Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions

Cynthia M. Ho

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SOVEREIGNTY UNDER SIEGE: CORPORATE CHALLENGES TO DOMESTIC INTELLECTUAL PROPERTY DECISIONS
Cynthia M. Ho†

ABSTRACT

Countries face a new threat that strikes at their ability to balance protection of intellectual property rights against other priorities, such as public health. They may have to pay substantial compensation to companies that dislike domestic intellectual property laws. This threat is much more significant than the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”), a landmark international agreement concluded twenty years ago, that for the first time required all countries to provide “minimum” levels of intellectual property rights; before that time, countries were not obligated to provide any such rights at all. Since the conclusion of TRIPS, policymakers and scholars have strived to preserve local flexibilities to consider domestic policies, such as public health. However, those flexibilities may quickly evaporate if companies can bring claims against countries for compromising private investments under so-called “investor-state arbitration” claims.

This is not a theoretical problem—Eli Lilly is currently seeking $500 million in compensation from Canada because Canadian courts invalidated two of its patents under prevailing law. In addition, there are unique issues raised by Eli Lilly’s claim that transcend broader concerns raised by scholars and commentators concerning investor-state disputes. In particular, if Eli Lilly’s claim succeeds, it will disrupt internationally accepted norms that permit countries to have different standards of protection. This Article provides a detailed analysis of Eli Lilly’s case of first impression. In so doing, the Article both explains why an arbitration tribunal should reject Eli Lilly’s claims, and predicts the likely impending threats to domestic regulation of public health that intersect with the interests of pharmaceutical companies. This Article ultimately proposes specific language to incorporate in pending agreements to forestall such predicted harms.

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I. INTRODUCTION

Is a company entitled to compensation from a country that declines to provide that company an intellectual property right? Eli Lilly thinks so. Eli Lilly is seeking $500 million from Canada pursuant to an international agreement that permits foreign—but not domestic—investors to bring “investor-state arbitration” claims before a panel of private arbitrators against countries that interfere with its “investments.” This is the first time a company has initiated an investor-state arbitration to challenge a domestic patent law that arguably complies with international agreements governing patents. In particular, Eli Lilly claims that two of its patents were

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1. Alternatively, these are referred to as investor-state dispute settlements (“ISDS”).
investments, and that Canada unduly interfered with these investments when the country’s courts invalidated the patents for failing to meet a Canadian patentability requirement.2

Eli Lilly’s demand for substantial financial compensation discourages countries from fine-tuning their patent laws, even when domestic laws would comply with separate international agreements concerning intellectual property. International agreements that require protection of patents permit some domestic flexibility to promote social policies other than innovation, such as access to lower-cost medicine. However, when viewed in the broader historical context, the flexibility is in fact significantly limited and further underscores why investor-state disputes pose a particularly significant threat to sovereign rights to protect traditional domestic goals, such as public health. To understand the chilling effect, a brief background of the most important international agreement governing intellectual property and its significance follows. In 1994, over one hundred and twenty countries agreed for the first time to provide “minimum” standards of patent protection pursuant to the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”).3 This was a major change for many countries. Before TRIPS, some countries were reluctant to grant patents on drugs because such patents would inevitably result in higher costs and less access to affordable medicine.4 For example, some only permitted inventors to patent methods of

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3. Agreement on Trade-Related Aspects of Intellectual Property Rights art. 27, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS]; The 128 Countries That Had Signed GATT by 1994, WORLD TRADE ORGANIZATION, http://www.wto.org/english/thewto_e/gattmem_e.htm. However, WTO member countries that the UN designates Least Developed Countries do not need to provide patent protection on drugs until at least 2016. Decision of the Council for TRIPS of June 27 2002, Extension of the Transition Period Under Article 77.1 of the Agreement for Least Developed Country Members for Certain Obligations with Respect to Pharmaceutical Products, para. 1, IP/C/25 (July 1, 2002). However, there are pending proposals for the WTO to further extend this timeline. E.g., Request for an Extension of the Transitional Period under Article 66.1 of the TRIPS Agreement for Least Developed Country Members With Respect to Pharmaceutical Products and for Waivers from the Obligation of Articles 70.8 and 70.9 of the TRIPS Agreement, Communication from Bangladesh on behalf of the LDC Group, IP/C/W/605 (Feb. 23, 2015).

making drugs, and not the drugs themselves, to ensure that drugs would not be subject to a patent premium. After centuries of limited patent protection of drugs, most countries must now provide patents on drugs pursuant to TRIPS. However, TRIPS notably only requires minimum, but not uniform, standards of protection, such that countries still have some flexibility to tailor patent standards to their respective interests. Since the conclusion of TRIPS, scholars and policymakers have recommended that developing countries with limited resources embrace TRIPS flexibilities to ensure that citizens in these countries are not unduly harmed by the inevitably higher cost of patented drugs. Although some developing countries recently considered modifying their laws to take advantage of these flexibilities, they may now have second thoughts—especially if the arbitration tribunal finds in Eli Lilly's favor.

Eli Lilly’s challenge impacts countries at a critical juncture. For more than a decade, the pharmaceutical industry has suffered from an innovation crisis in conjunction with the expiration of patents on highly profitable drugs, resulting in a struggle to sustain revenue. In response, the industry has increasingly patented drugs that are merely minor variations of existing drugs.
and that offer no significant improvement in treatment.\textsuperscript{10} Even though these newer drugs may not be a substantial improvement over older drugs, patent protection permits companies to charge a premium.\textsuperscript{11} In one extreme example, Sanofi introduced a new cancer drug at $11,000 a month—over twice the cost of existing drugs—even though it was not more effective.\textsuperscript{12} Given the financial constraints many nations face, providing patents on drugs of minimal therapeutic value seems especially questionable.

Although there is generally no market for expensive new products that are not a significant improvement, the pharmaceutical market is unique. Consumers generally lack expertise to assess whether new products are better, such that advertising can be particularly influential. In addition, although most patented drugs are drugs prescribed by doctors with expertise to understand the value of these drugs, their ability to effectively determine whether a new drug is worthwhile is still compromised. Doctors generally make decisions based on data by self-interested drug companies since no independent data concerning the value of a new drug generally exists. At times, the company data concerning an “improvement” is later discovered to be unsubstantiated.\textsuperscript{13} In addition, doctors are also influenced by

\begin{addendum}
\item See, e.g., EUR. COMM’N DIR.-GEN. FOR COMPETITION, PHARMACEUTICAL SECTOR INQUIRY: FINAL REPORT 33, 351–65 (2009) [hereinafter EC PHARMACEUTICAL SECTOR INQUIRY]; JOHN R. THOMAS, PATENT EVERGREENING: ISSUES IN INNOVATION AND COMPETITION, CONGRESSIONAL RESEARCH SERVICE (2009); CHAN PARK ET AL., USING LAW TO ACCELERATE TREATMENT ACCESS IN SOUTH AFRICA: AN ANALYSIS OF PATENT, COMPETITION AND MEDICINES LAW, UNITED NATIONS DEVELOPMENT PROGRAMME 42 (2013).
\item Although incremental innovation is common in all industries, what happens in the pharmaceutical industry is likely unique. The practice of patenting follow-on drugs is done in combination with substantial and usually successful marketing to consumers and doctors to ‘switch’ to a newly patented drug immediately before expiration of the patent for the first drug. E.g., EC PHARMACEUTICAL SECTOR INQUIRY, supra note 10, at 351–52. Although manufacturers of other new products, such as consumer electronics, may also market new products heavily, consumers generally cannot effectively evaluate whether a new drug is worthwhile; in addition, doctors often decide on drugs, yet are vulnerable to advertising even though they may not be conscious of this.
\item Not only can patent holders charge a premium, but they can increase the premium at any time during the patent term. This seems to be more of a problem in recent years. E.g., Robert Langreth, Big Pharma’s Favorite Prescription: Higher Prices, BLOOMBERG BUSINESSWEEK, May 8, 2014.
\end{addendum}
pharmaceutical marketing.\textsuperscript{14} Given these issues, permitting minimally improved drugs to be patentable is problematic. Accordingly, countries should have the ability to tailor their patent laws to avoid expending resources on drugs of questionable value. Though they technically retain the right to modify domestic patent laws consistent with TRIPS, countries may consider the threat of investor-state litigation pursuant to investor-state arbitration agreements to essentially eliminate this option.

Although Eli Lilly’s claim is one of first impression, it actually contributes to a broader trend. Companies are increasingly challenging domestic decisions pursuant to bilateral and multilateral agreements that provide protection to foreign investors and permit them to bring investor-state disputes. For example, investors filed only one dispute in 1982, over fifty new cases in 2012, and today there are currently five hundred claims pending in over fifty countries.\textsuperscript{15} Many have noted that such provisions threaten the ability of nations to regulate in areas of traditional domestic competence such as environmental law and public health\textsuperscript{16} because the financial stakes are often substantial—there are currently over one hundred pending actions worth more than $1 billion each.\textsuperscript{17} Against this backdrop, Eli Lilly’s suit is arguably the latest expansion of investor claims that challenge domestic laws. Moreover, many more suits challenging domestic intellectual property decisions may follow.\textsuperscript{18} Even before Eli Lilly brought suit, the multinational law firm Jones Day published a report proclaiming that investment treaty protection was “a new way forward” for multinational pharmaceutical

\begin{itemize}
\item \textsuperscript{14} Although physicians recognize this problem, they seem to always assume that this is only a problem for other physicians, but that they themselves are immune from this phenomenon. E.g., id. at 503–04.
\item \textsuperscript{17} Arbitration Scorecard 2013, AM. L. (June 24, 2013), http://www.americanlawyer.com/id=1202608198051/Arbitration-Scorecard-2013; see also Shawn Donnan, Disputes Clause Heaps Pressure on Trade Deal, FIN. TIMES (LONDON), Mar. 11, 2014 (noting that use has soared in recent years).
\item \textsuperscript{18} E.g., Brian King & Viren Mascarenhas, Investment Treaty Protection for IP Rights, PATENT, TRADEMARK & COPYRIGHT L. DAILY, Aug. 5, 2013; Sherman Kahn, Will Patents be the Next Wave in Investor-State Arbitration?, 7 N.Y. DISP. RESOL. LAW. 53 (2014).
\end{itemize}
companies to address an “assault” against their patents in the developing world.\(^19\)

The increase in investor-state disputes and expansive claims has attracted increased attention and criticism. Although scholars have criticized such actions for years, the popular press and policymakers are now also highlighting such challenges as problematic for interfering with traditional government regulation.\(^20\) Moreover, critics of investor-state disputes include developed as well as developing countries—Germany recently expressed concern even though it is a party to one hundred existing agreements that provide this remedy.\(^21\) Commentators also have expressed concern about including such investment provisions in pending agreements. Even the Cato

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Institute, which usually promotes corporate interests, has suggested that a current U.S. trade initiative involving a dozen countries, the Transatlantic Trade and Investment Partnership, should not include an investment chapter not only because of concerns about domestic sovereignty, but also because investment chapters are ‘ripe for exploitation by creative lawyers.”

Strong public criticism has stalled—or threatens to stall—discussions of the Trans-Pacific Partnership, as well as two bilateral agreements involving the European Union. Although both the United States and the European Union at one point defended investment chapters against critics, in the past year, the European Union has stopped doing so. The European Union is now engaging in public consultations as well as proposing modified language with the hope of minimizing concern.

Eli Lilly’s suit brings to light the problems with permitting an expansive interpretation of investment chapters to cover intellectual property “rights” that have been denied or cancelled under domestic law and are consistent with international law, such as TRIPS. In particular, Eli Lilly’s suit highlights


23. E.g., Clark, supra note 21; Shawn Donnan & James Politi, Official Warns EU-US Trade Deal at Risk over Investor Cases, FIN. TIMES (Mar. 27, 2014), http://www.ft.com/intl/cms/s/0/58ec2da0-b5de-11e3-b40e-00144feabde0.html; Matthew Schewel, EU, Canada Fail to Close CETA: Stuck Over Issue Related to Eli Lilly Case, INSIDE U.S. TRADE, May 8, 2014; George Monbiot, Comment, This US Trade Deal is a Full-Frontal Assault on Democracy, GUARDIAN, Nov. 5, 2013; Brent Patterson, Fast-Track authority stalls the Trans-Pacific Partnership, RABBLE (May 25, 2015), http://rabble.ca/blogs/bloggers/brent-patterson/2015/05/fast-track-authority-stalls-trans-pacific-partnership/3.


26. This article intentionally focuses on intellectual property rights that are denied or canceled, rather than any case where intellectual property rights are at issue. Although there are pending disputes concerning whether existing trademarks that have lost value due to
an important, yet unresolved tension: a country could be vulnerable to an investor-state dispute even if it complies with a separate international law concerning intellectual property rights. This Article aims to not only evaluate the merits of and the policy problems raised by Eli Lilly’s specific suit, but also demonstrate other ways that domestic attempts to balance interests of multinational drug companies with public health might be compromised.27

Eli Lilly’s suit may prompt other companies to challenge not only patentability standards they disagree with, but also exceptions to patent rights, even where these exceptions are permissible under TRIPS. This would threaten recent and proposed patent laws that commentators have hailed as promoting a better balance of patent rights and access to medicine.

Moreover, the threat extends beyond the patent arena: pharmaceutical companies may also use investor-state disputes to challenge domestic regulatory laws that negatively impact their ability to sell even patented drugs. Domestic laws governing clinical data associated with approval of new drugs are likely an issue. Typically, nations require companies to provide clinical data to establish that a new drug is safe and effective before approving the drug for sale.28 However, companies that seek to sell a new drug are the ones that create the data and often overstate benefits.29 To address this problem, the European Union has an important new law that aims to ensure that doctors and patients have full information about underlying data of approved drugs, such that they are less likely to be susceptible to overstated marketing

their inability to be used pursuant to plain packaging laws for tobacco, these raise additional issues beyond the scope of a single article. In addition, this is an important issue that has thus far been overlooked by scholars, even though some scholars have previously discussed the pending trademark cases, how compulsory licenses could be challenged as expropriations, and whether intellectual property rights in general constitute investments. E.g., Christopher S. Gibson, Latent Grounds in Investor-State Arbitration: Do International Investment Agreements Provide New Means to Enforce Intellectual Property Rights?, in YEARBOOK ON INTERNATIONAL INVESTMENT LAW & POLICY 2009–2010, at 397 (Karl P. Sauvant ed., 2010); Bryan Mercurio, Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements, 15 J. Int’l Econ. L. 871 (2012).

27. This article focuses on issues that have not received much academic attention and also seem currently ignored in negotiations. However, there are other public health issues that have been raised as concerns. E.g., Shawn Donnan, EU Pledges to Protect NHS in US Trade Talks, FIN. TIMES (July 10, 2014), http://www.ft.com/intl/cms/s/0/eb1e1102-085e-11e4-9380-00144feab7de.html (asserting that decisions of the National Health Service and other European public health programmes will be exempt from investor-state challenges); Press Release, HAI Europe et al., Investor-to-State Dispute Settlement in EU–US Trade Deal Risks Access to Affordable Medicines (July 14, 2014), available at http://haieurope.org/wp-content/uploads/2014/07/Press-release-Joint-response-ISDS-in-TTIP.pdf.

28. See infra note 316 and accompanying text.

29. See infra Subsection III.B.2.b); Subsection IV.A.3.b).
Although many commentators heralded this law as important, it is vulnerable to challenge by companies, as later explained.

This Article argues that it is unprincipled to permit companies to use investor-state arbitration to challenge domestic decisions when they have no valid intellectual property rights. Eli Lilly, for example, is asserting that it is entitled to compensation because two of its initially issued patents were later invalidated for failing to satisfy mandatory patent law requirements. However, its invalidated patents amount to rights that never existed in the first place. It would be more analogous to a void contract, which purports to give rights but was never enforceable. Moreover, unlike most other types of property, the very existence of intellectual property is only justified if it promotes desired policy. Most recognize a utilitarian justification for intellectual property—to promote innovation while at the same time recognizing and balancing competing policy considerations, such as access for researchers, users, and consumers. Although some believe that intellectual property rights are inherently beneficial in promoting innovation and attracting foreign direct investment, data does not clearly support this claim. Since such rights inherently reduce access and increase costs, countries should view the policy justification for providing such rights skeptically. In addition, although there are international agreements that require countries to provide equal treatment to domestic and foreign intellectual property right holders, all such agreements assume that each country has some discretion to decide how to balance intellectual property rights against other interests.

This Article also argues that permitting companies to challenge domestic decisions regarding intellectual property through investor-state disputes is problematic because they disrupt internationally agreed norms under TRIPS, and also because the historical justifications for protecting foreign investors do not apply. TRIPS permits member countries discretion in shaping intellectual property rights to advance policy goals other than promoting

30. See infra Subsection IV.A.3.b).
32. Of course, there are competing views on whether inventors and artists have a “natural” right to intellectual property, as well as whether these rights are protected as human rights instruments, such as the International Covenant on Economic, Social and Cultural Rights. See International Covenant on Economic, Social and Cultural Rights, G.A. Res. 2200A (XXI), art. 15.1(b), U.N. Doc. A/RES/21/2200 (Dec. 16, 1966). This Article agrees with the majority of commentators who reject this view. Historical and policy justifications of intellectual property rights support the majority view—patents have always served to further the societal goals of promoting and disseminating technological innovation.
33. See infra Subsection III.A.2.c).
innovation, including public health. A country that arguably complies with TRIPS should not be subject to an investor-state challenge that could disrupt TRIPS norms, as well as result in a judgment inconsistent with a decision from the World Trade Organization (“WTO”)—the international body that handles TRIPS disputes. Moreover, permitting such challenges would not further the historical justification of protecting investments in international investment agreements—to promote investment from foreign companies. Unlike most other types of investments where increased protection induces foreign investment, companies do not invest in countries solely, or even primarily due to the strength of intellectual property protection; in addition, whether or not a company decides to seek more patent protection is unlikely to benefit the host country unlike the typical scenario where stronger protection for foreign companies results in direct benefit to the host country. Eli Lilly’s case uniquely threatens a country’s freedom to legislate under a separate international agreement. In contrast, prior instances of investor-state disputes that arguably relate to another international agreement have not resulted in a clear conflict pursuant to which resolution of the investor’s claim would violate the integrity of a separate international agreement. Often this is because the other international agreement only is aspirational.

This Article also provides a detailed analysis of Eli Lilly’s central claims—that Canada “expropriated” Eli Lilly’s investment in its patents, and that Canada failed to provide “fair and equitable treatment” to Eli Lilly’s investments. The Article seeks to show why Eli Lilly should not recover on

34. TRIPS, supra note 3, art. 1.1; World Trade Organization, Ministerial Declaration of 14 November 2001, WT/MIN(01)/DEC/2. ¶ 4–5 (2002) [hereinafter Doha Public Health Declaration]; see also infra Subsection II.B.1 (discussing flexibility under TRIPS).
35. See infra notes 138–42 and accompanying text (discussing nonbinding WHO framework convention as well as ambiguous human rights norms).
36. Although Eli Lilly originally asserted that Canada violated the nondiscrimination agreement, that provision will not be addressed because it lacks any merit; indeed, Eli Lilly’s notice of arbitration dropped this ground. In particular, national treatment simply requires a country to treat foreign investors “no less favorably” than its domestic investors. North American Free Trade Agreement, U.S.-Can.-Mex., ch. 11, art. 1102, Dec. 17, 1992, 32 I.L.M. 605, 639 [hereinafter NAFTA]. Eli Lilly made two claims that seem unmoored to this standard. Eli Lilly claimed that Canadian law disadvantages foreign nationals with requirements “not required by the foreign applicants’ own national jurisdictions.” Eli Lilly & Co. v. Canada, Notice of Intent to Submit a Claim to Arbitration Under NAFTA Chapter Eleven, ¶ 106 (NAFTA/UNCITRAL Arb. Trib. Nov. 7, 2012). However, nondiscrimination does not guarantee an investor laws identical to its home state. In addition, Eli Lilly claimed that it is treated less favorably than domestic generic competitors that can benefit from making the now invalidated patented drugs. Id. ¶ 107. However, nondiscrimination is only about comparing similarly situated entities, and generic pharmaceutical companies are not similar—they have an entirely different business model, such that this claim is illogical.
any of its claims, but nonetheless explains which issues are most vulnerable for Canada. As the final Part of this Article highlights, recognizing potential problems that may arise from the decision in Eli Lilly’s case is important to understanding how to properly cabin such claims in future cases.

This Article proceeds in three parts: Part II provides a background of relevant domestic and international law and policy, as well as an overview of Eli Lilly’s claims to contextualize Eli Lilly’s investor-state dispute. Part III then turns to the specifics of Eli Lilly’s claims against Canada and explains why an arbitration tribunal should reject Eli Lilly’s claims. Part IV goes beyond the specifics of Eli Lilly’s claims to explain other TRIPS-consistent domestic laws that are in danger of subsequent investor-state disputes. This Part concludes with specific proposals for preserving countries’ existing policy space under TRIPS in pending and future agreements concerning investor protection.

I. BACKGROUND

A. DOMESTIC PATENT LAW AND POLICY

To understand Eli Lilly’s claims against Canada, some background on patent law is important. A patent is a legal document granted by a country to the creator of an invention that provides the commercially valuable ability to exclude others from making or selling the patented invention within the boundaries of the patent-granting country.\(^{37}\) A patent is fundamentally a lever to promote social policy, offering a reward to induce inventors to disclose information to society so that others can learn from and build upon that innovation.\(^{38}\) Because most inventions build upon prior inventions, encouraging inventors to share their knowledge is socially valuable, even if there is a temporary cost of higher prices during the period of patent protection. A patented drug is generally expensive because the patent owner can exclude all others from making the identical drug during the patent term; therefore the patent owner can and generally does charge a substantial premium.

The social harm of higher prices on patented goods is mediated by a limited term of patent protection, as well as patentability requirements. Patents generally award inventors a term of protection of no more than twenty years to minimize the period during which consumers must pay

\(^{37}\) E.g., 35 U.S.C. § 271 (2012); TRIPS, supra note 3, art. 28.

In addition, the patentability standards aim to ensure that patents are only granted on more socially valuable inventions so that the price premium only applies where deserved.

There are two basic types of requirements that patent applications must satisfy. First, the invention must meet certain patentability requirements, typically that it is: patentable subject matter, useful (or that it has “utility”), new, and not obvious. For example, an invention that has no use at all, or only a “throw away” use, such as being used as a paperweight, would not deserve a patent. However, nations differ on the appropriate standard for utility. The United States, for example, has one of the broadest interpretations of usefulness; an invention qualifies as useful by providing simple entertainment, rather than a commercial use, and may also be useful even if its use promotes deceptive or even illegal activity in some circumstances. Most European countries, on the other hand, bar patents on inventions that violate morality. Second, the application itself must meet certain disclosure requirements—it must fully describe the invention and enable others to properly make and use the disclosed invention.

A patent application must satisfy these patentability requirements at the time of filing to foster fundamental patent policy goals. In particular, patentability requirements prevent applicants from filing claims for inventions that they have not fully developed to avoid unduly rewarding speculative claims, which could bar research and impose costs on the public. Notably, although Canada has a unique interpretation of the utility requirement under the “promise doctrine,” its interpretation in fact supports this fundamental patent policy. In cases where an application promises a certain use (but not if there is no such promise), an invention is only considered useful if it provides an adequate disclosure for that promise. The Canadian Supreme Court has recognized costs of patent protection to be particularly important in the area of pharmaceuticals, noting that

40. E.g., 35 U.S.C. §§ 101–103 (2012); TRIPS, supra note 3, art. 27(1).
43. E.g., 35 U.S.C. § 112 (2012); TRIPS, supra note 3, art. 29.
[w]ere the law to be otherwise, major pharmaceutical companies could . . . patent whole stables of chemical compounds for all sorts of desirable but unrealized purposes in a shot-gun approach hoping that, as in a lottery, a certain percentage of compounds will serendipitously turn out to be useful for the purposes claimed.44

Although Canada’s interpretation of what is useful is different than the interpretations of other countries, countries widely recognize the purpose espoused by the Canadian Supreme Court. The U.S. Supreme Court has similarly stated that a patent is not a “hunting license” in interpreting the utility requirement to bar a patent on a new method of making a known steroid when the inventors had no idea what function the steroid served, other than as a tool for further research.45

Like all types of intellectual property, patents are granted by individual nations and are territorially limited. Because a global patent does not exist, an inventor must seek patent protection in individual countries. For example, a U.S. patent gives its owner rights against others in the U.S., but does not provide any protection in other countries. To obtain protection in other countries, the inventor would have to apply for and obtain patent protection in the desired countries. However, an identical patent application filed in different countries will not result in identical patent rights, or even patentability. This is because each country has its own patentability standards. Contrary to Eli Lilly’s suggestions, courts in different countries can and often do apply different domestic standards to determine whether the same invention is patentable; courts often note that other nations’ decisions regarding similar, or even identical patent applications are not relevant to a domestic court’s evaluation of patentability.46

B. THE INTERNATIONAL LANDSCAPE: IP AND FOREIGN INVESTMENTS

Before addressing the specifics of Eli Lilly’s claims, it may help to provide a broader context of the international landscape. As noted in the introduction, Eli Lilly’s case lies at the unique intersection of separate

46. E.g., Canada (Att’y Gen.) v. Amazon.com, Inc., [2011] F.C.A. 328, para. 16 (Can.) (“[I]t would not be helpful . . . to explain the results of Amazon’s patent applications in other jurisdictions. . . . [E]very jurisdiction has its own patent laws and administrative practices, and they are inconsistent with one another in important respects.”); Conor Medsystems Inc. v. Angiotech Pharm. Inc., [2008] UKHL 49, ¶ 3 (stating that “it is inevitable that [different courts] will occasionally give inconsistent decisions about the same patent”); Apotex, [2002] 4 S.C.R. 153, para. 40 (Can.) (“[G]iven the differences in our respective patent laws, the outcome of the U.S. litigation on this patent is of limited interest here.”).
international agreements that govern intellectual property and foreign investments. To better understand Eli Lilly’s case, this Section first considers the traditional territorial scope of intellectual property rights, as well as how such rights are treated under international intellectual property agreements such as TRIPS. Finally, this Part provides an overview of bilateral and multilateral agreements that protect foreign direct investment.

1. Intellectual Property: Territoriality and Treaties

There is a long history of recognizing national boundaries of patents in the global arena. The Paris Convention was one of the earliest international agreements relating to patents (established in 1883), yet it did not require any member countries to grant patents—this was considered a domestic choice. The agreement only provided rules to ensure fairness to domestic and foreign applicants, and facilitate the process of obtaining patents in multiple countries. Indeed, a provision on the independence of patents specifically clarified that the grant or denial of a patent on an invention in one country does not impact the decision of another country. This rule inherently recognized and reinforced that patents are tools of domestic discretion and that patent rights, if any, are restricted to the territory of the patent-granting nation. Accordingly, countries not only differed on whether or not to completely ban patents, but also on the grounds for granting patents; nations could decide to grant patents only on processes, or only in some fields of technology.

The second significant international agreement relating to patents is the Patent Cooperation Treaty (“PCT”). This agreement, concluded in 1970, provided a mechanism for inventors to more easily obtain patents in multiple countries with a uniform PCT application that could be examined in individual member states. Importantly, the PCT still firmly recognized territorial limits and domestic sovereignty. It simply made the process of filing for patents in multiple countries easier with a single application. For example, a PCT application establishes a priority filing date in all member

47. In some situations, including Eli Lilly’s, there is an international agreement that simultaneously governs both intellectual property and foreign investments in separate chapters of the agreement. However, the issues are the same as if there were independent agreements.


49. For example, a nation that provided patents could not treat patent applications of its own nationals better than those of foreign applicants. Paris Convention, supra note 48, arts. 2–3 (national treatment).

50. Paris Convention, supra note 48, art. 4bis.
countries, but each country where the applicant ultimately files evaluates the patent according to its own patent standards. 51

Today, most nations of the world are members of the WTO and, as such, must provide patent and other intellectual property rights pursuant to TRIPS. This landmark agreement, concluded in 1994, has dramatically changed the ability of nations to exercise full control over the decision to grant patent rights. Member countries are required to grant patents to all “inventions,” that meet certain standards of patentability.

Even though TRIPS now requires many countries to provide patents, because the agreement sets minimum, rather than uniform standards, it explicitly contemplates diversity in domestic laws. 52 Although TRIPS notably requires some nations to provide patents for the first time, it gives states substantial flexibility in how to do so. For example, although TRIPS requires nations to grant patents on “inventions” that meet patentability standards, it does not define what constitutes an invention. 53 Accordingly, nations can properly exclude software, for example, from patentability if they do not consider software to be an invention. 54 Similarly, although TRIPS requires nations to provide patents on inventions that are useful, new, and nonobvious, it does not define any of these terms. 55 Before TRIPS, member states had different laws about some of these terms. The lack of inclusion of any specific definitions permits nations to provide their own definitions. 56 A failed attempt to create a new patent law treaty with uniform patent standards after TRIPS underscores that nations understood TRIPS not to

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52. TRIPS, supra note 3, art. 1(1).
53. Id. at art. 27.
54. Id.
55. Id.
impose such uniformity.\textsuperscript{57} The attempt to create uniform standards shows that countries recognized that there were no uniform standards of patentability under existing agreements, such as TRIPS.

Accordingly, although member countries must provide some protection to drug patents, they can define TRIPS patentability criteria to minimize harm to social policies beyond innovation. For example, a country could consider a newly discovered use of a known compound to neither be an “invention” nor “new” because TRIPS does not define these key terms. Although the use itself may be new, arguably that was inherent in the existence of the compound, such that society does not benefit from granting a patent on this new use. Countries might also consider such a use as simply falling below the threshold inventiveness. In fact, India’s recent patent amendments take this approach in barring from patentability new uses of known compounds.\textsuperscript{58}

Countries may also decide how to satisfy the TRIPS patentability requirement that an invention be “useful.”\textsuperscript{59} TRIPS article 27 actually states that countries must provide patents on inventions that are “capable of industrial application,” but clarifies in a footnote that this term is meant to be synonymous with “useful.” These terms refer to somewhat similar, but slightly different patentability requirements that existed in the laws of countries at the time TRIPS was negotiated. As noted by one scholar, “the deliberate inclusion of these two alternatives precludes any inference that the draftsmen of TRIPS intended to incorporate by reference or implication any single existing standard of patentability.”\textsuperscript{60}

Indeed, these differences have always been permissible. Prior to the conclusion of TRIPS in 1994, the Paris Convention simply focused on ensuring fairness to domestic and foreign applicants if a country decided to provide patents and the PCT similarly facilitated the process of obtaining

\begin{footnotes}
\item[59] TRIPS, supra note 3, art. 27(1).
\end{footnotes}
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patents in multiple countries. These agreements remain in force today, and the principle of territoriality remains valid.

2. International Agreements Governing Foreign Direct Investments and Providing Investor-State Disputes

There are over 3000 international agreements that provide foreign investors substantive rights to protect their investment, as well as a mechanism to protect those rights outside of domestic courts. These agreements are either bilateral investment agreements, or free trade agreements, such as the North American Free Trade Agreement (“NAFTA”), with an investor chapter aimed at promoting foreign investment.

Although a free trade agreement may include a chapter on both intellectual property rights and foreign investor rights, these chapters operate independently of each other.

Most agreements protecting foreign investors provide a similar set of substantive rights. These rights build upon prior international rights and provide more clarity than prior principles of customary international law. Typically, they provide investors a guarantee of compensation for any expropriation of investments, freedom from unreasonable or discriminatory measures, fair and equitable treatment, and guarantee foreign investors that they will not be treated less favorably than domestic ones. All of these rights

61. Paris Convention, supra note 48, arts. 2–3; PCT, supra note 51 (streamlining process to file patents in multiple countries).
62. In addition, TRIPS clarifies that it is consistent with the Paris Convention. TRIPS, supra note 3, art. 2.
help to ensure that host governments will not subject foreign investors to inappropriate risks, and consequently induce them to invest.

Investor-state arbitrations developed simultaneously with bilateral investment treaties as a means to promote and protect investment from foreign companies. These largely began after World War II when newly independent nations wanted to encourage foreign investment and assistance with developing natural resources, as well as to generally encourage foreign investment.\(^65\) The investor-state arbitration remedy provided an important avenue for relief to investors. Although foreign investors previously might have attempted to sue the state in its own courts, those courts could be biased; alternatively, the state might be able to claim sovereign immunity. Sometimes the investor could not even directly pursue an action. In the worst-case scenario, home states used, or at least threatened to use, military force.\(^66\) All of these options provided the investor with limited avenues of recourse, either because no suit could be brought or because a judgment was not enforceable.\(^67\)

Investor-state arbitrations address this problem through a unique process. Investors bring claims not before a domestic or international court, but a tribunal of private arbitrators, who are generally lawyers. The state is considered to have consented to this by agreeing to the treaty provision. The ability of foreign investors to arbitrate their disputes against states obviates prior hurdles to protecting investments when domestic courts either did not

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\(^{65}\) Germany and Pakistan signed the first such agreement in 1959. United Nations Commission on Trade and Development, Bilateral Investment Treaties in the Mid 1990s, UNCTAD/ITE/HT/7, Sales No. E. 98.H.D.8, 8–10 (1998). International agreements to promote investments date back as far as the late 1700s, but mostly focused on expropriation and also did not have the same type of arbitration-based remedies as current agreements. *E.g.*, RUDOLF DOLZER & CHRISTOPH SCHREUER, *PRINCIPLES OF INTERNATIONAL INVESTMENT LAW* 6–8 (2d ed. 2012).


\(^{67}\) For example, even if the ICJ ruled in favor of a company, a nation might decide not to pay the investor. The only remedy in such a case was passing a UN Security Council resolution. *E.g.*, Susan D. Franck, *The Legitimacy Crisis in Investment Treaty Arbitration: Privatizing Public International Law Through Inconsistent Decisions*, 73 FORDHAM L. REV. 1521, 1537 (2005).
recognize any claims, or refused to enforce domestic judgments in favor of foreign investors. 68

Although the global community initially praised this process as a way to promote investment flows during a more stable global economic era, more recently, scholars, countries, and citizens have criticized multiple aspects of investor-state arbitrations. 69 Some of the criticisms build on popular anti-trade or anti-corporate sentiment. 70 However, countries as well as scholars have also expressed reservation and criticism. 71 A major issue is that the suits appear to improperly encroach on domestic authority and even have a chilling effect on legitimate state regulatory functions due to substantial awards, as well as legal costs of defending such cases. 72 One example of a substantial award occurred in July 2014 against Russia for over $50 billion. 73 Although a recent study noted that states win in sixty percent of the cases,


70. Citizens may not only object, but publicly protest. For example, in South Korea, there were physical fights and tear gas use. E.g., South Korea Passes U.S. Free-Trade Agreement, Lawmaker Sets Off Tear Gas Canister in Protest, FOX NEWS (Nov. 22, 2011), http://www.foxnews.com/world/2011/11/22/south-korea-passes-us-free-trade-agreement-lawmaker-sets-off-tear-gas-canister/.


the average award—$16.6 million—is nonetheless significant. 74 Although there is a huge diversity in awards, even a lower award would still be substantial for any developing country, such that a potential award, even if statistically unlikely, could have a substantial impact on domestic decisions.

A major complaint is that the system results in inconsistent decisions because there is no binding precedent, 75 tribunals interpret provisions broadly, 76 and there is no appeal system. 77 Although tribunals often rely on prior decisions 78 and awards, and counsel for parties regularly cite prior decisions, the lack of hierarchy among tribunals as compared to traditional court systems, as well as the lack of an appellate system, may result in unpredictability. 79 Some also contend that arbitrators lack the independence and impartiality of typical domestic or international tribunals. 80 Although arbitrators are clearly private parties, rather than judges, some suggest that the presumption that arbitrators will rule in favor of corporations is overstated. 81 A related issue is that the proceedings and decisions may lack the same level of transparency as most judicial decisions. The rules for most proceedings do not permit interested parties to participate and do not require

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75. This is true of international law in general. E.g., Statute of the International Court of Justice art. 59, June 26, 1945, 59 Stat. 1055, T.S. 993, 3 Bevans 1179; MOHAMED SHAHABUDEEN, PRECEDENT IN THE WORLD COURT (1996); Gabrielle Kaufmann-Kohler, Arbitral Precedent: Dream, Necessity or Excuse?, 23 ARB. INT’L 357, 362–65 (2007); see also NAFTA, supra note 36, art. 1136(1) (“An award made by a Tribunal shall have no binding force except between the disputing parties and in respect of the particular case.”).


78. Christoph Schreuer & Matthew Weiniger, A Doctrine of Precedent?, in The Oxford Handbook of International Investment Law 1196 (Peter Muchlinski et al. eds., 2008) (considering there to be a de facto practice of precedent, even if not required).


final decisions to be made public. Although there are recent rules that increase transparency, these rules only apply prospectively to new agreements, rather than to the many that already exist.82 These disputes are admittedly more transparent than general commercial arbitration, but there is a major distinction in that investor-state disputes involve actions against sovereign nations. Even though nations consent to this process in a manner analogous to private parties, the consent is for a broad range of claims whereas commercial arbitration generally involves claims arising from a contractual clause limited to a specific situation.

To combat these shortcomings there have been many proposals to reform the current system for investor-state disputes.83 Many have suggested some type of appellate body to address the problem of inconsistent as well as expansive interpretations of identical provisions.84 Alternatively, some suggest replacing private arbiters with an international investment court to promote impartiality and independence.85 Other proposals do not involve drastic changes to the dispute resolution process but nonetheless aim to cabin problematic decisions. For example, some suggest requiring that claimants first exhaust domestic remedies; limiting the scope of claims; or


83. An alternative approach is to renegotiate or withdraw from such agreements entirely. E.g., Ben Bland & Shawn Donnan, Indonesia to Terminate More than 60 Bilateral Investment Treaties, FIN. TIMES, Mar. 26, 2014; Andrew Newcombe, A Brief Comment on the “Public Statement on the International Investment Regime,” KLUWER ARR. BLOG (Sept. 3, 2010), http://kluwerarbitrationblog.com/blog/2010/09/03/public-statement-on-the-international-investment-regime/; see also Gus Van Harten et al., Public Statement on the International Investment Regime, BILATERALS.ORG (Aug. 30, 2010), http://bilaterals.org/?public-statement-on-the (statement from academics asserting that “[t]here is a strong moral as well as policy case for governments to withdraw from investment treaties and to oppose investor-state arbitration, including by refusal to pay arbitration awards”).

84. E.g., APPEALS MECHANISMS IN INTERNATIONAL INVESTMENT DISPUTES (Karl P. Sauvant ed., 2009); Asif H. Qureshi, An Appellate System in International Investment Arbitration?, in THE OXFORD HANDBOOK OF INTERNATIONAL INVESTMENT LAW 1154 (Peter Muchlinski et al. eds., 2008); Mark Kantor, ICSID SECRETARIAT; POSSIBLE IMPROVEMENTS OF THE FRAMEWORK FOR ICSID ARBITRATION, TRANSNATIONAL DISPUTE MANAGEMENT (2004), http://www.transnational-dispute-management.com/article.asp?key=307 (suggesting consideration of an appeals facility at ICSID). But see Schreuer & Weiniger, supra note 78, at 1203–05 (suggesting that appeals may not be the best way to provide consistent interpretation and instead suggesting preliminary rulings on questions of law instead).

requiring arbitrators to consider other areas of international law, such as human rights and environmental obligations.\textsuperscript{86}

C. \textbf{Eli Lilly's Case}

Eli Lilly has filed a notice of arbitration against Canada, alleging violations of NAFTA's investment chapter. Eli Lilly claims that Canadian courts improperly invalidated its patents for failing the utility requirement and challenges the Canadian “promise doctrine”—a common law interpretation of utility that applies when a patent sets forth, or is perceived to set forth, a “promise.” The promise doctrine dates back to early patent law in the UK, as well as older Canadian decisions; however, Canadian courts only recently invalidated patents under this doctrine.\textsuperscript{87} Since 2005, Canadian courts have invalidated roughly a dozen patents for failing to satisfy this doctrine.\textsuperscript{88} Pursuant to this doctrine, a patent that promises something is only useful if it does what it “promises.” If the patent does not make a promise, a scintilla of utility can establish usefulness.\textsuperscript{89} For patents and patent applications that make a promise, whether the promise is fulfilled can either


\textsuperscript{87}. The promise doctrine has its origins in British law prior to 1977 (after that date utility was eliminated as a requirement and the requirement of “industrial application” was substituted). \textit{E.g., Gold \& Shortt, supra note 56, at 50.} The promise doctrine in Canadian law can arguably be found as early as the 1960s. \textit{E.g., New Process Screw Corp. v. P.L. Robertson Mfg Co. Ltd.} (1961), 39 C.P.R. 31 (Can. Ex. Ct.) (patent promising a process of making screws of many sizes depending on certain pitch angles in fact failed to create the types of screws promised); \textit{see also Consolboard Inc. v. MacMillan Bloedel (Sask.) Ltd.}, [1981] 1 S.C.R. 504 (Can.) (stating that an invention is not useful either if it will not operate at all or if “it will not do what the specification promises that it will do”); \textit{see also Gold \& Shortt, supra note 56, at 38. But see Norman Siebrasse, The False Doctrine of False Promise, CANADIAN INTELL. PROP. REV.} 3, 8–9 (2012).

\textsuperscript{88}. Siebrasse, \textit{supra} note 87, 36–37. For the purpose of analyzing Eli Lilly’s investment claims, this article assumes that Eli Lilly is correct in asserting that the promise doctrine modifies Canadian patent law to consider the legal and policy implications; however, if Canada’s laws have not changed at all, Eli Lilly’s claims are weaker. Although it is currently unknown how the tribunal will decide, Canada as well as some scholars dispute that Canada’s law has changed. \textit{E.g., Eli Lilly \& Co. v. Canada, Statement of Defense, ¶ 12, (NAFTA/UNCTRITAL Arb. Trib. June 30, 2014)} [hereinafter Canada, Statement of Defense]; \textit{Gold \& Shortt, supra note 56, at 53–57, 61–77} (arguing that the promise doctrine is not new to Canada and that other countries also require similar evidence, even if they do so under other patent law requirements).

\textsuperscript{89}. \textit{E.g., Eli Lilly Canada Inc. v. Novopharm Ltd.}, [2012] 1 F.C.R. 349, para. 76 (Can.).
be demonstrated in the patent or “soundly predicted.” In the many cases where the promise relies on a sound prediction, there are three components to satisfy. First, there must be a factual basis for the prediction. Tested compounds can supply this. Second, the inventor must have a sound basis from which the desired result can be inferred from the factual basis as of the date of the application. Third, there must be proper disclosure in the patent application to justify the quid pro quo of a patent monopoly.  

An important issue is where a court (or the patent office) should look to find a promise in the patent or in the patent application. Some courts and commentators argue that only promises found entirely or mostly in the claims are relevant, but not those found in the specification. The majority of cases do not restrict promises to those found in patent claims. This is consistent with claim drafting; patent prosecutors generally do not restrict claims by stating the claims’ utility. Rather, prosecutors draft claims to simply cover the structural elements of the invention. More typically, a patent or patent application will state in its specification the invention’s intended purpose, as well as how the invention is an improvement over prior inventions, thus leading to a promise. Courts have not found promises based solely on abstract tables of data or drawings and instead generally look to an actual statement in the specification. However, even focusing on statements in the specification can lead to different results, with some recent decisions since Eli Lilly filed its notice of arbitration seeming to take a more restrained view of what constitutes a promise.

90. *Id.* at para. 70.
92. *See* Gold & Shortt, supra note 56, at 44. Some Canadian cases decided after Eli Lilly’s notice of arbitration have taken a more restrained view of the promise doctrine. *E.g.*, Sanofi-Aventis v. Apotex Inc., 2013 FCA 186, para. 49 (Can.) (finding that there should only be a promise if “the inventor makes an explicit promise of a specific result” in a case involving the drug sold as Plavix).
94. *E.g.*, Sanofi-Aventis v. Apotex Inc., 2013 FCA 186 (Can.) (concluding that the lower court had erred in finding a promise for use in humans based on inferences regarding the drug sold as Plavix); Pfizer Canada Inc. v. Mylan Pharm. ULC, 2014 FC 38, para. 60 (Can.) (finding the patent relating to the drug marketed as Celebrex did not promise reduced
Eli Lilly and other companies criticize the promise doctrine as discriminatory since courts have mostly invalidated pharmaceutical patents under it. However, the doctrine is technically not limited to pharmaceuticals. The Canadian Manual for Patent Practice in fact has a non-pharmaceutical example involving a golf club. In addition, a court has recently applied the doctrine to a mechanical invention. Even though the promise doctrine applies to all areas, it may be harder to satisfy a promise of an improved medical treatment than an improved mechanical device—especially if the patent promises that the invention is superior for long-term treatment, since proving that claim involves clinical data. However, this does not necessarily support Eli Lilly’s claim of discrimination since a number of neutrally worded patent standards are more difficult to meet for certain areas of technology, yet are not considered discriminatory.

Some also criticize the promise doctrine as being unpredictable. For example, in Apotex Inc. v. Pfizer Canada Inc., the court found the patent application promised to treat glaucoma with minimal side effects; because the court determined that glaucoma was a chronic disease, it invalidated the patent for lacking any long-term data on treatment, even though the patent claims did not refer to a chronic condition or long-term treatment. This decision also conflicted with an earlier court decision holding the same patent valid. Although these different decisions may seem to indict the doctrine, courts have come to different conclusions concerning the same side effects in humans); Apotex Inc. v. Pfizer Canada Inc., 2014 FCA 250, paras. 60–70 (Can.) (rejecting the suggestion that there was a promise of utility in treating inflammation or a promise of reduced side effects in a patent covering the drug marketed as Celebrex in contrast to an earlier decision by a different drug concerning the same patent); Pfizer Canada Inc. v. Apotex Inc., 2014 FC 314 (Can.). But see Alcon Canada Inc. v. Cobalt Pharm. Co., 2014 FC 149 (Can.) (finding implied promise of enhanced physical stability of solution). Of course, it could also be that some promises alleged to exist by a company desiring to invalidate the patent were farfetched. For example, in one case, the defendant claimed a passage suggested that a patent promised rapid absorption of the drug in vivo based on language that simply noted that this was a possible mechanism, such that the court rejected this argument. Bayer Inc. v. Cobalt Pharm. Co., 2013 FC 1061 (Can.). Nonetheless, the court stated that “[c]ourts should not strive to defeat otherwise valid patents,” which could be seen as an intent to take a more restrained view of applying the promise doctrine. Id. at para. 93.


96. Bell Helicopter Textron Canada Limitée v. Eurocopter, 2013 FCA 219 (Can.).

97. 2011 FCA 236 (Can.).

98. Pharmascience Inc. v. Pfizer Canada Inc., 2011 FCA 102 (Can.).
patent in applying other patentability standards. In fact, for some issues, such as claim construction, reversals are quite common.

Although commentators have criticized the promise doctrine for being without basis, the Canadian Supreme Court has provided a firm foundation for the doctrine in public policy. The court explained that it “balances the public interest in early disclosure of new and useful inventions, even before their utility has been verified by tests . . . and the public interest in avoiding . . . granting monopoly rights in exchange for misinformation.”

Noting that patent monopolies are associated with higher prices, the court stated that the “public should not be expected to pay an elevated price in exchange for speculation.”

In the case of Eli Lilly’s patents on the drugs sold as Strattera and Zyprexa, courts found the patents on both drugs promised certain treatments, yet failed to soundly predict them, such that the patents were invalid for lack of utility. Moreover, in both cases, Eli Lilly appeared to be attempting to obtain additional patent protection beyond the term of its original patents. In other words, Eli Lilly was engaging in the common practice of “evergreening” by pharmaceutical companies; as noted earlier, some scholars and policymakers suggest that this is precisely the situation where countries should decline to provide patents. The facts of Eli Lilly’s patents further underscore this.

A federal court invalidated Eli Lilly’s improvement patent, which allegedly covered the drug sold as Straterra, because it had an implied promise to treat ADHD as a chronic condition, but the patent only disclosed a short-term study and did not demonstrate efficacy for long-term use. The invalidated patent claimed a new use—treating ADHD—for a known compound, and specifically suggested in the specification that the compound was effective without disclosing any studies or working examples. Importantly, Eli Lilly had previously obtained a patent for the broader “genus” (group) of compounds, as well as a second Eli Lilly patent for treatment for depression. Eli Lilly later developed data to establish that the drug was in fact useful for treating ADHD, but not until long after filing the patent application. Admittedly, it is difficult for a patent applicant to have

99. E.g., NAFTA, supra note 36, art. 1100; see also Apotex Inc. v. Wellcome Found., Ltd. [2002] 4 S.C.R. 153, para. 66 (Can.).
100. Id. at para. 37.
101. Novopharm Ltd. v. Eli Lilly & Co., 2010 FC 915 (Can.).
102. Canada Patent No. 1,051,034 (Filing date Jan 1, 1975); Canada Patent No. 1,181,430 (Filing date Nov. 12, 1981); see also Canada, Statement of Defense, supra note 88, ¶ 53.
clinical data at the time an invention is disclosed. However, the invention at issue here did not involve a new compound; rather, it was a new use of an old compound. Moreover, as noted earlier, patent policy dictates that the public should not be burdened with the social cost of a patent unless, at the time of filing, the inventor has made an adequate disclosure; otherwise, the patent becomes a mere hunting license, which imposes substantial costs for the public while rewarding applicants for making a lucky guess.

Similarly, a different federal court invalidated Eli Lilly’s patent claiming use of the drug sold as Zyprexa to treat schizophrenia because the patent implied a promise of superiority. In that case, the court found the patent promised the drug would have fewer side effects than existing antipsychotics for long-term treatment, but the specification provided inadequate disclosure to support this promise. Importantly, the patent at issue was a “selection” patent that Eli Lilly sought after obtaining a patent on a broader “genus” patent for use in the treatment of certain psychotic conditions, including schizophrenia. However, Canadian patent law, consistent with other countries, generally only permits patents on selections of a previously patented genus if the narrower claim has an advantage over the previously disclosed genus. Eli Lilly’s invalidated patent attempted to demonstrate such an advantage; it in fact stated that the invention had “marked superiority and a better side effects profile than prior known antipsychotic agents.” However, it did not disclose data to support this claim.

Eli Lilly asserts that Canada improperly invalidated its patents based on an interpretation of the law that did not exist when the patents were examined. Eli Lilly notes that Canada’s law is currently different than that of other NAFTA parties (the United States and Mexico) but that when NAFTA was enacted, Canadian law was more similar to other NAFTA parties, such that the promise doctrine could not have been anticipated. Accordingly, Eli Lilly asserts that Canada was wrong to “re-interpret a core patentability requirement enshrined in NAFTA in a way that contradicts the standard accepted by the NAFTA parties at the time the treaty was negotiated.”

103. Eli Lilly Canada Inc. v. Novopharm Ltd., 2011 FC 1288, para. 218 (Can.).
104. See Canadian Patent No. 1,075,687. A selection patent is a subset of the previously and more broadly disclosed genus.
105. Canada Patent 2,041,113, p. 5; see also Canada, Statement of Defense, supra note 88, ¶ 69 (citing patent specification).
106. Eli Lilly Notice of Arbitration, supra note 2, ¶ 69.
107. Id. ¶¶ 28–34.
108. Id. ¶ 68.
Eli Lilly also suggests that the promise doctrine is inconsistent with the PCT because the PCT prohibits countries from “imposing ‘requirements as to the form or contents . . .’” of the original PCT application. In particular, it asserts that the promise doctrine “would defeat the single application objective.” Eli Lilly seems to make two separate, but both invalid, claims about the PCT. First, Eli Lilly suggests that the promise doctrine is inconsistent with the PCT requirement that bars countries from imposing requirements on the form of the original PCT application. Although there is such a rule, it notably only governs the actual PCT application and not patent standards of individual countries. The PCT explicitly states that it does not “limit the freedom of each Contracting State to prescribe such substantive conditions of patentability as it desires.” Utility is in fact a substantive condition of patentability, and the PCT states that national laws may require the applicant to furnish evidence of any substantive condition of patentability.

Eli Lilly’s claim that the promise doctrine “would defeat the single application objective” is also flawed. Eli Lilly seems to presume that if one nation has a patent standard that differs from others it would be impossible for applicants to comply with this standard in the PCT application, such that this inconsistent standard would defeat the purpose of the PCT—to provide a streamlined method of applying for patents in multiple countries. However, given that the PCT does not govern patentability standards, this claim is unfounded. This argument seems especially unjustified since there are prior situations where nations have had different laws that implicate what is disclosed in the PCT application. For example, the United States is unique in requiring patent applicants to disclose the “best mode” of using an invention. Although other countries have not adopted the best mode requirement, foreign applicants have used PCT applications to seek U.S.

109. Id. ¶ 45; see also Patent Cooperation Treaty, supra note 51, art. 27(1).
110. Eli Lilly Notice of Arbitration, supra note 2, ¶ 45.
111. Patent Cooperation Treaty, supra note 64, art. 27(5).
112. Id. art. 27(5)–(6).
patents for years. Admittedly, some suggest that this may be unfair to foreign applicants who might forget to consider U.S. patent laws when they file a PCT application. Yet even those that criticize the best mode as unfair to foreign applicants do not cite any problems with PCT applications.\textsuperscript{114} This criticism differs from Eli Lilly’s claim that the promise doctrine is an actual violation of the PCT or that the doctrine completely defeats the single application objective. For example, the best mode requirement does not defeat the single application objective because an applicant’s PCT application can still result in a U.S. patent if the applicant discloses the information appropriate for complying with U.S. law.

Although Eli Lilly correctly considers a patent to be a possible investment covered by investor-state agreements, there are multiple challenges to its claims that this Article will detail in subsequent Parts. First, although valid intellectual property rights are unquestionably investments, an intellectual property “right” that is canceled for failing to meet the applicable standards should not be considered an investment that is within the scope of such agreements. Eli Lilly obviously contests this issue in making its claims that invalidating a patent is tantamount to “expropriation” of its investment and a violation of the requirement that all investments be provided “fair and equitable treatment.”

\section{Revocation of Intellectual Property Rights Should Not Be a Breach of Investment Obligations}

Eli Lilly’s case illustrates why revocation of patent rights should not constitute a breach of investment obligations. First, this Part explains why there is no covered “investment” and thus no grounds for an investor-state dispute. Then, this Part argues that tribunals should not find revoked rights to be either an expropriation or a violation of fair and equitable treatment. Although there are strong reasons for rejecting such claims, this analysis also highlights how a tribunal could nonetheless find otherwise, which underscores the need for the reforms proposed in Part IV.

\textsuperscript{114} E.g., NAT’L RESEARCH COUNCIL, supra note 113, at 121; Chisum, supra note 113, at 279. In particular, these criticisms focus on the situation where an applicant relies on the PCT application, but reliance on a previously filed domestic application in the foreign inventor’s home country for obtaining an earlier filing date. See 35 U.S.C. § 119 (2012). However, those who complain about the unfairness of the best mode for foreign applicants mostly focused not on PCT applications, but applicants who rely on the date of a patent application in their own country. E.g., Lee Petherbridge & Jason A. Rantanen, The Pseudo-Elimination of Best Mode: Worst Possible Choice, 59 UCLA L. REV. DISCOURSE 170, 171 (2012).
A. CANCELED INTELLECTUAL PROPERTY RIGHTS SHOULD NOT BE A COVERED INVESTMENT THAT WOULD ENABLE AN INVESTOR-STATE DISPUTE

Existing investment agreements should be interpreted to exclude canceled intellectual property rights as a covered investment. Intellectual property rights are different than other types of property because they can be and often are later canceled. The cancellation of the rights means there were no legitimate rights to begin with, so in these cases there should be no recognized investment that would trigger the ability to file an investor-state dispute.

1. Intellectual Property is Different from Real Property

Intellectual property rights are fundamentally different from real property rights with respect to their existence; intellectual property may be canceled and has a different creation process. This is inherently different from real property, which is never canceled; in the rare case where an action to quiet title succeeds, the property itself still exists. In addition, unlike most forms of real property, which exist without state intervention, some types of intellectual property only exist if granted by the state and states can even cancel many types that exist without state intervention. For example, a patent right does not exist without a state agency such as the U.S. Patent and Trademark Office reviewing an application to evaluate whether a patent is deserved. But this determination occurs after only a brief administrative review, so patents are at most presumptively valid; they can be and often

115. Although not all intellectual property rights may be canceled, this is definitely true of patents, as well as trademarks and copyrights. E.g., 15 U.S.C. § 1064 (2012) (trademarks); 37 C.F.R. § 201.7 (2001) (copyright).

116. The only types of intellectual property rights that cannot be canceled are rights of publicity and trade secrets. However, these are often considered less valuable to companies than the traditional types of intellectual property that can be canceled, such as patents, copyrights, and trademarks.

117. E.g., 35 U.S.C. §§ 111, 131 (2012). This is obviously different than other types of intellectual property rights, such as trademarks, trade secrets, and rights of publicity, which not only exist, but which a rights holder can enforce without a state determination to grant. E.g., 15 U.S.C. § 1125 (2012) (permitting enforcement of unregistered trademarks). Copyrights can also exist without state determination, but U.S. law still requires registration of a copyright before a rights holder can file suit. 17 U.S.C. § 411 (2012).

are canceled or revoked if it is found that the agency should not have issued the rights in the first instance.\(^{119}\) In most countries, there are a variety of cancellation and revocation mechanisms, including proceedings at the patent office as well as invalidation in a court.\(^ {120}\) For example, Canada’s patent laws state that an issued patent is assumed valid in the absence of evidence to the contrary, thus expressly contemplating that issued patents can be found invalid.\(^ {121}\) Canada’s patent laws also provide that the usual patent right to exclude is “subject to adjudication” by Canadian courts, which means that those rights are contingent on a Canadian court determining whether the patent is valid.\(^ {122}\) Accordingly, a patent that is invalidated for failure to satisfy one of the stated standards should not constitute intangible property pursuant to an investment agreement since the invalidation means the patent never should have existed.

Rather, invalidating a patent is more akin to an application for patent rights, for which there has never been a recognized property right.\(^ {123}\) In particular, whereas the owner of a patent can exclude others from use of the patented invention, the owner of a mere patent application has no such rights.\(^ {124}\) Nonetheless, there is one prior case that is somewhat analogous to


\(^{120}\) In the United States, patents may be invalidated pursuant to re-examination, inter partes review, and a relatively new post-grant review for patents filed after March 2013. 35 U.S.C. §§ 301 (re-examination), 311 (inter partes review), 321 (post-grant review) (2012).

\(^{121}\) Id. § 42.

\(^{122}\) Id. § 42.

\(^{123}\) Although some agreements consider patent applications to be investments, they notably limit such claims to applications for patentable inventions, which means that they still must meet the basic patentability requirements. E.g., Bilateral Investment Treaty, U.S.-Jam., art. I.1(a)(iv), Feb. 4, 1994, S. TREATY DOC. No. 103-35 (1997). However, including an application as an investment seems questionable based on intellectual property laws because there are no rights unless and until they are granted. But see Mercurio, supra note 26, at 878-80 (arguing that an application for an intellectual property right could be considered an investment, in part because the European Court of Human Rights held that an application for a trademark is a property right for purposes of the European Convention on Human Rights).

\(^{124}\) See 35 U.S.C. § 271(a) (2012) (only providing enforcement rights to patent owner). Although Congress recently amended the Patent Act to provide limited retroactive damages
the situation of cancelled intellectual property. A recent decision held that an 
application to sell a generic drug was not a property right that would qualify 
as an investment because, even though the FDA granted tentative approval, 
the FDA retained the right to revoke the approval. Although an application 
to sell a drug is obviously different than an application for a patent, in both 
situations there is no “right” (whether to sell a drug or exclude others from 
making it) unless and until a government agency makes a determination. In 
addition, in both cases, a positive government decision is tentative and 
subject to reversal. Since a revocable decision that would confer some proper 
rights is not an investment, a right that has already been revoked is even less 
likely to qualify. Of course, this is only one tribunal decision, and other 
decisions need not follow it. However, given that the decision simply further 
supports long-standing patent policy, there is a firm foundation for a tribunal 
to consider cancelled intellectual property rights not to be a type of covered 
investment.

In addition, canceled intellectual property rights, including those canceled 
based on a common law modification of long-standing patent criteria should 
be considered to never have existed. This highlights yet another difference 
between intellectual property law and real property. As noted earlier, real 
property is not dependent on state determinations, so what constitutes valid 
real property is unlikely to change. This difference is an important nuance for 
Eli Lilly’s case. Eli Lilly argues that because its patents were consistent with 
Canadian law at the time of application, it was improper for a change in the 
law after issuance to invalidate its patents. However, contrary to Eli Lilly’s 
assertion, it is common for case law to modify patent law and retroactively 
invalidate previously granted patent rights. In the United States, for example, 
the Supreme Court’s modification of the obviousness standard to make it

125. Apotex Inc. vs. United States, Award on Jurisdiction and Admissibility, ¶¶ 209–10, 

126. Eli Lilly Notice of Arbitration, supra note 2, ¶¶ 8–9 (asserting that the Canadian 
judiciary has “created a new doctrine” to assess utility that is a “dramatic departure from the 
standard” prevailing in Canada when its patents were filed and granted). Eli Lilly bases this 
statement on the fact that when it applied, the Canadian patent office guidelines used a 
different utility standard that considered inventions to satisfy unless the invention is “totally 
useless.” Id. ¶ 8. However, the very guidelines that Eli Lilly uses as its sole source of 
authority for this issue in fact state that only courts have authority to interpret patent law. 
Manual of Patent Office Practice, Consumer and Corporate Affairs Canada, Patent Office, 
Forward (1977). This is true of all subsequent guidelines. Canada, Statement of Defense, 
supra note 88, ¶ 46.
more difficult to meet impacted the validity of existing patents. More recently, after the Supreme Court modified what types of genes may be patentable subject matter, the validity of some previously issued patents is in question. Moreover, this phenomenon is common to all areas of common law doctrine that have both prospective and retrospective application. In addition, there is even a prior tribunal decision rejecting the suggestion that retroactive application of a domestic law would be inappropriate and explicitly noting that it is “normally a matter of local courts to determine” whether to apply new decisional law retrospectively.  

2. Canceled Intellectual Property Should Be Excluded from Investment Agreements Based on Policy Grounds

In addition to the criticisms of investor-state arbitration disputes previously noted, these disputes present unique policy problems when investors challenge IP rights that are permissible under international agreements. First, unlike most types of investments subject to investor-state disputes, international treaties, such as TRIPS, govern intellectual property. These international agreements represent negotiated norms among states, and a decision by an investor-state tribunal interpreting these treaties, or even simply the filing of an action challenging them, would have a chilling effect on these negotiated norms and could also result in inconsistent decisions. Second, intellectual property rights are granted to effectuate domestic social policies, and permitting challenges to domestic decisions canceling intellectual property rights undermines these policies. Third, intellectual property is also fundamentally different from traditionally protected investments in that the traditional rationale for permitting investors to challenge states does not apply to intellectual property.

129. See, e.g., Harold J. Krent, The Puzzling Boundary Between Criminal and Civil Retroactive Lawmaking, 84 Geo. L.J. 2143, 2156 (1996); see also Donald T. Horstein, Resiliency, Adaptation, and the Upsides of Ex Post Lawmaking, 89 N.C. L. Rev. 1549, 1551 (2011) (noting that retroactivity is not only tolerated but sometimes celebrated).
130. Mondev Int’l Ltd. v. United States, ICSID Case No. ARB(AF)/99/2, Award, ¶¶ 137–38 (Oct. 11, 2002) (rejecting the suggestion that retrospective application of a rule by a court would constitute violation of NAFTA article 1105 regarding minimum standard of treatment).
a) International Agreements Permit Nations to Decide on the Scope of Intellectual Property Rights; Investment Arbitrations Should Not Disrupt This Norm

Investment arbitration disputes that affect domestic decisions concerning intellectual property rights are different than most other investment disputes because they can undermine the goals of the separate international agreement, TRIPS; accordingly, investor-state disputes should exclude domestic intellectual property decisions consistent with TRIPS. As noted earlier, well over one hundred countries, including Canada, must comply with TRIPS. However, TRIPS sets minimum, but not uniform standards, such that nations have substantial flexibility to define these standards. In particular, while patents must be granted on all inventions that satisfy traditional criteria, including that the invention be useful, TRIPS notably does not define the term, so countries have discretion to decide the applicable standard. In addition, TRIPS expressly contemplates that patent rights can be revoked and simply requires that there be judicial review of any such decision. As explained below, TRIPS is fundamentally different from other international agreements implicated in investor-state disputes to date, which involve more ambiguous criteria and do not create a direct conflict. In addition, if investor-state disputes could challenge TRIPS-consistent decisions, there is a risk of decisions inconsistent with the built-in dispute resolution process of TRIPS. Moreover, considering that TRIPS is already an encroachment on traditional state sovereignty, permitting investor-state disputes to challenge TRIPS-consistent actions would seem particularly unfair and would have a chilling effect on TRIPS-permissible laws that would promote better access to affordable medicine. Given these issues, investor-state tribunals should not consider TRIPS-consistent domestic decisions as violations of investor rights.

Although investor-state tribunals have previously addressed conflicts with other international agreements, those agreements are fundamentally different than TRIPS. Only in limited situations has another international agreement been arguably relevant to investment-specific claims. These

131. Although there are agreements since TRIPS that set even higher standards, this section will focus only on TRIPS because it has the most extensive membership of any international agreement concerning intellectual property.
132. TRIPS, supra note 3, art. 1(1).
133. Id. art. 27(1); see also supra notes 53–60 and accompanying text (noting that this proposition is well supported by scholars and policymakers).
134. TRIPS, supra note 3, art. 32.
135. This excludes the use of “umbrella” clauses in international agreements that permit an investor to enforce other commitments or reliance on other international agreements as
situations involve direct conflicts with another international agreement where arguably only one agreement can apply, and a situation where an agreement that generally provides for investor-state arbitration explicitly exempts under certain environmental treaties. TRIPS, however, is a unique international agreement because its standards allow for flexibility. An investor-state tribunal could find that a state has violated the investment-based rights of a foreign investor when the state is in compliance with TRIPS because TRIPS only provides a minimum standard of protection. Although this may seem to suggest there is no conflict, such a finding would undermine the ability of countries to use flexibilities under TRIPS. As a policy matter, it is inappropriate to impose liability under an investment chapter on a country that is complying with a separate international agreement.

In no other prior situations have investor-state disputes had the potential to create liability for nations that are complying with a separate international agreement. Indeed, in most cases, there is not a true conflict with a separate international agreement. The closest situation that has arisen involves the part of customary international law. See, e.g., Roger Alford, Using Investment Arbitration to Enforce WTO Commitments, KLUWER ARB. BLOG (Apr. 18, 2014), http:// kluwerarbitrationblog.com/blog/2014/04/18/using-investment-arbitration-to-enforce-wto-commitments/ (noting that umbrella clauses in BITS could permit enforcement of WTO and other trade agreement commitments); see also Charles Owen Verrill, Jr., Are WTO Violations Also Contrary to the Fair and Equitable Treatment Obligations in Investor Protection Agreements?, 11 ILSA J. INT’L. & COMP. L. 287 (2005); S.D. Myers, Inc. v. Canada, Partial Award, ¶¶ 234, 256 (NAFTA/UNCITRAL Arb. Trib. Nov. 12, 2000), 40 I.L.M. 1408 (2001) [hereinafter S.D. Myers Partial Award] (suggesting in dicta that minimum standard of treatment under NAFTA take into account “the letter or spirit of widely, though not universally accepted international agreements like those in the WTO system”).

136. Even when raised, tribunals do not always need to address a possible conflict since sometimes the competing international agreement is found to have come into force too late to be relevant. E.g., Micula v. Romania, ICSID Case No. ARB/05/20, Award (Dec. 11, 2013) (finding no conflict because non-investment agreement was concluded after the investment agreement). See also Abba Kolo, Transfer of Funds: The Interaction between the IMF Articles of Agreement and Modern Investment Treaties: A Comparative Law Perspective, in INTERNATIONAL INVESTMENT LAW AND COMPARATIVE PUBLIC LAW 345, 355 (Steven Schill ed., 2010) (suggesting that if there is a conflict between a capital transfer provision of an investment agreement and the IMF, the investment agreement should apply as more specific under lex specialis).

137. Canada argued that investment claims were inconsistent with its international environmental obligations under the Basel Convention and the U.S.-Canada Transboundary Agreement on Hazardous Waste, such that these agreements should prevail over investment claims. The tribunal found no actual conflict. S.D. Myers Partial Award, supra note 135, ¶ 150. This situation is also different in that NAFTA has a specific clause for possible inconsistency with other environmental agreements and states that those obligations shall prevail to the extent of inconsistency, but where a party has a choice between equally effective and reasonably available means, the party must choose the least inconsistent measure. NAFTA, supra note 36, art. 104.
actual or proposed use of other international agreements as defenses where those agreements are largely aspirational. For example, in the pending suits concerning plain packaging tobacco laws, there is a WHO framework convention that supports domestic laws at issue, but legally, no member countries must apply the guidelines. Similarly, although some commentators have suggested that states should rely on international human rights norms as a defense, these norms are notably vague and generally do not clearly indicate what countries can do. For example, although some have suggested that there is an international right to affordable and equitably distributed water that could be relevant, no state has attempted to clearly rely on such rights. This could be because international rights are to citizens, rather than countries. Moreover, there is no firm requirement; any such right is based on a General Comment to the UN Committee on Economic, Social and Cultural Rights, and the UN agreement actually only requires that states “take steps” with the caveat that those steps be based on “available resources.” Accordingly, as human rights treaties simply reflect a general desire to promote certain activity, they provide no firm criteria, whereas TRIPS expressly states that countries must provide certain patent standards while at the same time permitting nations flexibility in interpreting these standards.


141. Indeed, one commentator has suggested that the vagueness of these obligations is an explanation for why nations do not suggest a conflict with human rights. James D. Fry, International Human Rights Law in Investment Arbitration: Evidence of International Law’s Unity, 18 DUKE J. COMP. & INT’L L. 77, 93–96 (2007).

142. International Covenant on Economic, Social and Cultural Rights art. 2, Dec. 16, 1966, 993 U.N.T.S. 3 (“[E]ach State Party to the present Covenant undertakes to take steps, . . . with a view to achieving progressively the full realization of the rights recognized.”); see also arts. 11–13 (right to water). In addition, the General Comment is itself nonbinding.
Investor-state dispute tribunals should also decline to address intellectual property issues that are consistent with international agreements concerning intellectual property when these agreements already provide a mechanism for addressing alleged inconsistencies to prevent inconsistent decisions. For example, there is a built-in forum for adjudicating alleged TRIPS violations pursuant to the robust WTO dispute settlement process. If investors were permitted to usurp this process, it could both result in inconsistent decisions and undermine the negotiated international norms pursuant to TRIPS. Notably, the WTO dispute settlement process is intended to be the sole means to settle violations of its agreements such as TRIPS. Although there is no language expressly excluding investor-state arbitrations, no such arbitrations involved intellectual property at the time the WTO and TRIPS were negotiated, so negotiators likely did not see the need to include such a provision. However, these agreements do contain language prohibiting countries from taking unilateral action for violations. Permitting investors to engage in a form of self-help through investor-state arbitrations seems one step beyond countries taking unilateral actions. Moreover, there are issues with having investor-state arbitrations decide TRIPS issues when they lack familiarity with either intellectual property or WTO agreements. There is a strong possibility of inconsistent rulings, especially because investor-state arbitrations have no appellate review.

Beyond interfering with an existing dispute resolution process and producing potentially inconsistent decisions, permitting investor-state arbitrations to overrule internationally agreed upon domestic flexibilities under TRIPS seems particularly unfair to countries since TRIPS already encroaches on traditional domestic authority in the area of intellectual property rights. Notably, the TRIPS requirement that all countries provide some level of patent protection was a monumental change to the prior international landscape, where countries previously did not have to grant any intellectual property rights. The idea of global rules requiring patent protection was the brainchild of multinational pharmaceutical companies. They successfully lobbied the United States and EU member states to advocate this in the context of an agreement that would include issues of interest to developing countries that would otherwise oppose an agreement

144. Indeed, some suggest that past tribunals have struggled to properly interpret and apply WTO law. E.g., Jürgen Kurtz, The Use and Abuse of WTO Law in Investor-State Arbitration: Competition and its Discontents, 20 EUR. J. INT’L L. 749 (2009) (focusing on misuse of WTO law concerning national treatment); Mercurio, supra note 26, at 905.
focused exclusively on mandating intellectual property rights. Developing countries may have capitulated to including intellectual property norms because they were interested in enhancing the ability to market agricultural products to other countries, which membership in the WTO would allow. In addition, some developing countries may have agreed to TRIPS assuming that this would forestall unilateral pressure from countries concerning their intellectual property laws. Accordingly, agreement to TRIPS requirements, including providing patents on drugs, does not reflect uniform agreement that patents are desirable as a matter of policy. Given this historical context, permitting an individual investor to further encroach on the limited domestic flexibilities under TRIPS seems particularly unfair to developing countries.

Importantly, if tribunals allow cases such as Eli Lilly’s, these cases could have a chilling effect on an important trend where developing countries are beginning to finally use their full flexibility under TRIPS. Notably, although TRIPS has always provided states discretion to define the minimum patentability standards, some nations were initially hesitant to do so and simply copied the patent standards of countries such as the United States, even though such laws were not necessarily in their interest. India was the first country to use its full flexibility under TRIPS to create a unique law that bars patents on “new” drugs that are in fact only modest variations of old drugs with no improved benefit to patients. Since India adopted its law in 2005, other countries have either copied India’s laws, or are contemplating doing so. For example, there is a proposal for Brazil to amend its patent standards to mirror India’s.

In light of these negative policy implications, tribunals that end up evaluating cases such as Eli Lilly’s should at a minimum take TRIPS—including the inherent domestic flexibilities in its implementation—into account. A recent arbitral decision suggests that a tribunal might be willing to do so. In Ioan Micula v. Romania, although the majority of the tribunal rejected the notion that the investment agreement was in direct conflict with the EU Agreement, it was willing to consider EU law in evaluating the investment claims. In addition, even if a tribunal were to consider TRIPS, the outcome is unclear because TRIPS does not necessarily result in a conflict with any investment provision. Any possible “conflict” would be more with respect to whether an investment tribunal interpreted TRIPS provisions differently than a WTO panel or scholar would. Different interpretations are possible since companies and even countries have been known to suggest TRIPS violations where there are none. Indeed, Eli Lilly’s claims are one example—Eli Lilly alleges that Canada’s promise doctrine is inconsistent with the utility standard because of a supposed “shared understanding” between signatories. However, this is irrelevant to interpreting international treaties; the final text, rather than presumed unstated understandings, controls. Eli Lilly ignores this fact, as well as the fact that utility is undefined in the pertinent treaty, rendering Canada free to define it.

b) Domestic Policy Underlying Intellectual Property Supports Deferring to States

Intellectual property rights are inherently different than most other types of investments protected by investment chapters. The underlying policy goals that justify providing intellectual property rights are distinct from the goals behind other types of property. For example, patents are the primary policy tool to promote innovation and encourage sharing of inventions, rather than keeping them secret. However, it is well recognized that desired policy goals must be balanced against other competing social goals, such as access to

or an even more stringent approach adopted by Argentina. CHAN PARK ET AL., supra note 10, at 46.

151. Micula v. Romania, ICSID Case No. ARB/05/20, Final Award (Dec. 11, 2013).
152. E.g., infra Subsection IV.A.1 (discussing improper suggestions that India’s patent law fails to comply with TRIPS).
153. Eli Lilly Notice of Arbitration, supra note 2, ¶ 40; see also id. ¶¶ 7–9 (arguing that Canada’s changed interpretation of utility is inconsistent with NAFTA’s utility requirement without acknowledging that the term is nowhere defined in NAFTA). Technically Eli Lilly claims that Canada’s patent standards are inconsistent with NAFTA, rather than TRIPS, but the standards are identical. Compare TRIPS, supra note 3, art. 27(1), with NAFTA, supra note 36, art. 1. Indeed, Eli Lilly does not dispute this. Eli Lilly Notice of Arbitration, supra note 2, ¶ 42.
affordable medicine. Most other property rights do not inherently compromise these other social goals; indeed, traditional property rights generally do not result in higher prices for goods. Accordingly, although TRIPS requires most countries to provide some degree of patent protection for drugs, it explicitly recognizes the importance of considering public health and other policies; in addition, member states subsequently reaffirmed this principle in a WTO Ministerial Declaration referred to as the Doha Public Health Declaration.\textsuperscript{154}

Although most countries must provide patents on drugs under TRIPS, it is especially important to defer to domestic decisions concerning TRIPS-consistent patent laws now. First, patents on drugs inherently limit short-term access, but nations are no longer at liberty to completely deny such patent protection even if they value access to low cost medicine more than promoting possible future innovation. Moreover, the patent policy of promoting innovation in the drug arena with patent rights should be considered in light of current business realities. Facing a “crisis” in pharmaceutical innovation where innovation has been stagnant despite exponential increases in expenditures on research, drug companies have developed patent and innovation strategies that aim to extend their profits with minimal innovation. For example, companies are patenting slight modifications of existing drugs, such as extended releases, or new uses that are easier to identify than a brand new compound.\textsuperscript{155} In addition, companies are also obtaining patents on multiple aspects of a drug including not just the traditionally patented active ingredient, but also the coating of a drug, or the metabolized version in a patient’s stomach. Critics have dubbed both of these practices “evergreening” because the patent term seems perpetual.\textsuperscript{156} In addition, policymakers in both developing and well-developed countries have criticized the handling of these patents; for example, Europe issued a substantial report concerning these patents and recent policy reports suggest that developing countries should modify their patent laws to deny these types of questionable innovations.\textsuperscript{157} Companies actually recognize that some of

\textsuperscript{154} TRIPS, supra note 3, arts. 7–8; Doha Declaration on Public Health, supra note 34, ¶ 4 (2001).

\textsuperscript{155} E.g., supra note 10 and accompanying text.

\textsuperscript{156} E.g., THOMAS, supra note 10.

\textsuperscript{157} E.g., EC PHARMACEUTICAL SECTOR INQUIRY, supra note 10; BRAZIL CTR. FOR STRATEGIC STUDIES & DEBATES, supra note 150; Austl. Gov’t, PHARMACEUTICAL PATENTS REVIEW: BACKGROUND AND SUGGESTED ISSUES PAPER (2012); see also DECLARATION ON PATENT PROTECTION AND REGULATORY SOVEREIGNTY UNDER TRIPS (2014), available at https://www.mpg.de/8132986/Patent-Declaration.pdf (signed by forty scholars from over twenty-five countries to reinforce TRIPS flexibilities).
the patents are of dubious validity, but nonetheless seek such patents in hopes of stemming revenue losses as patents on profitable innovative drugs of prior years such as Lipitor and Prozac increasingly expire. Accordingly, although there could theoretically be a policy justification that patent rights promote innovation even if this negatively impacts short-term access through higher prices, that justification seems more theoretical than real in cases where companies are creating minor improvements. Although companies often argue that basic market principles make such concerns irrelevant because consumers would not buy inferior drugs, as noted earlier, the pharmaceutical market is unique, such that general market principles do not apply. So, countries should be able to use their discretion under TRIPS to minimize the social harm of expensive drugs to only those drugs that they deem are more innovative and thus worth the “cost.”

The contested Eli Lilly patents are the very type of patents that policymakers question. In both cases, Eli Lilly is seeking to obtain additional patent protection when it had at least one patent already. In the case of the drug marketed as Strattera for attention deficit disorder, Eli Lilly was already awarded two different patents before it sought the third patent that Canada invalidated. The drug marketed as Zyprexa similarly already enjoyed a full term of patent protection. Both of these instances could be considered examples of evergreening profitable patents. Indeed, Eli Lilly’s two inventions at issue would likely be invalid in India where, to help address this very type of problem, there is a complete bar on patents that simply claim a new utility for a known compound. Moreover, other countries including Brazil, Australia, and member states of the European Union similarly

158. E.g., EC PHARMACEUTICAL SECTOR INQUIRY, supra note 10, at 192 (noting companies admitting a strategy to seek patents which “might not be rock solid”).


recognize that current patent laws impacting drugs need to be recalibrated to better balance promoting optimal innovation with less social cost. 162

c) Considering Intellectual Property an Investment Does Not Foster Traditional Policy Justifying Investor-State Disputes

Intellectual property should be excluded from investor-state arbitration because providing enhanced protection of IP does not satisfy traditional justifications for investment arbitrations. Such provisions arose as a means both to encourage investors to consider countries that they might be hesitant to invest in, and to provide a remedy to foreign investors who might otherwise have no recourse if a state took action that reduced the value of their investments. 163 As explained in this Section, neither of these justifications is relevant to Eli Lilly’s case or to intellectual property in general. First, increased protection of intellectual property through investor-state disputes is unlikely to result in greater investment by owners of intellectual property rights in these countries. Second, it is also not necessary to provide adequate recourse. To the contrary, providing such rights would give foreign investors more recourse than domestic investors.

Permitting intellectual property, including denial of intellectual property rights pursuant to domestic law, to be a covered investment is unlikely to encourage companies to invest in particular countries. Multinational companies do not invest in countries solely based on intellectual property laws. A number of studies indicate that other factors, such as tax incentives, infrastructure, and skills are more relevant than intellectual property laws. 164 Indeed, countries known to have weak intellectual property rights, such as India and China, nonetheless have substantial foreign direct investment. 165 In addition, scholars have noted that especially for impoverished countries,

162. E.g., EC PHARMACEUTICAL SECTOR INQUIRY, supra note 10; BRAZIL, CENTER FOR STRATEGIC STUDIES & DEBATES, supra note 150; AUSTL. GOV’T, supra note 157.
163. E.g., Salacuse, supra note 64, at 109–10.
165. For example, India had $1 billion in foreign direct investment in three months of 2013 despite controversial patent laws that have been noted as inadequate by many companies. E.g., India Receives Highest FDI Worth $1 billion in Pharma in April-June, ECON. TIMES (Sept. 1, 2013), http://articles.economictimes.indiatimes.com/2013-09-01/news/41663407_1_pharmaceuticals-sector-highest-fdi-fdi-policy/.
foreign direct investment is unlikely because of a lack of infrastructure or a viable domestic market.\textsuperscript{166}

This is particularly true for pharmaceutical companies and patent rights. Given the extensive infrastructure already present for the development and manufacture of a drug, local laws are unlikely to encourage investment in a new country. Generally, multinational companies develop patentable inventions where they have research labs, primarily in the United States and Europe, but seek patent rights in all nations where they can market their inventions, including nations where they may have made no investments.

Although some claim that stronger patent rights may promote foreign direct investment, there is no robust empirical evidence to support this claim.\textsuperscript{167} A number of scholars have noted that macroeconomic factors such as infrastructure and skills are more important than intellectual property protection,\textsuperscript{168} and there are specific studies that note this for patents in particular.\textsuperscript{169} Historical evidence supports this argument. For example, Brazil and Thailand received substantial foreign direct investment in the 1970s and 1980s despite low levels of intellectual property protection.\textsuperscript{170} One scholar found that foreign direct investment even increased in Korea's pharmaceutical industry after abolition of protection of drugs.\textsuperscript{171} More recently, although South Africa increased patent protection to comply with TRIPS, this reduced foreign direct investment from pharmaceutical


\textsuperscript{170} Carlos Correa, Intellectual Property Rights, the WTO and Developing Countries: The TRIPS Agreement and Policy Options 27 (2000).

companies that instead consolidated their operations. This is also consistent with a classic study that showed that stronger patent protection in Italy did not result in increased domestic or foreign direct investment. Also, some have suggested that even if stronger intellectual property rights might attract some foreign direct investment, the corresponding loss in jobs erodes that benefit. Furthermore, stronger intellectual property rights could create higher local prices that may be cost-prohibitive in developing countries.

If intellectual property laws will not encourage multinational companies to invest in a country, providing a remedy when the intellectual property laws are considered undesirable does not seem appropriate because the remedy will not result in substantial investments. In addition, it is fundamentally different than the traditional rationale of protecting induced investments. For example, even though Eli Lilly claims that it could not have anticipated that Canada would change its patent laws, those laws did not induce Eli Lilly to develop the inventions on which it sought Canadian patent protection. Rather, Eli Lilly was developing those inventions for any country that would provide protection and does not appear to have made any specific investments in Canada based on Canadian patent law. Admittedly, an issued patent could have induced Eli Lilly to begin to market its drug. However, unlike other investments for which the investor-state dispute challenge is granted, a granted patent can be legally canceled, so the claim for inducement is weak. Moreover, the “investment” of marketing a drug does not provide the same value to a country as the types of investment that the laws initially contemplated. For example, although marketing a drug may involve some investment in local advertisement and possibly employment of local citizens, it would likely pale in comparison to the capital investments that are more typical with real property such as building structures in a country in response to incentive programs.

In addition, investor-state arbitrations originally developed to provide foreign investors an ability to protect assets when they had no other means to do so. Typically, this was because they could not bring a claim before


domestic courts where the government might be immune from suit or because court systems were corrupt. However, neither of these situations apply to Eli Lilly’s case. It was already able to directly challenge Canada’s decision to revoke its patents through an appellate process. In addition, Eli Lilly does not even contest that there was any procedural irregularity with the manner in which it was able to challenge the undesirable court decisions. However, Eli Lilly is now simply seeking another bite at the apple that would be unavailable to a domestic Canadian company. This is not within the traditional justification of investor-state disputes, which are supposed to provide a means for foreign investors that are otherwise without recourse. In fact, Eli Lilly’s situation falls within one of the current criticisms of such disputes—that they unfairly provide more benefits to foreign investors than are available to domestic investors.

B. INVALIDATION OF PATENT RIGHTS SHOULD NOT CONSTITUTE EXPROPRIATION

Assuming that Eli Lilly has a covered investment, this Section explains why invalidation of Eli Lilly’s patent rights should not constitute “expropriation” under the relevant investment chapter. This Section first demonstrates how Eli Lilly’s case may involve a situation that is exempt from expropriation analysis. Alternatively, this Section examines how, although the situation may not be completely exempt based on prior decisions as well as policy grounds, the arbitration tribunal should not find that Canada has engaged in either direct or indirect expropriation.

Before addressing the specific legal claims, it is important to first clarify what expropriation means. All international agreements protecting foreign investments provide a claim against states that expropriate (take) investments covered by the agreement; such investments typically include not only tangible, but also intangible property of economic value. It is roughly analogous to U.S. takings law in terms of involving state action, but expropriations may exist in situations that would fail under U.S. takings law. In general, agreements recognize that there are some situations where countries should be allowed to expropriate investments, but only if there is a public purpose, the action is nondiscriminatory, and there is just compensation.

A foreign investor may have a claim for either direct or indirect expropriation. Direct expropriation claims involve outright and overt taking of property by the state, such as by transferring title to the state; the reason

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175. In addition, although the Supreme Court of Canada denied Eli Lilly review, that was within the discretion of the Court.
for the taking is not important.\footnote{176} Indirect expropriation, on the other hand, can exist even if the investor maintains ownership of the investment, but because of “unreasonable interference” the investor loses all, or a significant part, of its investment.\footnote{177} Although the two types of expropriation are fairly straightforward to explain, there are few direct expropriation claims in recent times\footnote{178} and indirect expropriation analysis is complicated because tribunals use several different tests.

1. \textit{Canada’s Actions May Be Exempt from an Expropriation Claim}

An initial question is whether there is any need to even address the details of an expropriation claim. There are two possible ways Canada could avoid the claim altogether. First, the situation could fall under a specific NAFTA intellectual property exception that prevents foreign investors from raising a claim for expropriation. Alternatively, the Canadian decisions may not constitute the “state action” that is a fundamental prerequisite to expropriation claims. Although there are arguments for excluding Eli Lilly’s claims under either of these grounds, a tribunal could reasonably find otherwise, as explained below.

First, Eli Lilly’s case is brought pursuant to NAFTA, which expressly excludes certain issues from consideration as expropriation that might otherwise qualify.\footnote{179} Article 1110 generally prohibits member states from expropriating foreign investments. However, paragraph seven states that it does not apply to “revocation, limitation or creation of intellectual property

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rights” if consistent with the NAFTA provision on patents. This seems to preclude expropriation claims of intellectual property, such as patents, that are revoked in a manner consistent with NAFTA.

In the Eli Lilly case, the issue is whether the revocation provision of NAFTA prevents countries from revoking patents because the interpretation of an existing patent law ground, utility, has changed since the patent was issued. Eli Lilly asserts that such a revocation is impermissible under NAFTA, which would mean that the paragraph seven exemption does not apply. However, NAFTA’s language does not explicitly support this conclusion and doing so would be contrary to recognized principles of how common law operates. There are two NAFTA sections on patents that are relevant to Eli Lilly’s situation. First, the most fundamental patent provision is article 1709(1), which requires each party to provide patents on inventions that satisfy the criteria of being new, useful, and non-obvious. Notably, NAFTA does not define what it means to be “useful,” so member states such as Canada should be able to define this as they wish, even if different than the laws of other NAFTA member states. Second, article 1709(8) states that countries may only revoke a patent when “grounds exist that would have justified a refusal to grant the patent.”

As noted earlier, courts do modify patent law standards and retroactively apply them. Given this reality, it seems reasonable to interpret the NAFTA “grounds exist” clause to mean that countries cannot revoke patents on a new ground that never previously existed, rather than modification of an existing ground. In Eli Lilly’s case, the patents were invalidated for failing to satisfy the utility doctrine—a long-existing ground for patentability. Although interpretation of the utility doctrine to incorporate the promise doctrine may be new, it is simply a modification of the existing ground. Nonetheless, it is unclear how a tribunal will in fact interpret this NAFTA provision, so it is not clear whether this exempts Canada’s actions from an expropriation claim.

The other issue is whether the Canadian decisions constitute state action, because state action is a fundamental requirement for expropriation. If Canada’s decisions are not a state action, then Eli Lilly has no expropriation claim. Unlike most investment arbitration cases where the action in question is a legislative or regulatory measure, Eli Lilly’s case involves solely the judiciary. Although there are only a handful of arbitration decisions involving domestic court actions, those decisions uniformly affirm that such actions

180. NAFTA, supra note 36, art. 1110(7).
181. Id. art. 1709(1).
182. Id. art. 1709(8).
can constitute state action. Notably, even though actions of state courts may constitute state action, tribunals have stated this is only the case when the court ruling is clearly incompatible with a rule of international law, when there is a denial of justice, or when the state is responsible for a judicial decision “contrary to municipal law.” There are no prior challenges to the substance of judicial decisions as expropriation. Rather, situations involved racial discrimination against an investor that a court failed to limit as well as judicial interference with a contractually permitted arbitration.

The only possible basis for considering Canadian court actions against Eli Lilly to be state action is that those actions violate international law; Eli Lilly does not allege that the Canadian court decision was a denial of justice or that that judicial decision was contrary to municipal law. Eli Lilly claims that the judicial decision violated two separate international agreements—NAFTA and the PCT.

Eli Lilly alleges that the promise doctrine is inconsistent with NAFTA requirements concerning utility and nondiscrimination. In particular, Eli Lilly asserts that a “dramatic and unanticipated shift” in Canada’s definition of utility is “significantly out of step” with its NAFTA partners. However, that is irrelevant because NAFTA does not require member countries to have identical laws. Although NAFTA does require countries to grant patents that

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183. Azinian v. United Mexican States, ICSID Case No. ARB(AF)/97/2, Award (Nov. 1, 1999), 14 ICSID REV.-FOR. INV. L.J. 538, 567 [hereinafter Azinian Award]; Saipem S.p.A. v. People’s Republic of Bangl., ICSID Case No. ARB/05/7, Award, ¶¶ 189–90 (June 30, 2009) [hereinafter Saipem Award]; see also Loewen Grp., Inc. v. United States, ICSID Case No. ARB(AF)/98/3, Decision on Hearing of Respondent’s Objection to Competence and Jurisdiction, ¶ 70 (Jan. 5, 2001) [hereinafter Loewen Decision] (“The modern view is that conduct of an organ of the State shall be considered as an act of the State under international law, whether the organ be legislative, executive or judicial.”). However, these assertions are generally made in cases where no expropriation is found, and possibly cases where state action wasn’t even limited to the judiciary, such that they are dicta. E.g., Saipem Award, supra, ¶ 191 (no expropriation found); Azinian Award, supra, ¶ 10 (state action was simply affirmance of city council decision); Loewen Decision, supra, ¶¶ 148, 241 (dismissing all claims both because claimant was not a qualifying investor and also because the claim was an attempt to use arbitration in lieu of a domestic appeal).

184. Azinian Award, supra note 183, ¶ 98; Loewen Decision, supra note 183, ¶ 47.

185. In Loewen, the investor claimed that racial and other inappropriate suggestions were made against it that resulted in the largest ever state verdict of over $500 million for contracts worth less than $5 million that when combined with a 125% bond requirement threatened to bankrupt the company, such that it could not realistically appeal. E.g., Jake A. Baccari, The Loewen Claim: A Creative Use of NAFTA’s Chapter 11, 34 U. MIAMI INTER-AM. L. REV. 465, 468–69 (2003).

186. Saipem Award, supra note 183, ¶¶ 35–37, 39.

187. Eli Lilly Notice of Arbitration, supra note 2, ¶¶ 69–70.

188. Id., ¶ 9.
meet the standard of utility, it provides no definition, so nations are permitted to self-define it.\(^\text{189}\) In addition, NAFTA does not state that countries are precluded from modifying its definition.

Eli Lilly also asserts that Canada has violated the NAFTA obligation to grant patents without discrimination as to field of technology.\(^\text{190}\) In particular, Eli Lilly asserts that the promise doctrine has “almost exclusively” impacted pharmaceutical patents.\(^\text{191}\) However, the doctrine applies to all inventions, so this argument seems questionable. There are many facially neutral patent law standards that actually apply differently to different areas of technology.\(^\text{192}\) In addition, as explained by one WTO panel, a neutrally worded law does not de facto discriminate against a field of technology because it does not impact all fields equally.\(^\text{193}\) In particular, the WTO panel stated that discrimination “does not prohibit bona fide exceptions to deal with problems that may only exist in certain product areas.” Such action is considered a permissible differentiation, rather than discrimination.\(^\text{194}\)

Eli Lilly also alleges that Canada’s action is inconsistent with NAFTA article 1709(8), which states that a country may revoke a patent only when “grounds exist that would have justified a refusal to grant the patent.” However, as noted earlier, this should be interpreted to mean that a country cannot revoke a patent on a new patentability requirement, but it should not bar a country from revoking a patent based on modification of the long-standing patent requirement of utility.

Eli Lilly claims that Canada’s modified utility requirement violates the international PCT rule barring countries from imposing “requirements as to the form or contents of the international application different from or additional to” those provided for in the PCT.\(^\text{195}\) In particular, Eli Lilly asserts that the promise doctrine essentially requires certain information be disclosed in the patent application, and that these applications are a matter of form and content governed by the PCT for which a nation cannot make additional requirements.\(^\text{196}\) However, as noted earlier, the PCT is an international

\(^{189}\) NAFTA, supra note 36, art. 1709(1).
\(^{190}\) Id.
\(^{191}\) Eli Lilly Notice of Arbitration, supra note 2, ¶ 69.
\(^{194}\) Id. ¶ 7.92
\(^{195}\) Eli Lilly Notice of Arbitration, supra note 2, ¶ 45; Patent Cooperation Treaty, supra note 51, art. 27(1).
\(^{196}\) Eli Lilly Notice of Arbitration, supra note 2, ¶ 46.
agreement intended to simplify patent filings on a global basis without restricting substantive patentability conditions in individual countries, such as utility. However, even with respect to disclosures in the application, there is prior precedent for nations requiring additional disclosures beyond what is in the PCT. For example, the United States requires that patent applicants disclose best mode in the patent application, even though that is not a requirement of the PCT.197

Accordingly, there are reasonable arguments for considering Canada’s actions as not expropriation. Nonetheless, the explicit exemption from NAFTA expropriation claims involving “revocation” of intellectual property rights consistent with the separate NAFTA section on patents is sufficiently ambiguous, such that it is not clear how a tribunal would rule, even though this author believes Eli Lilly should be within this exclusion. Similarly, a tribunal could find for the first time that a domestic court decision modifying existing common law is a state action based on a violation of international law, even though this author believes that is incorrect.

2. Canada Could Be Found to Not Have Expropriated Eli Lilly’s Patents

Although there are legitimate reasons why a tribunal should exclude Eli Lilly’s case from an expropriation analysis as noted in the above section, this section will consider whether Eli Lilly has expropriation claims based on traditional expropriation concepts since it is unclear how a tribunal would rule. Eli Lilly has alleged that Canada directly and indirectly expropriated its patent rights in an unusual case that is not typical of either claim. As explained below, a tribunal should find that Canada committed neither type of expropriation under NAFTA’s investment chapter. Although this Section analyzes both types, there is substantially more to analyze with indirect expropriation claims because there are several independent tests that tribunals use.

a) Canada Should Not Be Found to Have Directly Expropriated Eli Lilly’s Patents

The first question is whether Canada directly expropriated Eli Lilly’s investment. Canada did remove Eli Lilly’s title to previously granted patents, which is typical of direct, rather than indirect expropriation claims. However, unlike in most direct expropriation claims, ownership of those patent rights were not transferred to Canada or any other party; rather, what was in those patents is now in the public domain and freely useable by anyone. There is a possible argument that patent invalidation is tantamount to physical property

seized by the state in terms of the benefit to the state—even though benefit is not necessary for direct expropriation. Similar to the situation where direct expropriation of tangible property would benefit the state, invalidation of Eli Lilly’s property rights arguably benefits all Canadian citizens. For example, other companies can now make and sell generic versions of Eli Lilly’s drugs in Canada because there is no valid patent to bar them; this obviously benefits these companies. Moreover, since such companies are likely generic companies that compete based on price, Canadian citizens benefit from the lower cost of drugs. Nonetheless, since benefit is not required for direct expropriation, this argument is weak. The important issue here is that unlike direct expropriation cases, the titles to Eli Lilly’s investments—its patents—were not transferred to the state since no one owns them at all.

b) Canada Should Not Be Found to Have Indirectly Expropriated Eli Lilly’s Patents

The next issue is whether Canada has committed indirect expropriation through invalidation of Eli Lilly’s patents. Usually, indirect expropriation claims mean that the investor retains title, but there is “unreasonable interference” as well as “deprivation” of property rights, such that the investor loses all, or a significant part of its investment.198 This theory seems to better fit Eli Lilly’s case. Eli Lilly could assert that while it technically still owns the patents at issue, they have no economic value because without valid patents, Eli Lilly cannot charge a premium price because there will be other competitors. However, as will be shown below, the tribunal should not find that Canada indirectly expropriated Eli Lilly’s investments.

An important issue is how to analyze indirect expropriation. Although many agreements, including NAFTA do not provide criteria for evaluating indirect expropriation, there are two basic approaches.199 First, indirect expropriation may exist based solely on the effect of the interference with the investment, such that it is called the “sole effect doctrine.” However, many tribunals and scholars consider this approach unfair and instead weigh economic impact on an investment against other factors including legitimate state interest, proportionality between state interest and investor harm, as well as reasonable expectations.200 As explained below, Eli Lilly’s stronger

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198. Reinisch, supra note 177, at 422. Accordingly, even if the investor continues to own legal title, there still may be indirect expropriation. E.g., Metalclad Award, supra note 177, ¶ 103.

199. E.g., NAFTA37, art. 1110; see also SUSY H. NIKIÈMA, INT’L INST. FOR SUSTAINABLE DEV., BEST PRACTICES: INDIRECT EXPROPRIATION 5 (2012).

200. Andrew Newcombe, The Boundaries of Regulatory Expropriation in International Law, 20 ICSID REV.-FOR. INV. L.J. 1, 9–11 (2005); NIKIÈMA, supra note 199, at 13. In addition, some
claim is under the sole effect doctrine, but utilizing that doctrine seems fundamentally unfair.

i) Sole Effect Doctrine Favors Lilly But Should Not Be Applied

Under the sole effect doctrine, significant and irreversible damage to enjoyment of property is the sole criterion for finding indirect expropriation. Generally, tribunals speak of damage that is so severe that there is no longer any economic interest to the investor; for example, one tribunal stated that rights must be “rendered so useless that they must be deemed to have been expropriated.” Accordingly, economic activity that is made more difficult, but not impossible will likely not constitute indirect expropriation. The state intent or possible benefit is not relevant pursuant to this doctrine.

If the sole effect test is applied, Eli Lilly seems to have a strong claim. Invalidation of a patent is an absolute and permanent interference since the patent owner has no rights after it is invalidated. Indeed, prior commentators have noted that actions short of invalidation of patents would meet this standard, such as a compulsory license of a patent in which the


202. Starrett Hous. Corp. v. Iran, Interlocutory Award No. ITL 32-24-1, 4 Iran-US Cl. Trib. Rep. 122, 154 (Dec. 19, 1983); see also Pope & Talbot Inc. v. Canada, Interim Award, ¶ 102 (NAFTA Arb. Trib. June 26, 2000), 40 I.L.M. 258 (2001) (considering whether state interference is “sufficiently restrictive to support a conclusion that the property has been taken from the owner”); Metalclad Award, supra note 177, ¶ 103 (requiring action that “has the effect of depriving the owner, in whole or in significant part, of the use or reasonably-to-be-expected economic benefit of property); Técnicas Medioambientales Tecmed S. A. v. United Mexican States, ICSID Case No. ARB(AF)/00/2, Award, ¶ 115 (May 29, 2003), 10 ICSID Rep. 134 (2006) [hereinafter Tecmed Award] (“[R]adically deprived of the economical use and enjoyment of its investments, as if the rights related thereto . . . had ceased to exist.”).

203. E.g., Newcombe, supra note 200, at 11–12; Metalclad Award, supra note 177, ¶ 103 (asserting no need to consider “motivation or intent” of state action because indirect expropriation can exist “even if not necessarily to the benefit of the host state); see also Tippett v. TAMS-AFFA Consulting Eng’rs of Iran, Award No. 141-7-2, 6 Iran-US Cl. Trib. Rep. 219, 225–26 (June 29, 1984) (government intention is less important than effect of measure on owner of assets).

204. Once a patent is invalidated, there is no prospect for obtaining a new patent because the original patent would preclude a subsequent application for the same invention from satisfying the requirement of being “new.” See 35 U.S.C. § 102(b) (2012).
patent exists, but the ability to exclusively determine how to exploit it is limited.205

However, a number of commentators and tribunals in recent years have suggested that the sole effect doctrine is unfair and inappropriate. Although the sole effect test was the primary test applied by tribunals since the 1980s and even through the early 2000s, more recent tribunals have shifted away from this doctrine.206 In particular, tribunals have shifted toward weighing harm to the investment against the state interest. In addition, although typically an element in fair and equitable treatment standards, tribunals are also increasingly incorporating legitimate expectations of investors into their analysis of indirect expropriation claims.207 Recent agreements as well as model agreements tend to explicitly enumerate these as factors for consideration, which notably mirror the factors that the U.S. Supreme Court utilizes to determine whether there has been a regulatory taking.208 Accordingly, analyzing Eli Lilly’s claims pursuant to these factors seems to represent strong policy. As this section will explain, Eli Lilly has a much weaker claim when these factors are considered.


207. E.g., DOLZER & SCHREUER, supra note 65, at 115–17; see also 2004 Canadian Model BIT Annex B 13(1)(b)(ii) (expressly noting the “extent to which the measure or series of measures interfere with distinct, reasonable investment-backed expectations” is a factor that should be considered in whether there is an indirect expropriation).

208. E.g., US Model BIT Annex B, Expropriation; Agreement on the Encouragement and Reciprocal Protection of Investments, U.S.-Uruguay., Annex B, para 4(a), Nov. 5, 2005, T.I.A.S. No. 06-1101 (considering economic impact of government action, the extent to which the government action interferes with distinct, reasonable, investment based expectations, and the character of the government action); 2004 Canadian Model BIT Annex B13(1)(b); ASEAN Comprehensive Investment Agreement of 2009, Annex 2 (3) (considering whether a binding written commitment by the government has been breached and also considering the character of the government action and whether it is disproportionate to its public purpose). Importantly this specifically rejects the sole effect doctrine by stating that adverse effect on the economic value of an investment is not on its own adequate to establish indirect expropriation. Id.
ii) Legitimate State Interest Should Outweigh Eli Lilly’s Interest

Although all expropriations must be for a public purpose, considering the purpose behind the state action is nonetheless important for two possible reasons. Some tribunals consider that when a state action is pursuant to its regulatory police powers, there should be no compensable expropriation, so long as the action is done on a nondiscriminatory basis and pursuant to due process. Even for tribunals that do not completely exclude state action from the scope of compensable expropriation, the type of state interest is relevant in considering whether the state action is proportional to investor harm.

An important issue is what constitutes a legitimate interest of the state. Although this is often considered to be synonymous with regulatory police powers, there is no internationally agreed definition of such powers. Nonetheless, the 2012 US Model BIT explicitly noted that legitimate public welfare objectives that would usually not constitute indirect expropriation include public health, safety, and the environment. This is also consistent with prior tribunal decisions, such as Methanex, in which the tribunal found that a law barring use of a petrol additive deemed carcinogenic was a bona fide regulation that served legitimate public interest, such that it was not compensable.

Countries have strong policy interests in limiting the scope of intellectual property rights to situations where the rights result in more benefits than harm. As noted earlier, it would be unfair to impose the economic cost of higher prices attendant with patent protection unless the inventor of the patent provided an adequate exchange through proper disclosure of the invention. The promise doctrine that Eli Lilly challenges aims to ensure that this fundamental patent bargain is satisfied.


210. E.g., Tecmed Award, supra note 202, ¶ 122.

211. E.g., Saluka Partial Award, supra note 209, ¶ 263 (“[I]nternational law has yet to identify in a comprehensive and definitive fashion precisely what regulations are considered . . . within the police or regulatory power of States.”).


213. Methanex Final Award, supra note 209, at Section IV.D, ¶ 15.
Although this author thinks there is a clear case for considering the design of intellectual property rights to be a legitimate state interest, this is admittedly different than traditionally listed public welfare objectives. The closest common public welfare objective is the state interest in promoting public health. Arguably, this is promoted by denying patents on drugs that would increase the cost of medicine and thereby negatively impact public health for those who could not afford the drugs. However, it is unclear if a tribunal would agree. Indeed, many would suggest that denying patents on drugs to reduce the cost of medicine is poor policy since that would reduce the incentive to create new drugs. Basically, the argument is that expensive drugs for the short-term are better than no new drugs in the long term. On the other hand, the proper balance between incentivizing new drugs that are expensive to consumers and potentially also impede subsequent research is a thorny question to which there are no uniform answers. This is fundamentally a policy determination that nations previously were able to decide based on their domestic preferences for promoting innovation versus access prior to TRIPS. Importantly, it is not simply an issue of developed versus developing countries; some developed countries, such as Italy and Portugal only granted patents on drug patents recently. In addition, before Canada concluded NAFTA, which has similar patent requirements as TRIPS, it granted drug patents, but permitted them to be broadly licensed by generic companies. Although the United State has traditionally provided expansive scope of patentability with little regard for impacts on access, other countries bar patents that reduce access to treatment, such as patents on methods of medical treatment.214 Given that there is broad disagreement concerning whether there is a public health interest in reducing the cost of medicine by denying some patents on drugs, it is unclear how a tribunal would rule. 

Assuming that Canada has a legitimate interest in tailoring its patent laws to best promote access to affordable medicine while consistent with international law, the next step is to consider whether that interest unduly harms Eli Lilly’s investment. Some tribunals are deferential to self-declared state interests and find no expropriation so long as the state action is nondiscriminatory and in accordance with due process.215 However, other tribunals apply a proportionality test, balancing the public purpose against the investor’s expectations. This can be tricky because although a balancing test is more reasonable than the sole effect doctrine, it depends on how a

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214. E.g., European Patent Convention, supra note 42, art. 53(c); see also TRIPS, supra note 3, art 27(3) (permitting exclusion of such inventions from the scope of patentability).

tribunal applies this standard. For example, in Tecmed, the tribunal found that even if there is a valid state interest, it cannot outweigh the investor interest unless the state action is necessary to achieve the intended public interest, which it defined as the only measure available to achieve the objective, or the least detrimental among a number of effective solutions. In that case, the tribunal found that the state’s refusal to renew a license for a hazardous waste treatment plant was indirect expropriation because even though the license was denied for the legitimate interest of resolving local complaints concerning health and safety, there were less detrimental solutions possible, such as relocation of the plant.

Eli Lilly’s situation seems somewhat similar to Tecmed’s in that its entire interest (in its patents) was vitiated when there arguably could have been a less detrimental solution. Just as the Tecmed tribunal suggested that the state could have taken a different action that would not have entirely terminated the investor’s interest, so too Canada’s law may seem unduly severe. In particular, although the policy reason for Canadian law is well established, given that Canada is the only country to have this law, a tribunal could find that it may not be necessary to apply the law in this manner. However, some commentators note that although Canada is the only country to consider patent promises with respect to the utility requirement, other countries, including Australia and New Zealand have similarly invalidated patents that fail to achieve what they promise, despite having some basic utility.

iii) Eli Lilly Has No Legitimate Investor Expectations That Have Been Violated

The best consideration for rejecting Eli Lilly’s claim for indirect expropriation is that it did not have any legitimate expectations that were violated. Recent agreements specifically note analysis of legitimate expectations of an investor as a way to assess indirect expropriation, but tribunals have also considered legitimate expectations pursuant to agreements that do not explicitly require this method of assessment. In both cases, the

216. Tecmed Award, supra note 202, ¶ 122.
217. Id. ¶ 51.
218. This is particularly true if the tribunal is sympathetic to Eli Lilly’s position, even though there are competing expert reports about whether Canada’s law is in fact unique. Compare Memorial of Claimant Eli Lilly, ¶¶ 145–60 (citing experts that allege that Canada’s law is unique) with Counter Memorial of Canada, ¶¶ 170–99 (noting lack of international harmony in standards and functional similarity between US and Canadian law).
focus is on whether the investor had a legitimate expectation that was violated. The legitimacy of the investor’s expectations generally depends on specific assurances by the state.\textsuperscript{220} This is consistent with the interpretation of legitimate expectations in the context of violation of the standard of “fair and equitable treatment” from which the concept is derived.\textsuperscript{221} The facts of prior cases may help to put this standard in context.

\textit{Metalclad v. United Mexican States} provides a helpful example of legitimate investor expectations to support an indirect expropriation claim. In that case, there were multiple assurances that were specifically relied upon in making investments.\textsuperscript{222} Investor Metalclad obtained a state construction permit for a hazardous waste landfill and assurances from federal agents that all necessary permits had been required.\textsuperscript{223} However, after construction begun, the local government ordered construction to stop because Metalclad had not obtained a municipal construction permit.\textsuperscript{224} At that point, federal agents once again assured Metalclad that if it applied for such a permit, it would be granted.\textsuperscript{225} However, it was not\textsuperscript{226} and thus Metalclad could not operate the landfill and the state later declared the land a Natural Area for protection of a rare cactus thereby terminating any possibility of Metalclad operating its facilities.\textsuperscript{227} The tribunal found that Metalclad had reasonably relied on assurances by the federal government and had a reasonable expectation to construct and operate the landfill that was thwarted.\textsuperscript{228}

In contrast, in a more recent decision, a different NAFTA tribunal took a different approach to indirect expropriations in \textit{Methanex v. United States}. In that case, the Canadian methanol producer asserted that a California law banning a carcinogenic gasoline additive resulted in an indirect expropriation of its investments in the California and U.S. market and improperly benefited

\textsuperscript{220} E.g., Reinisch, supra note 177, at 448. This is also consistent with the fair and equitable treatment standard from which the concept of legitimate expectations are derived.

\textsuperscript{221} E.g., Katia Yanaca-Small, \textit{Fair and Equitable Treatment Standard: Recent Developments, in STANDARDS OF INVESTMENT PROTECTION} 111, 126 (Reinisch, ed. 2008) (“legitimate expectation is assumed more readily if an individual investor receives specific formal assurances” from the government official that the official should perceive the investor to reasonably rely upon); \textsc{Campbell McLachlan, Laurence Shore \\& Matthew Weiniger, \textit{International Investment Arbitration: Substantive Principles} ¶ 7.99 (2007).

\textsuperscript{222} Metalclad Award, supra note 177, ¶¶ 37–44.

\textsuperscript{223} Id.

\textsuperscript{224} Id. ¶ 40.

\textsuperscript{225} Id. ¶ 41.

\textsuperscript{226} Id. ¶¶ 45–50.

\textsuperscript{227} Id. ¶¶ 45, 69.

\textsuperscript{228} Id. ¶ 104.
the domestic ethanol industry.\textsuperscript{229} Although the tribunal dismissed the case on other grounds,\textsuperscript{230} it made findings that a state measure prohibiting use of a petrol additive considered carcinogenic was not an indirect expropriation because it was a bona fide regulation to serve the public interest on a nondiscriminatory basis and that there were no specific state representations to induce the investor.\textsuperscript{231} In particular, the tribunal found that the investor should not have been surprised that environmental and health protection laws might change and adversely impact its interests.\textsuperscript{232}

If Eli Lilly’s legitimate expectations were considered, there should be no expropriation because Eli Lilly was given no specific assurance that either the law would not change, or that its patent would remain forever valid. Although there is a presumption of validity for issued Canadian patents, the fact that it is a presumption, rather than an ironclad right, suggests that there is no reasonable expectation that it will be immune from cancelation.\textsuperscript{233} Indeed, patent scholars have previously noted that the public should not expect issued patents to be valid based on the current system which in fact relies on litigation challenges as a more efficient mechanism to weed out improper patents, than to have patent offices spend more time preventing invalid patents from issuing.\textsuperscript{234} Although Eli Lilly complains that it was

\begin{itemize}
\item 229. Methanex Final Award, supra note 209, Part III.A, ¶ 1, Section IV.D, ¶ 2.
\item 230. Id. at Section IV.F, ¶ 1.
\item 231. Id. at Section IV.D, ¶ 7.
\item 232. Id. at Section IV.D, ¶ 10; see also Parkerings-Compagniet A.S. v. Republic of Lith., ICSID Case No. ARB/05/8, Final Award, ¶ 331–35 (Sept. 11, 2007) [hereinafter Parkerings Final Award] (affirming that explicit promise or assurance is necessary and without that investor’s assertion that changes to domestic law were unfair did not constitute violation of fair and equitable treatment, especially given that investor knew that the country was in a state of transition from being part of the Soviet Union to part of the EU, such that changes were likely).
\item 233. This is underscored not only by the fact that Canadian patent law permits issued patents to be challenged (subject to the presumption of validity), but also provides mechanisms for such patents to be challenged.
\end{itemize}
shocked by Canada’s change in the law, this is an inadequate ground for a claim of legitimate investor expectations given that Canada provided no specific assurance to Eli Lilly. In addition, although Eli Lilly seems to believe that an issued patent should be considered an assurance that the patent will remain valid, Eli Lilly’s assumption is fundamentally inconsistent with patent law in Canada and other countries. As noted earlier, an issued patent is only presumptively valid, but can be and often is subsequently invalidated if it is later found not to meet patentability requirements. In addition, the mere grant of a patent seems very different than the multiple assurances given to the investor that the investor then relied upon to its detriment in Metalclad.235 Whereas the investor in Metalclad expended funds in building a hazardous landfill in reliance on the multiple investments, there is no claim that Eli Lilly developed its drugs in reliance on Canadian law. To the contrary, Eli Lilly developed its drugs as any multinational pharmaceutical company does—to sell worldwide.

C. INVALIDATION OF PATENT RIGHTS SHOULD NOT CONSTITUTE A VIOLATION OF THE FAIR AND EQUITABLE TREATMENT STANDARD

Assuming that Eli Lilly has an appropriate “investment” under NAFTA, even if it cannot establish an expropriation claim, it can alternatively recover compensation if Canada failed to provide “fair and equitable treatment” to Eli Lilly’s investment.236 This claim is very important to Eli Lilly and all other investors since tribunals tend to take a flexible interpretation of what constitutes “fair and equitable treatment.” Claims based on a violation of the fair and equitable treatment standard are currently the most common and successful type of investment claim,237 and often prevail even when there is

235. Metalclad Award, supra note 177, ¶ 4108.
236. NAFTA, supra note 36, art. 1105(1).
237. UNCTAD, FAIR AND EQUITABLE TREATMENT: UNCTAD SERIES ON ISSUES IN INTERNATIONAL INVESTMENT AGREEMENTS II, A SEQUEL 10 (2012) [hereinafter UNCTAD, FAIR AND EQUITABLE TREATMENT]; Rudolf Dolzer, Fair and Equitable Treatment: Today’s Contours, 12 SANTA CLARA J. INT’L L. 7, 10 (2013); see also Mercurio, supra note 26, at 894 (noting that although the standard was traditionally “rarely invoked” and only applicable where action was “egregious and shocking,” it is now commonly invoked due to a significantly broadened interpretation of the standard since the early 2000s). Most BITs and trade agreements include such standards, although a few BITs with Asian countries do not. Katia Yannaca-Small, Fair and Equitable Treatment Standard: Recent Developments, in STANDARDS OF INVESTMENT PROTECTION 110, 113 (August Reinisch ed., 2008).
238. In 2012 alone, six of the twelve published decisions finding state liability did so based on a violation of fair and equitable treatment. Violation of the fair and equitable treatment standard was the most common ground for state liability. UNCTAD, RECENT DEVELOPMENTS, supra note 15, at 5. A prescient professor noted in 1981 that “the right to fair and equitable treatment goes much further than the right to most favored-nation and to
no indirect expropriation. Nonetheless, this section explains why a tribunal should find that Eli Lilly does not have a valid claim against Canada for violation of the fair and equitable treatment standard because Eli Lilly had no legitimate expectations that were violated, which is the crux of this standard.

A key question is what constitutes “fair and equitable treatment.” Technically, there are differences in treaty language governing foreign investments that use the phrase “fair and equitable treatment.” Some, such as NAFTA, link the phrase to only minimum standards of conduct pursuant to customary international law, whereas others have no reference for what constitutes “fair and equitable treatment.” However, in practice, tribunals seem to treat all claims similarly. Essentially, tribunals as well as scholars consider whether there is a violation based on a number of factors. These include (a) defeating investors’ legitimate expectations (sometimes in balance

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240. NAFTA, supra note 36, art. 1105(1). This should technically limit violations to situations where the action is “shocking, egregious and outrageous.” E.g., Jack J. Coe, Fair and Equitable Treatment Under NAFTA’s Investment Chapter, 96 ASIL PROC. 17 (2002).


242. Notably, even where tribunals are interpreting the standard pursuant to an agreement that requires the standard to be linked to customary international law, panels do not necessarily do so and may instead simply rely on other tribunal decisions that do not require consideration of international law. E.g., R.R. Dev. Corp. v. Republic of Guad., ICSID Case No. ARB/07/23, Award, ¶¶ 219 (June 29, 2012); see also UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at xx, 11; Matthew C. Porterfield, A Distinction Without a Difference? The Interpretation of Fair and Equitable Treatment Under Customary International Law by Investment Tribunals, INVESTMENT TREATY NEWS (Mar. 22, 2013), http://www.iisd.org/itin/2013/03/22/a-distinction-without-a-difference-the-interpretation-of-fair-and-equitable-treatment-under-customary-international-law-by-investment-tribunals/.

243. Alternatively, some suggest that there is no stable or fixed content to this standard. E.g., Ioana Tudor, THE FAIR AND EQUITABLE TREATMENT STANDARD IN THE INTERNATIONAL LAW OF FOREIGN INVESTMENT 133 (2008).
with the host state’s right to regulate), (b) denial of justice and due process, (c) manifest arbitrariness in decision making, (d) undue discrimination, or (e) outright abusive treatment. Not all of these factors need be present in every case, but legitimate investor expectations are considered key to establishing a violation.

For that reason, the only relevant factor to consider is whether Eli Lilly had a legitimate expectation that was defeated. In particular, the issue is whether Canada unexpectedly changed its law such that Eli Lilly’s legitimate expectations when it made its investment were violated. Obviously, the critical question is what constitutes “legitimate expectations.”

244. E.g., UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 62; TUDOR, supra note 243, at 155; Barnali Choudhury, Evolution or Devolution?: Defining Fair and Equitable Treatment in International Investment Law, 6 J. WORLD INVESTMENT & TRADE 297, 302–15 (2005); Yannaca-Small, supra note 237, at 129. Alternatively, panels cite a quotation from Waste Management v. Mexico that addresses similar factors. E.g., GAM Invs., Inc. v. United Mexican States, Final Award, ¶ 89 (NAFTA/UNCITRAL Arb. Trib. Nov. 15, 2004) [hereinafter GAMI Final Award]; Methanex Final Award, supra note 209, at Part IV.C, ¶ 26; Siemens A.G. v. Arg. Republic, ICSID Case No. ARB/02/8, Award, ¶ 297 (Feb. 6, 2007); Azurix Corp. v. Arg. Republic, ICSID Case No. ARB/01/12, Award, ¶ 370 (July 14, 2006); Waste Mgmt., Inc. v. United Mexican States, ICSID Case No. ARB(AF)/00/3, Award, ¶ 98 (Apr. 30, 2004).

245. E.g., Electrabel S.A. v. Republic of Hung., ICSID Case No. ARB/07/19, Decision on Jurisdiction, ¶ 7.75 (Nov. 30, 2012) (“most important function” of standard is to protect legitimate expectations); Saluka Partial Award, supra note 209, ¶ 302 (“[T]he standard of fair and equitable treatment is . . . closely tied to the notion of legitimate expectations which is the dominant element of the standard.”); EDF (Servs.) Ltd. v. Romania, ICSID Case No. ARB/05/13, Award, ¶ 216 (“one of the major components of the [fair and equitable treatment] standard is the parties’ legitimate and reasonable expectations”) [hereinafter EDF (Servs.) Ltd.]; see also Dolzer, supra note 237, at 17 (noting that “protection of legitimate expectations . . . is the central pillar” of the standard).

246. At first glance, “manifest arbitrariness” or “discrimination” may seem relevant to Eli Lilly’s claim that Canada breached its obligation to “refrain from conduct that is arbitrary, unfair, unjust and discriminatory” in invalidating its two patents. Eli Lilly Notice of Arbitration, supra note 2, ¶ 81. However, this is unlikely since manifest arbitrariness without direct targeting of a foreign investor requires an act that shocks judicial propriety and cannot even include a country failing to follow its own laws. Case Concerning Elettronica Sicula S.p.A. (ELS) (U.S. v. It.), Judgment, 1989 I.C.J. 15, ¶ 128, (July 20) (requiring conduct that “shocks, or at least surprises, a sense of juridical propriety”); Canzilli, Inc. v. United Mexican States, ICSID Case No. ARB(AF)/05/2, Award, ¶ 303 (Sept. 18, 2009) (finding manifestly arbitrary conduct where Mexico imposed an import permit for high fructose corn syrup with the express intent of damaging U.S. producers of such syrup and where there were no objective criteria for how to obtain such permits). Similarly, undue discrimination generally requires treating an investor differently because of impermissible categories such as race and gender, or at a minimum, treating the investor differently than domestic investors. UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 82. Eli Lilly has not made any such argument.
Although agreements generally do not define “legitimate expectations,” there are essentially two approaches. The broadest and most investor-friendly approach is that a state must ensure a stable legal and business environment. The other approach only finds legitimate expectations if those expectations arise from a specific state representation that the investor relies on. Indeed, one tribunal cautioned against an unduly broad reading of legitimate expectations that would inappropriately constrain states. Accordingly, a number of tribunals and scholars suggest not only that there should be a specific state representation, but also that state interests should be balanced against investor expectations. This author believes that the standard grounded in state representation is preferable as a matter of policy. Other commentators also endorse this balancing approach, and arguably tribunals have recently trended toward it. In particular, commentators as well as some tribunals have noted that it is difficult to find and justify legitimate expectations solely on the basis of a preexisting legal regime and that this standard should not serve the same purpose as stabilization clauses. Nonetheless, both standards are discussed below to predict how a tribunal

247. Arguably, there are other variations of legitimate expectations, but the two approaches outlined here represent the extremes.

248. E.g., UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 64; Dolzer, supra note 237, at 64–70.

249. E.g., UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 67–70; Dolzer, supra note 237, at 64–70.

250. EDF (Servs.) Ltd., supra note 245, ¶ 217 (“The idea that legitimate expectations, and therefore [fair and equitable treatment], imply the stability of the legal and business framework, may not be correct if stated in an overly broad and unqualified formulation. The [fair and equitable treatment] might then mean the virtual freezing of the legal regulation of economic activities, in contrast with the State’s normal regulatory power and the evolutionary character of economic life.”).

251. After all, although agreements aim to protect investments, investors arguably benefit the host state, such that public policy concerns of the host state should be considered. E.g., Abhijit P.G. Pandaya & Andy Moody, Legitimate Expectations in Investment Treaty Arbitration: An Unclear Future, 15 TILBURG L. REV. 93, 96 (2010–11). In addition, some suggest that in applying this standard, tribunals should be deferential to host states.

252. E.g., CAMPBELL MCLACHLAN ET AL., INTERNATIONAL INVESTMENT ARBITRATION: SUBSTANTIVE PRINCIPLES 238 (2008); Pandaya & Moody, supra note 251, at 114; EDF (Servs.) Ltd., supra note 245, ¶ 218 (fair and equitable treatment should not serve same function as stabilization clauses); Michele Potestà, Legitimate Expectations in Investment Treaty Law: Understanding the Roots and the Limits of a Controversial Concept, 28 ICSID REV. 88, 114 (2013) (noting that it would be “illogical” to permit fair and equitable treatment to provide the same type of protection as a stabilization clause that an investor bargained for); Elizabeth Snodgrass, Protecting Investors’ Legitimate Expectations: Recognizing and Delimiting a General Principle, 21 ICSID REV.-FOR. INV. L.J. 1, 35, 56–57 (2006); Yannaca-Small, supra note 237 at 126.
might rule in Eli Lilly’s case and also to underscore the problems with the broader standard of a stable legal and business environment.

1.  **Eli Lilly Has No Legitimate Expectation that Common Law Interpretations Will Not Change**

Eli Lilly should not have a claim for violation of fair and equitable treatment under even the broadest standard—that the state maintain a stable legal and business environment—based on prior cases. A frequently cited definition of what constitutes a stable legal and business environment is:

> [T]he host State [must] act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations.  

This definition has encountered substantial criticism for being impossible to meet. It will nonetheless be discussed as a standard that could be applied to establish that even under this overly broad and criticized standard, Eli Lilly should not have a valid claim for violation of fair and equitable treatment. Although it is true that the common definition seems to prevent a state from ever changing any laws that may impact a foreign investor without adequate notice, tribunals citing this definition seem to apply it more narrowly.

Specific cases help to put this in context. For example, in *Tecmed v. Mexico*, the tribunal found a violation of fair and equitable treatment because Mexican authorities failed to renew a necessary landfill permit they had...

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253.  *Tecmed Award*, supra note 202, ¶ 154; *Metalclad Award*, supra note 177, ¶ 99; MTD Equity Sdn Bhd. v. Republic of Chile, ICSID Case No. ARB/01/7, Decision on Annulment, ¶ 107 (Mar. 21, 2007); Siemens A.G. v. Arg. Republic, ICSID Case No. ARB/02/8, Award, ¶ 297 (Feb. 6, 2007); *GAMI Final Award*, supra note 244, ¶ 91; *Occidental Exploration & Prod. Co. v. Republic of Ecuador*, LCIA Case No. UN3467, Final Award, ¶ 185 (BIT/UNCITRAL Arb. Trib. July 1, 2004); see also UNCTAD, *FAIR AND EQUITABLE TREATMENT*, supra note 237, at 64 (referring to quoted provision from Tecmed as the “classic statement” of this investor-friendly approach).


255.  This is especially true given that Eli Lilly is suing under NAFTA, which links this standard to customary standards of international law.
previously promised to renew. In both *CMS v. Argentina* as well as *Enron v. Argentina*, the tribunal found a violation based on this standard where Argentina dismantled its prior regime of tariff guarantees, without which foreign companies would not have made investments in Argentina. In *Occidental v. Ecuador*, the tribunal found a violation of fair and equitable treatment based on Ecuador’s “manifestly wrong” interpretation of a contract with the investor, as well as Ecuador’s inconsistent and unclear value-added tax laws, which negatively impacted the investor, such that the business and legal framework were disrupted. In *PSEG v. Turkey*, the tribunal found that Turkey violated the fair and equitable treatment standard because Turkey engaged in inconsistent administrative acts that included ignoring legal rights, as well as a “roller coaster” of continuing legislative changes that negatively affected the investor’s power plant. The tribunal found that these changes were the exact opposite of stability since the law as well as its interpretation and implementation were continuously changing. Although Eli Lilly claims that it was “entitled to rely on the stability, predictability and consistency of Canada’s legal and business framework existing at each stage of the establishment, expansion, and development of Lilly’s investment” in its drugs, its claim is far different from prior situations where tribunals found a violation of fair and equitable treatment. Eli Lilly’s complaint is unlike the prior decisions in which tribunals found that domestic law specifically induced an investor to make investments in the country that were then negatively impacted by a change in law. Indeed, Eli Lilly has made no allegation that Canada’s prior law induced Eli Lilly to make any investments. In addition, Canada’s proper application of current law on utility requiring the promise doctrine to be met is neither a “manifestly wrong” legal interpretation nor a “roller coaster” of changes. Canadian courts have not engaged in any manifestly wrong legal interpretations; to the contrary, courts have consistently and correctly ruled against Eli Lilly based on prevailing law. In addition, while this doctrine is arguably different than

\[256. \text{ Tecmed Award, supra note 202, ¶ 165–66.}\]
\[257. \text{ CMS Gas Transmission Co. v. Arg. Republic, ICSID Case No. ARB/01/8, Award (May 12, 2005) [hereinafter CMS Gas Award]; Enron Corp. v. Arg. Republic, ICSID Case No. ARB/01/3, Award (May 22, 2007) [hereinafter Enron Award]. However, it may have been relevant in these cases that the tribunal was applying an agreement that specifically noted that the standard is “desirable in order to maintain a stable framework for investment. CMS Gas Award, supra, ¶ 274; Enron Award, supra, ¶¶ 259–60.}\]
\[258. \text{ Occidental, supra note 253, ¶ 184.}\]
\[259. \text{ PSEG Global Inc. v. Republic of Turk., ICSID Case No. ARB/02/5, Award, ¶¶ 246–50 (Jan. 19, 2007).}\]
\[260. \text{ Id. ¶ 254.}\]
\[261. \text{ Eli Lilly Notice of Arbitration, supra note 2, ¶ 82.}\]
when Eli Lilly first applied for its patents, one modification to the common law definition of utility is a far cry from the multitude of changes considered a problem in PSEG. Moreover, in past cases where tribunals have applied this broad standard, the fact that the relevant agreements specifically referenced stability as a goal of the treaty may have influenced the tribunals.262

2. An Issued Patent Is Not a State Representation of Permanent Validity That Can Be Justifiably Relied On and Must Be Balanced against State Interests

A number of tribunals reject the broad standard of a stable legal and business framework as unrealistic263 and unfair,264 and instead only recognize claims based on legitimate investor expectations if those expectations outweigh state interests. As the tribunal in Saluka v. Czech Republic stated, “[n]o investor may reasonably expect that the circumstances prevailing at the time the investment is made remain totally unchanged. . . . [T]he host State’s legitimate right subsequently to regulate domestic matters in the public interest must be taken into consideration as well.”265 Under such an approach, tribunals only find a claim if it arises from (a) a state’s specific representations or commitments to an investor which the investor has relied on, and only after (b) the investor’s expectations are balanced against legitimate regulatory activities of host countries.266 As this section will explain, Eli Lilly has no valid claim because there was no specific representation by Canada that Eli Lilly was justified in relying on, and Canada had legitimate interests in modifying its patent laws.

262. E.g., Occidental, supra note 253, ¶ 183 (referring to the preamble); CMS Gas Award, supra note 257, ¶ 274 (referring to the preamble). In addition, the Argentine cases involved licenses granted by the government which stated that they could not be modified without the licensee’s consent. These licenses may have also played a role in the tribunal’s finding of a breach of fair and equitable treatment.

263. See, e.g., Douglas, supra note 254, at 28; El Paso Energy Int’l Co. v. Arg. Republic, ICSID Case No. ARB/03/15, Award, ¶¶ 352, 371 (Oct. 31, 2011) [hereinafter El Paso Energy Award] (noting that “[e]conomic and legal life is by nature evolutionary” such that it is important to consider whether changes to a legal framework are unreasonable or contrary to a “specific commitment”).

264. UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 67. Indeed, one tribunal stated it would be unconscionable for a country to promise not to change its legislation as time and needs change. Even where the agreement’s preamble noted the importance of the stability of a legal framework, the tribunal declined to apply this standard. Cont’l Cas. Co. Award, supra note 209, ¶ 258.

265. Saluka Partial Award, supra note 209, ¶¶ 304–08.

266. E.g., Duke Energy Electroquil Partners v. Republic of Ecuador, ICSID Case No. ARB/04/19, Award, ¶ 340 (Aug. 18, 2008); Cont’l Cas. Co. Award, supra note 209, ¶ 261.
a) A Patent Is Not a State Representation of Guaranteed Validity

The first question is what constitutes a state representation. The most typical state representation is a specific state commitment to an investor. As with expropriation claims, a tribunal may find a state commitment exists if there is some action attributable to the state, such as a representation from a government official.\textsuperscript{267} In addition, this state action must be either a specific commitment to the investor, or a set of general rules put in place with the intention of inducing foreign investment upon which the investor relied.\textsuperscript{268} In this case, there is no suggestion that prior Canadian law was intended to induce foreign investment, such that inducement is not discussed.\textsuperscript{269}

The issue here is whether Canada made a specific commitment to Eli Lilly. Tribunals and scholars consider a commitment specific if its “precise object was to give a real guarantee of stability to the investor.”\textsuperscript{270} Accordingly, general statements in treaties or legislation do not suffice.\textsuperscript{271} On the other hand, a specific commitment could include a commitment made in a contract or letter,\textsuperscript{272} or an explicit promise or guarantee from the state.\textsuperscript{273} However, although there are heightened expectations from a contract, not every breach of a contract necessarily violates the fair and equitable treatment standard;\textsuperscript{274} rather, something more is necessary, although tribunals have not

\begin{itemize}
  \item 267. Metalclad Award, supra note 177, ¶ 73 (noting that it was unchallenged that state and local government acts were attributable to the state); see also Stephen Fietta, Expropriation and the “Fair and Equitable” Standard: The Developing Role of Investors’ “Expectations” in International Investment Arbitration, 23 J. INT’L ARB. 375 (2006).
  \item 268. E.g., Glamis Gold, Ltd. v. United States, Award, ¶ 627 (NAFTA/UNCITRAL Arb. Trib. June 8, 2009) [hereinafter Glamis Gold].
  \item 269. E.g., Enron Award, supra note 257, ¶¶ 264–67; LG&E Energy Corp. v. Arg. Republic, ICSID Case No. ARB/02/1, Award, ¶¶ 132–39 (July 25, 2007).
  \item 270. El Paso Energy Award, supra note 262, ¶ 377 (emphasis removed).
  \item 271. E.g., Cont’l Cas. Co. Award, supra note 209, ¶ 261; see also El Paso Energy Award, supra note 259, ¶ 394 (noting that this would “immobilize the legal order and prevent any adaptation to circumstances”).
  \item 272. E.g., El Paso Energy Award, supra note 262, ¶ 376. However, breach of a contract is not per se a violation of a specific commitment. UNCTAD, FAIR AND EQUITABLE TREATMENT, supra note 237, at 87.
  \item 273. Parkerings Final Award, supra note 232, ¶ 331.
  \item 274. E.g., Duke Energy Electroquil Partners v. Republic of Ecuador, ICSID Case No. ARB/04/19, Award, ¶ 358 (Aug. 18, 2008); Gustav F W Hamester GmbH & Co KG v. Republic of Ghana, ICSID Case No. ARB/07/24, Award, ¶ 335 (June 18, 2008) [hereinafter Hamester Award]; Impregilo S.p.A. v. Arg. Republic, ICSID Case ARB/07/17, Final Award, ¶ 181 (June 21, 2011); see also Parkerings Final Award, supra note 232, ¶ 344 (“The expectation a party to an agreement may have of the regular fulfillment of the obligation by the other party is not necessarily an expectation protected by international law. . . . [T]he party whose contractual expectations are frustrated should . . . seek redress before a national tribunal.”).
\end{itemize}
necessarily been consistent in assessing what additional activity suffices.\textsuperscript{275} One tribunal suggested that there must be a denial of justice or discrimination.\textsuperscript{276} Another tribunal found a violation of this standard not just based on a simple breach, but the fact that the state took action inconsistent with the investment agreement for an urban development project by denying relevant permits to complete the project.\textsuperscript{277}

Importantly, a mere expectation that the law will not change does not constitute a specific commitment made by the state that lays the groundwork for a violation of fair and equitable treatment.\textsuperscript{278} For example, in \textit{Methanex}, the tribunal held there was no violation of the standard of fair and equitable treatment standard when California changed its laws to ban certain carcinogenic additives to methanol and that change essentially destroyed the investor’s market because there was no representation that regulatory laws would not change.\textsuperscript{279} Similarly, a tribunal found that Canadian company Glamis had no legitimate expectation that the United States (through California) would not pass legislation that would impact Glamis’s mining investment, even when California’s action was a significant change from settled practice, where California made no specific statements to induce investment.\textsuperscript{280} Also, in \textit{ADF v. United States}, the tribunal found the investor had no legitimate expectation that the law would remain unchanged when the state made no representation and the investor instead simply relied on advice by private counsel.\textsuperscript{281} More recently, in \textit{Total v. Argentina}, a tribunal held that the legal regime in force at the time an investment is made is not guaranteed to remain in force unless the state has explicitly assumed a legal obligation, such as a stabilization clause.\textsuperscript{282} Tribunals have noted that absent unusual situations, such as a drastic or discriminatory change in laws, there should be

\textsuperscript{275} E.g., Potestà, \textit{supra} note 252, at 15–18.
\textsuperscript{276} Glamis Gold, \textit{supra} note 268, ¶ 620.
\textsuperscript{277} MTD Equity Sdn Bhd. v. Republic of Chile, ICSID Case No. ARB/01/7, Decision on Annulment (Mar. 21, 2007).
\textsuperscript{278} El Paso Energy Award, \textit{supra} note 262, ¶ 371.
\textsuperscript{279} Methanex Final Award, \textit{supra} note 209, at Section IV.D, ¶ 7.
\textsuperscript{280} Glamis Gold, \textit{supra} note 268, ¶¶ 766–67, 801–02; \textit{see also} Parkerings Final Award, \textit{supra} note 332, ¶¶ 334–38 (finding no violation of legitimate expectations that Lithuania would not change its laws given that Lithuania was transitioning from being part of the Soviet Union to becoming a candidate for EU membership).
\textsuperscript{281} ADF Grp. Inc. v. United States, ICSID Case No. ARB(AF)/00/1, Final Award (Jan. 9, 2005).
\textsuperscript{282} Total S.A. v. Arg. Republic, ICSID Case No. ARB/04/1, Decision on Liability, ¶ 117, 429 (Dec. 27, 2010).
no liability under the fair and equitable treatment standard when there is no stabilization clause.  

A key question with respect to Eli Lilly’s claims is thus whether Canada made any specific representations to Eli Lilly that Eli Lilly relied on. The only possible representation stems from Eli Lilly’s novel claim that the issued patents are a contract, such that the patent itself is a representation that the patent will never be revoked. However, unlike a contract, which can generally be canceled only in extreme circumstances, issued patents are only presumptively valid and are often canceled if found to fail to meet one of the required criteria. Moreover, as noted earlier, even a breached contract with a state is not necessarily enough to establish a violation of the fair and equitable treatment standard. Something more is usually necessary.

b) There Has Been No Negative Reliance upon a State Representation

Even if there is a state representation, it is important that there be reliance on that representation to the investor’s detriment due to induced investments. For example, in Metalclad, the investor relied on the representation of officials that the investor had all necessary federal and state permits to construct a hazardous waste landfill and expended capital in constructing the landfill. Thus the denial of the municipal construction permit violated the investor’s legitimate expectations.

Eli Lilly has no viable argument that it relied on commitments that induced it to invest in developing its invention and to apply for a Canadian patent. Eli Lilly seems to complain that it could not have expected Canada to modify domestic standards when it applied for a patent. However, there was no specific representation that Canadian law would not change when Eli Lilly applied. Moreover, Eli Lilly’s expenditure of capital to develop the drug it sought to patent is not tied to Canadian laws. As mentioned earlier, multinational pharmaceutical companies develop drugs that they aim to

283. E.g., Toto Costruzioni Generali S.p.A. v. Republic of Leb., ICSID Case. No. ARB/07/12, Award, ¶ 244 (June 7, 2012).
284. Eli Lilly Notice of Arbitration, supra note 2, ¶ 82.
285. Cf. NAFTA, supra note 36, art. 1110(7) (expressly recognizing invalidated patent claims as outside the realm of expropriation, which suggests that there are no legitimate expectations that a patent will never be invalidated).
286. E.g., Parkerings Final Award, supra note 232, ¶ 344; Hamester Award, supra note 270, ¶ 337.
287. E.g., El Paso Energy Award, supra note 262, ¶ 376.
288. Metalclad Award, supra note 177, ¶¶ 85–88.
289. Id. ¶¶ 89–90, 99–101.
patent in any and all countries that will provide such patents. In addition, even if Eli Lilly claimed that it was induced to invest in promoting its new drug, this claim should also fail because an issued patent is not a guarantee that the patent will remain valid. Given that it is common for issued patents to be invalidated, the existence of a patent should not induce investment in promoting a drug.

c) Eli Lilly Has No Legitimate Expectation That Outweighs Canada’s Interests

The final method of determining legitimate expectations requires balancing investor expectations against state policy. The facts of some past tribunal cases may help to shed light on how this balance applies. For example, although the tribunal in Saluka recognized the importance of considering legitimate regulatory action, the tribunal found that the Czech Republic had no legitimate reason to protect similarly situated domestic, but not foreign, banks.\(^{290}\) In contrast, in EDF v. Romania, the tribunal found that a statute passed to abolish duty-free operations in Romanian airports was a reasonable response to the legitimate problem of contraband and did not disproportionately or discriminatorily impact the claimant’s investments since it applied equally to all operators.\(^{291}\) In addition, some tribunals suggest that there should be a high level of deference to states to regulate matters within their own borders.\(^{292}\)

Past decisions favor a finding that Canada has a legitimate interest in the current promise doctrine. First, Canada does have a bona fide interest in promoting fundamental patent policy that ensures patents are only issued when there is adequate disclosure to justify the social cost of a patent.\(^{293}\) In addition, Canada’s law applies equally to all foreign and domestic companies. Even though all pharmaceutical companies are implicated, the impact on this single industry is no different than the situation in Saluka where all owners of duty-free operations were impacted. In Saluka, the tribunal found that Romania responded reasonably to a contraband problem by enacting a law that impacted all owners of duty-free operations. Here, Canadian courts appropriately responded to the problem of how to ensure that Canadian

\(^{290}\) Saluka Partial Award, supra note 209, ¶¶ 304–08.

\(^{291}\) Id. ¶¶ 293–94; see also EDF (Servs.) Ltd., supra note 245, ¶ 219 (noting that “[l]egitimate expectations cannot be solely the subjective expectations of the investor” and that proper consideration of “the host State’s power to regulate its economic life in the public interest” should be taken into account).

\(^{292}\) S.D. Myers Partial Award, supra note 135, ¶ 263; GAMI Final Award, supra note 244, ¶ 93.

\(^{293}\) See supra Section II.A (explaining the importance of patent disclosures).
patents serve the traditional purpose of requiring proper disclosure of an invention before burdening the public with a patent by creating a doctrine that arguably impacts pharmaceutical innovations more. Although the expropriation doctrine provides some protection to foreign investors, it is not intended to provide better protection than that afforded to domestic investors.

III. BEYOND ELI LILLY’S CASE: PENDING PROBLEMS AND HOW TO ADDRESS THEM

This Part goes beyond the *Eli Lilly* case to highlight other domestic laws at the intersection of intellectual property and public health vulnerable to challenge in investor-state arbitration proceedings. In particular, this Part explains TRIPS-consistent domestic actions that might nonetheless result in investor-state claims. After explaining claims that companies (which qualify as foreign investors) are likely to make in investor-state proceedings, this Part provides specific proposals that can be incorporated in pending agreements to minimize these problems.

A. PUBLIC HEALTH ISSUES IN DANGER OF DISRUPTION

Eli Lilly’s suit may portend the beginning of a trend towards investor challenges to a number of controversial issues concerning the balance of pharmaceutical interests and public health. These issues include patentability criteria beyond the one challenged in *Eli Lilly*, issuance of compulsory licenses on patents, and domestic regulations concerning protection of clinical data submitted to obtain approval to sell drugs.

1. Patentability Standards and Compulsory Licenses

One patent standard that is especially vulnerable to challenge under investor-state arbitration is a criteria that makes new drugs that are very similar to existing drugs unpatentable unless they show improved efficacy. Companies and lawyers alike have improperly suggested that section 3(d) of India’s patent law barring patents on drugs that are very similar to existing drugs without providing increased efficacy is inconsistent with TRIPS. In

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294. *E.g.*, The Patents (Amendment) Act, 2005, No. 15, § 3(d), Acts of Parliament, 2005 (India) (clarifying that inventions do not include “the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant”).

295. *E.g.*, JONES DAY, supra note 19, at 19; *see also* PHRMA, SPECIAL 301 SUBMISSION 2014, at 26 (referring to 3(d) as an “additional hurdle”); K. M. Gopakumar, *Intellectual Property*
the eight years since India pioneered this law there have been no challenges to its TRIPS consistency in the WTO forum. However, while countries tend to be hesitant to bring WTO disputes due to political considerations and concern with possibly undesirable precedent, companies do not share these concerns in seeking investment remedies. Accordingly, India’s and other similar laws are ripe for challenge by foreign companies to the extent that there is an applicable investment agreement. Even in the absence of a specific challenge, Eli Lilly’s suit alone could make a country hesitant to adopt such laws given the potential cost of a challenge, in addition to potential awards granted as compensation to foreign investors who establish violation of investment claims.

A company could claim that India’s section 3(d) patent standard results in improper expropriation, including a claim that the law is not consistent with TRIPS in a manner similar to Eli Lilly’s case. As noted earlier, most agreements technically exclude from the definition of expropriation any domestic denial of intellectual property rights if the denial is consistent with TRIPS. However, some have suggested India’s section 3(d) provision imposes an additional patentability requirement not permitted by TRIPS, and thus violates TRIPS. This is incorrect given that India has not imposed a

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297. See, e.g., SCOTT SINCLAIR, CAN. CTR. FOR POLICY ALTS., NAFTA CHAPTER 11 INVESTOR-STATE DISPUTES 24–25 (2010), available at https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/11/NAFTA%20Dispute%20Table.pdf (noting that whereas the cost of simply administrating a panel can be $1 million or more, legal costs can be substantially higher and even with respect to frivolous claims that never get a full hearing can still cost several hundred thousand dollars).

298. For example, Mexico was ordered to pay compensation of nearly $170 million (plus interest) in 2009 for three decisions involving a Mexican tax on high fructose corn syrup. This exceeded the total annual GDP of the poorest sixteen Mexican states. SINCLAIR, supra note 297. In 2010, the Philippines spent nearly $60 million to defend two cases against a German investor. Kim Arveen M. Patria, Study Investment Provisions Before an FTA Says Advocacy Group, FOCUS ON THE GLOBAL SOUTH, http://focusweb.org/content/study-investment-provisions-fta-says-advocacy-group (last visited Dec. 15, 2014).

299. E.g., supra note 295 and accompanying text; see also In re Natco Pharma. Ltd. & Bayer Corp., C.I.A. No. 1 of 2011 (Controller of Patents Mar. 9, 2012) (India); Bayer Corp.
new requirement of patentability; rather, India has simply provided a
different definition of patentability that is permissible and in fact
contemplated by TRIPS. Just as TRIPS permits Canada to define what is
“useful” for Canada’s patents laws, TRIPS permits India to define what is an
“invention,” as well as what is “new,” such that a number of scholars and
policymakers consider India’s laws to be consistent with TRIPS. Nonetheless, just as Eli Lilly has incorrectly challenged Canada as violating
NAFTA with an investment agreement, companies are similarly likely to
challenge India’s TRIPS-consistent standard.

A possibly even bigger problem is that countries that want to copy
India’s law may face claims by companies that the companies have been
denied fair and equitable treatment due to an undesirable change in the law. An unduly broad interpretation of such claims might permit an investor to recover if a country changed its laws in a way that altered the legal
environment. As noted earlier, there should not be any legitimate expectation that the law will never change. Nonetheless, companies win the vast majority of these cases, such that any potential claim—including an unsubstantiated one—could chill pending proposals for reform of patent laws.

2. Compulsory Licenses

Another likely target for investor-state arbitration is a compulsory license. A compulsory license is a traditionally recognized, state-mandated license to
use a patented invention in certain instances; the patent is still valid, but the
patent owner cannot exclude the licensee and must accept the government
ddictated royalty. Although this situation seems inapposite of the patent
right to exclude, one of the reasons compulsory licenses have historically
been granted is to promote public interest on a number of grounds, including
access to medicine. The ability to issue compulsory licenses is especially
important now to developing countries with limited resources; previously,
they could promote access to low-cost drugs by declining to issue patents,
but now that they must issue some patents under TRIPS, compulsory licenses are one of the few tools available to promote lower-cost drugs.\textsuperscript{303}

Although compulsory licenses are permissible under TRIPS, they are likely to be challenged by patent owners as expropriation. Notably, public statements by pharmaceutical companies often talk about compulsory licenses as either “breaking” their patents, or even expropriating their patent rights.\textsuperscript{304} Scholars have been expecting such claims.\textsuperscript{305} This makes sense because a compulsory license may be a prototypical situation where an investor believes that it needs and deserves the additional protection of investor-state arbitration because the investor considers the TRIPS requirements, as well as domestic laws implementing those requirements, inadequate.

Although compulsory licenses that are consistent with TRIPS should technically be exempt from indirect expropriation claims in most cases,\textsuperscript{306} an

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\item[303.] See TRIPS, supra note 3, art. 27(1). Although nations can impose heightened patentability requirements, it is highly unlikely that this will result in the pre-TRIPS situation of zero patents on any drugs. Indeed, although India has been at the forefront of imposing new restrictions on patentability, the vast majority of pharmaceutical patents have in fact been granted. E.g., C.H. Unnikrishnan, Foreign Drug Makers Won 77% of All Patents in Last 3 Years, LIVE MINT (Sept. 15, 2014), http://www.livemint.com/Industry/H0ZID9XSP78ESv1MAuZZN/Foreign-drug-makers-won-77-of-all-patents-granted-in-last-3.html; Broo Baker, Pharmaceutical Patents Granted by Indian Patent Office (IPO), TECH CORP LEGAL LLP, http://techcorplegal.com/Indian_Law_Firm/foreign-pharmaceutical-companies-granted-pharmaceutical-patents-by-indian-patent-office-ipo/ (indicating that over two thirds of pharmaceutical patent applications were granted). The most up to date list of granted and pending applications since July 2012, is available from the Indian patent office at http://164.10.176.38/tk/ (select “pharmaceutical” from dropdown menu).
\item[306.] See, e.g., NAFTA, supra note 36, art. 1110(7) (excluding compulsory licenses granted consistent with NAFTA, which has provisions similar to TRIPS); U.S.-Singapore Free Trade Agreement, supra note 179, art. 15.6.5 (excluding compulsory licenses granted consistent with TRIPS); Dominican Republic–Central America–U.S. Free Trade Agreement art. 10.7.5, Aug. 5, 2004, 43 I.L.M. 514 (2004) [hereinafter CAFTA] (excluding compulsory licenses consistent with TRIPS); see also HOWARD MANN ET AL., IISD MODEL INTERNATIONAL AGREEMENT ON INVESTMENT FOR SUSTAINABLE DEVELOPMENT art. 8(G) (2005)
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investor-state dispute would likely still be initiated to assess whether the license in fact complies with TRIPS because TRIPS requirements for compulsory licenses are highly controversial and contested. Part of the problem is that determining whether the licenses comply with TRIPS requires an interpretation of undefined, yet key, terms. For example, TRIPS permits compulsory licenses when a state provides “adequate remuneration,” without any definition of what would be “adequate.” In addition, although TRIPS provides many procedural requirements a state must follow to issue an appropriate license, there is some controversy concerning the ground for issuing a license in the first instance.307

Companies are likely to challenge royalty rates of compulsory licenses as not TRIPS compliant because TRIPS does not clearly define what compensation is “adequate” and companies believe that any compulsory license fails to provide adequate compensation. This is aptly illustrated in the recent case concerning India’s compulsory license on Bayer’s cancer drug sold as Nexavar. Bayer sought a royalty rate of fifteen percent of net sales whereas the court granted a royalty of six percent. Although a subsequent appeal raised the royalty to seven percent, that rate is still less than half of what the patent owner sought.308 Even though Bayer strongly contested the royalty rate, that rate was completely within the guidelines issued by the World Health Organization and the United Nations Development Programme.309

One law firm suggested that the six percent royalty rate constituted indirect expropriation that failed to provide adequate compensation to Bayer pursuant to a typical investment agreement that requires compensation “equivalent to the value of the expropriated . . . investment immediately before the date on which such expropriation . . . became publicly known.”310 Although some might suggest that there is no conflict between this expropriation standard and the ambiguous TRIPS requirement of “adequate”

(excluding from expropriation compulsory licenses granted consistent with “applicable international agreements on intellectual property”).

307. TRIPS, supra note 3, art. 31.
309. See JAMES LOVE, WORLD HEALTH ORGANIZATION, REMUNERATION GUIDELINES FOR NON-VOLUNTARY USE OF A PATENT ON MEDICAL TECHNOLOGIES (Robert Weissman ed., 2005).
310. JONES DAY, supra note 19, at 3.
compensation, scholars generally believe that “adequate” compensation under TRIPS is not intended to be market rate.311

Another TRIPS-consistent aspect of compulsory licenses that foreign investors could challenge is the grounds for issuing a compulsory license in the first instance. TRIPS permits countries to decide the basis for issuing compulsory licenses and only governs procedural aspects of compulsory licensing. However, there have been many misstatements concerning permissible grounds for issuing compulsory licenses made not only by companies, but also by scholars and government officials.312 Contrary to the common claim by companies that compulsory licenses are only appropriate in case of an emergency or if the patent owner cannot provide adequate supply of the needed drug,313 countries have complete discretion to decide the grounds for issuing compulsory licenses.314 This is very important for countries like India that have unusual legal criteria for issuing a compulsory license, such as a drug not being available at a “reasonably affordable price” from the patent owner.315

Notably, even if an arbitration tribunal were to properly find that the above two issues were consistent with TRIPS, and thus not indirect expropriation, a tribunal might still find a violation of fair and equitable treatment. There is no intellectual property exception to fair and equitable treatment claims for even TRIPS-consistent measures in any existing agreement. A company might argue that it applied for a patent to its detriment because it did not expect that a country would issue a compulsory license that demolished the value of its patent. A tribunal that took a broad

311. E.g., HO, supra note 300, at 138; Tsai-Yu Lin, Compulsory Licenses for Access to Medicines, Expropriation and Investor-State Arbitration Under Bilateral Investment Agreements—Are There Issues Beyond the TRIPS Agreement?, 40 IIC: INT’L REV. INTELL. PROP. & COMPETITION L. 152, 163–64 (2009); Antony Taubman, Rethinking TRIPS: ‘Adequate Remuneration’ for Non-Voluntary Patent Licensing, 11 J. INT’L ECON. L. 927, 951–55, 957 (2008) (explaining that this is not necessarily equivalent to full market value); Biadgleng, supra note 296, at 18; see also Gibson, supra note 205, at 415 (suggesting that it is unclear whether a TRIPS consistent license would constitute expropriation under an investment agreement).


313. E.g., JONES DAY, supra note 19, at 3.

314. TRIPS, supra note 3, art. 31; Doha Public Health Declaration, supra note 34, ¶ 5(b) (“Each member has the right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted.”); see also HO, supra note 300, at 128–29.

view of the fair and equitable treatment standard to demand a stable legal environment might be sympathetic to such a claim. Even if there is no technical change in domestic laws, if a country had simply not previously issued compulsory licenses, or rarely issued such licenses, a company might nonetheless complain that an unexpected issuance of a compulsory license was inconsistent with fair and equitable treatment. Given that such claims are unpredictable and highly successful for claimants, there is a serious risk that tribunals deciding investor-state claims would nonetheless find that a TRIPS-consistent license is an expropriation or a violation of fair and equitable treatment.

3. Domestic Regulation of Clinical Data

In addition, nations may be subject to investment claims concerning domestic regulations governing clinical data relating to new drugs. There are two related issues that could be subject to challenge. First, companies may bring challenges against countries that permit generic applicants to immediately rely on clinical data without providing a period of “data exclusivity” for the initial drugmaker. Second, companies may challenge domestic laws requiring that all clinical trials of approved drugs be made publicly available. Although both potential challenges relate to the same data, they will be discussed separately because they involve separate issues (reliance versus disclosure), as well as different issues of interpretation under TRIPS.

a) Countries That Do Not Provide “Data Exclusivity” Will Likely Be Challenged

To best understand the data exclusivity issue, some background concerning the regulatory drug approval process is necessary. Unlike most other patented items, patented drugs need regulatory approval by a domestic agency such as the U.S. Food and Drug Administration before the drugs can be sold. Most countries grant such approval when a company can establish that the proposed new drug is safe and effective for its proposed use based on clinical data. It can take many years and millions of dollars to compile the requisite data for regulatory review.

In contrast, manufacturers of proposed generics can gain approval with a more limited set of clinical data. Most countries will approve generic versions


based solely on clinical studies that show “bioequivalence” to a previously approved drug; the proposed generic is then presumed to be just as safe and effective as the previously approved drug. The time and investment needed to establish clinical data of bioequivalence is a mere fraction of the time and investment required to produce data for the earlier drug’s regulatory approval process. This is an intentional policy decision. After all, a company that is a second or later entrant to the market with no possible patent protection cannot charge high prices to recoup an expensive investment. Moreover, if generic companies are not provided a less costly regulatory approval process, original companies can continue to sell their drugs at premium prices long after a patent has expired due to lack of competition.

The issue with data exclusivity is when generic companies can rely on clinical data of the drug they are copying. In a country that provides data exclusivity, the generic manufacturer is barred from relying on that data for a certain period, ranging from five to ten years from approval of the prior drug. Data exclusivity, when available, is completely separate from patent protection and can provide substantial commercial advantage for even unpatentable products. In contrast, a country that does not recognize data exclusivity will permit other companies to immediately rely on this data. This means that as soon as a patented drug is approved for sale, a generic manufacturer can apply to sell a lower-cost equivalent. Importantly, this does not mean that the patent is not valid. However, it does permit the manufacturer of a generic to enter the market while simultaneously challenging the patent. Although this may seem like a formidable challenge, the vast majority of challenged drug patents are in fact found invalid or not infringed.


320. Indeed, this was the situation in the United States before laws were amended to permit generic drug approvals based on the abbreviated process. See, e.g., Gerald J. Mossinghoff, Overview of the Hatch-Waxman Act and Its Impact on the Drug Development Process, 54 FOOD & DRUG L.J. 187, 187 (1999).


322. E.g., EC PHARMACEUTICAL SECTOR INQUIRY, supra note 10, para. 501 (finding that in over half of cases where patent was challenged by a generic company, the patent was
A patent-owning company such as Eli Lilly may assert that in a country without data exclusivity, its right to prevent other companies from using its data was indirectly expropriated. Clinical data that is expensive to develop seems to easily fall within the definition of an investment. The expropriation issue is whether permitting generic companies to rely on clinical data results is a substantial and unreasonable interference with this investment. A company would likely believe that this is the case if it cannot completely exclude competitors from using its proprietary data. This seems somewhat analogous to a compulsory license of a patent in that, although the company can still use its data (or patent), lack of exclusivity results in a substantial interference with the expected value. A developing country should have a strong policy argument for denying data exclusivity to permit generic companies to more quickly rely on this data and promote faster entry of low cost drugs. However, it is unclear how a tribunal would balance interests or whether it would instead use the “sole effect” test, which would clearly favor only corporate interests. Accordingly, an important issue is whether a domestic decision to reject data exclusivity could be exempt from consideration as an expropriation claim.

An initial question is whether such a claim could be excluded under clauses that exempt certain intellectual property issues from indirect expropriation claims. The issue is whether lack of data exclusivity should be considered a “limitation” of “intellectual property rights” pursuant to agreements that exclude such limitations of intellectual property rights from the scope of expropriation. Although data exclusivity is not a traditional intellectual property right, many companies as well as countries consider it to be one in contexts beyond investor-state disputes. However, the phrase


323. Arguably, another reason the expropriation claim should be excluded is that lack of implementation of a desired law may not constitute state action that is fundamental to an expropriation claim. Generally, expropriation claims are based on an affirmative act, rather than an omission. However, as Eli Lilly’s case shows, companies are not afraid to make new claims in the area of investment arbitrations.

324. Indeed, there are some free trade agreements that require countries to provide data exclusivity under intellectual property chapters. See, e.g., U.S.-Singapore Free Trade
“limitations of intellectual property” suggests that there must be a recognized intellectual property right that can be limited, such that a country that completely denied a right might not fall under this language. Nonetheless, it is at least conceivable that data exclusivity or lack of data exclusivity would be covered as intellectual property.

Even if data exclusivity is considered a type of intellectual property right that falls within the intellectual property exception to expropriation, it is not necessarily immune to challenge. In particular, this exception only applies to intellectual property rights consistent with TRIPS and there is significant controversy concerning what TRIPS requires. In particular, although some companies and countries believe that TRIPS requires data exclusivity, a proper interpretation of TRIPS pursuant to the customary rules of interpretation of international agreements establishes that this view is incorrect. TRIPS requires that countries “protect” data submitted to government for approval of pharmaceuticals from “unfair commercial use” without specifying what this means. Although companies suggest that it is unfair to allow other companies to rely on their data, negotiators rejected language that specifically stated that there could be no reliance on the data. The rejection of this earlier language means that it is not the current standard—contrary to what some companies have suggested. Accordingly, a number of scholars and policymakers consider that the provision does not require data exclusivity.

Lack of data exclusivity could also be challenged as a violation of the fair and equitable treatment standard. Although this is recognized as the broadest and most frequently successful claim in investment disputes, it is unlikely to be successful against a country like India. Since India has never recognized

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325. E.g., Ho, supra note 314, at 76–80.
326. TRIPS, supra note 3, art. 39(3).
protection for data exclusivity, there would be no legitimate expectation for it to do so even under the broadest standard of maintaining a stable legal and business environment. After all, a stable environment would be the same legal environment.

However, the bigger issue is that the threat of investor-state arbitration could prevent countries from abandoning data exclusivity laws in favor of India’s approach, even if a country believes that India’s approach is better policy in promoting access to lower-cost drugs. Although tribunals have repeatedly noted that investors should not expect that laws will be frozen in time, a company could claim that they did not expect an existing protection to be dismantled. Some claims could be cabined if tribunals use the more robust standard that only finds violations when an investor relies on a specific state representation since it is unlikely that any country would promise to keep data exclusivity laws. However, that possibility may be too large a risk to take for a developing country with limited funds.

b) Domestic Data Transparency Requirements Are Vulnerable to Challenge

Companies are also likely to challenge domestic regulations concerning disclosure of clinical data supporting approved drugs. The European Union is at the forefront of requiring what is referred to as data “transparency,” but if it is challenged, other countries may be hesitant to enact laws that public health scholars uniformly applaud as desirable. In particular, a new EU regulation requires that all clinical data for drugs approved by the European Union be made publicly available. Companies strongly oppose disclosing clinical data, claiming that they are entitled to keep such data as a trade secret. Although the regulation is not yet in full effect, companies are likely to contest it once it is.

Before addressing possible claims, it is important to explain the rationale for transparency laws in the context of the regulatory structure for approval of new drugs. As noted earlier, a new drug will be approved for sale based on clinical data that it is safe and effective. Notably, such data is developed not by an independent organization, but by the very company seeking approval.

330. See generally Gardiner Harris, Diabetes Drug Maker Hid Test Data, Files Indicate, N.Y. TIMES, July 13, 2010, at A1 (describing problems when drug companies are not required to publicly disclose all relevant data).


332. Aaron S. Kesselheim & Michelle M. Mello, Confidentiality Laws and Secrecy in Medical Research: Improving Public Access to Data on Drug Safety, 26 HEALTH AFF. 483, 483 (2007); see also, e.g., infra note 333 (noting AbbView objection).
In addition, although the company must submit the data to the government, the public is not entitled to access it. There are a few cases where independent researchers obtained access to the data either because a country had a policy for doing so in limited circumstances\(^3\) or because a company responded to public pressure.\(^4\) However, without mandatory transparency, not only doctors and patients, but also governments must rely on industry claims concerning the value of new drugs. Because companies have an interest in selectively publishing positive results, they are more likely to conclude that their drugs are safe and effective than independent researchers.\(^5\) They also overestimate benefits while minimizing risks in published studies.\(^6\) As a result, there may be unnecessary expenditures on expensive new drugs based on questionable data\(^7\) that can also result in negative public health outcomes that could have been avoided.\(^8\) There are a number of examples where new drugs were later found by independent

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\(^6\) E.g., Fujian Song et al., Dissemination and Publication of Research Findings: An Updated Review of Related Biases, 14 HEALTH TECH. ASSESSMENT (2010).


\(^8\) Governments stockpiled the antiviral drug to treat influenza sold as Tamiflu based on unverified effectiveness claims by the company that independent researchers only recently determined to be unsubstantiated. E.g., Ben Goldacre, What the Tamiflu Saga Tells Us About Drug Trials and Big Pharma, GUARDIAN (Apr. 9, 2014), http://www.theguardian.com/business/2014/apr/10/tamiflu-saga-drug-trials-big-pharma/.

\(^3\) E.g., HAI EUROPE, supra note 31.
research to result in harmful health risks. Even though independent researchers can ultimately discover issues, it is expensive, inefficient, and poor public policy to bar them from considering existing data that could result in better public outcomes.

There is a serious concern that transparency requirements would constitute an expropriation. Mandatory disclosure of data would seem to constitute a substantial interference with the expectation that a company’s data will not be accessed by a competitor. In addition, the current exceptions of expropriation do not seem to cabin such claims.

A nation should have the right to decide whether to recognize protected data as an intellectual property right. But there is an open issue concerning whether TRIPS requires this data to be protected. In particular, there is a currently untested exception to the TRIPS requirement to protect data from unfair commercial use; TRIPS explicitly states: “Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.” In other words, TRIPS seems to contemplate that there are in fact some situations where members may not need to protect data against disclosure if necessary to protect the public. Although the European Union may believe that it falls within the TRIPS exception that permits disclosure for public interest, a company would likely believe otherwise.

If a tribunal does not extend the traditional definition of intellectual property to include data exclusivity, such claims could be exempt from a claim for indirect expropriation. This exemption could be based on the language of certain agreements that does not provide a complete exception to expropriation claims, but rather suggests that regulation for public welfare be treated differently. For example, a number of agreements suggest that nondiscriminatory regulatory measures “designed and applied to protect legitimate public welfare objectives, such as public health” do not generally constitute indirect expropriation “except in rare circumstances.”

In addition, an investor that believes it is entitled to compensation when a country fails to provide data exclusivity raises unique challenges even when public health is involved. Most cases involving public welfare have been

340. E.g., Ho, supra note 13, at 501–05.
341. TRIPS, supra note 3, art. 39(3).
cases that directly impact public health or the environment, such as a regulation that aims to protect sea turtles, or a regulation that aims to reduce carcinogens.\(^{343}\) In contrast, the public health interest protected in countries that decline to impose data exclusivity is more attenuated. Some consider it obvious that there is not only a universal right to health, but also a right to access to affordable medicine.\(^{344}\) However, there is no universally recognized right to access to affordable medicine; indeed, this is the crux of frequent international tension between companies that want strong patent protection and those that want less patent protection to promote access to affordable drugs.\(^{345}\)

\(^{343}\) E.g., supra note 213 and accompanying text (discussing how the Califonia ban of an arguable carcinogen should be considered lawful regulation and not expropiation in *Methane*); KYLA TIENHAARA, THE EXPROPIATION OF ENVIRONMENTAL GOVERNANCE: PROTECTING FOREIGN INVESTORS AT THE EXPENSE OF PUBLIC POLICY 239–43 (2009); Benjamin W. Jenkins, The Next Generation of Chilling Uncertainty: Indirect Expropriation Under NAFTA and Its Potential Impact on Environmental Protection, 12 OCEAN & COASTAL L.J. 269 (2007). Notably, such claims of public welfare do not always succeed in thwarting a claim for expropiation. For example, Mexico was found to have indirectly expropriated Metalclad’s investment, and Costa Rica was required to pay $4 million for expropriating land to protect sea turtles. E.g., Metalclad Award, supra note 177; Joyce Gomez, *Expropriation to Protect Turtles Costs Government $4 Million*, COSTA RICA NEWS, http://www.costaricanewssite.com/expropiation-to-protect-turtles-costs-government-4-million/ (last visited Dec. 13, 2014).


\(^{345}\) E.g., Doha Public Health Declaration, supra note 34, para. 4 (recognizing that nations should have the ability to promote access to medicine, but without creating a complete exception to patent rights); Amy Kapczynski, *The Access to Knowledge Mobilization and the New Politics of Intellectual Property*, 117 YALE L.J. 804, 825–53 (2008) (describing the use of “frameworks of international rights discourse and corporate malfeasance” for access to medicine, which necessarily suggests that no such universal right currently exists). Although
Countries may face even more problems with a claim for fair and equitable treatment. This standard is often read broadly, and a country that imposes transparency requirements could be considered to be making a substantial change to the legal and business environment. Notably, the EU regulation is not a complete surprise. The European Union has been engaging in increased transparency over the years. As with all such claims, the European Union’s interests are better protected under the standard that only recognizes claims based on legitimate expectations due to specific reliance. It is doubtful that the European Union would ever represent that it would not change its laws. However, considering that past cases have broadly interpreted this standard, the EU regulations could still be vulnerable.

B. PROPOSALS TO PRESERVE FLEXIBILITY UNDER TRIPS

This Section provides concrete proposals to address the unique policy issues raised by permitting investors to challenge domestic decisions concerning the proper scope—if any—of intellectual property rights when those decisions are arguably permissible under international agreements such as TRIPS.346 In particular, this Section advocates ideally excluding such issues from international agreements governing investments, or limiting challenges in the dispute settlement system. If this is not possible, this Section suggests specific proposals to cabin expropriation and fair and equitable treatment claims that would otherwise interfere with internationally permissible regulation of intellectual property rights.

346. Although this Section focuses on proposals that stem from the policy issues raised here, there is one issue raised by the Eli Lilly case that impacts all cases: whether procedurally proper decisions of domestic courts should ever be challenged in investor-state disputes. As explained in Part III, there is no precedent or policy reason for enabling investors to obtain compensation using either expropriation or fair and equitable treatment claims when they simply disagree with substantive domestic law. The proposals to limit claims that attempt to challenge substantive law regarding intellectual property equally apply to all other areas.
1. Exclude Intellectual Property from Investor-State Disputes

The simplest way to avoid above-noted problems is by narrowing the scope of what constitutes a covered investment. Alternatively, an exception to investor-state disputes could be created to avoid policy problems. In considering these solutions, this Article considers intellectual property to be broadly defined to include not only patents but also any regulatory protection of drugs, such as data exclusivity, since companies themselves consider both to be intellectual property.

There are several approaches to modifying the definition of investment. The most efficient way to eliminate noted problems is to modify the definition of what constitutes an “investment” to explicitly exclude intellectual property rights in their entirety. Not surprisingly, some have suggested doing this. It is not adequate for an agreement to simply not mention intellectual property as covered since most agreements cover intangible investments. Even those who oppose Eli Lilly’s claim would need to concede that intellectual property rights are generally considered intangible investments. Accordingly, there needs to be an explicit statement that intangible investments do not include intellectual property rights. Alternatively, if intellectual property rights are included as an investment, there should be a clarification that such rights do not include those that have been canceled pursuant to domestic law. Moreover, it may be wise to clarify that domestic law includes common law modifications to the law. This would thus obviate Eli Lilly’s objection that Canada was unjustified in modifying and retroactively applying this standard.

Another possibility is to maintain the scope of covered investments, and instead change the scope of investor-state disputes. In particular, claims that require adjudication of rights under another international agreement, such as TRIPS, could be excluded entirely. Agreements have previously excluded some subject matter, such as national security and tax measures,


348. E.g., 35 U.S.C. § 261 (2012) (patents have attributes of personal property); see also Mercurio, supra note 26, at 878 (noting that it is “beyond doubt” that granted intellectual property rights are investments).
from the scope of the treaty. Alternatively, agreements could include language that states “[n]othing in this agreement shall affect the rights and obligations of any party to TRIPS or any other international intellectual property agreement; no party may bring an issue requiring adjudication of a TRIPS provision unless it has been previously determined to be in violation of TRIPs pursuant to the WTO.” This would be somewhat similar to existing exceptions in some agreements concerning either tax or environmental agreements. However, unlike these clauses, which are primarily conflict of law principles that state which agreement should prevail in the event of inconsistency, this proposal goes further to ensure that tribunals do not unnecessarily decide whether there is an inconsistency in the first instance. This is necessary to prevent commercial arbitrators from usurping the process for determining TRIPS compliance, which could lead to inconsistent judgments.

The above suggestions are strongly preferable to the draft text to address situations where there are competing agreements under CETA that is being used as a basis for the pending Transatlantic Trade and Investment Partnership (“TTIP”). In particular, the CETA draft states that if there is a potential for “overlapping compensation” or the other claim could have a “significant impact” on the arbitration claim, the tribunal shall “stay its proceedings,” or otherwise, the tribunal can continue the proceedings and simply take a separate proceeding “into account in its decision, order or award.” However, this approach still not only gives a tribunal too much authority to impinge on another international agreement, but it also does not address the situation raised by Eli Lilly where no other proceeding has previously been initiated. This may often be the case with TRIPS claims because only governments can bring WTO disputes and governments seem circumspect in doing so. Moreover, WTO claims would not result in overlapping compensation both because investors have no standing to assert such claims, and because WTO proceedings are only intended to force

349. E.g., NAFTA, supra note 36, arts. 2102, 2103.
countries to comply with WTO rules, but do not result in compensation. Accordingly, investment chapters should exclude from the scope of arbitrations any claims that challenge internationally agreed upon standards for state action.

2. Limit the Scope of Investment Claims Based on International Agreements Such as TRIPS

If intellectual property issues cannot be entirely excluded from investment arbitration disputes, the next best alternative is to cabin the most likely claims—expropriation and fair and equitable treatment claims. This section explains how to limit such claims and why existing proposals thus far are inadequate.

a) Limit Expropriation Claims

The optimal method of limiting challenges to domestic laws consistent with international intellectual property standards is to explicitly bar expropriation claims in this area. Technically, this is already recognized in existing agreements, including NAFTA. However, as the Eli Lilly case illustrates, that language is inadequate since parties may disagree on whether certain conduct is permissible under an international intellectual property agreement.

Canada has proposed that there is no indirect expropriation in the case of a decision by a court, administrative tribunal, or other governmental intellectual property authority limiting or creating an intellectual property right, except where “the decision amounts to a denial of justice or an abuse of right.” This would at first glance seem to easily bar claims like Eli Lilly’s without needing to evaluate whether there is a violation of a separate international agreement. However, a company, such as Eli Lilly, could claim a denial of justice or abuse of right. Although no prior tribunal has found similar facts to fit these circumstances, past expansive rulings suggest this is a possibility. Accordingly, any exception to expropriation for intellectual property rights should clarify that there is no denial of justice or abuse of right if there is a common law modification of laws that are retroactively applied. This would not only prevent the Eli Lilly situation, but would also make expropriation more in line with domestic taking law that does not


354. Draft CETA Investment Text, supra note 342, art. X.11(5).
recognize a taking when courts simply apply slightly modified common law doctrine. Of course, there is no requirement that international expropriation must be consistent with domestic taking law. However, given that expropriation is a remedy only available to foreign investors, unless there is a sound policy reason to provide a broader scope of expropriation to only foreign investors, closer alignment in treatment of all investors seems most appropriate.

Another possibility is to bar expropriation claims based on intellectual property rights in a manner similar to expropriation claims based on taxation. For example, NAFTA states that tax measures may in some cases constitute expropriation, but imposes unique procedural requirements for asserting such a claim. In particular, before a claim can be adjudicated, both the country accused of expropriation as well as the investor’s own country must decide whether there is an expropriation claim that is permitted to go forward. The idea of cabining expropriation claims based on domestic revocation of intellectual property rights is a sound one. To prevent potential inconsistent decisions, expropriation claims based on state action that is arguably inconsistent with TRIPS should be barred unless there is a finding of TRIPS inconsistency by a WTO panel. This would obviate inconsistent decisions and also allow TRIPS issues to be decided by arbitrators with expertise in WTO agreements, including TRIPS.

These proposals would be a significant improvement over the European Union’s proposed language to clarify what types of regulatory action should not constitute indirect expropriation. Although the European Union shares a desire with many others to “avoid claims against legitimate public policy measures,” its proposed clarification is no better than language in existing treaties. In particular it notes that in “rare circumstances,” nondiscriminatory measures to protect “legitimate public welfare objectives such as health” can nonetheless constitute indirect expropriation if the impact of the measure “is so severe in light of its purpose that it appears manifestly excessive.” This proposal introduces new language in need of interpretation, such as what would be “manifestly excessive” or “severe in light of its purpose.” In addition, although it may seem fair to have a balance

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356. NAFTA, supra note 36, art. 2103(6).
357. Id.
358. EU Comm’n, Public Consultation on Modalities for Investment Protection and ISDS in TTIP, at 6–7 (Mar. 2014).
of interests, a tribunal of private arbitrators does the balancing, and in doing so the arbitrators are essentially second guessing the balance already determined by a nation.

b) Limit Fair and Equitable Treatment Claims

The best approach to cabining fair and equitable treatment claims would be to eliminate them altogether in cases where the agreement is solely between countries with strong legal systems. Although it may seem radical to jettison a traditional component of investment chapters, there are some existing chapters where tribunals have no authority to litigate such claims. These claims have posed the most significant intrusions into domestic regulatory authority and have resulted in inconsistent rulings. Moreover, this standard was initially intended to provide a remedy as a back up to the non-discrimination provision in the exceptional situation where the host country’s political and legal systems disintegrate to the extent that investors cannot be adequately protected. There seems to be no need for this claim at all where domestic remedies exist. In addition, this would avoid the problem of unduly expansive rulings concerning fair and equitable treatment that the United States has tried, but failed to cabin in NAFTA.360

If fair and equitable treatment claims must remain within the scope of investment arbitrations, adding clear exceptions would be the next best alternative. For example, just as intellectual property rights denied or canceled under domestic law should never be considered expropriation, a similar clause could exist for fair and equitable treatment claims. In addition, as noted earlier with expropriation claims, it may be better to exclude any fair and equitable treatment claim based on state law denying or canceling an intellectual property right on substantive grounds unless that state law is found by a WTO panel to be inconsistent with TRIPS. Even if there were a TRIPS violation, there should not necessarily be a fair and equitable treatment claim. Many existing and pending agreements state that breach of a separate international agreement—including TRIPS—does not establish a

360. For example, after some broad interpretations of this standard under NAFTA, the NAFTA Free Trade Commission issued an interpretation that aimed to clarify that the standard be linked to customary international law to cabin rulings. NAFTA Free Trade Comm’n, Notes of Interpretation of Certain Chapter 11 Provisions, ¶ B (July 31, 2001). However, this was of little utility since tribunals simply interpreted customary international law broadly. E.g., Patrick Dumberry, The Emergence of a Consistent Case Law: How NAFTA Tribunals Have Interpreted the Fair and Equitable Treatment Standard, KLUWER ARB. BLOG (Oct. 30, 2013), http://kluwerarbitrationblog.com/blog/2013/10/30/the-emergence-of-a-consistent-case-law-how-nafta-tribunals-have-interpreted-the-fair-and-equitable-treatment-standard/.
violation of the fair and equitable treatment standard. Notably, this clause also does not state that compliance with another international agreement will immunize state action from being subject to such claims. Thus, additional language is necessary.

This could be accomplished by including language defining what qualifies as fair and equitable treatment. Although some agreements limit the term to the minimum standard pursuant to customary international law, such limits have clearly been inadequate in cabining intrusive claims. Accordingly the term could be stated to never exist simply because the legal or business environment has changed. This would importantly be helpful not only for the intellectual property issues that this Article focuses on, but also for all investor-state claims that have resulted in undue encroachment on domestic regulatory authority. In addition, an investment chapter could mandate that fair and equitable treatment claims must be based on whether a party made a specific representation to induce investment that created a legitimate expectation. Furthermore, it could mandate that there is never a legitimate expectation that laws will remain frozen in time. This would go farther than the current EU proposal that suggests that tribunals may consider whether a country made a specific representation relied upon by the investor. In addition to requiring—rather than permitting—tribunals to consider specific representation, it may be important to define what constitutes such a representation. For example, Eli Lilly incorrectly believes that an intellectual property right granted by the state is a representation that the right can never be invalidated. Accordingly, it could be helpful to clarify that intellectual property rights issued by a nation are not representations of permanent validity.

IV. CONCLUSION

Eli Lilly’s case against Canada exposes important policy problems with permitting investors to use investor-state arbitrations to challenge domestic intellectual property decisions. Although a tribunal should deny Eli Lilly’s claims, investor-state tribunals often make broad and unpredictable rulings. Moreover, even if a panel rules properly, public health may still be compromised if other companies follow Eli Lilly’s lead in challenging other domestic decisions concerning intellectual property rights. Although some are wisely beginning to question the wisdom of creating more opportunities

361. Draft, TPP, Investment chapter, supra note 179, art. II.6: Minimum Standard of Treatment.
362. See EU COMM’N TRADE, supra note 352, ques. 3.
through additional agreements, this Article hopes to provide a roadmap for how to combat likely claims in the thousands of existing agreements, as well as how to cabin claims in any future agreements.