

# The Protection of Intellectual Property Rights through Bilateral Investment Treaties: Is there a TRIPS-plus Dimension?

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**Bertram Boie**

**Abstract** This paper analyses the scope of bilateral investment treaties for the protection of investors' intellectual property rights. Given the ongoing discussion about TRIPS-plus issues in bilateral treaties for international economic regulation, bilateral investment treaties have also been confronted with the claim that they add another layer of rights on top of the TRIPS Agreement. With this question in mind, the paper reviews key standards of bilateral investment treaties of possible relevance for the protection of intellectual property rights, and three key issues to which these standards may typically be applied in host states, i.e. compulsory licences, performance requirements, and piracy of intellectual property rights. It shows that bilateral investment treaties do overreach the standards provided for under the TRIPS Agreement on certain points. Nevertheless, it becomes obvious that a discussion of the relationship between investment law as applicable to investors' intellectual property rights and intellectual property law from the angle of a TRIPS-plus dimension does not reach the heart of the matter. The main reason for overlap and incongruence between bilateral investment treaties and the TRIPS Agreement stems from their own regulatory intents and the fact that these different areas of international law have grown in a fragmented manner over the last 50 years, without ever having been integrated in a coherent manner. The task to be accomplished consists in constructing a better definition of the borderlines of investment law and intellectual property law with the aim of removing inconsistencies, as well as providing for interaction that mutually reinforces the intent of both areas of law. The paper closes with a few suggestions to that end.

**Key Words:** Bilateral Investment Treaties, Intellectual Property Rights, TRIPS Agreement, Development

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## Abbreviations

|              |  |
|--------------|--|
| BIT          | bilateral investment agreement         |
| DSU          | Dispute Settlement Understanding       |
| EU           | European Union                         |
| FDI          | foreign direct investment              |
| FET          | fair and equitable treatment           |
| FTA[s]       | Free Trade Agreement[s]                |
| GATS         | General Agreement on Trade in          |
| Services     |  |
| GATT         | General Agreement on Tariffs and       |
| Trade        |  |
| ICSID        | International Centre for Settlement of |
|              | Investment Disputes                    |
| IIA[s]       | international investment agreement[s]  |
| IP           | intellectual property                  |
| IPRs         | intellectual property rights           |
| MFN          | most-favoured-nation treatment         |
| MNE[s]       | multinational enterprise[s]            |
| NAFTA        | North American Free Trade              |
| Agreement    |  |
| OECD         | Organisation for Economic Co-          |
|              | operation and Development              |
| PCA[s]       | partnership and cooperation            |
| agreement[s] |  |
| RTA[s]       | regional trade agreement[s]            |
| SOE[s]       | state-owned enterprise[s]              |
| TRIMs        | Agreement on Trade Related             |
|              | Investment Measures                    |
| TRIPS        | Agreement on Trade-Related Aspects     |
|              | of Intellectual Property Rights        |
| UNCITRAL     | United Nations Commission on           |
|              | International Trade Law                |
| UNCTAD       | United Nations Conference on Trade     |
|              | and Development                        |
| US           | United States                          |
| WTO          | World Trade Organization               |

## Introduction

Intellectual property rights (IPRs) are one of the most precious assets in the international economy. Regularly, most of a company's value consists in its intangible assets such as its IPRs, whereas its tangible property, such as the production facilities, has much less value. The intangible nature of IPRs requires them to be protected with special disciplines against illegal copying, usage or other forms of unjust exploitation.

Today's regime for the protection of IPRs consists of different international agreements – for most the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) administered by the World Trade Organization (WTO) – and a growing universe of bilateral agreements with strong intellectual property (IP) provisions. These bilateral agreements usually take the form of free trade agreements (FTAs), and a lively discussion is under way about additional standards (so-called TRIPS-plus provisions) the agreements may set, and which would go further than the multilaterally negotiated TRIPS Agreement.<sup>1</sup> The discussion has a significant political dimension, since the spread of TRIPS-plus provisions in trade agreements may set important global IP standards with far-reaching implications, particularly for developing countries, in the area of biotechnology and medicines.

This important discussion may be a reason why a further aspect of the protection of IPRs has received comparably little attention so far: the protection of IPRs through International Investment Agreements (IIAs). IIAs, that is bilateral investment treaties (BITs) and FTAs or Regional Trade Agreements (RTAs) with investment chapters, are agreements concluded between states for the promotion and protection of reciprocal investments.<sup>2</sup> Such agreements usually protect intellectual property by including it in the definition of investment.

Since the investment protection provisions in BITs were developed for the protection of investments generally (without any particular focus on IPRs), and the agreements have never been harmonized or brought into coherence with the large body of international economic law administered by

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<sup>1</sup> For an overview of key elements of recent US FTAs that go beyond multilateral standards on intellectual property as set forth in the TRIPS Agreement and the discussion accompanying it see: Carsten Fink and Patrick Reichenmiller, "Tightening TRIPS: Intellectual Property Provisions of U.S. Free Trade Agreements," in *Trade, Doha, and Development: A Window into the Issues*, Editor: Richard Newfarmer (The World Bank, 2006), 285-299.

<sup>2</sup> BITs, RTAs and FTAs are related with regard to investment issues, since they regularly provide for similar treaty language with regard to the investment-relevant subject matters. For BITs these provisions are the main regulatory intent, for agreements with a broader scope, such as RTAs and FTAs, investment provisions will usually form one subject matter covered in one chapter of the agreement, next to other issues. The fact in RTAs, that several subject matters, including both investment and IP, are covered in one single agreement may have significant consequences for the interplay of these provisions. It is outside the scope of this paper to exhaustively analyse these interactions, and the paper is thus limited to the analysis of BITs. A certain relevance of the analysis to matters of investment regulation by FTAs and RTAs is however not precluded, and examples of IIAs other than BITs will thus occasionally be given in this paper.

international organizations such as the WTO; the protection provisions in BITs and protection provisions deliberately developed for the protection of IPRs as for example in the TRIPS Agreement, coexist side by side. It is unclear if and to what extent interactions between the different bodies of law exist. Thus one cannot exclude the possibility that protection standards for IPRs in BITs or investment chapters of RTAs make available more stringent or more far-reaching protection for IPRs than the TRIPS Agreement, and thus provide for TRIPS-plus standards. As such, the protection of IPRs under IIAs may force governments to allow the higher standards “through the backdoor”, meaning, via claims brought against the government of the host state by investors, diminishing the policy space a government may have for domestic regulation.<sup>3</sup> This situation has been blamed for making BITs into another tool in the hands of developed capital exporting countries. As Anderson /Razavi argue, “[t]he spread of BITs has been a major phenomenon in ratcheting-up international IPR standards post-TRIPS. [...] BITs continue to proliferate, and IPR provisions are included more frequently and robustly than in prior decades.”<sup>4</sup>

This paper aims at clarifying any potential TRIPS-plus dimension of BITs. The research is structured in three parts. Part 1 gives an overview of disciplines on intellectual property protection in BITs with a possible TRIPS-plus characteristic. Part 2 points out key issues that may arise testing the scope of IPR protection under BITs. On the basis of the results obtained in Parts 1 and 2, Part 3 discusses the possible TRIPS-plus characteristic of BITs and puts forward a few policy recommendations. A conclusion summarizes the findings.

## **1. Overview of Disciplines on Intellectual Property Protection in Bilateral Investment Treaties**

BITs usually enshrine an overall similar assortment of standards and principles. These include – next to the definitions as to the scope of the agreement, i.e. definitions of investor and investment as well as temporal

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<sup>3</sup> Critical views on bilateral agreements and IP protection standards focusing on possible negative implications for developing countries have been expressed, amongst others, by Drahos and Biadgleng. Drahos argues that bilateral agreements, including BITs, are a deliberate attempt by developed countries to impose TRIPS-plus standards on developing countries. Biadgleng advises developing countries to take a very cautious approach towards accepting the inclusion of IPRs in the scope of BITs. See: Peter Drahos, *Developing Countries and International Intellectual Property Standard-setting* (Commission on Intellectual Property Rights),

[http://www.iprcommission.org/papers/pdfs/study\\_papers/sp8\\_drahos\\_study.pdf](http://www.iprcommission.org/papers/pdfs/study_papers/sp8_drahos_study.pdf); Peter Drahos, “BITs and BIPs: Bilateralism in Intellectual Property,” *The Journal of World Intellectual Property* 4, no. 6 (November 2001): 791-808; Ermias Tekeste Biadgleng, *IP Rights under Investment Agreements: The TRIPS-plus Implications for Enforcement and Protection of Public Interest*, South Centre Analytical Note (South Centre, August 2006), <http://ssrn.com/abstract=943013>.

<sup>4</sup> Alan M. Anderson and Bobak Razavi, “International Standards for Protection of Intellectual Property Rights Post-TRIPS: The Search for Consistency,” *Transnational Dispute Management* 6, no. 2 (August 2009): 13, 14. Anderson/Razavi further implicitly assign a role for increased levels of IPR protection over the last few years to BITs, stating: “However, BITs-driven bilateralism is not simply replacing TRIPS-based multilateralism. Instead, the two are working in tandem. In the 15 years since TRIPS, BITs have rapidly proliferated. Although BITs have existed since 1959, it is those agreements signed since 1995 that have had the most impact on international IPR protection.” *Ibid.*, 8.

scope and place of application – a combination of relative and absolute standards for treatment of foreign investors and their investments. Relative standards make a comparison between the treatment of the foreign investor and the treatment of the host state’s own nationals via national treatment clauses, or compare the treatment offered to investors from different nations by most-favoured nation (MFN) treatment clauses. Absolute standards determine the treatment investors can rely upon absolutely, i.e. independent from any treatment provided to any other domestic or foreign investors. Absolute treatment standards include provisions on minimum treatment requirements, fair and equitable treatment (FET), and full protection and security to be guaranteed to foreign investors’ investments. Detailed standards on expropriation and necessary compensation requirements are also included in BITs, often together with the right of the investor to commence arbitration against the host state in case of treatment that falls short of any of the above-mentioned standards.

Researching into an application of BITs standards to the protection of IPRs means analysing the possible coverage and effects of the various treatment standards of BITs on IPRs, i.e. mostly national treatment, MFN treatment, treatment according to the highest international standard and fair and equitable treatment, as well as the dispute settlement clauses applicable to the protection of IPRs under the agreement. This will give an overview of disciplines on IPR protection in BITs and constitute a first step towards clarifying any possible TRIPS-plus characteristic.

### **1.1. Intellectual Property Rights under the Definitions of Bilateral Investment Treaties**

The coverage of IPRs under BITs is in most cases easily established. The vast majority of BITs stipulate the coverage directly by explicitly enumerating IPRs within the categories of property protected under the treaty.<sup>5</sup> Even those agreements that do not make explicit reference to BITs can be assumed to cover IPRs, since the list of covered subject-matters is usually broad and mostly provides for “every kind of assets” to be covered. This catch-all term may be used with certain variations in different agreements, and sometimes it will be complemented by a non-exhaustive, illustrative list of covered types of property. The following Table 1 lists in the form of examples, formulations applied in the latest Model BITs by the United States (US), Germany, and China, i.e. three countries with prominent BITs policies.

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<sup>5</sup> James David Mortenson, “Intellectual Property as Transnational Investment: Some Preliminary Observations,” *Transnational Dispute Management* 6, no. 2 (August 2009): 4.

**Table 1: The Coverage of IPRs in BITs: Looking at three Model BITs**

| US MODEL BIT (2004) <sup>6</sup>   | GERMAN MODEL BIT (2005) <sup>7</sup>  | CHINESE MODEL BIT (1997/2003) <sup>8</sup>  |
|--|---|---|
| <p>Section A<br/>Article 1<br/>Definitions<br/>[...] “investment” means every asset that an investor owns or controls, directly or indirectly [...]. Forms that an investment may take include:<br/>[...]<br/>(f) intellectual property rights; [...]<br/>(h) other tangible or intangible, movable or immovable property, and related property rights, such as leases, mortgages, liens, and pledges.</p> | <p>Article 1<br/>For the purposes of this Treaty<br/>1. the term “investment” comprises every kind of asset, in particular:<br/>[...]<br/>(d) intellectual property rights, in particular copyrights, patents, utility-model patents, industrial designs, trade-marks, trade-names, trade and business secrets, technical processes, know-how, and good will;<br/>[...]</p> | <p>For the purpose of this Agreement,<br/>1. The term “investment” means every kind of asset invested by investors of one Contracting Party in accordance with the laws and regulations of the other Contracting Party in the territory of the latter, and in particular, though not exclusively, includes:<br/>(d) intellectual property rights, in particular copyrights, patents, trade-marks, trade-names, technical process, know-how and good-will;<br/>Any change in the form in which assets are invested does not affect their character as investments provided that such change is in accordance with the laws and regulations of the Contracting Party in whose territory the investment has been made.</p> |

As shown in the Table, the 2004 US Model BIT lists intellectual property rights as part of an illustrative list added to the standard formula “every asset that an investor owns or controls”.<sup>9</sup> The list relies on broad language. The 2005

<sup>6</sup> 2004 Treaty between the Government of the United States of America and the Government of [Country] Concerning the Encouragement and Reciprocal Protection of Investment, in: Dolzer/Schreuer: *Principles of International Investment Law*. Oxford 2008.

<sup>7</sup> Treaty between the Federal Republic of Germany and [ . . . ] Concerning the Encouragement and Reciprocal Protection of Investments, in: Dolzer/Schreuer: *Principles of International Investment Law*. Oxford 2008.

<sup>8</sup> Some confusion should be noted with regard to the Chinese Model BITs in academic literature and amongst the interested community. Dolzer/Schreuer, and subsequently Berger, rely on a Chinese Model BIT that is dated 2003. Gallagher/Shan identify three Chinese Model BITs dating from 1984 (First Model BIT), 1989 (Second Model BIT) and 1997 (Third Model BIT). The text of the 1997 Model BIT as identified by Gallagher/Shan is identical to the model BIT relied upon by Dolzer/Schreuer. Independent of diverging views on the date of issuance of this Model BIT, all scholars agree that it is the Chinese Model BIT currently in force. See: *Third Chinese Model BIT (1997): Agreement between the Government of the People's Republic of China and the Government of \_\_\_\_\_ on the Promotion and Protection of Investments*, in: *Chinese Investment Treaties: Policies and Practice*. Gallagher, Norah and Shan, Wenhua. Oxford, 2009. Appendix, pp.427-431.

<sup>9</sup> 2004 US Model BIT.

German Model BIT lists different categories of intellectual property in even greater detail, including all sorts of industrial and artistic rights as well as business-related intangible assets such as business secrets and trade names.<sup>10</sup> The 1997/2003 Chinese Model BIT comes very close to the German sample, referring to “every kind of asset”, and listing IPRs in detail in a non-exhaustive list.<sup>11</sup>

The coverage of IPRs in BITs internationally is overall similar to that in the three examples of current Model BITs mentioned above, although variations in formulation exist. Agreements may refer to “every kind of investment”, “every kind of asset”, “every kind of goods, rights, and interests of whatsoever nature”.<sup>12</sup> Treaties may or may not list certain IPRs individually, but the application of generally broad language gives reason to assume that a general recognition of BITs covering intangible property exists. Importantly, while the precise wording of IPR coverage in BITs may have changed over time with the development of the international IPR regime, the inclusion of IPRs in the scope of BITs as such is far from new. Indeed, reference by BITs to IPRs can be traced back to agreements on investment concluded between states before the rise of the BITs-regime.<sup>13</sup> Following this logic, the first BIT, concluded between Germany and Pakistan in 1959, explicitly mentions patents and “technical knowledge”.<sup>14</sup>

#### GERMANY-PAKISTAN BIT (1959)<sup>15</sup>

##### *Article 8*

1) (a) *The term “investment” shall comprise capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, patents and technical knowledge.*

Since BITs practice has overall remained unchanged, an ongoing conviction that IPRs are covered under BITs must be assumed. The continuing coverage of IPRs in BITs since 1959 makes it clear that possible inconsistencies and different levels of protection for IPRs provided for under BITs and the TRIPS Agreement must in principle already have existed at the time of the negotiation of the TRIPS Agreement during the Uruguay Round. Arguments that there has been a recent change in protection levels of IPRs due to BITs coverage thus seem – at least on the basis of the principle coverage of IPRs in

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<sup>10</sup> 2005 German Model BIT.

<sup>11</sup> 1997 Chinese Model BIT.

<sup>12</sup> For a further overview see also: Mortenson, “Intellectual Property as Transnational Investment: Some Preliminary Observations,” 5; Brian A. White and Ryan J. Szczepanik, “Remedies Available Under Bilateral Investment Treaties for Breach of Intellectual Property Rights,” *Transnational Dispute Management* 6, no. 2 (August 2009): 3.

<sup>13</sup> IPRs are already covered in earlier types of agreements. As Liberti reports, the reference to IPRs was a common feature of the US Friendship Commerce and Navigation (FCN) Treaties long before the conclusion of the first BITs. As early as 1903, a US – Chinese FCN included matters of copyright protection. See: Lahra Liberti, “Intellectual Property Rights in International Investment Agreements: An Overview,” *Transnational Dispute Management* 6, no. 2 (August 2009): 6.

<sup>14</sup> Germany/Pakistan, *Treaty for the Promotion and Protection of Investments (with Protocol and exchange of notes)*, 1959, [http://www.unctad.org/sections/dite/ia/docs/bits/germany\\_pakistan.pdf](http://www.unctad.org/sections/dite/ia/docs/bits/germany_pakistan.pdf).

<sup>15</sup> *Ibid.*



BITs – rather unconvincing.<sup>16</sup> This aspect should be kept in mind for the analysis of possible TRIPS-plus characteristics of BITs to be discussed in Part 3 of this paper.<sup>17</sup>

Despite the generally undisputed coverage of IPRs in BITs, a few technical points need to be stressed, which may in individual cases limit the application of BITs to IPRs. First, IPRs claiming protection under investment agreements need to qualify as investments, meaning that they not only need to be covered by the formula defining protected subject-matters, but not surprisingly must also fulfil the other treaty requirements, in particular, they must have the general characteristics of an investment.<sup>18</sup> The above cited 2004 US Model BIT, for example, specifies that to qualify as an investment, the investment “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.”<sup>19</sup> This may limit the coverage of an IPR in cases where the IPR is not applied in a host country in a substantive way in its business operations and thus it may lack the characteristics of an investment. Secondly, certain BITs explicitly limit the investment protection guaranteed by establishing requirements which need to be met for an investment to enjoy protection. In particular, treaties may subject the rights granted to the condition that they are in accordance with the laws and regulations of the contracting party in whose territory the investment has been made, a good example being the above-cited Chinese Model BIT.<sup>20</sup>

Such a prerequisite may prove an important limitation, particularly for patents. Patents follow the territoriality principle, meaning that for the granting of a patent, it needs to be applied for in different countries and jurisdictions individually. Protection of a specific technical invention by a patent depends on the success of the application process under the individual jurisdiction. This raises the delicate question of the protection of patents held by an investor under an applicable BIT if the patents concerned have so far only been granted by authorities in the home state, or if these patents are still in the application process in the host state in which the investment has taken place. It has been argued that in these cases the patent will only come into legal existence as an investment when the host state’s authorities have found the invention to be patentable under its national laws and have officially

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<sup>16</sup> See above, note 4.

<sup>17</sup> See: 3.1. Interaction and Incongruence between Bilateral Investment Treaties and the TRIPS Agreement, 40 ff.

<sup>18</sup> Lavery emphasises that besides these requirements, potentially applicable jurisdictional prerequisites may exist that go beyond the mere definition of “investment”. These prerequisites can include citizenship issues, timing of the investment and existence of an investment authorization. See: Rachel A. Lavery, “Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements,” *Transnational Dispute Management* 6, no. 2 (August 2009): 3.

<sup>19</sup> *2004 US Model BIT*. Note also that similar requirements have been developed and applied by ICSID tribunals.

<sup>20</sup> See *Table 1: The Coverage of IPRs in BITs: Looking at three Model BITs*, at 7.

granted the relevant patent.<sup>21</sup> Thus, in a given case, a patent may enjoy protection as an investment under the relevant BIT only once the patent has been granted by the host state.<sup>22</sup> From an alternative viewpoint, it may be argued that a patent, albeit just in an application process for a domestic patent, must be understood as integral part of the property of an investor, as are the investor's other intangible rights such as famous trademarks or designs. If such broad coverage of IPRs under BITs were not accepted, any investor would be able to invest with some legal certainty in a foreign country only once all application processes for his patents had been completed under domestic procedures. This may constitute an unreasonable hindrance to investments.

Some BITs seem to have recognized the issue and provide for a wide definition with regard to patents including patents in an application process. The US-Jamaica BIT mentions "patentable inventions" as coming within the scope of protection of the agreement, which is arguably a term broader than protection available for granted patents. By the same token, "rights with respect to copyrights, patents..." are occasionally mentioned in BITs,<sup>23</sup> a broad term which may include pending patents. Under such terms, the patent application itself could already constitute a protectable subject-matter. As Seelig rightly points out, for such a wide formulation "it appears that the mere denial of granting a patent to a patentable invention could already constitute a violation of the investor's investment."<sup>24</sup> Finally, as an example of a very wide scope, a few treaties, such as the US-Mongolian BIT, adopt the formulation "inventions in all fields of human endeavor".<sup>25</sup> This formula arguably covers all current and future IPRs, whether suitable or unsuitable for registration and whether registered or unregistered.<sup>26</sup>

To conclude, while a general coverage of IPRs is undisputed, future jurisprudence may have to discuss and provide guidance on specific details, particularly with regard to the question of whether a specific IPR has the

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<sup>21</sup> See Marie Louise Seelig, "Can Patent Revocation or Invalidation Constitute a Form of Expropriation?," *Transnational Dispute Management* 6, no. 2 (August 2009): 3.

<sup>22</sup> It should be noted that such narrow patent protection under BITs may constitute a serious lacuna in international patent protection. If it was within the host state's discretion to grant treaty protection to a patent since this host state's authorities were in a position to decide upon the granting and validity of a patent within its borders, the main goal of international investment law – to guarantee investment protection on an international level independent from possibly biased interference of the host state – would be undercut. Investments taking the form of patents are thus a matter that deserves particular attention.

<sup>23</sup> See for example the Argentina/Canada BIT, Article 1, Definitions. Argentina/Canada, *Agreement Between The Government of Canada And The Government Of The Republic Of Argentina For The Promotion And Protection Of Investment*, 1991, [http://www.unctad.org/sections/dite/iaa/docs/bits/argen\\_canada.pdf](http://www.unctad.org/sections/dite/iaa/docs/bits/argen_canada.pdf).

<sup>24</sup> Seelig, "Can Patent Revocation or Invalidation Constitute a Form of Expropriation?" 3.

<sup>25</sup> Mongolia/United States of America, *Treaty between the United States of America and Mongolia concerning the Encouragement and Reciprocal Protection of Investment*, signed: 6 October 1994, in force: 4 January 1997.

<sup>26</sup> See Lavery, "Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements," 8.

characteristics of an investment, and with regard to IPRs with a territorial scope such as patents. Such jurisprudence may not be limited to the exact wording of the treaty, but may also take into account the object and purpose of the treaty and its context.<sup>27</sup>

For IPRs coming under the scope of an IIA, the treaty's various treatment and protection standards are applicable. Investment law generally distinguishes between comparative and absolute treatment standards. The former make a comparison between the treatment different foreign investors receive (which may invoke matters via the MFN Clause), and the treatment any foreign investor may receive compared to treatment available for domestic investors (thus possibly bringing up matters of national treatment). Absolute treatment standards apply independently from any treatment applied to any foreign or domestic investor.

No general statement about the reach of these treatment clauses can be made. The more broadly standards are formulated the more interpretative leeway they leave, and the more their meaning may have to be determined in case-by-case analysis. The lack of precedent on the question of IP protection under BITs therefore constitutes a challenge. The following analysis of the impact of these provisions on the specific subject matter of IP will be largely an exercise in navigating uncharted waters.

## **1.2. Most-Favoured Nation Treatment**

MFN clauses are customary in nearly all BITs. They allow foreign investors to profit from the highest standards of treatment provided to any country under any BIT the host country has signed and ratified. As such, MFN clauses entail *per se* international obligations not only among the contracting states, but also with regard to other states, since an MFN clause may "borrow" from international treaties or state practice other than between the contracting states. The MFN clause in a BIT thus opens up this BIT for future developments which are unclear at the moment the treaty is concluded, as any future, more favourable treatment granted by one of the contracting states to another contracting party will become part of the scope of the treaty via its MFN clause.<sup>28</sup>

Recognizing this important opening-up effect of MFN clauses, today's discussion on such clauses mostly concerns a few more specific questions, i.e. whether MFN clauses also relate to procedural rights, such as dispute settlement and the treaty's definitions, and to what extent the scope of the

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<sup>27</sup> According to the Vienna Convention on the Law of Treaties, Article 31, United Nations Treaty Series Vol. 1155, 2005, *Vienna Convention on the Law of Treaties*, 1969, [http://untreaty.un.org/ilc/texts/instruments/english/conventions/1\\_1\\_1969.pdf](http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_1_1969.pdf). See also Markus Perkams and James M. Hosking, "The Protection of Intellectual Property Rights Through International Investment Agreements: Only a Romance or True Love?," *Transnational Dispute Management* 6, no. 2 (August 2009): 15.

<sup>28</sup> Andreas R. Ziegler, "Most-Favoured-Nation (MFN) Treatment," in *Standards of Investment Protection*, Editor: Reinisch, August (Oxford: Oxford University Press, 2008), 64.

MFN clause is limited to “like circumstances” or “like situations”.<sup>29</sup> Both of these aspects of the discussion may have *indirect* relevance to a discussion on IP issues under BITs, since in a given situation the determined scope of the MFN clause may also have relevance for IP cases. One example may be a future comparison of different forms of investments, such as investment in the form of IP and investment in the form of tangible assets to assess their “likeness”. Any general finding on the application of the MFN standard under BITs may thus also have some relevance to the IP context.

With regard to IP conventions, the TRIPS Agreement itself provides for MFN treatment.<sup>30</sup> In contrast to earlier IP conventions and treaties, the MFN principle was introduced into the TRIPS Agreement in order to underline the intentions of WTO Members to integrate IP firmly into the multilateral trading system.<sup>31</sup> Extending any more favourable conditions deriving for instance from regional trade agreements to all WTO Members, the MFN clause – not unlike the MFN clause in BITs – functions to spread equal rights internationally. The MFN clause in the TRIPS Agreement thus helps in setting the common “floor” of IP rights internationally; while for investment law as represented mostly by BITs, the MFN clause helps to set a common baseline of investment protection. Where investment takes the form of IP, they overlap.

Given that both the TRIPS Agreement and investment treaties provide for MFN clauses, the most interesting question is whether the existing MFN clauses alter the scope of rights provided for under the agreements with regard to IPRs, i.e. if the existence of MFN clauses in BITs might increase levels of IP protection internationally via their MFN clause. First, this could be the case if BITs could “borrow” rights from IP Conventions (TRIPS or any other international agreement, possibly even with TRIPS-plus characteristics), or if they could broaden the rights inscribed in BITs with regard to IPRs by wiping out exceptions provided for in investment agreements.

On the first point, the proposal to incorporate substantive rights into BITs from any of the existing IP conventions via the BITs’ MFN clauses, a

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<sup>29</sup> *Ibid.*, 59.

<sup>30</sup> Article 4, TRIPS. The Article also provides for relevant exceptions, exempting any advantage, favour, privilege or immunity accorded by a Member: “(a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property; (b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country; (c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement; (d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members”. World Trade Organization, *Marrakesh Agreement Establishing the World Trade Organization*, first published by the GATT Secretariat in 1994. Reprinted by Cambridge University press, 2004. The WTO Agreement including all Annexes and Documents is also available at the homepage of the WTO, at: [http://www.wto.org/english/docs\\_e/legal\\_e/final\\_e.htm](http://www.wto.org/english/docs_e/legal_e/final_e.htm).

<sup>31</sup> Carlos M. Correa, *Trade Related Aspects of Intellectual Property Rights - A Commentary to the TRIPS Agreement*, Oxford Commentaries on the GATT/WTO Agreements (Oxford and New York, 2007), 66.

critical view is needed. According to current treaty practice, the dynamic nature of the MFN clause is limited to operating only in “like situations” or “like circumstances”.<sup>32</sup> While the likeness in any given case may have to be determined in detail, it is generally ruled out for third party treaties if such a treaty does not regulate the same subject matter as the original BIT. According to the *eiusdem generis* principle, the third party treaty must, in principle, regulate the same subject matter as the basic treaty, since otherwise the treaty’s specific standards would be read in a different way than its original context, with a high risk of misinterpretation. As Ziegler notes, “no other rights can be claimed under an MFN clause than those falling within the subject-matter of the clause.”<sup>33</sup> Given the different regulatory intent of the TRIPS Agreement and BITs, it seems implausible that BITs could “borrow” from IP conventions via the BITs’ MFN clause.

Secondly, while the incorporation of standards from non-investment treaties via the MFN clause seems improbable, Correa points out that “there is a risk that the MFN clause [may] be invoked to override exceptions to certain rights specified in a particular agreement and not recognised in an agreement with other parties.”<sup>34</sup> By the same token, White argues that MFN clauses may limit the use of exceptions in BITs with regard to IPR regulation, since broader rights may be borrowed from other BITs via the MFN clause.<sup>35</sup> The MFN clause in a BIT may thus nullify any advantages obtained by a host country by inscribing exceptions to certain IPRs in a particular BIT.<sup>36</sup> These assumptions seem generally relevant. However, the opening-up effect of the MFN clause does not seem to be of particular relevance for IP regulation and specifically for any possible TRIPS-plus characteristic of BITs. In fact, the discussion on MFN effects on any substantive rights inscribed in any BIT – be they related to IP or any other subject matter – and particularly the discussion about any limitations or exceptions in BITs being wiped out by MFN clauses, is a discussion that is typical of the international BIT system.<sup>37</sup> It is thus one more question to alert governments about the effects unlimited MFN clauses included in BITs may have. It is, however, not a discussion that would be specific to IPRs or have any specific relationship to international agreements on IP regulation, such as the TRIPS agreement.

### **1.3. National Treatment**

With regard to the second comparative treatment standard, national treatment, the situation is different to that of MFN treatment, since the

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<sup>32</sup> Ziegler, “Most-Favoured-Nation (MFN) Treatment,” 74.

<sup>33</sup> *Ibid.*

<sup>34</sup> Carlos M. Correa, *Bilateral Investment Agreements: Agents of a New Global Standard for the Protection of Intellectual Property Rights?*, 2004, 12, <http://www.grain.org/briefings/?id=186>.

<sup>35</sup> See White and Szczepanik, “Remedies Available Under Bilateral Investment Treaties for Breach of Intellectual Property Rights,” 5.

<sup>36</sup> *Ibid.*

<sup>37</sup> See Andrew Newcombe and And Lluís Paradell, *Law and Practice of Investment Treaties: Standards of Treatment* (The Netherlands: Kluwer Law International, 2009), 197, 198.

standard of comparison in national treatment is the domestic level. While the MFN clause in both the TRIPS Agreement and in BITs merely requests equal treatment amongst actors from different countries without touching upon the substance of the rules at issue, the national treatment standard will require domestic regulation to be opened up to foreign players, and it requires ensuring that the rules at issue are *de jure* and *de facto* providing non-discriminatory treatment to foreign investors. In a discussion on possibly diverging treatment standards for IP in the TRIPS Agreement and under BITs, the national treatment standard connecting foreign investor treatment to domestic regulation may thus arguably be of higher relevance than the MFN treatment clause.

National treatment is one of the key principles regularly found in BITs. Its inclusion in investment treaties is an expression of the recognition that foreign entities might be subject to less favourable treatment in a host country on the basis of their foreignness.<sup>38</sup> The national treatment standard aims at neutralizing rules which discriminate against foreign entities by offering treatment less favourable than the treatment available to domestic investors. One of the important issues under national treatment is thus the question of the comparator against which the allegedly less favourable treatment may be measured. Claimants will have to be in “like circumstances” in relation to this domestic comparator. While *de jure* discrimination against foreign investors is comparatively rare, most cases today concern a measure which on its face is neutral, but has in practice a differential effect on domestic and foreign investors.<sup>39</sup>

The national treatment standard is also incorporated in many IP conventions, including the TRIPS Agreement. In the TRIPS Agreement it is limited by a number of exceptions, being those already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971),<sup>40</sup> and the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. Further, in respect of performers, producers of phonograms and broadcasting organizations, the rights granted are limited to those explicitly mentioned under the TRIPS Agreement.<sup>41</sup>

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<sup>38</sup> Andrea K. Bjorklund, “National Treatment,” in *Standards of Investment Protection*, Editor: Reinisch, August (Oxford: Oxford University Press, 2008), 29.

<sup>39</sup> *Ibid.*, 30.

<sup>40</sup> The exceptions of the Berne Convention to national treatment relate to (i) copyright terms which exceed the Berne Minimum, Art 7(8), (ii) copyright in applied art, and (iii) *droit de suite*, Art. 14 ter (2). See the *Berne Convention for the Protection of Literary and Artistic Works*, 1971, [http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs\\_wo001.pdf](http://www.wipo.int/export/sites/www/treaties/en/ip/berne/pdf/trtdocs_wo001.pdf), and see Lionel Bently and Brad Sherman, *Intellectual Property Law*, 3rd ed. (Oxford and New York: Oxford University Press, 2009), 40.

<sup>41</sup> TRIPS Article 3.1 reads in full:

1. Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. In respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of the rights provided under this Agreement. Any Member availing

National treatment in BITs does not include these exceptions; national treatment applies generally. BITs may overall include certain exceptions and reservations, usually relating to objectives such as essential security interests, public order, human health, and the environment; *force majeure* and state of war or civil unrest may also regularly be reasons to preclude the application of the treaty.<sup>42</sup> Obviously, these exceptions in BITs and the TRIPS Agreement do not match. Leaving for the moment a detailed answer to the question on possible impacts of the broad exceptions in BITs in possible cases of mistreatment of investors' IPRs aside, it is clear that exceptions under the TRIPS Agreement are more specific than the general exception clauses in BITs. This may lead to a situation in which a foreign investor faces treatment in a host country which is in conformity with the TRIPS Agreement under the TRIPS Agreement's specific exceptions, but challengeable under a BIT since it violates the BIT's national treatment obligation and is not covered by any of the agreement's reservations. For example, the protection for rights of performers, producers of phonograms and broadcasting organizations under the TRIPS Agreement is limited to what the TRIPS Agreement spells out, and WTO Members may consequently discriminate with regard to other rights. Such other rights could for example be – according to Correa – the participation of local and foreign performers in funds generated by levies on blank tapes.<sup>43</sup> Such rights would however arguably still fall under BITs' national treatment provision to the extent that they are not covered by the BITs' reservations. It must thus be assumed that BITs provide with their national treatment standard for rights that reach further than the TRIPS Agreement. They do so by not providing for the specific exceptions included under the TRIPS Agreement. Certainly, final clarification may be reached only by a consistent jurisprudence,<sup>44</sup> a matter to be settled in the future.

#### **1.4. Fair and Equitable Treatment**

“Fair and equitable treatment” is a standard formulation regularly relied upon in international law. It is also embodied in the TRIPS Agreement, and is a key treatment standard under BITs. The fact that the formulation is widely used in international law ought not to be taken as an indication that it has an identical meaning in different legal agreements or contexts. On the contrary, it must be seen as a sign of its wide scope and breadth.

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itself of the possibilities provided in Article 6 of the Berne Convention (1971) or paragraph 1(b) of Article 16 of the Rome Convention shall make a notification as foreseen in those provisions to the Council for TRIPS.

<sup>42</sup> For a good overview of exceptions and reservations in BITs see, for example, Chapter 10 – Exceptions and Defences, in: Newcombe and Paradell, *Law and Practice of Investment Treaties: Standards of Treatment*, 481 ff.

<sup>43</sup> Correa, *Bilateral Investment Agreements: Agents of a New Global Standard for the Protection of Intellectual Property Rights?*, 11.

<sup>44</sup> White and Szczepanik, “Remedies Available Under Bilateral Investment Treaties for Breach of Intellectual Property Rights,” 5.

In the TRIPS Agreement, fair and equitable treatment is requested with regard to the procedures for enforcing IPRs.<sup>45</sup> Enforcement must not be unnecessarily complicated or costly, and it cannot entail unreasonable time-limits or unwarranted delays. Fair and equitable treatment is not provided for as a standard of treatment under the TRIPS Agreement, unlike MFN treatment and national treatment as mentioned above.<sup>46</sup> The situation is different in BITs, where fair and equitable treatment is the most important absolute treatment standard. Given this systemic difference, it seems that the standard as used in the TRIPS Agreement and under BITs is different and generally not related.<sup>47</sup> The question as to the protection of IPRs under BITs and a possible TRIPS-plus characteristic thus requires an understanding about what fair and equitable treatment means under BITs, and what effects this treatment has in cases of possible expropriation or mistreatment of investors' investments taking the form of IPRs.<sup>48</sup>

As an absolute standard, the fair and equitable treatment standard under international investment law relies on its own normative content. This normative content needs to be determined in the light of the specific circumstances of application.<sup>49</sup> Efforts to determine the treatment standard under BITs with the help of a list of objective standards any government must adhere to, such as the requirement for a host country to provide due justice in criminal, civil or administrative matters, are thus of limited help. Although these requirements can be considered core ideas of what the standard embraces, the fair and equitable treatment standard – sometimes shortened to FET – cannot be limited to a list of important but finally unsystematic characteristics. Further uncertainty exists as to the standard's relationship to other concepts of absolute treatment such as the minimum treatment

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<sup>45</sup> Article 41 (2), Part III of the TRIPS Agreement states: “*Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.*”

As to civil and administrative procedures and remedies, Article 42 (“Fair and Equitable Procedures”), states that: “*Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.*”

<sup>46</sup> See “1.2. Most-Favoured Nation Treatment”, at 10; and “1.3. National Treatment”, at 12.

<sup>47</sup> Individual cases to be brought before a Panel having a focus on enforcement issues of IPRs under BITs may possibly wish to see a loose connection between the different agreements. Particularly, the protection of due process under the TRIPS Agreement may be relevant in the context of “denial of justice” provisions in BITs. See further below, 2. Key Issues Testing the Scope of Intellectual Property Rights Protection under Bilateral Investment Treaties, p. 22, particularly 2.3. Intellectual Property Rights Piracy, p. 33. This does not preclude the generally different scope of the fair and equitable treatment clause in BITs and under the enforcement chapter in the TRIPS Agreement.

<sup>48</sup> As such, it does not seem promising for a theoretical discussion on the impact of the fair and equitable treatment clauses on IPRs, to apply individual elements of the treatment standard to possible IPR cases and test the outcome.

<sup>49</sup> Katia Yannaca-Small, “Fair and Equitable Treatment Standards: Recent Developments,” in *Standards of Investment Protection*, Editor: Reinisch, August (Oxford: Oxford University Press, 2008), 111.



standard, and treatment standards under customary international law. Sometimes fair and equitable treatment is understood as being an autonomous, distinct standard of international investment law, and sometimes it is seen as an expression of other sources and standards of international law, i.e. treaty or customary international law.<sup>50</sup> Independent of which argument is preferred, the test applied and the final reasoning is made along the same lines: As Grierson & Laird underline, “a claimant must demonstrate that the treatment it has received fell below the ‘floor’ established by the international law standard (whether imposed under customary international law or by treaty).”<sup>51</sup> The key question for the protection of IPRs under the fair and equitable treatment clause in BITs thus concerns the matter of what must be considered the floor of international law standards with relevance for IP. Several aspects are of particular importance, here.

First, fair and equitable treatment has often been understood as a requirement for governments to refrain from interfering with an *investor’s legitimate expectations*.<sup>52</sup> This obligation builds upon the principle of good faith, although it is not necessarily limited to it. The concept of investors’ legitimate expectations has developed into a key concept in international investment law,<sup>53</sup> and discussions meander around the question of what investors may reasonably expect, what these expectations can be built on, at what moment in time these expectations are relevant, and what policy changes an investor must reasonably accept after his investment. It seems obvious that the investor’s legitimate expectations will also play a key role in any discussion of protection of IPRs under BITs, since an argumentation based on legitimate expectations can be led without the challenge of projecting the case against a comparator (as is necessary for claims under national treatment or MFN treatment), and it will thus be an opportunity troubled investors will be glad to take. In this context, one cannot exclude the possibility that legitimate expectations override standards offered under international IP conventions, although it does not seem probable. For example, a case may be imaginable in which the factual situation in a country and relevant communication between

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<sup>50</sup> Todd Grierson-Weiler and Ian A. Laird, “Standards of Treatment,” in *The Oxford Handbook of International Investment Law*, Editors: Muchlinski, Peter; Ortino, Federico; Schreuer, Christoph (New York: Oxford University Press, 2008), 262.

<sup>51</sup> *Ibid.*

<sup>52</sup> Key interpretation of the standard has been provided by the Arbitral Tribunal in Case law, including “TECMED”, in which the Tribunal stated:

“154. The Arbitral Tribunal considers that this provision of the Agreement [...] requires the Contracting Parties to provide to international investments treatment that does not affect the basic expectations that were taken into account by the foreign investor to make the investment. The foreign investor expects the host State to act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations.” See ICSID, *Tecnicas Medioambientales Tecmed S.A. v the United Mexican States* ICSID - CASE No. ARB (AF)/00/2 (2003).

<sup>53</sup> For a recent analysis see André von Walter, “The Investor’s Expectations in International Investment Arbitration,” in *International Investment Law in Context*, Editors: Reinisch, August; Knahr, Christina (Utrecht: eleven international publishing, 2008), 173 ff.

authorities in charge and the investor give reason for investors to assume a certain level of protection higher than that provided for by international conventions. More certainly, it is to be expected that any such discussion on legitimate expectations of investors with regard to the protection of their investments taking the form of IP will take place against the backdrop of international conventions such as the TRIPS Agreement. Indeed, an investor will argue that it can legitimately expect a host government to abide by its commitments under the TRIPS Agreement, particularly if the host state is a WTO Member and in light of the fact that TRIPS standards are known to form the floor of international IPR protection levels. In this sense, although the TRIPS Agreement is not directly brought under BITs, reference to the Agreement as a standard is probable in a given dispute, and it seems promising for an investor to claim treatment at least on the levels the TRIPS Agreement provides for.<sup>54</sup> The emerging discussion connected to the legitimate expectations of investors under current rules leaves considerable leeway for debate and legal discourse.

Second, BITs occasionally demand treatment *in accordance with international law*.<sup>55</sup> In the context of IPRs protected under BITs, this brings up the idea that this provision may possibly be used to incorporate the substantial body of international intellectual property law such as the TRIPS Agreement or conventions under the World Intellectual Property Organization (WIPO) into BITs. The essential question concerns the scope of “international law” as set in the BITs. Does “international law” mean customary international law only or does it extend to the full range of international law sources?<sup>56</sup> When the application of this provision came up under the North American Free Trade Agreement (NAFTA), the three contracting parties issued a common interpretation to make clear that their intention was reference to customary international law only. It must be assumed that similar views will be expressed if the issue comes up under BITs, and thus would exclude the application of international intellectual property law. The matter has however never been tested for IPRs, and a plain reading of the standard may well allow a reading that includes more than customary international law.

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<sup>54</sup> Going even further, in cases of IIAs with a broader scope than BITs, such as FTAs or PCAs including both investment and IP chapters (with TRIPS-plus characteristics), investors will have convincing arguments to claim that as part of their legitimate expectations they can rely, under an investment chapter of such an agreement, on those standards of protection that are overall part of the agreement, i.e. for investments taking the form of IP, that are spelled out in the dedicated IP chapters of this same treaty. Note that some IIAs have foreseen this discussion and include clauses separating the different chapters of these Agreements, which will limit the arguments open for investors. See also above, note 2, at.

<sup>55</sup> Such provisions are typically found in older US BITs.

<sup>56</sup> For an overview of the sources of law, reference is customarily made to Article 38 of the Statute of the International Court of Justice, which mentions customary international law, international conventions, general principles of law, and – as subsidiary sources – judicial decisions and teachings of the most highly qualified publicists.

Besides the reference to “international law”, agreements regularly refer to treatment not below the *international minimum standard of treatment*.<sup>57</sup> Does the international minimum standard of treatment as found in many BITs enforce the TRIPS Agreement or even reach beyond it? The question is arguably open for discussion, and certain points may be made to argue that a foreign investor may claim to receive treatment under BITs on levels not lower than provided by the TRIPS Agreement. The TRIPS Agreement undoubtedly establishes the floor of IP protection regarding international recognition, protection and enforcement of IP rights. Whether these minimum standards match with what is called the “international minimum standard of treatment” under investment law needs to be discussed. First, if the BITs’ international minimum standard is understood as basically equalling treatment under customary international law, it may be difficult to argue that TRIPS standards constitute the international minimum standard, since TRIPS is current not considered to be part of customary international law, although the Agreement or certain of its standards may be about to develop into customary international law with ongoing practice and growing conviction of states.

If, second, the international minimum treatment standard was to be seen disconnected from customary international law, and rather making reference to what is generally the minimum standard of treatment as de facto existing globally, reading the TRIPS standards into this concept seems easier. This is because the scope of the levels of protection established in the TRIPS Agreement may arguably be assumed as being recognized quasi-globally, spread by the TRIPS Agreement itself and by a wide range of bilateral and regional agreements building on the TRIPS Agreement. Particularly for WTO Members and contracting partners of agreements with a TRIPS-plus characteristic and advanced, domestic law on IP protection, the adherence of the country to the undisputed TRIPS standards as constituting the international minimum standard of treatment may well be an expectation of an investor, and this may be so clear that no further confirmation to the respective investor would be needed before the investment takes place. If the BIT makes explicit reference to TRIPS in one or another of its provisions,<sup>58</sup> this may be seen as a further proof of the conviction of the contracting parties as to the relevance of the TRIPS Agreement as today’s global minimum standard of IPR regulation.

Last but not least, agreements such as EU Association Agreements exist, which do not refer to the “international minimum standard of treatment” as commonly mentioned in classical BITs, but instead refer to “protection of the

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<sup>57</sup> The exact relationship between the “international minimum standard of treatment” and other treatment standards such as the fair and equitable treatment standard is contentious. Often, and as assumed here, the “international minimum treatment” is part of a fair and equitable treatment. For a good overview on the matter see Chapter 6, in Newcombe and Paradell, *Law and Practice of Investment Treaties: Standards of Treatment*, 233-319.

<sup>58</sup> This may be the case for example in treaty language requiring consistency of a compulsory licence with the provisions of the TRIPS Agreement. See below, 2.1. Compulsory Licences, at 23; and 3.2. Towards a better Integration of the TRIPS Agreement and Bilateral Investment Treaties, at 44.

highest international standards".<sup>59</sup> In this case, in light of the fact that TRIPS standards constitute the floor and not the ceiling of international IPR protection, treatment levels with TRIPS-plus characteristics must be assumed to be the intention of the contracting partners and can thus be expected to be available to investors.

### **1.5. Dispute Settlement**

BITs provide for dispute settlement procedures different from those under the WTO's dispute settlement understanding (DSU). The WTO DSU provides for a state-centric dispute resolution approach, with no access for private parties.<sup>60</sup> In the case that a violation of the WTO Agreement is found, the DSU requires WTO Members to bring the inconsistent measure into conformity with the WTO Agreement. This implies a cessation of the unlawful act, compensation on a state-to-state level, or – if compensation cannot be obtained reached – the DSU allows for a withdrawal of concessions by on sides of the damaged party. Importantly, the system does not offer any reparation or financial relief for the losses suffered by private parties from states' WTO-inconsistent measures.<sup>61</sup> This is true for all private parties, be they exporters, importers, investors (as under GATS Mode 3) or IPR holders.

International arbitration in investment disputes as prescribed in BITs centres on the rights of individual investors (that is private parties rather than states)<sup>62</sup> to raise claims directly against the host state in which the investment has taken place. From a procedural perspective, the system is modelled on international commercial arbitration. From the perspective of the actors involved, it must be underlined that in investor-state arbitration, the sovereign immunity of the state is waived, so as to allow trials against states before privately constituted international arbitration tribunals.<sup>63</sup> While there is a certain array of IIAs differing in the specific elements that investor-state

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<sup>59</sup> As an example, the Euro-Mediterranean Agreement, establishing an Association between the European Community and its Member States, on the one part, and the People's Democratic Republic of Algeria, on the other part stipulates in Article 44: "1. *The Parties shall provide suitable and effective protection of intellectual, industrial and commercial property rights, in line with the highest international standards. This shall encompass effective means of enforcing such rights*". EU/Algeria, *Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the People's Democratic Republic of Algeria, of the other part*, L 265, 2005, <http://ec.europa.eu/world/agreements/downloadFile.do?fullText=yes&treatyTransId=1241>. For further analysis see also Liberti, "Intellectual Property Rights in International Investment Agreements: An Overview," 4.

<sup>60</sup> Minor, contested issues such as *amicus curiae* briefs may be disregarded for the purposes of this discussion.

<sup>61</sup> Gaetan Verhoosel, "The Use of Investor-State Arbitration Under Bilateral Investment Treaties to Seek Relief for Breaches of WTO Law," *Journal of International Economic Law* 6 J. Int'l Econ. L. 493 (June 2003): 493.

<sup>62</sup> Difficult questions emerge if States act as private investors, for example in the form of state owned enterprises (SOEs), or state owned banks.

<sup>63</sup> Martín Molinuevo, *Can Foreign Investors in Services Benefit from WTO Dispute Settlement? Legal Standing and Remedies in WTO and International Arbitration*, August 2006, 5.

dispute settlement clauses may include, the exceptional possibility of investor-state arbitration is meant to reduce the risks related to the investment, and will thus allow for greater flows of foreign capital into developing countries.<sup>64</sup> Investors will – sometimes after a certain waiting period and occasionally after the exhaustion of local remedies – have the right to directly sue the government to challenge the host state’s compliance with the international obligations undertaken to the investors’ advantage. If the investor wins its case, there is a very good chance of having the award enforced, since international conventions bind states to abide by the ruling of the tribunals.

In sum, when discussing the protection of IPRs under BITs, it should be noted that BITs mostly have a dispute settlement procedure available, which has characteristics offering certain advantages to firms compared to dispute settlement at state-to-state level, such as provided for under the WTO’s DSU. This applies to all subject matters covered under the agreements, including rights in protection of IPRs. Indeed, this distinctive dispute settlement mechanism constitutes a noteworthy point in a discussion on possible TRIPS-plus characteristics of IIAs. In the end it does not matter if the fact that the different – and for firms possibly more efficient procedures of dispute settlement – which are available under BITs, are called a TRIPS-plus characteristics, or if one wishes to underline that different ways of resolving disputes and finally enforcing rights granted by certain agreements are not part of the discussion on substantive rights, since they *per se* do not alter the rights granted. Unlike WTO law, BITs give far-reaching rights to investors to directly enforce their rights against host states.

In conclusion, Part 1 has shown that BITs provide for a certain amount of protection for IPRs, since IPRs are forms of intangible investment covered under investment treaties. Key disciplines BITs typically enshrine have at least a potential to protect IPRs in a manner that reaches beyond TRIPS standards, since these provisions follow the logic of investment protection that is not congruent with standards provided for under the TRIPS Agreement. They are thus not limited to any TRIPS standards. The national treatment standard in BITs may reach further than TRIPS standards since it is not bound to the flexibility clauses inscribed in the TRIPS Agreement. For absolute treatment standards such as fair and equitable treatment, analysis is more difficult, since these standards are broad, often contentious and realize their protective effect taking into account their normative content as well as the factual situation in a given case. Although this leaves many questions open, it seems safe to argue that the legitimate expectations investors can have today with regard to those of their investments which take the form of IP include a treatment by the host country that respects relevant international IP standards. Particularly when the host state is a WTO Member, the TRIPS Agreement as today’s international floor of IP protection is a standard an investor may arguably take as a baseline any treatment would have to respect. While there are thus in

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<sup>64</sup> Ibid., 6.

theory considerable grounds for investors to read their rights in relation to the TRIPS Agreement, and several points can be made as to rights reaching beyond the TRIPS level, the lack of case law at present may hinder any definite answer as to the exact scope of a TRIPS-plus dimension of BITs. To explore the issue further, a few key issues that may typically arise with regard to IP protection under BITs will be explored below in Part 2.

## **2. Key Issues Testing the Scope of Intellectual Property Rights Protection under Bilateral Investment Treaties**

The increasing globalization and integration of the world economy offers firms chances to internationalize their business activities. As multinational enterprises (MNEs), their economic activities are spread internationally, and require the application of their IPRs on global scale, be it in the form of copyrights, trademarks, geographical indications, industrial designs, patents or trade secrets. With the global application of private parties' IPRs, these rights are increasingly becoming subject to the risks of doing business in countries whose commitments to property rights, particularly intangible rights such as IPRs, often diverge from those of the investors' home states. In these countries, as Mortenson summarizes, "governments may impose arbitrary compulsory licences; courts may refuse to enforce patents; tax enforcement agents may encourage copyright piracy; regulatory agencies may improperly disclose trade secrets and other proprietary data. In all cases, investors may face hostile domestic courts unwilling or unable to vindicate their property rights."<sup>65</sup>

The issue is serious: to mention just one key figure, according to the Organisation for Economic Co-operation and Development (OECD), international trade in counterfeit and pirated goods totalled approximately US\$ 200 billion in 2005, an amount that is larger than the national GDPs of about 150 economies.<sup>66</sup> The negative effects of IPR theft exceed the purely commercial losses of companies, and include impacts on health, safety and jobs.<sup>67</sup> In light of the relevance of the issue, international efforts to tackle IPR violations globally seem comparatively poor. Most surprisingly, BITs as the key legal instrument to protect investors' assets against expropriation and unfair treatment in a host state have seen hardly any application in IP matters, although, coming within the scope of the treaty as shown in Part 1 of this paper, the treaty's treatment standards and protection clauses against expropriation and unfair treatment are applicable to investments taking the form of IP.

Part 2 approaches the matter by looking into a few of the key issues that are most likely to come up with regard to the protection of IPRs in a host state,

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<sup>65</sup> Mortenson, "Intellectual Property as Transnational Investment: Some Preliminary Observations," 1.

<sup>66</sup> OECD, *The Economic Impact of Counterfeiting and Piracy* (Paris, 2008), 15.

<sup>67</sup> James E. Mendenhall, "Fair Treatment of Intellectual Property Rights Under Bilateral Investment Treaties," *Transnational Dispute Management* 6, no. 2 (August 2009): 1.

and which may be of the greatest concern to investors. The question raised is what protection BITs offer in the typical cases of IPR violation in a host state, including compulsory licences imposed on investors (2.1.), performance requirements set by regulatory bodies affecting a company's IPRs (2.2), and IPR piracy involving trademark and copyright violation being practiced in a particular country to the detriment of the investors' assets invested in that country (2.3).<sup>68</sup> Given the lack of concrete cases, analysis must be limited to setting out the key issues arising. In preliminary assumption, these are centred on the question of possible state failure, since IIAs protect investors from illegitimate interference by a *host state* in their economic activities; disputes between companies are outside the scope of IIAs. Infringements of the guaranteed rights possibly attributable to the host state might take the form of acts, e.g. through the granting of compulsory licences, or might appear as omissions, e.g. in the form of denial of justice against acts of infringement by private parties.

In applying the law, different BITs-based treaty disputes may arise: affected investors may allege that an illegal direct or indirect expropriation of their IPRs has taken place, followed by disputes over the amount, or mode, of compensation. Investors in IPRs may further claim unfair treatment, either by discriminatory acts (national treatment, MFN treatment), or by violation of absolute treatment principles such as fair and equitable treatment, or full protection and security. It seems obvious that the more challenges the claim raises, i.e. the less obvious state failure is, the more investors will resort to broad and inexplicit treatment guarantees. Clear cases of expropriation in IPRs may be comparably rare.

### **2.1. Compulsory Licences**

Amongst the various unexplored issues with regard to the protection of investments taking the form of IPRs under BITs, the issue of compulsory licences may arguably be one of the most eye-catching. Clearly, compulsory licences constitute typical forms of government acts that can interfere with the private ownership rights of investors. Since these investors will often be foreign, this topic is at the core of the regulatory intent of BITs.<sup>69</sup> Indeed, concerning one of the few compulsory licences that have so far been issued,<sup>70</sup> the affected foreign company, a producer of an important HIV-related drug, claimed that its property had been expropriated, stating that "[t]his

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<sup>68</sup> Certainly, the issues mentioned here are just selection of the important questions emerging. Other typical cases, not specifically addressed here, include patent revocations, parallel importations and others.

<sup>69</sup> The issue has thus, and differently to most other issues, seen a certain coverage in academic literature. For further reading, see: Carlos M. Correa, "Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses," *Michigan Journal of International Law* 26 Mich. J. Int'l L. 331 (Fall 2004): 331; Carlos M. Correa, "Intellectual Property Rights as an Investment: Options for Developing Countries," *Transnational Dispute Management* 6, no. 2 (August 2009): 1-16; Christopher Gibson, "A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation," *Transnational Dispute Management* 6, no. 2 (August 2009): 1-55.

<sup>70</sup> For an overview of several compulsory licences issued/acts of government use noted so far, see Table 3, in: Correa, "Intellectual Property Rights as an Investment: Options for Developing Countries," 3.

expropriation of intellectual property sends a chilling signal to research-based companies about the attractiveness of undertaking risky research on diseases that affect the developing world".<sup>71</sup>

Compulsory licences are generally an authorization granted by a government to a party other than the holder of a patent on an invention to use that invention without the consent of the patent holder.<sup>72</sup> A compulsory licence can be subjected to certain conditions, most importantly restrictions on time and place, and will usually provide for the payment of remuneration to the right holder.<sup>73</sup> Compulsory licences can take various forms, either being called explicitly by their name, or appearing *de facto*. If a government wishes to use a patented invention for a non-commercial purpose itself, this is usually referred to as "government use".<sup>74</sup>

The TRIPS Agreement as well as later declarations issued by WTO Members recognize compulsory licences as part of the flexibilities to deviate from the general IPR protection rules as expressed in the TRIPS Agreement, and by that also show that the concept of compulsory licensing is recognized in many countries under domestic law. Importantly, the TRIPS Agreement does not define any grounds to justify the issuance of a compulsory licence, and the Doha Declaration on TRIPS and Public Health<sup>75</sup> confirms that countries are free to determine such grounds themselves. The TRIPS Agreement does however provide a detailed list of conditions that need to be fulfilled to make a compulsory licence lawful, including the requirement that efforts have been made to obtain on reasonable commercial terms a voluntary licence from the patent holder, and, if the efforts failed, the requirement that right holders obtain adequate remuneration for the losses suffered.<sup>76</sup>

While the TRIPS Agreement thus offers a rather detailed legal framework to apply to compulsory licences, BITs – focusing on investment and not IPRs – do not expressly cover the issue, save for a few noteworthy exceptions, to be addressed later on.<sup>77</sup> The interference of the government with the ownership rights of private investors may however violate several of the generally available protection standards inscribed in BITs, including in

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<sup>71</sup> Citation taken from the protest note of the producer company Merck, protesting against the compulsory licence issued by Brazil. Cited after the online platform "drugs.com", at: <http://www.drugs.com/news/merck-amp-co-inc-statement-brazilian-government-s-decision-issue-compulsory-license-stocrin-6088.html>. Visited last 23 October 2009.

<sup>72</sup> UNCTAD-ICTSD Project on IPRs and Sustainable Development, *Resource Book on TRIPS and Development* (Cambridge University Press/UNCTAD/ICTSD, 2005), 461.

<sup>73</sup> Correa, *Bilateral Investment Agreements: Agents of a New Global Standard for the Protection of Intellectual Property Rights?*, 14.

<sup>74</sup> *Ibid.*, 15.

<sup>75</sup> For the text of the Doha Declaration on TRIPS and Public Health refer to the homepage of the WTO, at: [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_trips\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm) (visited last: 23 October 2009).

<sup>76</sup> TRIPS, Article 31.

<sup>77</sup> As below, 3.2. Towards a better Integration of the TRIPS Agreement and Bilateral Investment Treaties, at 44.



particular disciplines against unlawful expropriation, i.e. the most severe form of interference with property.<sup>78</sup> The emerging questions thus concern first the legality of a compulsory licence under investment disciplines, and second, the possible interactions with the TRIPS Agreement.

Expropriation clauses under BITs typically cover broadly the different forms of expropriation, including direct expropriation, as well as indirect forms of expropriation and creeping expropriation. International law accepts the right of states to expropriate as so fundamental, that even in modern BITs it is not questioned. Treaty law, by contrast, addresses conditions and consequences of expropriation.<sup>79</sup> These include three (sometimes four) requirements which must be met for an expropriation to be lawful: the measure must serve a public purpose, it must not be arbitrary and discriminatory, its procedures must follow standards of due process, and it must be accompanied by prompt, adequate, and effective compensation.<sup>80</sup>

Under a typical compulsory licence, the licence as such is not taken, but the state – or a private actor acting at the request of and under the conditions imposed by the state – assumes the rights to use the respective IPR. Strictly, the legal ownership of the IPR will thus remain with the IPR holder, which may exclude claims for direct expropriation under a BIT. There may then be contention as to whether the granting of the compulsory licence amounts to an act of indirect expropriation or constitutes a government regulation investors need to accept. As the delineation of the borderline between acceptable government regulation and unacceptable expropriation is one of the main themes in international investment law, rich case law, as well as recent treaty language which tries to define this borderline, may be relied upon to clarify the issue.<sup>81</sup> Given the overall broad concept of expropriation under investment agreements, a strong argument can certainly be made for indirect expropriation at least with regard to the typical forms of compulsory licences.

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<sup>78</sup> Other treatment standards such as full protection and security, fair and equitable treatment, or MFN treatment and national treatment may need to be considered as well, but will not be analysed in this paper due to limitations on length and scope.

<sup>79</sup> Rudolf Dolzer and Christoph Schreuer, *Principles of International Investment Law* (New York: Oxford University Press, 2008), 89.

<sup>80</sup> *Ibid.*, 91. Such typical clauses on expropriation are found in most agreements, an example may be the Swiss–Hong Kong BIT, which stipulates in Article 5 (Expropriation):

“(1) Investors of either Contracting Party shall not be deprived of their investments nor subjected to measures having effect equivalent to such deprivation in the area of the other Contracting Party except lawfully, on a non-discriminatory basis, for a public purpose related to the internal needs of that Party, and against compensation.” *Agreement between the government of Hong Kong and the Swiss Federal Council on the Promotion and Reciprocal Protection of Investments*, signed: 22 September 1994, in force: 22 September 1994. Note that some BITs do not retake the Hull formula *expressis verbis*; substance-wise its requirements are included in most bilateral agreements.

<sup>81</sup> Gibson offers a detailed analysis focused on compulsory licences, distinguishing between three elements to be considered when drawing the line between legitimate government regulation and indirect expropriation, namely (1) the level of deprivation, (2) rises in the level of an indirect expropriation, and (3) the character of government action/regulatory purpose. See: Gibson, “A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation,” 20-31.

In the case that an (indirect) expropriation of an investor's IPR is established, questions as to the justification and due compensation arise, which – if satisfactorily dealt with – may render the expropriation lawful under the BIT. The commonly applied justification for expropriation, *public purpose* (or its variation: *public benefit*),<sup>82</sup> seems to be a requirement a compulsory licence may fulfil if the licence is applied in one of the typical cases, such as access to medicines, and if the application is undertaken in a non-discriminatory manner. Not only is it generally established that the host government has wide discretion in determining what public purpose may mean for the country concerned, but large-scale public health issues are hardly likely to be challenged as not benefiting the public.

With regard to the question of compensation, several technical issues as to timing and amount of compensation may emerge and give rise to dispute. Under the rules applying to compulsory licences granted under the TRIPS Agreement, the amount paid to affected right holders is generally based on a royalty rate applied on the net sales value of the products covered by the licence.<sup>83</sup> The amount of remuneration thus follows the ongoing use of that licence by the government or government-authorized third party. The more the licence is relied upon the higher the amount of compensation. Under expropriation rules, however, the amount of compensation is calculated *ex ante*, and must usually mirror the fair market value at the moment the expropriation took place or became publicly known. While in investment disputes the calculation of the amount of compensation due is usually a complicated issue, the principle idea behind it is that the compensation must restore the economic situation to the one that would have existed if the expropriation had not taken place.<sup>84</sup> These different approaches to the calculation of compensation in a given case are likely to lead to disputes. It seems that, in a case of a far-reaching compulsory licence, the calculation under IP regimes may lead to lower compensation than that offered in expropriation claims, since it means a certain royalty rate only, whereas in a situation of expropriation the affected investor will claim any losses the expropriation may encompass. In cases of rather narrowly-focused compulsory licences the losses an investor actually suffers may be lower. In a case where a government has decided, for example, to distribute a certain drug to hospitals for treatment of the poor who are not in a position to purchase these drugs due to budget restraints, the right holder may not suffer any decline in sales and/or any losses.<sup>85</sup>

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<sup>82</sup> The requirement is usually referred to as “public purpose”, but in some other treaties may also be called “public interest”, “public benefit”, “public utility” etc. See in detail Newcombe and Paradell, *Law and Practice of Investment Treaties: Standards of Treatment*, 370.

<sup>83</sup> Correa, “Intellectual Property Rights as an Investment: Options for Developing Countries,” 15.

<sup>84</sup> See Dolzer and Schreuer, *Principles of International Investment Law*, 272.

<sup>85</sup> The discussion on who loses and who wins in case of compulsory licences is a difficult one. Particularly when the products produced under the compulsory licence are distributed to persons in need of the products and who would otherwise not have been able to buy these products, the issuance of the compulsory licences may even have positive economic effects for the original right holder, since he or she does not lose any revenue, but his or her product profits by becoming more well-known.

As demonstrated above, investment law is thus of considerable significance to questions of compulsory licences, and expropriation provisions are relevant disciplines available to investors to tackle the potentially negative economic effects of compulsory licences. Discussions on compulsory licences thus always bring up issues that have to be considered from both the perspective of intellectual property law, mostly the TRIPS Agreement, and the perspective of investment law, mostly the applicable BITs. This fact inevitably leads to the question about possible interactions between the different, competing areas of law. Does one set of rules provide for more far-reaching rights, and what is the relationship in the case of diverging provisions? A few points on the possible TRIPS-plus characteristics and on interrelationships of investment law and the TRIPS Agreement need to be raised.

First, despite certain differences in scope, it is important to underline that the approach of the TRIPS Agreement and BITs to compulsory licences is not contradictory in terms of the principles. Both the TRIPS Agreement and BITs recognize that while the ownership rights of IPR holders must be respected, certain flexibilities apply to enable the state to respond to broader public interests. In this case, under both IP and investment disciplines, the right holder is entitled to be compensated for its losses. While the TRIPS Agreement is silent on the grounds upon which a compulsory licence may be issued, the test to be passed under investment disciplines (*public benefit*) should for compulsory licences normally be a self-explanatory one and will thus not create any legal challenge. The detailed conditions under which a compulsory licence may be granted as put forward under the TRIPS Agreement (Article 31 (a) - (l)), albeit leaving considerable leeway for domestic regulation on the details, set an overall framework to ensure that the right holder is treated with up to a certain level of fairness, which may be seen to be generally in line with treatment requirements under BITs, such as fair and equitable treatment, that have a similar aim.

Secondly, despite these matches in terms of general objectives and main principles of both sets of rules, important differences exist in the details. While BITs give some requirements as to the reasons with which an expropriation may be justified, the TRIPS Agreement focuses on the conditions. The approach to compensation/remuneration is different. It should be noted that there may be a tendency to fill the gaps left by investment law with the logic applied by intellectual property law and vice versa, as the similar intentions of both legal disciplines suggest relying on the relevant legal rules of the other field of law to fill these gaps. Those discussing compulsory licences under the TRIPS Agreement may wish to take into account the perspective of investors, and investment disciplines will see a need to take into account the TRIPS Agreement recognizing that compulsory licences are an important instrument under intellectual property law and the latter already makes detailed provisions on the subject-matter. In an expropriation dispute before an investment tribunal, it seems probable that arguments as to the fairness accorded to the investor will revert to the list of conditions as set under Article 31 TRIPS, and thus, even though WTO law may officially not be a source of

law to rely on, these criteria may be used as a benchmark against which a measure may be assessed. This may be done with explicit reference to the TRIPS Agreement thus applying the TRIPS Agreement as an interpretative context, or without mentioning the TRIPS Agreement explicitly. In any case, given the close interrelation of investment law and intellectual property law on matters such as compulsory licences, legal interaction between the different fields of law seems unavoidable.

Last but not least, different dispute settlement procedures apply and – as above – open up distinct ways for investors to claim their rights.<sup>86</sup> Investors will certainly try to use the complete repertoire of international law to enforce their rights, and may lobby for government action under the TRIPS Agreement while at the same time pursuing their own legal efforts under investment treaties. For reasons of legal certainty and the avoidance of forum shopping, it may seem recommendable to clarify the priority of the law to apply to compulsory licences. Currently, no priority exists. For alleged violations of investment law, investors may turn to the protection of applicable IIAs; for violation of intellectual property law, affected right holders may on the international level turn to the TRIPS Agreement, and lobby their national government to file a dispute with the WTO under the Organization's DSU.

Very few international agreements have anticipated this situation of claims to be brought before two different fora, and included provisions in their treaty language to clarify which agreement should be given priority. NAFTA's Chapter 11, in the provision on expropriation and compensation (Article 1110.7), contains an exception with regard to compulsory licences.<sup>87</sup> Article 6 of the 2004 US Model BIT (Expropriation and Compensation) contains a provision that seems to give priority to the TRIPS Agreement as an agreement dedicated to the international regulation of IPRs, and precludes the application of the BIT to the matter of compulsory licences and other IPRs. It states under Article 6.5: *"This 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 the TRIPS Agreement."*<sup>88</sup> Similar treaty language is to be found in subsequent US BITs, which follow the 2004 Model, such as the 2005 US-Uruguay BIT.<sup>89</sup>

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<sup>86</sup> See above, 1.5. Dispute Settlement, at 20.

<sup>87</sup> Article 1110.7, *North American Free Trade Agreement*, <http://www.nafta-sec-alena.org/en/view.aspx?x=343>.

<sup>88</sup> Article 6.5, *2004 US Model BIT*.

<sup>89</sup> Article 6(5), US/Uruguay BIT. United States of America/Uruguay, *Treaty Between the United States of America and the Oriental Republic of Uruguay Concerning the Encouragement and Reciprocal Protection of Investment*, signed: 4 November 2005, enacted 1 November 2006, [http://www.unctad.org/sections/dite/iaa/docs/bits/US\\_Uruguay.pdf](http://www.unctad.org/sections/dite/iaa/docs/bits/US_Uruguay.pdf). See also Gibson, "A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation," 33, 34.

This provision must be seen as a first effort to clarify the application of investment law to interference of a state with IPRs. Compulsory licences, as one of the typical cases which may lead to disputes, are thus explicitly mentioned, but the scope of the provision is wider and encompasses the “revocation, limitation, or creation of intellectual property rights”, so arguably covers all matters coming up with regard to investments taking the form of intellectual property. A number of points are worth mentioning with regard to this provision concerning matters of interaction between the TRIPS Agreement with investment law, and the role investment law will, despite this reference to the TRIPS Agreement, continue to play for the matter of investments taking the form of IPRs. Given that the scope of this provision is much wider than compulsory licences, the provision will be scrutinized in more detail in Part 3 of this paper, which discusses at greater length the question of a TRIPS-plus dimension of BITs and possible interactions in treaty language.<sup>90</sup>

## **2.2. Performance Requirements**

While compulsory licences are an issue where applicable rules of the TRIPS Agreement and investment law compete and may provide for different legal rules, the prohibition of performance requirements under many BITs does not contradict the TRIPS Agreement outright. The prohibition may however be at odds with the TRIPS Agreement’s spirit on a number of points, particularly with regard to certain performance requirements such as technology transfer, which are to a certain extent encouraged by the TRIPS Agreement for development purposes. The issue has also a particularly current relevance since technology transfer has recently been growing in importance in the context of climate change adaptation measures.

Developing countries encourage foreign direct investment (FDI) in order to profit from its development enhancing effects. In this regard, the access to technology is one of the most pressing issues for developing countries, since technology as founded in IPRs is the key to advanced industrial production and high value goods and services. As to the regulation of access to technology for developing countries, significant conflict and competing models have been seen over time. While technology owning and exporting developed countries have supported a market based transfer model,<sup>91</sup> which basically puts developing countries’ companies in competition with their more advanced competitors from industrialized countries, developing countries have long been requesting a transfer model that is based on a regulatory approach to technology transfer.<sup>92</sup>

Both the TRIPS Agreement and BITs predominantly aspire the market based transfer model, which gives priority to far-reaching ownership rights

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<sup>90</sup> See Part 3, 3.2. Towards a better Integration of the TRIPS Agreement and Bilateral Investment Treaties 44.

<sup>91</sup> See: Peter Muchlinski, *Multinational Enterprises and the Law* (Oxford University Press, 2007), 454-470.

<sup>92</sup> *Ibid.*, 444-454.

for inventions and knowledge, tempered by competition law. The TRIPS Agreement does so based on the idea that stringent intellectual property law is a driver for innovation; BITs adhere to the market based transfer model because it reflects best the aim of BITs to protect investors' investments against government interference. While thus adhering generally to a similar concept of technology transfer, the difference in the approach of the TRIPS Agreement and BITs consists in the degree of recognition of the beneficial effects of technology transfer as a development vehicle. The TRIPS Agreement recognizes the role intellectual property regulation plays in development and thus calls for certain flexibilities. BITs, particularly older ones, have little to say with regard to development flexibilities. On the contrary, many agreements list performance requirements prohibited under the agreement, including forced technology transfer. These differences may amount to inconsistencies between the TRIPS Agreement and BITs.

The two-sided approach taken by the TRIPS Agreement with regard to technology transfer is well reflected in a number of its provisions. While the binding legal rights spelled out are mostly protection rights, these rights should be read in a manner that recognizes broader interests and values. Article 7 (*Objectives*) of the TRIPS Agreement sets out that *"the protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations."*<sup>93</sup> Article 8 (*Principles*) recognizes public health and the promotion of public interests in sectors of vital importance to Members' socio-economic and technological development as matters that may be addressed by Members with special measures, if consistent with the provisions of the TRIPS Agreement. Appropriate measures may also be necessary if right holders' practices adversely affect the international transfer of technology.<sup>94</sup> Article 66.2 (*Least-Developed Country Members*) states that *"[d]eveloped country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base."*<sup>95</sup>

A number of BITs make reference to performance requirements, and largely prohibit them. These BITs are mostly American, Canadian and Japanese ones, and a growing tendency has been seen towards including a prohibition of performance requirements in FTAs.<sup>96</sup> To the extent that they do make explicit reference to performance requirements, they usually broadly reject them. Performance requirements in the investment context, sometimes

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<sup>93</sup> Article 7, TRIPS. World Trade Organization, *Marrakesh Agreement Establishing the World Trade Organization*.

<sup>94</sup> *Ibid.*

<sup>95</sup> *Ibid.*

<sup>96</sup> See Newcombe and Paradell, *Law and Practice of Investment Treaties: Standards of Treatment*, 422.

also referred to as “host country operational measures”,<sup>97</sup> are construed similarly to the way they are dealt with under the WTO Agreement on Trade-Related Investment Measures (TRIMs).<sup>98</sup> However, they often encompass a wider list of issues covered; particularly export performance requirements, technology transfer requirements and limits on equity participation and remittance, none of which are covered by the TRIMs Agreement.<sup>99</sup> A typical example of BIT treaty language on performance requirements may be found in the Canada–Venezuela BIT (Annex, II.6.).<sup>100</sup>

#### CANADA – VENEZUELA BIT<sup>101</sup>

(Annex, II.6.)

*Neither Contracting Party may impose any of the following requirements in connection with permitting the establishment or acquisition of an investment or enforce any of the following requirements in connection with the subsequent regulation of that investment:*

[...]

*(e) requirements that an investor of the other Contracting Party transfer technology, a production process or other proprietary knowledge to a person in its territory unaffiliated with the transferor, except when the requirement is imposed or the commitment or undertaking is enforced by a court, administrative tribunal or competition authority, either to remedy an alleged violation of competition laws or acting in a manner not inconsistent with other provisions of this Agreement.*

Since this general prohibition of the above-mentioned performance requirements does not carve out any exceptions such as technology transfer as proposed under international intellectual property law, the provision raises difficult questions as to its consistency with other international agreements. Similar to the case of compulsory licences, to the extent that there is no reference to international intellectual property law such as the TRIPS Agreement, an investor may raise a claim against the host government if faced with a performance requirement contestable under the investment agreement, although the measure may be legitimate under the TRIPS Agreement.

In light of this situation, some recent investment treaties and model treaties have introduced clauses on technology transfer and IPRs. Some contemporary Japanese BITs include exceptions to the prohibition of

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<sup>97</sup> This terminology is mainly used by UNCTAD. See the relevant publication UNCTAD, *Host Country Operational Measures*, UNCTAD Series on issues in international investment agreements UNCTAD/ITE/IIT/26 (New York and Geneva: United Nations, 2001), [http://www.unctad.org/en/docs/iteiit20052\\_en.pdf](http://www.unctad.org/en/docs/iteiit20052_en.pdf).

<sup>98</sup> The TRIMs Agreement as part of the World Trade Organization, *Marrakesh Agreement Establishing the World Trade Organization*.

<sup>99</sup> Certainly, equally contrarily to the TRIMs Agreement, the application of these measures is not limited to trade in goods issues. See: UNCTAD, *Host Country Operational Measures*, 19.

<sup>100</sup> As Liberti reports, further examples for unqualified performance requirements may be found in Article 6 of the 1997 US Jordan BIT, prohibiting specified performance requirements including technology transfer requirements as a condition for the establishment, acquisition, expansion, management, conduct, or operation of a covered investment, or in Article 2(4) of the 1982 US–Panama BIT. See: Liberti, “Intellectual Property Rights in International Investment Agreements: An Overview,” 25.

<sup>101</sup> Canada/Venezuela, *Agreement Between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments*, 1996, <http://www.unctadxi.org/templates/DocSearch.aspx?id=779>.

performance requirements in the case that the requirement concerns the transfer of intellectual property rights which is undertaken in a manner not inconsistent with the TRIPS Agreement.<sup>102</sup> Some US FTAs such as the US–Chile FTA and the US–Morocco FTA provide for exceptions to the prohibition of performance requirements if the measure is in accordance with Article 31 of the TRIPS Agreement (*Other Use Without Authorization of the Right Holder*) or consistent with Article 39 of the TRIPS Agreement (*Section 7: Protection of Undisclosed Information*).<sup>103</sup> For further clarification, the 2004 US Model BIT spells out in a footnote that the exceptions mentioned include any waiver allowed under the TRIPS Agreement.<sup>104</sup> Eventually, FTAs that include both investment chapters and chapters dealing with intellectual property will aim at clarifying the relationship of performance requirements under the investment disciplines and the intellectual property disciplines of the agreement. Article 15.8.3(b)(i) of the US–Singapore FTA allows for a deviation from the provisions on performance requirements if authorized under the FTA’s Article 16.7.6 (*Patents*), and under the condition that the use is within the scope of and in consistency with Article 39 of the TRIPS Agreement.<sup>105</sup> Liberti offers further examples.<sup>106</sup>

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<sup>102</sup> See the 2003 Japan–Vietnam BIT and the 2002 Japan–Korea BIT, and similarly the 2002 Japan–Singapore EPA. Japan/Vietnam, *Agreement Between Japan and the Socialist Republic of Viet Nam for the Liberalization, Promotion and Protection of Investment*, signed: 14 November 2003, enacted 19 December 2004, [http://www.unctad.org/sections/dite/ia/docs/bits/japan\\_vietnam.pdf](http://www.unctad.org/sections/dite/ia/docs/bits/japan_vietnam.pdf); Japan/Korea, *Agreement Between the Government of the Republic of Korea and the Government of Japan for the Liberalisation, Promotion and Protection of Investment*, signed: 22 March 2002, enacted 1 January 2003, [http://www.unctad.org/sections/dite/ia/docs/bits/korea\\_japan.pdf](http://www.unctad.org/sections/dite/ia/docs/bits/korea_japan.pdf); Japan/Singapore, *Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership*, signed: 13 January 2002, enacted 30 November 2002, <http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?enc=GpUmeAae9dRWFg5kN2yuaT1PNrPUn6jt8HkZ5qr998=>.

<sup>103</sup> Chile/United States of America, *United States – Chile Free Trade Agreement*, signed: 6 June 2003, enacted: 1 January 2004, [http://www.ustr.gov/sites/default/files/uploads/agreements/fta/chile/asset\\_upload\\_file1\\_4004.pdf](http://www.ustr.gov/sites/default/files/uploads/agreements/fta/chile/asset_upload_file1_4004.pdf); Morocco/United States of America, *United States – Morocco Free Trade Agreement*, signed: 15 June 2004, enacted: 1 January 2006, <http://www.ustr.gov/trade-agreements/free-trade-agreements/morocco-fta/final-text>.

<sup>104</sup> Note 27, 2004 US Model BIT.

<sup>105</sup> Singapore/United States of America, *United States – Singapore Free Trade Agreement*, signed: 6 May 2003, enacted: 1 January 2004, [http://www.ustr.gov/sites/default/files/uploads/agreements/fta/singapore/asset\\_upload\\_file708\\_4036.pdf](http://www.ustr.gov/sites/default/files/uploads/agreements/fta/singapore/asset_upload_file708_4036.pdf).

<sup>106</sup> Besides the above-mentioned agreements, relevant clauses are, according to Liberti, to be found in the draft Multilateral Agreement on Investment (MAI), which allows for an exception to the prohibition of performance requirements in the case that the requirement “concerns the transfer of intellectual property and is undertaken in a manner not inconsistent with TRIPS Agreement” (“performance requirements” (f), p.19 of the agreement). Article 7(2) of the 2004 Canadian Model FIPA exempts the prohibition of the requirement to transfer technology, production processes or other proprietary knowledge from cases in which the technology transfer was intended to meet generally applicable health, safety or environmental requirements. See OECD, *The Multilateral Agreement on Investment - Draft Consolidated Text, DAF/MAI(98)7/REV1*, 1998, <http://www1.oecd.org/daf/mai/pdf/ng/ng987r1e.pdf>; Canada, *Agreement Between Canada and ----- for the Promotion and Protection of Investments*, 2004, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/assets/pdfs/2004-FIPA-model-en.pdf>; Liberti, “Intellectual Property Rights in International Investment Agreements: An Overview,” 24.



Finally, performance requirements, and particularly technology transfer, are currently increasing in importance due to climate change and the proposed adaptation and mitigation measures. In order to rapidly upgrade technology in developing countries towards lower carbon dioxide (CO<sub>2</sub>) emissions, technology transfer (both North–South and South–South) has been identified as an instrument of prime importance. To this end, Articles 7, 8, 31 and 66 of the TRIPS Agreement are being discussed with the aim of providing stronger encouragement for technology transfer.<sup>107</sup> A number of the measures proposed, including not only technology transfer but also local content requirements supporting a rapid diffusion of technology domestically may run against the TRIMs Agreement, and even more against the above-mentioned, stricter prohibitions of performance requirements under BITs.<sup>108</sup> How the upcoming inconsistencies may be reconciled remains an issue for future analysis. The fact that certain discrepancies emerge, however, does not come as a surprise. Indeed, as mentioned above, while the TRIPS Agreement and bilateral investment law follow the developed countries' market based transfer model of technology, climate change as a global challenge may call for more far-reaching commitments from developed countries and their multinational enterprises under an approach consisting in a regulation based transfer model. This change in system as necessitated by the challenges of climate change is the reason why the existing legal challenges of unknitting investment and intellectual property disciplines are currently gaining in importance.

### **2.3. Intellectual Property Rights Piracy**

Large-scale, systematic infringements of IPRs in a country are often referred to as IPR piracy. Such IPR piracy is arguably the biggest concern for foreign investors in many countries, since these infringements can lead to serious economic losses and may thus call into question the economic value of the whole investment.<sup>109</sup> Typical cases of IPR piracy will concern trademarks and copyrights, but patents may also be systematically abused in a country to the benefit of that country's companies and to the detriment of the right holders

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<sup>107</sup> For an overview, see Maria Anna Corvaglia, *South-South Technology Transfer Addressing Climate Change* (forthcoming, September 2009).

<sup>108</sup> For a recent key article on the issue, refer to Stefan Rechsteiner, Christa Pfister, and Fabian Martens, "TRIMS and Clean Development Mechanism – potential conflicts," in *International Trade Regulation and the Mitigation of Climate Change*, Editors: Cottier, Thomas; Nartova, Olga; Bigdeli, Sadeq Z. (Cambridge: Cambridge University Press, 2009), 298-318.

<sup>109</sup> Bender gives a good summary of the situation at the beginning of his article "How to Cope with China's (Alleged) Failure to Implement the TRIPS Obligations on Enforcement". He states: "*Most troubling to Western corporations is the problem of counterfeiting and pirating of patented and copyright-protected products [...], which has grown to epidemic dimensions. What started as a locally concentrated business on the copying of high-value designer goods has become a globalized, multi-billion dollar industry involving the manufacture and sale of illegal copies of, for example, soaps, shampoos, razors, batteries, cigarettes, alcoholic beverages, automobile parts, medicines as well as healthcare products. [...] The entertainment and software industry is plagued by enormous pirating of anything from music and film recordings to software.*" See: Tobias Bender, "How to Cope with China's (Alleged) Failure to Implement the TRIPS Obligations on Enforcement," *The Journal of World Intellectual Property* 9, no. 2 (March 2006): 231.

who have invested there.<sup>110</sup> It is well known that large amounts of counterfeited goods, usually produced in developing or emerging economies, are being sold domestically as well as shipped to overseas customers.<sup>111</sup>

IPR piracy as a possible issue coming under investment protection rules is substantially different to compulsory licences and performance requirements as covered above, for several reasons. First, a violation of IP rights in IPR piracy is today daily practice in a large number of countries worldwide. Many right-holding investors claim to be constantly confronted with significant amounts of IPR theft which are interfering with their business practice. This is clearly different from compulsory licences, which have so far been issued in a few cases which have led to international attention and discussion,<sup>112</sup> but which are not a regular phenomenon. Secondly, compulsory licences are acts of interference with ownership rights committed by the governmental authorities of the host country. As acts of the state, these possible violations of treatment or protection rights inscribed in the BIT will give investors a chance to challenge these acts under the provisions of an IIA. Acts of IPR piracy however are usually committed by private parties and thus typically do not fall under the scope of BITs, since BITs cover the delicate field of government interference with private investors' ownership rights, and leave private party disputes to domestic dispute settlement.

This leads to the core problem of international investment law and matters of IPR piracy: Despite large-scale, often systematic infringements often becoming evident and the economic losses suffered by the investing right holders being high, the role BITs can play in protecting the investors' investments internationally against IPR piracy seems systemically limited. Investment law protects investors against undue interference by the state (and its various authorities) but not against violations by private parties. Any attempt to bring systematic IPR theft in a host country under the scope of a BIT will thus have to focus on the question of the (illegitimate) role the host government may play or may have played in a certain case. Does the action or non-action of a government with regard to a certain situation of IPR piracy amount to a violation of the treatment standards guaranteed under BITs?

In order to shed light on this question, it may be useful to briefly refer to the relevant commitments states have assumed under the TRIPS

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<sup>110</sup> Patent infringements often go together with copyright infringements, for example when entire cars or consumer goods are being illegally reproduced. *Ibid.*

<sup>111</sup> Estimations on figures of losses of right-holders vary depending on the source, but make overall clear that the phenomenon is a sincere one. According to the World Customs Organization, reporting on border interceptions of counterfeited goods, more than 2,000 different trademarks were found in 2008, originating from more than 106 countries of origin and bound for 140 countries. Almost 15,000 seizures reported make up for more than 371 million found items. Since only a small amount of all counterfeited goods will actually be detected, estimations on real numbers are much higher. See World Customs Organization, *Customs and IPR Report 2008* (Brussels), <http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Enforcement/IPR%202008%20EN%20web.pdf>.

<sup>112</sup> See above, 2.1. Compulsory Licences, at 23.

Agreement. These will not be directly transferable to the BITs context, but they may give a clearer picture of the role governments play in protecting international IPRs, and the leeway within their international commitments they may have reserved in doing so. The TRIPS Agreement's main novelty does not lie in its substantive protection rights, since it is based on known international conventions such as the Paris Convention and the Berne Convention, but rather in the fact that it is the first international agreement to bring these protection rights, which were largely developed in Western countries, within one framework and to make them obligatory on the international level as an international minimum standard. With the TRIPS Agreement, the whole range of IP rights became a mandatory part of the international trading system, binding on all WTO Members alike and subject to the WTO's dispute settlement system.<sup>113</sup> Developing countries agreed to the inclusion of these rights after difficult negotiations, and under the condition that provision for certain flexibilities was to be introduced, and that the details of enforcement would be left to domestic law.

Crucial to the question of the efficient protection of investors' IPRs in a host state under the TRIPS Agreement are thus not so much the protection levels as such, but rather the guarantees for their enforcement. In this respect, the TRIPS Agreement takes a two-sided approach: on the one hand, the structures of review and dispute settlement under the WTO, i.e. the Council for TRIPS and the Organization's dispute settlement system provide for an international mechanism upon which WTO Members may rely in the case that they believe a state is not adhering to its commitments. On the other hand, with regard to concrete enforcement domestically, the Agreement relies primarily on the decentralized legal and administrative framework of Members' domestic systems to implement the minimum standards.<sup>114</sup> Here, the flexibilities allowed to Members are the reasons for loopholes and inefficiencies in enforcement. Part III of the TRIPS Agreement requires Members to have a fair and equitable legal enforcement system in place, with legal procedures available to right-holders to enable them to duly enforce their rights against infringers. The system requires, *inter alia*, the availability of administrative procedures, criminal procedures, provisional measures, and rights of information for all parties. As an important limitation, however, Part III makes it clear that with regard to the enforcement measures, no obligations are created *"to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general."*<sup>115</sup> It is the combination of the rather general requirements of the TRIPS

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<sup>113</sup> Thomas Cottier and Matthias Oesch, *International Trade Regulation: Law and Policy of the WTO, the European Union and Switzerland. Cases, Materials and Comments* (London and Berne: Cameron May and Staempfli Publishers Ltd. Berne, 2005), 916.

<sup>114</sup> Mainly in Part III, in which the TRIPS Agreement stipulates detailed procedures and remedies at the national level for effective enforcement of the rights.

<sup>115</sup> Article 41.5, TRIPS.

Agreement as to domestic enforcement mechanisms, with this clause that lowers expectations as to an efficient enforcement system by bringing it within the context of the often weak legal systems domestically available in Member countries, which are the main reasons for remaining inefficiencies seen mostly in developing countries.

While at the time of the negotiations of the TRIPS Agreement the binding nature of commitments and the obligatory dispute settlement system via the DSU constituted a big negotiation success for its supporters (mainly the US, the EU and Switzerland), evidence may exist to show that the success is only partial. While the awareness of IPRs may have risen, increasing numbers in IPR infringement cases and a lack of enforcement of IPRs in many countries worldwide makes it clear that the TRIPS Agreement has, despite its overall importance as a milestone in IP protection, limits with regard to international enforcement of IPRs. These limits are grounded in the lack of enforcement of the rights in many countries, and the limited means the TRIPS Agreement possesses with which to effectively demand improvements in the way countries deal with IPRs.

The TRIPS Agreement thus defines IPRs, requesting their availability in Member countries, and aims at ensuring their enforcement by prescribing certain parameters that must be observed with regard to domestic law and domestic enforcement procedures. BITs take a different approach. They do not request specific legal instruments and authorities to be available domestically (e.g. injunctions or means to gather evidence), but rather seek to ensure that, whatever procedures and authorities are exercised by a host country, foreign investors and their investments are treated fairly and their ownership rights are generally protected.<sup>116</sup> Concerning the legal means available through BITs to address IPR piracy, a number of functions may be fulfilled by BITs applying their various protection clauses. All functions face the same difficulty in identifying the (illegitimate) state role in the infringement. After all, an infringement as such does not amount to a subject-matter covered under a BIT. It is the state role that possibly deprives an investor of its rights through such an infringement that might be contestable under a BIT. This could be the case if the state itself was involved in the large-scale and systematic infringement of an investor's rights, if the state systematically supported infringement or if it failed despite the necessary means and awareness to effectively restrict systematic IPR piracy. Depending on the facts of the situation, claims may be brought on the whole range of protection clauses available in BITs, including indirect expropriation, violations of the national treatment or most-favoured nation treatment clauses, violation of absolute treatment clauses such as fair and equitable treatment, and states' violations of the usual commitment to provide full security and protection. While the matter deserves detailed attention, a few preliminary issues may be set out as follows.

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<sup>116</sup> Mendenhall, "Fair Treatment of Intellectual Property Rights Under Bilateral Investment Treaties," 4.

Matters of fair and equitable treatment may come up whenever legal procedures are used by an investor to sue infringers of its IPRs in domestic courts, and whenever these legal actions are not or are not effectively being carried out by the domestic authorities. This may include the persistent refusal of local police to conduct investigations or to seize goods that are infringing the investors' IPRs, despite the right-holder having presented strong evidence to local law enforcement authorities of criminal infringing activity. Under the fair and equitable treatment clause, the enforcement authorities are under an obligation to act with due diligence in protecting the investment. According to Mendenhall, this also includes a misapplication of the law if it introduces additional elements of unfairness, for example by obvious intent of the courts to favour a domestic company, or if the court was itself corrupt, denied due process, or otherwise demonstrated bias.<sup>117</sup>

Of particular sensitivity, is the question of evidence and standards of proof to be expected from the IPR holder in a case of systematic IPR piracy against which a state fails to provide sufficient protection. A state may refuse to engage sufficiently in gathering of evidence by its authorities, which may render it impossible for an investor to raise a claim due to lack of evidence. Possibly, a tribunal judging such a case could lower its expectations as to the evidence presented. However, the question remains as to what efforts a state can be expected to make in order to investigate a case of alleged IPR piracy, and what engagement it must show once certain indications have been presented, but the infringing activity continues. Here, as a standard of comparison, reference to the TRIPS Agreement is interesting. As stated above, under the TRIPS Agreement, Members are not forced to set up a distinct judicial system for the enforcement of IPRs and no obligations are created for them with respect to the distribution of resources to the enforcement of IPRs and the enforcement of law in general.<sup>118</sup> It can be foreseen that states in which significant IPR piracy takes place will use the TRIPS Agreement to support their argument and – given the often weak legal system in many emerging and developing countries – they will have a comparably easy task in justifying their lack of efforts to defend the investor's IPRs against infringement in their country.

The requirement to provide “full protection and security”, otherwise referred to as “full protection and legal security” or “constant protection and security” is a standard provided for in several, usually advanced BITs. The exact scope of the standard is unclear and needs some consideration, but it is certain that it is a standard that is placed outside the usual treatment standards of BITs, and arguably is particularly relevant in the field of IPR piracy. In cases of IPR piracy, contrary for example to cases of compulsory licences, the state itself is usually not the infringer of the IPR. Rather, the state's failure normally constitutes an “omission”, i.e. a lack of necessary action by the state to defend the investor's rights. Such failures by the state to

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<sup>117</sup> Ibid., 16.

<sup>118</sup> See above, note 115, at 35.

act are much more difficult to address with the help of BITs, since BITs focus on negative rights (“A host State must not...”), rather than positive rights, which would be helpful in cases of IPR piracy (“A host State is under the obligation to...”). Amongst the few positive rights eventually inscribed in BITs is the positive right to provide “full security and protection”, backed up by certain obligations to provide legal security, which are usually included in formulas such as fair and equitable treatment. As such, the duty of a state to guarantee “full protection and security” is a remarkable notation in international investment law generally, and possibly particularly relevant for cases of IPR piracy.

How far does the requirement to provide full protection and security reach? According to several tribunals it only means due diligence in, or reasonable measures for protecting the foreign investor from physical harm, such as harm from brigands or from violence by police or security officers.<sup>119</sup> In such a form, it does not support the case of investments taking the form of IPRs.<sup>120</sup> This argument is unconvincing, since IPRs are covered under the list of protected subject matters of BITs, and damage to them will always be non-physical, since these assets are intangible in nature and thus damages to them can only be intangible. Taking this view, tribunals in *Enron* and *Siemens* show a tendency to include IPRs in the scope of the clause. *Siemens*, relying on a clause demanding “full protection and legal security”, sees a wider scope, since “legal security” *per se* cannot be physical.<sup>121</sup> Finally, as Mendenhall notes, Article III.3 of the 1992 World Bank Guidelines on the Treatment of Foreign Direct Investment gives an example that clarifies the issue, stating that “[i]n all cases, full protection and security will be accorded to the investor’s rights regarding ownership, control and substantial benefits over his property, including intellectual

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<sup>119</sup> In 1990 the Arbitral Tribunal had already effectively summarized that “[t]he arbitral Tribunal is not aware of any case in which the obligation assumed by the host State to provide the nationals of the other Contracting State with ‘full protection and security’ was construed as an absolute obligation which guarantees that no damages will be suffered, in the sense that any violation thereof creates automatically a ‘strict liability’ on behalf of the host State.” ICSID, *Asian Agricultural Products Ltd. (AAPL) v Republic of Sri Lanka* CASE No. ARB/87/3 (1990).

<sup>120</sup> Other bilateral agreements, for most EU Association Agreements, have thus clarified in more detail what the term means. The EU Association Agreement with Algeria states in Article 44: “1. The Parties shall provide suitable and effective protection of intellectual, industrial and commercial property rights, in line with the highest international standards. This shall encompass effective means of enforcing such rights.” See: EU/Algeria, *Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the People’s Democratic Republic of Algeria, of the other part*.

<sup>121</sup> The Tribunal stated: “303. As a general matter and based on the definition of investment, which includes tangible and intangible assets, the Tribunal considers that the obligation to provide full protection and security is wider than “physical” protection and security. It is difficult to understand how the physical security of an intangible asset would be achieved. In the instant case, “security” is qualified by “legal”. In its ordinary meaning “legal security” has been defined as “the quality of the legal system which implies certainty in its norms and, consequently, their foreseeable application.” [...] It is clear that in the context of this meaning the Treaty refers to security that it is not physical. In fact, one may question given the qualification of the term “security”, whether the Treaty covers physical security at all. Arguably it could be considered to be included under “full protection”, but that is not an issue in these proceedings.” See, ICSID, *Siemens v Argentina* ICSID Case No. ARB/02/8 (ICSID 2007).

property.”<sup>122</sup> Overall, the “full protection and security” clause must be assumed to constitute an important element in the area of protection against IPR piracy under BITs. Yet, even if coverage of IPRs under the clause is assumed, it remains uncertain what this means in terms of obligations for a state in a given case of IPR piracy.

Last but not least, although IPR piracy is an issue mostly relevant between private actors, a case in which the state may be the actual infringer may be worth a thought. Indeed, a state can act in many ways and play many roles, going far beyond the traditional perspective, which is built on the assumption of a rather clear separation of the public sector and the private sector where business activity is basically left to the latter. IPR piracy, as a lucrative business, may also involve the police and military units, and take place in state-owned premises, conducted by state-owned enterprises (SOEs), or under the protection of high-ranking state officials and members of the judiciary. In these cases, the above-mentioned claims on grounds of state failure to provide full protection and security, as well as for denial of justice will be possible, particularly when difficulties arise as to a legal enforcement of the investor’s IPR ownership rights in domestic courts. The key argument would be that the legitimate expectations of the investor to have his or her exclusive rights protected were systematically undermined by a state, if this state, through its own bodies, systematically made use of these rights for its own economic benefit. It should, however, also be argued that even claims on grounds of indirect expropriation or creeping expropriation by the state must be considered. According to traditional public international law standards, state responsibility is based on conduct attributable to the state.<sup>123</sup> That is, private acts by natural persons performing a state function or legal persons owned by the state are attributable to the state only, if such conduct took place on the state’s instruction or under its direction or control.<sup>124</sup> This will be difficult to prove in a given case, since in a typical case the state will certainly refrain from giving clear orders, for example, to one of its SOEs to engage in criminal activities, but rather it will tolerate the activities knowingly, and the managers in charge will know that their behaviour is accepted and unofficially protected. In some case the reasons for the state to tolerate the activities may be financial incentives (profit-sharing amongst the profiting managers and government officials); from a wider perspective, the state may have an interest in tolerating IPR piracy for development purposes (i.e. in order to help to

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<sup>122</sup> World Bank, *Guidelines on the Treatment of Foreign Direct Investment*, 1992, <http://www.unctad.org/sections/dite/ia/docs/Compendium/en/18%20volume%201.pdf>; Mendenhall, “Fair Treatment of Intellectual Property Rights Under Bilateral Investment Treaties,” 11.

<sup>123</sup> See the abundant literature on state responsibility under public international law, including in particular the work of the International Law Commission on State Responsibility, resulting in its Articles on the Responsibility of States for Internationally Wrongful Acts, see International Law Commission, *Responsibility of States for Internationally Wrongful Acts, Yearbook of the International Law Commission, 2001, vol. II (Part Two)*, as annexed to the General Assembly resolution 56/83 of 12 December 2001, and corrected by document A/56/49 (Vol. I)/Corr.4, 2001, [http://untreaty.un.org/ilc/texts/instruments/english/draft%20articles/9\\_6\\_2001.pdf](http://untreaty.un.org/ilc/texts/instruments/english/draft%20articles/9_6_2001.pdf).

<sup>124</sup> See Anthony Aust, *Handbook of International Law* (Cambridge: Cambridge University Press, 2005), 410.

spread technology and information domestically). To provide legal evidence on this will be difficult for a foreign investor in an individual case. BITs in their current function seem to be a rather toothless animal for tackling these kinds of IPR infringements.

### **3. A TRIPS-plus Dimension?**

Bilateral trade agreements between WTO Members are by definition “WTO-plus”, since their purpose is to deviate from the multilaterally agreed WTO standards. Does this also hold true for investment agreements with regard to the issues that are also regulated under WTO law, such as IPRs? Part 1 and Part 2 of this paper have applied key treatment standards of BITs to matters of IPR protection. On the basis of the results found, Part 3 will discuss in more detail to what extent and in what sense BITs have a “TRIPS-plus” characteristic, and what legal questions emerge for policy makers concerned with international investment regulation and intellectual property law.

#### **3.1. Interaction and Incongruence between Bilateral Investment Treaties and the TRIPS Agreement**

Several elements of the analysis provide evidence that BITs are correctly claimed to provide for extended rights compared to the TRIPS Agreement. The main points may be set out as follows.

First, if “TRIPS-plus” simply means “anything deviating and thus possibly reaching further than TRIPS”, a straight legal analysis of the main provisions of BITs as undertaken in Part 1 of this paper shows that on several points – more or less important and more or less evident – TRIPS-plus elements cannot be denied.<sup>125</sup> BITs provisions applicable to the protection of investors’ IPRs are different in nature, and they often do not provide for the flexibilities and exceptions as provided for under the TRIPS Agreement. The differences concern mostly national treatment and fair and equitable treatment clauses. With regard to national treatment, situations may arise in which a foreign investor may see treatment that is in conformity with the TRIPS Agreement due to the TRIPS Agreement’s specific exceptions, but which remains challengeable under a BIT. With regard to fair and equitable treatment, arguments based on investors’ legitimate expectations offer considerable room for investors to claim their rights against host governments.

Second, BITs may spread their provisions applicable to the protection of IPRs via their MFN clauses. Under an (unqualified) MFN treatment of IPRs, a state party to a BIT must grant to investors of the other contracting party no less favourable treatment than it accords in like circumstances to a third country under any other bilateral or multilateral agreement with respect to the

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<sup>125</sup> See Part 1, pp. 5-22.



protection of IPRs.<sup>126</sup> The MFN clause in BITs thus leads to a dissemination of the rights negotiated by any treaty partner. In the case that the protection levels negotiated are below those of the TRIPS Agreement, this will be particularly relevant for non-WTO Members, since the rights become part of the global standards of intellectual property protection. To the extent BITs make reference to TRIPS standards BITs function as TRIPS proliferators.<sup>127</sup>

Third, the inclusion of IPRs in the list of protected subject matters will allow investors to access investor–state dispute settlement and raise a claim against the host state before a neutral, international tribunal in matters relating to the protection of the firm’s IPRs.<sup>128</sup> This route is an option for a company, which may in a given case offer direct compensation for losses suffered, and thus has very distinctive advantages for the company compared to any multilateral or bilateral agreement providing only for state-to-state dispute settlement. BITs thus provide a new enforcement instrument that other IPR-protection fora such as the WTO do not.<sup>129</sup> Correa notes: “Entering into a BIT [...] means, hence, the acceptance of disciplines, in particular, with regard to investor-states disputes, that add a new layer of protection to right-holders of IPRs.”<sup>130</sup>

Fourth, the fact that BITs act as IPR protection instruments may increase the overall relevance and recognition of IPRs on the international level, due to the discussion and (potential) enforcement of these rights by investment agreements. As a type of agreement not usually seen as being relevant from an IP perspective, BITs may with regard to their international proliferation – today there are about 2600 agreements worldwide – make an important contribution to the outreach of IPRs on the international level. With growing recognition of and practice of IPRs, BITs may add to the potential for a development of customary law with regard to intellectual property law, and possibly create with emerging case law international precedents of relevance to IP matters in areas other than investment fora, such as the WTO or WIPO.

In contrast to these arguments supporting the establishment of TRIPS-plus levels by BITs, some indication persists that the argument for a TRIPS-plus dimension is, if not wrong, at least not particularly relevant.

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<sup>126</sup> See above, 1.2. Most-Favoured Nation Treatment, at 11, and further Liberti, “Intellectual Property Rights in International Investment Agreements: An Overview,” 11.

<sup>127</sup> Few agreements have excluded this proliferation role of BITs. Article 6(2) of the Japan–Korea BIT states that “[n]othing in this Agreement shall be construed so as to oblige either Contracting Party to extend to investors of the other Contracting Party and their investments treatment accorded to investors of any third country and their investments by virtue of multilateral agreements in respect of protection of intellectual property rights, to which the former Contracting Party is a party”. Japan/Korea, *Japan-Korea BIT (2002)*; Liberti, “Intellectual Property Rights in International Investment Agreements: An Overview,” 10.

<sup>128</sup> See above, 1.5. Dispute Settlement, at 20.

<sup>129</sup> Anderson and Razavi, “International Standards for Protection of Intellectual Property Rights Post-Trips: The Search for Consistency,” 5.

<sup>130</sup> Correa, “Intellectual Property Rights as an Investment: Options for Developing Countries,” 1.

The historical origins as well as the development of BITs demonstrates that these agreements have never been meant to play a key role in IP regulation. The typical elements in BITs that reach further than TRIPS standards were not introduced as part of an effort to lay another level of protection on TRIPS standards. The diverging levels of protection in BITs compared to the TRIPS Agreement have generally existed since long before the TRIPS Agreement was negotiated and concluded. Even if BITs' protection levels for IPRs reach further than the TRIPS Agreement, they do so without this intention, but with a well justified aim: the protection of legitimate investors' rights. BITs thus face systemic limitations with regard to IPR protection, including injunctions and compensation models as practiced in the area of IP regulation.

Further, the lack of positive rights in BITs may be important. Except for the matters relating to denial of justice for failure to provide adequate remedies for IPR violations under domestic law, the character of bilateral investment treaty obligations addresses wrongful acts rather than omission. As has been shown, most cases of IPR infringement stem from omissions, i.e. failures of the state to protect the investments rather than the states' own, wrongful acts. Claims against the host government would, for IPR cases, be more promising if the treaty obligations were positive obligations, construed so as to force a country to actively protect investors from infringements of IPRs by private parties.<sup>131</sup>

Next, the fact that to date very few claims have directly addressed protection of IPRs, despite some 400 known investor-state dispute settlement cases overall, is surprising, and a reason to question the effectiveness and reach of BITs for the protection of investments taking the form of IPRs. Several scholars express the view that the subject-matter is a forgotten issue, which will rise to prominence and lead to a high caseload soon. Gibson notes that "This tandem of economic and political importance, combined with persistent international tensions concerning the proper scope, length of protection and enforcement of intellectual property, forms a potent cocktail in which disputes concerning intellectual property can arise between foreign investors and host states."<sup>132</sup> Perkams points out that few people are familiar with both areas of law, i.e. investment law and intellectual property law, which may also be a reason why the necessary academic work on the topic is lacking.<sup>133</sup> Further, it has been said that given the limited transparency of investment arbitration, the available data may represent only the tip of the iceberg, i.e. many cases may have not been reported to the public.<sup>134</sup>

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<sup>131</sup> See mainly in Part 2.3. Intellectual Property Rights Piracy, at 33.

<sup>132</sup> Gibson, "A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation," 3, 4.

<sup>133</sup> The number of experts on both intellectual property and international investment law is probably rather small. See Perkams and Hosking, "The Protection of Intellectual Property Rights Through International Investment Agreements: Only a Romance or True Love?," 2.

<sup>134</sup> Cases in investment disputes are only regularly made available to the public by the Centre for the Settlement of Investment Disputes (ICSID). Other facilities often do not make awards

Not contesting these explanations for the current lack of cases, there may nevertheless be a number of other reasons that limit the usefulness of the provisions on the protection of IPRs under BITs in their current form. Violation of private investors' IPRs by states is arguably a phenomenon predominantly occurring in developing countries (unlike environmental cases which have also been seen involving, for example, Canada). In such situations investors may be hesitant to enter into a public fight with the developing countries' governments, with often weak legal structures and dependent judiciaries, since public attention and claims by an investor that its property has been expropriated may infuriate the government to such an extent that it may mean the end of the firm's business activity in the country concerned. In countries such as China this is a high price to pay. Further, as has already been shown, protection of IPRs under BITs is the strongest where government acting is evident and thus a clear government responsibility can be established in case of IPR theft. The greatest losses for IP holders in host countries are, however, arguably in areas in which IP theft is perpetrated by competitors not effectively prevented from their infringement by the domestic law enforcement agencies in charge. Tackling these cases of theft with BITs disciplines will be difficult, since litigation against host governments is promising only for cases in which a clear government act that relates to the alleged loss has taken place.

Finally, several attempts have been noted – including by the US – to clarify the relationship between investment and IP disciplines on important aspects such as compulsory licences. However, there is no clear indication that such provisions would work towards a higher level of protection. Rather, they limit the provisions in investment disciplines to the level of TRIPS commitments. This may be taken as further evidence that no agenda exists amongst capital-exporting countries to use BITs as a means to add protection levels on top of the TRIPS Agreement. Certainly, Western countries, with their interest in high levels of IPR protection, will be glad if bilateral agreements – be they on investment or on any other area of trade regulation – support the enforcement of these rights, and the discussion about investment protection and IPRs has only just started. Yet, today the tendency seems to be to separate the regimes.

In conclusion, overlap between BITs and the TRIPS Agreement exists and a certain TRIPS-plus dimension can thus, strictly speaking, not be denied. But the character of the relationship between BITs and the TRIPS Agreement is substantially different: “TRIPS-plus”, in the typical interpretation of the expression, arguably means that the same subject-matters in intellectual property regulation are being topped up by another layer of regulation, which ratchets up the protection levels. This is not true for BITs. With their own regulatory intent of investment protection they occasionally reach over TRIPS

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public, and only after approval from the parties to the dispute. It thus seems likely that there are more cases, which are not known about due to the lack of transparency in investment treaty arbitration.

levels; however, they do not do so intentionally, but rather for their own purposes. They are in this sense not TRIPS-plus, but rather, in their current form, incongruent with the TRIPS Agreement. They look at the subject matter at issue, the regulation of IPRs owned by investors from a different angle, the angle of investment protection. This perspective is generally in line with the intentions of the TRIPS Agreement, since both sets of rules support binding and reliable levels of IPR protection. The perspective diverges on individual aspects, for example where flexibilities for development purposes have been inscribed in the TRIPS Agreement, and in BITs have been left out.

### **3.2. Towards a better Integration of the TRIPS Agreement and Bilateral Investment Treaties**

For the efficient and effective functioning of the law, BITs and the TRIPS Agreement need to be better aligned. While most BITs are currently silent on their interaction with the TRIPS Agreement, a few agreements have taken the first steps towards a clarification of priorities in case the agreements are found to overlap. The last part of this paper will look particularly at the provisions relating to compulsory licences and performance requirements as spelled out in the 2004 US Model BIT.

Given the different character and the different regulatory intentions of BITs and the TRIPS Agreement it may be argued that an exercise in clarification of competences is hardly likely to be successful if it merely tries to cut out the provisions in BITs which interfere with the TRIPS Agreement. Rather, it is necessary to understand the regulatory intent and scope of both intellectual property law and international investment law on the various subject-matters to be protected, and to define the interplay of the different areas of law for efficient regulation of the specific questions, so that they will be addressed in a coordinated manner from both sides. It may be argued that this could require giving priority to one area of law, but it might also mean there is a need to coordinate both sides in a more pro-active manner for mutual support. It is important to understand that the question of an overlap and possible interaction of investment law and intellectual property law is not limited to the cases where they are obviously contradictory, such as compulsory licences, but that the overlap can also constitute a field of innovation in regulation, particularly in areas where both the TRIPS Agreement and BITs are currently seeing little success, for example, the provision of efficient support against IPR piracy. Since the matter is largely unexplored,<sup>135</sup> these thoughts constitute a first assessment for use as a basis for further discussion, rather than a definite finding.

With regards to **compulsory licences**, and as referred to in Part 2 of this paper,<sup>136</sup> the relevant Article 6.5 of the 2004 US Model BIT seems at first sight to set limits to investment law by making it subordinate to the TRIPS

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<sup>135</sup> A noteworthy exception is the article by Gibson, see Gibson, "A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation."

<sup>136</sup> See above, 2.1. Compulsory Licences, at 23.

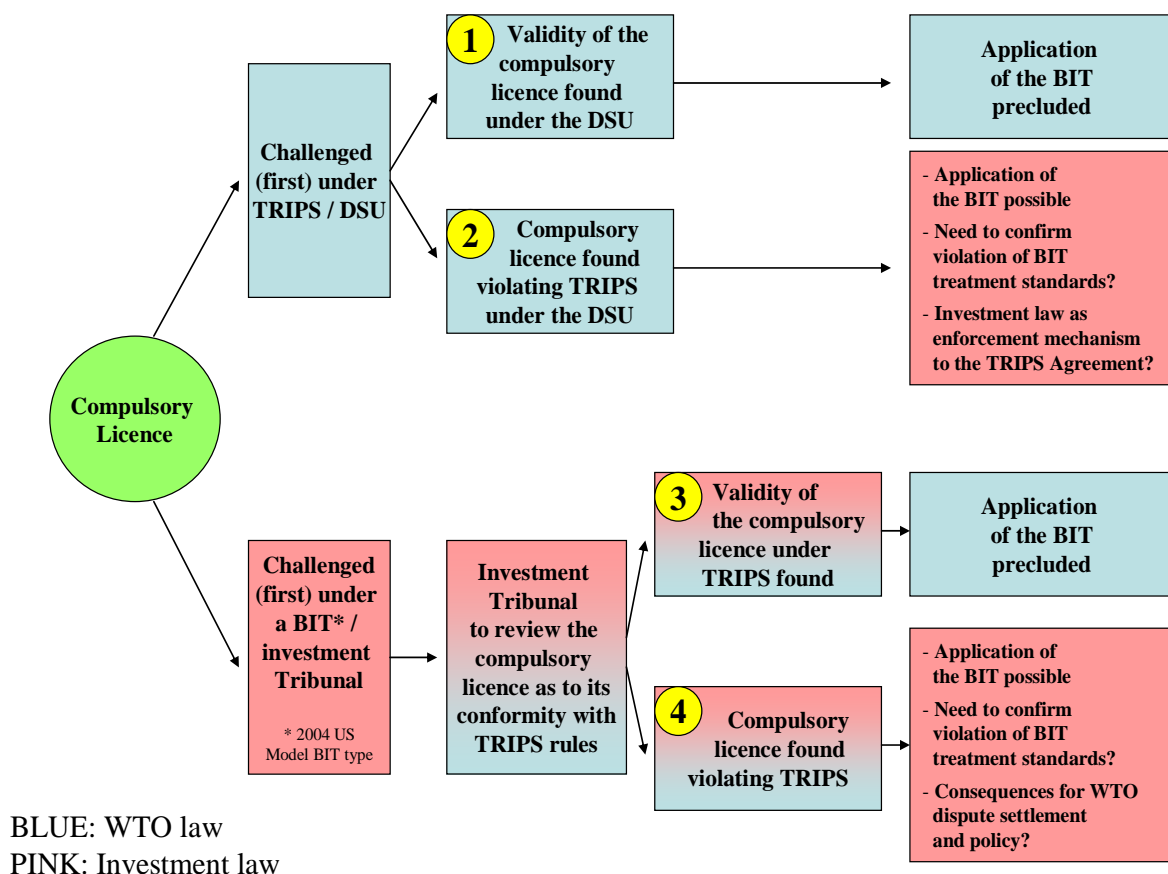
Agreement. In the case that TRIPS conformity is assured with regard to a certain measure, the article on expropriation as in the BIT is entirely not applicable. This fact is a strong indicator for the absence of any intention to inscribe provisions in BITs that have a substantive TRIPS-plus characteristic. With regards to expropriation of IPRs under BITs, the standards agreed in the TRIPS Agreement set the threshold, and compulsory licences to be possibly challenged under a BIT as an expropriation will face this threshold. In this sense, BITs following the 2004 US Model BIT may not provide any substantive treatment requirements with regard to compulsory licences that go beyond TRIPS standards.

While Article 6.5 of the 2004 US Model BIT gives some clarification already, the provision raises also many new questions. Arguably, what seems like a clarification on the relationship between investment law and intellectual property law may in the end increase interaction between investment law and intellectual property law, without giving clear priority to one side, and without diminishing the role investment law plays in the context of compulsory licences. As mentioned above, and as depicted in Figure 1, the application of the BIT to examine questions of expropriation emerging with regard to a compulsory licence depends, according to Article 6.5, on whether such issuance is “in accordance with the TRIPS Agreement”. By this means, WTO disciplines come directly into the ambit of BITs.<sup>137</sup> Any assessment as to an application of the expropriation provisions of the BIT depends on a possible TRIPS conformity. In a case where the conformity has already been established by a WTO Panel, the application of the BIT is precluded (situation 1 in Figure 1).

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<sup>137</sup> See also Gibson, “A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation,” 34.

*Figure 1: Assumed effects of Art. 6.5. of the 2004 US Model BIT on the interaction of the TRIPS Agreement and BITs with regard to expropriation of IPRs, particularly in relation to compulsory licences*



Source: Author's own visualization

Yet, this will typically not be the case, since WTO Members will think twice before they raise a complaint about another WTO Member under the WTO's DSU, particularly with regard to politically sensitive issues such as compulsory licences and public health. Normally, investors will be faced with a compulsory licence a government has issued and if they believe their ownership rights have been violated they will seek judicial help to have their property restored or to obtain appropriate compensation. In a case where an assessment on the validity of the compulsory licence by the dispute settlement body in charge under the DSU is lacking, investment tribunals will have no choice but to shoulder the burden of making their own assessment as to the TRIPS conformity of a compulsory licence, relying largely on the detailed list of conditions as put forward in Article 31 (a)-(l) of the TRIPS Agreement. An international investment tribunal assessing the consistency of a measure under WTO rules would be an important derogation from the current majority view that WTO law constitutes a self-contained regime with little, if any, interaction with other areas of international law.

If a compulsory licence is found to violate the TRIPS Agreement, the role BITs play in ensuring the rights of investors will be reinforced. Independent of who determined the TRIPS non-compliance of a compulsory measure, far-reaching claims from investors to obtain compensation are to be expected in such a case. If the non-compliance has been found by a WTO Panel (situation 3 in Figure 1), the direct reference to the TRIPS Agreement in the BIT may have the effect that reliance on investor-state dispute settlement by private parties is increased, and a larger number of investors will secure their rights under the BIT. In the end, this may lead to a generally better enforcement of TRIPS standards via the back-door, i.e. via the threat of numerous investors suing the host government for their non-TRIPS compliant measures. However, if the non-conformity of the measure has been determined by an investment tribunal applying the rather complex WTO law to the measure, difficult legal and political questions will arise for the WTO and WTO Members about how to deal with this finding and the possible consequences for the WTO context. In both cases, i.e. in the case that the violation of TRIPS standards has been found by a WTO Panel (situation 2 in Figure 1) or in the case that the violation has been found by an investment tribunal (situation 4 in Figure 1), the question as to the need for a detailed review of the measure at issue under investment disciplines remains open. May a compulsory licence that has been found to be TRIPS-inconsistent still meet the requirements of BITs on expropriation? It seems that while the assessment of the measure under the TRIPS Agreement may already provide part of the analysis, certain aspects will still have to be reviewed under investment disciplines, particularly where the two diverge, such as with regard to the amount of compensation.

In consequence, under the provision as presented in the recent 2004 US Model BIT, the application of the BIT to compulsory licences is only excluded if such a compulsory licence has already been challenged under the TRIPS Agreement and found to be in conformity with the Agreement. In any other case, the legality of the compulsory licence may, under the above-cited provision, be challenged with the help of the BIT, and it may even open ways for private parties to have international legal tribunals review state acts as to their conformity with WTO law. The role of investment law in the area of intellectual property law may in this sense not decrease but rather gain in importance. Although it seems that BITs are precluded from extending the protection of IPRs to substantive TRIPS-plus levels for compulsory licences, investment law would have tighter connections with WTO standards and BITs would break with the current mantra of WTO law as a self-contained regime, and would include elements of WTO law within their legal scope. Investment law may act as a catalyst for the enforcement of the TRIPS Agreement.

Last but not least, one should not overlook the fact that Article 6.5. of the 2004 US Model BIT makes the application of the BIT to matters of IPRs dependent on TRIPS standards only with regard to questions of expropriation, since this matter is part of Article 6 generally covering matters of

expropriation and compensation. The BIT may still be applied to unfair or discriminatory treatment, including matters arising under absolute treatment standards such as fair and equitable treatment, and comparative treatment standards such as MFN treatment and national treatment.

Concerning **performance requirements**, as shown in Part 2.3 of this paper, efforts have been made in BITs to define their agreement's relationship with the TRIPS Agreement. The result seems more of a first step in recognizing the importance of the issue than a final solution clarifying the relationship of intellectual property law and investment agreements in the area of performance requirements. Looking at the current US Model BIT in more detail, this treaty gives a good example of the complications that may arise when an effort is made to effectively manoeuvre between legitimate policy interests in using technology as brought into a country by investments for the development purposes of the host country, and protection clauses trying to ensure an adequately high level of investment protection. Treaty language in the 2004 US Model BIT tries to accommodate all the different policy needs, resulting in a rather lengthy and complex Article 8 (*Performance Requirements*). It states with regard to technology transfer:

#### 2004 US MODEL BIT<sup>138</sup>

##### Article 8

1. Neither Party may [...] impose or enforce any requirement or enforce any commitment or undertaking:

[...]

(f) to transfer a particular technology, a production process, or other proprietary knowledge to a person in its territory;

[...]

2. Neither Party may condition the receipt or continued receipt of an advantage, in connection with the establishment, acquisition, expansion, management, conduct, operation, or sale or other disposition of an investment in its territory of an investor of a Party or of a non-Party, on compliance with any requirement:

[...]

3. (a) Nothing in paragraph 2 shall be construed to prevent a Party from conditioning the receipt or continued receipt of an advantage, [...] on compliance [...] [to] to carry out research and development, in its territory.

(b) Paragraph 1(f) does not apply:

(i) when a Party authorizes use of an intellectual property right in accordance with Article 31 of the TRIPS Agreement, or to measures requiring the disclosure of proprietary information that fall within the scope of, and are consistent with, Article 39 of the TRIPS

Agreement; or

[...]

The Article adds further exceptions, which relate mostly to health issues, the environment and government procurement, and which are modelled on Article XX of the General Agreement on Tariffs and Trade (GATT). The complications of the Article thus derive from the recognition that technology transfer must be seen in its complex nature as generally contrary to the legitimate interests of investors, but in some ways development-enhancing,

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<sup>138</sup> 2004 US Model BIT.



which requires allowing technology transfer as long as it does not reach too far into the private ownership rights of investors, since obviously, a destabilized investment regime may have negative consequences for international FDI flows, which in the end may deter investors and their technology. The borderline the Article is searching for between sufficiently protecting investors' legitimate ownership rights and allowing in various circumstances, and for various cases of technology transfer, for exceptions is a narrow line. The Article tries to draw this line covering the eventualities and conditions partially by referring to the TRIPS Agreement, and partially by defining its own positive and negative rights that lie outside the regulatory scope of the TRIPS Agreement. It is hard to predict what this "mélange" of different sets of rules deriving from (bilateral) investment law, (multilateral) trade law with a focus on intellectual property regulation (TRIPS Agreement) and investment regulation (TRIMs Agreement), topped by an exception clause following GATT Article XX, will mean in a given case. It seems certain, however, that by clauses of the kind given, the distinction between international investment law and international trade law is continuously vanishing.

Third, with regard to **IPR piracy**, the situation seems to be substantially different than that for compulsory licences and performance requirements. Concerning compulsory licences and performance requirements, the TRIPS Agreement and investment law have been shown to be partially incongruent or at least at odds with each other, particularly with regard to flexibilities for which the TRIPS Agreement provides and which are not recognized under BITs. These flexibilities try to make a contribution to adjusting the protection levels of IPRs in a certain country to a level which maximizes its beneficial effects for innovation in that country, and thus ultimately serve development purposes. With regard to IPR piracy, the situation is different. Here, the TRIPS Agreement and BITs act basically on the same lines, pursuing the same objectives and facing the same challenges.

Both intellectual property law as represented by the TRIPS Agreements and BITs see any forms of IPR piracy as illegal and provide for strict protection rights without any exceptions. In the TRIPS Agreement, this is founded in the clear substantive protection rights inscribed therein. In BITs, the commitment to (investor's) IPRs is found in the clear commitment to ownership rights of investors, including their intangible rights. Sharing the same objectives, both the TRIPS Agreement and IIAs face difficulties in supporting the actual enforcement. The requirement of the TRIPS Agreement as to the establishment of a legal enforcement system for IPRs in WTO Members is toothless. The investment protection clauses in BITs are challenged by proving an illegal state action or a clear state failure to protect, which would amount to a violation of the few, positive treatment requirements in BITs applied to states.

Investors' investments in IPRs in host countries thus risk falling through both safety nets. The safety net provided by TRIPS has large holes

Expectations for the TRIPS Agreement must lie in a hope for long-term improvements of the work of the Council for TRIPS and technical assistance to support the emergence of a more efficient domestic legal system, threatened by occasional claims by WTO Members. This does not help to fight the losses an investor may currently face in cases of IPR piracy. The safety net offered by BITs is stretched in such a manner that most cases of IPR piracy fall outside it. It is fixed at a place where it covers only cases of clear government failure. While future cases may demonstrate what this means in detail, it is currently of little help to investors.

Given these difficulties shared by BITs and the TRIPS Agreement with regard to IPR piracy, it may be worth considering whether closer coordination of the two sides would not tighten legal means available and help reinforce their shared goals. With regards to IPR piracy, it may help to give BITs a practical guide to support them in basing their argumentation on more secure terrain. It would be conceivable to make reference in BITs to the concrete list of elements that the Part III of the TRIPS Agreement requires for enforcement. While such a reference may not increase the substantive scope of intellectual property protection, it may strengthen the component of positive law standards in BITs and thus offer BITs a more pro-active role in supporting the enforcement of investors' IPRs against acts of IPR piracy. As a result, BITs may make better use of their potential to be effective tools with which to pressure governments to strengthen their efforts to enforce IPRs. Such support for a more effective enforcement of undisputed rights internationally should be appreciated.

## **Conclusion**

With growing international economic integration the amount of international investment in IPRs is increasing. Hardly any international investment today will take place without including intangible assets as part of the value of the investor's property. The importance of investments in IPRs is growing, with ever greater international mobility in production and the desire of many companies to build internationally well-known brands. Given the importance of IPRs as the most valuable assets of many companies, it is evident that the protection of this property is of key interest to companies, domestically and in their international operations alike. At the same time, many emerging and developing countries do not appreciate overly strict IPR protection rules, sharing the recognition that IPRs are an important development vehicle and access to them is of key interest to the countries for a wide range of strategic purposes, from public health care to competitiveness issues, i.e. the support of the countries' own emerging multinational enterprises against their foreign counterparts.

The matter of international law to protect of IPRs has thus always been, but is becoming increasingly so, a field of law where two distinct legal regimes overlap considerably: the international protection of IPRs and the

international protection of investments. The fact that these two areas of law have grown separately over time with their own features, disciplines, and approaches, including two very different, specialized dispute settlement procedures is the reason why the two areas of law are today largely incongruent. On individual points they may provide for different levels of protection for the IPRs taking the form of investments, and on some points they are at least at odds with each other.

The question as to a TRIPS-plus dimension of BITs, which was raised as part of the discussion about the TRIPS Agreement and ongoing efforts of the US and the EU to strengthen international protection mechanisms for IPRs via bilateral and regional agreements, reveals some interesting points. The straightforward answer is in the affirmative. Indeed, certain provisions in BITs may reach further than the TRIPS Agreement, and thus do provide for what can be called “TRIPS-plus”. This includes mostly flexibilities inscribed in the TRIPS Agreement for development purposes that are not provided for under BITs. On a few particular issues such as compulsory licences, incongruence between the TRIPS Agreement and BITs depends on the approach of the BIT in question to the subject matter. Finally, the particular investor-state dispute settlement system provided for under most BITs is a strong instrument for enabling investors to obtain an award against a government that has violated the treaty. This offers investors additional means to enforce their rights compared to the TRIPS Agreement.

Despite these important characteristics setting BITs aside, and potentially on top of the TRIPS Agreement, this paper has argued that an approach that addresses the issue of the protection of IPRs taking the form of investments as element of the “TRIPS-plus”-discussion does not reach the core of the question. BITs have not been set up or altered with the aim of increasing the protection levels of IPRs above those offered by the TRIPS agreement. The first BITs were concluded roughly 30 years before the TRIPS Agreement was negotiated, and already at that time embraced provisions on investment protection, which today stand at odds with provisions of the TRIPS Agreement. The US has already taken the first steps towards addressing the most eye-catching issue of investment law reaching further than the TRIPS Agreement, compulsory licences, with the aim of cutting off any possible TRIPS-plus dimension by giving priority to the TRIPS Agreement including its flexibilities and exceptions to deal with the issue. It seems that many countries – both developed and developing – have concluded BITs with IP protection provisions without much awareness about the legal consequences and possible contradictions relative to multilateral agreements they were contracting parties to.

Arguably, had “investment” as a topic of discussion formed part of the broader negotiations on trade and investment regulation at any given time in the history of trade negotiations, including its competition angle and the shared non-commercial interests to be respected such as public health, law addressing the question of the protection of investors’ IPRs may have emerged

more all of a piece. Incongruence persisting today, whether reaching over TRIPS protection levels or remaining below the TRIPS Agreement's standards, has its main origin in today's fragmentation of international law. Distinct legal structures have grown over time, partly backed-up by international organizations administering and overseeing their function, and stand today as isolated blocks of law, without many legal practitioners really overseeing their interrelations and interconnections, and hardly any international legal mechanisms available to help in building a more coherent legal framework. On the contrary, the mantra of WTO law to constitute a self-contained system of law, and the ongoing specialization of international investment regulation grounded in the proliferation of the BITs-regime may give evidence that the two areas of law are still today continuously focused on their individual scope. This fragmentation in legal sets of rules to address the matter of protection rights available for investments taking the form of IPRs is the reason for the overlaps and emerging inconsistencies described in this paper.

While the reason for today's troubled situation seems clear, the degree of overlap between the TRIPS Agreement and the IIAs is so considerable that the question of how to deal with the upcoming issues emerges as an important matter for future detailed analysis. Scope, substance and interactions of the sets of rules will have to be clarified and priorities will have to be determined. Indeed, both investment law and intellectual property law have their own sense and legitimacy, but where they collide legal clarification seems necessary. As reported in this paper, such clarification work has begun on some aspects, such as the coverage of compulsory licences under BITs as prescribed under the 2004 US Model BIT. According to the first thoughts expressed in this paper, the exercise to better define the interface of investment law and IP law regimes will be an exciting and rewarding one, as it will help in rethinking known policies and concepts of both investment law and intellectual property law. A clear dividing line separating the areas of law and giving priority to one side will not be possible. The different upcoming issues need to be looked at in detail and in light of all legitimate interests, and suitable solutions will have to be found for an efficient legal framework. For example, with regard to compulsory licences and access to medication, a tendency in the latest BITs has been identified to give priority to the legitimate rights of countries to issue compulsory licences. Investment law protecting the investors' ownership rights will have to stand back and give space to the more detailed provisions stipulated by the TRIPS Agreement that carefully balance development needs and ownership rights. On the other hand, where the TRIPS Agreement and BITs do not contradict one another but work in the same direction such as with regard to IPR piracy, a better interconnection between these areas of law may mutually support their aims and offer space for improvements in the international regulation of innovation.

Do current BITs entail a TRIPS-plus dimension? According to this paper's analysis, it cannot be denied on some aspects, although the TRIPS-plus characteristic comes unintentionally and without conviction. BITs stand today next to the TRIPS Agreement, the borders between the two sets of laws

undefined. Working through the issues along their line of overlap may on the one hand clear away inconsistencies, and on the other stimulate a more coordinated approach towards enforcing shared goals in terms of protection of IPRs. Working towards streamlining legal exceptions to be applied commonly, and supporting a better interaction on those subject matters where a mutual reinforcement may help to strengthen the efficient protection of IPRs seems the right way for the future. If this road is taken, the question of a TRIPS-plus dimension of BITs may have to be asked again. Ideally, the answer will be negative where inconsistencies have been removed, and it will be affirmative where investment law and IPR regulation reinforce their respective aims towards a well-defined and efficient protection of investors' IPRs.

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