INVESTOR-STATE DISPUTE SETTLEMENT AND THE TRANS-PACIFIC PARTNERSHIP

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INTRODUCTION

On February 4, 2016, the United States and its eleven trading partners in the Asia-Pacific region signed the Trans-Pacific Partnership (TPP) Agreement in Auckland, New Zealand. Covering '40% of global [gross domestic product] and some 30% of worldwide trade in both goods and services',[1] this Agreement contains 30 chapters, including one each on investment (Chapter 9), intellectual property (Chapter 18) and dispute settlement (Chapter 28).

Although policymakers, commentators and civil society organizations have harshly criticized the high standards of intellectual property protection and enforcement in the TPP Agreement, they have only recently begun to highlight the deleterious impacts of the Agreement's investment chapter, in particular its investor-state dispute settlement (ISDS) mechanism. To its critics, this mechanism is highly problematic because it will allow private intellectual property investors to sue national governments without the support of their home governments. Because noncompliance with intellectual property standards can be interpreted as a failure to protect intellectual property investments, ISDS will further amplify the widely documented deleterious impacts of the TPP intellectual property chapter.

In the past few years, the problems caused by the interplay of the intellectual property and investment chapters have become especially salient following the complaints Philip Morris and Eli Lilly lodged, respectively, to challenge the plain packaging regulations for tobacco products in Uruguay and Australia and the patentability requirements in Canada.[2] At the time of writing, Philip Morris' complaints against both Uruguay and Australia have already been dismissed, but Eli Lilly's dispute has not yet been resolved. In addition, the Dispute Settlement Body of the World Trade Organization (WTO) has yet to release its panel report on the dispute

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[1] David A. Gantz, 'The TPP and RCEP: Mega-Trade Agreements for the Pacific Rim' (2016) 33 Arizona J of Intl and Comparative L 57, 59.

[2] *Philip Morris Brands Sàrl v Oriental Republic of Uruguay*, ICSID Case No. ARB/10/7, Request for Arbitration (19 February 2010); *Philip Morris Asia Ltd v The Commonwealth of Australia*, PCA Case No. 2012-12, Notice of Claim (22 June 2011); *Eli Lilly & Co. v. Government of Canada*, ICSID Case No. UNCT/14/2, Notice of Arbitration (12 September 2013).

over tobacco control measures between Honduras, the Dominican Republic, Cuba and Indonesia on the one hand and Uruguay on the other.[3]

Given these recent developments and the high stakes involved, it is understandable why critics have harshly criticized ISDS, and by extension the TPP investment chapter. As US Senator Elizabeth Warren lamented, this mechanism will give large corporations 'the right to challenge laws they don't like – not in court, but in front of industry-friendly arbitration panels that sit outside any court system'.[4] Criticizing Eli Lilly's investor-state dispute with Canada, some commentators also lamented how ISDS provided 'an oversized public insurance scheme for companies that are unwilling to assume the normal risks of doing business'.[5]

Focusing on ISDS as a dispute settlement institution, this chapter critically examines the intellectual property rights holders' growing use of the institution to resolve international intellectual property disputes. It begins by highlighting the criticisms of ISDS, including those that are related to the arbitration process, the arbitrators' interpretations and final arbitral outcomes. The chapter then examines the various upgrades that the TPP Agreement has provided to the ISDS mechanism. The chapter concludes by outlining the conceptual and institutional improvements that could strengthen ISDS.

INVESTOR-STATE DISPUTE SETTLEMENT

Although ISDS is highly attractive to businesses entering countries that have either a limited respect for the rule of law or an underdeveloped, or even undeveloped, judicial system,[6] the ISDS proceedings Philip Morris and Eli Lilly initiated were not intended to address these widely documented problems. Australia and Canada are generally not considered countries lacking in respect for the rule of law or a well-functioning judicial system. Nor were the governments in these countries widely criticized for their complicity in acts of piracy and counterfeiting. Instead, these proceedings were merely initiated to undermine the host states' legitimate regulations, such as tobacco control measures or patentability requirements.

To provide a systematic analysis, this section catalogues the various weaknesses of ISDS. After dividing these weaknesses based on whether they are related to the process, interpretations or outcomes, this section will discuss each of these weaknesses in turn.

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[3] World Trade Organization (WTO), 'Australia – Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging', Request for Consultations by Honduras, WT/DS435/1 (4 April 2012); Request for Consultations by the Dominican Republic, WT/DS441/1 (18 July 2012); Request for Consultations by Cuba, WT/DS458/1 (3 May 2013); Request for Consultations by Indonesia, WT/DS467/1 (20 September 2013). Ukraine was the first to request consultations on 13 March 2012, but requested the WTO panel to suspend its panel proceedings on 28 May 2015.

[4] Deirdre Fulton, 'As Countries Line up to Sign Toxic Deal, Warren Leads Call to Reject TPP' (*CommonDreams*, 3 February 2016), www.commondreams.org/news/2016/02/03/countries-line-sign-toxic-deal-warren-leads-call-reject-tpp, accessed 7 September 2016.

[5] Maude Barlow, 'CETA Changes Make Investor-State Provisions Worse' (*Huffington Post*, 2 February 2016), http://www.huffingtonpost.ca/maude-barlow/ceta-changes_b_9130538.html, accessed 7 September 2016.

[6] Scott Miller and Gregory N. Hicks, *Investor-State Dispute Settlement: A Reality Check* (Lanham: Center for Strategic and International Studies 2015) v; Charles N. Brower and Stephan W. Schill, 'Is Arbitration a Threat or a Boon to the Legitimacy of International Investment Law?' (2009) 9 Chicago J of Intl L 471, 479.

Process-Based Weaknesses

The current ISDS process has at least four types of weaknesses. First, arbitration costs can be very high. In general, the costs average about US$8–10 million, with the costs of some cases going to as high as over US$30 million[7] (or even US$70 million, as in the highly unusual Yukos Oil case discussed later in this chapter[8]). Considering that each claim in a WTO dispute generally costs about only US$300,000 to US$400,000 (as estimated in 2004),[9] the costs of ISDS arbitrations are substantially higher.[10] If developing countries have a difficult time affording the WTO dispute settlement process, the exceedingly high costs of ISDS arbitrations will certainly guarantee that most businesses in developing countries will be shut out of this mechanism.

Second, ISDS arbitrators may be partial and unaccountable.[11] For example, these arbitrators may have worked in law firms that already have clients in the same industry. They may also have a tendency to serve corporate clients who are similar to those filing ISDS complaints. It is therefore no surprise that developing country policymakers, academic and policy commentators, and civil society organizations often lament the process's bias towards the interests of transnational corporations.[12] As President Evo Morales of Bolivia declared, 'Governments in Latin America and I think all over the world never win the cases. The transnationals always win.'[13] These sentiments are understandable considering that the majority of the claimants in ISDS cases did originate from developed countries.[14]

Third, many of the ISDS proceedings have been kept in secret, and policymakers, commentators and civil society organizations continue to have great difficulty in knowing what happens in these proceedings.[15] For instance, Philip Morris Asia's notice of claim in its ISDS proceeding against Australia was made available only through a request for declassification under the Australian Freedom of Information Act. Compared with ISDS, dispute settlement in the WTO is much more transparent – not just to the complainants and respondents, but also to third parties (whether as interveners or not). Virtually all of the key public documents in the WTO process have been made available on the trading body's website.

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[7] Organisation for Economic Co-operation and Development, *Investor-State Dispute Settlement Public Consultation: 16 May–23 July 2012* (Paris: Organisation for Economic Co-operation and Development 2012) 118; Matthew Hodgson, *Costs in Investment Treaty Arbitration: The Case for Reform*, *in* Jean E. Kalicki and Anna Joubin-Bret (eds), *Reshaping the Investor-State Dispute Settlement System: Journeys for the 21st Century* (Leiden: Brill Nijhoff 2015) 749.

[8] Anna Joubin-Bret, *Establishing an International Advisory Centre on Investment Disputes?* (Geneva: International Centre for Trade and Sustainable Development 2015) 2.

[9] Gregory Shaffer, 'Recognizing Public Goods in WTO Dispute Settlement: Who Participates? Who Decides? The Case of TRIPS and Pharmaceutical Patent Protection' (2004) 7 J of Intl Economic L 459, 473.

[10] Joubin-Bret (n 8) 2.

[11] Cynthia M. Ho 'Sovereignty under Siege: Corporate Challenges to Domestic Intellectual Property Decisions' (2015) 30 Berkeley Technology LJ 213, 234; Joost Pauwelyn, 'The Rule of Law without the Rule of Lawyers? Why Investment Arbitrators Are from Mars, Trade Adjudicators from Venus' (2015) 109 American J of Intl L 761, 783.

[12] Susan D. Franck, 'Development and Outcomes of Investment Treaty Arbitration' (2009) 50 Harvard Intl LJ 435, 450.

[13] Leslie Mazoch, 'Chavez Takes Cool View toward OAS, Says Latin America Better Off without World Bank' (*Huffington Post*, 30 April 2007), www.huffingtonpost.com/huff-wires/20070430/la-gen-venezuela-leftist-alternative/, accessed 7 September 2016.

[14] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2016: Investor Nationality: Policy Challenges* (Geneva: United Nations 2016) 105.

[15] Ho (n 11) 234; Kate Miles, 'Reconceptualising International Investment Law: Bringing the Public Interest into Private Business' in Meredith Kolsky Lewis and Susy Frankel (eds), *International Economic Law and National Autonomy* (Cambridge: Cambridge University Press 2010) 295–6.

Finally, investors may file frivolous lawsuits,[16] thereby wasting the host states' scarce resources. Even worse, those states that find it costly to go through the ISDS process may be just too eager to change their laws to avoid costly arbitrations. In fact, many of these states may settle disputes even when their laws have already met international standards, such as when they are in full compliance with the TRIPS Agreement or other multilateral agreements.[17] Such coerced settlements regardless of compliance with international standards, in turn, would cause the dispute settlement process to lose legitimacy.[18] It is therefore no surprise that countries such as Indonesia and South Africa have already started terminating international investment agreements to avoid ISDS.[19]

Interpretation-Based Weaknesses

The second type of weakness relates to interpretations by ISDS arbitrators. As far as ISDS decisions are concerned, there are no binding precedents.[20] Although stare decisis is a special feature of common law, as opposed to civil law, disputing parties increasingly expect similar cases to be decided similarly to provide consistency and predictability.[21] For example, WTO panels and the Appellate Body have used previous cases for explanation and support, even though they are not required to follow any precedent.[22] As the Appellate Body reasoned in *Japan – Taxes on Alcoholic Beverages*, the use of earlier relevant cases could help 'create legitimate expectations among WTO Members'.[23]

Within the intellectual property field, there is also a considerable concern that ISDS arbitrators would subscribe to a narrow view of intellectual property rights. In doing so, they might focus primarily on the protection levels without thinking much about the existence of corresponding limitations or exceptions. They might also ignore the many flexibilities and safeguards that have been carefully built into the TRIPS Agreement. From the host states' standpoint, overlooking flexibilities and safeguards is particularly problematic, considering that ISDS is often included in TRIPS-plus trade or investment agreements – agreements established outside the multilateral process to ratchet up the TRIPS standards.

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[16] 'FACT SHEET: Investor-State Dispute Settlement (ISDS)' (*Office of the US Trade Representative*, 11 March 2015), ustr.gov/about-us/policy-offices/press-office/fact-sheets/2015/march/investor-state-dispute-settlement-isds, accessed 7 September 2016.
[17] Ho (n 11) 222.
[18] Peter K. Yu, 'Digital Copyright Reform and Legal Transplants in Hong Kong' (2010) 48 U of Louisville L Rev 693, 718; Peter K. Yu, 'Tales of the Unintended in Copyright Law' (2015) 67 Studies in Law, Politics, and Society 1, 8–9.
[19] Ben Bland and Shawn Donnan, 'Indonesia to Terminate More Than 60 Bilateral Investment Treaties' (*Financial Times*, 26 March 2014), www.ft.com/cms/s/0/3755c1b2-b4e2-11e3-af92-00144feabdc0.html#axzz4HWwIEVzw, accessed 7 September 2016; Adam Green, 'South Africa: BITs in Pieces' (*BeyondBRICS*, 19 October 2012), blogs.ft.com/beyond-brics/2012/10/19/south-africa-bits-in-pieces/, accessed 7 September 2016.
[20] Marc Bungenberg and Catharine Titi, 'Precedents in International Investment Law' in Marc Bungenberg et al. (eds), *International Investment Law: A Handbook* (Baden-Baden: Nomos 2015); Joshua Karton, 'Lessons from International Uniform Law' in Kalicki and Joubin-Bret (n 7); Andrés Rigo Sureda, 'Precedent in Investment Treaty Arbitration' in Christina Binder et al. (eds), *International Investment Law for the 21st Century: Essays in Honour of Christoph Schreuer* (Oxford: Oxford University Press 2009); Christoph Schreuer and Matthew Weiniger, 'A Doctrine of Precedent?' in Peter Muchlinski, Federico Ortino and Christoph Schreuer (eds), *The Oxford Handbook of International Investment Law* (Oxford: Oxford University Press 2008).
[21] August Reinisch, 'The Future of Investment Arbitration' in Binder et al. (n 20) 905–8.
[22] 'Legal Effect of Panel and Appellate Body Reports and DSB Recommendations and Rulings' (*World Trade Organization*), www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c7s2p1_e.htm, accessed 16 August 2016.
[23] Appellate Body Report, 'Japan – Taxes on Alcoholic Beverages', WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (4 October 1996) pt. E.

Finally, ISDS arbitrators may have a tunnel vision. With respect to intellectual property investments, they may focus narrowly on only the intellectual property side of the investment bargain. As a result, they may ignore the existence of concessions outside the intellectual property field – such as free lands, tax breaks, exemption from export custom duties and preferential treatments on foreign exchange.[24] Overlooking these offsetting concessions is particularly problematic because these concessions would not have been offered in the first place had intellectual property protection and enforcement been as strong as what the investors had anticipated.

Outcome-Based Weaknesses

The third type of weakness concerns the final outcomes of ISDS arbitrations. There are at least five widely documented weaknesses. First, arbitration awards may be very large. A case in point is the US$50 billion ISDS award that was given as compensation for Russia's wrongful expropriation of the now-defunct Yukos Oil, the country's once biggest oil producer.[25] To put this award in the right comparative context, it is important to recall that the GDP of many developing countries, including members of the European Union, does not reach that amount.[26] Even Peru and Vietnam, two of the twelve TPP partners, had a GDP of only less than four times the Yukos Oil award. According to World Bank data, the GDP of these countries was slightly above US$190 billion in 2015.

Second, ISDS allows transnational corporations to challenge legitimate regulations, such as those concerning labour and the environment. Such challenges would create what commentators, intergovernmental bodies and civil society organizations have widely referred to as 'regulatory chill' – a chilling effect that undermines a country's sovereign ability to regulate harmful conducts, including those committed by transnational corporations.[27] A good illustration is the chilling effect created by Philip Morris when it aggressively challenged the plain packaging regulations in Uruguay and Australia.

Regulatory chill, while difficult to prove,[28] is particularly problematic in the intellectual property field,[29] an area in which autonomy and policy space are badly needed for countries to

[24] Peter Muchlinski, 'Policy Issues' in Muchlinski, Ortino and Schreuer (n 20) 33; Anastasia Telesetsky, 'A New Investment Deal in Asia and Africa: Land Leases to Foreign Investors' in Chester Brown and Kate Miles (eds), *Evolution in Investment Treaty Law and Arbitration* (Cambridge: Cambridge University Press 2011).

[25] Henry Meyer, 'Russia Faces $50 Billion Fight in U.S., U.K. for Yukos Damages' (*Bloomberg*, 24 July 2015), www.bloomberg.com/news/articles/2015-07-24/russia-faces-50-billion-fight-in-u-s-u-k-for-yukos-damages, accessed 7 September 2016. The award is currently under appeal in the Netherlands, and Russia has no plan to pay the damages. Anthony Deutsch, 'Russia Appeals Order to Pay $50 Bln to Yukos Shareholders in Netherlands' (*Reuters*, 9 February 2016), www.reuters.com/article/russia-yukos-appeal-netherlands-idUSL8N15O1P2, accessed 7 September 2016.

[26] In 2015, those EU members that had a GDP lower than the Yukos Oil award included Bulgaria ($48.95 billion), Croatia ($48.73 billion), Cyprus ($19.32 billion), Estonia ($22.69 billion), Latvia ($27.04 billion), Lithuania ($41.24 billion), and Slovenia ($42.75 billion).

[27] Lone Wandahl Mouyal, *International Investment Law and the Right to Regulate: A Human Rights Perspective* (Abingdon: Routledge 2016) 67–8; UNCTAD, *World Investment Report 2015: Reforming International Investment Governance* (Geneva: United Nations 2015) 128; Kyla Tienhaara, 'Regulatory Chill and the Threat of Arbitration: A View from Political Science' in Brown and Miles (n 24).

[28] Jonathan Bonnitcha, 'Outline of a Normative Framework for Evaluating Interpretations of Investment Treaty Protections' in Brown and Miles (n 24) 134.

[29] Ruth L. Okediji, 'Is Intellectual Property "Investment"? *Eli Lilly v. Canada* and the International Intellectual Property System' (2014) 35 U of Pennsylvania J of Intl L 1121, 1133.

tailor their intellectual property systems to local needs, interests, conditions and priorities.[30] As Ruth Okediji lamented:

> Intellectual property obligations in the investment context […] pose a new threat to states' traditional lawmaking powers by providing foreign actors [with] a singular opportunity to challenge laws that have been enacted with the domestic public interest in full view, even when they are in conformity with international intellectual property treaties. Subverting a core judicial function – interpretation of a domestic law already infused with multilateral obligations – to the oversight of a private international tribunal precariously alters the contours of state power and responsibility for compliant domestic legislation and policy prescriptions.[31]

Third, ISDS will provide more fora for private investors and their supportive states to sue developing country governments.[32] The typical fora in which complaints can be filed against these governments are domestic courts and international adjudicatory bodies, such as the WTO Dispute Settlement Body. By providing alternative fora, ISDS will allow private actors to bypass these widely used processes. Even worse, the investors' home governments can still file complaints through traditional state-to-state dispute settlement processes. As a result, ISDS is likely to spark a vicious cycle that will generate more disputes, not to mention that diplomacy and other non-trade reasons may induce governments to exercise restraint in filing these complaints.

Fourth, and more specifically in the intellectual property context, ISDS may encourage arbitrators to focus on rights that do not fall squarely within the TRIPS Agreement or other multilateral intellectual property agreements, such as those administered by the World Intellectual Property Organization (WIPO). Although most international investment agreements define 'investment' broadly to cover 'intellectual property rights', and perhaps licenses to or applications of those rights,[33] the TRIPS Agreement does not cover all forms of intellectual property rights. The eight categories of rights that the Agreement explicitly covers are copyrights, patents, trademarks, trade secrets, geographical indications, industrial designs, layout designs of integrated circuits and plant variety protections. Although one could make a strong argument that the TRIPS Agreement also covers 'utility models, trade names, and other forms of unfair competition',[34] due to its incorporation of the Paris Convention, it remains debatable whether the Agreement covers sui generis database protection, broadcast rights and exclusivity regimes used to protect clinical trial data. These additional protections are generally referred to as TRIPS-extra obligations – obligations that lie outside the scope of the TRIPS Agreement and that may not be subject to the mandatory WTO dispute settlement process.[35]

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[30] Henning Grosse Ruse-Khan, 'Protecting Intellectual Property Rights under BITs, FTAs and TRIPS: Conflicting Regimes or Mutual Coherence?' in Brown and Miles (n 24); Peter K. Yu, 'The International Enclosure Movement' (2007) 82 Indiana LJ 827, 833–55.
[31] Okediji (n 29) 1122.
[32] 'FACT SHEET: Investor-State Dispute Settlement (ISDS)' (n 16).
[33] Carlos M. Correa, 'Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses' (2004) 26 Michigan J of Intl L 331, 340; Bryan Mercurio, 'Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements' (2012) 15 J of Intl Economic L 871, 878–9.
[34] Peter K. Yu, 'Enforcement, Enforcement, What Enforcement?' (2012) 52 IDEA 239, 256 fn 82.
[35] Yu (n 30) 868–9.

Finally, ISDS may allow private investors to rewrite the TRIPS Agreement – or, for that matter, other multilateral trade or intellectual property agreements.[36] Such rewriting will undermine the hard-earned bargains developing countries have won through the WTO negotiations.[37] A case in point is the moratorium imposed on non-violation complaints – complaints of nullification or impairment of trade benefits despite a lack of substantive violations.[38] Since the adoption of the TRIPS Agreement, this moratorium has been repeatedly extended – most recently during the Tenth WTO Ministerial Conference in Nairobi in December 2015.[39] Despite this extension, nothing will prevent ISDS arbitrators from considering complaints that are based on impaired benefits or frustrated expectations, as opposed to substantive violations.

Similarly, Brook Baker and Katrina Geddes expressed concern that 'there is a risk that an IP [intellectual property] rightholder might bring a claim because of a governmental failure to intercept alleged infringing products in-transit via stringent border measures'.[40] In their view, such a failure 'might be interpreted to violate the right to fair and equitable treatment in administrative border procedures'.[41] Considering the controversy generated by in-transit seizures of pharmaceutical products during the negotiation of the Anti-Counterfeiting Trade Agreement, their concern is not unreasonable.[42] At that time, the repeated seizures of in-transit generic drugs were so contentious that India and Brazil filed complaints against the European Union and the Netherlands before the WTO Dispute Settlement Body. Although India and the European Union eventually reached an interim settlement in July 2011,[43] neither Brazil nor India has withdrawn its complaints.

In sum, ISDS has a wide variety of weaknesses. Some are related to the arbitration process, some are concerned with the arbitrators' interpretations, and some involve the final arbitral outcomes.

TPP INVESTMENT CHAPTER

In view of these weaknesses, the TPP Agreement seeks to introduce a variety of substantive and procedural safeguards. Although the TPP investment chapter goes beyond ISDS to cover other investment-related issues – such as freedom from discrimination, protection against uncompensated expropriation of property, protection against denial of justice and the right to

[36] Ho (n 11) 223; Okediji (n 29) 1123–4.
[37] Susy Frankel, 'Interpreting the Overlap of International Investment and Intellectual Property Law' (2016) 19 J of Intl Economic L 121, 124; Ho (n 11) 250.
[38] Susy Frankel, 'Challenging TRIPS-Plus Agreements: The Potential Utility of Non-Violation Disputes' (2009) 12 J of Intl Economic L 1023, 1059.
[39] WTO, 'TRIPS Non-Violation and Situation Complaints', WT/MIN(15)/41 (19 December 2015).
[40] 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' (2015) 23 J of Intellectual Property L 2, 34.
[41] Ibid.
[42] Peter K. Yu, 'Six Secret (and Now Open) Fears of ACTA' (2011) 64 SMU L Rev 975, 1009; Peter K. Yu, 'Virotech Patents, Viropiracy, and Viral Sovereignty' (2014) 45 Arizona State LJ 1563, 1588.
[43] 'India, EU Ink Deal to End Drug Seizure for Now' (*Times of India*, 29 July 2011), articles.timesofindia.indiatimes.com/2011-07-29/india-business/29828750_1_generic-drugs-consignments-of-generic-medicines-eu-parliament.

transfer capital[44] – this section focuses only on the various safeguards that the TPP Agreement has put in place to improve ISDS.

Sovereignty and Regulatory Space

The TPP Agreement has instituted at least four sets of improvements to address the current weaknesses of ISDS. The first set of improvements targets the concerns about sovereignty and regulatory space. These improvements help reserve to each TPP partner the ability to regulate in the public interest. Article 9.16 of the TPP Agreement explicitly declares:

> Nothing in this Chapter shall be construed to prevent a Party from adopting, maintaining or enforcing any measure otherwise consistent with this Chapter that it considers appropriate to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental, health or other regulatory objectives.

To ensure financial stability, Article 9.3.3 further states that the investment chapter does not cover financial services.

During the TPP negotiations, Philip Morris' ISDS proceedings have sparked serious concerns among some TPP partners, most notably Australia and Malaysia.[45] To alleviate these concerns, Article 29.5 explicitly recognizes the health authorities' ability to introduce tobacco control measures. Although this provision is important to intellectual property and investment policies, the provision interestingly cannot be found in either the intellectual property or investment chapter. Instead, it is available in the exceptions chapter – the second last chapter of the TPP Agreement.

ISDS Process

The second set of improvements focuses on the procedural flaws of ISDS. Specifically, the TPP Agreement empowers arbitral tribunals to review and dismiss frivolous claims as well as to award costs and attorneys' fees. Article 9.23.4 states that 'a tribunal shall address and decide as a preliminary question any objection by the respondent that […] a claim is manifestly without legal merit'. Article 9.29.4 states further that, '[i]f the tribunal determines [the] claims to be frivolous, the tribunal may award to the respondent reasonable costs and attorney's fees'. Although this fee-shifting arrangement is important to investors, such an arrangement could greatly increase the host state's burden while limiting its ability to control arbitration costs.[46]

In addition, Article 9.23.7 of the TPP Agreement imposes on investors 'the burden of proving all elements of its claims, consistent with general principles of international law applicable to international arbitration'. Article 9.21.1 also limits claims to those that have occurred within three and a half years. In regard to minimum standards of treatment, Article 9.6.4 further states that 'the mere fact that a Party takes or fails to take an action that may be

[44] 'FACT SHEET: Investor-State Dispute Settlement (ISDS)' (n 16).
[45] Bryan Mercurio, 'Safeguarding Public Welfare? – Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements' (2015) 6 J of Intl Dispute Settlement 252, 273–4.
[46] Joubin-Bret (n 8) 4.

inconsistent with an investor's expectations does not constitute a breach […] even if there is loss or damage to the covered investment as a result'.

To prevent forum shopping, the TPP Agreement requires claimants in ISDS proceedings to 'waive the right to initiate parallel proceedings in other fora challenging the same measures'.[47] Although Article 28.4.1 allows the claimant to 'select the forum in which to settle the dispute', Article 28.4.2 states: 'Once a complaining Party has requested the establishment of, or referred a matter to, a panel or other tribunal under an agreement referred to in paragraph 1, the forum selected shall be used to the exclusion of other fora.' Thus, by 'prevent[ing] a party from pursuing the same claims both in ISDS proceedings and domestic courts',[48] this waiver will greatly reduce the host states' burden of defending investor-state disputes simultaneously in multiple fora.

To further minimize burden, Article 9.28 permits the consolidation of ISDS claims that 'have a question of law or fact in common and [that] arise out of the same events or circumstances'. Such consolidation will benefit the disputing parties on both sides, as it will 'increase efficiency, reduce litigation costs, and prevent strategic initiation of duplicative litigation'.[49]

Finally, the Agreement 'allows a TPP Party to deny benefits to "shell companies" owned by persons of that Party or a non-Party that establishes in another TPP country in order to take advantage of treaty rights but that lack substantial business activities in that country'.[50] Article 9.1 specifically defines the term 'enterprise of a Party' as 'an enterprise constituted or organised under the law of a Party, or a branch located in the territory of a Party and carrying out business activities there'.[51]

Transparency

The third set of improvements concerns transparency. Under the TPP Agreement, arbitral proceedings will remain open and publicly accessible. Article 9.24.1 specifically requires the respondent to make publicly available the following documents:

(a) the notice of intent;
(b) the notice of arbitration;
(c) pleadings, memorials and briefs submitted to the tribunal by a disputing party and any written submissions submitted pursuant to Article 9.23.2 (Conduct of the Arbitration) and Article 9.23.3 and Article 9.28 (Consolidation);
(d) minutes or transcripts of hearings of the tribunal, if available; and
(e) orders, awards and decisions of the tribunal.

[47] Office of the US Trade Representative (USTR), 'TPP Chapter Summary – Investment' (2016) 5.
[48] 'FACT SHEET: Investor-State Dispute Settlement (ISDS)' (n 16).
[49] Ibid.
[50] USTR (n 47) 3.
[51] On the territorial nexus between an investment and the host state, see Christina Knahr, 'Investments "in the Territory" of the Host State' in Binder et al. (n 20); Christina Knahr, 'The Territorial Nexus between an Investment and the Host State' in Bungenberg et al. (n 20). On what constitute investors, see Mark Feldman, 'Distinguishing Investors from Exporters under Investment Treaties' in Kalicki and Joubin-Bret (n 7); Lucy F. Reed and Jonathan E. Davis, 'Who Is a Protected Investor?' in Bungenberg et al. (n 20).

According to the Office of the United States Trade Representative, the State Department's website will contain all submissions, hearing transcripts and other key documents regarding TPP-based investment cases against the United States.[52] Such transparency will ensure high-quality decision-making while promoting democratic values, public participation, accountability and legitimacy.[53]

In addition, TPP partners will establish a code of conduct for ISDS arbitrators to ensure independence and impartiality.[54] Article 28.10.1(d) of the TPP Agreement explicitly requires all members of the dispute settlement panels, including ISDS arbitrators, to 'comply with the code of conduct in the Rules of Procedure'. Before any final rulings, disputing parties will also have the opportunity to review and comment on proposed arbitral awards. Article 28.17.7 specifically grants to these parties the opportunity to 'submit written comments to the panel on its initial report', somewhat similarly to the interim review provided in the WTO dispute settlement process. Through a decision of the Trans-Pacific Partnership Commission, TPP partners can further agree on joint interpretations that will bind arbitral tribunals (Article 9.25.3).

Tunnel Vision

The final set of improvements aims to address the concerns about the ISDS arbitrators' tunnel vision. As Rochelle Dreyfuss and Susy Frankel described:

> Because investor rights and IP rights are both private rights, IP holders tend to equate the investment protectable under these instruments to the private economic value of their IP rights. Further, they see IP rights as reliance interests that are defined by the law at the time they made their investment or, more extremely, when the agreement references TRIPS or its own IP chapter, the law at the time when the investment agreement was made.[55]

To avoid narrow interpretation and over-emphasis on the investment's economic value, the TPP Agreement allows civil society organizations, environmental groups, labour unions and other interested stakeholders to file *amicus curiae* briefs – similarly to the arrangements in NAFTA and the WTO (Article 9.23.3). Likewise, Article 28.13(e) states that 'the [dispute settlement] panel shall consider requests from non-governmental entities located in the territory of a disputing Party to provide written views regarding the dispute that may assist the panel in evaluating the submissions and arguments of the disputing Parties'.

As Professors Dreyfuss and Frankel reminded us: 'More transparency, receptivity to amicus briefing, consultation with other international organization (along the lines of the relationship between the WTO and WIPO), and references to the decisions of other tribunals would provide decision makers with a broader context in which to consider disputed issues.'[56] The filing of *amicus curiae* briefs can be highly beneficial, as these briefs 'can improve the quality of decisions by providing factual information of various types to the tribunal of which it

[52] USTR (n 47) 4.
[53] Joachim Delaney and Daniel Barstow Magraw, 'Procedural Transparency' in Muchlinski, Ortino and Schreuer (n 20) 761–2.
[54] USTR (n 47) 6.
[55] Rochelle Dreyfuss and Susy Frankel, 'From Incentive to Commodity to Asset: How International Law Is Reconceptualizing Intellectual Property' (2015) 36 Michigan J of Intl L 557, 589.
[56] Ibid 599.

would not otherwise be aware'.[57] Such filing 'can also provide [the relevant tribunal] with specialized expertise relating to public interest concerns in a case […] [as well as] legal argumentation that the parties, for various reasons, do not provide to the tribunal'.[58]

In addition, the TPP Agreement allows nondisputing parties, such as the investors' home states, to make submissions to arbitral tribunals. Article 28.14, which covers third-party participation, specifically declares:

> A Party that is not a disputing Party and that considers it has an interest in the matter before the panel shall, on delivery of a written notice to the disputing Parties, be entitled to attend all hearings, make written submissions, present views orally to the panel, and receive written submissions of the disputing Parties.

MODEST PROPOSALS

Although the TPP Agreement has put in place many substantive and procedural safeguards to improve ISDS, these safeguards remain inadequate to address all the weaknesses documented in this chapter. To target these remaining weaknesses, this section proposes two sets of improvements. While many of these improvements can be introduced without modifying the TPP Agreement, others may require at least some modification.

Conceptual Improvements

The first set of improvements consists of those aiming to strengthen our ability to conceptualize investments in the proper context. Because intellectual property rights are intangible and elusive by nature, having proper conceptualization is especially important in the intellectual property field.

Such conceptualization is also important given the hitherto limited attention to the interplay of intellectual property and investment law.[59] Just as investment issues are new to those working or writing in the intellectual property field, intellectual property issues are equally new to those working or writing in the investment field. For instance, investment law experts may not be fully knowledgeable about the many complexities and nuances within intellectual property law and policy. Likewise, intellectual property law experts may also be unfamiliar with the tradition and unique language of investment law, such as 'direct and indirect expropriation of property', 'minimum standard of treatment', 'fair and equitable treatment' and 'full protection and security'.

To help better understand the interplay of intellectual property and investment law, this section outlines three sets of conceptual improvements. The first set is specifically related to intellectual property protection. The second and third sets, by contrast, are only substantially related.

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[57] Delaney and Magraw (n 53) 778.
[58] Ibid.
[59] Mercurio (n 33) 871–2.

What constitutes investment?

A primary question concerning the investment-related aspects of intellectual property rights is what constitutes investment.[60] This question is highly complicated because most international investment agreements have a very broad definition of covered investment. For example, Article 9.1 of the TPP Agreement defines 'investment' broadly as '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'.

Article 9.1 further states that '[f]orms that an investment may take include […] intellectual property rights', without providing any definition of those rights. Although Article 18.1 states that 'intellectual property refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II of the TRIPS Agreement', a strong argument could be made against applying this definition to the TPP investment chapter, considering that the definition is found in the intellectual property chapter. Nevertheless, regardless of whether this definition applies or not, an important inquiry needs to be made concerning what rights are covered as investments within the meaning of the TPP investment chapter.

Indeed, 'intellectual property rights' should not be automatically equated with covered investments once they emerge or have been acquired in the host state.[61] After all, many of these rights can exist without any actual investments into that state. As Ruth Okediji reminded us:

> Intellectual property rights can be held simultaneously in many countries and in some cases, like copyright, without any formalities or other domestic process that would indicate a specific investment purpose. Is merely having authorial works in circulation in a host country sufficient to constitute an 'investment in a given country?' Similarly, where patent rights are acquired by mere registration, such as in many least-developed countries, should this alone confer the status of an 'investment'? Should requirements of local working conditions that more firmly anchor the patent grant to domestic priorities make a difference in an assessment of a protected investment?[62]

In fact, if intellectual property rights acquired in the host state can automatically become investments regardless of whether investments have actually been made in the first place, many of the safeguards and adjustments provided by the TRIPS Agreement will be immediately lost. As Bryan Mercurio cautioned us: 'If ownership of an IPR [intellectual property right] is an "investment", the question becomes whether a compulsory license can be an expropriation of that investment.' [63] Given the high stakes involved, it is important to develop analytical frameworks that can be used to determine whether investments have been made within the

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[60] On ways to identify an investment within the meaning of international investment agreements, see Jan Asmus Bischoff and Richard Happ, 'The Notion of Investment' in Bungenberg et al. (n 20); Emmanuel Gaillard, 'Identify or Define? Reflections on the Evolution of the Concept of Investment in ICSID Practice' in Binder et al. (n 20); David A.R. Williams and Simon Foote, 'Recent Developments in the Approach to Identifying an "Investment" Pursuant to Article 25(1) of the ICSID Convention' in Brown and Miles (n 24).

[61] Lukas Vanhonnaeker, *Intellectual Property Rights as Foreign Direct Investments: From Collision to Collaboration* (Cheltenham, UK and Northampton, MA: Edward Elgar Publishing 2015) 7–33; Carlos Correa and Jorge E. Viñuales, 'Intellectual Property Rights as Protected Investments: How Open Are the Gates?' (2016) 19 J of Intl Economic L 91, 112; Henning Grosse Ruse-Khan, 'Investment Law and Intellectual Property Rights' in Bungenberg et al. (n 20) 1696; Okediji (n 29) 1126.

[62] Okediji (n 29) 1125.

[63] Mercurio (n 33) 911.

meaning of the TPP investment chapter or other international investment agreements. This question is important because the issuance of compulsory licenses is at the heart of the negotiations surrounding the Doha Declaration on the TRIPS Agreement and Public Health.[64]

One test that has garnered considerable support from commentators is the one adopted in *Salini Costruttori S.p.A. v. Kingdom of Morocco*, a case involving the construction of a Moroccan highway by Italian contractors.[65] This test took into consideration four distinct factors: '[1] contributions, [2] a certain duration of performance of the contract […] [3] a participation in the risks of the transaction […] [and] [4] the contribution to the economic development of the host State of the investment'.[66] Applied to the intellectual property context, Lukas Vanhonnaeker translated these factors as follows:

> (i) IP is susceptible to be invested for a certain duration; (ii) it is likely to generate profit and return on a regular basis; (iii) IP, and more precisely, IPRs 'share the unique and constant *risk* of infringement by third parties not privileged in their use'; (iv) IP investment often represents a substantial commitment; and (v) such assets have a significant potential to contribute to the Host State's development.[67]

Apart from developing analytical frameworks to determine whether investments have been made within the meaning of the international investment agreement concerned, it is also important to recall the contingent nature of intellectual property rights.[68] Just because these rights have been granted does not mean that they can be enforced through the international investment agreement.

There are at least four reasons for such non-enforcement. First, intellectual property rights are of limited duration. Second, renewal or maintenance fees are required for trademark and patent protections in most jurisdictions. Third, protected rights can be subsequently invalidated even if they have been initially granted in the first place.[69] Finally, limits to intellectual property rights exist both within and outside the system. While endogenous limits include fair use, exhaustion of rights, and exceptions for research, early working and diagnostics, exogenous limits can be found in human rights treaties, constitutions and competition law.[70]

The role of intellectual property protection in an investment environment

Apart from a deeper inquiry into what constitutes investment, we need to develop a more sophisticated understanding of the role of intellectual property protection in an investment environment. Although there is a tendency to emphasize the role of such protection in attracting foreign direct investment (FDI), due largely to the developed countries' comparative advantages in intellectual property–based goods and services, policymakers and commentators have widely

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[64] Yu (n 30) 872–86.
[65] Correa and Viñuales (n 61) 100 fn. 30; Gaillard (n 60) 403; Okediji (n 29) 1137.
[66] *Salini Costruttori S.p.A. v Kingdom of Morocco*, ICSID Case No ARB/00/4, Decision on Jurisdiction (31 July 2001) para. 52.
[67] Vanhonnaeker (n 61) 26.
[68] Okediji (n 29) 1126.
[69] John R. Allison and Mark A. Lemley, 'Empirical Evidence on the Validity of Litigated Patents' (1998) 26 AIPLA QJ 185, 205; Carlos M. Correa, 'The Push for Stronger Enforcement Rules: Implications for Developing Countries' in *The Global Debate on the Enforcement of Intellectual Property Rights and Developing Countries* (Geneva: International Center for Trade and Sustainable Development 2009) 67 fn. 84.
[70] Peter K. Yu, 'The Anatomy of the Human Rights Framework for Intellectual Property' (2016) 69 SMU L Rev 37, 65–6, 76–7.

questioned the causal relationship between stronger intellectual property protection and greater FDI flows.

To date, economists have provided an abundance of empirical studies demonstrating the ambiguity of this causal relationship.[71] For instance, Claudio Frischtak states that a country's overall investment climate is often more influential on FDI decisions than the strength of intellectual property protection it offers.[72] Carsten Fink and Keith Maskus observed that '[a] poor country hoping to attract inward FDI would be better advised to improve its overall investment climate and business infrastructure than to strengthen its patent regime sharply, an action that would have little effect on its own'.[73] Professor Maskus further stated that, if stronger intellectual property protection always led to more FDI, 'recent FDI flows to developing economies would have gone largely to sub-Saharan Africa and Eastern Europe […] [rather than] China, Brazil, and other high-growth, large-market developing economies with weak IPRs'.[74]

To develop a more sophisticated understanding of investment protection, it is therefore important to examine protection from the sides of both the investor and the host state. On the investor's side, ISDS arbitrators need to consider both additive and subtractive adjustments. Additive adjustments are those adjustments that will enhance the overall protection of intellectual property investments. A case in point is the protection offered by a food and drug administration. When such an administration links the registration of pharmaceutical products to their patent status – a common requirement in TRIPS-plus bilateral, regional and plurilateral trade agreements – the overall protection provided by the host state to pharmaceutical investments will be stronger than the protection of pharmaceutical patents alone. This additional protection was indeed why commentators and civil society organizations have been highly critical of the demands for this type of linkage in TRIPS-plus trade agreements.[75]

By contrast, subtractive adjustments are those adjustments that will undermine the overall protections given to intellectual property investments. Typical examples are safeguards provided outside the intellectual property system, such as those exogenous limits discussed in the previous section. A case in point is a process withholding patent protection from a pharmaceutical product until after health and medical experts have assessed its contribution to innovation and health welfare, such as the prior consent mechanism (*anuência prévia*) instituted by the Brazilian National Health Surveillance Agency (ANVISA). Although commentators have extolled the coordination ANVISA has fostered between patent offices and health and medical experts,[76]

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[71] Peter K. Yu, 'Intellectual Property, Economic Development, and the China Puzzle' in Daniel J. Gervais (ed.), *Intellectual Property, Trade and Development: Strategies to Optimize Economic Development in a TRIPS Plus Era*, 1st edn (New York: Oxford University Press 2007) 176–80.

[72] Claudio R. Frischtak, 'Harmonization versus Differentiation in Intellectual Property Right Regimes' in Mitchel B. Wallerstein, Mary Ellen Mogee and Roberta A. Schoen (eds), *Global Dimensions of Intellectual Property Rights in Science and Technology* (Washington: National Academy Press 1993) 99–100.

[73] Carsten Fink and Keith E. Maskus, 'Why We Study Intellectual Property Rights and What We Have Learned' in Carsten Fink and Keith E. Maskus (eds), *Intellectual Property and Development: Lessons from Recent Economic Research* (New York: Oxford University Press 2005) 7.

[74] Keith E. Maskus, 'The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer' (1998) 9 Duke J of Comparative and Intl L 109, 128–9.

[75] Carlos M. Correa, 'Bilateralism in Intellectual Property: Defeating the WTO System for Access to Medicines' (2004) 36 Case Western Reserve J of Intl L 79, 88–91.

[76] Peter Drahos, '"Trust Me": Patent Offices in Developing Countries' (2008) 34 American J of L and Medicine 151, 169–70; Peter K. Yu, 'Access to Medicines, BRICS Alliances, and Collective Action' (2008) 34 American J of L and Medicine 345, 378.

there is no denying that this mechanism has also weakened the overall protection offered to intellectual property investments. Indeed, by October 2010, the conflicts between ANVISA and the Brazilian industrial property agency[77] had become so intense that the country's attorney general (*Advocacia Geral da Uniao*) felt compelled to step in to curtail ANVISA's role.[78]

On the side of the host state, it is important to consider the inputs this state has provided to investors as part of its effort to protect intellectual property investments. Such a consideration is especially important in inquiries concerning the country's overall minimum standard of treatment.

As far as intellectual property investments are concerned, host states contribute to their overall protections through inputs within and outside the system. Those inputs that are within the system include the establishment of the registration, examination and enforcement infrastructures. Those outside the system include concessions offered to compensate for weaker intellectual property protection, such as free lands, tax breaks, exemption from export custom duties and preferential treatments on foreign exchange.

To be certain, the provision of these contributions does not automatically reduce the host state's obligation under an international investment agreement. Nevertheless, ISDS arbitrators should take those contributions into account if they are to obtain a more complete picture of what attracts foreign intellectual property rights holders to invest in the first place. After all, if intellectual property rights were as strong as the claimants expected them to be, offsetting contributions would not have been needed in the first place.

International investment agreements and other multilateral obligations

The final set of conceptual improvements concerns the interrelationship between an international trade or investment agreement containing ISDS, such as the TPP Agreement, and the host state's other, and often pre-existing, multilateral obligations. These obligations include those under the TRIPS Agreement, the Convention on Biological Diversity, the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from Their Utilization, the World Health Organization Framework Convention on Tobacco Control, and international and regional human rights treaties.

When efforts are needed to fill in the gap, ISDS arbitrators may want to look at the developments in not only the host state and the investor's home state, but also third states. National laws can indeed provide useful guideposts. In their book, Graeme Dinwoodie and Rochelle Dreyfuss called for the recognition of an international intellectual property *acquis*[79] – which they defined as 'a set of basic principles that form the background norms animating the intellectual property system'.[80] Aiming to clarify the normative underpinnings of intellectual

[77] Kenneth C. Shadlen, 'The Political Contradictions of Incremental Innovation: Lessons from Pharmaceutical Patent Examination in Brazil' (2011) 39 Politics and Society 143; Kenneth C. Shadlen, 'The Rise and Fall of "Prior Consent" in Brazil' (2011) 3 WIPO J 103.
[78] Felipe Carvalho, 'Brazil and the Defence of Public Health: Do as I Say, Not as I Do' (*Intellectual Property Watch*, 17 February 2011), www.ip-watch.org/weblog/2011/02/17/brazil-and-the-defence-of-public-health-do-as-i-say-not-as-i-do/, accessed 7 September 2016.
[79] Graeme B. Dinwoodie and Rochelle C. Dreyfuss, *A Neofederalist Vision of TRIPS: The Resilience of the International Intellectual Property Regime* (Oxford: Oxford University Press 2012) 175–203.
[80] Ibid 176.

property law and policy, this *acquis* will be drawn from not only international intellectual property treaties, but also 'national […] intellectual property law along with associated jurisprudence and scholarship'.[81]

To a large extent, the approach proposed in this section is not that different from what the TPP negotiators have already developed in the investment chapter. For instance, Article 9.8.5 states that the provision on expropriation and compensation

> shall not apply to the issuance of compulsory licences 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 the issuance, revocation, limitation or creation is consistent with Chapter 18 (Intellectual Property) and the TRIPS Agreement.

Article 9.3.1 further states that '[i]n the event of any inconsistency between this Chapter and another Chapter of this Agreement, the other Chapter shall prevail to the extent of the inconsistency'. Thus, if inconsistencies arise between the TPP investment and intellectual property chapters, the latter shall prevail to the extent of those inconsistencies.

Notwithstanding these similarities, the approach proposed in this section will take a more holistic perspective. It will take into account the many obligations the host state has already assumed under other multilateral agreements.[82] The proposed approach, in turn, will make explicit the host state's duty to interpret international agreements in good faith (*pacta sunt servanda*). To ensure the wide use of this approach, TPP partners should consider writing into the ISDS arbitrators' code of conduct those guidelines that call for a broader interpretation of the host state's multilateral commitments – with the help of the Vienna Convention on the Law of Treaties, perhaps.

Institutional Improvements

Although conceptual improvements to ISDS are of great importance and urgency, institutional improvements are equally important, as they will help strengthen the mechanism in regard to all forms of investments, including those in the intellectual property field. This section discusses three institutional improvements in turn.

Advisory Center on Investor-State Disputes

The first institutional improvement concerns the need for an Advisory Center on Investor-State Disputes (ACISD),[83] similar to the Advisory Centre on WTO Law (ACWL). Based in Geneva, the latter provides to developing and least developed country members of the WTO 'free advice and training on all aspects of WTO law, as well as assistance in WTO dispute settlement proceedings'.[84] As the Centre explained in its guide:

> Over the past 20 years, WTO law has become increasingly complex. While most developed countries have 'in-house' legal expertise that enable[s] them to understand WTO law and to

[81] Ibid 177.
[82] Miles (n 15) 296; Okediji (n 29) 1129.
[83] Other commentators have advanced similar proposals. Eg Joubin-Bret (n 8).
[84] Advisory Centre on WTO Law, *The Services of the ACWL* (Geneva: Advisory Centre on WTO Law, no date) 2.

> participate fully in the WTO legal system, most developing countries and LDCs [least developed countries] do not. Thus, the ACWL was created to provide these countries with this legal capacity and to help them to understand fully their rights and obligations under WTO law.
>
> At present, 74 countries – roughly half of the membership of the WTO – are entitled to the services of the ACWL. Since its establishment in 2001, the ACWL has provided these countries with over 1800 legal opinions free of charge, has conducted twelve annual training courses for Geneva-based delegates, and has trained 23 lawyers as part of its Secondment Programme for Government lawyers. In addition, it has assisted developing countries and LDCs in 44 WTO dispute settlement proceedings at modest fees. Thus, the ACWL has become an organisation that pools the collective experience of developing countries and LDCs in WTO legal matters and makes that expertise available to each of those countries.[85]

In the past two decades, ACWL has provided assistance to a large number of developing countries, including Bangladesh, Brazil, Chad, Chinese Taipei, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Nicaragua, Pakistan, Panama, Paraguay, Peru, the Philippines, Thailand and Vietnam.[86]

Within the TPP, the establishment of an ACISD is likely to be highly important, considering the agreement's failure to offer special and differential treatment to poor TPP partners,[87] despite what policymakers and commentators have long advocated.[88] After all, TPP partners are of varying sizes and economic strengths. While the United States and Japan, respectively, had GDP per capita of US$55,836.8 and US$32,477.2 in 2015, the World Bank estimated that the comparable figures for Peru and Vietnam were only US$6,121.9 and US$2,111.1. As a result, Peru and Vietnam are unlikely to have the same financial flexibility to handle investor-state disputes as the United States and Japan. These two poorer countries are also unlikely to have the same legal capacity to achieve success through ISDS.[89]

Small Claims Procedure

The second institutional improvement concerns the need for a small claims procedure within the ISDS mechanism. This proposal builds on the proposal Håkan Nordström and Gregory Shaffer advanced a few years ago on the development of such a procedure within the WTO.[90] That proposal seeks to enable developing countries to make greater use of the WTO dispute settlement process. It further calls for the provision of legal aid 'by offering Members legal counsel funded

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[85] Ibid.
[86] 'WTO Disputes: Assistance in WTO Dispute Settlement Proceedings since July 2001' (*Advisory Centre on WTO Law*), www.acwl.ch/wto-disputes/, accessed 19 August 2016.
[87] The TPP Agreement does offer transition periods to select partners. Its intellectual property chapter, for example, offers transition periods to six of the twelve TPP partners – namely, Brunei Darussalam, Malaysia, Mexico, New Zealand, Peru and Vietnam (Article 18.83.4).
[88] C. L. Lim, Deborah Kay Elms and Patrick Low, 'What Is "High-Quality, Twenty-First Century" Anyway?' in C. L. Lim, Deborah Kay Elms and Patrick Low (eds), *The Trans-Pacific Partnership: A Quest for a Twenty-First Century Trade Agreement* (Cambridge: Cambridge University Press 2012) 12.
[89] Dreyfuss and Frankel (n 55) 600; Franck (n 12) 484; Tienhaara (n 27) 612.
[90] Håkan Nordström and Gregory Shaffer, 'Access to Justice in the WTO: A Case for a Small-Claims Procedure?' in Chantal Thomas and Joel P. Trachtman (eds), *Developing Countries in the WTO Legal System* (Oxford: Oxford University Press 2009).

out of the regular WTO budget or a designated legal aid fund'.[91] As Professors Nordström and Shaffer explained:

> What is insignificant for some Member states is highly significant to others. A million dollars in foregone export revenue may not matter much for the European Union or the United States; it would only be a few seconds worth of exports. For small developing countries like Burundi, Gambia, and Guinea-Bissau, on the other hand, $1 million corresponds to about 1.45 percent of annual exports, or put in relationship to national income, between 0.17 and 0.42 percent of gross domestic product […]. Forgone export revenue of this magnitude would not be a small order for them.
>
> What is 'small' is thus a relative concept. Yet the WTO Dispute Settlement […] system does not take into account the inherent variation in exports across the WTO's membership. A case worth $1 million is treated in the very same way (at least formally) as a case worth $1 billion. The timetable is the same, the submission requirements are the same, the standard of proof is the same, the appeal procedures are the same; *everything* is the same unless the parties opt for the alternative resolution mechanisms offered by the [Dispute Settlement Understanding] […].[92]

Professors Nordström and Shaffer's proposal for developing a small claims procedure within the WTO could be used to improve the ISDS process in the TPP or other international trade or investment agreements. As noted earlier, the high costs of ISDS arbitrations will not only be highly burdensome on host states in the developing world, but will also virtually guarantee that most developing country businesses will be unable to afford ISDS arbitrations – other than to file, or threaten to file, ISDS complaints, perhaps. To avoid this grossly unfair arrangement and the one-sided benefits the ISDS mechanism presently provides, establishing a small claims procedure within this mechanism will be quite urgent.

Appellate Mechanism

The final institutional improvement concerns the need for an appellate mechanism. As Cynthia Ho observed in regard to the problems raised by a lack of such a mechanism in ISDS proceedings:

> A major complaint is that the system results in inconsistent decisions because there is no binding precedent, tribunals interpret provisions broadly, and there is no appeal system. Although tribunals often rely on prior decisions and awards, and counsel for parties regularly cite prior decisions, the lack of hierarchy among tribunals as compared to traditional court systems, as well as the lack of an appellate system, may result in unpredictability.[93]

Unlike the first two improvements, however, TPP negotiators have actually anticipated the need for this final improvement. Article 9.23.11 of the TPP Agreement explicitly declares:

> *In the event that an appellate mechanism for reviewing awards rendered by investor-State dispute settlement tribunals is developed in the future under other institutional arrangements*, the Parties shall consider whether awards rendered under Article 9.29 (Awards) should be

[91] Nordström and Shaffer (n 90) 195.
[92] Ibid 193.
[93] Ho (n 11) 234.

> subject to that appellate mechanism. The Parties shall strive to ensure that any such appellate mechanism they consider adopting provides for transparency of proceedings similar to the transparency provisions established in Article 9.24 (Transparency of Arbitral Proceedings).

The provision's conditional clause suggests that the TPP negotiators did not oppose the introduction of an appellate mechanism. Instead, they might have merely failed to reach a consensus within the limited negotiation time on how this mechanism was to be set up, or whether the mechanism was needed in the first place.[94] The proverbial door therefore remains open.

The choice of language in the TPP Agreement regarding the possible future development of an appellate mechanism is consistent with the ongoing negotiation of the Transatlantic Trade and Investment Partnership (TTIP), a pact that has been widely considered as the TPP's trans-Atlantic counterpart. During the negotiations, the European Commission advanced a proposal for the establishment of an investment court system, which includes an Appeal Tribunal that consists of two members each from the European Union, the United States and third countries.[95] It remains to be seen whether the United States will be receptive to this proposal, or even whether the TTIP will be finally established.

To a large extent, the proposal for developing an appellate mechanism in the TPP Agreement is similar to the proposals that commentators have thus far advanced, which range from the creation of an ISDS court to the development of an appellate mechanism similar to the WTO Appellate Body.[96] Such an appellate mechanism will be particularly attractive if policymakers, commentators and civil society organizations remain concerned about the 'development bias'[97] of ISDS arbitrators. As Susan Franck reasoned:

> If outcome is linked to the development status of the presiding arbitrator and there is disparate pressure to favor the developed world, having standing judges with secure tenures may enhance integrity and independence. In order to eliminate pressure to join a club or secure repeat appointments, a standing body could provide judicial oversight and create an environment that favors rule of law adjudication. Moreover, such an institution could foster the judicialization of international economic law and provide a backstop to create certainty about contested legal issues, thereby increasing the integrity of the dispute resolution system.[98]

Given the wide range of proposals that have now been made available, many models exist to improve the TPP ISDS mechanism. One model worth considering is the inclusion of some previous WTO panellists or Appellate Body members in the appellate mechanism.[99] Such a

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[94] Hans von der Burchard, 'EU Faces Tough Sell on TTIP Compromise' (*Politico*, 10 February 2016), www.politico.eu/article/eu-faces-tough-sell-on-ttip-compromise-malmstroem-froman/, accessed 7 September 2016.
[95] European Union's Proposal for Investment Protection and Resolution of Investment Disputes (2015) § 3, art. 10.2.
[96] Dreyfuss and Frankel (n 55) 601; Ho (n 11) 235; Ieva Kalnina and Domenico Di Pietro, 'The Scope of ICSID Review: Remarks on Selected Problematic Issues of ICSID Decisions' in Binder et al. (n 20) 245–7; Okediji (n 29) 1137; Asif H Qureshi, 'An Appellate System in International Investment Arbitration?' in Muchlinski, Ortino and Schreuer (n 20); Reinisch (n 21) 910–11. On the development of an appellate mechanism within ISDS, see Kalicki and Joubin-Bret (n 7) 403–505.
[97] Franck (n 12) 451.
[98] Ibid 484.
[99] Other commentators have similar suggestions: eg Theodore R. Posner and Marguerite C. Walter, 'The Abiding Role of State-State Engagement in the Resolution of Investor-State Disputes' in Kalicki and Joubin-Bret (n 7) 389–91; Andreas R. Ziegler, 'Investment Law in Conflict with WTO Law?' in Bungenberg et al. (n 20) 1800.

cross-institutional setup will not only enhance the mechanism's quality, but will further promote coherence[100] and cross-fertilization[101] between the ISDS process and the WTO dispute settlement process. Such coherence and cross-fertilization will ensure the healthy development of the international intellectual property regime.[102] They will also be particularly important in light of the increasing use of parallel proceedings to challenge intellectual property and intellectual property–related regulations in developing countries, such as those via the WTO and ISDS.[103] Indeed, increasingly in intellectual property–related investor-state disputes, ISDS arbitrators will have to address questions concerning the extent of protection and limitation as provided in the TRIPS Agreement.

Thus far, some commentators have already called for the exclusion of intellectual property investments in ISDS.[104] Although international investment agreements generally define investment broadly to cover all forms of investments, it is not unusual to exclude certain unique forms of investments from ISDS. In the TPP Agreement, for example, Article 9.3.3 states specifically that the investment chapter 'shall not apply to measures adopted or maintained by a Party to the extent that they are covered by Chapter 11 (Financial Services)'. If a carve-out can be created for financial services – and, upon election, tobacco control measures – a similar carve-out can certainly be created for intellectual property rights – at least when there is enough political will.

Notwithstanding the possibility of creating such a carve-out, it is worth remembering that ISDS is attractive to private investors because of the finality it provides.[105] The more steps there are in a process – appellate or otherwise – the longer it will take for a dispute to be finally resolved. Ultimately, whether an appellate mechanism should be introduced will depend on how efficiency and expedition are to be balanced against fairness and legitimacy. Given the high stakes involved in ISDS arbitrations and the arbitrations' controversial nature and continuous opposition, having an appellate mechanism built into the ISDS process to ensure greater fairness and legitimacy seems eminently sensible.

CONCLUSION

As TPP partners actively consider whether they should ratify the TPP Agreement, the agreement's investment chapter and ISDS mechanism have remained highly controversial. The Agreement has also provided an ideal vantage point for us to closely evaluate the mechanism's strengths and weaknesses. Such an evaluation will not only enable us to understand why

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[100] Appellate Body Report, 'United States – Standards for Reformulated and Conventional Gasoline', WT/DS2/AB/R (29 April 1996) pt. III.B; UNCTAD-ICTSD Project on IPRs and Sustainable Development, *Resource Book on TRIPS and Development* (Geneva: UNCTAD-ICTSD Project on IPRs and Sustainable Development 2005) 130; Ho (n 11) 247.

[101] Surya P. Subedi, *International Investment Law: Reconciling Policy and Principle* (Oxford: Hart 2008) 158.

[102] Peter K. Yu, 'International Enclosure, the Regime Complex, and Intellectual Property Schizophrenia' (2007) Michigan State L Rev 1, 18–19.

[103] Daniel Kalderimis, 'Exploring the Differences between WTO and Investment Treaty Dispute Resolution' in Susy Frankel and Meredith Kolsky Lewis (eds), *Trade Agreements at the Crossroads* (London: Routledge 2014) 58; Katia Yannaca-Small, 'Parallel Proceedings' in Muchlinski, Ortino and Schreuer (n 20).

[104] Baker and Geddes (n 40) 58; Ho (n 11) 255; Sean Flynn, 'TPP Carve Out for Tobacco Shows Core Flaws in Investor-State Dispute Settlement (ISDS)' (*Infojustice.org*, 1 October 2015), infojustice.org/archives/35107, accessed 7 September 2016.

[105] Chester Brown and Kate Miles, 'Introduction: Evolution in Investment Treaty Law and Arbitration' in Brown and Miles (n 24) 11; Kalnina and Di Pietro (n 96) 245–6; Jaemin Lee, 'Introduction of an Appellate Review Mechanism for International Investment Disputes: Expected Benefits and Remaining Tasks' in Kalicki and Joubin-Bret (n 7) 493.

countries remain reluctant to ratify the TPP Agreement, but will also allow us to explore further what concrete measures can be instituted to improve ISDS.

Although developing country policymakers, academic and policy commentators, and civil society organizations continue to strongly oppose the use of investment law in the intellectual property arena, it is high time we started preparing for such growing use in the intellectual property field. Greater preparation and engagement in this area will not only help us improve ISDS, but will also allow us to develop a better understanding of this highly controversial mechanism. A deepened understanding, in turn, will enable us to more effectively resist the use of investment law in the intellectual property field.