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Potential Claims related to IP and Public Health in Investment Agreements: COVID-19, the Proposed TRIPS Waiver and Beyond

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Introduction

Although most discussions of intellectual property (IP) rights and COVID-19 focus on the proposed Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver, that is not the only issue of concern for countries during the COVID crisis. If the waiver is adopted, countries that incorporate the waiver in their own domestic laws may face liability under separate international agreements that provide rights based on investment claims to companies.[1] These international agreements provide "foreign" companies the right to bring investment claims against a country and obtain compensation that can be crippling, especially for countries in the Global South. Such agreements and claims existed before COVID, but are still applicable to domestic actions taken to address the emergencies presented by COVID.

Some history

Decades before the negotiation of the World Trade Organization (WTO) that led to TRIPS, countries started entering into international agreements that provided a new

Abstract

An under-examined issue during the COVID-19 crisis is the potential liability of countries under investment agreements for taking steps to mitigate COVID issues. This Policy Brief provides an overview of how countries may be liable to companies for taking domestic action to protect public health, including pre-COVID claims related to Intellectual Property (IP), as well as possible claims because of COVID emergency measures, including claims that could result if the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Waiver was adopted. The current COVID-19 crisis opens the opportunity to consider and reevaluate the unnecessary threat of international agreements that allow for investment claims and potentially consider their termination.

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La responsabilité des gouvernements vis-à-vis des entreprises, en vertu des accords d'investissement, s'agissant des mesures prises en vue d'atténuer les effets de l'épidémie de COVID-19 est parmi les questions qui n'ont pas été suffisamment étudiées durant la crise sanitaire. La présent rapport sur les politiques présente un aperçu de la manière dont les pays peuvent être responsable à l'égard des entreprises en raison des mesures prises à l'échelle nationale pour protéger la santé publique, notamment en ce qui concerne les litiges antérieurs à la pandémie de COVID-19 relatifs aux droits de propriété intellectuelle et les éventuels litiges concernant les mesures d'urgence mises en œuvre pour lutter contre la pandémie, notamment celles qui pourraient résulter de l'adoption de la proposition de dérogation aux dispositions de l'Accord sur les aspects des droits de propriété intellectuelle qui touchent au commerce (ADPIC). La crise actuelle du COVID-19 offre l'opportunité de considérer et de réévaluer la menace inutile des accords internationaux qui permettent les demandes d'investissement et d'envisager éventuellement leur résiliation.

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Un asunto que no se ha estudiado con la suficiente profundidad durante la crisis de COVID-19 es la responsabilidad potencial de los países al amparo de acuerdos de inversión por la adopción de medidas dirigidas a mitigar los problemas ocasionados por la COVID-19. En este informe sobre políticas se ofrece una visión general del modo en que los países pueden ser responsables de que las empresas adopten medidas nacionales que protejan la salud pública, entre ellas las reclamaciones previas a la COVID-19 relativas a la propiedad intelectual, así como posibles reclamaciones debidas a las medidas de emergencia relacionadas con la COVID-19, como las que podrían producirse de adoptarse la exención prevista en el Acuerdo sobre los Aspectos de los Derechos de Propiedad Intelectual relacionados con el Comercio (ADPIC). La actual crisis de la COVID-19 ofrece la oportunidad de considerar y reevaluar la amenaza innecesaria de los acuerdos internacionales que permiten las demandas de inversión y de considerar su posible terminación.

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way to permit foreign companies seeking financial compensation against countries that allegedly compromised their investments. These agreements were first concluded in the late 1950s as a way for newly independent countries to attract foreign direct investment from foreign companies that were hesitant to purchase property due to inadequately robust rule of law or government sovereign immunity.[2] The early agreements were bilateral agreements that created new claims based on investment of companies and permitted foreign, but not domestic companies to bring such claims against countries before an arbitration panel of three individuals modeled on private commercial arbitration.

After the conclusion of TRIPS, many free trade agreements included an investment chapter that provided investors rights and investment protection. The number of international agreements providing investor-state dispute settlement (ISDS) mechanisms expanded.[3] Today there are over three thousand agreements in effect, with developing countries often party to some of these agreements and thus potentially liable under them.[4] Indeed, developing countries have been subject to major awards, including for protecting the domestic economy during times of crisis, such as the Argentina economic crisis.[5]

International Investment Agreements vs. TRIPS

The goals of international agreements providing investment claims are distinct from TRIPS. Whereas TRIPS has language focusing on the need to balance rights of IP owners and users, investment agreements tend to focus solely on the rights of companies. Although more recent agreements include some focus on balancing the rights and obligations of investors, they do not modify the many existing agreements that solely focus on the rights of investors.

How international investment agreements function is also different than the WTO/TRIPS framework. TRIPS specifies minimum standards for all member nations to implement, with individual nations deciding on the exact parameters of their domestic laws. So, TRIPS itself creates no rights for individual companies on its own and the WTO dispute mechanism for alleged violations is only available to member countries. In contrast, international investment agreements provide new claims for companies to directly assert under these agreements. Although countries negotiated TRIPS as well as international investment agreements, only international investment agreements provide companies with resources for new claims.

In addition, whereas TRIPS was based on existing IP laws of many countries, international investment agreements generally created new rights for companies in the international arena that only sometimes even had domestic analogs. For example, most such agreements give investors a claim for expropriation, which includes not only state action to directly take property, but also any action that indirectly reduces value of property, such as revocation of a permit without just compensation.[6] Expropriation claims under these agreements may mirror domestic claims in some nations. However, the broadest and most frequently brought claim is for denial of fair and equitable treatment, which includes some claims that have no basis in domestic laws.[7] For example, while some types of these claims involve denial of procedural justice, it has been interpreted broadly to include a wide variety of conduct that reduces legitimate expectations of a company that sometimes include a stable legal and business environment which would generally not result in any domestic liability.[8]

Investment claims stand in marked contrast to TRIPS disputes both in terms of how often they are asserted, as well as how they are adjudicated. Although shortly after the WTO was created there were far more WTO disputes than ISDS claims, since 2003, known ISDS disputes have exceeded the number of WTO disputes filed per year, often by a substantial amount.[9]

In addition, there are serious financial repercussions to investment claims that do not exist with TRIPS disputes. Even if a WTO panel finds a country not in compliance with TRIPS, a country is simply required to bring its laws into compliance. No monetary sanctions ever come into play with TRIPS violations unless a country refuses to comply, and even then, the preferred remedy is to withdraw another WTO benefit, rather than monetary sanctions.[10] In contrast, investment claims can result in serious financial awards that are on average $500 million along with serious costs to simply defend the suit, which average $5 million per party without even considering additional costs of tribunal fees.[11] Accordingly, even if an investment claim does not result in an actual ruling against a country, simply bringing the claim may have a chilling effect on domestic actions.

Beyond potential financial repercussions, there are also major differences in how TRIPS and investment disputes are adjudicated. The outcomes of investment disputes are generally considered unpredictable, especially since there is no appellate review permitted for virtually all such disputes. In contrast, the WTO system has an appellate system in place to provide uniformity. The problems with inconsistent judgments and chilling of domestic actions have prompted discussion about the need to reform such agreements.[12]

Prior investment claims related to IP and health

Although international investment agreements were not framed to protect IP, using investment claims to protect IP is no longer a theoretical concept. Most early agreements did not explicitly list IP as an investment, but there is no real question that it is, even under such agreements. Indeed, when Eli Lilly brought a dispute against Canada under the North American Free Trade Agreement (NAFTA) which does not explicitly list IP as a type of investment, Canada notably did not challenge the investment claim premised solely on Eli Lily's IP rights.

Not only does IP constitute an investment by foreign companies that can give rise to investment claims, but these claims can challenge domestic actions taken to promote public health, including measures consistent with TRIPS flexibilities. Several early disputes show how nations that aim to limit public health harms from IP can be vulnerable to investment claims. There are two disputes involving implementation of plain packaging rules for tobacco products, which imposed domestic limits to trademark rights, consistent with the Framework Convention on Tobacco Control (FCTC), as well as one dispute challenging application of Canada's patent law that invalidated two Eli Lilly patents well within the scope of TRIPS flexibilities. A closer look at these disputes is warranted to help predict future disputes.

The first litigated investment claims regarding IP involved challenges by Philip Morris to domestic regulatory laws limiting use of trademarks consistent with the FCTC. Philip Morris threatened many countries, including wealthy ones such as Canada, that had capitulated to the pressure and avoided enacting pro-public health regulations.[13] Phillip Morris challenged Australia's law that barred trademark logos on cigarettes, which Philip Morris believed resulted in expropriation of its trademark rights.[14] Similarly, Philip Morris challenged Uruguay's laws that limited use of trademarks on tobacco products to twenty percent of the package, but not specifically barring logos, and sought $26 million in compensation.[15] These disputes by Philip Morris highlight problems with investment claims in general as well as how they are problematic for domestic action taken to protect public health.

The dispute against Australia suggested that Australia could be liable for an Investment claim for violating TRIPS. In addition, not only would the alleged TRIPS violation be decided by arbitrators who are typically commercial lawyers without WTO expertise, but their decision could have potentially resulted in a conflict with a WTO panel given that there was a parallel dispute.[16] This potential problem was avoided because the investment dispute was ultimately dismissed since the Philip Morris subsidiary bringing the action was found not to truly be a foreign company entitled to bring a dispute.[17] Although an immediate conflict was avoided, this dispute nonetheless exposes the fact that the WTO/TRIPS framework could be compromised. First, there could be inconsistent decisions under the two regimes. Moreover, financial repercussions under investment agreements for utilizing TRIPS flexibilities could make countries hesitant to use such flexibilities.

Although Uruguay ultimately prevailed as well concerning its domestic laws to limit tobacco use, that decision also raises concerns. First, it was not a unanimous decision, which should be concerning since the Uruguay laws were enacted to comply with World Health Organization (WHO) Guidelines concerning the Framework Convention on Tobacco Control. Also, even the arbitrators that ruled in Uruguay's favor premised their decision on state police power which would not be helpful for other situations that have been challenged, such as changes in common law that reduce the value of patents, as was the case with a challenge to Canada's laws.

Although Canada ultimately prevailed against a challenge by Eli Lilly to the fact that its change to its domestic patent law was based on the "promise doctrine", that dispute also raises serious concerns. Notably, scholars had noted that the challenged law was consistent with TRIPS flexibilities.[18] Nonetheless, Canada spent years defending this law and paid millions in fees. Although it was ultimately found not liable, there were some troubling aspects of the 2017 panel decision. First, the decision suggested that common law changes to IP laws can be challenged as expropriation, which is dramatically different than the history of expropriation being premised on physical takings. In addition, the panel thought that a unique law was necessarily suspect under the investment regime. This is totally contrary to fundamental TRIPS framework that is intended to permit nations to decide their own laws according to TRIPS minimums, as well as the idea of TRIPS flexibilities. The dispute does not guarantee domestic discretion in IP cases free of investment disputes, contrary to claims by some who may be tempted to see what they want, rather than what was decided.[19]

Potential investment claims as a result of COVID emergency measures

Although not regularly discussed in the news, investment claims should be a concern to countries, even for actions taken to address emergency situations under COVID. Indeed, firms have been suggesting to companies possible suits that they can assert against countries.[20] Some have recognized that investment claims are a major threat to countries. Some have suggested countries should resolve to suspend all COVID-related investment claims, potentially coordinated through the United Nations Conference on Trade and Development (UNCTAD) or the United Nations Commission on International Trade Law (UNCITRAL).[21] The International Institute for Sustainable Development proposed text for suspension of COVID claims and others have also called for a moratorium.[22] However, thus far, that has not happened. Accordingly, states currently remain vulnerable to investor claims.

So, what are possible claims from the COVID pandemic? Ironically, a successful waiver of TRIPS provisions would likely give rise to a claim for expropriation against every nation that elected to modify its domestic laws in line with such a waiver. After all, just as Eli Lilly claimed that invalidation of two patents expropriated their patent rights, companies would likely claim that suspension of all COVID-related patent rights would expropriate their claims. Such claims would seem to meet the basic requirement for expropriation in that the usual patent rights would lack any value at all, such that even though patents existed, they had been deprived of value. In addition, there would also be an argument that the companies with

COVID IP were deprived of fair and equitable treatment. Also, given Eli Lilly sought $500 million for invalidation of only two patents, the potential financial liability for the many unenforceable COVID patents would likely be substantial.[23] Moreover, unlike the Eli Lilly case that involved only patents, a waiver of TRIPS provisions also implicates a waiver of trade secrets as well and those are definitely at issue with the manufacturing of COVID vaccines.

Beyond a possible TRIPS waiver, there are also other potential investment claims. For example, although opponents to the waiver suggest that compulsory licenses should instead be used to address the COVID crisis, such licenses would make a state vulnerable to a claim for expropriation. Long before COVID, scholars have noted that compulsory licenses could give rise to investment claims[24] and there have been actual investment claims asserted. For example, after Colombia suggested that it might issue a compulsory license in 2016 for a cancer drug that was priced at nearly double the gross national income per capita, it was threatened with an investor-state dispute which likely led to Colombia declining to issue the license.[25]

Although most investment agreements have clauses permitting exceptions from investment claims, given that nations have been found liable for millions in compensation during crises, the fact that nations are presently taking action to address the crisis does not guarantee that they will prevail against such claims. Moreover, even if they might ultimately prevail, some nations faced with an investment dispute may capitulate in the face of such a claim and fail to take public health protective action. After all, that was the pattern that was seen repeatedly when Philip Morris challenged countries that sought to modify domestic laws to limit tobacco use.

Next steps?

The current COVID-19 crisis should be considered a useful opportunity to consider and reevaluate the unnecessary threat of international agreements that provide investment claims. Nations, especially those in the Global South, should strongly reevaluate the benefit-risk ratio and potentially consider termination. Even before COVID, the number of terminations of agreements had been greater than new agreements providing investment claims.

Endnotes:

[1] See in this regard Carlos Correa, Nirmalya Syam and Daniel Uribe, *Implementation of a TRIPS Waiver for Health Technologies and Products for COVID-19: Preventing Claims Under Free Trade and Investment Agreements*, Research Paper, No. 135 (Geneva, South Centre, 2021). Available from https://www.southcentre.int/research-paper-135-september-2021/.

[2] Germany and Pakistan signed the first such agreement in 1959. United Nations Conference on Trade and Development (UNCTAD), *Bilateral Investment Treaties in the Mid-1990s*, UNCTAD/ITE/IIT/7, Sales No. E. 98.II.D.8 (1998), pp. 8–10.

[3] Whereas there were relatively few international investment agreements concluded in the 80s, the number began to rise in the early 90s, and spiked in 1995 after the WTO agreement was signed. UNCTAD, "Recent Developments in the IIA Regime: Accelerating IIA Reform" (August 2021). Available from https://unctad.org/system/files/official-document/diaepcbinf2021d6_en.pdf.

[4] UNCTAD, International Investment Agreements Navigator. Available from https://investmentpolicy.unctad.org/international-investment-agreements.

[5] Ibid. Moreover, several cases against Argentina came to different conclusions regarding the same facts despite identical tribunal composition. Leon E. Trakman, "The ICSID Under Siege", *Cornell International Law Journal,* vol. 45 (2012), pp. 604, 642-43.

[6] Columbia Center on Sustainable Investment, "Primer: International Investments and Investor-State Disputes", 2019. Available from https://ccsi.columbia.edu/content/primer-international-investment-treaties-and-investor-state-dispute-settlement.

[7] UNCTAD, *Fair and Equitable Treatment, a Sequel, UNCTAD Series on International Investment Agreements II* (Geneva, 2012), p. 10.

[8] Fiona Marshall, "Fair and Equitable Treatment in International Investment Agreements", Issues in International Investment Law: Background Papers for the Developing Country Investment Negotiators' Forum (IISD, October 2007), p. 11.

[9] Organisation for Economic Co-operation and Development (OECD), "The Impact of Investment Treaties on Companies, Shareholders and Creditors", in *OECD Business and Finance Outlook* (2016), figure 8.1. Available from https://www.oecd.org/daf/inv/investment-policy/BFO-2016-Ch8-Investment-Treaties.pdf.

[10] If a WTO panel rules that a domestic law is inconsistent with a member's obligations, the complaining member may apply such retaliatory measures. Understanding on Rules and Procedures Governing the Settlement of Disputes, art. 22, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401; WTO, Legal Effect of Panel and Appellate Body Reports and DSB Recommendations and Rulings. Available from https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c7s1p1_e.htm. The WTO does not have authority to require countries to actually change its laws, though failure to comply can lead to retaliatory trade sanctions (suspending usual WTO requirements) by another country as a mechanism to encourage a change. WTO, Dispute Settlement Understanding, arts. 3.7, 22.1; see also WTO, Evaluation of the WTO Dispute Settlement System: Results to Date (noting that in most cases the suspension of obligations results in implementation). Available from https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c12s3p1_e.htm.

[11] The United Nations Commission on International Trade Law (UNCITRAL) has been discussing the need to reform the investor-state dispute system since 2017 and is now entering the final phase of considering specific reforms. Sofia Balino, "UN Negotiations to Reform Investor-State Arbitration Reach Critical Juncture", *International Institute for Sustainable Development (IISD),* 30 April 2021. Available from https://www.iisd.org/articles/un-negotiations-reform-investor-state-arbitration-reach-critical-juncture.

[12] Secretariat of the UNCITRAL, "UNCITRAL Working Group III: Investor-State Dispute Settlement Reform", April 21, 2021. Available from

https://www.ohchr.org/Documents/Issues/Business/WG/Submissions/Others/UNCITRAL.pdf; Lise Johnson and Lisa Sachs, "The Outsized Costs of Investor-Stated Dispute Settlement", *AIB Insights,* vol. 16 (2016), p. 10. Available from https://scholarship.law.columbia.edu/cgi/viewcontent.cgi?article=1113&context=sustainable_investment_staffpubs.

[13] James Gathii and Cynthia Ho, "Regime Shifting of IP Lawmaking and Enforcement from the WTO to the International Investment Regime", *Minnesota Journal of Law, Science & Technology,* vol. 18 (2017), pp. 427, 451-53.

[14] *Phillip Morris Asia Ltd. V. Australia,* PCA Case. No. 2012-12, Written Notification of Claim (BIT/UNCITRAL Arbitration Tribunal, 27 June 2011).

[15] *Philip Morris Brands Sarl v. Oriental Republic of Uruguay*, ICSID Case No. ARB/10/7, Request for Arbitration (19 February 2010).

[16] Cynthia M. Ho, "A Collision Course Between TRIPS Flexibilities and Investor-State Proceedings", *UC Irvine Law Review,* vol. 6 (2016), p. 395.

[17] *Philip Morris v. Uruguay*, ICSID Case NO. ARB/10/7, Award (July 8, 2016).

[18] Dr. Burcu Kilic & Professor Brook Baker, "Amicus Curiae Submission, Eli Lilly and Company v. the Government of Canada", 12 February 2016. Available from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2791659.

[19] Cynthia M. Ho, "Inside Views: TRIPS Flexibilities Under Threat from Investment Disputes: A Closer Look at Canada's "Win" Against Eli Lilly", IP-Watch, 27 April 2017. Available from https://www.ip-watch.org/2017/04/27/trips-flexibilities-threat-investment-disputes-closer-look-canadas-win-eli-lilly/.

[20] Pia Eberhardt, "Cashing in on Covid", *Socialist Lawyer,* vol. 85 (2020), p. 30.

[21] Nathalie Bernasconi-Osterwalder and others, "Protecting Against Investor State Claims Amidst Covid-19: A Call to Action for Government", *IISD Commentary* (April 2020), pp. 6-8; James Bacchus & Jeffrey Sachs, "Why we need a moratorium on investment disputes during COVID-19", *The Hill,* 9 June 2020.

[22] IISD, Agreement for the Coordinated Suspension of Investor-State Dispute Settlement with Respect to Covid-19 Related Measures and Disputes, Proposed Text and Commentary (18 June 2020). Available from https://www.iisd.org/system/files/2021-02/suspension-isds-covid-19-en.pdf; Call for ISDS Moratorium during COVID-19 crisis and response. Available from https://www.bilaterals.org/?call-for-isds-moratorium-during.

[23] *Eli Lilly & Co. v. Canada*, Notice of Arbitration, para. 85 (NAFTA/UNCITRAL Arb. Trib., Sept. 12, 2013).

[24] Carlos Correa, "Investment Protection in Bilateral and Free Trade Agreements: Implications for the Grant of Compulsory Licenses", *Michigan Journal of International Law,* vol. 26 (2004), p. 331; Cynthia M. Ho, "Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions", *Berkley Tech. Law Journal*, vol. 30 (2015), pp. 213, 286-89. However, some investment agreements (see e.g. the US and Canadian Model BITs) provide that such licenses do not constitute expropriation if granted consistently with the TRIPS Agreement (and other relevant provisions in free trade agreements where applicable).

[25] "Compulsory licensing in Columbia: Leaked documents show aggressive lobbying by Novartis", *Public Eye*, 12 April 2017. Available from https://www.publiceye.ch/en/media-corner/press-releases/detail/compulsory-licensing-in-colombia-leaked-documents-show-aggressive-lobbying-by-novartis.

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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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