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IP Licence, Trademarks and ISDS: Bridgestone v. Panama*

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Abstract

Can an intellectual property right or a license authorizing its use be deemed an 'investment' under bilateral investment treaties? This policy brief discusses the arguments submitted by the parties in the *Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama* case on questions regarding a trademark license agreement. Bridgestone Licensing Services, Inc. (BSLS) and Bridgestone Americas, Inc. (BSAM) together initiated arbitration proceedings on the grounds that Panama's Supreme Court decision was unjust and arbitrary, violated Panama's obligations under the United States-Panama Trade Promotion Agreement (TPA), expropriated their investments, and violated the requirement of fair and equitable treatment (FET) to BSLS's and BSAM's investments.

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Un droit de propriété intellectuelle ou une licence autorisant son utilisation peuvent-ils être considérés comme des investissements *en vertu des accords bilatéraux d'investissement ? Le présent rapport examine les arguments invoqués par les parties adverses dans l'affaire opposant Bridgestone Licensing Services, Inc. et Bridgestone Americas, Inc. à la République du Panama au sujet d'un contrat de licence de marque. Bridgestone Licensing Services, Inc. (BSLS) et Bridgestone Americas, Inc. (BSAM) ont entamé une procédure conjointe d'arbitrage au motif que la décision de la Cour suprême panaméenne est injuste et arbitraire, qu'elle est contraire aux obligations qui incombent au Panama au titre de l'Accord de libre-échange entre les États-Unis et le Panama, qu'elle a pour effet d'exproprier leurs investissements et qu'elle porte atteinte au principe de traitement juste et équitable des investissements de BSLS et de BSAM.*

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¿Puede un derecho de propiedad intelectual o una licencia que autorice su uso considerarse una inversión *en virtud de los tratados bilaterales de inversión (TBI)? En este informe sobre políticas se analizan los argumentos presentados por las partes en el caso* Bridgestone Licensing Services, Inc. y Bridgestone Americas, Inc. contra la República de Panamá *sobre cuestiones relativas a un acuerdo de licencia de marca. Bridgestone Licensing Services, Inc. (BSLS) y Bridgestone Americas, Inc. (BSAM) iniciaron juntas procedimientos de arbitraje alegando que la decisión de la Corte Suprema de Panamá es injusta y arbitraria, que viola las obligaciones de Panamá en virtud del Tratado de Promoción Comercial (TPC) entre Panamá y los Estados Unidos de América, expropia sus inversiones y viola el principio de trato justo y equitativo para las inversiones de BSLS y BSAM.*

I. Introduction

On 7th October 2016, Bridgestone Licensing Services, Inc. (BSLS) and Bridgestone Americas, Inc. (BSAM)[1], companies incorporated in the United States, together initiated arbitration proceedings on the ground that the Panamanian Supreme Court decision to set aside a decision of the First Superior Court of the First Judicial District diluted its trademarks, 'operates as a *de facto* protectionist device allowing potentially confusingly similar marks' and created difficulties in enforcing trademarks.[2] The precise grounds for arbitration were that the Supreme Court decision was unjust and arbitrary, violated Panama's obligations under the United States-Panama Trade Promotion Agreement (TPA), expropriated their investments, and violated the requirement of fair and equitable treatment (FET) to BSLS's and BSAM's investments.[3] On 13 December 2017, the decision on expedited objections was out where the Tribunal clarified the question of intellectual property (IP) licence as an investment, but the final award is awaiting. In this piece, I will briefly discuss arguments raised by both parties on questions resulting from the interaction between intellectual property licence agreement and definition of investment.

II. Background to the case

Bridgestone Corporation (BSJ), a Japanese company, owns the trademarks 'BRIDGESTONE' and 'FIRESTONE', registered in several countries including Panama.[4] BSJ does not itself use and market its trademarks but allows subsidiary companies owned by BSJ to use the trademarks under licence or sub-licence agreements. Bridgestone Licensing Services, Inc. (BSLS) and Bridgestone American, Inc. (BSAM) are subsidiary companies of the Bridgestone Group registered in the United States.[5] The FIRESTONE trademark was assigned to BSLS. On 1 December 2001, BSLS entered into a Licence Agreement with BSAM to use the FIRESTONE trademark registered in South American

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countries, including Panama, in return for modest royalties paid to BSLS.[6] Based on the Licence Agreement BSAM then sub-licenced to another subsidiary, Bridgestone Costa Rica (BSCR), which manufactures tires using the FIRESTONE trademark for the Panama market. However, no sub-licence agreement was executed between BSAM and BSCR. Additionally, parent company BSJ granted a licence to Bridgestone American Tire Operations, LLC (BATO) to use the 'BRIDGESTONE' trademark in relation to all tire products in the US and elsewhere. Furthermore, a sub-licence agreement was executed between BATO AND BSCR to manufacture tires with the 'BRIDGESTONE' trademark for sale in Costa Rica and worldwide.

According to the Bridgestone group policy, any trademark application with the suffix *'stone'* should be opposed in their respective jurisdictions.[7] BSJ and BSLS opposed Muresa Intertrade S.A. (Muresa)'s trademark application for 'RIVERSTONE' in Panama. Later, the Eighth Civil Circuit Court of the First Judicial Circuit of Panama denied this opposition and a subsequent appeal was withdrawn by BSJ and BSLS.[8] However, a year later, Muresa, L.V. International, and Tire Group of Factories Ltd (TGFL) filed a claim seeking damages on the ground that the opposition forced them to stop selling tires for the duration of the opposition proceedings, out of fear that their inventory of Riverstone tires would be seized if the proceedings were not decided in their favour.[9] As a result, they sustained losses exceeding USD 5 million. The First Instance and Appeal Court rejected the Muresa and TGFL claim on the basis of lack of evidence establishing a causal link between action and the damage caused.[10] On appeal, the Supreme Court of Panama accepted the arguments that the BSJ and BSLS acted recklessly in opposing Muresa's trademark, held that the withdrawal of trademark opposition was evidence of bad faith, and imposed a penalty of USD 5,00,000 in damage and USD 431,000 in attorney's fees.[11] BSJ and BSLS paid the penalty and BSAM together with BSLS initiated arbitration proceedings on the grounds that (i) the Supreme Court decision was unjust and arbitrary and violated Panama's obligations under the TPA; and (ii) the decision expropriated its investment and violated the requirement of fair and equitable treatment in regards to BSLS's and BSAM's investment.[12]

III. Some noticeable issues raised in this case

1. Does an IP Licence Agreement with a revenue sharing model qualify as an investment?

Based on the TPA, Panama questioned the nature of BSAM's transactions, arguing that the Licence Agreement with its revenue sharing model, is a form that an investment may take pursuant to the TPA rather a substance that constitutes investment,[13] and such forms of investment do not constitute investment under the definition of the TPA. According to Article 10.29(f) of the TPA, 'investment' is defined as follows:

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

Panama argues that the Licence Agreement is not an investment on the ground that it is not an 'asset in Panama, rather a limited and non-exclusive 'right to use' a Panamanian trademark'[14] and, even if it is considered an asset, it is neither owned nor controlled by BSAM. Interestingly, in spite of intellectual property rights (IPRs) being included in the definition of investment under the TPA, Panama questioned whether the Licence Agreement, which allowed to use the FIRESTONE and BRIDGESTONE trademarks, is an investment. According to Panama, the first question is whether the act comes within the definition of investment. The second question is whether IP rights are an investment.[15] This distinction was made based on the fact that the definition of investment under TPA includes other elements which need to be satisfied beforehand. To elaborate this, Panama claims that the right to use a Panamanian trademark on tires does not amount to an investment on the ground that 'if sales are not investments, the right to conduct sales is not one either'.[16] As Panama argues, the definition of investment under the TPA requires more than the mere existence of intellectual property rights. In other words, it must prove that the conduct is an asset which is owned and controlled directly or indirectly by BSAM.[17]

It is interesting to note that Panama makes a distinction between asset and intellectual property rights.[18] Panama defines an asset as:

> an *item **of property*** owned by a person or company, regarded as having value and available to meet debts, commitments or legacies.[19]

Based on the above definition, Panama argues that BSAM does not have a legitimate right because there is no evidence to show that it holds ownership of trademarks, not qualifying as property under Panamanian law.[20] Therefore, the inability of BSAM to assign the licence without the permission of licensor fails to fulfil the second element of assets: availability to meet debts.[21]

On the other hand, BSAM contends that its core investment is its BRIDGESTONE and FIRESTONE trademarks licence, which allowed BSAM to use, manufacture, sell, and distribute.[22] Therefore, this qualifies as an investment under the TPA and Article 25(1) of the International Centre for Settlement of Investment Disputes (ICSID) Convention. Citing previous arbitral decision, BSAM advised the Tribunal that the definition of investment under the TPA and the ICSID Convention should be understood together to give a broad meaning to the definition of investment.[23] BSAM highlighted that the right to royalty payments and trademarks fall within the ordinary meaning of Article 25.[24] In order to establish characteristics of investment BSAM identified the following points.

1. BSAM's activities of hiring, monitoring sales, and marketing in Panama reflect a commitment of 'some economic value'. Similarly, a commitment to capital is obtained through IPRs and, as BSAM highlighted, the trademarks are 'the brands that BSAM is spending capital to use and market'.[25]

2. The Licence Agreement gave BSAM the right to sell tires in Panama, and to enter into a franchise agreement, reflecting an intention to earn money in Panama.[26]

3. The Supreme Court decision results in dilution of the value of the trademark, hindering sales and profit, and giving rise to 'payment risk' from customers and distributors.[27]

4. The use of the BRIDGESTONE and FIRESTONE trademarks through a Licence Agreement since 2001 is evidence of duration of investment.[28]

BSAM rejected Panama's argument that BSAM transactions were simply cross-border sales. BSAM accepted that cross-border sales per se cannot be an investment but argued that they could be part of the activities of an investor.[29] In the words of BSAM, 'cross border sales are part of the activities in Panama in which BSAM is engaged on the basis of its intellectual property investment'.

It is interesting to note that Panama distinguished between intellectual property rights and the right to use the trademarks. The rationale for such distinction was made in reference to the text of the TPA. According to Panama, Article 10.29(f) refers to intellectual property rights which are different from the right to use the trademark. Their argument was based on the premise that trademarks, as intellectual property rights, are investments under Article 10.29(f), and the right to use the trademark, provided by the Licence Agreement, derives from the 'licence' clause of Article 10.29(g).[30] In making this distinction, Panama asserted that the Trademark Licence Agreement fell under the category of 'licence' and should therefore be assessed as an investment, as opposed to the trademark being assessed as an intellectual property investment. This argument was supported by showing that the Licence Agreement was not governed by US Law and that the claimant to the dispute is not the owner of the trademark. The distinction between intellectual property rights and right to use intellectual property, it was argued, establishes that the purported investment lacks the necessary characteristics of an investment. In addition, Panama argued that the claimant was not entitled to use the 'goodwill' of the brand because goodwill derives from IPRs which, in this case, the claimant did not possess.[31] BSAM clarified this point by comparing its licensing agreement with oil exploration and production licences where the licencee does not own the concession area but are entitled to explore and produce in that area in accordance with the Licence.[32]

2. When does a trademark qualify as an investment?

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

> Nor has this Tribunal been referred to any other decision that considers the circumstances in which a trademark can constitute an investment when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment.[33]

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

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

> The effect of registration of a trademark is negative. It prevents competitors from using that trademark on their products. It confers no benefit on the country where the registration takes place, nor, of itself, does it create any expectation of profit for the owner of the trademark. No doubt for these reasons the laws of most countries, including Panama, do not permit a trademark to remain on the register indefinitely if it is not being used.[34]

Answering the second question, the Tribunal confirmed that exploitation of a registered trademark may amount to an investment or have the characteristics of investment. According to the Tribunal, exploitation of a trademark requires manufacture, promotion, sales, marketing of goods that bear the mark, after-sale servicing, and guarantees.[35] To achieve this requires resources. Therefore, such exploitation might result in some benefit to the home states. To establish this point, the Tribunal cited the *Philip Morris v. Uruguay* case as an example of where ''the activities that included marketing the cigarettes under the trademark constituted a qualifying investment'.[36] The Tribunal elaborated that exploitation can be achieved by trademark owners or through franchise agreements which give 'exploitation rights' to the licencee for its own benefit.[37] The Tribunal also acknowledged the fact that, in some cases, qualified investment can be determined from interrelated activities. According to the Tribunal, 'interrelated activities' include selling products bearing the trademark. The Tribunal disagreed with Panama's argument that *'an interrelated series of activities, built round the asset of a registered trademark, that do have the characteristics of an investment does not qualify as such simply because the object of the exercise is the promotion and sale of marked goods'*,[38] and instead ruled that if Panama's argument was to be accepted, this would result in a preference of form over substance. Thus, the Tribunal concluded that, if the licencee can exploit the licence in the same manner as a trademark, this would be sufficient to consider it an investment.[39]

3. IP-driven contractual rights as assets

The BSAM Trademark Licence Agreement shows that the use of the licence is subject to approval by BSLS, and that BSLS retains all rights, title and interest in respect of the trademarks and goods associated with the mark.[40] Based on these two clauses, Panama argued that the restrictive nature of the licence cannot be described as an IPR, or license, or asset, as BSAM does not own or control the rights.

The Tribunal did not accept this argument, concluding that BSAM's exclusive right to use the mark meant that the 'goodwill' remained attached to the mark, and the question regarding the title of goodwill was therefore immaterial.[41] The Tribunal identified two important points from the Licence Agreement. First, BSAM is not granted any interest in the FIRESTONE mark. Second, BSAM possesses contractual rights to use the mark.[42] However, the questions before the Tribunal were whether a contractual right can be described as an 'asset' and, if so, does a contractual right under the Licence Agreement make BSAM the owner of that asset?

In the view of the Tribunal, both questions should be analysed based on the 'effect under the law of Panama of the FIRESTONE Trademark Licence'.[43] Based on the expert witness and cross examination, the Tribunal concluded that, under Panama's trademark law, the registered trademark constitutes intellectual property and the Licensor is allowed to pass its right to use its trademark to the licencee.[44] In the Tribunal's view, this is enough to conclude that the Licence Agreement grants intellectual property rights under Panama's trademark law. The Tribunal stated as follows:

> if the owner licences the use of the trademark, the licence constitutes an intellectual property right. The owner of the trademark has to use the trademark to keep it alive, but use by the licencee counts as use by the owner. The licencee cannot take proceedings to enforce the trademark without the participation of the owner…[45]

Regarding the question of contractual rights, the Tribunal didn't accept Panama's argument that inability to transfer or assign without the consent of licensor has hindered to treat such contractual rights as an asset. Similarly, on Panama's argument of lack of ownership and control, the Tribunal writes 'it is axiomatic that a licence must be obtained from the licensor, but that does not mean that the licencee does not own the licence.'[46] Also, the Tribunal acknowledged the fact that BSJ and BSLS as owners of BRIDGESTONE and FIRESTONE trademarks have passed their rights through the Licence Agreement to BSCR which allows exploiting rights. In the Tribunal's view, allowing the use of the trademark to BATO was an example of such exploitation. Thus, the Tribunal concludes that activities of BSCR to exploit the trademark together with the right under which they are entitled to do had the characteristic of investments.[47] In the Tribunal's words:

> Where the owner of a trademark licences its use to a licencee, it is necessary to distinguish carefully between the interest of the owner and the interest of the licencee, each of which may be capable of constituting an investment. If the owner does no more than grant a licence of the trademark, in consideration of the payment of royalties by the licencee, the value of the trademark to the owner will reflect the amount of royalties received, while the value of the licence to the licencee will reflect the fruits of the exploitation of the trademark, out of which the royalties are paid.[48]

IV. What next?

In the past, Philip Morris[49] and Eli Lilly[50] cases have created debate and concerns among IP scholars. Recent scholarship demonstrates that litigating IPRs in investor-state dispute settlement (ISDS) may undermine the flexibilities or balance achieved in the IP system. The ongoing Bridgestone v. Panama case offers a typical commercial dispute where IP lies at the heart of business transactions. If one looks at the grounds for arbitration in the Eli Lilly and Bridgestone cases, it reveals that investors were not satisfied with the national court decisions. As a result, investors are considering to litigate through ISDS as an alternative forum. It will be interesting to see the approach of the Tribunal in the present dispute in reviewing the domestic court decision in determining expropriation and FET claims. This raises a relevant question: How will the *ad hoc* international arbitral tribunal review the legality of domestic court decisions related to IPRs? It remains to see if the arbitral tribunal in *Bridgestone v. Panama* could offer guidance to the question.

Endnotes:

1 Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama (ICSID Case No. ARB/16/34) Decision on Expedited Objections [13 December 2017].

2 Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama (ICSID Case No. ARB/16/34) Request for Arbitration [7 October 2016], para. 56. ('the decision of the Panamanian Supreme Court operates as a *de facto* protectionist device, allowing potentially confusingly similar marks to enter into the market because intellectual property rights holders are unwilling to risk significant, apparently, arbitrary, penalties for their good faith use of the legal mechanisms intended to preserve those rights'.)

[3] *Bridgestone v Panama* Decision on Expedited Objections, para. 62.

[4] Ibid, para. 50.

[5] Ibid, para. 51.

[6] Ibid, para. 52.

[7] Ibid, para. 55.

[8] Ibid, para. 56; *Bridgestone v Panama* Request for Arbitration, para. 26.

[9] *Bridgestone v Panama* Request for Arbitration, para. 29.

[10] Ibid, paras. 32-36.

[11] Ibid, para. 41.

[12] *Bridgestone v Panama* Decision on Expedited Objections, para. 62.

[13] Ibid, para. 125.

[14] Ibid, para. 127.

[15] Ibid, para. 131.

[16] Ibid, para.132.

[17] Ibid.

[18] Ibid, paras. 132-133.

[19] Ibid, para. 133.

[20] Ibid.

[21] Ibid.

[22] Ibid, para. 135.

[23] Ibid, paras.136-137.

[24] Ibid, para. 138.

[25] Ibid, para. 143.

[26] Ibid.

[27] Ibid.

[28] Ibid.

[29] Ibid, para. 145.

[30] The United States-Panama Trade Promotion Agreement (TPA)-Art 10.29 (g)-'Investment means every asset that an investor….licenses, authorizations, permits, and similar rights conferred pursuant to domestic law'.

[31] *Bridgestone v Panama* Decision on Expedited Objections, para.150.

[32] Ibid.

[33] Ibid, para. 166.

[34] Ibid, para. 171.

[35] Ibid, para. 172.

[36] Ibid.

[37] Ibid, para. 173.

[38] Ibid, para. 176.

[39] Ibid, para. 180.

[40] Ibid, para. 183.

[41] Ibid, para. 184.

[42] Ibid, para. 186.

[43] Ibid.

[44] Ibid, para. 195.

[45] Ibid.

[46] Ibid, para. 197.

[47] Ibid, para. 217.

[48] Ibid, para. 219.

[49] Philip Morris Brands Sarl, Philip Morris Products S.A and Abal Hermanos S.A v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7.See also Pratyush Nath Upreti, 'Philip Morris v. Uruguay: A Breathing Space for Domestic IP Regulation,' *European Intellectual Property Review* 40 (2) (2018), pp. 277-284.

[50] Eli Lilly and Company v. The Government of Canada, UNCITRAL, ICSID Case No. UNCT/14/2. See also Pratyush Nath Upreti, 'Eli Lilly v Government of Canada: The tale of promise v expectation,' *International Arbitration Law Review* 21 (3) (2018), pp. 84-89.

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This brief is part of the South Centre's policy brief series focusing on international investment agreements and experiences of developing countries.

While the reform process of international investment protection treaties is evolving, it is still at a nascent stage. Systemic reforms that would safeguard the sovereign right to regulate and balance the rights and responsibilities of investors would require more concerted efforts on behalf of home and host states of investment in terms of reforming treaties and rethinking the system of dispute settlement.

Experiences of developing countries reveal that without such systemic reforms, developing countries' ability to use foreign direct investment for industrialization and development will be impaired.

The policy brief series is intended as a tool to assist in further dialogue on needed reforms.

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