Investment Chapter Article X.11 Paragraph 6” states:

Mindful that investor state dispute settlement tribunals are meant to enforce the obligations referred to in Article X.17(1): Scope of a Claim to Arbitration of Chapter x (yyy), and 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)."

CETA X.11(6) permits (although does not require) that inconsistent actions be subject to compensation. The rest of the "declaration" about avoiding the use of ISDS as a defacto appeal mechanism contains helpful ideas that are not operationalized in the text of the investment chapter. It appears that Eli Lilly's claim that the invalidation of its patent by a court violates the IP chapter and constitutes an expropriation could have been brought as easily under CETA's investment chapter as under NAFTA (or the leaked TPP).

India recently published a draft investment treaty, which states among the areas excluded from ISDS coverage:

(v) the issuance of compulsory licenses granted in relation to intellectual property rights, or to the revocation, limitation or creation of intellectual property rights, *to the extent that such issuance, revocation, limitation or creation is consistent with the Law of the Host State.* (emphasis added).

Making IP law ultimately accountable to *domestic law* rather than an IP chapter is certainly more protective of local regulatory autonomy. But the India proposal fails to make clear who has exclusive authority to determine whether the intellectual property policy at question is "consistent with the Law of the Host State." Can the ISDS panel make this ultimate determination?

The better solution would remove any ability to bring an indirect expropriation claim for intellectual property. e.g.

This Article does not apply to any claim of indirect expropriation of intellectual property. For further clarity, it 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.

One might add before the period above ", which may only be subject to enforcement actions under this treaty through the state-to-state process delineated in Chapter XX." Such a rule would retain, rather than attack, the traditional model of state-to-state enforcement of public international law on intellectual property rights.

C.

The threat from poorly worded and considered ISDS chapters is real. Two ongoing ISDS cases involve private companies challenging the failure to grant or the regulation of the use of intellectual property as expropriations of their investments, even though the countries at issue did not directly expropriate anything.

Philip Morris has sued Uruguay and Australia, under bilateral investment treaties with Switzerland and Hong Kong, respectively, to challenge restrictions on branding on cigarette packages .

Eli Lilly v. Canada involves claims that two invalidations by Canadian courts of patent extensions for new uses of known medicines (the medicines were both developed in the 1970s) expropriate investments protected by NAFTA's Chapter 11 ISDS system.

These kind of claims are a rupture in the fabric of international intellectual property law. State-to-state enforcement has been the norm for the last 130 odd years of international intellectual property law, from the first multilateral treaties on copyrights and patents in the 1880s up through the World Trade Organization's Agreement on Trade Related Intellectual Property Rights (TRIPS).

State-to-state dispute settlement is an important check and balance in the process that reduces litigation. Governments are more wary litigators than many companies. The reasons are many – governments seek to maintain complex diplomatic relations, they are loathe to take on the costs of litigation, and since they must live by the rules their own litigation establishes, they are more cautious in taking aggressive interpretations of international law that could limit their own regulatory freedom. We thus see relatively few international intellectual property cases litigated, including under the 20 years of TRIPS and its stronger enforcement forum in the WTO.

This restraint is good. Imposing international disciplines on what kind of domestic policies a country can have – the vertical relationship between state and citizen rather than state to state — is controversial and against what most of international law seeks to do.

“Investor-state dispute settlement” (ISDS) proceedings began as limited exceptions to the general rule of state-to-state enforcement. ISDS regimes evolved from an customary international law right to compensation for the expropriation of property through nationalizations of foreign assets. Treaty law beginning in the late 1950s, coinciding with a period of increased decolonization around the world, permitted private foreign companies to seek redress for expropriations in the form of financial compensation awards through arbitration panels.

The problem ISDS sought to address was that liberal constitutionalism with modern property rights had not ascended to the dominance it has today. Many countries were following nationalist or communist models in which there might be no local redress for the takings of private property by the state. But today nearly every country in the world has a constitutional property clause. And while despotism still exists – so does insurance against losses from despotic regimes. It is not clear we need ISDS at all today.

Rather than wither on the vine, ISDS is radically expanding. Between 1987 and 1992, one investor-state case was filed. Between 2009 and 2013, 242 ISDS cases were filed. (Economist).

NAFTA was the first free trade agreement to include both an intellectual property chapter (Chapter 17) and an investment chapter (Chapter 11). Following the general trend in both trade and international law, the general enforcement mechanism (Chapter 20) is state-to-state. NAFTA Chapter 11 includes an investor-state dispute settlement system applicable to the enforcement of only that chapter.

Similar to the TPP leaked ISDS chapter, NAFTA Art. 1110(7) states:

> This Article 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 Chapter Seventeen* (Intellectual Property) (emphasis added)

If that provision had ended before the italics, the implication would be that any IP issues between the parties would have to be solved through state-to-state enforcement – the historical international rule. But by including the last clause evoking the extent of consistency with Chapter 17, it invites ISDS to be used by private companies to challenge the revocation, limitation or creation of intellectual property rights as inconsistent with the intellectual property chapter. Which is exactly what Eli Lilly did.

Eli Lilly claims that the invalidation of two patent extensions for new uses of known products is a violation of the Chapter 17 requirement that Canada “shall make patents available for any inventions, whether products or processes, in all fields of technology, provided that such inventions are new, result from an inventive step and are capable of industrial application" (the same language included in Article 27 of TRIPS). In that case, both sets of memorials (aka legal briefs) accept that Article 1110(7) invites the ISDS panel to decide whether Canada's actions are consistent with the IP chapter of NAFTA, although they of course differ on the result of that interpretation. (See Canada's Memorial, failing to challenge jurisdiction of ISDS panel to interpret Chapter 17).

A more conservative approach – which would reinforce rather than rupture the 130 odd years of exclusive state-to-state enforcement of international intellectual property law – would be to restrict the determinations about violations of IP chapters (and of TRIPS) to the traditional public international law state-to-state enforcement processes erected for that purpose.

D.

The implications of using ISDS systems to privately enforce consistency with free trade agreement intellectual property chapters are profound. The most recently leaked IP chapter of the Trans-Pacific Partnership Agreement is 77 pages long with 7 annexes, addendums, and non-papers, 32,018 words, including 265 footnotes (KEIonline.org). These words can give rise to legions of disputes about their meaning, especially when the meaning of the words can affect the bottom line of well-resourced companies. Do we really want all of those disputes to be capable of being heard in an ISDS tribunal?

We can predict some disputes. Each year, the U.S. Trade Representatives holds an open forum for U.S. industry to make complaints about other countries intellectual property systems, leading to the so-called "Special 301 report." Peruse this year's industry submissions (e.g. from IIPA) and you will find dozens of complaints that foreign governments are not adhering to their treaty rights on issues ranging from establishing internet service liability rules to extending patent and data monopoly rights for medicines.

And here is a major one lurking in the shadows. Many copyright intensive industries are hostile to the U.S. fair use doctrine and many of the decisions of courts emanating from it. There have been arguments raised from time to time that the doctrine or its applications are contrary to the so-called Berne 3-step test requiring that limitations and exceptions to rights be limited to certain special cases, not conflict with a normal exploitation of the work and not unreasonably prejudice the legitimate interests of the author (see this rebuttal from Gervais et al.). No other country has attempted to sue the U.S. or the nearly dozen other countries around the world that have fair use. But will the content industry be so reticent with such challenges in the future? With the TPP ISDS chapter, they will not have to in 40% of the global economy.