

## **PART IV**

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### **REMEDIES IN IP INVESTMENT ARBITRATION - A PARADIGMATIC CASE FOR THE RETURN TO *RESTITUTIO IN INTEGRUM?***

## Chapter 11

# Remedies in Intellectual Property Investment Arbitration: A Paradigmatic Case for Return to *Restitutio in Integrum*

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### I. INTRODUCTION

The protection of intellectual property rights (IPR) in investment law has a distinguished pedigree: The first ever modern international investment agreement (IIA), between the Federal Republic of Germany and Pakistan of 25 November 1959, included by way of Art. 8(1)(a) the protection of “patents and technical knowledge” within the definition of investment. Today, most IIAs cover the protection of intellectual property. For example, Art.1 of the US Model BIT provides that “forms that an investment may take include...intellectual property rights.” This widespread protection is a recognition of the central importance of intellectual property rights in today’s knowledge economy, as well as the purpose of IIAs to protect and promote foreign investment.

The nature of IP rights in investment arbitration throws up many novel problems. Three examples: *first* whether the scope of specific IIAs extends to protecting intellectual property rights as qualifying investments under the instrument in question.<sup>1</sup> *Second*, the enforceability of a state’s international obligations such as the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), within the framework of an investor- state dispute and the role of national law. *Third*, the scope of doctrines of public interest and proportionality, and the State’s reasonable right to regulate.

Three recent investor-state awards have considered these issues: *Apotex v. United States*,<sup>2</sup> *Phillip Morris v. Uruguay*,<sup>3</sup> and *Eli Lilly v. Canada*.<sup>4</sup>

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<sup>1</sup> See *Phillip Morris v. Uruguay* (Decision on Jurisdiction) and also *Apotex v. United States* for two differing views.

<sup>2</sup> Technically *Apotex v. United States* consists of three Awards: *Apotex I & II* (which is a combined Award) and *Apotex III* which is a separate Award by a differently constituted tribunal. References to *Apotex* are references to *Apotex III* unless indicated otherwise.

<sup>3</sup> *Phillip Morris v. Uruguay* (ICSID Case No. ARB/10/7), Award dated 8 July 2016.

<sup>4</sup> *Eli Lilly v. Canada* (UNCT Case No. 14/2), Award dated 16 March 2017.

In all three of these claims the investor lost. Each of these cases was correctly decided. But they were decided on questions of jurisdiction and liability and there has never been an investor-state case involving claims arising out of IP rights that has reached the damages phase where the Award is in the public domain. The appropriate remedial response to an established breach, the topic of this paper, therefore has to be addressed as a matter of principle rather than an application of precedent.

The purpose of this paper is to defend the proposition that the system of investor State arbitration should not, *for remedial purposes*, distinguish between claims arising out of IP rights and the infringement of other property rights. The author will argue that introducing any limiting principles at the damages stage would undermine the object and purpose of freely and fairly negotiated IIAs (**Section II**), ignore the implications of recent Awards (**Section III**), and develop investment law in a manner inconsistent with existing principles of damages (**Section IV**). In short, the well-established rules for the assessment of damages (*restitutio in integrum*) in the universally recognized *Chorzów Factory Case* and consistently applied in investor-state arbitration since then should apply.<sup>5</sup>

## II. THE PROTECTED NATURE OF INTELLECTUAL PROPERTY RIGHTS UNDER IIAS

The growing trend is to address the protection of intellectual property rights expressly in IIAs. This is unsurprising. IPRs are commonly acknowledged to be “the backbone of the economy. Nearly every good produced, service rendered or work of art consists of or is related at least to some IPR, be it a patent, an industrial design, a trademark or a copyright.”<sup>6</sup> Specifically in the context of foreign direct investment, IPRs are a critical component of many investments in the form of technology transfers, trademarks, know-how, and business secrets.

The express treatment is seen clearly from various Model BITs. Similar to Art. 1 of the US Model BIT 2012, the German Model BIT 2008 includes in the definition of investments “intellectual property rights, in particular copyrights and related rights, patents, utility-model patents, industrial designs, trademarks, plant variety rights... trade-names, trade and business secrets, technical processes, know-how and good-will.”<sup>7</sup> Similar protections for intellectual property are found in free trade agreements. For example Chapter 11 of the US-Australia FTA deals with

<sup>5</sup> PCIJ, *Chorzów Factory*, 1928 PCIJ, Series A, No 17 (Merits).

<sup>6</sup> Markus Perkams and James M. Hosking, ‘The Protection of Intellectual Property Rights Through International Investment Agreements: Only a Romance or a True Love?’ 2 TDM 1 (2009) at p. 3.

<sup>7</sup> Treaty between the Federal Republic of Germany and Concerning the Encouragement and Reciprocal Protection of Investments, available at <http://www.italaw.com/sites/default/files/archive/ita1025.pdf>.

investment which includes “intellectual property rights”. Analogous provisions are found in Art. 10.28(f) of CAFTA-DR, Art 15.1:17(f) of the US-Singapore FTA and many other free trade agreements.

IAs do not just define the scope of investment to include intellectual property rights; they also often define the standard of treatment to be afforded to IPRs with reference to international obligations under International intellectual property treaties, so-called “safeguard clauses.”<sup>8</sup> For example, Art. 6(5) of the 2012 US Model BIT provides that the ‘revocation, limitation or creation of intellectual property rights’ does not amount to expropriation provided that it is “consistent with the TRIPs agreement.” In order to demonstrate an expropriation therefore, the investor would have to demonstrate that the measure in question violates the State’s pre-existing legal obligation under the TRIPs agreement. The introduction of such safeguard clauses has two beneficial purposes. *First*, it ensures protections that the state has to afford to an investor under its domestic law harmonize with its existing efforts to comply with its international obligations. *Second*, and just as importantly, it provides investors with a consistent standard of treatment across differing legal orders and intellectual property protection regimes.

The existence of these safeguard clauses therefore obviates a familiar criticism that has been made of the protection of intellectual property rights within the investor-state system: that Tribunals are sitting as appellate courts deciding the proper interpretation of domestic law (including the law of intellectual property) and thus usurping the role and function of domestic courts. It also addresses the criticism that the broad standards of protection in investment treaties can give rise to subjectivity by pointing investor-state tribunals to well-defined standards that have already been accepted by the State.

The Comprehensive and Economic Trade Agreement (CETA) between the EU and Canada recently approved by the European Parliament in February 2017 and negotiated in the backdrop of the controversies engendered by *Eli Lilly v Canada*, is a telling example of the tailored approach that is the emergent state practice. CETA contains an entire chapter devoted to intellectual property rights, consistent with the important role that such rights play in international commerce and trade generally.<sup>9</sup>

CETA also contains an investment chapter which includes within the definition of investment in Art. 8(1) “copyright and related rights, trademark rights, rights in geographical indications, rights in industrial designs, patent rights, rights in layout designs of integrated circuits, rights in relation to protection of undisclosed information, and plant breeder’s rights;

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<sup>8</sup> See *Challenging Compliance with International Intellectual Property Norms in Investor-State Dispute Settlement*, JIEL, 2016, 19, 214-277 at 265-271.

<sup>9</sup> Chapter 20, CETA.

and, if such rights are provided by a Party's law, utility model rights..."<sup>10</sup> At the same time CETA also specifically protects a host state's right to regulate by stipulating that "the parties reaffirm their right to regulate within territories to achieve legitimate policy objectives, such as the protection of public health, safety, the environment or public morals."<sup>11</sup> CETA thus strikes a balance.

CETA sets out the narrow circumstances in which an expropriation claim can be brought as a result of measures taken in relation to intellectual property: "for greater certainty, the revocation, limitation or creation of intellectual property rights, to the extent that these measures are consistent with the TRIPs Agreement and Chapter 20 (Intellectual Property) does not constitute expropriation. Moreover, a determination that these measures are inconsistent with the TRIPs Agreement or Chapter Twenty (Intellectual Property) does not establish an expropriation."<sup>12</sup>

In short, under CETA demonstrating that the host state acted in a manner inconsistent with TRIPs or Chapter 20 is a necessary but not sufficient condition for establishing expropriation. Some further expropriatory act or breach of another treaty standard by the host state is required, which will turn on the facts of any specific case.

The limited circumstances in which parties can bring IPR claims under CETA is a demonstration that states meaningfully calibrate the standard of protection to be afforded under IIAs. The corollary is that states are free to limit, *if they choose*, the remedial consequences as much as the scope and standard of treatment. CETA itself demonstrates this by specifically providing that compensation will be "fair market value of the investment at the time immediately before the expropriation or impending expropriation...valuation criteria shall include going concern value, asset value... and other criteria, as appropriate, to determine fair market value": in short that damages for lawful expropriation under CETA is specified to be fair market value, without any claim of consequent loss of profits.

CETA thus demonstrates that states are capable of opting out of protecting intellectual property rights in the system of investor-state dispute resolution if they so choose. And yet, despite the publicity occasioned by these claims, states have chosen to continue to accept the protection of IP rights within the investor-state system. It also demonstrates that states are capable of opting, should they so choose, out of the default rule of *restitutio in integrum*, whether merely for expropriation or for breach of any treaty standard. But where states have chosen not to opt out, as in the three cases below, the principles of international law ought to apply with full force.

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<sup>10</sup> <http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>.

<sup>11</sup> CETA Art. 8.9.

<sup>12</sup> CETA Article. 8.12(6) ("Expropriation").

### III. RECENT CASES ILLUSTRATE THAT THE SCOPE OF RECOVERY FOR BREACHES INVOLVING IPR IS BROAD

The decisions of international investment tribunals, though informed by the applicable terms of the IIA, and ultimately the specific facts of the dispute, nonetheless play an outsized role in shaping public debate. This democratic engagement is welcome and appropriate but there is a danger in generalizing from specific cases. In some respects, the three leading cases discussed below vary quite significantly from a garden-variety claim for the vindication of intellectual property rights in an investment arbitration, which would, for example, involve the seizure and use of proprietary technology in the course of an expropriation of an oil and gas concession. It is important to recognize that each case turns upon its own facts, and that investor-state tribunals have sufficient tools to avoid absurd results and abuses of process without distorting the law of damages.

A good example of the existing toolkit tribunals possess to address potentially absurd results is the case of *Phillip Morris v Australia*, which engendered international scrutiny and debate because it challenged Australia's decision to impose "plain packaging" laws on tobacco products. The case was dismissed on unrelated jurisdiction and admissibility grounds. These grounds were that the corporate restructuring of the investment was undertaken at a time when there was a reasonable prospect the dispute would materialize and for the dominant (if not only) purpose of obtaining treaty protection.<sup>13</sup> The case therefore never even proceeded to consider the treatment of intellectual property rights. Similarly, the cases below in differing ways, as jurisprudence on jurisdiction and liability, demonstrate the limits of some of the more innovative claims brought in investor-state arbitration. As such, they illuminate the absence of a need for any further limiting principles at the stage of damages and that the ordinary principles of *restitutio in integrum* should apply.

#### A. *Apotex v. United States*

In *Apotex*, the Canadian generic manufacturer Apotex Inc. had been seeking regulatory approvals from the US Food and Drug Administration (FDA) to market generic versions of anti-cholesterol and anti-depressant drugs in the United States. It had filed requests with the FDA for the approval of certain drugs. Apotex asserted the treatment meted out by the U.S. Courts and the FDA to its application for Abbreviated New Drug Applications ("ANDAs") was arbitrary, capricious and unjust and thus violated NAFTA standards of national treatment, FET and expropriation.

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<sup>13</sup> *Phillip Morris v. Australia*, Award on Jurisdiction and Admissibility of 17 December 2015.

The factual background is complex and well-summarized elsewhere<sup>14</sup>, but it is important to note that there were two separate claims arising out of different applications which resulted in two separate Awards by different Tribunals. It was not in dispute in either proceeding that Apotex had no relevant presence or activity in the United States, and that all its manufacturing activities as well as the preparation of its ANDAs occurred in Canada. The United States therefore raised jurisdictional objections in the first proceeding, arguing that Apotex did not have an investment within the meaning of the NAFTA treaty. Apotex joined issue arguing that it had spent millions of dollars in developing its products as well as preparing and filing the ANDAs. It also argued that the ANDAs themselves constituted investments. In *Apotex I and II* a UNCITRAL Tribunal chaired by Toby Landau QC dismissed the claims on grounds of lack of jurisdiction. At the same time Apotex had already initiated claims arising out of different ANDAs once again under NAFTA. This claim was heard by a Tribunal of V.V.Veeder QC (P), William Rowley QC and Professor John Crook. One difference between the two different claims was the first set of proceedings consisted of “tentatively approved” ANDAs whereas the second of proceedings focused on “finally approved ANDAs”, but the underlying facts were very similar, thus triggering a *res judicata* defence from the United States.<sup>15</sup>

For the purposes of our discussion of remedies, we will focus on the reasoning and discussion in *Apotex III*. The *Apotex III* Tribunal devoted careful attention to the question of whether the process of preparing ANDAs or the ANDAs themselves were capable of comprising investments, taking into account the reasoning of the prior Tribunal. The Tribunal’s ultimate conclusion on this point is worth setting out in full:<sup>16</sup>

In the Tribunal’s view, the operative part (first two lines) and its relevant reasons in the Apotex I & II Award apply equally to all ANDAs, whether tentatively approved or finally approved. *As part of their essential character, as distinctly decided in the Apotex I & II Award, Apotex Inc.’s ANDAs are no more than applications operating as quasi-import licences which support cross-border sales by Apotex Inc. to its consignees in the USA of products manufactured at its Canadian facilities.* The possibilities of Apotex Inc. selling or transferring ANDAs (albeit revocable and remaining site-specific to the designated manufacturing facility) do not change the inherent nature of these ANDAs, as decided in the Apotex I & II Award. ANDAs are not commodities in the territory of the USA. 7.56. As regards Apotex Inc., the

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<sup>14</sup> ICSID Review, Vol. 30, No. 1 (2015), pp. 21–29.

<sup>15</sup> *Apotex v. United States III*, para. 7.49.

<sup>16</sup> *Apotex v. United States III*, para. 7.55–56.

Tribunal comes to the same conclusion in regard to NAFTA Article 1139(h).

Applying the doctrine of *res judicata*, the Tribunal decides that Apotex Inc. is precluded from contending that its finally approved ANDAs, within the meaning of NAFTA Article 1139(h), are “interests arising from the capital or other resources in the territory of a Party [the USA] to economic activity in such territory ...” As decided in the Apotex I & II Award, an ANDA operates only as a quasi-import licence supporting cross-border trade interests falling outside the definition of this provision. Whilst the tribunal in the Apotex I & II Award did not independently apply NAFTA Article 1139(h), as noted above, the tribunal nonetheless distinctly addressed this provision. The tribunal rejected the case advanced by Apotex Inc.

One significant jurisprudential effect of *Apotex* is that it is likely that claims arising out of similar applications involving the temporary or permanent approval of drugs by foreign investors who do not take steps for domestic manufacture and distribution of the drug, is unlikely, without more to meet the threshold of a qualifying investment.

Whether this analysis of the notion of investment will be influential solely in the NAFTA context or will also be found persuasive under IIAs with different definitions of investment remains to be seen. It is notable that there was a dissent from Arbitrator Rowley on this issue. He considered that the ANDAs would qualify as investments, *inter alia* on the basis that Apotex’s finally approved ANDAs were being used for the purposes of economic benefit at the time of the Import Alert; such ANDAs are bought and sold in the United States; FDA regulations explicitly recognize the “ownership” of ANDAs vests in the applicant and tax law treats ANDAs as intangible property.<sup>17</sup> His dissent chimes with commentators who have pointed out that the definition of “investment” under NAFTA is narrower than the definition under other IIAs, and this claim might well have qualified as an investment under a different instrument.<sup>18</sup> Equally, a different instrument might have additional complications: any claim in ICSID proceedings for example would have to satisfy the requirements of Art. 25(1) of the ICSID Convention in addition to any criteria that might be set forth in the relevant IIA.

The existence of these limitations on claims demonstrates there are good reasons for treating IPRs as property rights where the claimant has taken additional steps that qualify indisputably as an investment such as

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<sup>17</sup> *Apotex v. United States*, para. 7.63-66.

<sup>18</sup> Kotuby and Egerton-Vernon, *Apotex Inc v. The Government of the United States of America Will Barriers to Jurisdiction Inhibit an Emerging Trend?* ICSID Review (2015) 30 (1): 21-29.

the marketing or sale of branded goods and services together with establishing a presence in the market of the host state, or licensing IP technologies to domestic firms. There is no principled reason why those activities, which are indispensable elements of the knowledge economy, should be denied protection under investor-state treaties. *Apotex* demonstrates that claimants must satisfy substantial requirements of demonstrating an investment and economic activity in the host state to bring claims asserting a violation of intellectual property rights, and once the Claimant should be entitled to the same measure of damages.

Assuming *Apotex III* was able to reach the damages phase of the proceedings, the Claimant would have been entitled to seek compensation. At this point it is worth reminding ourselves that the only measure challenged by the Claimants in *Apotex III* was the Import Alert of 28 August 2009, *i.e.* the decision by the FDA to prevent drugs manufactured at two of Apotex's facilities from sale within the United States for a period of almost two years.

In *Apotex* the Claimant claimed monetary damages on the basis that the Tribunal "should wipe out the wrongful act", *i.e.*, put Apotex in the position it would have been if the Import Alert had never been issued. The claimant argued that under the applicable law, NAFTA and international law, the State was under the obligation to make full reparation for breach its obligations. The general principle for the assessment of compensation is the principle of full reparation (*restitutio in integrum*). Parties and tribunals often address this principle by referring to the landmark *Chorzów Factory* case.<sup>19</sup> In this case, the Permanent Court of International Justice ("PCIJ") established that:

*The essential principle contained in the actual notion of an illegal act – a principle which seems to be established by international practice and in particular by the decisions of arbitral tribunals – is that reparation must, as far as possible, wipe out all the consequences of the illegal act and reestablish the situation which would, in all probability, have existed if that act had not been committed. Restitution in kind, or, if this is not possible, payment of a sum corresponding to the value which a restitution in kind would bear; the award, if need be, of damages for loss sustained which would not be covered by restitution in kind or payment in place of it – such are the principles which should serve to determine the amount of compensation due for an act contrary to international law.<sup>20</sup>*

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<sup>19</sup> PCIJ, *Chorzów Factory*, 1928 PCIJ, Series A, No 17 (Merits).

<sup>20</sup> *Id.*, at page 47 (emphasis added).

The Claimant also cited to the ILC Articles on State Responsibility, commonly accepted to codify customary international law on the question of damages under Article 31:<sup>21</sup>

**Article 31. Reparation**

1. The responsible State is under an obligation to make full reparation for the injury caused by the internationally wrongful act.
2. Injury includes any damage, whether material or moral, caused by the internationally wrongful act of a State.

Reparation can be understood as restitution, compensation or satisfaction, alone or in combination. Restitution is the primary obligation of a State insofar as it is possible and does not impose a disproportionate burden on the state.<sup>22</sup> NAFTA similarly provides under Article 1135 that “a Tribunal [that] makes a final award against a Party may award, separately or in combination, only (a) monetary damages and any applicable interest; or (b) restitution of property...”.<sup>23</sup>

On the specific facts of Apotex the harm would have to be compensated by monetary damages as the property right impaired was intangible and therefore incapable of restitution. The Claimant sought damages on several heads: loss of profits on pre-existing products that it would have been able to sell “but for” the Import Alert; loss of profits arising from diminution of future opportunities for sale because of the continuing impact of the Import Alert; loss of opportunity to launch new products in the United States; losses suffered as direct result of the measure through liabilities incurred by Apotex so-called “out of pocket expenses”; consulting and legal fees.<sup>24</sup>

These claims are well-recognized as a matter of international law. Indeed as we will *see below*, under NAFTA and customary international law these categories of damages have been routinely upheld by investor-state tribunals regardless of whether the claim in question arose out of the interference with property rights or intangible intellectual property rights.

1. *Ground 1: Loss of Profits*

The first head of damages sought was the loss of profits for products already established in the market as well as the loss of profits for the loss of future opportunities. There is no question that lost profits are legally

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<sup>21</sup> James Crawford, *The International Law Commission's Articles on State Responsibility* (Cambridge University Press 2002), Article 31.

<sup>22</sup> Crawford, Article 35 and commentary.

<sup>23</sup> NAFTA Article 1135.

<sup>24</sup> Apotex Claimant's Memorial para. 557.

recoverable in international law. As the Articles of State Responsibility set out:

**Article 36. Compensation**

1. The State responsible for an internationally wrongful act is under an obligation to compensate for the damage caused thereby, insofar as such damage is not made good by restitution.
2. *The compensation shall cover any financially assessable damage including loss of profits insofar as it is established.*

The facts of *Apotex* are analogous to *Myers v. Canada*.<sup>25</sup> In *Myers*, Canada's temporary prohibition of the export of a chemical to the United States precluded the US claimant from carrying out its business further processing that chemical and thereby resulted in a loss of income. The Tribunal held that appropriate measure of damages was "the value of the lost and delayed income streams".<sup>26</sup> Similarly other NAFTA cases have granted damages for loss of profits such as *Cargill Incorporated v United Mexican States*. In this respect the Claimant is entitled to rely upon the language of Art. 1116(1) of NAFTA which provides for the submission of a claim to arbitration when an "investor has incurred loss or damage by reason of, or arising out of, that breach", and identical language found in Art. 1117(1). The text of the treaty confirms that the only appropriate limiting principle to be introduced on recovery is a test of causation and remoteness.<sup>27</sup>

2. *Ground 2: Existing Expenditure/Costs*

These are losses that the Claimant actually incurred as a result of the Treaty breach. For example, the Claimant had alleged that it had incurred contractual penalties as a result of failing to fulfil supply orders by U.S. customers. There is no question but that these categories of losses are properly claimable in investor-state arbitration; for example the Tribunal in *Archer Daniels v the United Mexican States* relied upon Art. 36(1) to award damages on this basis.<sup>28</sup>

In sum, the claims sought by *Apotex* in the proceedings, assuming breach had been made out, were fully recoverable within the general principle of *restitution in integrum*.

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<sup>25</sup> *SD Myers v. Canada*, Second Partial Award of 21 October 2002, paras. 203-300.

<sup>26</sup> *Id.*, para. 222.

<sup>27</sup> *Apotex Memorial*, Paras. 494-5.

<sup>28</sup> *Archer Daniels Midland Company and Tate & Lyle Ingredients Americas, Inc. v. the United Mexican States*, ICSID Case No. ARB(AF)/04/05, Award, para.281 (Nov. 21, 2007).

**B. *Phillip Morris v. Uruguay: The Tribunal's Power to Order Non-Pecuniary Relief***

In *Phillip Morris v. Uruguay*, the Claimant, an international tobacco company headquartered in Switzerland, challenged Uruguay's introduction of tobacco-control measures. These measures included the Government's introduction of a "single presentation requirement" that stopped tobacco manufacturers from marketing more than one variant of cigarette per brand family (the "Single Presentation Requirement") and an increase in the size of graphic health warnings appearing on the cigarette packages (the "80/80 Regulation").

For the first measure, the regulation meant that instead of marketing multiple offerings under its Marlboro label ("Marlboro Red", "Marlboro Green", "Marlboro Blue", "Marlboro Gold"), Phillip Morris was instead confined to one product per brand (for example, "Marlboro Red"). The 80/80 regulation increased the size of the prescribed health warnings on cigarette packets from 50% to 80% thus leaving only 20% for trademarks, logos and other information. The Claimant therefore alleged that the measures constituted breaches of impairment of use and enjoyment of investments, the fair and equitable standard, and expropriation.

The Tribunal in *Phillip Morris v Uruguay* first considered whether there was a property right in the trademark capable of expropriation under Uruguayan law. It concluded that trademarks were property rights that were capable of expropriation.<sup>29</sup> It then went on to consider whether the trademark rights had in fact been expropriated, decisively rejecting the proposition:

As indicated by earlier investment treaty decisions, in order for a State's action in exercise of regulatory powers not to constitute indirect expropriation, the action has to comply with certain conditions. *Among those most commonly mentioned are that the action must be taken bona fide for the purpose of protecting the public welfare, must be non-discriminatory and proportionate. In the Tribunal's view, the SPR and the 80/80 Regulation satisfy these conditions.*

The Tribunal ultimately identified similar reasons in rejecting the FET and impairment claims as well:

As indicated by earlier investment treaty decisions, in order for a State's action in exercise of regulatory powers not to constitute indirect expropriation, the action has to comply with certain conditions. Among those most commonly mentioned are that the action must be taken bona fide for the purpose of protecting the

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<sup>29</sup> *Phillip Morris v. Uruguay* para. 273-274.

public welfare, must be non-discriminatory and proportionate. In the Tribunal's view, the SPR and the 80/80 Regulation satisfy these conditions.

The Challenged Measures were taken by Uruguay with a view to protect public health in fulfilment of its national and international obligations. For reasons which will be explored in detail in relation to claims under Article 3(2) of the BIT, in the Tribunal's view the Challenged Measures were both adopted in good faith and were nondiscriminatory. They were proportionate to the objective they meant to achieve, quite apart from their limited adverse impact on Abal's business. *Contrary to the Claimants' contention, the Challenged Measures were not "arbitrary and unnecessary" but rather were potentially "effective means to protecting public health," a conclusion endorsed also by the WHO/PAHO submissions.*

Among the innovative features of the Award was the acceptance, by the majority, of the doctrine of "margin of appreciation" from the ECHR context. In the Tribunal's own words:<sup>30</sup>

The Tribunal agrees with the Respondent that the "margin of appreciation" is not limited to the context of the ECHR but "applies equally to claims arising under BITs," at least in contexts such as public health. *The responsibility for public health measures rests with the government and investment tribunals should pay great deference to governmental judgments of national needs in matters such as the protection of public health.* In such cases respect is due to the "discretionary exercise of sovereign power, not made irrationally and not exercised in bad faith ... involving many complex factors." As held by another investment tribunal, "[t]he sole inquiry for the Tribunal... is whether or not there was a manifest lack of reasons for the legislation."

This heightened standard is likely to be followed by future tribunals in evaluating claims involving intellectual property claims and issues relating to public health, and will likely have a chilling effect on future claims from tobacco companies (or others) which implicate the state's right to regulate in the public interest in the same degree.

Indeed even the powerful concurring and dissenting opinion by Gary Born started from the premise that State's authority to regulate in the public interest, or even to adopt broader measures such as banning tobacco sales or smoking entirely was presumptively lawful.<sup>31</sup> Born

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<sup>30</sup> *Phillip Morris v. Uruguay* para. 399.

<sup>31</sup> Dissenting Opinion of Gary Born, para. 178.

emphasized that his dissent was formulated on grounds that were independent of the State's reasonable right to regulate:

In sum, I agree with most of the Tribunal's conclusions, but part company with the Award on two important issues. **My conclusions on these issues do not question the broad authority of Uruguay, or other states, to regulate in the interest of public health and safety.** They do, however, go to the heart of guarantees of access to justice and protection from arbitrary state conduct and, with regret, I must therefore dissent.

A significant portion of Born's dissent emphasized that part of the conduct complained about were the conflicting decisions reached by two of the country's highest civil courts and that such conduct constituted denial of justice within the meaning of Art.(3)(2) of the BIT. While the protection of intellectual property rights do implicate to an important degree judicial conduct (as *Eli Lilly* discussed below demonstrates), the contradictory decisions made by the Uruguayan courts are certainly open to criticism and in any event do not implicate public health or even IP rights but instead a party's procedural right to access to justice.<sup>32</sup>

Similarly the portion of Born's dissent that focused on the "SPR" requirement acknowledged that the broad power of the state to regulate, and articulated a differing but still considerable standard of deference:

Instead, in my view, the proper degree of deference in considering claims under Article 3(2) must be derived from the terms and context of the BIT itself, in accordance with customary international law rules for treaty interpretation, and from decisions involving similar guarantees of fair and equitable treatment in other international instruments. *In my view, these sources mandate substantial deference to Uruguay's regulatory and legislative judgments, and forbid any second-guessing of such judgments, but nonetheless require a minimum level of rationality and proportionality between the state's measure and a legitimate governmental objective.*

Born's dissent focused on the supposed absence of a "minimum level of rationality and proportionality between the state's measure and a legitimate governmental objective".<sup>33</sup> This standard is uncontroversial in investment arbitration having been adopted by numerous tribunals in relation to the minimum standard of treatment as well as FET claims.<sup>34</sup>

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<sup>32</sup> See *inter alia* para. 13-72.

<sup>33</sup> *Id.*, para. 139.

<sup>34</sup> *S.D. Myers Inc. v. Government of Canada*, UNCITRAL Partial Award, 13 November 2000 para 263 and *Lemire v. Ukraine*, ICSID Case No. ARB/06/18, Decision on Jurisdiction and Liability.

Thus far from expanding the permissible boundaries of investment arbitration, the dissent simply reflected the application of existing principles. For Born this standard was not satisfied because there was no link between the purpose stated which was to combat misleading tobacco packaging and the enactment of the single presentation requirement. He took into account the absence of any meaningful study, discussions or deliberations within the Ministry of Public Health or by other Uruguayan authorities. He also considered it relevant the requirement was formulated, drafted and approved in the space of only a few days and did not involve any consultation or discussion with industry. His analysis placed considerable weight on the fact that the regulatory regime in Uruguay implemented the WHO Framework Convention on Tobacco Control ("FCTC") which did not itself call for a single presentation requirement despite being a treaty that was essentially global in scope, and that the single presentation requirement did not actually achieve the purpose for which it had been promulgated since it was both overbroad and not demonstrated to be effective. Thus Born would have concluded that the SPR violated Uruguay's commitment to fair and equitable treatment under Art.5(2) of the BIT.

Taking into account the substantial deference that both the majority and the dissent would have accorded to the assessments of the Uruguayan authorities, it must follow that certain categories of regulation would still in fact be capable of amounting to an indirect expropriation and/or a breach of the FET standard. The Tribunal had after all, concluded, unanimously, that the rights in question were indeed capable of indirect expropriation.

If so, whether on the limited basis articulated by Arbitrator Born, or if the Claimant had been completely successful, it must follow that international law would give effect to the principle of *ubi ius ibi remedium*: that is for every wrong there must be a remedy. Unlike in *Apotex*, the Claimant was not merely claiming monetary compensation; it was complaining of a continuing measure undertaken by the host state. Accordingly, Claimant would be entitled to restitution of the infringed right as a primary remedy under international law and indeed sought restitution.<sup>35</sup> More specifically, the Claimant had also sought "the suspension of the application Articles 1 and 3 of Ordinance 514 and of Decree 287/009 vis-a-vis the Claimants" on the basis that the measures had "caused a substantial reduction in sales of Abal's products and have deprived PMP and Abal of their legally protected trademarks, resulting in a substantial reduction of the value Abal as a company and FTR's shareholding therein..."<sup>36</sup> The Claimants had also

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<sup>35</sup> *Phillip Morris v. Uruguay*, Request for Arbitration (Arbitration) 19 February 2010: <http://www.italaw.com/sites/default/files/case-documents/ita0343.pdf>.

<sup>36</sup> *Id.*

sought lost profits and as well as the costs and expenses relating to the reduction in sales as a result of the restrictions on sale.

One of the important issues therefore raised by *Phillip Morris* is whether the non-pecuniary remedy sought could be granted. Such a power was recognized expressly in *Chorzów Factory* itself.<sup>37</sup> It was also recognized, after a careful review of the relevant international authorities by the *Von Pezold* tribunal “it is beyond doubt that nonpecuniary remedies, including restitution, can be awarded in ICSID Convention arbitrations under investment treaties”.<sup>38</sup>

It is also supported by Art.30 of the ILC Articles on State Responsibility which establish that a State responsible for internationally wrongful conduct has the obligation to cease that conduct and to offer guarantees of non-repetition:

The State responsible for the internationally wrongful act is under an obligation: (a) to cease that act, if it is continuing; (b) to offer appropriate assurances and guarantees of non-repetition, if circumstances so require.<sup>39</sup>

The *Rainbow Warrior* tribunal explained that an international tribunal may order cessation of any continuing international wrong. So long as the tribunal finds ongoing conduct to an international rule still in force, it has the power to order its cessation. In the words of the tribunal “[t]he delivery of such an order requires, therefore two essential conditions intimately linked, namely that the wrongful act has a continuing character and that the violated rule is still in force at the time in which the order is issued.”<sup>40</sup> Similarly, the Articles on State Responsibility provide that guarantees of non-repetition may be ordered whenever the circumstances make them appropriate: “They are most commonly sought when the injured [party] has reason to believe that the mere restoration of the pre-existing situation does not protect it satisfactorily. “The risk of a future breach is the most important factor to determine that these measures should be ordered because guarantees of non-repetition have “the characteristics of being future-looking and concerned with other potential breaches.”<sup>41</sup>

The scope of such guarantees of non-repetition can involve the imposition of additional duties upon the State. One possible circumstance:

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<sup>37</sup> See Sabahi, *Compensation and Restitution in Investor-State Arbitration: Principles and Practice* (2011) at p.47.

<sup>38</sup> *Von Pezold et al. v. Republic of Zimbabwe*, ICSID Case No. ARB/10/15, Award (28 July 2015), ¶ 700.

<sup>39</sup> ILC, “Draft Articles on Responsibility of States of Internationally Wrongful Acts with Commentaries.”

<sup>40</sup> *Rainbow Warrior Case (New Zealand v France)*, Decision (30 April. 1990).

<sup>41</sup> ILC, Draft Articles on Responsibility of States of Internationally Wrongful Acts with Commentaries at para. 9.

if there is an IP infringement in which state officials are active participants or turning a blind eye to others' violation of intellectual property rights, then tribunals can order the state to undertake investigations and sanctions as part of the guarantee of non-repetition. The ILC Articles on State Responsibility provide for great flexibility in providing satisfaction as an appropriate remedy:

**Article 37. Satisfaction**

1. The State responsible for an internationally wrongful act is under an obligation to give satisfaction for the injury caused by that act insofar as it cannot be made good by restitution or compensation.
2. Satisfaction may consist in an acknowledgement of the breach, an expression of regret, a formal apology or another appropriate modality.
3. Satisfaction shall not be out of proportion to the injury and may not take a form humiliating to the responsible State.

The commentary to Art.37 makes clear that various forms of satisfaction listed are no more than examples, but that the nature of appropriate satisfaction is to be shaped in response to the nature of the breach.

(5) Paragraph 2 of article 37 provides that satisfaction may consist in an acknowledgement of the breach, an expression of regret, a formal apology or another appropriate modality. The forms of satisfaction listed in the article are no more than examples. The appropriate form of satisfaction will depend on the circumstances and cannot be prescribed in advance. *Many possibilities exist, including due inquiry into the causes of an accident resulting in harm or injury, a trust fund to manage compensation payments in the interests of the beneficiaries, disciplinary or penal action against the individuals whose conduct caused the internationally wrongful act or the award of symbolic damages for non-pecuniary injury.*

As Fellas and Thompson have identified "in intellectual property disputes, the need for immediate relief is often greater than in other commercial matters."<sup>42</sup> This is true whether it is the exposure of trade secrets, the misuse of IP rights, or whether it is a State's interference with the property rights in question. It is entirely just and appropriate therefore for investor-state tribunals in appropriate cases to grant injunctive relief against the host state for continuing breaches of intellectual property

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<sup>42</sup> Arbitration of Intellectual Property Disputes, Ch.10 "Provisional and Final Remedies", Fellas and Thompson.

rights. The categories of actions covered could include a range of potential actions from direct expropriation of IP rights by a state or state enterprise; to discriminatory regulation of certain categories or owners of intellectual property, or even to simply failing to comply with the state's existing undertakings, for example under the TRIPs agreement, to requiring the state to ensure that an investor is afforded appropriate remedies against IPR violations within national law.

#### IV. *RESTITUTIO IN INTEGRUM* IS THE APPROPRIATE REMEDIAL APPROACH

In deciding the scope and nature of remedies available in investment law for breaches of intellectual property protection, our understanding should be informed by the remedies available for the protection of intellectual property rights in international law and national law more generally. Even where the nature of the claim under the applicable treaty is not directly against the state; *i.e.* the state has incurred secondary responsibility for another party's conduct or wrongdoing. For example, Article 45 of the TRIPs agreement provides for alternative measures of recovery for infringement cases:

##### **Article 45 – Damages**

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.
2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, *Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.*

It is possible that there may be circumstances in which the provisions of Art. 45 of the TRIPS agreement are applicable in investor-state cases. There also may be circumstances in which compensation according to the principle of *restitutio in integrum* is in fact the less generous remedy available. The well recognized principle that no one should profit from their own wrongdoing is potentially just as applicable to a State as to an investor.

But with all the possibilities that investor-state tribunal might adopt novel remedies, it is nonetheless the case in both investor-state arbitration

and in the domestic law that the standard is largely a product of balancing very similar objectives. A recent monograph on damages in international arbitration contained a chapter on intellectual property. The author argued that "a convenient, and it is suggested uncontroversial, set of principles for assessing the lost profits suffered by a rights holder that exploits an intellectual property right that has been found to have been infringed was set out in *Ultraframe (UK) Ltd v. Eurocell Building Products Ltd*, a decision, of the English Patents Court"<sup>43</sup> and was of more general applicability to international arbitration. In fact it is virtually identical to the proper measure of damages in international law and investment arbitration generally:

- (i) Damages are compensatory. The general rule is that the measure of damages is to be, as far as possible, that sum of money that will put the claimant in the same position as he would have been in if he had not sustained the wrong.
- (ii) The claimant can recover loss which was (i) foreseeable, (ii) caused by the wrong, and (iii) not excluded from recovery by public or social policy. It is not enough that the loss would not have occurred but for the tort. The tort must be, as a matter of common sense, a cause of the loss.
- (iii) The burden of proof rests on the claimant. Damages are to be assessed liberally. But the object is to compensate the claimant and not to punish the defendant.
- (iv) It is irrelevant that the defendant could have competed lawfully.
- (v) Where a claimant has exploited his patent by manufacture and sale he can claim (a) lost profit on sales by the defendant that he would have made otherwise; (b) lost profit on his own sales to the extent that he was forced by the infringement to reduce his own price; and (c) a reasonable royalty on sales by the defendant which he would not have made.
- (vi) As to lost sales, the court should form a general view as to what proportion of the defendant's sales the claimant would have made.
- (vii) The assessment of damages for lost profits should take into account the fact that the lost sales are of 'extra production' and that only certain specific extra costs (marginal costs) have been incurred in making the additional sales. Nevertheless, in practice

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<sup>43</sup> The Guide to Damages in International Arbitration: <http://globalarbitrationreview.com/chapter/1076532/damages-in-intellectual-property-arbitrations>.

costs go up and so it may be appropriate to temper the approach somewhat in making the assessment.

- (viii) The reasonable royalty is to be assessed as the royalty that a willing licensor and a willing licensee would have agreed. Where there are truly comparable licences in the relevant field these are the most useful guidance for the court as to the reasonable royalty. Another approach is the profits available approach. This involves an assessment of the profits that would be available to the licensee, absent a licence, and apportioning them between the licensor and the licensee.
- (ix) Where damages are difficult to assess with precision, the court should make the best estimate it can, having regard to all the circumstances of the case and dealing with the matter broadly, with common sense and fairness.

This similarity is not coincidental. It simply reflects the fact that the first duty of any system of law, a feature of the rule of law itself, is to furnish adequate remedies that appropriately vindicates the rights at stake, and compensates a deserving claimant fully for the harm suffered.

