IP Licence as an Investment: Insights from Bridgestone v. Panama

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ABSTRACT

The relationship between intellectual property (IP) and investment is old, but the debates are new. Recent high profile cases in which intellectual property rights (IPRs) are being sought to be protected by means of international investment law and treaties have generated visible debate and discussion. In the light of the recent decision on expedited objections in Bridgestone Licensing v. Republic of Panama, this article will explore arguments put forward by both parties regarding the interaction between IP Licence Agreements and the definition of investment, as well as the Tribunal's finding on the question whether an IP Licence with a revenue sharing model qualifies as an investment.

1. INTRODUCTION

Intellectual Property (IP) grows every day and reaches into every nook and cranny of our lives. IP does not operate in the same way as it did in the early 1990s,[1] or even before this, when it featured in the 1947 General Agreement on Tariffs and Trade (GATT 1947).[2] This may be due to the expansion of international law[3]–the relationship between IP and other branches of law seems to have welded together to form part of the regulatory system and be included in trade, health and investment regulations.[4] 1995 saw a watershed moment in which trade liberalisation and a non-trade agenda[5] gave rise to the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS),[6] which commodified IP as '*tradable*' goods, and further, through TRIPS Plus agreements.[7] The very idea of 'investment' in the IP system can be seen through the lens of incentivising and rewarding innovation. In other words, IP is a reward, or a return on an 'investment' of labour.

In international investment law, 'investment' is understood purely in an economic sense, but while the notion of 'investment' may differ, the relationship between IP and international investment law is not a new phenomenon. The link between the two fields can be traced back many decades.[8] Unfortunately, this association was discussed in such a way that stronger IP regime attracts foreign direct investment, but this is debatable. It is also important to realise that a decade ago the field of international investment law was not as evolved as it is now.[9] Does this mean that scholars did not foresee that the proliferation of international investment agreements (IIAs)[10] could create new IP norm-setting? This is hard to imagine. In fact, the literature reveals that there have been several studies

[1] Susy Frankel, 'It's raining carrots: the trajectory of increased intellectual property protection' in G. Ghidini, H. Ullrich & P. Drahos (eds) Kritika: Essays on Intellectual Property, (Cheltenham, UK/Northampton, USA: Edward Elgar, 2017) 159-186. (discussing increasing levels of protection and the diverse range of incentive (carrots) may backfire to the system and further point out that 20th-century opponents of the TRIPS Agreement are now supporters of TRIPS-Plus Agreement in particular BRICs.)

[2] Art. XX (General Exceptions) of the General Agreement on Tariffs and Trade (GATT 1947), 30 Oct. 1947.

[3] See generally, Henning Grosse Ruse-Khan, The Protection of Intellectual Property in International Law (Oxford: Oxford University Press, 2016). (discussing how intellectual property law interplays with international legal order such as WHO, UNESCO etc.)

[4] See generally, Pratyush Nath Upreti, 'Philip Morris v Uruguay: A Breathing Space for Domestic IP Regulation' (2018) 40(2) European Intellectual Property Review 277-284.

[5] Intellectual Property was part of the General Exceptions of GATT, 1947. Before TRIPS, intellectual property was considered as an 'acceptable obstacle' to free trade. According to Gervais; "intellectual property was basically considered in the GATT context as an "acceptable obstacle" to free trade, at least until the Tokyo Round. During that Round, held between 1973 and 1979, trade in counterfeit (trademark) goods had started to emerge as a serious issue." See Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis (London: Sweet & Maxwell, 2008), para 1.09.

[6] Agreement on Trade-Related Aspects of Intellectual Property Rights, 15 April 1994, in the Marrakesh Agreement Establishing the World Trade Organization, Annex 1C (1994) (hereafter, TRIPS).

[7] See generally, Rochelle Dreyfuss and Susy Frankel, 'From Incentive to Commodity to Asset: How International Law is Reconceptualizing Intellectual Property' (2015) 36(4) Michigan Journal of International Law 557-601.

[8] Peter K. Yu, 'The Investment-Related Aspects of Intellectual Property Rights'(2017) 66(3) American University Law Review 835, 837. Also see generally; Peter Nunnenkamp & Julius Spatz, 'Intellectual Property Rights and Foreign Direct Investment: The Role of Industry and Host-Country Characteristics' (Keil Institute for World Economics, 2003); Carlos A. Primo Braga and Carsten Fink, 'The Relationship Between Intellectual Property Rights and Foreign Direct Investment'9 (1998) Duke Journal of Comparative & International Law 163-187; Keith E. Maskus, 'The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer' (1998) 9 Duke Journal of Comparative & International Law 109-161.

[9] See generally, Markus Wagner, 'Regulatory Space in International Trade Law and International Investment Law'(2014)36(1)University of Pennsylvania Journal of International Law < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2403959> accessed 5 January 2018.

[10] The word International Investment Agreements (IIAs) include Bilateral Investment Agreement (BIT), Free Trade Agreement (FTA) including other trade and investment agreements.

[11] See generally, Peter Drahos, 'BITS and BIPS: Bilateralism in Intellectual Property' (2001) 4(6) Journal of World Intellectual Property 791-808; P. Drahos, 'Expanding Intellectual Property's Empire: the Role of 'FTAs' < Expanding Intellectual Property's Empire: the Role of 'FTAs'> accessed 25 September 2017; Carlos M. Correa, 'Bilateralism in Intellectual Property: Defeating the WTO System for Access to Medicines' (2014)36(1) Case Western Reserve Journal of International Law 79-94; Cynthia M. Ho, 'Sovereignty Under Siege: Corporate Challenges on Domestic Intellectual Property Decisions' (2015) 30(1) Berkeley Technology Law Journal 213- 304; Brook K. Baker and Katrina Geddes, 'Corporate Power Unbound: Investor-State Arbitration of IP Monopolies on Medicines- Eli Lilly v. Canada and the Trans-Pacific Partnership Agreement' (Northeastern University School of Law Research Paper No. 242-2015); James Gathii

post-TRIPS Agreement where scholars have discussed how free trade agreements (FTAs) may be a threat to TRIPS flexibilities.[11] I will not explore these threats here. However, in recent times, this relationship has attracted attention through high profile cases such as *Philip Morris*[12] and *Eli Lilly*.[13] In these cases, protection of IPRs has been sought[14] through international investment law and treaties, generating visible debate[15] and discussion.[16] I have discussed the final awards in both cases elsewhere.[17] In this article I will begin with a brief exploration of the relationship between IP and investment, and will then move on to discuss the notion of an IP Licence as an investment, in the light of the recent decision on expedited objections in Bridgestone Licensing v. *Republic of Panama*.[18]

2. IP AND INVESTMENT: OLD RELATIONSHIP, NEW DEBATES

In our daily life, we often refer to the term investment. *'We are investing for the future'* is a common phrase we admire and adopt in our own life. We never attempt to define the term, but we consciously understand 'investment' as commercial gain, economic development, money, and power. However, underlying these synonyms, many scholars and professionals may find difficulties in defining 'investment' in an accurate manner.[19] The literature reveals two notions of investment. First, the process or transaction by which a person or legal entity makes an investment.[20] Second, the assets required as a result of investing.[21] The relevant question that arises here is whether IP rights fit in both notions of investment. The current trends in investment agreements show that definitions of investment includes an illustrative list of assets.[22] Before analysing IP in invest-

and Cynthia H, 'Regime Shifting of IP Law Making and Enforcement from the WTO to the International Investment Regime'(2017) 18(2) Minnesota Journal of Law, Science and Technology 427-525; Henning Grosse Ruse-Khan, 'Litigating Intellectual Property Rights in Investor-State Arbitration: From Plain Packaging to Patent Revocation'(Max Planck Institute for Innovation and Competition Research Paper No 14-13); Bryan Mercurio, 'Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements' (2012) 15(3) Journal of International Economic Law 871- 915.

12 Philip Morris Brands Sarl, Philip Morris Products S.A and Abal Hermanos S.A v. Oriental Republic of Uruguay, ICSID Case No: ARB/07. Also see Philip Morris Asia Limited v. The Commonwealth of Australia, UNCITRAL, PCA Case No. 2012-12.

13 Eli Lilly and Company v The Government of Canada, UNCITRAL, ICSID Case No. UNCT/14/2.

14 There are cases where intellectual property has been featured directly or indirectly in ISDS, such as; Apotex v. United States (ICSID Case No. ARB (AF)/12/1); Erbil Serter v. France (ICSID Case No. ARB/13/22); Joseph Charles Lemire v. Ukraine (ICSID Case No. ARB/06/18); MHS v. Malaysia (ICSID Case No. ARB/05/10); Nicaragua S.A v. The Republic of Nicaragua (ICSID Case no. ARB/06/14). See generally, Gabriele Gagliani, 'International Economic Disputes, Investment Arbitration and Intellectual Property: Common Descent and Technical Problems' (2017) 51(2) Journal of World Trade 335-355.

15 See generally, Denial J. Gervais, 'Investor-State Dispute Settlement: Human Rights and Regulatory Lessons From Lilly v Canada' (Vanderbilt Law Research Paper 17-59, 2017); Rochelle Copper Dreyfuss and Susy Frankel, 'Reconceptualizing ISDS: When is IP an Investment and How Much Can States Regulate It? (Public Law & Legal Theory Research Paper Series, Working Paper No. 19-23, 2018); Lisa Diependaele, Julian Cockbain and Sigrid Sterckx,'Eli Lilly v Canada: the uncomfortable liaison between intellectual property and international investment law' (2017) 7(3) Queen Mary Journal of Intellectual Property 283-305; Eric Leikin, 'Eli Lily v. Canada: A Patently Clear-Cut Dismissal on the Facts, but Opening the Door for Future Claimants on the Law' (2017)34 Journal of International Arbitration 889-900; Susy Frankel, 'Interpreting the Overlap of International Investment and Intellectual Property Law' (2016) 19 Journal of International Economic Law 121-143; Pratyush Nath Upreti, 'Enforcing IPRs Through Investor-State Dispute Settlement: A Paradigm Shift in Global IP Practice' (2016)19 The Journal of World Intellectual Property 53-82; Henning Grosse Ruse-Khan, 'Challenging Compliance with International Intellectual Property Norms in Investor-state Dispute Settlement' (2016)19(1) Journal of International Economic Law 241-277; Tania Voon, Andrew D. Mitchell and James Munro, 'Intellectual Property Rights in International Investment Agreements: Striving for Coherence in National and International Law' in C.L.Lim & Bryan Mercurio (eds), International Economic Law After the Crisis: A Tale of Fragmented Disciplines (Cambridge University Press, 2015) 380-405; Bryan Mercurio, 'Safeguarding Public Welfare?-Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements' (2015)6(2) Journal of International Dispute Settlement 252-276; Pratyush Nath Upreti, 'Litigating Intellectual Property Issues in Investor-State Dispute Settlement: A Jurisdictional Conflict' (2016) 11(7/8) Global Trade and Customs Journal 343-351.

16 Recently Novartis a pharmaceutical company has threatened to file an investor-state claim against Colombia over its decision to require a price control on Novartis leukemia drug Glivec. See 'Compulsory Licensing in Colombia: Leaked documents show aggressive lobbying by Novartis' <https://www.publiceye.ch/en/media/pressrelease/compulsory_licensing_in_colombia_leaked_documents_show_aggressive_lobbying_by_novartis/>; see leaked letters to the Ministry of Trade and Industry <https://www.publiceye.ch/fileadmin/files/images/Gesundheit/Zwangslizenzen/ISDS_Threat_Novartis_against_Colombia.pdf>accessed 25 January 2018.

17 Upreti, above n 4; Pratyush Nath Upreti, 'Eli Lilly v Canada: The Tale of Promise v Expectation'(2018) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3126159> accessed 10 March 2018.

18 Bridgestone Licensing Services, Inc. And Bridgestone Americas, Inc. v. Republic of Panama (ICSID Case No. ARB/16/34) Decision on Expedited Objections (13 December 2017). (Hereafter Bridgestone v Panama).

19 Martin Hunter and Alexei Barbuk, 'Reflections on the Definition of an 'Investment' in Gerald Aksen and Robert Briner (eds) Global Reflections on International Law, Commerce and Dispute Resolution: Liber Amicorum in honor of Robert Briner (ICC Publication, 2008) 383. (In authors view; 'Businessman, lawyers, economists, journalists, and politicians use the term 'investor' and 'investment' on a daily basis, although few would be able to provide a precise definition. It is somewhat like the terms 'sovereignty'….'public order'.)

20 Jeswald W. Salacuse, The Three Laws of International Investment: National, Contractual and International Frameworks for Foreign Capital (Oxford: Oxford University Press, 2013) 3.

21 Ibid.

22 Peter Muchlinski, Federico Ortino, and Christoph Schreuer, The Oxford Handbook of International Investment Law (Oxford: Oxford University Press, 2008); Surya P Subedi, International Investment Law: Reconciling Policy and Principle (Oxford and Portland, Oregon: Hart Publishing, 2008) 58-62.

ment agreements, I will briefly explore the relationship between IP and Foreign Direct Investment (FDI).

The existing literature generates predictions, questions, and confusion concerning the relationship between IP and FDI.[23] The impact of IP on inward investment in a country is a classic research question which has been explored even before the TRIPS Agreement. There are two schools of thought that raise two different questions. First, do stronger IP rights diminish the potential of local firms to imitate and build on the advanced technologies of foreign firms, potentially slowing economic progress?[24] Second, what role do IP rights play in encouraging foreign direct investment?[25] Mostly, literature revolves around these two questions, resulting in diverse findings. However, the lack of conclusive empirical studies has left the question open to discussion. The literature also highlights that the findings may differ amongst jurisdictions. One commentator observes that the empirical evidence based on US data shows a clear positive relationship between a stronger IP environment and investment inflow.[26] On the contrary, data from outside the US indicates that stronger patent rights have a negative effect.[27] The lack of conclusive evidence to establish a positive relationship between FDI and IP has resulted in a scenario which I prefer to term the *'investment paradox'*[28] which has kept discussions alive between the fields.

2.1 Investment: 'Everything under the sun that is made' by the investor

The first International Investment Agreement (IIAs) between Germany and Pakistan in 1959, had explicitly included 'patents and technical knowledge' in the definition of investment.[29] Similarly, modern IIAs explicitly include IP within the definition of investment. For example, the Australia-India Bilateral Investment Treaty (BIT) defines investment as 'every kind of asset, including intellectual property rights invested by an investor'.[30] Some IIAs explicitly define copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout, designs of integrated circuits, undisclosed information as investments.[31] The specific incorporation of IP under the definition of investment means that IP could be potentially subject to the general guarantee afforded to the investor under BITs. The explicit mention of 'intellectual property rights' (not categorised as patent, design, etc.) may refer to all kinds of IP, even if these are not protected in the host country, as the treaty language shows that it intended to protect current and future investment including IPRs.[32] To avoid unnecessary interpretation, one should be mindful of 'catch all provisions'.[33] There are certain agreements which have adopted an innovative approach in defining investment. For example, the draft Free Trade Area of the Americas (FTAA)[34] states;

> *"The term "investment" does not mean real estate or other property, tangible or intangible, nor acquired in the expectation or used for the purpose of economic benefit or other business purposes. The term also does not imply stock or share (portfolio investment) of companies in one Party acquired for speculative purpose and held for a short-term by nationals of the other Party".*[35]

23 See generally; Peter Nunnenkamp & Julius Spatz, 'Intellectual Property Rights and Foreign Direct Investment: The Role of Industry and Host-Country Characteristics' (Keil Institute for World Economics, 2003); Carlos A. Primo Braga and Carsten Fink, 'The Relationship Between Intellectual Property Rights and Foreign Direct Investment (1998) 9 Duke Journal of Comparative & International Law 163-187; Keith E. Maskus, 'The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer' (1998) 9 Duke Journal of Comparative & International Law 109-161.

24 Lee Branstetter, Ray Fisman (et al), 'Does Intellectual Property Right Reform Spur Industrial Development?' (2010) 83 Journal of International Economics 27-36.

25 Keith E. Maskus, 'The Role of Intellectual Property Rights in Encouraging Foreign Direct' (1998) 9(109) Duke J. Comp. & Int'l L109-161.

26 Lee Branstetter and Kamal Saggi, 'Intellectual Property Rights, Foreign Direct Investment and Industrial Development' (2011)121 The Economic Journal 1164. For more discussion, see Lee. J.Y and Mansfield, E, 'Intellectual property protection and U.S. foreign direct investment' (1996) 78(2) The Review of Economics and Statistics 181-186.

27 Ibid, Branstetter and Saggi.

28 The metaphor is inspired from Walter W. Powell and Kaisa Snellman 'The Knowledge Economy' (2004) 30 Annual Review of Sociology 199-220 <http://scholar.harvard.edu/files/kaisa/files/powell_snellman.pdf>accessed 4 January 2018

29 German-Pakistan BIT, signed 25 November 1959, entered into force 28 Aril 1962-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. <https://treaties.un.org/doc/Publication/UNTS/Volume%20457/volume-457-I-6575-English.pdf>accessed 1 January 2018.

30 Agreement Between the Government of Australia and the Government of the Republic of India on the Promotion and Protection of Investments, signed 2 February 1999, entered into force 4 May 2000, terminated 23 Mach 2017-Article 1(c). <http://investmentpolicyhub.unctad.org/Download/TreatyFile/154> accessed 24 December 2017.

31 Energy Charter Treaty, 1994- Article 6(d). <<http://www.europarl.europa.eu/meetdocs/2014_2019/documents/itre/dv/energy_charter_/energy_charter_en.pdf> accessed 12 January 2018.> Similar definitions have been incorporated in the Australia Hungary BIT, 1991- Article 1(a) (iv) < http://investmentpolicyhub.unctad.org/IIA/treaty/208> accessed 5 January 2018.

32 Carlos M. Correa, 'Bilateral Investment Agreements: Agents of new global standards for the protection of intellectual property rights?'(GRAIN 2004) 8. Also see generally, Carlos Correa and Jorge E. Viñuales, 'Intellectual Property Rights as Protected Investments : How Open are the Gates ?' (2016) 19(1) Journal of International Economic Law 91-120.

33 Ibid.

34 FTAA is a proposed free trade agreement between the United States and thirty-four countries in North, Central, and South America including the Caribbean. For more discussion see; Jeffrey J. Schott, 'Does the FTAA have a future?' (2005, Institute of International Economics) < https://piie.com/publications/papers/schott1105.pdf>. Also see D. V. Eugui, 'Regional and bilateral agreements and a TRIPS-plus world: the Free Trade Area of the Americas (FTAA)'(2003) <https://www.wto.org/english/tratop_e/region_e/sem_nov03_e/vivas_eugui_paper_e.pdf> accessed 20 November 2017.

35 Free Trade Area of the Americas (FTAA) Draft Agreement-Chapter XVII; Investment (FTAA.TNC/w/133/Rev.3 November 21, 2003) http://www.ftaa-alca.org/FTAADraft03/ChapterXVII_e.asp>.

36 Treaty between the United States of America and the Republic of Turkey Concerning the Reciprocal Encouragement and Protection of Investments, signed 3 December 1985, entered into force 18 May 1990. < https://2001-2009.

In general, a broad definition of IP may provide an advantage to the investor. In some BITs, IP is placed in other categories of definition other than investment. For example, the US-Turkey BIT[36] includes IP in its definition of 'associated activities'.[37] The intention here is to further broaden the concept of investment so as to include all kinds of activities. Interestingly, few BITs define investment to include intellectual property which is not protected in their home state. For instance, the Ethiopia-Israel BIT includes geographical indications and plant-breeders rights.[38] At the time of the agreement, Ethiopia did not have a legal framework for plant-breeders rights.[39] Moreover, Ethiopia is not a member of World Trade Organization (WTO).[40] Certain BITs include "goodwill" under the definition of investment, but there has been debate whether folklore, traditional knowledge, and genetic resources are to be covered under the definition of investment.[41] Interestingly, the US-Jamaica BIT refers to 'patentable inventions'[42] rather than the common practice of including 'patent'. This suggests that all patentable inventions (and possibly patent applications) in the host country may amount to investment. Even more broadly, the United States-Mongolia BIT defines IP to include 'inventions in all fields of human endeavour'.[43] Thus, the language used in BITs is so broad that it somehow conveys that *'everything under the sun that is made'*[44] by investors is an investment. To conclude, the recently released investment chapter of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has included a limitation clause in its definition of investment. This definition includes IPRs, but the insertion of a limitation clause – 'investment does not mean an order or judgment entered in a judicial or administrative action'[45] – aims to avoid litigation over judicial decisions in the home state.

The inclusion of IP within the definition of investment is not enough to litigate IPRs in investor-state dispute settlement (ISDS). To bring a dispute to the International

state.gov/documents/organization/43615.pdf> accessed 19 January 2018.

37 Ibid, Art. 2(g) defines 'associated activities' as: "include the organization, control, operation, maintenance and disposition of companies, branches, agencies, offices, factories or other facilities for the conduct of business; the making, performance and enforcement of contract; the acquisition, use, protection and disposition of property of all kinds including intellectual property rights ……"

38 Agreement between the Government of the Federal Democratic Republic of Ethiopia and the Government of the State of Israel for the Reciprocal Promotion and Protection of Investment, signed 26 November, entered into force 22 March 2004-Article 1.1(d) < http://investmentpolicyhub.unctad.org/Download/TreatyFile/1167> accessed 20 January 2018.

39 Ethiopia-Israel BIT entered into force on 22 March 2004 and the Plant Breeders' Right Proclamation No 481/2006 was effective on 27 February, 2006. <http://www.wipo.int/wipolex/en/text.jsp?file_id=234325> accessed 10 February 2018.

40 Ethiopia applied for accession to the WTO in 2003 but till date it holds an observatory status. https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm> accessed 10 February 2018.

41 Belgium-Luxembourg-India BIT entered into force on 8 January 2001< http://investmentpolicyhub.unctad.org/IIA/mappedContent/treaty/494>

42 Treaty Between the United States of America and Jamaica Concerning the Reciprocal Encouragement and Protection of Investment, signed 4 February 1994, entered into force 7 March 1997- Art. 1.1 (a) (iv) < http://investmentpolicyhub.unctad.org/Download/TreatyFile/1726> accessed 2 February 2018.

43 The Treaty between the United States of American and Mongolia Concerning the Encouragement and Reciprocal Protection of Investment, signed 6 October 1994, entered into force 4 January 1997.- Article I 1(a) (iv).

44 Adopted from Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980).

45 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)- Art 9.1 investment < https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Text/9.-Investment-Chapter.pdf> accessed 20 February 2018.

Centre for Settlement of Investment Disputes (ICSID),[46] one has to prove that the activities that are the subject of the dispute fulfil the tribunal's criteria of investment. While the drafting history of the ICSID Convention suggests that there were discussions regarding the definition of 'investment', this term remains undefined under the Convention. The initial draft of the Convention shows an intention to put a time limit on the definition of investment. For example; the first draft defines investment as *'any contribution of money or other assets of economic value for an indefinite period*.[47] The idea of a *'time limit'* on investments may be to encourage investment for a long duration. However, such a proposal could disqualify investors investing a huge sum of money for less than five years,[48] whereas investors of lesser amounts may have an advantage. After deliberation, an open-ended definition was opted for so as to incorporate all kinds of situations. As one commentator reminds us;

> *"the term 'investment is not defined in the Convention. This omission is intentional. To give a comprehensive definition... would have been of limited interest since any such definition would have been too broad to serve a useful purpose or might have arbitrarily limited the scope of the Convention by making it impossible for the parties to refer to the Centre a dispute which would be considered by the parties as a genuine 'investment' dispute though such dispute would not be one of those included in the definition in the Convention".*[49]

The literature also reveals that the inclusion of 'intellectual property' under the definition of investment was opposed by several countries but was incorporated because of its commercial nature.[50] As a rule of thumb, the Tribunal assesses a dispute arising out of an investment based on criteria laid down by other tribunals. In general, arbitral tribunals have identified four characteristics of an investment, commonly known as the 'Salini criteria': i) commitment (ii) duration (iii) risk and (iv) contribution to economic development in host state.[51] These characteristics are not always applied simultaneous and arbitral tribunals are reluctant to term the Salini criteria as a conclusive and exhaustive list.[52] For instance, the Tribunal[53] has questioned the criterion of 'contribution to economic development' and found that:

> *"the economic development of a host State is one of the proclaimed objectives of the ICSID Convention, this objective is not in and of itself an independent criterion for the definition of an investment. The promotion and protection of investments in host States is expected to contribute to their economic development. Such development is an expected consequence, not a separate requirement, of the investment projects carried out by a number of investors in the aggregate."*[54]

A similar view is taken in Pey Casado v. Chile[55], where the Tribunal observed that the economic development of the host state 'must be seen as a consequence, not as a condition of investment by protecting investments [...] this does not mean that development of the host state becomes a constitute element of the concept of investment'.[56] It shows that the Tribunals are not willing to strictly adhere to the Salini criteria in determining whether there is an investment. In one case, the Tribunal observed that "there is no basis for a rote, or overly strict, application of Salini criteria in every case. These criteria are not fixed and mandatory as a matter of law. They do not appear in the ICSID Convention".[57] Generally, arbitral tribunals refer to the Salini criteria in determining investment, but several arbitral tribunal decisions suggest some divergence on acceptance of the criteria. However, sometimes the Tribunal directly applies the Salini criteria in determining 'investment' without reflecting the terms of the relevant BITs. The Tribunal in Philip Morris v. Uruguay found the investment under article 25(1) of the ICSID Convention must be analysed with reference to the definition of 'investment' under the BIT without going beyond the outer limit set by the Convention.[58] This outer limit refers to:

> *"the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose. The notion covers a wide range of economic operations confirming the broad scope of its application, subject to the possibility for States to restrict the jurisdiction rational material by limiting their consent either in their investment legislation or in the applicable treaty".*[59]

[46] Article 25(1) of ICSID Convention deals with jurisdiction. It states; 'The jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a contracting state and a national of another contracting state, which the parties to the dispute consent in writing to submit to the Centre. . .' (emphasis added).

[47] Hunter and Barbuk, above n 19 at 384.

[48] Ibid.

[49] Ibid., at 385. Also see G.R. Delaume, 'Convention on the Settlement of Investment Disputes Between States and Nationals of Other States' (1966) 1(1) Intl Lawyer 70.

[50] In the context of Multilateral Agreement on Investment (MAI)- See generally, OECD, 'Report to the Negotiation Group on Intellectual Property', Negotiating Group on the Multilateral Agreement on Investment (MAI) 26 March1997, DAFEE/MAI (97), at no 2.

[51] Salini Costruttori S.p.A and Italstrade S.p.A. v. Kingdom of Morocco, ICSID Case No ARB/00/4, Decision on Jurisdiction, 23 July 2001. Also see Fedax N.V. v. The Republic of Venezuela, ICSID Case No ARB/96/3, Decision on Jurisdiction, 11 July 1997.

[52] See generally Upreti, above n 15.

[53] Saba Fakes v. Republic of Turkey, ICSID Case No. ARB/07/20 (Award) July 14, 2010. For similar discussion see Malaysian Historical Salvors SDN BD v. The Government of Malaysia, ICSID Case No ARB/05/10, Decision on Annulment, 16 April 2009.

[54] Ibid, Saba Fakes v. Republic of Turkey at para 111.

[55] Victor Pey Casado and President Allende Foundation v. Republic of Chile, ICSID Case No. ARB/98/2 (Award) 8 May 2008.

[56] Ibid, para 232. Also cited in Malaysian Historical Salvors SDN BHD v. The Government of Malaysia, ICSID Case No. ARB/05/10, Decision on the Application for Annulment, 16 April 2009.

[57] Ibid at 312.

[58] Philip Morris Brands, above n12, para 199.

[59] Ibid.

[60] Ibid., para 201.

[61] Ambiente Ufficio S.PA. and others v. The

Further, the Tribunal did not accept that the Preamble of the ICSID Convention and the BIT make a significant contribution to the meaning and scope of the term investment.[60] There are cases where the Tribunal has found the Salini criteria to be a useful tool to assess investment.[61] Nonetheless, the jurisprudence of arbitral decisions indicates that one may consider the Salini criteria as a guideline but not a rule.[62]

To conclude, in light of the divergence of arbitral decisions and the open-ended definition of investment, it is possible to identify two approaches to interpreting investment. First, the *'jurisdictional approach' can be used* whereby the arbitral tribunal strictly applies all the criteria (such as the Salini criteria) to determine investment.[63] Second, the *'characteristic approach'* follows one of the several criteria to investigate whether given conduct qualifies as an investment.[64] The logic behind an open-ended definition may be to attract investment flow and to clarify the scope of protection regarding predictable subject matter.[65] Nonetheless, it is also convenient for an investor to bring a dispute and states, at no cost, could avoid ICSID jurisdiction. Therefore, it may be concluded that case-by-case analysis is the *de facto* rule in determining IP as an investment.

3. IP LICENCE AS AN INVESTMENT: BRIDGESTONE V. PANAMA

Bridgestone Licensing v. Republic of Panama[66] is a dispute arising from the United States-Panama Trade Promotion Agreement (TPA).[67] The dispute arose after the Panamanian Supreme Court set aside a decision of the First Superior Court of the First Judicial District, held that the trademark opposition proceedings had been carried out in bad faith, and awarded Bridgestone a penalty of USD 5,000,000 in damage and USD 431,000 in attorney's fees [68] (roughly equivalent to 65% of Bridgestone's annual sale in Panama).[69] BSAM, a subsidiary company of Bridgestone Corporation, initiated arbitration proceedings on the ground that the Supreme Court decision diluted, and 'operates as a *de facto* protectionist device allowing potentially confusingly similar marks' and created difficulties in enforcing, trademarks.[70] The precise grounds for arbitration were that the Supreme Court decision was unjust and arbitrary, violated Panama's obligations under the TPA, expropriated its investment, and violated the requirement of fair and equitable treatment to BSLS's and BSAM's investments.[71] In this article, I will only deal with arguments raised by both parties on questions resulting from the interaction between the IP licence agreement and definition of investment. On 13 December 2017, the decision on expedited objections was out where the Tribunal clarified the question of IP Licence as an investment, but the final award is awaiting. There are other issues besides IP Licence as an investment, which are out of the scope of this article. After briefly providing the background to the case, I will analyse the above question in detail.

3.1 Background to the Case

Bridgestone Corporation (BSJ), a Japanese company, owns the trademarks 'BRIDGESTONE' and "FIRESTONE", registered in several countries including Panama.[72] BSJ does not itself use and market its trademark but allows subsidiary companies owned by BSJ to use the trademark under licence or sub-licence agreements. Bridgestone Licensing Services, Inc. (BSLS) and Bridgestone American, Inc. (BSAM) are subsidiary companies of the Bridgestone Group registered in the United States.[73] The FIRESTONE trademark was assigned to BSLS. On 1 December 2001, BSLS entered into a Licence Agreement with BSAM to use the FIRESTONE trademark registered in South American countries, including Panama, in return for modest royalties paid to BSLS.[74] Based on the Licence Agreement BSAM then sub-licenced to another subsidiary, Bridgestone Costa Rica (BSCR), which manufactures tires using the FIRESTONE trademark for the Panama market. However, no sub-licence agreement was executed between BSAM and BSCR. Additionally, the parent company BSR granted a licence to Bridgestone American Tire Operations, LLC (BATO) to use the 'BRIDGESTONE' trademark in relation to all tire products in the US and elsewhere. Furthermore, a sub-licence agreement was executed between BATO AND BSCR to manufacture tires with the 'BRIDGESTONE' trademark for sale in Costa Rica and worldwide.

According to the Bridgestone group policy, any trademark application with the suffix "stone" should be oppo-

Argentine Republic, ICSID Case No. ARB/08/9, Decision on Jurisdiction, 8 February 2013, para 481.

62 Emmanuel Gaillard, 'Identify or Define? Reflections on the Evolution of the Concept of Investment in ICSID Practice' in C. Binder, et al. (eds), International Investment Law for the 21st Century, Essays in Honour of Christoph Schreuer (Oxford: Oxford University Press, 2009) 412-413.

63 Lukas Vanhonnaeker, Intellectual Property Rights as Foreign Direct Investments: From Collision to Collaboration (Cheltenham, UK/ Northampton, USA: Edward Elgar Publishing -2016) 26.

64 Ibid at 27.

65 Karl. P. Sauvant and Federico. Ortino, 'Improving the International Investment Law and Policy Regime: Options for the Future' (Helsinki: Ministry of Foreign Affairs of Finland) <http://ccsi.columbia.edu/files/2014/03/Improving-The-International-Investment-Law-and-Policy-Regime-Options-for-the-Future-Sept-2013.pdf> accessed 5 November 2017.

66 Bridgestone v Panama, above n 18.

67 The United States-Panama Trade Promotion Agreement (TPA), signed 28 June 2007, entered into force on October 31, 2012) < https://ustr.gov/trade-agreements/free-trade-agreements/panama-tpa/final-text>

68 Bridgestone v Panama, above n 18, para 58.

69 Bridgestone v Panama, above n 18, Request for Arbitration (7 October 2016) para 43.

70 Bridgestone v Panama, above n 18, Request for Arbitration (7 October 2016), para 56. ('the decision of the Panamanian Supreme Court operates as a de facto protectionist device, allowing potentially confusingly similar marks to enter into the market because intellectual property rights holder are unwilling to risk significant, apparently, arbitrary, penalties for their good faith use of the legal mechanism intended to preserve those rights'.)

71 Bridgestone v Panama, above n 18, para 62.

72 Bridgestone v Panama, above n 18, para 50.

73 Bridgestone v Panama, above n 18, para 51.

74 Bridgestone v Panama, above n 18, para 52.

sed in their respective jurisdiction.[75] BSJ and BSLS opposed the Muresa Intertrade S.A. (Muresa) trademark application for 'RIVERSTONE' in Panama. Later, the Eighth Civil Circuit Court of the First Judicial Circuit of Panama denied this opposition and a subsequent appeal was withdrawn by BSJ and BSLS.[76] However, a year later, Muresa, L.V. International, and Tire Group of Factories Ltd (TGFL) filed a claim seeking damages on the ground that the opposition forced them to stop selling tires for the duration of the opposition proceedings, out of fear that their inventory of Riverstone tires would be seized if the proceedings were not decided in their favour.[77] As a result, they sustained losses exceeding USD5 million. The First Instance and Appeal Court rejected the Muresa and TGFL claim on the basis of lack of evidence establishing a causal link between action and the damage caused.[78] On appeal, the Supreme Court of Panama accepted the arguments that the BSJ and BSLS acted recklessly in opposing Muresa's trademark, held that the withdrawal of trademark opposition was evidence of bad faith, and imposed a penalty of USD 5,000,000 in damage and USD 431,000 in attorney's fees.[79] BSJ and BSLS paid the penalty and BSAM initiated arbitration proceedings on the grounds that (i) the Supreme Court decision was unjust and arbitrary and violated Panama's obligations under the TPA; and (ii) the decision expropriated its investment and violated the requirement of fair and equitable treatment in regards to BSLS's and BSAM's investment.[80]

3.2 IP Licence as an Investment

This case revolved around the question: *does an IP Licence Agreement with a revenue sharing model qualify as an investment?*

Based on the TPA, Panama questioned the nature of BSAM's transactions, arguing that the Licence Agreement, with its revenue sharing model, are forms that an investment take place pursuant to the TPA rather a substance that constitutes investment,[81] and such forms of investment do not constitute investment under the definition of the TPA. According to Article 10.29(f) of the TPA, 'investment' is defined as follows:

> *"Investment means every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of Capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include.... intellectual property rights".*

Panama argued that the Licence Agreement is not an investment on the ground that it is not an 'asset in Panama, rather a limited and non-exclusive 'right to use' a Panamanian trademark'[82] and, even if it is considered an asset, it is neither owned nor controlled by BSAM. Interestingly, in spite of IPRs being included in the definition of investment under the TPA, Panama questioned whether the Licence Agreement, which allowed the use of FIRESTONE and BRIDGESTONE trademarks was an investment. According to Panama, the first question is whether the act comes within the definition of investment. The second question is whether IP rights are an investment.[83] This distinction was made based on the fact that the definition of investment under TPA includes other elements which need to be satisfied beforehand. To elaborate this, Panama claimed that the right to use a Panamanian trademark on tires does not amount to an investment on the ground that 'if sales are not investments, the right to conduct sales is not one either'.[84] As Panama argues, the definition of investment under the TPA requires more than the mere existence of IPRs. In other words, it must be proved that the conduct is an asset which is owned and controlled directly or indirectly by BSAM.[85]

It is interesting to note that Panama makes a distinction between asset and IPRs.[86] Panama defines an asset as:

> *"an item **of property** owned by a person or company, regarded as having value and available to meet debts, commitments or legacies."*[87]

Based on the above definition, Panama argues that BSAM's does not have a legitimate right because there is no evidence to show that it holds ownership of trade-

[75] Bridgestone v Panama, above n 18, para 55.
[76] Bridgestone v Panama, above n 18, para 26, 56.
[77] Bridgestone v Panama, above n 18, Request for Arbitration, para 29.
[78] Bridgestone v Panama, above n 18, Request for Arbitration, para 32-36.
[79] Bridgestone v Panama, above n 18, Request for Arbitration, para 41.
[80] Bridgestone v Panama, above n 18 para 62.
[81] Bridgestone v Panama, above n 18, para 125.
[82] Bridgestone v Panama, above n 18, para 127.
[83] Bridgestone v Panama, above n 18, para 131
[84] Bridgestone v Panama, above n 18, para132.
[85] Bridgestone v Panama, above n 18, para132.
[86] Bridgestone v Panama, above n 18, para 132-133.
[87] Bridgestone v Panama, above n 18, para133.
[88] Bridgestone v Panama, above n 18, para 133.
[89] Bridgestone v Panama, above n 18, Para 133.
[90] Bridgestone v Panama, above n 18, para 135.
[91] Bridgestone v Panama, above n 18, para136-137.
[92] Bridgestone v Panama, above n 18, para 138.
[93] Bridgestone v Panama, above n 18, para 138.
[94] Bridgestone v Panama, above n 18, para 142.
[95] Bridgestone v Panama, above n 18, para 143.
[96] Ibid.
[97] Ibid.
[98] Ibid.
[99] Bridgestone v Panama, above n 18, para 145.
[100] Ibid.
[101] Bridgestone v Panama, above n 18, para 148.
[102] Bridgestone v Panama, above n 18, para 149.
[103] Ibid.
[104] The United States-Panama Trade Promotion Agreement (TPA)-Art 10.29(g)- 'Investment means every assets that investor.......licenses, authorizations, permits, and similar rights conferred pursuant to domestic law'.
[105] Bridgestone v Panama, above n 18, para150.
[106] Ibid.

marks, not qualifying as property under Panamanian law.[88] Therefore, the inability of BSAM to assign the licence without the permission of licensor fails to fulfil the second elements of assets: availability to meet debts.[89]

On the other hand, BSAM contends that its core investment is its BRIDGESTONE and FIRESTONE trademarks licence, which allowed BSAM to use, manufacture, sell, and distribute.[90] Therefore, this qualifies as an investment under the TPA and Article 25(1) of the ICSID Convention. Citing previous arbitral decision, BSAM advised the Tribunal that the definition of investment under the TPA and the ICSID Convention should be understood together to give a broad meaning to the definition of investment.[91] BSAM highlighted that the right to royalty payments and trademarks fall within the ordinary meaning of Article 25.[92] BSAM concluded that their IP rights and licence with a revenue sharing model fell within the definition of an investment.[93] Further, BSAM contended that the Licence Agreement provides a right to use the marks and to 'undertake all of its activities in Panama - the sale and distribution of tire bearing the BRIDGESTONE mark'[94] which, it was argued, is enough to establish an IP investment in Panama. Furthermore, BSAM clarified that the TPA does not require that the IP is subject to domestic law to qualify as an investment, rather this limitation applies to licences under Article 10.29(g) of the TPA. Therefore, these rights are assets in Panama which have the characteristics of an investment. In order to establish characteristics of investment BSAM's identified the following points:

1. BSAM's activities of hiring, monitoring sales, and marketing in Panama reflect a commitment of 'some economic value'. Similarly, a commitment to capital is obtained through IPRs and, as BSAM highlighted, the trademarks are 'the brands that BSAM is spending capital to use and market'.[95]
2. The Licence Agreement gave BSAM the right to sell tires in Panama, and to enter into a franchise agreement, reflecting an intention to earn money in Panama.[96]
3. The Supreme Court decision results in dilution of the value of the trademark, hindering sales and profit, and giving rise to 'payment risk' from customers and distributors.[97]
4. The use of the BRIDGESTONE and FIRESTONE trademarks through a Licence Agreement since 2001 is evidence of duration of investment.[98]

BSAM rejected Panama's argument that BSAM transactions were simply cross-border sales. BSAM accepted that cross-border sales per se cannot be an investment but argued that they could be part of the activities of an investor.[99] In the words of BSAM, 'cross border sales are part of the activities in Panama in which BSAM is engaged on the basis of its intellectual property investment'.[100] Similarly, BSAM asserted that the BRIDGESTONE and FIRESTONE trademark licences were assets because the licencee derives its right over Panamanian IPRs rights from the Licence Agreement.[101] In order to assert its control over the IP investment, the BSAM drew the Tribunal's attention to the fact that the Licence Agreement gave BSAM control over the manner in which the trademark could be used, marketed, and sub-licenced, and used to exercise quality control over the product. Further, BSAM clarified that the consent of the trademark holder to transfer BSAM's right cannot be treated as a loss of control or ownership. On the question of assets, BSAM contended that the criteria to determine assets depends on whether it can be sold.[102] To illustrate this point, BSAM argued that the value of the licence allowed BSAM to generate revenue, and that the licence could be converted to cash or assigned for consideration, including through monetary transactions.[103]

It is interesting to note that Panama distinguished between the existence of IPRs and the right to use the trademarks. The rationale for such distinction was made in reference to the text of TPA. According to Panama, Article 10.29(f) refers to 'intellectual property rights' which are different from the right to use the trademark. Their argument was based on the premise that trademarks, as intellectual property rights, are investments under Article 10.29(f), and the right to use the trademark, provided by the Licence Agreement, derives from the 'licence' clause of Article 10.29(g).[104] In making this distinction, Panama asserted that the Trademark Licence Agreement fell under the category of 'licence' and should therefore be assessed as an investment, as opposed to the trademark being assessed as an IP investment.

This argument was supported by showing that the Licence Agreement was not governed by US Law and that the claimant to the dispute is not the owner of the trademark. The distinction between the IPRs as such and the right to use IPRs, it was argued, establishes that the purported investment lacks the necessary characteristics of an investment. In addition, Panama argued that the claimant was not entitled to use the 'goodwill' of the brand because goodwill derives from IPRs which, in this case, the claimant did not possess.[105] BSAM clarified this point by comparing its licensing agreement with oil exploration and production licences where the licencee does not own the concession area but are entitled to explore and produce in that area in accordance with the Licence.[106]

3.2.1 When does a trademark qualify as an investment?

The question before the Tribunal was whether a licence to use the relevant trademark satisfies the definition of investment under the TPA and the ICSID Convention. In order to answer this, the Tribunal sought to establish when a trademark qualifies as an investment. First, the Tribunal analysed the functions of trademarks and acknowledged that past arbitral tribunals have not discussed this question:

> *"Nor has this Tribunal been referred to any other decision that considers the circumstances in which a trademark can constitute an investment when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment".*[107]

To elaborate, two sub-questions were raised. First, does the mere registration of trademarks in a country qualify as an investment? Second, can exploitation of trademarks in a country be treated as a prerequisite to qualify as an investment?

Answering the first question, the Tribunal held that mere registration does not amount to or have the characteristics of investment because registration only gives a negative right to exclude others from use of the trademark. Therefore, it cannot be termed as an investment or have the characteristics of investment. The Tribunal writes:

> *"The effect of registration of a trademark is negative. It prevents competitors from using that trademark on their products. It confers no benefit on the country where the registration takes place, nor, of itself, does it create any expectation of profit for the owner of the trademark. No doubt for these reasons the laws of most countries, including Panama, do not permit a trademark to remain on the register indefinitely if it is not being used".*[108]

Answering the second question, the Tribunal confirmed that exploitation of a registered trademark may amount to an investment or have the characteristics of investment. According to the Tribunal, exploitation of a trademark requires manufacture, promotion, sales, marketing of goods that bear the mark, after-sale servicing, and guarantees.[109] To achieve this requires resources. Therefore, such exploitation might result in some benefit to the home states. To establish this point, the Tribunal cited the Philip Morris v. Uruguay case as an example of where 'the activities that included marketing the cigarettes under the trademark constituted a qualifying investment'.[110] The Tribunal elaborated that exploitation can be achieved by trademark owners or through franchise agreements which give 'exploitation rights' to the licencee for its own benefit.[111] The Tribunal also acknowledged the fact that, in some cases, qualified investment can be determined from interrelated activities. According to the Tribunal, 'interrelated activities' include selling products bearing the trademark. The Tribunal disagreed with Panama's argument that 'an interrelated series of activities, built round the asset of a registered trademark, that do have the characteristics of an investment does not qualify as such simply because the object of the exercise is the promotion and sale of marked goods',[112] and instead ruled that if Panama's argument was to be accepted, this would result in a preference of form over substance. Thus, the Tribunal concluded that, if the licencee can exploit the licence in the same way manner as a trademark, this would be sufficient to consider it an investment.[113]

3.2.2 IP-driven contractual rights as assets

The BSAM Trademark Licence Agreement shows that the use of the licence is subject to approval by BSLS, and that BSLS retains all rights, title and interest in respect of the trademarks and goods associated with the mark.[114] Based on these two clauses, Panama argued that the restrictive nature of the licence cannot be described as an IPR, or license, or asset, as BSAM does not own or control the rights.

The Tribunal did not accept this argument, concluding that BSAM's exclusive right to use the mark meant that the 'goodwill' remained attached to the mark, and the question regarding the title of goodwill was therefore immaterial.[115] The Tribunal identified two important points from the Licence Agreement. First, BSAM is not granted any interest in the FIRESTONE mark. Second, BSAM possesses contractual rights to use the mark.[116] However, the questions before the Tribunal were whether a contractual right can be described as an 'asset' and, if so, does a contractual right under the Licence Agreement make BSAM the owner of that asset?

In the view of the Tribunal, both questions should be analysed based on the 'effect under the law of Panama of the FIRESTONE Trademark Licence'.[117] Based on the expert witness and cross examination, the Tribunal concluded that, under Panama's trademark law, the registered trademark constitutes intellectual property and the Licensor is allowed to pass its right to use its trademark to the licencee.[118] In the Tribunal's view, this is enough to conclude that the Licence Agreement grants IPRs under Panama's trademark law. The Tribunal stated as follows:

"if the owner licences the use of the trademark, the licence constitutes an intellectual property right. The owner of the trademark has to use the trademark to keep it alive, but use by the licencee counts as use by the owner. The licencee cannot take proceedings to enforce the trademark without the participation of the owner...."[119]

Regarding the question of contractual rights. The Tribunal didn't accept Panama's argument that inability to transfer or assign without the consent of licensor has hindered to treat such contractual rights as an asset. Similarly, on Panama's argument of lack of ownership and control, the Tribunal writes that 'it is axiomatic that a licence must be obtained from the licensor, but that does not mean that the licencee does not own the licence'.[120] Also, the Tribunal acknowledged the fact that BSJ and BSLS as owners of BRIDGESTONE and FIRESTONE trademarks have passed their rights through the Licence Agreement to BSCR which allows exploiting rights. In the Tribunal's view, allowing the use of the trademark to BATO was an example of such exploitation. Thus, the Tribunal concludes that activities of BSCR to exploit the trademark together with the right under which they are entitled to do had the characteristic of investments.[121] In the tribunal's words:

"Where the owner of a trademark licences its use to a licencee, it is necessary to distinguish carefully between the interest of the owner and the interest of the licencee, each of which may be capable of constituting an investment. If the owner does no more than grant a licence of the trademark, in consideration of the payment of royalties by the licencee, the value of the trademark to the owner will reflect the amount of royalties received, while the value of the licence to the licencee will reflect the fruits of the exploitation of the trademark, out of which the royalties are paid". [122]

3.2.3 Article 25 of ICSID Convention: Immediate cause and effect

According to Article 25(1) of ICSID Convention;

'The Jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a contracting state and a national of another contracting state, which the parties to the dispute consent in writing to submit to the Centre." (emphasis added)

The issue before the Tribunal was whether the dispute to the present case arose directly out of an investment. It is important to note that the dispute before the Tribunal was brought by BSAM, not by BSJ or BSLS who were handed a penalty by the Panamanian Supreme Court. Based on this fact and the previous tribunal decision in the case *Metalpar*,[123] Panama argued that there is no "immediate cause and effect" or "causal link" between Panama's actions and injury to BSAM's alleged investment.[124] In establishing this, Panama raised three points. First, BSAM was not party to the Panamanian court proceedings.[125] Second, BSAM did not pay the penalty imposed by the Panamanian Supreme Court.[126] Third, BSAM did not own either trademark in question and were entitled only to the use, sale, marketing, or distribution of the trademark, activities that were unaffected by the Supreme Court decision.[127]

On the other hand, BSAM argued that the decision of the Supreme Court affected them in three ways. First, IPRs under the Trademark Licences were diluted as a result of the Supreme Court decision, and the decision 'made it much more costly for BSAM to maintain its investment in Panama and other regions'.[128] Second, BSAM argued that the decision was likely to encourage trademark applications which are similar or confusingly similar to BSAM trademark.[129] Third, BSAM argued that the decision resulted in a loss of market share, and that this may 'establish a precedent' that it is 'likely' to be followed within and outside of Panama.[130] BSAM emphasised its loss by arguing that royalties paid to the licensor were dependent on the sales, manufacture, and use of the trademark.[131] In fact, BSAM claimed that it has suffered the majority of the loss arising from 'the value of its assets' being 'directly contingent on the value of the trademarks to which those assets relate'.[132] In this way, BSAM highlighted that there was an *"immediate cause and effect"* between the actions of the host state and its effect on BSAM investment. However, BSAM did not demonstrate loss through evidence but submitted that its factual allegations were sufficient.[133]

The Tribunal observed that both owners BSLS and BSJ and licencee BSAM benefitted from the exploitation of the trademarks. The owner's interest was in royalties, whereas the licencee benefited from exploitation of the trademarks. In the tribunal's view, both licencee and licensor work mutually, the owner relies on the licencee to

[107] Bridgestone v Panama, above n 18, para 166.
[108] Bridgestone v Panama, above n 18, para 171.
[109] Bridgestone v Panama, above n 18, para 172.
[110] Ibid.
[111] Bridgestone v Panama, above n 18, para 173.
[112] Bridgestone v Panama, above n 18, para 176.
[113] Bridgestone v Panama, above n 18, para 180.
[114] Bridgestone v Panama, above n 18, para 183.
[115] Bridgestone v Panama, above n 18, para 184.
[116] Bridgestone v Panama, above n 18, para 186.
[117] Ibid.
[118] Bridgestone v Panama, above n 18, para 195.
[119] Bridgestone v Panama, above n 18, para 195.
[120] Bridgestone v Panama, above n 18, para 197.
[121] Bridgestone v Panama, above n 18, para 217.
[122] Bridgestone v Panama, above n 18, para 219.
[123] Metalpar S.A and Buen Aire S.A. v. Argentine Republic, ICSDI Case No. ARB/03/5, Decision on Jurisdiction (27 April 2006)
[124] Bridgestone v Panama, above n 18, para 223.
[125] Bridgestone v Panama, above n 18, para 225.
[126] Ibid.
[127] Ibid.
[128] Bridgestone v Panama, above n 18, para 229.
[129] Bridgestone v Panama, above n 18, para 230.
[130] Ibid.
[131] Bridgestone v Panama, above n 18, para 232.
[132] Ibid.
[133] Bridgestone v Panama, above n 18, para 233.

protect the trademark and its interest and vice versa.[134] Additionally, the Tribunal took into account expert opinions that, under the Panamanian law, the licencee could join the licensor in trademark opposition proceedings. The Tribunal was satisfied with the fact that the Supreme Court decision may have a chilling effect, making the trademark more expensive to enforce, less attractive and less valuable, resulting in diminished goodwill.[135] Therefore, the Tribunal concluded that the dispute arose out of the investment, but that there was no *'immediate cause-and effect relationship'* between the Supreme Court decision and effects of the investment outside Panama.[136]

4. CONCLUDING THOUGHTS

This case is the first instance of an IP Licence Agreement being subject to an arbitral tribunal. However, this should come as no surprise. Since the prior cases of *Philip Morris* and *Eli Lilly*, scholars have speculated on disputes concerning IP related transactions coming before an arbitral tribunal. Considering the territorial nature of IPRs, the possibility of catch 22 situations arises. For example, does the mere registration of IPRs qualify as an investment? To some extent, this case offers clarification to this question. The Tribunal has explicitly emphasized that the mere registration of a trademark in a country does not amount to or have the characteristics of an investment. To be an investment or have the characteristics of an investment, exploitation of the trademark is essential, however the Tribunal does not explicitly reveal the extent of exploitation necessary. The reference to exploitation of the trademark in relation to the economic welfare of the host country shows that exploitation should be apparent and measurable. Given the use of the term 'licence' alongside 'intellectual property rights' in defining investments in recent IIAs, this clarification may be necessary.[137] However, the problem lies in the fact that how arbitral tribunal is willing to consider activities of parent companies in relation to the interrelated business transaction in determining investment in host state where the subsidiary companies operate.[138] It is debatable whether the arbitral tribunal should or to what extent should it consider activities of parent companies in determining the investment in the host state.

It is notable that the *Bridgestone* case is related to trademarks and, in most jurisdictions, domestic trademark law requires a mark to be in use in the market in order for protection to be sought. Additionally, investment is one of the functions of trademarks in some national jurisdictions.[139] In contrast, only a few countries have a working requirement for patents.[140] In light of the on Bridgestone v Panama case, one may argue that, in order to bring proceedings regarding a patent, the patent should first be exploited in the host country. According to the Tribunal, exploitation requires manufacture, promotion, sales, marketing, etc. Following this logic, compulsory licensing of patents based on the working requirement would not amount to expropriation[141] because it will not satisfy investment requirement. On the other hand, entities such as universities, research firms, etc. simply hold patents either through purchase or initial grant without commercializing the patent. The sources of income of such entities is mostly through royalty earned by licensing.[142] In such cases, will arbitral tribunal considers it as exploitation? These are the questions which may open the door for future potential claims. However, this debate is beyond the scope of this paper.

The final award of the case being awaited, it will be interesting to see how the Tribunal addresses the issues of expropriation and fair and equitable treatment (FET).

[134] Bridgestone v Panama, above n 18, para 242.
[135] Bridgestone v Panama, above n 18, para 244.
[136] Bridgestone v Panama, above n 18, para 247.
[137] See Agreement Between Japan and the Republic of Indonesia for an Economic Partnership, entered into force 1 July 2008- Art 58(f) (vii) < http://www.mofa.go.jp/region/asia-paci/indonesia/epa0708/agreement.pdf> accessed 1 April 2018.
[138] Bridgestone v Panama, above n 18, para 161. ([in] principle, when considering whether an investment is owned or controlled by a claimant in a chain of companies the corporate veil is withdrawn when looking down the chain from the claimant, but the fact that all the benefits of the investment may ultimately pass up the chain to the parent is ignored. It is perfectly legitimate for a group of companies so to structure their inter-relationship as to gain the benefit of international investment treaties.....)
[139] See L'Oréal SA v. Bellure NV(C-487/07).
[140] For example, India and Brazil have working requirement provisions in Patent Laws. The working requirement in TRIPS is controversial. For more discussion on working requirement under TRIPS. See generally, Paul Champ and Amir Attaran, 'Patent Rights and Local Working Under the WTO TRIPS Agreement: An Analysis of the U.S.-Brazil Patent Dispute' (2002) 27(2)Yale Journal of International Law 365-393; Thaddeus Manu, 'The Complexity of Using the Patent Standards Under TRIPS for the Promotion of Domestic Industrial Development in Developing Countries in the Absence of Local Working Requirements: Rethinking the Role of the World Intellectual Property Organization in Intellectual Property Standard-Setting'(2017) 51(3) Journal of World Trade 517-538; Marketa Trimble, 'Patent Working Requirements: Historical and Comparative Perspectives' (2016) 6 UC Irvine Law Review 483-508 Thomas Cottier, Shaheeza Lalani and Michelangelo Temmermanm, 'Use It or Lose It? Assessing the Compatibility of the Working Requirements in the Paris Convention & TRIPS' (Working Paper No 12/11,NCCR Trade Regulation).
[141] For discussion relating to possibilities of litigating compulsory licence in ISDS. see generally- Peter B. Rutledge, 'TRIPS and BITs: An Essay on Compulsory Licences, Expropriation, and International Arbitration' (2012) 13 North Carolina Journal of Law & Technology 149-164; Christopher Gibson, 'A Look at the Compulsory Licence in Investment Arbitration: The Case of Indirect Expropriation' (2010) 25(3) American University International Law Review 357-422.
[142] These entities are referred to as Non-Practicing Entity (NPE). For more discussion on NPE; See Jae-il Park, 'Non-practicing Entities (NPEs) and Patent Remedies for Future Infringement'(2013) <http://eprints.nottingham.ac.uk/13146/1/phd_2013_Jaeil_Park.pdf> accessed 16 May 2018. (Park defines NPE 'as a patent owner who hold patents either through initial grants to themselves or through purchase from previous owners, and enforces her patent against a manufacturing company or 'practicing entity' with a view to earning royalty revenues by licensing out rather than making a profit by commercializing the patented inventions. For instance, NPEs may include individual inventors, universities, research institutes, research firms, patent trading firms, licensing firms, and so forth'.)
[143] Eli Lilly and Company v The Government of Canada, above n 13, para 223.
[144] Mercurio, above n 11.

Like *Eli Lilly*, this case have also raised domestic court decision in the international arbitral tribunal. Although, the Tribunal in *Eli Lilly* denied to conclude that the 'denial of justice' as the only ground for judicial expropriation.[143] Therefore, it will be interesting to see how the Tribunal in the present dispute review domestic court decision in determining expropriation and FET claims. This raises a relevant question: How will the *ad hoc* international arbitral tribunal review the legality of domestic court decisions related to IPRs? What standards will arbitral tribunal apply to determine legitimacy of domestic courts? Considering the territoriality, contingent nature of IP rights and flexibilities in the application of TRIPS at the national level, the final award on *Bridgestone v. Panama* may create jurisprudence on judicial expropriation in IP related investment disputes. To conclude, Bryan Mercurio describes recent cases of litigating IP rights in ISDS as an 'awakening [of] the sleeping giant'.[144] Indeed, this giant is slowly moving towards attracting more IP disputes in ISDS. Unlike previous cases where IP issues were related to health and regulatory matters, this case purely reflects the nature of commercial transactions. Therefore, all eyes will be on the Tribunal's final award.

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