A LOOK AT THE COMPULSORY LICENSE IN INVESTMENT ARBITRATION: THE CASE OF INDIRECT EXPROPRIATION

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INTRODUCTION

Intellectual property rights ("IPRs") have long been recognized as a form of "investment" entitled to protection under bilateral investment treaties ("BITs") and other international investment agreements ("IIAs").[1] The term "investment" has been defined broadly in BITs to include almost every kind of "asset."[2] Many BITs provide a detailed listing of the types of intellectual property that may be considered as a form of investment asset, for example, "copyrights, patents, utility-model patents, industrial designs, trade-marks, trade-names, trade and business secrets, technical processes, known-how, and goodwill."[3] The inclusion of IPRs in the definition

1. In this article, I use the acronym "IIA" to refer, interchangeably, to BITs and other bilateral, regional, or plurilateral trade agreements that contain investment chapters or other provisions to facilitate and protect foreign investment.

2. *See, e.g.*, German Model Treaty Concerning the Reciprocal Encouragement and Protection of Investment issued by the Federal Ministry of Economics and Labour, art. 1 (2005), *available at* http://www.fes-globalization.org/dog_publications/Appendix1GermanModelTreaty.pdf (characterizing "investment" as an all-encompassing concept, including almost any kind of business activity and extending to assets in all sectors of the economy).

3. *Id.* To qualify as an investment, intellectual property, like any other type of asset, "must have the characteristics of an investment, such as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk." MAHNAZ MALIK, 2ND ANNUAL FORUM OF DEVELOPING COUNTRY INVESTMENT NEGOTIATORS, MARRAKECH, MOROCCO, 3-4 NOVEMBER 2008: INT'L INST. FOR SUSTAINABLE DEV., RECENT DEVELOPMENTS IN THE DEFINITION OF INVESTMENT IN INTERNATIONAL INVESTMENT AGREEMENTS 6 *available at* http://www.iisd.org/pdf/2008/dci_recent_dev.pdf (citing Norway's Draft Model Agreement for the Promotion and Protection of Investments, art. 2(2) (2007)); The Multilateral Agreement on Investment Draft Consolidated Text, Org. for Econ. Co-operation and Dev., DAFFE/MAI(98)7/REV1, at Def., ¶2, n.2 (1998); *see also* U.S. Model BIT, art. 1 (2004), *available at* http://www.ustr.gov/sites/default/files/U.S.%20model%20BIT.pdf (defining intellectual property rights as one of the forms of assets constituting an investment). For example, the mere possession of a registered patent, without its exploitation as an investment subject to risk and with the expectation of gain or loss, may limit its consideration as an investment. Moreover, because IP rights are granted territorially, subject matter that is not protected in a given country normally belongs to the public domain. *See* Carlos M. Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, 26 MICH. J. INT'L L. 331, 340 (2004) [hereinafter Correa, *Investment Protection in Bilateral and Free Trade Agreements*]. Such intellectual property may not be considered an asset owned or controlled by an investor, unless the relevant IIA provides otherwise. As a more limiting approach, some BITs provide that intellectual property rights are encompassed in their investment

of "investment" reflects that intellectual property, even as an intangible asset, can be a valuable part of a foreign direct investment ("FDI").[4] Indeed, the first BIT, signed in 1959 between Germany and Pakistan, recognized that intellectual property may be a core element of a foreign investment between these two countries.[5] The BIT defined investment to "comprise capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, *patents and technical knowledge*."[6]

With this early coverage of intellectual property in BITs, it is perhaps surprising that there has yet to be a publicly reported decision concerning an IPR-centered investment dispute.[7] This could

definitions only if it is recognized as protected under the national law of both contracting States. United Nations Conference on Trade and Development [UNCTAD], 2007, *Intellectual Property Provisions in International Investment Agreements*, IIA Monitor No. 1, UNCTAD/WEB/ITE/IIA/2007/1, at 3 (2007) [hereinafter UNCTAD IP Provisions].

4. UNCTAD IP Provisions, *supra* note 3, at 2. It can be quite difficult, however, to measure the magnitude of the intellectual property component in foreign direct investment. Daniel J. Gervais, *Intellectual Property, Trade and Development: The State of Play*, 74 FORDHAM L. REV. 505, 524 (2005).

5. *See* Treaty for the Promotion and Protection of Investments, F.R.G.-Pak., Nov. 25, 1959, 457 U.N.T.S. 6575, arts. 8, 10 [hereinafter Germany-Pakistan BIT] (considering "patents and technical knowledge" as investments and aspiring to promote the exchange of "scientific and technical knowledge"); Jeswald W. Salacuse, *BIT by BIT: The Growth of Bilateral Investment Treaties and Their Impact on Foreign Investment in Developing Countries*, 24 INT'L L. 655, 655-59 (1990), *reprinted in* R. DOAK BISHOP ET AL., FOREIGN INVESTMENT DISPUTES: CASES, MATERIALS AND COMMENTARY 31 (2005) (explaining that BIT negotiation in the thirty years following the 1959 Germany-Pakistan BIT has been a lively area of public international law, with over 300 BITs signed).

6. Germany-Pakistan BIT, *supra* note 5, art. 8(1)(a) (emphasis added). This BIT reveals an interesting focus on technology transfer issues. Article 10 provides that: "Each Party shall co-operate with the other in furthering the interchange and use of scientific and technical knowledge and development of training facilities particularly in the interest of increasing productivity and improving standards of living in their territories." *Id.* art. 10.

7. *See, e.g.*, Tsai-Yu Lin, *Compulsory Licenses for Access to Medicines, Expropriation and Investor-State Arbitration Under Bilateral Investment Agreements – Are There Issues Beyond the TRIPS Agreement?*, 40 INT'L REV. INTELL. PROP. & COMPETITION L. 152, 171 (2009). ("Thus far, no claim regarding compulsory licenses has been brought before investor-state arbitration and led to an arbitral award."). It is important to note that while investor-state arbitral awards rendered under the rules of the International Centre for the Settlement of Investment Disputes ("ICSID") are normally published (or at least excerpts of the

soon change, however, given the trajectory of the modern economy, in which foreign investments reflect an increasing concentration of intellectual capital invested in knowledge goods protected by IPRs. It is impossible to ignore the increasing significance of intellectual property in a globalized world in which science and technology, as well as creative works and international branding, are generating enormous value.[8] Thus, it has been observed that "[i]ntellectual property rights . . . have never been more economically and politically important or controversial than they are today."[9] This

legal reasoning of the award), awards resulting from investor-state arbitrations under other rules such as the Arbitration Rules of the U.N. Commission on International Trade Law ("UNCITRAL") usually are not. Thus, it is possible that an investor-state case involving intellectual property has already occurred. In a recent case, two companies of the Shell Group, in response to an alleged expropriation of Shell's logo and brand name, filed a claim against Nicaragua alleging breach of a BIT between the Netherlands and Nicaragua. However, the case was discontinued due to a settlement between the parties. Following a settlement whose terms were not released to the public, the case was discontinued pursuant to an order of ICSID's Secretary General in March 2007. *See* Shell Brands Int'l AG v. Republic of Nicaragua, ICSID Case No. ARB/06/14 (Mar. 12, 2007). The case had a complex background because the alleged expropriation of Shell's trademarks by the Nicaraguan government was in response to Shell's non-payment a judgment entered against Shell in the Nicaraguan courts. The Nicaraguan government measures against Shell's trademarks triggered an alleged violation of one of the terms of the BIT between Nicaragua and The Netherlands. The BIT defines an "investment" to include "rights in the field of intellectual property, technical processes, goodwill and know-how." *See* Agreement on Encouragement and Reciprocal Protection of Investments, Nicar.-Neth., June 16, 2003, art. 1, 2205 U.N.T.S. I-39151.

8. *See* Francis Gurry, *The Evolution of Technology and Markets and the Management of Intellectual Property Rights*, 72 CHI-KENT L. REV. 369, 371 (1996) ("The new significance of intellectual capital and the increased demand for intellectual property are both occurring within the context of the globalization of markets."); *see also* Alejandro Garcia & Sophie Lamb, *Arbitration of Intellectual Property Disputes*, *in* Global Arb. Rev., EUR. & MIDDLE E. ARB. REV. 2008, *available at* http://www.globalarbitrationreview.com/handbooks/3/sections /5/chapters/66/arbitration-intellectual-property-disputes ("In a global economy increasingly based upon conceptual products, converged technologies and international networks, intellectual property rights (IPRs) continue to be the most valuable assets of many businesses.").

9. Frederick M. Abbott, *Intellectual Property Provisions of Bilateral and Regional Trade Agreements in Light of U.S. Federal Law*, at v (UNCTAD-Int'l Ctr. for Trade and Sustainable Dev. [ICTSD], Issue Paper No. 12, 2006), *available at* http://www.unctad.org/en/docs/iteipc20064_en.pdf. In a recent article, I demonstrated the high stakes involved in relation to intellectual property, trade, and setting technology standards, which can involve national policy and the

tandem of economic and political importance, combined with persistent international tensions concerning the proper scope, length of protection, and enforcement of intellectual property and IPRs, forms a potent cocktail in which disputes concerning intellectual property can arise between foreign investors and host states.

This article focuses on one area in which government action could create a direct impact on FDI involving intellectual property: the authorization of a *compulsory license*. Through the compulsory license, a government authority interferes directly with a privately owned IPR, such as a patent, to authorize its use by the government or by one or more third parties, subject to certain terms.[10] The compulsory license issue often triggers World Trade Organization ("WTO") trade law considerations. In fact, most of the commentary concerning compulsory licenses has focused on international trade law and public health issues,[11] in particular, the Agreement on Trade-

intervention of U.S. government officials at the highest level. *See* Christopher Gibson, *Globalization and the Technology Standards Game: Balancing Concerns of Protectionism and Intellectual Property in International Standards*, 22 BERKELEY TECH. L.J. 1403, 1436-39 (2007) (noting that officials at levels as high as the Secretary of State and the Vice President expressed concerns and objections in the wake of China's attempt to set technology standards that would require non-Chinese wireless equipment vendors to obtain certain IP rights from a small group of Chinese companies).

10. *See infra* Part I (discussing compulsory licenses in greater detail).

11. *See, e.g.*, Sandra Bartelt, *Compulsory Licenses Pursuant to TRIPS Article 31 in the Light of the Doha Declaration on the TRIPS Agreement and Public Health*, 6 J. WORLD INTELL. PROP. 283, 306 (2003) (concluding that the Doha TRIPS Declaration developed in reaction to the competing ideals of the widespread availability of affordable medicines and the spurring of technological innovation through the protection of patents); Rosa Castro Bernieri, *Intellectual Property Rights in Bilateral Investment Treaties and Access to Medicines: The Case of Latin America*, 9 J. WORLD INTELL. PROP. 548, 567 (2006) (noting that strict BIT regulations jeopardize the flexibility of the TRIPS Agreement, thus inhibiting efforts to address public health issues); Daniel R. Cahoy, *Confronting Myths and Myopia on the Road from Doha*, 42 GA. L. REV. 131, 192 (2007) (advocating a system that provides least developed and developing countries with access to medicine by compensating producers based on each country's relative level of development, thereby easing the financial burden on private actors while simultaneously confronting public health concerns); Colleen Chien, *Cheap Drugs at What Price to Innovation: Does the Compulsory Licensing of Pharmaceuticals Hurt Innovation?*, 18 BERKELEY TECH. L.J. 853, 891-92 (2003) (concluding that, based on case studies of six drug manufacturers, compulsory licenses do not result in declining innovation); Carlos M. Correa, *Bilateralism in Intellectual Property: Defeating the WTO System for Access to Medicines*, 36 CASE W. RES. J. INT'L L.

Related Aspects of Intellectual Property Rights ("TRIPS Agreement"),[12] which sets conditions for the issuance of compulsory licenses in Article 31,[13] and the Doha Declaration on the TRIPS Agreement and Public Health, adopted by the WTO in 2001, which clarifies and confirms that Member States have the right to grant compulsory licenses to protect public health.[14] At the same time, while significant attention has been given to investment treaty arbitration in recent years, much less has been written about intellectual property issues arising under BITs, and even less so in relation to intellectual property (including compulsory licenses) in the context of investor-state arbitration. Thus, despite the standard inclusion of intellectual property in the definition of "investment" in IIAs, there has been surprisingly little scholarship examining this specialized form of investment in relation to the standards of

79, 91-94 (2004) (criticizing the Central American Free Trade Agreement's provisions preventing generic drug companies from producing affordable medicine during the period of "data exclusivity" or the patent life without the authorization of the patent holder as contrary to the purpose of the Doha Declaration on the TRIPS Agreement and Public Health).

12. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments: Results of the Uruguay Round, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement]. The TRIPS Agreement is one of the World Trade Organization ("WTO") covered agreements, containing rules on patents, copyrighted works and trademarks, and other intellectual property. *Id.* Through the TRIPS Agreement, all WTO member states have committed to maintain a certain level of protection for IPRs. "The TRIPS Agreement is arguably the strongest normative vector in setting IP policy." Gervais, *supra* note 4, at 524. Gervais observed that the TRIPS Agreement provides comfort for companies deciding where and when to expand into new markets because it contains a complete set of IP norms adjusted to the "highest common denominator among major industrialized countries as of 1991." *See id.* at 506-09.

13. *See infra* notes 36-49 and accompanying text (discussing of the conditions for issuance of a compulsory license under Article 31 of the TRIPS Agreement).

14. *See* World Trade Organization [WTO], Ministerial Declaration on the TRIPS Agreement and Public Health of 14 November 2001, ¶ 5, WT/MIN(01)/DEC/2 (2001) [hereinafter Ministerial Declaration]; *see also* WTO, Decision of the General Council, Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, WT/L/540 (2003). The 2003 Decision created a special compulsory license mechanism which "enhance[d] access to patented pharmaceuticals by countries with limited manufacturing capacity." Antony Taubman, *Rethinking TRIPS: 'Adequate Remuneration' for Non-Voluntary Patent Licensing*, 11 J. INT'L ECON. L. 927, 935 (2008).

protection that would be relied upon to form claims in an investor-state dispute. The question I consider is whether a compulsory license may constitute an indirect expropriation.

The scope of intellectual property claims grounded in rights created by IIAs is uncertain, and the compulsory license is but a specific example of this uncertainty.[15] If an investment dispute arises concerning a host state's issuance of a compulsory license covering an investor's intellectual property (e.g., a patent), the following basic questions arise:

(i) How will the expropriation standard in IIAs be applied to the dispute?

(ii) Are there potential complications arising from overlapping and possibly competing international legal frameworks, in particular, obligations arising under an IIA, and their possible intersection with multilateral disciplines under the TRIPS Agreement?

At the intersection between IIAs and the TRIPS Agreement, the following three additional questions may arise with respect to investments:

(iii) Can a government's authorization of a compulsory license be TRIPS Agreement compliant, yet violate the expropriation provision in a relevant IIA?

(iv) Can a government's violation of the TRIPS Agreement provide a basis for an independent expropriation claim under the IIA in investor-state arbitration?

(v) Alternatively, can TRIPS Agreement norms provide interpretive background on minimum standards of protection under international law to inform IIA standards such as indirect expropriation?

In Part I, I provide background on the contours of compulsory licenses, discussing their underlying rationale and long, yet contentious, past. In Part II, I discuss the application of expropriation

15. Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 352.

standards under IIAs and international law to the compulsory licensing circumstances, looking at international practice and the recent United States BIT with Uruguay. I also address the particular situation in which the BIT itself may exclude any claims arising as a result of a compulsory license that is considered to be in compliance with the TRIPS Agreement's Article 31. In Part III, I turn to the complexity of overlapping treaty rights, evaluating a potential "fork in the road" as an investor considers whether to pursue claims through investment arbitration or the WTO dispute settlement mechanism, as well as whether WTO law and standards might be applied in the investment dispute context.

This article addressing compulsory licenses and issues of indirect expropriation is intended as an introductory treatment of the more general subject of intellectual property and international investment disputes. There are other IIA standards, such as "fair and equitable" treatment, that may also be applicable to compulsory licenses. Further, there are other forms of government action or inaction, besides issuance of a compulsory license, which may harm an investor's IP-based investment.

I. BACKGROUND—COMPULSORY LICENSES

Compulsory licenses are controversial instruments that bear an inherently contentious character. They have long been recognized in intellectual property law, although seldom used. The term "compulsory license" refers to circumstances in which a government intervenes to compel the owner of an IPR, normally a patent, to grant *use* of that right to the state or to other third parties.[16] The government authorization, whether by an executive, administrative, or judicial authority, is given without the consent of the intellectual property owner and normally on an *ex post* basis in response to a developing need or to concerns of anti-competitive use of patent rights.[17] The compulsory license may be issued by the government

16. *See id.* at 346 (adding that certain limitations are placed on the use of such right); Robert Bird & Daniel R. Cahoy, *The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective Bargaining Approach*, 45 AM. BUS. L.J. 283, 283 n.1 (2008) (describing compulsory licenses as a "compelled relaxation" of the right to exclude).

17. *See* Bird & Cahoy, *supra* note 16, at 283 n.1 (elaborating that compulsory licensing in the context of an "emergent need" has a significant ability to affect

authority with conditions, such as delimiting the use for which the license is authorized, specifying which third parties are entitled to use the patent, time restrictions on that use, and payment of compensation, if any, to the intellectual property owner.[18] Because the compulsory license targets "use," it does not, strictly speaking, deprive the owner of ownership rights over the protected intellectual property.[19]

To understand the stakes involved with the issuance of compulsory licenses and their impact on foreign direct investment and potential investment disputes, it is useful to review a few basic principles underlying intellectual property.[20] IPRs exist largely in

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foreign direct investment ("FDI")).

18. Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 346. The categories of the actual intellectual property to which government authorizations may apply ranges from extremely narrow to quite broad:

> Government use authorizations may be in the form of a compulsory license under a patent, but may be expressed simply as an authorization to use a technology in line with government requirements, subject only to the possibility of an infringement action with remedies limited to damages in the form of a reasonable royalty.

Taubman, *supra* note 14, at 947.

19. Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 346.

20. There is no universally accepted definition of the term "intellectual property" which holds true for all jurisdictions. However, the World Intellectual Property Organization ("WIPO") states broadly that "[i]ntellectual property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce." WIPO, What is Intellectual Property?, http://www.wipo.int/about-ip/en/index.html (last visited Feb. 24, 2010). The WIPO Convention defines the broad spectrum of subject matter relating to IP rights, including:

> – literary, artistic and scientific works,
> – performances of performing artists, phonograms, and broadcasts,
> – inventions in all fields of human endeavor,
> – scientific discoveries,
> – industrial designs,
> – trademarks, service marks, and commercial names and designations,
> – protection against unfair competition,
>
> and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

Convention Establishing the World Intellectual Property Organization, art. 2(viii), July 14, 1967, *amended* Sept. 28, 1979, WO029EN, *available at* http://www.wipo.int/export/sites/www/treaties/en/convention/pdf/trtdocs_wo029.pdf.

order to generate and encourage investment, while preventing third parties from capitalizing on the use of the underlying subject matter of those IPRs.[21] The legal right to exclude third parties from use of a particular intellectual creation is fundamental to the ownership of intellectual property.[22] In this sense, "the rights granted are essentially negative: they are rights to stop others [from] doing certain things."[23] This legal right is territorial in nature and arises through the state's statutorily-created grant of intellectual property to private parties, which in many cases involves registration of the right (e.g., for patents or trademarks).[24] The right to exclude enables the creator to gain revenues or other reward through use of the intellectual property. Granting legal protection for a new innovation of science or a creative work not only provides incentive for creation, but enables the owner to produce, market, and sell or license it. The broader public purpose behind granting such exclusionary rights is to benefit the public through the increase in knowledge, as well as to generate new technology and cultural goods, while, in the case of trademarks, providing a measure of consumer protection.[25]

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21. Bird & Cahoy, *supra* note 16, at 285.

22. *See, e.g.*, William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 BERKELEY J. INT'L L. 173, 180 (1996) ("A patent or a trademark, for instance, is generally a statutorily-created state grant of a limited monopoly or exclusive right of exploitation."). Intellectual property is a specialized form of private property. Underlying the rights of all private property—whether intellectual property or real property—is the right to choose whether to keep or sell it, or to determine who may use it and on what terms. One key difference between intellectual property and physical property is that more than one person can "use [intellectual property] at the same time without significantly diminishing the value of each use. For that reason, the cost of granting exclusive rights to its use can be greater than in the case of physical property, where selecting among uses is a virtual necessity." Ronald A. Cass, *Compulsory Licensing of Intellectual Property: The Exception that Ate the Rule?* 4-5 (Washington Legal Found., Working Paper series no. 150, 2007), *available at* http://www.wlf.org/upload/casswpCover.pdf.

23. WILLIAM R. CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS 6 (Sweet & Maxwell 4th ed. 1999).

24. *See* Grantham, *supra* note 22, at 182 (noting that some courts perceive IP rights as public grants, and, as such, private arbitration on the validity of IP rights cannot circumvent the court's jurisdiction).

25. *See, e.g.*, Ingo Selting, *FDI and International Protection of Intellectual Property*, *in* LEGAL ASPECTS OF FOREIGN DIRECT INVESTMENT 205, 206-07 (Daniel D. Bradlow & Alfred Escher eds., 1999) (acknowledging the unfortunate reality that developing countries' recognition and protection of IPRs will likely

In the context of foreign investment and international trade, particularly in a modern market economy, IPRs provide the owner with the legal protection necessary to support entry into a foreign market for investment (or trade) and to maintain a competitive position in that market.[26] The exclusivity afforded by the IPR enables the owner to exercise leverage in the marketplace. This is particularly true for firms that depend on innovation to compete, while producing knowledge-rich goods and services.[27]

Exclusive rights are therefore central to the intellectual property system, and yet this is precisely where the compulsory license operates. It enables the government concerned—which may have (through its intellectual property office) registered the IPR for the owner in the first place—to override that exclusivity by authorizing use of the privately owned IPR for itself or for one or more third parties, while dictating any relevant terms or conditions to the license. For this reason, compulsory licenses are criticized by some who view them as a threat not only to private property and security, but also to innovation and growth.[28] Similar to a government interference with real property—through use of eminent domain power (or mandatory easements or servitudes)—a compulsory license can substantially reduce the security in private property.[29] From an investment perspective, one concern is that frequent or "overbroad compulsory licensing of patents can seriously undermine the incentive to invest."[30]

lead to higher priced goods and services in those countries).

26. *See* Taubman, *supra* note 14, at 937 & n.57 (advocating a solid IP legal framework in order to encourage innovation, competition, and entries into new markets).

27. *Id.*

28. Cass, *supra* note 22, at 1-2.

29. *See id.* at 2 (speculating that the decision in Kelo v. City of New London, 545 U.S. 469 (2005), an eminent domain case, infused the government with too much power in its ability to impose on private property, and portending a similar fate for intellectual property rights by way of compulsory licenses).

30. Greg S. Slater, *Compulsory Licensing Trends in the Technology Sector: China as a Case Study on Licensing Patents*, *in* ABA SECTION OF INTELLECTUAL PROPERTY LAW: COMPULSORY LICENSING AND OTHER IP CONTROLS 135, 135 (2009), *available at* http://www.abanet.org/intelprop/midyear2009/compulsoryLOIPC.pdf; *see also* SWEDISH NAT'L BD. OF TRADE, THE WTO DECISION ON COMPULSORY LICENSING: DOES IT ENABLE IMPORT OF MEDICINES FOR DEVELOPING COUNTRIES WITH GRAVE

Despite these persistent concerns, some form of compulsory licensing has been recognized internationally for more than 125 years. The Paris Convention, dating from 1883,[31] first recognized compulsory licensing as a means to address the abusive exercise of patent rights on "failure to work" grounds, thereby justifying issuance in limited cases.[32] Compulsory licensing, however, has remained "a controversial, abrasive issue in international trade relations" for more than a century, right up to and through negotiations of the TRIPS Agreement and the Doha Declaration.[33]

PUBLIC HEALTH PROBLEMS? 7 (Kommerskollegium 2008), *available at* http://www.kommers.se/upload/Analysarkiv/Arbetsomr%C3%A5den/WTO/Handel%20och%20skydd%20f%C3%B6r%20immateriella%20r%C3%A4ttigheter%20-%20TRIPS/Rapport%20The_WTO_decision_on_compulsory_licensing.pdf ("There is . . . a risk that compulsory licenses reduce innovation and investment by diminishing the value of a patent.").

31. Paris Convention on the Protection of Industrial Property, art. 5, March 20, 1883, 21 U.S.T. 1538, 828 U.N.T.S. 11851 (last revised July 14, 1967).

32. The Paris Convention authorizes compulsory licensing only on grounds of "failure to work" or "insufficient working," thereby distinguishing or impliedly limiting other possible grounds, which are not addressed. Article 5A, paragraphs (2), (3) and (4) provide in relevant part:

> (2) Each country . . . shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.
>
> (3) Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license.
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> (4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non–exclusive and shall not be transferable, even in the form of the grant of a sub–license, except with that part of the enterprise or goodwill which exploits such license.

Id. art. 5.

33. Taubman, *supra* note 14, at 929-30; *see also* CORNISH, *supra* note 23, at 291 ("The meetings of Paris Convention countries have long been the field for exhausting battles over the principle of compulsory licensing. . . . [which] led to the 1982 breakdown in revising the Paris Convention."). Antony Taubman provides a fine overview of the background, history of negotiations, and controversy concerning compulsory licenses. Taubman, *supra* note 14, at 929-33.

Article 31 of the TRIPS Agreement, one of its most detailed provisions containing "a splay of conditions,"[34] does not actually use the phrase "compulsory license," but instead refers to use "without authorization of the right holder."[35] The article nonetheless permits the grant of a compulsory license by WTO Member States, so long as certain procedures are followed and terms fulfilled, the most important of which include: (i) each compulsory license "shall be considered on its individual merits;"[36] (ii) the compulsory license can be authorized only after efforts have been made—and have failed—to secure the right holder's authorization "on reasonable commercial terms and conditions;"[37] (iii) the compulsory license must be non-exclusive and non-assignable, with a "scope and duration . . . limited to the purpose for which it was authorized," and it must cease if and when the conditions change to eliminate that purpose;[38] (iv) the license must be used "predominantly for the supply of the domestic market" of the authorizing State;[39] and (v) the right holder must be "paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization."[40]

Article 31 leaves open the substantive grounds on which a WTO Member State may rely to justify a compulsory license, and no longer refers, for instance, to patent abuse on grounds of failure to work.[41] However, Article 31 does make reference to several potential

He observes more generally that, "as a measure of the contentiousness of IP as a trade issue, within the entire WTO package of agreements only TRIPS cites the importance of 'reducing tensions.'" *Id.* at 928 (citing TRIPS Agreement, *supra* note 12, pmbl.).

34. CORNISH, *supra* note 23, at 291. Cornish adds that the "hostility of the United States to the very idea of compulsory patent licensing finds determined expression in these provisions." *Id.*

35. TRIPS Agreement, *supra* note 12, art. 31 (including unauthorized use by the government or government-approved third parties). It was left to the Doha Declaration to use the words "compulsory license" and to confirm that "[e]ach Member has the right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted." Ministerial Declaration, *supra* note 14, ¶ 5(b).

36. TRIPS Agreement, *supra* note 12, art. 31(a).

37. *Id.* art. 31(b). This obligation can be waived in the face of a national emergency or "other circumstances of extreme urgency." *Id.*

38. *Id.* arts. 31(c)-(e), (g).

39. *Id.* art. 31(f).

40. *Id.* art. 31(h).

41. Although there had been some debate about whether the grounds in Article

reasons for authorizing a compulsory license. First, there is recognition in Article 31(b) that a national emergency or circumstances of extreme urgency could justify authorization of a compulsory license. Second, Article 31(b) refers to cases of public (governmental) non-commercial use. Third, Article 31(k) recognizes that a compulsory license may be issued to remedy anti-competitive practices. Finally, Article 31(l) recognizes that a compulsory license may be needed to permit the exploitation of an important "second" patent (i.e., "dependency patent"), which cannot be utilized without infringing on the patent that is the subject of the compulsory license.[42] More broadly, the negotiating history of the TRIPS Agreement reveals that two basic rationales for government intervention stand behind these examples.[43] On the one hand, a compulsory license may be authorized pursuant to a state's police power, such as in emergency circumstances dictated by national security or public health concerns.[44] On the other hand, the license may be authorized to correct anti-competitive behavior so that a particular patent does not "undesirably constrain competition between firms."[45] This form of compulsory license is geared toward managing the marketplace and sustaining competitive relations.[46] Both of these rationales reflect a public purpose, although the public benefits less directly in the latter case.[47] Issuing a compulsory license under either rationale may involve contentious and fact-specific determinations, putting the IPR owner at odds with the government authorizing the compulsory license.

31 were exclusive, the Doha Declaration confirmed that Member States have the "freedom to determine the grounds upon which such licenses are granted." Ministerial Declaration, *supra* note 14, ¶ 5(b). It must be borne in mind that Article 30 of the TRIPS Agreement already indicates that national law may provide "limited exceptions" to exclusive patent rights, "provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties." TRIPS Agreement, *supra* note 12, art. 30.

42. TRIPS Agreement, *supra* note 12, art. 31(l).

43. *See* Taubman, *supra* note 14, at 947 n.91 (attributing the enunciation of these rationales to the Swiss Delegation to the TRIPS negotiations).

44. *Id.* at 947.

45. *Id.* at 947-48.

46. *Id.* at 947-48.

47. *Id.*

Some form of statutory compulsory licensing is common in the national systems of many countries, even if it is not often put to use.[48] It may have different legal bases and be authorized subject to different administrative or judicial procedures.[49] In practice, compulsory licensing provisions have been "commonly enmeshed in such a net of procedures that it is only the threat of invoking them that carries any significant weight."[50] Additionally, uncertainty exists in some cases about whether national statutes comply with Article 31

48. *See* Bird & Cahoy, *supra* note 16, at 292 (indicating that at least one hundred countries make some form of compulsory license available). In the United States, compulsory licenses have been ordered by the Federal Trade Commission only in limited circumstances in relation to antitrust concerns, such as (i) making the compulsory license of certain intellectual property a condition for approval of a merger between two market-dominant competitors, or (ii) ordering a compulsory license of certain intellectual property to remedy violations of federal law prohibiting unfair acts and practices and unfair methods of competition. *See, e.g.*, Dow Chemical Co., 66 FED. Reg. 9851, 9851 (Federal Trade Comm'n Feb. 12, 2001) (proposed consent agreement) (requiring Dow, as a condition of its merger with Union Carbide, to license various patents and other intellectual property relating to the market for polyethylenes to BP Amoco and Exxon); *In the Matter of Rambus, Inc.*, No. 9302 (F.T.C. Feb. 5, 2007) (Opinion of the Commission on Remedy), *available at* http://www.ftc.gov/os/adjpro/d9302/070205opinion.pdf (reasoning that Rambus' false statements to a standard-setting organization about its patent portfolio enabled it to monopolize the markets for four technologies incorporated into standards set by the Joint Electron Device Engineering Council, and ordering Rambus to license its SDRAM and DDR SDRAM technologies at royalty rates not to exceed a maximum set by the FTC); Dell Computer Corporation; Prohibited Trade Practices, and Affirmative Corrective Actions, 62 Fed. Reg. 4767, 4767 (F.T.C. Jan. 31, 1997) (consent order) (prohibiting Dell from enforcing its patent rights against any PC manufacturer using the VL-bus technology due to Dell's "unfair or deceptive acts"). The American Intellectual Property Law Association, in comments during the FTC proceedings concerning Dell, stated that:

> The appearance of a United States government agency imposing a compulsory patent license, especially a royalty-free compulsory license, must be avoided except in response to egregious conduct. Other countries could cite such an action as the basis for imposing broad and onerous compulsory licensing requirements upon United States patentees abroad.

Federal Trade Commission, Protecting America's Consumers, http://www.ftc.gov/opp/global/aipla.shtm (last visited Feb. 25, 2010).

49. *See* Taubman, *supra* note 14, at 931-32 (using the term "non-voluntary use authorizations" to administrative or judicial grants of use for either public interest or competition purposes).

50. CORNISH, *supra* note 23, at 291.

of the TRIPS Agreement.[51] To date, governmental authorities have granted relatively few high-profile compulsory licenses for reasons other than antitrust-competition law concerns.[52]

Perhaps one of the most well-known recent instances involves a compulsory license issued by Brazil. In May 2007, Brazilian President Luiz Inácio Lula de Silva signed a decree establishing a compulsory license to allow Brazil to manufacture or import a generic form of the patented anti-HIV drug Efavirenz after rejecting an offer by Merck & Co. to discount the drug's price by thirty percent.[53] This occurred shortly after Thailand decided to take similar steps in relation to Efavirenz and certain other anti-HIV drugs.[54] These moves have been viewed as controversial, with the United States government signaling its concerns.[55] Rather than respond by arguing a failure to comply with Article 31 of the TRIPS Agreement, Merck issued a statement focusing on foreign investment and characterizing the Brazilian government's move as an expropriation. Merck stated that "[t]his expropriation of intellectual property sends a chilling signal to research-based companies about the attractiveness of undertaking risky research on diseases that affect the developing

51. *See, e.g.*, Ching-fu Lin, Note, *Filling in the Gaps of the TRIPS Agreement: Reflections on the Taiwan-Philips CD-R Compulsory License Case*, 3 ASIAN J. WTO & INT'L HEALTH L. & POL'Y 557 (2008) (reviewing the issuance of a compulsory license under Article 76 of Taiwan's Patent Act and arguing that both Article 76 and the issuance of the license were valid and consistent with the TRIPS Agreement). The article observes that there has yet to be a WTO dispute settlement report that directly interprets Article 31 of the TRIPS Agreement. *Id.* at 565.

52. *Cf.* Cahoy, *supra* note 11, at 134-36 (arguing that international intellectual property law provides an effective protection of innovation but fails to address public health issues).

53. Jon Cohen, *Brazil, Thailand Override Big Pharma Patents*, 316 SCIENCE 816 (2007); KEITH ALCORN, *Brazil Issues Compulsory License on Efavirenz*, AIDSMAP NEWS, May 7, 2007, http://www.aidsmap.com/en/news/0550CE62-3F90-4603-932C-EF69E1B4485D.asp (last visited Feb. 25, 2010).

54. Cohen, *supra* note 53, at 816.

55. For example, in April 2007, "the Office of the U.S. Trade Representative "cited Thailand's issuing of compulsory licenses as one reason for elevating the country to the dreaded Priority Watch List, a U.S. government warning to countries that it judges do not adequately protect intellectual property, which can drive away investment and impact export tariffs." *Id.*

world," and emphasized that "[t]his decision . . . will have a negative impact on Brazil's reputation as an industrialized country seeking to attract inward investment."[56]

The Brazilian example highlights the tensions between private rights and public motives inherent in compulsory licenses. Antony Taubman has summarized this conflict well, writing that:

> The grant of a compulsory licenses is inevitably a contested issue in trade relations, within or beyond the TRIPS regime, because it directly calibrates the boundary between legitimate expectations of patent holders and the public interest, in exceptional and egregious cases when the interests of producers and users of technology most closely approach a zero sum character: in these cases, the presumed systemic spur to technology diffusion created by an exclusive right in the hands of the technology developer gives way to a bare entitlement to adequate remuneration.[57]

Due to circumstances that may be commonly associated with the issuance of a compulsory license, in which an investor's existing IP rights, investment position, and expectations are curtailed, the investor may have a strong incentive to seek recourse through available means of dispute settlement. The WTO's Understanding on Rules and Procedures Governing the Settlement of Disputes ("DSU")[58] provides for settlement of trade claims between states and may be relevant if the state authorizing the compulsory license has failed to comply with the TRIPS Agreement's requirements. However, the foreign investor may wish to consider bringing a claim

56. Press Release, Merck & Co., Statement on Brazilian Government's Decision To Issue Compulsory License for Stocrin (May 4, 2007), *available at* http://www.drugs.com/news/merck-amp-co-inc-statement-brazilian-government-s-decision-issue-compulsory-license-stocrin-6088.html. Merck is a global pharmaceutical company with its corporate headquarters in New Jersey. As of June 2009, Brazil had entered into only fourteen BITs, but no BIT with the United States. UNCTAD, Country-specific Lists of BITs, http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1 (select "Brazil" in drop down list titled "BITs signed by each country are available below") (last visited Feb. 25, 2010).

57. Taubman, *supra* note 14, at 942-43.

58. Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15 1994, Marrakesh Agreement, Establishing the World Trade Organization, Annex 2, Legal Instruments-Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter DSU].

in investor-state arbitration directly against the host state. Part II discusses relevant issues in weighing the alternative of investment arbitration for compulsory licenses implicating circumstances of indirect expropriation.

II. INVESTOR-STATE DISPUTES INVOLVING COMPULSORY LICENSES—THE CASE OF INDIRECT EXPROPRIATION

Intellectual property disputes are often resolved through private party litigation in the national courts of a country where the IPR owner's rights are recognized as legally valid and where jurisdiction over the particular defendant is proper. Many such disputes involve the IP owner suing an unrelated third party for alleged violation of the owner's IPRs. A typical claim, for example, involves allegations of infringement: company B, through the unauthorized exploitation or use of a particular technology, is alleged to have infringed on the patent rights of company A. Such disputes arise between parties that may have no contractual relationship. Without contractual privity, there is no opportunity for the parties to agree on the proper forum and dispute settlement procedures prior to their dispute. While the parties can, at the time of a dispute, voluntarily consent to participate in a mediation or arbitration procedure, this is uncommon.[59]

Against these archetypal intellectual property dispute circumstances, the investor-state dispute settlement framework introduces an enforcement mechanism for IP owners engaged in foreign investment. For a claim arising from government conduct that allegedly has a harmful impact on the IP-based investment—such as the issuance of a compulsory license over a foreign investor's patents that comprise an integral part of the foreign

59. *See, e.g.*, Samuel Estreicher, *Saturns for Rickshaws: The Stakes in the Debate over Predispute Employment Arbitration Agreements*, 16 OHIO ST. J. ON DISP. RESOL. 559, 567-68 (2001) (examining arbitration agreements in the employment context and observing that differences in the interests of the parties involved often render post-dispute arbitration agreements difficult and impractical to negotiate). However, there may be circumstances in which, due to a pre-existing arbitration agreement, an intellectual property dispute may find its way to arbitration. The Arbitration and Mediation Center of the WIPO was established in 1994 with this idea in mind. *See* WIPO, WIPO Arb. & Mediation Ctr., http://www.wipo.int/amc/en/index.html (last visited Feb. 25, 2010).

investment—grounds may exist under an IIA to support a claim that may be brought directly against the host state in arbitration. The vast majority of IIAs contain dispute settlement provisions in which governments give their consent that, should an investment dispute arise with a qualifying private investor from another contracting state, they will submit to international arbitration.[60] Indeed, it has been emphasized that "[t]his widespread pattern of consent to arbitration of investment disputes is one of the more remarkable developments in international law in the past 40 years."[61] Nonetheless, this investor-state dispute settlement framework has yet to be tested in connection with an IP-based investment dispute. Potential limiting factors could include whether the investor had obtained protection for its intellectual property in the host state,[62] as well as the nature of the investment itself.[63] Almost by definition, however, if a compulsory license has been authorized by the host state as to an investor's patent (or patents), this authorization implies that the investor had secured protection in the host state.

I turn now to address a number of specific issues for investment disputes involving compulsory licenses, review the core standards of protection available under IIAs, and, in particular, analyze

60. *See* LUCY REED ET AL., GUIDE TO ICSID ARBITRATION 35, 40-41 (2004) (explaining that "recurring provisions" in treaties often grant investors access to arbitration); Susan D. Franck, *The Legitimacy Crisis in Investment Treaty Arbitration: Privatizing Public International Law Through Inconsistent Decisions*, 73 FORDHAM L. REV. 1521, 1529, 1539-40 (2005) (describing the grant of substantive rights and the provision of dispute mechanisms as "fundamental innovations" of investment treaties); *see also* UNCTAD, INVESTOR–STATE DISPUTE SETTLEMENT AND IMPACT ON INVESTMENT RULEMAKING 7-8, UNCTAD/ITE/IIA/2007/3 (2007) [Hereinafter INTERNATIONAL INVESTMENT RULEMAKING] (noting that investor-state arbitration has increased "enormously" since the late 1990s due, in part, to increased international investment combined with an increasing number of IIAs).

61. BISHOP ET AL., *supra* note 5, at 2.

62. *See supra* note 3 and accompanying text (discussing intellectual property as an investment).

63. While intellectual property forms a more significant dimension of the modern economy, the investment areas that have experienced disputes thus far "include construction, water and sewage services, brewing, telecommunications concessions, banking and financial services, hotel management, television and radio broadcasting, hazardous waste management, textile production, gas and oil production, and various forms of mining." UNCTAD, *Investor-State Disputes and Policy Implications*, ¶ 11, TD/B/COM.2/62 (Jan. 14, 2005).

application of expropriation standards to compulsory licensing circumstances.

A. STANDARDS OF PROTECTION UNDER IIAS

A recent United Nations Conference on Trade and Development ("UNCTAD") study observed that the universe of IIAs is becoming increasingly complex.[64] There is no central body or state to coordinate, regulate, or provide a framework for the structure or content of these thousands of agreements.[65] Instead, the system is "atomized," and almost every nation has signed one IIA, while a majority of nations have signed numerous IIAs.[66] Despite the lack of central coordination, the concomitant efforts of countries entering into these agreements while following each others' examples has generated a pattern of agreements that reveal a strong degree of uniformity on the core protective standards concerning treatment of foreign investors and their investments.[67] Aside from the dispute settlement provisions providing for arbitration noted above, these core standards often include the following terms:

- fair and equitable treatment;
- full protection and security;
- national treatment and non-discrimination: treatment as favorable as that accorded to the country's own citizens, while avoiding arbitrary or discriminatory measures;
- most favored nation ("MFN") treatment: treatment as favorable as that accorded to other countries' citizens;

64. UNCTAD, *Development Implications of International Investment Agreements, IIA Monitor No. 2 (2007) Int'l Inv. Agreements*, at 2, UNCTAD/WEB/ITE/IIA/2007/2 (2007) [hereinafter *Development Implications*]. As noted above, the IIA universe of agreements is "multi-layered," with "IIA[] exist[ing] at the bilateral, regional, interregional, sectoral, plurilateral and multilateral levels, often resulting in overlapping commitments of countries." *Id.*

65. *Id.*

66. *Id.*

67. *See id.* (commenting that the IIA system displays "uniformity at the core, but increasing variation at the periphery").

- minimum standard of treatment in accordance with international law; and,

- defining conditions under which property may be expropriated with the guaranty of prompt, adequate and effective compensation.[68]

There is increasing concern for "policy coherence"[69] with respect to the core standards, as they implicate public international law and may be less amenable to clear definition than is the case for certain rights in private law.[70] These concerns multiply as the proliferation in the number of IIAs has been accompanied by the sharp rise in the number of disputes arising under IIAs.[71]

Where it has been considered at all in the investment dispute context, the compulsory license has been examined in relation to potential claims of expropriation. The minimum standard of treatment in accordance with international law may operate as a choice-of-law provision, importing customary international law, or even possibly non-investment international law such as the TRIPS Agreement, into the analysis as a floor for treatment of investments.[72] I address the applicable law issue both in this Part and in Part III

68. *Id.*; BISHOP ET AL., *supra* note 5, at 10, 1007; UNCTAD, *International Investment Rulemaking*, TD/B/COM.2/EM.21/2 (May 22, 2007); *see also* Kenneth J. Vandevelde, *The Economics of Bilateral Investment Treaties*, 41 HARV. INT'L L.J. 469, 470 (2000) (remarking that many of the agreements on these core issues are based on principles that developing states had rejected in the past, such as requiring effective compensation for expropriated investments).

69. *See* Development Implications, *supra* note 64, at 4 (stressing the need for states to ensure that their various IIAs are in line with their national development goals).

70. *See* Franck, *supra* note 60, at 1558-82 (comparing the Lauder Arbitrations, the SGS cases, and NAFTA cases to illustrate the inconsistent outcomes of investment treaty arbitration on disputes revolving around public international law); BISHOP ET AL., *supra* note 5, at 10 (explaining that the precise meaning of certain of the core protective standards is "a matter of some debate and [that they] are still being developed").

71. *See* INTERNATIONAL INVESTMENT RULEMAKING, *supra* note 60, at 7-8 (noting that the increase in investment disputes has led to interpretive rulings that have prompted countries to re-examine their obligations under the agreements and has caused particularly challenging financial implications for developing nations).

72. *See* BISHOP ET. AL., *supra* note 5, at 1008 (acknowledging that a "minimum standard of international law" is a controversial concept).

discussing the interplay between protection against expropriation under IIAs and the TRIPS Agreement.

B. INDIRECT EXPROPRIATION

Those commentators who have considered the issue of the compulsory license with respect to expropriation have focused on indirect expropriation.[73] As discussed above, a compulsory license does not result in a transfer of legal title and thus does not formally deprive the IP owner of ownership rights over the protected intellectual property. For this reason, a government's authorization of a compulsory license does not fall within the scope of direct expropriation, which normally requires the state to transfer legal title of the private property to itself or to a third party.[74] Instead, the central question is whether the compulsory license amounts to an indirect expropriation. UNCTAD reports that "the lack of clarity concerning the degree of interference with rights of ownership that is required for an act or series of acts to constitute an indirect expropriation has been one of the most controversial issues during the last decade."[75] There is no "mechanical formula" for determining whether one or more state acts may amount to an indirect expropriation, and it has been observed accordingly that "state

73. *See, e.g.*, Ermias Tekeste Biadgleng, *IP Rights Under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protections of Public Interest* 18 (Res. Paper No. 8, S. Centre, 2006), at 18, *available at* http://www.southcentre.org/index2.php?option =com_content&do_pdf=1&id=86 (advancing the argument that compulsory licensing is "beyond the realm of direct expropriation" because it only provides an exception to exclusive right without depriving ownership); Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 348-51 (reasoning that a mere adverse effect on an investment through compulsory license does not rise to the level of indirect expropriation); Tsai-Yu Lin, *supra* note 7, at 155-58 (explaining that it is difficult to draw a line between expropriation and legitimate governmental action not requiring compensation, and analyzing the possibility of compulsory license qualifying as an indirect expropriation).

74. Andrew Newcombe, *The Boundaries of Regulatory Expropriation in International Law*, 20 ICSID REV. FOR. INV. L.J. 1, 9-11 (2005).

75. *See* INTERNATIONAL INVESTMENT RULEMAKING, *supra* note 60, at 75-76 (remarking that recent IIAs contain provisions to clarify what constitutes indirect expropriation so as to prevent ambiguity).

measures that can potentially impact upon an investor's rights in its investment are too varied to fit into a neat formula."[76] In this context, the compulsory license presents an example of specialized circumstances in which a state measure can impact upon an investor's rights: the compulsory license can be viewed as yet another form of government interference that may be considered within the broader context of the more recent and modern cases addressing issues of indirect or "regulatory" expropriation.

In view of the difficulties of determining indirect expropriation, the logical starting point in the analysis is the language of the IIA itself. Virtually all IIAs (and most particularly BITs) contain substantially similar, if not verbatim, provisions on expropriation.[77] The expropriation term from the recent China-Germany BIT, which entered into force in November 2005, illustrates a common approach to confirm protection in the cases of direct or indirect expropriation. Article 4(2) provides in relevant part that:

> Investments by investors of either Contracting Party shall not directly or indirectly be expropriated, nationalized or subjected to any other measure the effects of which would be tantamount to expropriation or nationalization in the territory of the other Contracting Party (hereinafter referred to as expropriation) except for the public benefit and against compensation. Such compensation shall be equivalent to the value of the investment immediately before the expropriation

76. Jan Paulsson & Zachary Douglas, *Indirect Expropriation in Investment Treaty Arbitrations*, *in* ARBITRATING FOREIGN INVESTMENT DISPUTES 145, 145-46 (Norbert Horn & Stefan Kröll eds., 2004) (contending that a flexible measure which takes into account the facts and circumstances of each case is necessary). Paulsson and Douglas write that:

> Indirect expropriations affect property interests in more subtle ways. Legal title to the property is not disturbed. Rather, its income producing potential is somehow diminished by acts attributable to the Host State. This trend has exposed the limitations of a purely legal or formalistic concept of property that is not sensitive to the economic rights or expectations associated with the property.

Id. at 152.

77. *See* ANDREAS F. LOWENFELD, INTERNATIONAL ECONOMIC LAW 476 (2002) (observing that these standard terms establish what constitutes lawful expropriation under the BIT and explaining that expropriation is not necessarily conflict with BITs where expropriation "(i) is carried out for a public purpose; (ii) is non-discriminatory; (iii) is carried out in accordance with due process, and (iv) is accompanied by payment of compensation").

> is taken or the threatening expropriation has become publicly known, whichever is earlier.[78]

While this provision expressly covers indirect expropriations and "any other measure the effects of which would be tantamount to expropriation or nationalization," there is no guidance on how this treaty standard should be applied in relation to specific circumstances, such as a government authorization of a compulsory license.[79] The compulsory license brings to mind the difficult exercise of drawing a line between a compensable indirect expropriation, on the one hand, and a legitimate and uncompensable regulation, on the other. If a dispute arose under the China-Germany BIT and arbitration was commenced before the International Centre for Settlement of Investment Disputes ("ICSID"),[80] a threshold question would be the applicable law providing guidance in

78. Agreement on the Encouragement and Reciprocal Protection of Investments, P.R.C.-F.R.G., art. 4(2), Dec. 1, 2003, *available at* http://www.unctad.org/sections /dite/iia/docs/bits/china_germany.pdf [hereinafter China-Germany 2003 BIT] (emphasis added). It is also notable that the China-Germany 2003 BIT provides in Article 4(3) that "Investors . . . shall enjoy most-favoured-nation treatment in the territory of the other Contracting Party in respect of the matters provided for in this Article [on expropriation]." *Id.* art. 4(3). A most favored nation ("MFN") provision in an IIA attempts to create equality among foreign investors by requiring the host state to extend to the contracting foreign state's investors treatment no less favorable than it offers investors from any third country. Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 342. Thus, just like any other claim that an investor might bring, to the extent that a claimed founded on a compulsory license might benefit from application of the terms of protection concerning expropriation found in another IIA, the investor may seek to have that same level of protection applied in relation to a dispute arising under the China-Germany 2003 BIT surrounding the circumstances of a compulsory license.

79. *See* Newcombe, *supra* note 74, at 22-23 ("[I]nvestment treaties typically do not define the meaning of expropriation and often simply refer to government measures that are the 'same' or 'equivalent' to expropriation or are 'tantamount to expropriation.'"). The United States Model BIT, which served as the model for U.S.-Uruguay BIT, provides more detailed guidance and specifically addresses the compulsory license. U.S. Model BIT, *supra* note 3, Annex B; *see also* discussion *infra* Part II.C.

80. *See* China-Germany 2003 BIT, *supra* note 78, art. 9(3) (providing for ICSID arbitration as the default dispute resolution mechanism absent amicable settlement). The Protocol to the China-Germany 2003 BIT adds additional conditions that must be met with respect to a claim brought by a German investor for an investment in China. *Id.* at Protocol, ¶ 6.

determining the expropriation question. Article 42 of the ICSID Convention provides that, unless the parties agreed on applicable law, the tribunal will apply the law of the host state "and such rules of international law as may be applicable."[81] It is widely accepted that this reference to international law brings a "supplemental and corrective effect" to the extent that a host state's domestic law has gaps or leads to violations of international law.[82]

Andrew Newcombe has summarized the orthodox approach under international law for defining indirect expropriation, also known as the "sole effect doctrine."[83] He quotes from *Starrett Housing Corporation v. Islamic Republic of Iran* to re-state the general standard:

> [It] is recognized in international law that measures taken by a state can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the state does not purport to have expropriated them and the legal title to the property formally remains with the original owner.[84]

From his review of cases, Newcombe summarizes that in most instances where expropriation is found, "the investor has suffered a deprivation *and* there has been a corresponding acquisition of use or control of the investment by the state," although in a few cases where there was no state acquisition, there was "extreme and arbitrary interference with property rights."[85] Importantly, he also refers to recent cases in which there were state representations or approval of

81. Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, art. 42(1), Mar. 18, 1965, 575 U.N.T.S. 159 [hereinafter ICSID Convention].

82. CHRISTOPH H. SCHREUER, THE ICSID CONVENTION: A COMMENTARY 623 (2001). Relevant international law for a claim of expropriation in connection with a compulsory license may be deemed to include the TRIPS Agreement, either as a result of the parties' agreement or as a reference point for interpretive guidance. *See* discussion *infra*, Part III.

83. *See* Newcombe, *supra* note 74, at 9-11 (emphasizing that this approach focuses on the effect of the state action on the investor's property rights in determining whether indirect expropriation occurred).

84. *Id.* at 10-11 (quoting Starrett Housing Corp. v. Islamic Republic of Iran, 4 Iran-U.S. C.T.R. 122, 154 (1983)).

85. *Id.* at 11-12.

a particular investment, followed by subsequent state interference.[86] The critical observation is that these "deprivations were the result of the government reneging on a previous contractual commitment or authorization."[87] In this way, the state's decision to revoke a previously granted right does not differ in its effects from the indirect appropriation or acquisition of that previously granted approval or authorization by the state.[88]

This last line of reasoning is similar to the analysis presented by Paulsson and Douglas in their article, *Indirect Expropriation in Investment Treaty Arbitrations*.[89] The authors start by describing their view of two primary stages of analysis for an indirect expropriation. First, "the analysis should focus on the nature or magnitude of the interference to the investor's property interests in its investment caused by measures attributable to the Host State to determine whether those acts amount to a taking."[90] Second, there should be a determination of "whether this taking or interference rises to the level of an expropriation by reference to the relevant treaty standard."[91] In their second stage, similar to Newcombe's approach, Paulsson and Douglas focus on "specific undertakings or representations" the state made to the investor and the "legitimate reliance or expectations" of the investor which were subsequently disappointed by the state interference.[92]

In my discussion below, I rely on these two stages of analysis to examine compulsory licenses and consider whether, in certain circumstances, they may constitute an indirect expropriation. However, I add a third factor to this analysis: the character and regulatory purpose behind the government action. The "character" of

86. *See id.* at 13-14 (identifying this type of expropriation as one of two broad categories of recent cases resulting in an investment treaty award, the other type being the state's outright appropriation of the property).

87. *Id.* at 13.

88. *See id.* at 19 ("The question is: under what circumstances should a government, in acquiring or destroying an investment, be governed by market rules (a liability to compensate)? Further, when is it justified in not compensating?").

89. Paulsson & Douglas, *supra* note 76.

90. *Id.* at 148.

91. *Id.*

92. *See id.* at 154-57 (asserting that the existence of these "undertakings or representations" in conjunction with "reliance or expectations" support a finding of indirect expropriation.)

a compulsory license has been described above, but there can be diverse regulatory motives for issuing a compulsory license. This three-part analytical framework—which, again, examines whether the level of deprivation constitutes a taking, whether the deprivation rises to the level of an indirect expropriation, and the character of the government action—is very similar to the three factors set out in the Annex B on expropriation in recent United States BITs, discussed below.[93]

1. Level of Deprivation Constitute a Taking?

Regarding the first stage of analysis, Paulsson and Douglas urge a modern and expansive view of property rights that might be subject to taking, quoting Professor Waelde and Dr. Kolo: "[T]he key function of property is less the tangibility of 'things', but rather the capability of a combination of rights in a commercial and corporate setting and under a regulatory regime to earn a commercial rate of return."[94] Under this view, a government-authorized compulsory license may operate to undermine an essential element of a patent-based investment: the patent rights (i.e., legal monopoly and protection) granted with respect to the invention, which support the commercial leverage necessary to exploit the invention as an integral part of an investment in the foreign market. The compulsory license, thus, can undercut the ability to earn a certain level of return, which may diminish the value of the patent-based investment. It is clear that the grant of a compulsory license can, indeed, "cause an adverse

93. *See* U.S. Model BIT, *supra* note 3, Annex B, ¶ 4(a) (providing three factors to consider in determining whether a government action constitutes an indirect expropriation: (1) the economic impact of the measure, (2) the degree of interference with reasonable investor expectations, and (3) the character of the measure).

94. Paulsson & Douglas, *supra* note 76, at 152-53 (quoting Thomas Waelde & Abba Kolo, *Environmental Regulation, Investment Protection and 'Regulatory Taking' in International Law*, 50 INT'L & COMP. L.Q. 811, 835 (2001)); *see also* Methanex Corp. v. United States of America, ICSID Final Award of the Tribunal on Jurisdiction and Merits, 44 I.L.M. 1345, 1455, pt. IV, ch. D, ¶¶ 7-8 (Aug. 3, 2005) ("[T]he restrictive notion of property as a material 'thing' is obsolete and has ceded its place to a contemporary conception which includes managerial control over components of a process that is wealth producing. In the view of the Tribunal, items such as goodwill and market share may . . . 'constitute an element of the value of an enterprise and as such may have been covered by some of the compensation payments.'") (citation omitted).

effect on the economic value of a patented product and interfere with the patent holder's ability to use or enjoy its patent in a given market."[95]

The degree of interference caused by the compulsory license will be directly dependent upon the compulsory license's terms, including the scope and duration of the license, those parties authorized by the government to make use under the license, and any remuneration to be paid to the investor owning the IPR. These (and possibly other relevant) terms will go a long way toward determining, on the specific facts, whether a regulatory "taking" has occurred. For example, the level of compensation (e.g., through lump-sum payment or royalties) offered by the terms of a compulsory license, if *de minimis* or nothing, may in certain circumstances be a determining factor in whether the license is viewed as a taking. In this respect, traditional analysis of expropriation requires that there be a "substantial deprivation" to the investor.[96] Combining a modern view

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95. Tsai-Yu Lin, *supra* note 7 at 157.

96. *See* LOWENFELD, *supra* note 77, at 478 (reviewing the evolving definition of expropriation under international law, especially in relation to agreements such as NAFTA). The level of deprivation presents a question of degree in the expropriation analysis. As Lowenfeld puts it:

> [I]ntangible rights, such as the right to import or export a given product or to participate in a given industry, may be subject to the constraints on expropriation set out in the BITs. However, a regulation of temporary duration, or a regulation that reduces the profitability of an investment but does not shut it down completely and leaves the investor in control, will generally not be seen as an expropriation, even when it gives rise to liability on the part of the host state for violation of the national treatment and fair and equitable treatment clauses.

Id. at 480. *But see* Michael Ewing-Chow, *Thesis, Antithesis and Synthesis: Investor Protection in BITs, WTO and FTAs*, 30 U. NEW S. WALES L.J. 548, 556-57 (2007) (observing that in a line of recent cases, courts have found government acts to constitute indirect expropriation of an investor's property rights by requiring diminished showings of deprivation). For example, the ICSID tribunal in *Metalclad Corp. v. The United Mexican States* created a stir when it implied in the following statement that a somewhat lower or more flexible standard of deprivation might pertain to justify a finding of expropriation:

> [E]xpropriation under NAFTA includes not only open, deliberate and acknowledged takings of property, such as outright seizure or formal or obligatory transfer of title in favour of the host State, but also *covert or incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or reasonably-to-be-expected economic benefit of property* even if not necessarily to the obvious benefit of the host State.

of property rights necessary to comprehend the value of a patent-based investment with an understanding of the particular terms of the compulsory license should enable an investment tribunal to determine whether a taking has occurred.

2. Rise to the Level of an Indirect Expropriation?

As to the second stage of analysis (whether the taking rises to the level of an indirect expropriation), Paulsson and Douglas focus on two elements that reflect similarity to Andrew Newcombe's analysis. To determine an indirect expropriation, tribunals in cases such as *Metalclad Corp. v. The United States of Mexico*[97] have focused on (i) "specific undertakings or representations on the part of the state," and (ii) "legitimate or reasonable expectations and reliance on the part of the investor."[98] A case where these factors are present differs from one where there have been no state representations or approvals to the investor and a non-discriminatory change is made in a regulation, such as a tax rule, in which an investor may have no legitimate expectation in an unchanging *status quo* regime.[99] In this respect, "[i]nvestments entail risk,"[100] including the latent possibility that such regulatory changes may occur.

ICSID Case No. ARB(AF)/97/1, Award (August 30, 2000), ¶ 103 (emphasis added).

97. *Metalclad*, ICSID Case No. ARB(AF)/97/1, Award.

98. Paulsson & Douglas, *supra* note 76, at 154. The question of legitimate expectation is fundamentally one of risk allocation. This factor has been adopted in recent US investment treaty practice by mandating tribunals to consider, *inter alia,* "the extent to which the government action interferes with distinct, reasonable investment-backed expectations." U.S. Model BIT, *supra* note 3, Annex B, ¶ 4(a)(ii); Agreement on the Encouragement and Reciprocal Protection of Investments, U.S.-Uru., Annex B, ¶ 4(a)(ii), Nov. 4, 2005, *available at* http://www.unctad.org/sections/dite/iia/docs/bits/US_Uruguay.pdf [hereinafter U.S.-Uruguay BIT]; *cf.* Newcombe, *supra* note 74, at 32, 35 (calling the question of what level of risk and harm are necessary to justify expropriation without compensation "one of the more controversial issues in investment treaty arbitration").

99. *See* Paulsson & Douglas, *supra* note 76, at 155 (discussing Marvin Feldman v. Mexico, ICSID Case No. ARB(AF)/99/1, Award (Dec. 16, 2002), which held that the Mexican government's change in tax rebate policy did not constitute an indirect expropriation because (1) tax laws and regulations are subject to change and (2) Feldman had no legitimate expectation that the Mexican tax rules would continue without change).

100. *See* Paulsson & Douglas, *supra* note 76, at 157.

While this framework of factors is not intended by authors Newcombe, Paulsson, and Douglas as an exclusive test for indirect expropriation,[101] it provides a useful modern lens through which to consider the circumstances involving a government's authorization of a compulsory license. For example, we can ask the following questions for a patent-based foreign investment:

(i) Does a foreign government's grant of patent rights to an inventor for a particular invention qualify as the type of representation, authorization, or undertaking to the inventor that is cognizable within the indirect expropriation analysis outlined above?; and

(ii) Is it legitimate and reasonable for the inventor to rely on the foreign government's grant of patent rights throughout the length of the patent's term, even in association with a decision to exploit the patent rights as an integral part of a foreign investment?

I would argue that the answer to each of these questions is a qualified "yes." First, the government's grant of patent rights confers a legal monopoly within the host state that is specific to the invention covered by the particular patent. Although the rights conveyed by a patent may vary somewhat from country to country, in general, the patent is a specific legal property right that the government grants to the inventor in exchange for the inventor's agreement to share the details of the invention with the public.[102] The grant of the patent is an approval or authorization made by the government only after the inventor has followed a set of procedures to apply for the patent.[103] The investor thus acquires a specific legal right after approval from the state.

Second, a patent provides the right to exclude others from "making, using, offering for sale, selling, or importing" the patented

101. See *id.* (stating that the test is not exclusive, but rather serves as useful guidance that can be widely applicable to many different situations).

102. *See* TRIPS Agreement, *supra* note 12, arts. 28-29 (granting exclusive rights through Article 28, but requiring "clear and complete" disclosure of the invention in Article 29).

103. The procedure for granting patents, the requirements placed on the patentee, and the extent of the exclusive rights vary between countries according to national laws and implementation of the TRIPS Agreement.

invention for the term of the patent, which is twenty years from the filing date of the patent for countries that are members of the WTO.[104] Unlike other areas of the law, the length and scope of protection for a patent is not an element that is easily susceptible to regulatory change, as may be the case with the tax code or other government regulations. While it may be unreasonable to expect that tax regulations will never change, reliance on the specific rights and length of protection associated with a patent is a very different matter.[105] Given the consistent and well-harmonized treatment under the law, the inventor is reasonably entitled to rely on the foreign government's grant of patent rights throughout the length of the patent's term, and, in particular, in connection with a decision to exploit the patent rights through a foreign investment.[106] To the extent that the compulsory license "reneges" on these fundamental patent rights, Newcombe's analysis would suggest that this interference with the previously granted right, if sufficiently severe (as discussed above), may be conceptually similar to the state's indirect appropriation or acquisition of the previously granted right, presenting a case of quasi-appropriation.[107] By severely interfering with the patent rights, the government concerned may be "essentially reacquiring rights that it can use or grant to another party in the future."[108]

My answer above presented a qualified "yes." The qualification relates to the national intellectual property law regulating patents in the investor's host state and any limitations or exceptions that may be contained in that law with respect to patent rights.[109] "A

104. TRIPS Agreement, *supra* note 12, arts. 28, 33.

105. *Cf.* Tsai-Yu Lin, *supra* note 7, at 157-58 (asserting that a host country's codification of a law authorizing compulsory licenses would materially interfere with a pre-existing investor's expectations because such a situation is unforeseeable).

106. A government may also have made other specific representations in connection with the patent-based investment, such as permits or licenses for the establishment of a manufacturing facility that uses the relevant technology. These representations would also be weighed.

107. Newcombe, *supra* note 74, at 19.

108. *Id.* Yet another complementary analysis would be to evaluate the degree to which the compulsory license represents use or control of the investor's patent rights by the host state.

109. More broadly, when a foreign investor invests in a host state, it "acquire[s] rights subject to the existing domestic regulatory framework." *Id.* at 28. In this

wholehearted patent system will contain nothing that fetters a patentee's power to act as a monopolist," to the extent permitted by the law.[110] However, if the national patent law contains exceptions or limitations, this could be relevant to the issues at hand.[111] In particular, if the national patent law has a provision regulating compulsory licenses, it will spell out the terms under which a compulsory license may be issued by the government. An investor's reasonable reliance on patent rights in connection with an investment could thus be influenced or conditioned by the state's regulatory framework for patents. The normal length and scope of protection of patent rights under the law must be assessed in combination with those exceptional circumstances and terms, which the law indicates might justify a compulsory license. For most countries (and particularly those that are members of WTO), it is too much to say that the possibility of compulsory licenses—which to date have been authorized by governments only in very exceptional circumstances—fundamentally undermines the stability of the patent regime and thereby makes unreasonable the reliance that an investor might otherwise place on its patent rights when making an investment.[112] In

case, part of a patent-based investment will depend on the national patent law. "International law looks to domestic law to determine the scope of acquired rights." *Id.*

110. CORNISH, *supra* note 23, at 290.

111. *See* Newcombe, *supra* note 74, at 27-28 (noting that, according to Lucas v. South Carolina Coastal Council, 505 U.S. 1003 (1992), nuisance law places a limitation on property rights such that the right to create nuisance is not among the property ownership rights, and, therefore, a property holder cannot claim a taking if government regulation later prohibits such nuisance). "[A] taking occurs where a government measure that *does not represent a pre-existing lawful limitation* on use results in property being completely drained of economic value." *Id.* at 28 (emphasis added).

112. *Cf.* Tsai-Yu Lin, *supra* note 7, at 157 (suggesting that the existence of compulsory license provisions in the patent law system of a host state means that the "investor should be in position to be able to foresee that the compulsory license law is applicable and will have associated effects," such that investors "should have reasonably expected that the existence of a compulsory license law will create associated effects, and should take this into consideration before making any investment decision"). In my view, this approach gives insufficient recognition to the law and practice on compulsory licenses in the vast majority of countries, which permits their issuance only in exceptional circumstances. Except in the case of a limited number of countries, I would not agree that an investor should "reasonably expect" that the existence of a compulsory license law will substantially undermine that investor's "distinct, reasonable investment-backed

this respect, the legitimate expectations of patent holders are well-fortified by the law and practice in the vast majority of countries, at least up to the point at which use of the patent rights may be determined to be abusive (e.g., unfair trade or antitrust concerns). Moreover, to the extent that a country's national patent law, or the government's authorization of a compulsory license, is inconsistent with international law, the patent owner, as foreign investor, may also take into account that it is able to claim rights under the international standard through either the WTO system or investment arbitration.[113] This dimension may also fortify the investor's reliance on its patent rights.

3. Character of Government Action—Regulatory Purpose

While the two-stage analysis discussed above is helpful in analyzing potential indirect expropriation issues associated with the compulsory license, there remains at least one other important factor. As the compulsory license may present a case of indirect or regulatory expropriation, a dispute settlement tribunal may consider not only (i) the impact of the government-authorized compulsory license on the investment (i.e., the level of deprivation) and (ii) whether the investor's expectations and reliance on the patent rights as a basis for investment are reasonable and legitimate, but also (iii) the character of the government action, including the regulatory purpose behind the compulsory license. This factor shares importance with the other two in assessing whether the compulsory license should be considered an indirect expropriation entitled to compensation or not.

Newcombe provides a useful discussion of this element, stating that regulatory purpose "is relevant in assessing whether non-compensation can be justified under police powers."[114] The

expectations" founded on its patent rights. U.S. Model BIT, *supra* note 3, Annex B, ¶ 4(a)(ii).

113. *See* discussion *infra* Part III (considering the possibility that if the host state is a member of the WTO, one or both parties may attempt to make reference to the standards set forth in Article 31 to justify their respective positions).

114. Newcombe, *supra* note 74, at 41. "Evidence of [the State's] intent has been an issue in many indirect expropriation cases." *Id.* at 25 n.106. The term "police powers" has been used generally to refer to "all forms of domestic regulation under a state's sovereign powers," but it can also be used more narrowly in the

"purpose" is particularly germane to compulsory licenses, as governments can authorize them for diverse reasons. The TRIPS Agreement, as discussed above,[115] lists grounds that may be relied upon for issuance of the compulsory license, including circumstances of national emergency or extreme urgency, public non-commercial use, remedying anti-competitive practices, or permitting the exploitation of an important dependency patent. In a dispute, each of these particular justifications would entail consideration of detailed facts in the particular case (e.g., the circumstances of a public health emergency or the merger of two market-dominant firms raising antitrust concerns) and would weigh differently in the calculus of deciding whether to compensate, and if so, at what level.

Newcombe reviews international law authorities for the proposition that no right of compensation may arise for *bona fide* government regulations that are reasonably necessary and enacted to preserve public health, safety, morals, or welfare, or that are "non-discriminatory and . . . within the commonly accepted taxation and police powers of states."[116] Still, he observes that the application of this principle "is anything but clear."[117] And, indeed, a blanket exception for non-discriminatory regulatory measures would leave a gap in international laws aimed at preventing or remedying expropriation.[118] Newcombe uses the example of a distinction between a government ban on the use of a chemical because evidence reveals that the chemical is carcinogenic, versus a ban "motivated by a desire to protect the market share of a competing chemical produced by a state-owned industry."[119] The identical government intervention—a ban on the chemical—is motivated by very different reasons. "Where the government is acting for economic purposes—to create local industry or protect domestic production—the police power cannot be used to justify non-

investment law context to refer to "measures that justify a state action that would otherwise amount to a compensable deprivation or appropriation of property." *Id.* at 26.

115. *See supra* notes 31-44 and accompanying text.

116. Newcombe, *supra* note 74, at 29 (quoting George H. Aldrich, *What Constitutes a Compensable Taking of Property? The Decisions of the Iran-United States Claims Tribunal*, 88 AM. J. INT'L L. 585, 609 (1994)).

117. *Id.*

118. *Id.* at 28.

119. *Id.* at 41.

compensation."[120] Similarly, a compulsory license authorized by a host government for economic purposes, such as obtaining more favorable financial terms for domestic firms seeking access to patented technology, would be extremely unlikely to find justification for non-compensation. Where the government is acting as an "enterpriser"[121] and acquiring some form of technology for public benefit—such as access to the technology on terms that reflect little or no compensation—there could be a presumption that it should pay compensation. In this instance, the government is indirectly "acquiring" rights (i.e., the right to use or license the patent) that comprise a key part of the patent-based investment, particularly when it would result is in an unjust enrichment to the investor's substantial detriment.

One further difficulty is ascertaining the proper characterization of the government measure in relation to the purposes behind it.[122] There may be more than one purpose behind the authorization of a compulsory license. A compulsory license authorized for putative national security reasons may also serve a local protectionist purpose. Part of the rationale for issuance of the compulsory license may be difficult to discern or intentionally oblique. To the extent that an investor can show closely related elements such as bad faith, discrimination, or disregard of legitimate expectations on the part of the state, these may weigh heavily as an investment tribunal considers the state's motivation behind the license.

Public health concerns are commonly believed to be adequate grounds for authorizing compulsory licenses.[123] As noted above, this has been an area sparking tense debate in trade and intellectual property law under the WTO's TRIPS Agreement and Doha

120. *Id.*
121. *Id.* at 42.
122. *Id.* at 41.
123. *See* Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 349 (justifying the authorization of a compulsory license where doing so would be in the public interest, such as in the face of a public health emergency); Tsai-Yu Lin, *supra* note 7, at 153-54 (citing the beneficial use of compulsory licenses among developing states to secure access to less expensive, generic formulations of life-saving medicines). *See generally* Bartelt, *supra* note 11 (discussing the conflicting interests of developing countries and pharmaceutical parent holders in the arena of compulsory licensing).

Declaration.[124] While two of the elements in the three-factor framework discussed above—the level of adverse economic effect (e.g., severe deprivation) on the patent-based investor and state representations through the specific grant of patent rights—may weigh in one direction, perhaps towards a finding of indirect expropriation, the public interest purpose behind authorization of the compulsory license, such as to meet the needs of a public health emergency, may pull markedly in the other direction. In such context, should the level of compensation and other relevant terms established by the compulsory license "be given a humanitarian reading, guided also by the broader human rights context?"[125] Even so, does there still need to be "adequate remuneration" of legitimate and irreducible, if clearly bounded, patent rights?[126] Moreover, a state measure to override patent rights through a compulsory license in order to provide improved access to medical technology or drugs nonetheless implicates significant commercial matters not lacking in economic value. As may be seen, complex facts, including the availability and pricing of certain patented technologies or drugs, scientific evidence as to their efficacy, the length and terms of the compulsory license, as well as information about the health crisis and market-based factors, may need to be considered in relation to a compulsory license addressing urgent health concerns that has an impact on a patent-based foreign investment. In the end, the determination will have to be made case-by-case, based on the specific facts.[127] A careful weighing of the three factors discussed here will be helpful to determine whether the compulsory license in question not only amounts to a taking, but, if so, whether it also constitutes an indirect expropriation for which compensation may be owed.

124. *See* sources cited *supra* note 11.

125. Taubman, *supra* note 14, at 963.

126. *See id.* at 970 (positing that "adequate remuneration" in the TRIPS context means an amount that "ensures no prejudice to legitimate expectations of commercial opportunity").

127. *See* Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 348 (asserting that adverse economic consequences resulting from government acts are, on their own, insufficient to establish de facto or indirect expropriation, which requires individualized consideration of a measure's effects before determining whether an expropriation has occurred).

Finally, the three-factor analysis is also relevant with regard to anti-competitive behavior. A tribunal can consider the level of deprivation imposed by the compulsory license, as well as the investor's reasonable reliance on the patent-based investment. However, the facts may show that the firm in question has been abusing its patent rights. The tribunal can thus consider the motives behind issuance of the compulsory license, such as concerns of unfair competition or improper attainment of market dominance (e.g., in the case of a proposed merger), thereby potentially impeding competition between firms.[128] Again, a careful weighing of the three factors will aid in the determination.

In sum, based on the discussion of the three-factor test above, it is likely that the issuance of a compulsory license can, in certain circumstances, constitute an indirect expropriation even though it may be viewed as a specialized form of exercise of state regulatory powers. Those who would argue that it can never be considered an expropriation overstate their claim, while those who suggest that it must always be considered an expropriation commit an overstatement from the opposing side of the argument. It has been suggested more generally in relation to the question of what constitutes a taking under international law that "the common law method of case by case development is pre-eminently the best method, in fact probably the only method, of legal development."[129] This is unquestionably the case, at least at this stage, for consideration of compulsory licenses.

The TRIPS Agreement, through Article 31 and the Doha Declaration, provides a powerful backdrop for any discussion of compulsory licenses, even in the investment law context. In this section of the paper, I have largely and intentionally avoided discussing TRIPS Agreement disciplines concerning compulsory licenses, as may be the case in a dispute between two countries in

128. *See* TRIPS Agreement, *supra* note 12, art. 31(k) ("The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases."). In this case, a government intervention to remedy unfair methods or anti-competitive behavior may mean that the investor should receive compensation at a discounted level, if at all. Taubman, *supra* note 14, at 954.

129. George C. Christie, *What Constitutes a Taking of Property Under International Law?*, 38 BRIT. Y.B. INT'L L. 307, 338 (1962).

which the relevant IIA makes no reference to the TRIPS Agreement, or one or both states are not members of the WTO. The next section, however, reviews the United States' current approach to BITs, which, through express reference, brings the TRIPS Agreement directly into the investment law context for compulsory licensing issues.

C. THE MODERN U.S.-URUGUAY BIT AND INDIRECT EXPROPRIATION

The United States relied on its 2004 model BIT[130] as the basis for reaching an investment treaty with Uruguay, which entered into force in November 2006.[131] For purposes of compulsory licenses, the U.S.-Uruguay BIT implemented two important changes from prior practice. The BIT in Article 6(1) starts with wording on expropriation that is generally similar, though more detailed, than that quoted above for the China-Germany BIT:

> Neither Party may expropriate or nationalize a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization ("expropriation"), except:
>
> (a) for a public purpose;
>
> (b) in a non-discriminatory manner;
>
> (c) on payment of prompt, adequate, and effective compensation; and
>
> (d) in accordance with due process of law and Article 5(1) through (3).[132]

130. *See* U.S. Model BIT, *supra* note 3.
131. U.S.-Uruguay BIT, *supra* note 98.
132. *Id.* art. 6(1) (emphasis added). Articles 5(1) through 5(3) refer to "treatment in accordance with customary international law, including fair and equitable treatment and full protection and security." *Id.* art. 5(1). "Fair and equitable treatment" is defined to include "the obligation not to deny justice in criminal, civil, or administrative adjudicatory proceedings in accordance with the principle of due process," while "full protection and security" demands each State "provide the level of police protection required under customary international law." *Id.* art. 5(2).

However, as a significant new element, the U.S.-Uruguay BIT has added additional guidance on expropriation in Annex B.[133] The Annex confirms that Article 6(1) covers two situations: direct and indirect expropriation.[134] An indirect expropriation includes "an action or series of actions by a Party [that] has an effect equivalent to direct expropriation without formal transfer of title or outright seizure."[135] Similar to the analysis above, the Annex also emphasizes that the "determination of whether an action or series of actions by a Party, in a specific fact situation, constitutes an indirect expropriation, requires a case-by-case, fact-based inquiry."[136] The Annex then lists three factors which, among others, may be considered:

> (i) the economic impact of the government action, although the fact that an action or series of actions by a Party has an adverse effect on the economic value of an investment, standing alone, does not establish that an indirect expropriation has occurred;
>
> (ii) the extent to which the government action interferes with distinct, reasonable investment-backed expectations; and
>
> (iii) the character of the government action.[137]

The Annex also sets forth the presumption that "[e]xcept in rare circumstances, non-discriminatory regulatory actions . . . designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations."[138]

A comparison of the detailed guidance provided in Annex B with the three-factor analysis discussed above reveals that the Annex adds very little new to the international legal framework for indirect expropriation.[139] The three factors listed in the Annex are not stated

133. *Id.* Annex B.
134. *Id.* Annex B, ¶¶ 3-4.
135. *Id.* Annex B, ¶ 4.
136. *Id.* Annex B, ¶ 4(a).
137. *Id.*
138. *Id.* Annex B, ¶ 4(b).
139. *Cf.* Newcombe, *supra* note 74, at 40-41(believing recent U.S. BITs'

to be exclusive; however, by compiling them together in one place, the Annex, in effect, helpfully underscores that their careful and *joint* consideration may usefully guide the tribunal's hand. The additional presumption of "rare circumstances" for finding an indirect expropriation in cases of "non-discriminatory regulatory actions" establishes what has been already recognized as the degree of regulatory leeway necessary for governments to enact regulation in areas such as public health, safety, and the environment.

Annex B, however, does "not 'solve' [the] hard cases."[140] Moreover, the thrust of this article is to suggest that a compulsory license, as a specialized form of government intervention, may commonly present a hard case for decision. As discussed above, the compulsory license often presents a clash between significant opposing interests: the legitimate expectations of patent owners founded on a patent regime that, for well-established reasons, provides relatively strong and permanent protection during the patent term, versus the strength of the public interest in exceptional cases, such as a public health crisis.[141] There may be no easy resolution between these competing interests in the narrow confines of an adjudicated dispute—indeed, finding some form of win-win strategy that avoids the dispute settlement mechanisms of investor-state arbitration or WTO dispute settlement could well serve all parties and interests.

The U.S.-Uruguay BIT contains a second important element that directly addresses compulsory licenses and further complicates the matter. Article 6(5) states:

> This Article does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement.[142]

inclusion of the enumerated factors as guidelines for determining whether expropriation exists has failed to "add anything new to international expropriation law," though they may be beneficial to tribunals as guidance).

140. *Id.* at 41.

141. *See supra* notes 54-57 and accompanying text.

142. U.S.-Uruguay BIT, *supra* note 98, art. 6(5) (emphasis added). Apart from

Article 6(5) brings the WTO disciplines directly into play in the investment dispute context. To the extent that a compulsory license is TRIPS Agreement compliant, the expropriation provisions in Article 6 of the U.S.-Uruguay BIT will not apply at all. Yet this approach, rather than bar any consideration of compulsory licenses in investment arbitration, merely begs the question of whether the host state's issuance of the license is in compliance with the TRIPS Agreement. That particular issue is still open to challenge.[143] Now, an investor-state tribunal must make a substantive determination with reference to WTO standards. Moreover, this is not merely some form of threshold jurisdictional decision. In order to determine if the compulsory license would meet TRIPS Agreement standards, a complete set of factual and legal considerations come into play, especially given the detailed nature of Article 31 of the TRIPS Agreement, which must be read in the context of other potentially relevant provisions, such as Articles 7, 8, 40 and 42 of the Agreement.[144] Article 6(5) of the U.S.-Uruguay BIT, thus, has the

its focus on compulsory licenses, Article 6(5) also provides some leeway for governments in their regulation with respect to the "revocation, limitation, or creation of intellectual property rights, to the extent that such . . . is consistent with the TRIPS Agreement." *Id.* In addition, although Article 8 of the U.S.-Uruguay BIT requires that the state parties may not impose requirements to transfer technology or other proprietary knowledge in connection with an investment, by its terms, this article does not apply to compulsory licenses issued in accordance with Article 31 of the TRIPS Agreement. *Id.* arts. 8(1)(f), (3)(b).

143. *See* Biadgleng, *supra* note 73, at 17-18 (observing that U.S. BITs with Jordan and Bahrain are silent as to whether or not TRIPS-compliant compulsory licenses constitute expropriation, and, even in BITs that explicitly state that compulsory licenses do not constitute expropriation, such clauses remain vulnerable to the challenge that the license is contrary to TRIPS). Moreover, as Taubman recognizes, because "recent BITs explicitly exclude TRIPS-compatible compulsory licenses from provisions on expropriation[,] . . . [it] implies that TRIPS-incompatible compulsory licenses may be considered expropriation." Taubman, *supra* note 14, at 964; *see also* Tsai-Yu Lin, *supra* note 7, at 159 ("[I]n the author's view, such . . . TRIPS-consistent clause[s] seem[ ] not to have the intention to fully exclude compulsory licenses from the assessment of an expropriation.").

144. TRIPS Agreement, *supra* note 12, arts. 7-8, 40, 42. Article 7 of the TRIPS Agreement provides that "intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users and in a manner conducive to social and economic welfare, and to a balance of rights and obligations." *Id.* art. 7. Article 8 gives Members the right to enact laws "to protect public health . . . and to promote the public interest in sectors of vital importance to

effect of importing WTO standards, as applicable law, into the context of the investment dispute concerning a compulsory license.[145]

The tribunal's assessment, at least initially, will now focus on the criteria of Article 31. If a compulsory license is TRIPS Agreement compliant, an expropriation claim can be dismissed. However, if the license is determined to be non-compliant, then a claim for indirect expropriation can proceed. Indeed, one can question whether there would be anything left to decide under an international investment law analysis if the compulsory license was found to be non-compliant with TRIPS Agreement standards. Could such a license fail to meet TRIPS Agreement requirements, yet still fall short of constituting a taking sufficient to justify the finding of an indirect expropriation? Or would a tribunal view Article 31 as setting standards that are directly relevant for the indirect expropriation analysis to the extent of setting the new standard of attainment under the U.S.-Uruguay BIT?

For example, if the compulsory license fails to meet the Article 31(h) standard for payment of "adequate remuneration in the circumstances" to an intellectual property owner,[146] should an investment tribunal determine that there has been an indirect expropriation and work to craft a remedy that would bring compensation into line with Article 31, or would it consider a standard under investment law, such as that in Article 6(1)(c) specifying "prompt, adequate, and effective compensation,"[147] to the extent there is any difference?[148] Article 6(2) of the U.S.-Uruguay

their socio-economic and technological development." *Id.* art. 8(1). Article 40 emphasizes that Members may regulate and limit licensing practices that may "constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market." *Id.* art. 40(2). Article 42 provides that "Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by [the TRIPS] Agreement." *Id.* art. 42 (footnote omitted).

145. *See* Biadgleng, *supra* note 73, at 26 (noting that, absent a provision including TRIPS norms by reference, a mere breach of the TRIPS Agreement would not amount to a violation of the fair and equitable treatment standard under investment rules).

146. TRIPS Agreement, *supra* note 12, art. 31(h).

147. U.S.-Uruguay BIT, *supra* note 98, art. 6(1)(c).

148. With the reference to the TRIPS Agreement and the Article 31 standard for "adequate remuneration," one possibility is that the U.S.-Uruguay BIT has resolved ambiguity about the proper standard for compensation: look to Art 31.

BIT defines the compensation standard of Article 6(1)(c) to be "equivalent to the fair market value of the expropriated investment immediately before the expropriation took place."[149] Some would argue that there is a difference between the standard of remuneration required by Article 31 of the TRIPS Agreement and the standard of compensation for expropriation required under IIAs in investment arbitration, with the former yielding a lower level of payment.[150] Does the standard under Article 31, which refers to adequate remuneration taking into account the "economic value of the authorization,"[151] exclude full consideration and compensation for other elements that may comprise part of the patent-based investor's foreign investment? Does the requirement of "prompt" payment under the U.S.-Uruguay BIT exclude the possibility of payment over time (e.g., through royalties), which may be considered under Article 31?[152] To the extent that there are real differences, should an arbitration tribunal be concerned about the discontinuity between the two standards?[153] To take another example, is the non-discrimination

For BITs that do not have a provision such as Article 6(5) in the U.S.-Uruguay BIT, however, the question would remain: compensation according to international expropriation law standards or consistent with Article 31 to the extent there is any difference?

149. U.S.-Uruguay BIT, *supra* note 98, art. 6(2)(b).

150. *See* Taubman, *supra* note 14, at 951-55, 957 (examining the Article 31(h) requirement of adequate remuneration by looking to the meaning of "adequate" and explaining that the economic value of a compulsory license is not necessarily equivalent to the full market value of a patent, and that the factual circumstances behind the compulsory license will also affect its value). Ultimately, Taubman concludes that "to be adequate, remuneration should reasonably compensate for any conflict with normal exploitation and for any prejudice of legitimate interests." *Id.* at 957; *see also* Biadgleng, *supra* note 73, at 18 (explaining that adequate remuneration under the TRIPS Agreement takes into account "the *economic value* of the authorization for a compulsory license," which is not the same as the market value of the intellectual property right); Tsai-Yu Lin, *supra* note 7, at 163-64 (reasoning that, given the different remuneration standards, "the grant of compulsory license could be interpreted as giving more patent protection than under the TRIPS Agreement.").

151. TRIPS Agreement, *supra* note 12, art. 31(h).

152. *See* Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 351 (believing the standard of "prompt" compensation intends remuneration without unnecessary delay, though not necessarily requiring immediate payment).

153. *See* Taubman, *supra* note 14, at 964 (reasoning that "if a level of compensation is inconsistent with TRIPS, then the potential claim (if any) under the law of expropriation should, ideally, match the degree to which the

standard of Article 27 of the TRIPS Agreement,[154] which would apply to patent rights, any different from the reference to "non-discriminatory" standard for expropriatory measures in Article 6(1) of the U.S.-Uruguay BIT?[155]

Interestingly, there is overlap in the criteria established by Article 31 of the TRIPS Agreement, and Article 6 and Annex B of the U.S.-Uruguay BIT, starting with the emphasis in Article 31(a) that, as to each compulsory license, the "authorization of such use shall be considered on its individual merits."[156] Article 31 of the TRIPS Agreement contains criteria that, *in toto*, address all three factors set forth in Annex B of the U.S.-Uruguay BIT.[157] However, Article 31 provides more detailed guidance on the process and procedures by which a compulsory license must be issued, potential limits on its terms (e.g., scope, duration, amount of remuneration, and predominantly for supply of the domestic market), as well as procedures for challenge and review of the license.[158] These more detailed criteria are specifically adapted to the compulsory license context and thus may prove to be instructive, or even compelling, to an investment tribunal, at least as an initial frame of reference.

Unlike the U.S.-Uruguay BIT, however, most IIAs are silent about the status of compulsory licenses as a regulatory measure affecting investment. This silence adds emphasis to the choice and uncertainty that an investor may face when, in response to a host state's issuance of a compulsory license, the investor considers whether to bring a claim in investor-state arbitration or urge its own government to

compensation fell short of the TRIPS standard and not be substantially different," in order to "safeguard against forum shopping and erosion of the multilateral system").

154. TRIPS Agreement, *supra* note 12, art. 27(1) ("[P]atents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.").

155. U.S.-Uruguay BIT, *supra* note 98, art. 6(1)(b).

156. TRIPS Agreement, *supra* note 12, art. 31(a).

157. U.S.-Uruguay BIT, *supra* note 98, Annex B, ¶ 4(a).

158. *Compare* TRIPS Agreement, *supra* note 12, art. 31 (providing specific, enumerated provisions to be respected when a Member uses the subject matter of a patent without the right-holder's authorization), *with* U.S.-Uruguay BIT, *supra* note 98, Annex B, ¶ 1 (using advisory language that, in expropriation situations, the resolution is "intended to reflect customary international law").

initiate procedures under the WTO's dispute settlement mechanism, the DSU.

III. FORK IN THE ROAD—WHICH FORUM?

In this Part, I highlight the potential "fork in the road" posed by the choice of forum, as well as the choice of law issues and possible differences in remedies between investor-state arbitration and WTO dispute settlement. As the discussion above makes clear, a compulsory license-based investment claim brought by a foreign investor against a host state under an investment treaty may implicate several strands of public law that can be complimentary or competing, integrated or overlapping: not only that law reflected in the investment treaty, but also intellectual property law as established through national law or the TRIPS Agreement.[159] The discussion of compulsory licenses above, and their potential to engender conflict and a need for dispute settlement, brings this confluence of competing legal regimes into stark focus. If a foreign investor believes that a host state has improperly authorized a compulsory license with respect to its patent rights, it may face a choice as to the forum in which to seek to vindicate its rights. Because investment agreements such as BITs stand side-by-side with the WTO multilateral trading system, different regimes may afford protection to the foreign investor in a state that is not only a member of the WTO, but also has entered into an applicable IIA.[160] The increasing

159. As one commentator puts it, "[t]he interconnections between investment law and other areas of international law are manifold. Conflicts may arise between an obligation of a state towards a foreign investor and its international obligation." Anne van Aaken, *Fragmentation of International Law: The Case of International Investment Protection* 3 (Univ. St. Gallen L. Sch., Law and Econ. Res. Paper Series, Working Paper No. 2008-1, 2008), *available at* http://ssrn.com/abstract=1097529; *see also* Taubman, *supra* note 14, at 970 ("The law of expropriation, while an uneasy fit in strict legal terms with TRIPS law, offers a source of comparable legal solutions that blend broad legal principles with the pragmatic settling of disputes over actual property, including intangible property . . . .").

160. Ewing-Chow, *supra* note 96, at 549; *see also* Gaetan Verhoosel, *The Use of Investor-State Arbitration Under Bilateral Investment Treaties to Seek Relief for Breaches of WTO Law*, 6 J. INT'L ECON. L. 493-94 (2003) (introducing the proposition that foreign investors might be able to use IIAs to challenge breached WTO law and that government measures involved may constitute breaches of both WTO law and the applicable IIA).

possibility that these parallel trade and investment regimes may be available to be invoked is underscored by the fact that a majority of countries in the world are members of the WTO,[161] and that by the end of 2007, there were more than 2600 BITs, 2700 double taxation agreements, and 250 free trade agreements between countries containing investment provisions.[162] The investor thus may have options of pursuing investor-state arbitration, petitioning its own government to commence WTO dispute settlement procedures, or both.

A. CHOICE OF FORUM

As long as there is an applicable IIA in which a host state has given its consent to arbitrate, nothing prevents a foreign investor from bringing a claim against that host state in investor-state arbitration. No permissions are required from the investor's own government or the host state.[163] The patent-based investor need only consult with its lawyers to assess its legal position and prepare a claim alleging that the compulsory license violates the terms of the relevant IIA. When seeking relief through the WTO system, by

161. *See* WTO, Understanding the WTO: The Organization, Members and Observers, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last visited Mar. 8, 2010) (listing the 153 WTO Member States as of July 23, 2008).

162. UNCTAD, *World Investment Report 2008: Transnational Corporations, and the Infrastructure Challenge*, at xvii, U.N. Doc. UNCTAD/WIR/2008 (Sept. 24, 2008), *available at* http://www.unctad.org/en/docs/wir2008_en.pdf; *see* Karl P. Sauvant, *The Rise of International Investment, Investment Agreements and Investment Disputes*, *in* APPEALS MECHANISM IN INTERNATIONAL INVESTMENT DISPUTES 3, 7-10 (Karl P. Sauvant & Michael Chiswick-Patterson eds., 2008) (calculating that by the end of 2006, there were 2,573 BITS, as well as 241 preferential trade and investment agreements that address not only investment matters but also trade, intellectual property, competition, and government procurement). The number of preferential trade and investment agreements almost doubled between 2001 and 2006. *Id.* at 10, fig.1.6.

163. *See*, *e.g.*, China-Germany 2003 BIT, *supra* note 78, art. 9 (setting forth, without mention of government permission, the procedure for settling disputes). Most IIAs stipulate that the parties should first seek an amicable settlement of the dispute and impose a cooling-off period before a party may submit an arbitration request. *Id.* art. 9(1)-(2). There may also be requirements that an investor first exhaust certain local procedures, such as submit a claim to a national administrative review before filing for investor-state arbitration. *Id.* at Protocol, ¶ 6 (requiring German investors who wish to arbitrate to first submit their disputes to certain Chinese administrative review procedures).

contrast, the foreign investor must petition its home government to initiate dispute settlement proceedings before the WTO.[164] The host state must be a member of the WTO, and the relevant allegations must bear on that state's obligations under the TRIPS Agreement.[165] Should a country fail to fulfill its TRIPS Agreement obligations, the WTO's DSU[166] provides a mechanism for the resolution of state-to-state disputes to promote compliance. Depending on how the compulsory license was issued (e.g., the procedures followed in its authorization) and its substantive terms, the investor can petition its government that a violation of Article 31 (or other relevant provisions) of the TRIPS Agreement has occurred.

Investors weighing the options of investor-state arbitration or WTO dispute settlement procedures will face a complex set of issues. Two basic questions of immediate relevance include, *first*, whether a choice of one forum presents a true "fork in the road," such that it precludes pursuing relief through the other forum, and *second*, whether investment arbitration or the WTO forum is to be preferred. The answer to the second question may, of course, depend upon the perspective from which one considers the question—that of the investor or the host state. For purposes of this article, I focus on the viewpoint of the investor.

164. *See* Martín Molinuevo, *Can Foreign Investors in Services Benefit from WTO Dispute Settlement?: Legal Standing and Remedies in WTO and International Arbitration* 12 (NCCR Trade Regulation Working Paper No. 2006/17, 2006) (explaining that the legal standing in WTO disputes is an exclusive right reserved for WTO Member States).

165. A number of IP-related trade disputes have been brought before the WTO. *See, e.g.*, Jane C. Ginsburg, *Toward Supranational Copyright Law? The WTO Panel Decision and the "Three-Step Test" for Copyright Exceptions* (Colum. L. Sch., Ctr. for L. & Econ. Studies, Working Paper No. 181, 2001) (describing a June 2000 WTO dispute resolution proceeding concerning a European Union-initiated copyright dispute on behalf of an Irish performing rights organization, in which the WTO panel held that the United States was violating its obligation under Article 13 of the TRIPS Agreement to "confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder" by "exempt[ing] a broad range of retail and restaurant establishments from liability for the public performance of musical works by means of communication of radio and television transmissions" under the 1998 Digital Millennium Copyright Act).

166. DSU, *supra* note 58.

Addressing first the "fork in the road" issue, which could easily arise in relation to a state's issuance of a compulsory license, under general international law there is currently no rule that would prevent a parallel set of proceedings—that is, to prevent the foreign investor from initiating investment arbitration against a host state, while the investor's home government concurrently exercises diplomatic protection and commences WTO dispute settlement proceedings against that same host state.[167] The WTO agreements do not address this potential for parallel proceedings or the possibility of a "relitigation of a WTO-inconsistent measure in other forums," and indeed, such a phenomenon has already occurred.[168] In a recent dispute involving soft drinks with non-cane sugar sweeteners (e.g., high-fructose corn syrup) between the United States and Mexico (the "*Mexico-Soft Drinks*" case), the WTO Appellate Body found that Mexico's tax on non-cane sugar soft drinks amounted to an indirect tax on imported U.S. beet sugar and high-fructose corn syrup,[169] in violation of General Agreement on Tariffs and Trade's ("GATT") national treatment requirements.[170] However, U.S. sweetener companies also commenced proceedings against Mexico under North American Free Trade Agreement ("NAFTA") Article 1110, "claiming that the Mexican tax was discriminatory and constituted 'indirect expropriation.'"[171] Both cases resulted in decisions in the claimant's favor.[172]

167. Verhoosel, *supra* note 160, at 495; Ewing-Chow, *supra* note 96, at 551.

168. Ewing-Chow, *supra* note 96, at 550-51.

169. *Id.* at 550-52 (citing Appellate Body Report, *Mexico - Tax Measures on Soft Drinks and Other Beverages*, WTO Doc. WT/DS308/AB/R, AB-2005-1 (2006)).

170. General Agreement on Tariffs and Trade 1994 art. III:2, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187, 33 I.L.M. 1153 (1994) ("The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products.").

171. Ewing-Chow, *supra* note 96, at 551. Ewing-Chow makes the point that *res judicata* will not apply because the parties in the two fora are different: in the WTO, the dispute is between states, whereas in the arbitration, it is between the investor and host state. *Id.* at 552.

172. Archer Daniels Midland Co. v. Mexico, ICSID Case No. ARB(AF)/04/5 (Nov. 21, 2007) (finding a violation of NAFTA's national treatment and performance requirement provisions, but not of its expropriation provision, and awarding claimants damages of over $33 million against the Mexican

Certain provisions in IIAs would seem to limit this parallel litigation approach. For investor-state arbitrations taking place under the ICSID Convention, Article 27(1) of that Convention provides in relevant part that:

> No Contracting State shall give diplomatic protection, or bring an international claim, in respect of a dispute which one of its nationals and another Contracting State shall have . . . submitted to arbitration under this Convention, unless such other Contracting State shall have failed to abide by . . . the award rendered in such dispute.[173]

Similarly, NAFTA Article 2005(1) provides that disputes arising under NAFTA or the GATT "may be settled in either forum at the discretion of the complaining Party," but Article 2005(6) specifies the limitation that "[o]nce dispute settlement procedures have been initiated . . . , the forum selected shall be used to the exclusion of the other."[174]

Despite these provisions, both of the *Mexico-Soft Drinks* arbitration cases have already proceeded to a decision.[175] Thus, it is unclear how the scope of a "dispute" is to be defined for purposes of ICSID Article 27(1) or NAFTA Article 2005. If the claims arise from the same state measures but involve different parties (e.g., state-to-state vs. investor-state), implicate different legal grounds under the relevant treaty provisions, and seek different remedies (e.g., withdrawal of a government measure vs. compensation for damages), an argument can be made that the WTO and investment arbitration cases concern different "disputes."[176] This issue is of obvious

government); Corn Products Int'l v. Mexico, Decision on Responsibility, ICSID Case No. ARB(AF)/04/1 (Jan. 15, 2008) (determining Mexico violated NAFTA's national treatment provision, but postponing an award determination to future proceedings).

173. ICSID Convention, *supra* note 81, art. 27 (emphasis added) (excluding "informal diplomatic exchanges for the sole purpose of facilitating a settlement of the dispute").

174. North American Free Trade Agreement, U.S.-Can.-Mex., arts. 2005(1), 2005(6), Dec. 17, 1992, 32 I.L.M. 605, 694 (1993) [hereinafter NAFTA].

175. *See supra* note 172 and accompanying text.

176. Ewing-Chow, *supra* note 96, at 552. Ewing-Chow suggests that to prevent potential liability in multiple forums for a single measure, "[states] should clarify that, *once the same economic interest or investment* is being litigated under one of the forums, litigation in the other forum is precluded even if the claimants and

relevance to state authorizations of compulsory licenses, which can involve different parties in the respective investor-state and WTO forums, implicating not only expropriation standards under IIAs (and possibly other core standards not addressed in this article), but also Article 31 of the TRIPS Agreement. Differences in parties to disputes, forum, and applicable law can also present different remedies.

B. CHOOSING BETWEEN INVESTOR-STATE ARBITRATION AND WTO DISPUTE SETTLEMENT

Turning the second question above—whether investor-state arbitration or the WTO forum is to be preferred—the reasons why a foreign investor may choose investor-state arbitration in the case of a compulsory license include:

(i) avoiding the need to persuade the investor's home government to initiate state-to-state dispute settlement proceedings at the WTO;

(ii) diminishing or avoiding political tensions that might arise between the two states, which could complicate the investor's goals;

(iii) a higher degree of control exercised by the foreign investor over its claim;

(iv) weighing the relative merits and likelihood of success of the substantive claims that may be brought in either forum;

(v) similarly, weighing the remedies that may be recovered in either forum; and

(vi) considering eventual enforcement associated with a resulting decision or award.[177]

legal claims are dissimilar." *Id.* at 552-53.

177. One could also consider practical factors, such as time- and cost-efficiency, to the extent they are different, between the two procedures.

1. Investor Independence and Avoiding State Tensions

As noted above, investors choosing the WTO forum will be forced to rely upon their government's willingness to bring a claim, which is not a foregone conclusion and may be subject to the vagaries of other considerations in the relations between the two countries concerned.[178] The private investor will thus need considerable political sway to induce its government to initiate the state-to-state dispute.[179] Closely related to this point is the potential advantage of avoiding or reducing any tensions between governments that may interfere with the investor's goals. This has long been indicated as a potential benefit to investment arbitration.[180] The question must be assessed in each specific case, however, because the vigorous backing of the investor's government may wield significant influence with the host state, which could cause the host state to rethink a compulsory license and avoid the need for the more involved adjudicative procedures.[181]

2. Investor Control

Regarding the question of control, the investor in an investor-state arbitration will have the greatest degree of control over its case

178. *See House of Representatives Committee on Ways and Means Subcommittee on Trade Hearing on the Outcome of the Summit of the Americas and Prospects for Free Trade in the Hemisphere: Testimony of Daniel M. Price on Behalf of the United States Council for International Business*, 27 CAN.-U.S. L.J. 313, 319 (2001) (advising that the private actor's government will weigh "the diplomatic pros and cons of bringing any particular claim").

179. Ewing-Chow, *supra* note 96, at 554.

180. *See, e.g.*, Stephen M. Schwebel, *The Overwhelming Merits of Bilateral Investment Treaties*, 32 SUFFOLK TRANSNAT'L L. REV. 263, 265-66 (2009) (discussing the substantive and procedural benefits of BITs, including the fact that their near universal use of certain key provisions, such as fair and equitable treatment, has made its way into customary international law and is thus binding on every state).

181. *See* Ching-fu Lin, *supra* note 51, at 561-62 (discussing the European Commission's strong influence in a patent dispute between Philips Electronics of the Netherlands and the government of Taiwan). In support of Philips' position, the European Commission issued a report finding that Article 76 of the Taiwan Patent Act and the specific issuance of a compulsory license over Philips' patents pursuant to that Act were inconsistent with the TRIPS Agreement. *Id.* at 562. After consultations with the European Commission, Taiwanese authorities decided not to appeal the decision of the Taipei High Administrative Court, which had revoked the decision granting the compulsory license. *Id.*

without any involvement from its own government. As discussed above, the consent of the host state to arbitration allows the investor to file a claim without first seeking permission from its own government or waiver of sovereign immunity from the host state,[182] and often without requiring the exhaustion of local remedies. The investor can prepare and implement its own strategy for litigating potential investment claims in connection with the compulsory license based only on the investor's assessment of the circumstances and merits of the case. Even in WTO proceedings, however, private parties have a greater role than merely filing *amicus curiae* submissions.[183] Often the private parties "stand side by side" with the government in the pursuit of the WTO dispute and will have access to the specific information and legal analysis needed by the government officials.[184] With a motivated and cooperative government involved, the intergovernmental forum may provide an important counterpoint, particularly if the investor's goal is to have the authorization of the compulsory license withdrawn or revised, rather than simply seeking damages against the host state.

182. In this respect, Professor Thomas Wälde has emphasized just how important to the investor the consent of the state to international arbitration is to the underlying rights at stake:

> It is the ability to access a tribunal outside the sway of the host State which is the principal advantage of a modern investment treaty. This advantage is much more significant than the applicability to the dispute of substantive international law rules. *The remedy trumps in terms of practical effectiveness the definition of the right.*
>
> . . . .
>
> The effectiveness of substantive rights is everywhere – but nowhere more so than in investment disputes – linked to the availability of an effective (i.e. independent) enforcement procedure. This link is so close that the best way to emasculate an investor right against a host State is to severe [sic] the link between an international-law-based right and an international enforcement procedure and to compel the investor to seek justice before domestic courts. *Right and procedural remedy are, in practical and effective terms, one.*

Thomas Wälde, *The "Umbrella" Clause in Investment Arbitration: A Comment on Original Intentions and Recent Cases*, 6 J. WORLD INVESTMENT & TRADE 183, 190, 194 (2005) (emphasis added).

183. Molinuevo, *supra* note 164, at 15.

184. *See id.* at 15-16 (explaining that the economic and legal details of a WTO dispute are "the provinces of private business executives and individual legal advisors").

3. Substantive Claims

The next factor, weighing the relative merits and likelihood of success of substantive claims that may be brought in investor-state arbitration or the WTO forum, obviously requires a careful review not only of the relevant legal standards, but of the facts in a particular dispute involving authorization of a compulsory license. This factor is closely related to the issue of the remedies that may be sought, which is discussed below. The analysis in Part II above considered a detailed framework for evaluating a claim of indirect expropriation under international investment law, as well as the criteria of Article 31 of the TRIPS Agreement in connection with the U.S.-Uruguay BIT.[185] I do not intend to repeat that analysis here. The question I do want to address is whether, in the absence of an express reference to the TRIPS Agreement (as in Article 6(5) of the U.S.-Uruguay BIT), an investment tribunal can apply or make reference to TRIPS Agreement standards.

Some commentators have suggested that,

> [e]xcept in circumstances where the provisions of investment agreements specifically refer to the provisions of the TRIPS Agreement, providing investors with the opportunity to challenge governments on the violation of the TRIPS or any other WTO agreement would be a radical departure from the self-contained system of negotiation, implementation and dispute settlement of the WTO.[186]

In line with this comment, and with particular relevance for compulsory licenses, the argument continues that "the standards of investment protection should not be applied to or derive substantive interpretation from other unrelated domains of international law as it may lead, in the case of IP rights of investment, to protection higher than agreed under the specialised TRIPS Agreement."[187] Quite apart from the sentiment of keeping these two systems of trade and investment law separate and distinct, which I believe may prove

185. *See* discussion *supra*, Part II. In the WTO forum, a compulsory license authorization would be evaluated under Article 31, which must be read in the context of other potentially relevant provisions, such as Articles 7, 8, 40 and 42 of the TRIPS Agreement. TRIPS Agreement, *supra* note 12, arts. 7, 8, 31, 40, 42.
186. Biadgleng, *supra* note 73, at 26.
187. *Id.* at 27.

difficult in the case of a compulsory license, it is less than clear whether importing TRIPS Agreement standards as applicable law into an investment dispute would yield higher or lower standards of protection for the investor.

One could easily imagine that the parties to an investment dispute concerning a compulsory license might be tempted to invoke the detailed criteria of Article 31 of the TRIPS Agreement, leaving the investment tribunal with a difficult and complex choice-of-law issue. This is particularly the case where the host state and the investor's home state are both members of the WTO. Under one scenario, the investor might assert that issuance of the compulsory license was inconsistent with the detailed standards of Article 31, and rely on this alleged violation as at least a partial predicate for a claim of indirect expropriation (or violation of another core BIT standard, such as fair and equitable treatment). On the other hand, under a different scenario, if the investor claims that the compulsory license amounts to an indirect expropriation under international investment law, the host state, as respondent, may introduce Article 31 as a *de facto* defense, maintaining that the state complied with the relevant TRIPS Agreement criteria and therefore could not have forced an indirect expropriation. The dispute could become focused on Article 31's terms and conditions. Now, we can ask the three questions that were listed in the introduction:

(i) can the government's authorization of the compulsory license be TRIPS Agreement compliant, yet violate the expropriation term in the relevant IIA?

(ii) can the government's violation of the TRIPS Agreement provide basis for an independent claim of indirect expropriation under the IIA in investor-state arbitration?

(iii) alternatively, can TRIPS Agreement norms provide interpretive background on minimum standards of protection under international law to inform IIA standards such as indirect expropriation?

The answer to these questions may rely first and foremost on the language of the relevant IIA with respect to the applicable law for an investment dispute. As discussed above, some BITs, such as the

U.S.-Uruguay BIT, include references that directly involve the TRIPS Agreement,[188] while others make more general reference to "international law," "applicable rules of international law," or "customary international law."[189] Moreover, "[t]he ICSID Convention, as one potential *lex arbitri*, . . . calls, i.a., for the application of international law" as may be applicable (as a gap-filler and for corrective effect) through Article 42, as discussed above.[190] This might apply as a relevant basis for bringing in international law in the case of a dispute under the China-Germany BIT discussed above.[191] While IIAs may vary in their particular wording, many share a similarity in their lack of clarity about which type of international law should be applied.[192] Do these references to international law leave room for application of non-investment international law, such as the TRIPS Agreement, for a compulsory license dispute?[193] If not directly applicable, can the WTO standards be considered by an investment tribunal as providing some measure of interpretive context?[194]

188. *See supra* notes 142-45 and accompanying text. A less direct, but nevertheless broad reference that could encompass the TRIPS Agreement and would be favorable to an investor, is found in the Canada-Argentina BIT. Agreement Between the Government of Canada and the Government of the Republic of Argentina for the Promotion and Protection of Investment, Nov. 5, 1991, available at http://www.international.gc.ca/trade-agreements-accords-commerciaux/assets/pdfs/argentina-e.pdf. Article XIII(1) provides in relevant part that "[w]hen a matter is covered both by the provisions of this Agreement and any other international agreement to which both Contracting Parties are bound, nothing in this Agreement shall prevent an investor of one Contracting Party . . . from benefitting from the most favourable regime." *Id.* art XIII(1).

189. Many BITs contain clauses requiring fair and equitable treatment "in accordance with principles of international law," which provides a ground, apart from indirect expropriation, for considering compulsory licenses and potential reference to the TRIPS Agreement. *See, e.g.*, *id.* art. II(4); U.S.-Uruguay BIT, *supra* note 98, art. 5(1). Some BITs, such as the U.S.-Uruguay BIT, also make reference to customary international law in the expropriation provision itself. U.S.-Uruguay BIT, *supra* note 98, Annex B, ¶ 1.

190. Van Aaken, *supra* note 159, at 2; *see also supra* notes 81-82 and accompanying text (recognizing that the law of the host state and applicable rules of international law will be the default law applied in the absence of a choice of law provision).

191. *See* discussion, *supra* Part II.B.

192. Van Aaken, *supra* note 159, at 14.

193. *Id.* at 10.

194. *See* Verhoosel, *supra* note 160, at 503-04 (considering it appropriate to allow the WTO Agreement to provide context for even those BITs concluded prior

A number of commentators in this area have discussed the NAFTA Chapter 11 provisions on investment, in particular Article 1105(1) mandating that "[e]ach Party shall accord to investments of investors of another Party treatment *in accordance with international law*, including fair and equitable treatment."[195] Regarding "international law," NAFTA tribunals have been required to decide whether this phrase referred to all sources of international law, including WTO disciplines, or implicitly referred only to customary international law.[196] In several NAFTA Chapter 11 cases, investors challenged violations of certain regulatory measures, arguing that the breach of any WTO obligations arising from those measures necessarily resulted in treatment that was not "in accordance with international law" under Article 1105(1).[197] The NAFTA Free Trade Commission, however, issued an interpretive note stating that this phrase should be understood as a reference only to customary international law, thereby excluding the possibility that investors could invoke WTO obligations in support of their investment claims under NAFTA Chapter 11.[198] The Chapter 11 tribunal in *Mondev v. United States* found that this interpretation "makes it clear that Article 1105(1) refers to a standard existing under customary international law, and not to standards established by other treaties of

to the Agreement's completion).

195. NAFTA, *supra* note 174, art. 1105(1), 32 I.L.M. at 639 (emphasis added).

196. Van Aaken, *supra* note 159, at 14.

197. Verhoosel, *supra* note 160, at 500.

198. NAFTA Free Trade Comm'n, Notes of Interpretation of Certain Chapter 11 Provisions, pt. 2 (July 31, 2001), *available at* http://www.international.gc.ca/trade-agreements-accords-commerciaux/disp-diff/NAFTA-Interpr.aspx. The relevant part of the interpretive note reads:

> Minimum Standard of Treatment in Accordance with International Law
>
> 1. Article 1105(1) prescribes the customary international law minimum standard of treatment of aliens as the minimum standard of treatment to be afforded to investments of investors of another Party.
>
> 2. The concepts of "fair and equitable treatment" and "full protection and security" do not require treatment in addition to or beyond that which is required by the customary international law minimum standard of treatment of aliens.
>
> 3. A determination that there has been a breach of another provision of the NAFTA, or of a separate international agreement, does not establish that there has been a breach of Article 1105(1).

Id.

the three NAFTA Parties."[199] Thus, at least within the "idiosyncrasies of NAFTA," an investment claim cannot be predicated on violations of WTO law.[200] However, this NAFTA analysis does not answer the question with respect to the "international law" references in the thousands of other IIAs, each of which have unique languages, domestic contexts, and precedents.[201] Particularly in light of the Vienna Convention, discussed immediately below, it is possible that an investor-state tribunal applying indirect expropriation standards under a particular BIT may nonetheless find that reference to the TRIPS Agreement provides useful guidance on relevant standards.

Even excluding direct application of WTO law, commentators have suggested that the jurisprudence of the WTO may provide interpretive context for investment disputes pursuant to Article 31(3)(c) of the Vienna Convention on the Law of Treaties ("VCLT").[202] This may be particularly appropriate to impart meaning for an ambiguous investment standard such as "fair and equitable" treatment.[203] When interpreting a treaty, Article 31(3)(c) mandates that "[t]here *shall* be taken into account, together with the context . . . any relevant rules of international law applicable in the relations between the parties."[204] When considering an investment dispute involving a compulsory license and brought by an investor from a WTO member country against a host state that is also a WTO member, Article 31(3)(c) of the VCLT provides grounds for considering the TRIPS Agreement and the detailed terms of its Article 31 as a means of providing international standards of conduct with respect to the host state's (i) procedures for the issuance of the compulsory license, and (ii) minimum terms and limits for such a

199. ICSID Case No. ARB (AF)/99/2, Award (Oct. 11, 2002), ¶ 121.

200. Verhoosel, *supra* note 160, at 502-03.

201. *Id.* at 503. *But see* Van Aaken, *supra* note 159, at 15 (observing that some investors argue that WTO law has attained customary international law status, such that it can be applied to investment disputes).

202. Verhoosel, *supra* note 160, at 503.

203. *Id.* at 506.

204. Vienna Convention on the Law of Treaties art. 31(3), May 23, 1969, 1155 U.N.T.S. 331 (emphasis added). As to Article 31, it has been written that "[e]very treaty provision must be read not only in its own context, but in the wider context of general international law, *whether conventional or customary*." Verhoosel, *supra* note 160, at 503 (quoting IAN SINCLAIR, THE VIENNA CONVENTION ON THE LAW OF TREATIES 139 (1984).

license. These standards, as part of the international law applicable in the relations between the two states, may provide relevant background on the host state's international obligations that would be hard for an arbitration tribunal to ignore. Thus, in answer to the third question above—whether TRIPS Agreement norms can provide interpretive background on minimum standards under international law for a compulsory license in relation to claims of indirect expropriation—I would suggest that the answer is "yes," particularly if the parties in dispute are both from WTO member countries.

However, it has been observed that there is a fine line, if any, between "applying" WTO law and relying on it for "interpreting" the minimum standard of regulatory treatment under an IIA.[205] One exercise might easily lapse into the other, particularly for IIA core standards such as fair and equitable treatment. For indirect expropriation, however, while the TRIPS Agreement, through Article 31, may provide suggestive guidance (to a certain point) on the detailed aspects of a compulsory license that can be considered, the investment law analysis for an indirect expropriation—with the examination discussed above including (i) regulatory taking based on substantial deprivation; (ii) government representations or approval of the patent rights associated with the investment; (iii) reasonable or legitimate reliance by the patent-based investor; and (iv) the character of the regulatory measure, including the purpose behind it—remains sufficiently distinct such that the TRIPS Agreement standards do not comprehensively answer the question of whether an indirect expropriation has occurred. There is still "breathing space" between the borders of the two regimes.

Thus, in answer to the second question above—whether an investor-state tribunal's finding that a host state's compulsory license violates the TRIPS Agreement can provide basis for an independent claim of indirect expropriation—the answer would be "not necessarily." It would depend on the type of violation. For example, a violation of Article 31(f) by not limiting the compulsory license to use "predominantly for the supply of the domestic market" of the host state,[206] without more, may fall short of establishing grounds for indirect expropriation. On the other hand, a failure to pay "adequate

205. Verhoosel, *supra* note 160, at 505-06.
206. TRIPS Agreement, *supra* note 12, art. 31(f).

remuneration" in accordance with Article 31(h)[207] may serve as a strong signal that there may be an indirect expropriation. Again, the level of deprivation will have to be considered by the arbitral tribunal to determine whether a taking had occurred, while balancing that finding with an examination of the other relevant expropriation factors.

Finally, in answer to the first question—whether a government's authorization of the compulsory license can be TRIPS Agreement compliant, yet violate the expropriation term in an IIA—the answer is also less than absolutely clear. As noted above, a host state, as the respondent in a dispute, will have strong reasons to demonstrate that its authorization of the compulsory license meets all of the criteria of Article 31 of the TRIPS Agreement. I believe this showing would be given considerable weight by an arbitral tribunal, even if only as "interpretive background." By demonstrating elements such as the non-exclusive nature of the license, its limited scope and duration, limited use by any third-parties for domestic market purposes only, and adequate remuneration, it is likely that the host state would present a solid defense against the investor's claims. However, focusing again on the level of remuneration granted to the investor under a compulsory license, as discussed above, the standards between Article 31(h) of the TRIPS Agreement and payment as required for expropriation (e.g., fair market value of the investment immediately before the expropriation took place) may be different. If there is a substantial difference in degree between these two standards of compensation, not just in theory, but in fact, one cannot rule out the possibility of satisfying the elements for indirect expropriation.[208]

Some commentators have raised concerns that this last scenario would result in "TRIPS-Plus" protection for intellectual property.[209]

207. *Id.* art. 31(h).

208. It has even been suggested that "the potential claim (if any) under the law of expropriation should, ideally, match the degree to which compensation fell short of the TRIPS standard and not be substantially different." Taubman, *supra* note 14, at 964. However, this approach, while recognizing a desire for coherence between regulatory frameworks, would not necessarily have legal basis under the IIA, unless the TRIPS Agreement standards are considered to be applicable or persuasive international law.

209. *See* Van Aaken, *supra* note 159, at 25 (explaining that TRIPS allows states

While the scenario could theoretically create a conflict between the TRIPS Agreement and an IIA, in most cases this would be highly unlikely, particularly given the degree of substantial deprivation needed for a regulatory taking.[210] A more likely scenario is that the standards in the IIA may act so as a form of "discipline" for the host state in its consideration of the remuneration to be paid to an investor, as well as on other terms, when the state considers authorization of a compulsory license.[211]

Thus, while Article 31 of the TRIPS Agreement may provide helpful interpretive background for an indirect expropriation analysis, a violation of the TRIPS Agreement does not necessarily give rise to indirect expropriation. At the same time, compliance with the TRIPS Agreement does not necessarily yield immunity. Importantly, to the extent that the TRIPS Agreement is considered relevant as interpretive background, a violation of Article 31 may provide grounds that can be considered in an analysis of fair and equitable treatment under an IIA. In some respects, the reference to Article 31 may weigh more heavily in relation to a claim of violation of the fair and equitable treatment standard than in relation to indirect expropriation.

to elect for greater protection of IPRs, and that BITs could be interpreted as providing such an election because they typically command full, prompt compensation for takings); Biadgleng, *supra* note 73, at 18-19 (hypothesizing that the differences between TRIPS and BITS as to what constitutes adequate remuneration could challenge the competence of arbitration tribunals dealing with IPRs). The TRIPS Agreement is intended to provide international minimum standards for the recognition, protection and enforcement of intellectual property rights and specifies that Members may, if they choose, "implement in their law more extensive protection." TRIPS Agreement, *supra* note 12, art. 1(1).

210. *See* Correa, *Investment Protection in Bilateral and Free Trade Agreements*, *supra* note 3, at 350-51 (noting that, in certain circumstances, a compulsory license might not diminish a patent's value, namely where a) global demand increases as a result of the compulsory license; b) royalties cover the loss of business to competitors; or c) the compulsory license occupies an insignificant share of the market).

211. *See id.* at 352 ("Given the gray area that overlapping protections create, investor's rights may be used to dissuade governments from using compulsory licenses.").

4. Remedies and Enforcement

The alternatives of investor-state arbitration or WTO dispute settlement provide two distinct methods for remedies in disputes involving compulsory licenses.[212] Remedies available through the WTO state-to-state procedures would focus on the removal of the compulsory license, or bringing it into compliance with TRIPS Agreement standards,[213] while investor-state tribunals would look to award compensation for damages in the case of an indirect expropriation or other violation of the IIA.[214] The WTO remedy is

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212. Molinuevo, *supra* note 164, at 19-20.

213. The DSU, Article 3.7, provides in relevant part that:

> The aim of the dispute settlement mechanism is to secure a positive solution to a dispute. A solution mutually acceptable to the parties to a dispute and consistent with the covered agreements is clearly to be preferred. In the absence of a mutually agreed solution, the first objective of the dispute settlement mechanism is usually to secure the *withdrawal of the measures* concerned if these are found to be inconsistent with the provisions of any of the covered agreements. The provision of compensation should be resorted to only if the immediate withdrawal of the measure is impracticable and as a temporary measure pending the withdrawal of the measure which is inconsistent with a covered agreement.

DSU, *supra* note 58, art. 3.7 (emphasis added). Article 19.1 provides in relevant part that: "Where a panel or the Appellate Body concludes that a measure is inconsistent with a covered agreement, it shall recommend that the Member concerned *bring the measure into conformity* with that agreement." *Id.* art. 19(1) (footnote omitted) (emphasis added). Withdrawal or compliance may be more attractive to a long-term investor than damages because they allow for a continued competitive environment in the host state. Ewing-Chow, *supra* note 96, at 555 & n.36. It is always possible, though unlikely, that the parties may agree to arbitrated compensation. Taubman, *supra* note 14, at 969. Article 22.1 of the DSU provides in relevant part:

> Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time. *However, neither compensation nor the suspension of concessions or other obligations is preferred to full implementation of a recommendation to bring a measure into conformity with the covered agreements. Compensation is voluntary and, if granted, shall be consistent with the covered agreements*.

DSU, *supra* note 58, art. 22.1 (emphasis added).

214. *See* Molinuevo, *supra* note 164, at 20 (explaining that investor-state procedures focus on remedying the investor's financial harm); *see also* BISHOP ET AL., *supra* note 5, at 1253 (quoting CHRISTOPH SCHREUER, *Section 6: Article 54 [Enforcement]*, *in* THE ICSID CONVENTION: A COMMENTARY 1098, 1124-26 (2001)) ("The obligation to enforce extends only to pecuniary obligations imposed by the award . . . . [and not] to other forms of specific performance or an injunction

"outright *prospective*" in contrast with damages compensation from investor-state disputes.[215] For a foreign investor intending to continue its commercial operations in the host state, removal of the compulsory license may be a preferable remedy to an award of compensation.[216] However, if the WTO procedure merely ensures TRIPS Agreement compliance, and this does not result in a compulsory license with terms agreeable to the investor, then damages through investment arbitration may provide a more advantageous alternative, particularly if the damages to the investment are considered to cover the entire dimensions of the investment, not just the IPRs subject to the compulsory license. Compensation for damages may be particularly attractive if the compulsory license has severely damaged the foreign investor's position such that continuation of commercial activities becomes unlikely in the host state. Thus, there are potential advantages and disadvantages to each forum and approach to potential remedies.

Finally, the investor in a dispute concerning a compulsory license will have to consider the eventual enforcement associated with a WTO decision or investment arbitration award. Both systems provide possibilities for enforcement (or retaliatory measures in the case of a WTO Member State) against a non-complying state. An award rendered under the ICSID Convention is enforceable in accordance with Article 54, which provides that "[e]ach Contracting State shall recognize an award . . . as binding and enforce the pecuniary obligations . . . within its territory as if it were a final judgment of a court in that State."[217] There is no possibility of appeal, and the ICSID system provides no grounds for challenging an investor-state award in a court, as is possible under the New York

to desist from a certain course of action.")); Jan Paulsson, *Avoiding Unintended Consequences*, *in* APPEALS MECHANISM IN INTERNATIONAL INVESTMENT DISPUTES, *supra* note 162, at 241, 256 (observing that there is "the emerging confirmation of a presumption against the availability of specific performance or restitution in kind as a remedy against States").

215. Molinuevo, *supra* note 164, at 23. Molinuevo further explains that "[t]he obligation to eliminate the inconsistent measures does not arise until the period of time given to the respondent to implement the recommendations and rulings . . . has elapsed." *Id.*

216. *Id.* at 24; Ewing-Chow, *supra* note 96, at 555.

217. ICSID Convention, *supra* note 81, art. 54.

Convention.[218] This approach will allow the investor to enforce an award in any country where the host state may hold funds (e.g., funds in bank accounts). Alternatively, in order to enforce the award, the investor might be required to avail itself of the domestic courts of the host state against whom such enforcement is sought, which is the very jurisdiction the investor originally hoped to circumvent in submitting the dispute to investment arbitration.[219] In this case, the doctrine of sovereign immunity may also be used to impede execution of the award.[220] Under the WTO system, there are several possibilities for enforcement, including diplomatic pressure to withdraw the compulsory license or bring it into compliance, obtention of compensation (which is voluntary), or suspension of trade concessions as a form of retaliation.[221] These measures may bring the investor the relief it desires, but the process may be lengthy and is not guaranteed to achieve a tailored outcome for the particular investor, even if some form of enforcement takes place.[222]

CONCLUSION

Compulsory licenses bear an inherently contentious character. This government authorized license often presents a clash between significant opposing interests—on one side, the legitimate expectations of patent-based foreign investors founded on the IIA and an international patent regime that, for well-established and widely accepted reasons, provides relatively strong and permanent protection during the patent term, and on the other side, the strength of public needs in exceptional cases, such as a public health crisis.

218. *See* U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards [New York Convention] art. V, June 10, 1958, 330 U.N.T.S. 38 (setting forth the conditions under which recognition and enforcement of an award may be refused).

219. Molinuevo, *supra* note 164, at 22-23.

220. *See* ICSID Convention, *supra* note 81, art. 55 (clarifying that Article 54 of the ICSID Convention does not affect the execution of immunity laws in Contracting States).

221. DSU, *supra* note 58, art. 22.

222. *See* Molinuevo, *supra* note 164, at 24-25 (noting that, as of 2006, no WTO case had resulted in the voluntary compensation option, with parties instead resorting to retaliatory suspension of concessions). The procedures established by the DSU for a State to suspend concessions may have an unforeseen or even negative impact on investors in services. *Id.* at 25-26.

The circumstances that may be commonly associated with the issuance of a compulsory license, in which an investor's existing IP rights and investment position are severely impacted, provide the seeds for a dispute and strong incentive for the investor to seek recourse through available means of dispute settlement.

In this context, the compulsory license in relation to IP-based investments and potential claims of indirect expropriation illustrates two levels of complexity for international investment law and related disputes. *First*, the tension between investors' rights (guaranteed through the IIA and the patent regime) and government action in the area of compulsory licensing is but a specialized example of a broader recurrent public policy issue in international investment law. As Karl Sauvant puts it, the broader question is "what constitutes the appropriate balance between the rights and responsibilities of investors and those of governments."[223] The investor is entitled to have its legitimate expectations with regard to the operation and return on its investment respected by the host state. However, the host state should be able to pursue lawful regulatory goals without risk of "regulatory chill."[224] The investment dispute context for a compulsory license brings these countervailing concerns to a head as arbitration tribunals must balance the rights and responsibilities of investors and those of governments, within the appropriate legal frameworks. The resulting arbitral award may have implications not

223. Karl P. Sauvant, *Introduction*, *in* YEARBOOK ON INTERNATIONAL INVESTMENT LAW AND POLICY 2008 - 2009 xxiv (Karl P. Sauvant ed., 2009) [hereinafter Sauvant, *Introduction*]; *see also* Peter Muchlinski, *Trends in International Investment Agreement: Balancing Investor Rights and the Right to Regulate. The Issue of National Security*, *in* YEARBOOK ON INTERNATIONAL INVESTMENT LAW AND POLICY 2008 – 2009, *supra* at 35 (referring to the emerging concern of reconciling "the relationship between investor rights and regulatory discretion"); Jeswald W. Salacuse, *Is There a Better Way?: Alternative Methods of Treaty-Based, Investor-State Dispute Resolution*, 31 FORDHAM INT'L L.J. 138, 141 (2007) (suspecting that if a compulsory license is declared illegal under the applicable BIT, the award of damages may influence the host government to amend its compulsory license measures in order to avoid similar future claims).

224. Muchlinski, *supra* note 223, at 39-40; *see also* INTERNATIONAL INVESTMENT RULEMAKING, *supra* note 60, at 75 ("[P]arts of civil society in some countries have expressed fears that the prospect of investor-State arbitration arising out of alleged regulatory takings could result in a 'regulatory chill' on the ground that concern about liability exposure might lead host countries to abstain from the necessary regulation.").

only for the investor, but for the ability of host states to take specialized regulatory measures.

Specifically with regard to compulsory licenses, these issues coalesce around questions of how much leeway governments should have to take actions that may interfere with IPRs and IP-based investments, whether these actions contravene the standards of protection established for foreign investors under national patent laws and IIAs, and whether such measures are otherwise defensible as consistent with non-investment law treaty provisions, such as Article 31 of the TRIPS Agreement. As the discussion above demonstrates, in the case of indirect expropriation, arbitral tribunals may be required to draw distinctions in fact-intensive proceedings between lawful, yet specialized, regulatory powers and a "regulatory taking" that amounts to an indirect expropriation.[225]

The possible reference to the WTO TRIPS Agreement demonstrates the *second* level of complexity: the compulsory license provides a case in point to show the intricate interplay between two different treaty-based regimes. A compulsory license-based claim for indirect expropriation against a host state under an IIA may implicate several strands of public law that can be complimentary or competing, integrated or overlapping. International investment law, as channeled through the investment treaty, confronts intellectual property law as established through national law or the TRIPS Agreement. The compulsory license brings this confluence of competing legal regimes into stark focus. If a foreign investor believes that a host state has improperly authorized a compulsory license with respect to its patent-based investment, it may face not only a choice of forum in which to vindicate its rights, but also complex choice of law issues in making out a claim of indirect expropriation. Because investment agreements such as BITs stand side-by-side with the WTO multilateral trading system, these different regimes may afford different levels of protection and different remedies to the foreign investor in a dispute where the investor's home state and the host state are both members of the WTO, or where the IIA itself makes reference to the TRIPS Agreement.

225. *See* Muchlinski, *supra* note 223, at 43 (explaining that several recent IIAs have attempted to clarify this difference)

The issuance of a compulsory license and its potential impact on a foreign investment presents a good case study to demonstrate, as Sauvant recently wrote, that "the international investment law and policy regime is evolving, and is likely to continue to do so in the future."[226] For all these potentially wide-ranging concerns, however, the private investor's chief aim regarding its IP-based investment may be much more narrowly focused—to utilize a new, direct means available through investor-state arbitration for seeking international enforcement of its intellectual property rights.

226. Sauvant, *Introduction*, *supra* note 223, at xxvi.