REPACKAGING INTELLECTUAL PROPERTY PROTECTION IN INTERNATIONAL INVESTMENT LAW: LESSONS FROM THE PHILIP MORRIS V. URUGUAY CASE

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Abstract

This paper analyzes the protection of intellectual property in international investment law, more specifically the conflict between trademark protection and tobacco control exemplified by the Philip Morris v. Uruguay case. The main questions this paper aims to answer are how and to what extent may the adoption of tobacco control measures by states can be considered violations of investment treaty provisions protecting trademarks of tobacco companies. This analysis demonstrates that the adoption of tobacco control measures might not be considered a violation of investment treaty provisions protecting trademarks of tobacco companies as long as they are enacted to control the presentation of tobacco products in the domestic market; do not constitute a substantial deprivation of the value, use, or enjoyment of the investment; and are adopted in accordance with other international commitments and legitimate national public health objectives.

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I. Introduction

The advancement of scientific, technological, and informational means has allowed capital and knowledge to become increasingly mobile, transposing the borders of sovereign states more easily than ever. This phenomenon has led to a significant change in the way countries protect and promote foreign investment, because it requires a deeper cooperation and coordination among the nations involved.[1] In order to guarantee legal security to these transactions, international investment agreements were adopted to protect foreign investors and intangible assets holders.[2]

Notwithstanding the increased predictability conferred by such international instruments to overseas businesses, there is a growing debate over whether such agreements might need to be recalibrated in order to reflect the interests of foreign investors, civil society, and host states in a more balanced manner.[3] It is argued that such arrangements are mainly "foreign investor centric" and excessively limit the host state's policy space to implement measures on behalf of the public interest.[4] The adjustment of such imbalances could improve the international investment regime so that the benefits of transboundary capital flows could be spread as far and wide as possible.[5]

Therefore, this paper aims to analyze the protection of intellectual property in international investment law and, more specifically, the conflict between trademark protection and tobacco control, as exemplified by *Philip Morris v. Uruguay*.[6] The main questions that this study aims to answer is how and to what extent the adoption of tobacco control measures by states may be considered to be a violation of investment treaty provisions protecting trademarks of tobacco companies.

1. *See* Carolyn D. Birkbeck & Kimberley Botwright, Int'l Ctr. for Trade and Sustainable Dev. & World Economic Forum, *The Future of the Global Trade and Investment Architecture: Pursuing Sustainable Development in the Global Economy*, E15 Conversations on the Global Trade & Investment Architecture, Nov. 2015, at 3-4.

2. *See id.* at 4.

3. *See generally* Fabio Morosini & Michelle R. S. Badin, *Reconceptualizing International Investment Law from Global South: an Introduction*, *in* RECONCEPTUALIZING INTERNATIONAL INVESTMENT LAW FROM THE GLOBAL SOUTH (Fabio Morosini & Michelle R. S. Badin eds., 2017).

4. *See id.* at 3.

5. *Id.*

6. *See generally* Philip Morris Brands Sàrl, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Decision on Jurisdiction (Jul. 2, 2013), http://icsidfiles.worldbank.org/icsid/ICSIDBLOBS/OnlineAwards/C1000/DC3592_En.pdf.

This issue will be evaluated through a perspective that encompasses the rebalancing of rights and obligations of different stakeholders, such as government, civil society, and the tobacco industry. The relevance of this work resides in contributing to the discussions of how to harmonize the conflict between investment, intellectual property, and public health precepts.

This study is divided into three main parts. The first section addresses the interplay between the protection of intellectual property and foreign investment regimes. It focuses on the cross-cutting legal issues of these two international regimes that have been historically developed in two different pathways. The second section presents the debate involving the preservation of State policy space to enact regulations aimed at protecting public interests, such as environmental protection, human life and health, and preservation of nonrenewable natural resources, even if they might affect the interests of private corporations. The third section analyzes the *Philip Morris v. Uruguay* investment dispute. This case is particularly important because it sheds light on how countries could reassure their right to regulate public health, despite its adverse effects on intellectual property and investments rights. The relevance of this work resides in contributing to the discussions of how to harmonize the conflict between foreign investment, intellectual property rights, and public health precepts.

II. The Interplay between the Protection of Intellectual Property and International Investment Agreements

The international regimes of intellectual property protection and foreign investment have developed on different pathways. Their rules, principles, dispute settlement, and enforcement mechanisms were established according to their own practice.[7] They depart from different logics of protection, which, given the growing complexity of the international law regime, have become increasingly intertwined.[8] In order to understand the cross-cutting issues of both regimes, it is necessary to understand in the first place their conception.

The formation of the international intellectual property system dates back to the end of the nineteenth century. This epoch is marked by a great interest in the possibility of international cooperation on

7. *See* Carlos Correa & Jorge E. Viñuales, *Intellectual Property Rights as Protected Investments: how open are the gates?*, 19 J. Int'l Econ. L. 91, 91 (2016).

8. *See generally* Amaral Júnior, *O Diálogo das Fontes: Fragmentação e Coerência no Direito Internacional Contemporâneo*, 2 Anuário Brasileiro de Direito Internacional 11 (2008).

intellectual property matters.[9] Authors and inventors from different countries grew ever more interested during the period in adopting legal instruments that could prevent their work/invention from being pirated/counterfeited when crossing national borders.[10] The coordination of international demands resulted in the adoption of bilateral and regional treaties, culminating with the adoption of the 1883 Paris Convention for the Protection of Industrial Property and the 1886 Berne Convention for the Protection of Literary and Artistic works.[11]

The Bern and the Paris Conventions mark the creation of a multilateral system of intellectual property rights (IPRs) protection.[12] They were administered by two small independent bureaus until 1893, when their secretariats were merged to create the United International Bureau for the Protection of Intellectual Property, usually known as its French acronym BIRPI (Bureaux Internationaux Réunis pour la Protection de la Propriété Intellectuelle).[13] Through the adoption of the Stockholm Convention, the BIRPI was transformed into the World Intellectual Property Organization (WIPO) in 1967, becoming a specialized agency of the United Nations in 1974.[14] Currently, the WIPO is the main forum for intellectual property services, policy information, and cooperation, responsible for administering twenty-six intellectual property treaties.[15]

However, due to the deficiencies found in the previous intellectual property agreements—such as fragmented coverage of IPRs, limited membership, and the lack of effective enforcement and dispute settlement mechanisms—calls for the adoption of a new agreement linked to the multilateral trading system started to be articulated.[16] Although some intellectual property agreements already provided for enforcement mechanisms, such as appeals to the International Court of Justice (ICJ) in the Paris (Art. 28.1) and Berne (Art. 33.1) Conventions, most

9. Peter Drahos, World Intellectual Prop. Org., *The Universality of Intellectual Property Rights: Origins and Development*, *in* INTELLECTUAL PROPERTY AND HUMAN RIGHTS 13-16 (1999).

10. *See* Andreas F. Lowenfeld, INTERNATIONAL ECONOMIC LAW 338 (2d ed. 2011).

11. *Id.* at 338.

12. Drahos, *supra* note 9, at 7.

13. Lowenfeld, *supra* note 10, at 339.

14. World Intellectual Property Organization, WIPO INTELLECTUAL PROPERTY HANDBOOK 4 (2nd ed. 2004).

15. *WIPO Administrated Treaties*, WORLD INTELLECTUAL PROP. ORG., (Apr. 12, 2018), http://www.wipo.int/treaties/en/.

16. *See* Peter Van Den Bossche & Werner Zdouc, THE LAW AND POLICY OF THE WORLD TRADE ORGANIZATION 953 (3rd ed. 2013).

countries took reservations on such clauses.[17]

Aiming at introducing systematic reforms in the international IPRs system, the United States and the European Union were the main supporters of the initiative to link intellectual property rights to the world trading system.[18] In opposition, India and Brazil led the coalition against the inclusion of the topic in the multilateral trade talks, claiming that the regulation of the matter would benefit mainly rich countries to the detriment of technology diffusion in poor countries.[19]

Eventually, developing countries agreed to include the topic in the Uruguay Round (1986-1994) as long as some liberalization in the agricultural sector was granted.[20] Although the 1947 General Agreement on Tariffs and Trade (GATT)[21] had already introduced some references to intellectual property rights, the Uruguay Round was the first time that intellectual property was introduced as a specific topic in the multilateral trading system.[22] After long negotiations, countries signed the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) on April 15, 1994 in Marrakesh.[23] The TRIPS was incorporated as the 1C Annex of the World Trade Organization (WTO) Constitutive Agreement, binding all Members of the newly created international organization.[24]

The TRIPS Agreement establishes a minimum standard of protection in 7 categories of intellectual property rights, namely: (i) copyright and related rights; (ii) trademarks; (iii) geographical indications; (iv) industrial design; (v) patents; (vi) layout-designs (topographies) of integrated circuits; and (vii) protection of undisclosed information.[25] This minimum standard was established through the incorporation of

17. Drahos, *supra* note 9, at 9.

18. *See* Vera Thorstensen, Daniel R. Castelan, Daniel. Ramos & Carolina Muller, *Propriedade Intelectual*, *in* OS BRICS NA OMC: POLÍTICAS COMERCIAIS COMPARADAS DE BRASIL, RÚSSIA, ÍNDIA, CHINA E ÁFRICA DO SUL 193, 193 (Vera Thorstensen & Ivan T.M. Oliveira eds., 2012).

19. *See* Barbara Rosenberg, *Propriedade Intelectual*, *in* O BRASIL E OS GRANDES TEMAS DO COMÉRCIO INTERNACIONAL 273, 276 (Vera Thorstensen & Marcos S. Jank eds., 2005).

20. Thorstensen et al., *supra* note 18, at 193.

21. The GATT refers to intellectual property rights in the three following articles: XX(d); IX; XII:3(c)(iii); and XVIII:10.

22. *See* Van Den Bossche & Zdouc, *supra* note 16, at 953.

23. Anthony Taubman, Hannu Wager & Jayashree Watal, *A Handbook on the WTO TRIPS Agreement* 8 (2012).

24. *See id.*

25. A. Amaral Júnior, *Curso de Direito Internacional Público* 660 (4th ed. 2013).

provisions of the Paris, Bern, Rome,[26] and Washington[27] Conventions as well as the elaboration of additional norms.[28] More importantly, "IPRs have become a mandatory part of the WTO system, binding on all members alike and fully subject to WTO dispute settlement."[29] As a consequence, the scope of intellectual property's global governance has been considerably expanded and its mechanisms of law enforcement improved.[30]

The formation of the international regime of foreign investment protection dates back to the end of the Second World War.[31] Even though Friendship, Commerce and Navigation Treaties concluded throughout the eighteenth century already established rights and guarantees to foreign investors when settling overseas for commercial purposes, it was in the aftermath of the Second World War that the matter started to be categorically regulated.[32]

In this period, the two main pillars of International Investment Law were developed. The first pillar comprises the adoption of Bilateral Investment Treaties (BITs) as the main instrument to regulate foreign investment between nations. This new phase was inaugurated after the signing of the first BIT between Germany and Pakistan in 1959.[33] The main purposes of these treaties, according to Salacuse and Sullivan, are: (i) the promotion of more investments; (ii) the protection of investors in the case of an action from the host state that interferes with the property rights or investors' activities abroad; and (iii) liberalization, which aims to facilitate the entry and operation of investments

26. The Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations was *signed* in Rome on October 26, 1961 and entered into force on May 18, 1964.

27. The Washington Treaty was signed in Washington on May 26, 1989, but it has not yet entered into force. Treaty on Intellectual Property in Respect of Integrated Circuits, signed May 26, 1989, WIPO [hereinafter Washington *Treaty*].

28. Frederick Abbott, Thomas Cottier & Francis Gurry, *International Intellectual Property in an Integrated World Economy* 22 (2007).

29. Julien Chaisse & Puneeth Nagaraj, *Changing Lanes: Intellectual Property Rights, Trade and Investment*, 37 HASTINGS INT'L & COMP. L. REV. 223, 225 (2014).

30. Christopher May, *A Global Political Economy of Intellectual Property Rights: The New Enclosures?* 68 (2000).

31. UNCTAD, *International Investment Agreements: Key Issues* 7 (2004).

32. Muthucumuaraswamy Sornarajah, *The International Law on Foreign Investment* 180 (3d ed. 2010).

33. J. Scandiucci Filho, *O Brasil e os Acordos Bilaterais de Investimento*, *in* Regulamentação Internacional dos Investimentos: algumas lições para o Brasil 271, 278 (A. Amaral Júnior & M. Badin eds., 2007).

in the host state.[34] The second pillar is the development of an international investor-state arbitration system, which enables foreign investors to access the international arbitral tribunals to claim their rights often violated by host states.[35] The most prominent organization that administers investor-state arbitrations is the International Centre for Settlement of Investment Disputes (ICSID), created by the Washington Convention in 1965.[36]

The 1960s and the 1970s were marked by the growing decolonization movements and the resulting creation of new countries and cessions of territories.[37] Because of this historical factor, the dynamics of first BIT negotiations were characterized by the need to control natural resources and the nationalization of key industries.[38] Developed countries, which usually were capital exporters, sought to ensure legal certainty vis-à-vis developing countries, which were usually recipients of foreign investment.[39]

Since the adoption of the BIT between Germany and Pakistan in 1959, the international investment regime has expanded significantly. Conforming to the 2016 United Nations Conference on Trade and Development (UNCTAD) World Investment Report, the number of International Investment Agreements (IIAs) reached the sum of 3,304 by the end of 2015.[40] Of those, 2,946 are BITs and 358 are Treaties with Investment Provisions (TIPs).[41]

Currently, there is no central international organization to "coordinate, regulate, or provide a framework for the structure or content of these thousands of agreements."[42] The Organization for Economic Cooperation and Development (OECD) countries attempted to develop a Multilateral Agreement on Investment (MAI) in the 1990s to ensure

34. J. Salacuse & N. Sullivan, *Do BITs Really Work? An Evaluation of Bilateral Investment Treaties and their Grand Bargain*, 46 HARV. INT'L L. J. 67, 130 (2005).

35. M. Ribeiro & Ely Xavier Júnior, *Introdução*, *in* DIREITO INTERNACIONAL DOS INVESTIMENTOS 1, 7 (M. Ribeiro org., 2014).

36. ELY XAVIER JÚNIOR, DIREITO INTERNACIONAL DOS INVESTIMENTOS: O TRATAMENTO JUSTO E EQUITATIVO DOS INVESTIDORES ESTRANGEIROS E O DIREITO BRASILEIRO 52 (2016).

37. UNCTAD, *supra* note 31, at 7.

38. *Id.*

39. *Id.*

40. UNCTAD, 2016 WORLD INVESTMENT REPORT: INVESTOR NATIONALITY – POLICY CHALLENGES 101 (2016).

41. *Id.*

42. Christopher Gibson, *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*, 25 AM. U. INT'L L. REV. 357, 376 (2010).

higher standards of protection and legal security for foreign investors.[43] This agreement was meant to be legally binding and open to non-OECD member states. However, due to the opposition of civil society and divergences among OECD countries, the initiative was abandoned in 1998.[44]

The lack of a general investment treaty allowed the proliferation of conventional instruments, and particularly of BITs.[45] Even now, there is still no single coherent and unique normative framework governing all aspects of the international investment regime. Nevertheless, the content of BITs has become increasingly standardized throughout the years, though the international investment regime remains fragmented, uncoordinated, and non-hierarchical.[46]

Notwithstanding their different origin and objectives, the international intellectual property protection and the foreign investment regimes overlap. The point of intersection between these two regimes materialized through the incorporation of intellectual property in the BIT's definition of investment.[47] This practice is far from novel.[48] The first modern BIT between Germany and Pakistan (1959) already included in its definition of investment "assets such as [...] patents and technical knowledge."[49]

In light of the fast development of advanced industries that depend on patent and know-how protection, such as pharmaceuticals, biotechnology, and information and communication technology (ICT), the inclusion of IPRs in the definition of investment constitutes an astute strategy.[50] This provides the IPRs holder "with legal protection

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43. *Carlos* Correa, *Bilateral Investment Agreements: Agents of New Global Standards for the Protection of Intellectual Property Rights?*, 1 TRANSNAT'L DISP. MGMT. 1, 21 (2004).

44. *Id.*

45. DOMINIQUE CARREAU & PATRICK JUILLARD, DROIT INTERNATIONAL ÉCONOMIQUE 463 (5th ed. 2013).

46. *Id.*

47. Correa & Viñuales, *supra* note 7, at 91-92.

48. Liberti highlights that "the reference to intellectual property rights was already a common feature of the U.S. Friendship Commerce and Navigation (FCN) Agreements before the expansion of BITs." For example, the 1903 U.S. - China FCN already provided for copyright protection. Lahra Liberti, *Intellectual Property Rights in International Investment Agreements: An Overview*, 1 OECD Working Papers on International Investment 3, 6 (2010).

49. According to the Germany-Pakistan BIT, in the Article 8 (1) (a): "The term 'investment' shall 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. The term 'investment' shall also include the returns derived from and ploughed back into such 'investment'."

50. UNCTAD, *Intellectual Property Provisions in International Investment Arrangements* 2 (2007).

necessary to support entry into a foreign market for investment (or trade) and to maintain a competitive position in that market."[51]

It is important to stress, however, that the primary target of the two protective regimes is different. As observed by Correa and Viñuales, "while IPRs protect an asset against acts (infringements) by third parties, the protection under BITs is conferred against actions/omissions by States, such as direct or indirect expropriation or other impairments."[52] Besides, Ruse-Khan emphasizes that, while BITs contain standards of treatment which an individual foreign investor can invoke against a host state's measures to protect his investments abroad, international IP treaties oblige states to harmonize their domestic IP laws in order to offer foreign right holders adequate protection abroad for marketing goods and services with IP content.[53]

In a recent survey carried out by Correa and Viñuales, the authors identified that there are mainly four approaches to including IPRs within the definition of the term investment, namely: (i) by referring simply to "property" or "assets" of different types without express mention to IPRs; (ii) by referring generally to IPRs or to "intangible property"; (iii) by including an enumeration of the intangible assets covered, whether or not the list is explicitly characterized as non-exhaustive; and (iv) by referring explicitly to domestic or international law.[54] Each of these definition possibilities may have different legal implications.[55]

The main general consequence of including IP in the definition of investment resides in subjecting intellectual property "to the general guarantees afforded to investor under the BIT."[56] Examples of guarantees include fair and equitable treatment, protection against unlawful expropriation, free transfer of funds, and an investor-state dispute settlement mechanism. Even though the great majority of BITs do not provide a detailed regulation of IPRs, they "do formally and substantively raise the level of IP protection from the pre-treaty status."[57] Through the incorporation of IP into a broad definition of investment,

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51. Gibson, *supra* note 42, at 367.

52. Correa & Viñuales, *supra* note 7, at 91-92.

53. Henning Grose Ruse-Khan, *Investment Law and Intellectual Property Rights*, *in* INTERNATIONAL INVESTMENT LAW: A HANDBOOK 1692, 1708 (M. Bungenberg, J. Griebel, S. Hobe & A. Reinisch eds., 2015).

54. Correa & Viñuales, *supra* note 7, at 93.

55. *See id.*

56. UNCTAD, *supra* note 50, at 4.

57. Valentina Vadi, *Towards a New Dialectics: Pharmaceutical Patents, Public Health and Foreign Direct Investment*, 5 NYU J. INTELL. PROP. & Ent. L. 113, 115 (2015).

BITs influence "the exercise of IPRs laws and in particular the capacity of host countries to control the acquisition and use of IPRs by foreign title-holders."[58]

Nevertheless, it is worth noting that the inclusion of IPRs in the definition of investment does not affect the territoriality principle, which determines that IPRs "do not extend beyond the territory of the sovereign that has granted the rights in the first place."[59] That is to say, IPRs are granted by virtue of national laws and limited to the territory of the granting state. Therefore, in order for an IP holder to be considered an "investor" and be entitled to protection under a BIT, the subject matter at issue must be protected in the host country.[60] Hence, BITs "do not create individual (intellectual) property rights, but merely protect (intellectual) property rights as far as they exist in domestic law."[61]

Central to this Article's analysis are also the non-discrimination principles shared between the international IP and investment law, particularly national treatment and most-favored-nation (MFN). They constitute cornerstones and longstanding features of both international regimes and are designed to prohibit discrimination in favor of locals over foreigners (national treatment) or between foreigners (MFN).[62] The application of those principles with regard to IPRs as protected investment raises mainly two issues.[63]

The first one regards whether national treatment and MFN obligations in BITs could be applied as to override the accepted reciprocity exceptions established in intellectual property agreements.[64] The application of those principles in the IPRs agreements' context is subject to a number of cautiously negotiated exceptions.[65] The extent to which those exceptions would subsist the application of the national principle and MFN in a BITs' context is uncertain and can be clarified only case-by-case.[66]

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58. Carlos Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, 26 MICH. J. INT'L L. 331, 335 (2004).

59. Drahos, *supra* note 9, at 19.

60. Bryan Mercurio, *Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements*, 15 J. INT'L ECON. L. 871, 915 (2012). There is, however, one exception. Correa highlights the case of well-known trademarks, which receive protection without prior registration (TRIPS Agreement Article 16.2), Correa, *supra* note 43, *at* 10.

61. Ruse-Khan, *supra* note 53, at 1697.

62. Mecurio, *supra* note 60, at 882-83.

63. Ruse-Khan, *supra* note 53, at 1700.

64. See the exceptions in TRIPS Agreement Articles 3 (national treatment), 4 (MFN), Paris Convention Article 2 (national treatment), Bern Convention Article 5, Rome Convention Article 2.2 and Washington Treaty Article 5.2.

65. Correa, *supra* note 43, at 10.

66. *Id.* at 11.

The second issue concerns the elevation of IPRs' protection standards through the application of MFN in BITs. The MFN limits host countries' policy space with respect to future investment agreements because it requires the host country to unilaterally extend to investors from BITs partners any additional right that it grants to third countries in future agreements.[67] As MFN permits the application of any future concession to IPR holders protected under the relevant BIT, the risk is that such cross-fertilization "could be used to extend protection beyond what is already provided."[68]

Another key point of the interface between the two regimes regards the settlement of disputes. Traditionally, international disputes involving IPRs obligations, such as the ones foreseen in the WIPO-administered treaties and in the TRIPS Agreement, are settled between states.[69] The inclusion of IPRs in the definition of investment constitutes a new avenue for settling this kind of dispute because it enables the investor to directly bring an IP claim against the host state.[70] The majority of BITs provide for the settlement of disputes through the investor-state arbitration according to the rules of the International Centre for Settlement of Investment Disputes (ICSID) or the United Nations Commission on International Trade Law (UNCITRAL), among other options less frequent such as the International Chamber of Commerce (ICC), or the Stockholm Chamber of Commerce (SCC).[71] This possibility introduces an extra enforcement mechanism for IPRs holders engaged in foreign investment, because they no longer have to rely solely on the host state's judicial system nor on lobbying before its own government to settle the dispute.

Accordingly, the claim can be brought directly against the host state in arbitration.[72] This includes challenging governmental measures that supposedly have a negative impact on the IP-based investment, for example, "the issuance of a compulsory license over a foreign investor's patents that comprise an integral part of the foreign investment."[73] From Chaisse and Nagaraj's perspective, this settlement avenue secures the rights of investors but exposes host states' IP measures to treaty obligations and investor-state dispute

67. *Id.* at 12.

68. Mecurio, *supra* note 60, at 886.

69. Susy Frankel, *Interpreting the Overlap of International Investment Property Law*, 19 J. INT'L ECON. L. 121, 121-22 (2016).

70. Vadi, *supra* note 57, at 118.

71. Xavier Júnior, *supra* note 36, at 51-52.

72. Frankel, *supra* note 69, at 121.

73. Gibson, *supra* note 42, at 374-75.

settlement, which may provide much greater assurance of compliance than state-state dispute settlement.[74]

The above-mentioned examples are just some of many intersections between the international IP and the investment regimes. They help us to understand the broad picture that pervades the current disputes involving IPRs protection and enforcement through BITs. In order to fully assess the implications of the *Philip Morris v. Uruguay* case, it is also necessary to consider how much room the state has to implement public interest measures in an investment agreement's context.

III. Policy Space for Domestic Public Interest and Trade and Investment Agreements

Nowadays, the new generation of Bilateral and Preferential Trade and Investment Agreements aims explicitly at supporting the formation of global value chains and attends the preferences of transnational corporations. There are tensions, however, between the goals of trade liberalization to generate global and national wealth and the protection and promotion of public interests.[75]

When investors choose to invest abroad, they typically claim high levels of protection and require from the host governments a greater industry involvement in policy-making.[76] In this sense, they may restrict the state regulatory scope, for instance, by requiring "changes in the domestic policies to enable [. . .] regulatory coherence, transparency, trade facilitation, and harmonization."[77] This kind of intrusion through international investment provisions on regulatory control of local governments in health, environmental, labor, or consumer regulations may limit the policy space[78] or "the freedom, scope, and mechanisms that governments have to choose, design and implement public

74. Chaisse & Nagaraj, *supra* note 29, at 269.

75. Sharon Friel, Libby Hattersley & Ruth Townsend, *Trade Policy and Public Health*, 36 Ann. Rev. Pub. Health 325 (2015).

76. *Id.*

77. Friel, Hattersley & Townsend, *supra* note 75, at 329.

78. The term policy space has been used to highlight the 'tensions between international economic integration and the autonomy available to States to pursue policies that effectively support their economic and social development. According to Åsa Romson "there are several legal terms that also reflect aspects of policy space, 'Sovereignty' being the most common." Åsa Romson, Environmental Policy Space and International Investment Law 35 (2012). In trade and investment agreements, as the prime instrument for trade liberalization, the loss of policy space can lead to negative outcomes and, one of them, is the loss of sovereignty of the host State.

policies to fulll [related priorities and aims]."[79]

This intervention of investors can lead to policy or regulatory chill and discourage governments from implementing policy measures or new legislation aimed to favor the prioritization of fundamental and human rights.[80] This possibly also can make countries hesitant while awaiting the outcomes of trade and investment disputes in the WTO or in investor-state arbitral tribunals, such as under the ICSID or UNCITRAL administration.[81]

Many states develop their investment agreements or preferential trade agreements (PTAs) with investment chapters providing a core set of protections against domestic regulatory framework, such as rules on (direct and indirect) expropriation and on compensation for domestic measures that diminish or interfere with property rights. Usually, these agreements also establish provisions on fair and equitable treatment.[82] Under these provisions, foreign investors can bring claims in cases of arbitrary, discriminatory, or unreasonable treatment; denial of procedural fairness; or when the host state fails to meet the investor's legitimate expectations.[83] Given its abstract and wide nature and the absence of a common definition, the application of "fair and equitable treatment" provisions in international investment agreements is complex.[84] Nevertheless, in observing the last demands on the ICSID, this clause is frequently raised as an appropriate and comprehensible argument in investment disputes.

The type of investment provision that most significantly challenges countries' policy space is the indirect expropriation clause. In the indirect expropriation there is no direct transference of the property by the state, but there is a diminishment of the rights without the true transferal of the property.[85] In this situation, state regulatory measures may imply in a significant reduction in the value of the investment, causing

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79. Meri Koivusalo, Ted Schrecker & Ronald Labonté, *Globalization and Policy Space for Health and Social Determinants of Health*, *in* GLOBALIZATION AND HEALTH: PATHWAYS, EVIDENCE AND POLICY 105, 105 (Ronald Labonté et al. eds., 2009).

80. Friel, Hattersley & Townsend, *supra* note 75, at 329

81. *Id.*

82. VERA THORSTENSEN, ALEBES LINHARES MESQUITA & VIVIAN DANIELE ROCHA GABRIEL, REGULAMENTAÇÃO INTERNACIONAL DO INVESTIMENTO ESTRANGEIRO: DESAFIOS E PERSPECTIVAS PARA O BRASIL (2018).

83. Gary Fooks & Anna Gilmore, *International Trade Law, Plain Packaging and Tobacco Industry Political Activity: The Trans-Pacific Partnership*, 23 TOBACCO CONTROL 1, 2 (2014).

84. THORSTENSEN, MESQUITA & GABRIEL, *supra* note 82, at 26.

85. MUTHUCUMARASWAMY SORNARAJAH, THE INTERNATIONAL LAW ON FOREIGN INVESTMENT (2010).

severe economic losses for the investor. Investors allege that the measures become so harmful to the foreign investor that they make the maintenance of the property or the exercise of the activity very expensive.[86] Accordingly, there is no alternative but to sell the enterprise even at a lower price and to leave the host state.[87]

However, it is difficult to circumscribe the limits of regulatory expropriation and how state action becomes expropriatory because the concept of indirect expropriation is still very imprecise, and the national jurisprudence is not converging on it.[88] In addition, one alternative that has been proposed is the explicit prediction in the BITs of the exceptional nature of indirect expropriations, such as in the case of the US-Uruguay BIT.[89]

Globalization and global economic actors, through international agreements, have also impacted health issues. The rise of provisions in trade and investment agreements that include requirements for behind-the-border alterations of domestic policy and regulatory regimes, such as tobacco, alcohol, and highly processed foods, is now a reality as a result of the health-damaging products and the consequent global diffusion of unhealthy lifestyles and the engagement to control the consumption of these commodities.[90] According to McNeil et al.:

> [T]he call from health advocates around the world call for trade and investment rules that better reflect health priorities is backed by a growing body of new evidence of the ways international trade and investment impact how people work, what they consume and how products are made in ways that affect

86. Vivian Daniele Rocha Gabriel, *A PROTEÇÃO JURÍDICA DOS INVESTIMENTOS BRASILEIROS NO EXTERIOR* (2017).

87. SORNARAJAH, *supra* note 85, at 368-70.

88. Friel, Hattersley & Townsend, *supra* note 75, at 329.

89. According to Annex B from the US-Uruguay BIT "[t]he 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 that considers, among other factors: (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." Treaty Between the United States of America and the Oriental Republic of Uruguay Concerning the Encouragement and Reciprocal Protection of Investment, U.S-Uy., Nov. 4, 2005, S. Treaty Doc. No. 109-9. *See* Vivian Daniele Rocha Gabriel, *THE INTERNATIONAL LAW ON FOREIGN INVESTMENT* (2017).

90. Friel, Hattersley & Townsend, *supra* note 75, at 329.

health outcomes.[91]

In particular, the orientation of national health policy towards tobacco is based on the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC), the leading international treaty that tries to provide measures in favor of public health and the control of tobacco harms.[92] First, the preamble of the FCTC establishes that "the need to be alert to any efforts by the tobacco industry to undermine or subvert tobacco control efforts and the need to be informed of activities of the tobacco industry that have a negative impact on tobacco control efforts."[93] Second, it is important to highlight Article 5.3, which asserts that "in setting and implementing their public health policies with respect to tobacco control, Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law."[94] Conforming to the guidelines delivered by the Convention, nowadays, the most evident and modern measures concerning tobacco control and the preservation of public health, which can affect trade and investors properties, are the graphic health warnings and the plain packaging of tobacco products, encompassing intellectual property rights.

Trade and investment agreements may also include provisions that emphasize the right to regulate or right to regulate for given aims. According to Koivusalo, however, "these can be limited to further (circular) clauses, which subject these aims to compliance on what has otherwise been written in the treaty, which is what is in general assumed in any case."[95] Thus, this kind of provision merely clarifies the fact that states are able to regulate under the broader legal framework. The Trans-Pacific Partnership (TPP)[96] has such a provision, Article 9.16, which provides that:

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91. Desmond McNeil et al., *Trade and Investment Agreements: Implications for Health Protection*, 51 J. WORLD TRADE 159, 160 (2017).

92. *See* Tsai-yu Lin, *Preventing Tobacco Companies' Interference with Tobacco Control Through Investor-State Dispute Settlement under the TPP*, 8 ASIAN J. WTO & INT'L HEALTH L. & POL'Y 565, 568 (2013).

93. World Health Org. [WHO], WHO Framework Convention on Tobacco Control, pmbl., ¶ 19 (2003).

94. Lin, *supra* note 92, at 568.

95. Meri Koivusalo, *Policy Space for Health and Trade and Investment Agreements*, 29 HEALTH PROMOTION INT'L 29, 32 (2014).

96. The TPP's final text was adopted in October 2015 by the 12 Asian Pacific Countries (United States, Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru and Vietnam). During Barack Obama's administration, the TPP was never presented to the U.S. Congress given the lack of necessary parliamentary support to ratify it. In his first week as President, Donald Trump withdrew the United States from this mega regional

> Nothing in this Chapter shall be construed to prevent a Party from adopting, maintaining or enforcing any measure otherwise consistent with this Chapter that it considers appropriate to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental, health or other regulatory objectives.[97]

Despite the openness to regulate, Article 3(b) of Annex 9-B complements this language by stating that nothing in these provisions can be used by States to deprive in any way the investor¨s property. The Article's text reads:

> Annex 9-B
>
> 3. The second situation addressed by Article 9.8.1 (Expropriation and Compensation) is indirect expropriation, in which an action or series of actions by a Party has an effect equivalent to direct expropriation without formal transfer of title or outright seizure.
>
> (b) Non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health safety and the environment, do not constitute indirect expropriations, except in rare circumstances.[98]

Thus, the TPP has some peculiarities and according to Article 3 (b) of Annex 9-B, some type of regulations, even if they were discriminatory, cannot be the base of an indirect expropriation claim. In this situation, there is no change in the rights of possession of the physical

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trade agreement. Even though the TPP might never enter into force due to political changes in the

U.S. government, the rules adopted in the Agreement's text is already influencing negotiations in the multilateral, plurilateral and bilateral levels. Its relevance resides in consensus achieved among 12 developed and developing countries on sensitive issues, such as policy space for domestic public interest. For that reason, it is important to analyze its provisions within the scope of this article.

97. OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE (USTR), THE TRANS-PACIFIC PARTNERSHIP, Chapter 9, art. 9.16, https://ustr.gov/sites/default/files/TPP-Final-Text-Investment.pdf.

98. The clear mention to health measures is still complemented by the footnote 37, which provides that "For greater certainty and without limiting the scope of this subparagraph, regulatory actions to protect public health include, among others, such measures with respect to the regulation, pricing and supply of, and reimbursement for, pharmaceuticals (including biological products), diagnostics, vaccines, medical devices, gene therapies and technologies, health-related aids and appliances and blood and blood-related products." *Id.* at 37 n.37.

property of the foreign investor, but there is a diminishment of their property rights, which is carried out without the necessary deposition of the property.[99]

Despite the exclusion of public health measures of indirect expropriation scope, it can also be alleged in the core of fair and equitable treatment and full protection and security provisions. This possibility is provided in a vague way in Article 9.6, encompassing the customary international law minimum standard of treatment of aliens as the standard of treatment to be afforded to covered investments.[100] The wideness of the provision implies that any discrimination could be claimed based on the violation of this standard of treatment, and it could be alleged in virtually all investment cases.[101]

Thus, the adoption of international agreements not only grants parties rights, but also subjects them to obligations that shall be implemented and respected nationally. Even if this means that states give up part of their sovereignty to enact and enforce laws unilaterally, the increasing economic interdependence among nations encourages them to enter into cooperative arrangements.[102] Such commitments are supported by the mutual gains that international cooperation and rule of law can provide in the long term.[103] In this sense, international agreements should not be seen as a straightjacket on states' regulatory autonomy, but rather as designed to respect states' policy space for enacting regulations that protect public interests such as human life and health.

According to Koivusalo,[104] a number of WTO dispute settlement cases have already dealt with health-related policies, especially with respect to tobacco and alcohol-related measures.[105] Moreover, there are cases in which entrepreneurs have brought claims through

99. SORNARAJAH, *supra* note 85, at 367.

100. *See* USTR, *supra* note 97, art. 9.6.

101. *See* Julia Cruz, *Putting the Pieces Together: Human Rights and Investment Law*, BLOG DE LA FUNDACIÓN PARA EL Debido PROCESO (Feb. 28, 2017), https://dplfblog.com/2017/02/28/putting-the-pieces-together-human-rights-and-investment-law/.

102. Vera Thorstensen et al., *Acordos Preferenciais de Comércio: da multiplicação de novas regras aos mega-acordos comerciais*, BOLETIM DE ECONOMIA E POLÍTICA INTERNACIONAL, v.16, n. IPEA, 5-18 (2014).

103. *Id.*

104. Koivusalo, *supra* note 95, at 30.

105. For example, *see* Appellate Body Report, *Japan–Alcoholic Beverages*, WTO Doc. WT/DS8/AB/R (adopted Oct. 4, 1996); Panel Report, *Korea–Alcoholic Beverages*, WTO Doc. WT/DS75/R (adopted Sep. 17, 1998); Appellate Body Report, *Chile–Alcoholic Beverages*, WTO Doc. WT/DS87/AB/R (adopted Dec. 15, 1999); Appellate Body Report, *US–Clove Cigarettes*, WTO Doc. WT/DS406/AB/R (adopted Apr. 4, 2012).

investment arbitration on the basis of investment agreements based on health-related public policy measures, challenging the domestic measures per se as if they were violations of investors rights. The best known of those is the recent case against Australia's plain packaging law on tobacco and the *Philip Morris v. Uruguay* case. The former is still in progress in the WTO, while the arbitral award in the latter has recently be published. The positions of the different stakeholders as well as the results and the implications of the *Philip Morris v. Uruguay* case will be explained in the following section.

IV. Philip Morris v. Uruguay

On July 8, 2016, the Award of the Tribunal in *Philip Morris v. Uruguay* was dispatched to the parties and made publicly available.[106] The case was filed in the ICSID on the basis of the BIT between Uruguay and Switzerland.[107] The controversy is an unprecedented case in the world investment system and in the South American system, because it involves intellectual property assets from tobacco companies and raises the legitimacy of domestic public policies facing the right of investors, the main core of this article. The dispute is systematically important for the following reasons.

First, it recognizes the legitimate health policy concerns of com bating smoking to the detriment of the interests of international entrepreneurs.[108] The public policy against tobacco was recognized as legitimate, and according to the Arbitral Tribunal, it does not imply in a compensation to investors, even if it has impacted in anyway the investors rights or diminished the value of the products or the trademarks. Second, it represents the victory of a South American state in an investment arbitration. In most prior investment disputes, the countries of the region, for instance, Bolivia, Ecuador, Venezuela, and Argentina, were internationally condemned.[109] Third, this is the first controversy presented by a tobacco company in an investment arbitration.[110] This

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106. Philip Morris Brands Sàrl, Philip Morris Prods. S.A. and Abal Hermanos S.A. v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award on Merits (July 8, 2016), http://icsidfiles.worldbank.org/icsid/ICSIDBLOBS/OnlineAwards/C1000/DC9012_En.pdf.

107. *Id.* ¶ 1.

108. Tania Voon, *Philip Morris v. Uruguay: Implications for Public Health*, 18 J. of World Invment. & Trade 320 (2017).

109. Vivian Daniele Rocha Gabriel & José Augusto Fontoura Costa, *O Brasil e a proteção jurídica dos investimentos estrangeiros: da negociação de novos acordos à reflexão sobre o seu cumprimento a partir da arbitragem de investimentos*, 46 Revista de Derecho y Economía 57 (2016).

110. Magdalena Bas Vilizzio, *Claves Del Caso Philip Morris Contra Uruguay en el Escenario Sudamericano*, 2 Informe de Coyuntura ORALC 40, 48 (2016).

fact has highlighted the antagonistic relationship between investments within the framework of a broad definition of investment (including trademarks) and the freedom of sovereign states to enact rules to provide major protection to public health in compliance with international human rights protection standards. Fourth, the case influenced the negotiation of the TPP by excluding tobacco control measures (Article 29.5) from the investor-state dispute settlement.[111] This flexibility allowed the Parties to exclude such measures at any time, even at the beginning or during the arbitration process.[112]

The claimants challenged that during Tabaré Vasquez's first government (2005-2010), Uruguay enacted two tobacco control laws that violate the *Switzerland – Uruguay* BIT for several reasons. First, the requirement that brands have to have a single image was challenged.[113] This single presentation requirement (SPR) could preclude tobacco manufacturers (investors) from marketing more than one variant of cigarette per brand family.[114] It allowed one of the claimants, Abal Hermanos SA (Abal) "to sell only one product variant per brand, e.g., 'Marlboro Red,' rather than multiple variants, e.g., 'Marlboro Red,' 'Marlboro Gold,' 'Marlboro Blue.'"[115] The regulations also banned the use of the words "light," "ultra-light," and "mild" from the packages (Order No 514/2008).[116] The company argued these practices created misguided beliefs that the products are safer for smokers.[117] Philip Morris claimed that because of the measures in force, it had to withdraw from the Uruguayan market seven of its thirteen trademarks.[118] The claimants also challenged the requirement that graphic health warnings shall cover eighty percent of both sides of cigarette packets (known as the "80/80 Regulation" or Presidential Decree No 287/2009 and Order No 466/2009).[119] Both measures comply with Article 11 (Packaging and Labelling of Tobacco Products) of the WHO FCTC, to which Uruguay is a party.[120]

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111. *See* USTR, *supra* note 97, art. 29.5.
112. Vilizzio, *supra* note 110, at 48.
113. Philip Morris, *supra* note 106, ¶¶ 22, 32.
114. *Id.* ¶¶ 22-23.
115. Voon, *supra* note 108, at 321-22.
116. Philip Morris, *supra* note 106, ¶ 26.
117. *Id.* ¶ 28.
118. *See id.* ¶144.
119. *Id.* ¶¶ 31-32.
120. Uruguay signed the WHO FCTC on June 19, 2003 and ratified it on September 9, 2004.

Philip Morris understood such provisions as restricting its right to use the trademarks in an appropriate manner.[121] Understanding that their rights were protected as an investment given the broad definition of investment envisaged in Article 1, n. 2, (d) in the *Switzerland – Uruguay* BIT, the company argued the presence of an indirect expropriation without due compensation.[122] Consequently, Philip Morris claimed compensation of US$ 22.267 million, plus compound interest to accrue from the date of the breach of the BIT until the date of effective payment, as well as the voidance of the aforementioned domestic law provisions.[123]

It is important to highlight that this kind of complaint has already been raised in another similar dispute. In 2011, Philip Morris Asia Limited filed a claim under the 1993 *Australia – Hong Kong* BIT against Australia's mandatory plain packaging of tobacco products.[124] Australia's plain or standardized tobacco packaging scheme imposed the color of packages in the areas not covered by health warnings (drab dark brown), preventing the use of promotional logos, images, symbols, colors, and text apart from the display of the trademark and variant name in a specified position, font, size and color.[125] The graphic health warnings have to make up seventy-five percent of the front of the package and ninety percent of the back.[126]

Philip Morris recently lost both disputes. It lost the first dispute, *Philip Morris v. Australia*, due to procedural aspects. In a unanimous award published in May 2016 by the Permanent Court of Arbitration (PCA), the Arbitral Tribunal declared itself precluded from exercising jurisdiction because the arbitration has constituted an abuse of rights.[127] The corporate restructuring by which the Philip Morris group acquired the Australian subsidiaries occurred in February 2011, "around ten months after the Australian government announced its intention to introduce plain packaging" regulation.[128] At that time, there already was a reasonable prospect that the dispute would materialize. The Arbitral

121. Philip Morris, *supra* note 106, ¶ 116.

122. *Id.* ¶ 35.

123. *Id.* ¶ 12.

124. Tania Voon & Andrew Mitchell, *Philip Morris vs. Tobacco Control: Two Wins for Public Health, but Uncertainty Remains*, 182 COLUM. FDI PERSPECTIVES 1, 1 (2016).

125. Voon, *supra* note 108.

126. *Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 2004* (Cth) specific section here (Austl.), https://www.legislation.gov.au/Details/F2007C00131.

127. Philip Morris Asia Ltd. v. The Commonwealth of Austl., Case No. 2012-12, Award on Jurisdiction and Admissibility, ¶ 554 (Perm. Ct. Arb. 2015).

128. *See* Voon & Mitchell, *supra* note 124.

Tribunal thus understood that this company's restructuring was carried out for the principal, if not sole, purpose of gaining treaty protection.[129]

The second dispute, *Philip Morris v. Uruguay*, addressed the merits of the claim. In July 2013, the Arbitral Tribunal under the auspices of the ICSID declared itself competent to analyze the dispute, dismissing Uruguay's jurisdictional opposition.[130] On the merits, the Arbitral Tribunal's decision demonstrates the flexibilities available in international investment law to accommodate public health and other domestic policy objectives.[131] According to the award, "the central issue over the trademarks is what rights a registered trademark accords its owner under Uruguayan law."[132] In the Tribunal's view, though both parties focused on the dichotomy between the right to use and the right to protect, the real debate centered around the absolute or relative right to use.[133] The Tribunal observed that "[m]ost countries, including Uruguay, place restrictions on the use of trademarks, for example in advertising. Particularly in an industry like tobacco, but also more generally, there must be a reasonable expectation of regulation such that no absolute right to use the trademarks can exist."[134] Considering that the point might concern regulations that target and modify or ban use of their trademarks, there are products "whose presentation to the market needs to be stringently controlled without being prohibited entirely, and whether this is so must be a matter for governmental decision in each case."[135] According the argumentation delivered by Cass Sunstein, where he explains that the purpose of regulation are also the change of preferences of society:

> Some statutes are designed to transform preferences, perhaps by altering existing social norms that press choices in a particular direction. When choices are a product of reputational incentives and hence social norms, and when those choices shorten lives, government might attempt to respond. Regulation involving smoking, recycling, educational programming, and sexual harassment can be understood in these terms.[136]

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129. Philip Morris Asia Ltd., *supra* note 127, ¶ 588.
130. *Id.* ¶¶ 107, 149, 174-75, 209-10.
131. *See* Voon & Mitchell, *supra* note 124.
132. Philip Morris, *supra* note 106, ¶ 255.
133. *Id.* ¶ 265.
134. *Id.* ¶¶ 225, 269.
135. *Id.* ¶ 270.
136. Cass R. Sunstein, *The Cost-Benefit State* 34-35 (Coase-Sandor Inst. for L. & Econ., Working Paper No. 39, 1996).

In this context, as Cass Sunstein asserted about the purpose of regulation to changing preferences, it is possible to infer that the Uruguayan regulations were enacted to contain, modify and positively influence the preferences of society in favor of its health. This legislation falls with the state's sovereign right to regulate in order to achieve valid domestic policy objectives. This is the vital role of the law.[137] As observed by Magnusson, "a major obstacle to the implementation of the effective tobacco control laws at national level is the influence and activities of transnational tobacco companies" to gain access to markets and profits.[138] Moreover, the Tribunal highlighted that "Uruguay adopted the measures pursuant to national and international legal obligations, including the WHO Framework Convention on Tobacco Control."[139] Thus, the Tribunal asserted that "the trademark holder does not enjoy an absolute right of use, free of regulation, but only an exclusive right to exclude third parties from the market so that only the trademark holder has the possibility to use the trademark in commerce, subject to the State's regulatory power."[140]

Regarding indirect expropriation, even though Philip Morris had property rights related to their trademarks capable of being expropriated, the Tribunal understood that this was "not even a prima facie case of indirect expropriation by the 80/80 Regulation."[141] The partial loss of profits arising from the Regulation did not amount to indirect expropriation because it did not characterize a "'substantial deprivation' of [the] value, use or enjoyment of the investment."[142] In the Tribunal's view, "as long as sufficient value remains after the Challenged Measures are implemented, there is no expropriation. As confirmed by investment treaty decisions, a partial loss of the profits that the investment would have yielded absent the measure does not confer an expropriatory character on the measure."[143] Accordingly, there was no expropriation as a result of the SPR and 80/80 Regulation, "since Claimants continue to reap significant returns on their investment in Uruguay."[144]

The Arbitral Tribunal concluded that the regulation had not breached the fair and equitable treatment (Article 3(2) of the BIT) and

137. Voon, *supra* note 108; Voon & Mitchell, *supra* note 124; Vilizzio, *supra* note 110, at 51.

138. ROGER MAGNUSSON, ADVANCING THE RIGHT TO HEALTH: THE VITAL ROLE OF LAW 195 (2017).

139. Voon & Mitchell, *supra* note 75, at 2.

140. Philip Morris, *supra* note 106, at ¶ 271.

141. *Id.* at ¶ 276.

142. *Id.* at ¶ 192.

143. *Id.* at ¶ 286.

144. *Id.* at ¶ 282.

that the challenged regulations were not arbitrary.[145] There was also no violation of legitimate expectations because Philip Morris "had no legitimate expectations that such or similar measures would not be adopted and further considering that their effect had not been such as to modify the stability of the Uruguayan legal framework."[146]

Finally, there is no denial of justice by Uruguay.[147] According to the concurring and dissenting opinion from Gary Born, "adopting the relatively conservative formula of Article 9 of the 1929 Harvard Draft Convention on State Responsibility, a '[d]enial of justice exists where there is a denial . . . of access to courts.'"[148] In the domestic field, the highest administrative court analyzed Philip Morris' challenges to the two regulations' administrative validity. Otherwise, what happened was that "one member of the three-person Tribunal dissented in part, finding a breach of fair and equitable treatment regarding the single presentation requirement and a denial of justice."[149] Although the Tribunal had dismissed the argument, Born asserts in his own opinion that: "[i]nstead, in my view, Uruguay was required to provide a means by which its Supreme Court could hear constitutional challenges to Law 18,256, as that statute was finally interpreted and applied to Abal by the TCA."[150] It reveals the high controversy related to fair and equitable treatment provisions and the absence of consensus between the higher arbitrators and academics in the area.

The above-analyzed case demonstrates how the twenty-first-century trade and investment policy is complex and affects society directly and indirectly. The particularities of the *Philip Morris v. Uruguay* case leave some uncertainties that reinforce the need for continued reform of the investment regime so that countries' policy space can be guaranteed.[151]

V. Conclusion

Although arbitral decisions under investor-state dispute settlement mechanism are not precedential, panels frequently cite other decisions

145. *Id.* at ¶ 420.

146. *Id.* at ¶ 434.

147. *Id.* at ¶ 536.

148. Philip Morris Brands Sàrl, Philip Morris Prods. S.A. and Abal Hermanos S.A. v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award on Merits, Concurring and Dissenting Opinion, Mr. Gary Born, Arbitrator, ¶ 67 (July 8, 2016), http://icsidfiles.worldbank.org/icsid/ICSIDBLOBS/OnlineAwards/C1000/DC9012_En.pdf.

149. Voon & Mitchell, *supra* note 75, at 2.

150. Born, *supra* note 148, at ¶ 69.

151. *See* Voon & Mitchell, *supra* note 75, at 1.

as the bases for their arbitral awards.[152] The *Philip Morris v. Uruguay* case constitutes a landmark that will influence the current and subsequent disputes involving intellectual property assets from tobacco companies. Its adjudication constitutes a benchmark to reassure the host state's right to regulate public health matters, despite the adverse effects that these regulations might have on intellectual property and investment rights.

The international investment and commercial disputes involving tobacco control measures are already influencing the legal design of new BITs and PTAs' investment chapters.[153] The TPP's exclusion of tobacco control measures from the investor-state dispute settlement is a direct result from the *WTO Australia – Plain Packaging (DS434)* case and the *Philip Morris v. Australia* investment dispute. Due to those previous experiences, Australia was one of the most vocal countries among those negotiating the TPP to advocate for specific provisions (carve-out) that prevent tobacco companies from suing TPP-parties over their tobacco control laws.[154] The upcoming BITs and PTAs negotiated by countries with legislation on this matter might keep this flexibility. Countries, such as Australia, are not willing to have their national public health legislation questioned in international forums. We might, hence, be witnessing the consolidation of a new regulatory trend, including for Latin American countries.

From the Tribunal's analysis in *Philip Morris v. Uruguay*, one can conclude that there is no absolute trademark right. As a rule, intellectual property rights are subject to exceptions and limitations, aimed at ensuring the right balance between private and public interests in the IP system.[155] Depending on the nature of the product or service that is being distinguished by the sign, states are entitled to enact measures to control their presentation in the domestic market. Tobacco products fall within such a category due to the harmful effects that smoking has on the population's health. This habit entails burdensome expenditures that states have to disburse to bear the national health systems' costs.[156] Trademarks cannot be exploited in a manner that results in serious harm to public health.

152. SORNARAJAH, *supra* note 32, at 87.

153. *See* Lin, *supra* note 92, at 566.

154. *Id.* at 567.

155. Valentina S. Vadi, *Global Health Governance at a Crossroads: Trademark Protection v. Tobacco Control in International Investment Law*, 48 STAN. J. INT'L L. 93, 128 (2012).

156. *Id.* at 108.

The enactment of the Uruguayan tobacco control measures were also not considered an indirect expropriation because they did not characterize a substantial deprivation of the value, use, or enjoyment of the investment.[157] Besides, the Arbitral Tribunal understood that such measures did not constitute a trademark infringement based on the nature of trademarks rights as exclusive (negative) rights.[158] In other words, the granting of a trademark does not entitle its owner its absolute use, but rather confers on him the exclusive right to prevent third parties from using identical or similar signs without his consent. Therefore, the Uruguayan tobacco control measures did not allow third parties to use Philip Morris' trademarks without its consent.[159] It just delineated how Philip Morris could use its trademarks. Therefore, they did not constitute a trademark infringement. [160]

In this perspective, the decision on the *Philip Morris v. Uruguay* ensured the flexibility available in the *Switzerland – Uruguay* BIT to accommodate national public health purposes. Based on the analysis developed in this Article, then, it would seem advisable to specifically establish an exception in future BITs, stipulating that public health concerns are not subject to trademark expropriation and compensation rules. This would hinder claims against a host state's tobacco control measures and preserve its policy space. Even though Philip Morris lost the dispute against Uruguay and domestic regulations were upheld against challenge, arbitral decisions are not precedential and do not bind similar future cases. That is why including this kind of exception would provide a greater flexibility and legal certainty to BITs.

Even though intellectual property has been included in the definition of investment since the first wave of BITs, only recently have investors started to use their investor-state dispute settlement mechanism more often to bring claims against IPRs infringement. The consequences of such a forum shift are still uncertain, and only a case-by-case analysis can indicate in which direction the international protection and enforcement of IPRs are heading.

In conclusion, it can be affirmed that the adoption of tobacco control measures might not be considered a violation of investment treaty provisions protecting trademarks of tobacco companies as long as they are enacted to control the presentation of tobacco products into the

157. Philip Morris, *supra* note 106, at ¶ 192.

158. *Id.* at ¶ 271.

159. ICTSD, *Investor-State Tribunal Dismisses Philip Morris Case Against Uruguay Cigarette Packaging*, 20 Bridges (*2016*).

160. *Id.* at 6.

domestic market, do not constitute a substantial deprivation of the investment, and are adopted in accordance with other international commitments and legitimate national public health objectives. In sum, the host state, within its policy space, is entitled the sovereign right to adopt measures to address public health concerns. *Philip Morris v. Uruguay* confirms that such measures should not be challenged by foreign investors and thus prioritizes economic interests over human health.