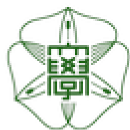

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INTELLECTUAL PROPERTY AND REGULATORY AUTONOMY

Lessons from Investment Protection Arbitrations

Meng LI

ABSTRACT

Recently, several national decisions or regulations have been challenged by intellectual property holders through international investment arbitrations. These challenges are based upon bilateral or multilateral investment protection treaties and involve expropriation claims with respect to intellectual property rights. In this way, significant tensions between the foreign investors' private interests in intellectual property protection and the states' regulatory autonomy emerge.

This Article examines current expropriation disputes. It analyzes the most recent arbitral award in the field of intellectual property protection, and points out what can be learned from the advantages and disadvantages of its findings for other ongoing disputes.

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INTRODUCTION

Recently, several national decisions or regulations have been challenged by foreign corporations. These cases involve expropriation claims with respect to intellectual property (hereinafter "IP"), and are based upon bilateral or multilateral investment protection treaties that entitle foreign investors to bring claims against host states before international arbitral tribunals. For instance, in 2010, the tobacco company Philip Morris brought a claim against Oriental Republic of Uruguay and argued that its trademark had been expropriated by Uruguay.[1] In 2011, Philip Morris Asia Limited brought an arbitration against Australia regarding Australia's plain packaging legislation and argued that the plain packaging legislation had restricted the enjoyment of its trademark and therefore the state's action constituted an expropriation.[2] More recently, in 2012, the American pharmaceutical giant Eli Lilly and Company challenged Canadian court decisions regarding invalidation of its patents and argued that Canada had directly or indirectly expropriated Eli Lilly's ex-

[1] *Philip Morris Brands Sàrl, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay*, ICSID Case No. ARB/10/7, Request for Arbitration, ¶9 (Jul. 8, 2016), http://www.italaw.com/sites/default/files/case-documents/italaw7417.pdf.

[2] *Philip Morris Asia Limited v. The Commonwealth of Australia*, UNCITRAL, PCA Case No. 2012-12, Written Notification of Claim by Philip Morris Asia Limited to the Commonwealth of Australia (Jul. 15, 2011), http://www.italaw.com/sites/default/files/case-documents/ita0664.pdf.

clusive patent rights conferred by its patents.[3]

International investment disputes are not only related to IP law but also other fields of law. Nowadays, international investment disputes between states and individuals have attracted extensive concern. The reason is that in international investment disputes foreign companies can challenge domestic decisions and regulations.

The number of international investment arbitrations has been increasing over the last few decades. While in 1982 investors only filed one dispute,[4] in 2012 fifty-eight new cases were initiated by investors against host states[5] and in 2015 seventy investor-state cases were filed.[6]

The outcomes of those arbitrations are diverse. From 444 cases of disputes between investors and states decided by 2015, 36% of cases were concluded in favor of host states and 26% of cases in favor of foreign companies. At the same time, 26% of cases were settled, 10% of cases were discontinued and 2% of cases were concluded that there was a breach but no damages were awarded.[7]

On the one hand, it is argued that investor-state arbitrations provide foreign investors with the possibility to bring claims directly against host states. Foreign investors regard investor-state arbitrations more reliable than national court systems of host states, especially in developing

[3] *Eli Lilly and Company v. The Government of Canada*, UNCITRAL, ICSID Case No. UNCT/14/2, Notice of Arbitration (Sep. 12, 2013), http://www.italaw.com/cases/1625 (last visited Jan. 9, 2017).

[4] *See*, *e.g.*, Cynthia M. Ho, *Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions*, 30 BERKELEY TECH. L.J. 213, 219 (2015).

[5] *See*, *e.g.*, U.N. Conference on Trade and Development (UNCTAD), *Recent Developments in Investor-State Dispute Settlement (ISDS): Updated for the Multilateral Dialogue on Investment*, IIA ISSUES NOTE, No. 1, at 1 (May 2013), http://unctad.org/en/PublicationsLibrary/webdiaepcb2013d3_en.pdf (last visited Jan. 9, 2017).

[6] *See*, *e.g.*, UNCTAD, *Investor-State Dispute Settlement: Review of Developments in 2015*, IIA ISSUES NOTE, No. 2, at 1 (June 2016), http://unctad.org/en/PublicationsLibrary/webdiaepcb2016d4_en.pdf (last visited Jan. 9, 2017).

[7] *See id*.

countries.[8]

On the other hand, some critics put forward that permitting foreign investors to challenge host states' decisions and regulations through investor-state disputes has a chilling effect on states' regulatory autonomy.[9] As James Billingsley observed, "[s]ome countries question the purported utility of resolving foreign investment disputes through investor-state arbitrations".[10]

As the international treaties, upon which those investor-state arbitrations are based, are designed to provide foreign investors with the protection of their investments against arbitral and discriminatory interferences by host states, the main issue in investment arbitrations tends to be whether states' action constitutes an act of expropriation. Expropriation covers a straight-out taking of investor's property as well as measures "tantamount" to such an act of taking.[11] A straight-out taking of investor's property is always regarded as "direct expropriation", which involves the transfer of title from the investor to the state.[12] Measures equal to expropriation are regarded as "indirect expropriation".[13] As nowadays there appear only a few cases of direct expropriation, most cases involve issues dealing with indirect expropriation.[14]

In the investment disputes, investors usually complain that a state's action in question constitutes an act of indirect expropriation and therefore the state should pay compensation for it. Conversely, states tend to argue that their actions are merely legitimate regulatory measures and thus no expropriation occurs at all. However, it is really hard to establish a clear borderline between measures considered as indirect expropriation

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[8] *See*, *e.g.*, James Billingsley, *Eli Lilly and Company v. the Government of Canada and the Perils of Investor-State Arbitration*, 20 APPEAL 27, 29 (2015).
[9] *See*, *e.g.*, Ho, *supra* note 4, at 219-25.
[10] *See* Billingsley, *supra* note 8, at 29.
[11] *See*, *e.g.*, August Reinisch, *Expropriation*, *in* THE OXFORD HANDBOOK OF INTERNATIONAL INVESTMENT LAW 420-21 (Peter Muchlinski et al. eds., 2008).
[12] *See*, *e.g.*, CAROLINE HENCKELS, PROPORTIONALITY AND DEFERENCE IN INVESTOR-STATE ARBITRATION: BALANCING INVESTMENT PROTECTION AND REGULATORY AUTONOMY 75 (2015).
[13] *See* Reinisch, *supra* note 11, at 420-21.
[14] *See* HENCKELS, *supra* note 12, at 75.

and those presenting legitimate regulatory measures.[15]

Some arbitral tribunals held that "legitimate regulatory measures are outside the scope of indirect expropriation."[16] Others do not deny possibility that legitimate regulatory measures can be regarded as indirect expropriation.[17] One commentator thus observed that "[i]nternational courts and tribunals have repeatedly stressed that property rights and investment protection may not serve as insurance against ordinary commercial risks".[18] Moreover, the *United Nations Commission on International Trade Law* (UNCITRAL) arbitral tribunal in *CME Czech Republic BV v. The Czech Republic*[19] and the *North American Free Trade Agreement* (hereinafter "NAFTA") arbitral tribunal in *Marvin Feldman v. Mexico*[20] endorsed the same opinion.[21]

In this Article, I will analyze the most recent arbitral award in the field of IP protection, where the tobacco company Philip Morris brought a claim against Oriental Republic of Uruguay by arguing that its trademarks have been expropriated by Uruguay.[22] Although I agree with the tribunal's conclusions on expropriation claims, I will inquire into the advantages and disadvantages of findings on expropriation claim in that arbitral award in order to identify drawbacks which should be avoided in

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15 *See* Reinisch, *supra* note 11, at 433.
16 *See id.* at 433.
17 *See id.*
18 *See, e.g.*, Reinisch, *supra* note 11, at 434; *see also*, *Sedco Inc. v National Iranian Oil Co.*, Iran-US Claims Tribunal (1985), the Tribunal suggested that, "investors in Iran, like investors in all other countries, have to assume a risk that the country might experience strikes, lockouts, disturbances, changes of the economic and political system and even revolution. That any of these risks materialized does not necessarily mean that property rights affected by such events can be deemed to have been taken. A revolution as such does not entitle investors to compensation under international law".
19 *CME Czech Republic B.V. v. The Czech Republic*, UNCITRAL, Partial Awards, ¶591 (Sep. 13, 2001), http://www.italaw.com/sites/default/files/case-documents/ita0178.pdf.
20 Marvin Feldman v. Mexico, ICSID Case No. ARB (AF)/99/1. Award, ¶112 (Dec. 16, 2002), https://www.gob.mx/cms/uploads/attachment/file/1588/laudo_ingles_Karpa.pdf.
21 *See* Reinisch, *supra* note 11, at 433.
22 *Philip Morris v. Uruguay*, award.

future arbitral awards. This Article will mainly focus on expropriation claim and will not deal with other claims usually raised together with expropriation claim, such as claims on violating non-discrimination and fair and equitable treatment provisions.[23]

The Article is divided into three sections. Section One outlines the IP-related challenges raised against tobacco plain packaging legislations and other national regulatory measures. Section Two examines the current state of interpreting the concept of expropriation in international investment law. Section Three then proceeds with scrutinizing the recent arbitral award delivered in *Philip Morris v. Uruguay*[24] on July 8, 2016. The analysis also focuses on possible implications of the International Centre for Settlement of Investment Disputes (ICSID) Tribunal's findings regarding expropriation claim for future IP-related disputes.

1. Tension Between IP Rights and Regulatory Autonomy

The early attempts to control the global tobacco epidemic followed after the introduction of tobacco to European Market.[25] In the late 17th century, the first European smoking restrictions were adopted in Bavaria, Kursachsen, and some parts of Austria.[26] In the 20th century, Richard Doll, a British physiologist, identified the link between the smoking and the lung cancer, which brought "tobacco control" back to attention after the World War II and marked the origins of modern tobacco control.[27]

In 2003, the *World Health Organization Framework Convention on Tobacco Control* (hereinafter "Framework Convention"), the first global public health treaty,[28] was proclaimed in Geneva in response to

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23 For more details on these types of claims, *see Philip Morris v. Uruguay*, award, ¶¶308 et seqq.
24 *Philip Morris v. Uruguay*, award.
25 *See, e.g.*, Tobacco Control, https://en.wikipedia.org/wiki/Tobacco_control (last visited Jan. 9, 2017).
26 *See* Tobacco Control, *supra* note 25.
27 *See, e.g.*, Richard Doll, https://en.wikipedia.org/wiki/Richard_Doll (last visited Jan. 9, 2017).
28 *See* WHO Framework Convention on Tobacco Control, http://www.who.int/

the world-wide use of tobacco products.[29] Currently, it has 180 parties in total.[30] Although trademarks are not mentioned in the Framework Convention, according to the *Guidelines for Implementation of Article 11 of the WHO Framework Convention on Tobacco Control*, the parties to the Framework Convention are required to adopt measures to "restrict or prohibit the use of logos, colors, brands images or promotional information on packaging other than brand names and product names displayed in standard color and font style."[31] Moreover, there is an international move to adopt plain packaging legislation restricting or prohibiting the use of logos.[32]

Therefore, trademarks are being caught up in the world-wide war against the globalization of the "tobacco epidemic".[33] Traditionally, trademarks served as means for identifying the product producer or service supplier. However, over the last hundred years several new functions of trademarks, such as guarantee of the quality of goods or services, communication, investment or advertising functions, have developed.[34] Nowadays, trademarks are therefore widely recognized as critical asset for corporations in global economy.

Most tobacco control legislations impose restrictions on colors, shape and finish of retail packaging for tobacco products.[35] In particular,

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fctc/about/en/ (last visited Jan. 9, 2017).

[29] *See*, *e.g.*, WHO Framework Convention on Tobacco Control, *opened for signature* Jun. 16, 2003, 2302 U.N.T.S. 166, http://apps.who.int/iris/bitstream/10665/42811/1/9241591013.pdf.

[30] *See* Parties to the WHO Framework Convention on Tobacco Control, http://www.who.int/fctc/signatories_parties/en/ (last visited Jan. 9, 2017).

[31] *See* WHO, *Guidelines for Implementation of Article 11 of the WHO Framework Convention on Tobacco Control* (Developing effective packaging and labelling of tobacco products), ¶46, http://www.who.int/fctc/guidelines/article_11.pdf?ua=1 (last visited Jan. 9, 2017).

[32] *See*, *e.g.*, Owen H. Dean, *Trademarks and Human Rights: The Issue of Plain Packaging*, *in* INTELLECTUAL PROPERTY LAW AND HUMAN RIGHTS 573 (Paul L.C. Torremans ed., 2015).

[33] *See* Dean, *supra* note 32, at 573.

[34] *See* Darren Meale & Joel Smith, *Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'Oréal and Intel*, JIPLP 5(2), 96 (2010).

[35] Australia has adopted the Tobacco Plain Packaging Act 2011 (the TPP Act). New Zealand, Ireland, the United Kingdom and Namibia are working on legisla-

plain packaging legislations prevent owners of tobacco trademarks from using color, shape, logo device marks or label marks on cigarettes packaging. Although it is internationally recognized that states possess regulatory autonomy to adopt measures necessary for protection of public health,[36] such plain packaging legislations can amount to significant prohibition of the use of trademarks that are not plain word marks.[37]

It is thus not surprising that the plain packaging measures have been challenged on national level[38] as well as through the Worth Trade Organization (WTO) dispute settlement system.[39] To protect their trademarks against infringements in a foreign country, the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (hereinafter "TRIPs") and other international IP treaties tend to be invoked by the trademark owners concerned. However, IP holders cannot directly invoke the protection under the TRIPs or other international IP treaties. In order to avoid this shortcoming, IP holders demand for protection of their investment, including trademarks, under bilateral or multilateral investment protection treaties via international investment arbitrations.[40]

The question then arises as to how private rights to hold intellectual property can be reconciled with states' regulatory autonomy. It is highly controversial whether states have autonomy to restrict certain uses of trademarks for the purpose of protecting public health. Some argue that the adoption of tobacco control measures can interfere with trademark rights. They even question whether any additional measures, such as plain packaging legislation, are necessary to be adopted in the name of

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tion to restrict the use of trademarks on the packaging of tobacco products.

36 *See*, *e.g.*, Resolution on the Permanent Sovereignty over Natural Resources, GA res. 1803 (XVII), U.N. Doc. A/52/7, 17 U.N.G.A.O.R., 15 (1962).

37 *See* Dean, *supra* note 32, at 575.

38 *See*, *e.g.*, *Philip Morris v. Australia*, award on jurisdiction and admissibility.

39 *See*, *e.g.*, Australia-Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, WTO Case No. WT/DS434/15, Communication from the Panel (Oct. 27, 2014), https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(@Symbol=%20wt/ds434/*)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#.

40 *See*, *e.g.*, Jeswald W. Salacuse & Nicholas P. Sullivan, *Do BITs Really Work? An Evaluation of Bilateral Investment Treaties and Their Grand Bargain*, 46:1 HARV. INT'L L.J. 67 (2005).

public health, when in most countries smoking in public places is already prohibited.

However, until recently, only a few cases involved claims that a state had expropriated investors' investment with respect to their IP. Accordingly, the analysis of recently emerged IP-related cases might give us hints on tensions between private interests in intellectual property protection and public interests in regulatory autonomy.

1.1. Philip Morris v. Uruguay

In February 2010, Philip Morris Products S.A. (Switzerland), together with Philip Morris Brands Sàrl (Switzerland) and the 100% subsidiary of Philip Morris Brands, Abal Hermanos S.A. (hereinafter "Abal"), brought a claim against Oriental Republic of Uruguay pursuant to Article 10 of *Agreement between the Swiss Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments* (hereinafter "Switzerland-Uruguay BIT"), and Article 36 of the *Convention on the Settlement of Investment Disputes between States and Nationals of Other States* (hereinafter "ICSID Convention").

The dispute between Philip Morris Products and Uruguay dealt with several tobacco-control measures regulating tobacco industry. The measures concerned included the single presentation requirement (hereinafter "SPR") and the 80/80 Regulation. The SPR precludes tobacco manufacturers from marketing more than one variant of cigarette per brand family. The 80/80 Regulation requires to increase in the size of graphic health warnings on cigarette packages.[41]

1.2. Claims

According to the claimants, the government's adoption of "challenged measures" resulted in a deprivation of claimants' intellectual property rights and thus constituted an act of expropriation.[42] The claimants' expropriation claim is based on Article 5 of the Switzerland-Uruguay BIT.

The claimants used the Marlboro, Fiesta, L&M, Philip Morris,

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[41] *Philip Morris v. Uruguay*, Award, ¶9.
[42] *Id.* ¶¶193-6

Casino and Premier trademarks to sell tobacco products in Uruguay.[43] They owned thirteen variants of those trademarks within six brand families.[44] Marlboro was claimants' most importance brand.[45] This brand consisted of Marlboro Fresh Mint, Marlboro Red, Marlboro Blue, and Marlboro Gold.[46] After the adoption of challenged measures, the claimants eliminated seven of their thirteen variants (including Marlboro Gold, Marlboro Blue, Marlboro Fresh Mint, Fiesta Blue, Fiesta 50/50, Philip Morris Blue, and Premier).

The claimants challenged these measures for the reason that the respondent breached its commitments to protect claimants' right to use their trademarks.[47] They complained that the SPR measure restricted the use of colors on tobacco packaging,[48] and the 80/80 Regulation significantly undermined the ability to use their trademarks.[49]

Conversely, according to the respondent, the state's interference with foreign investor's property was valid exercise of police power and thus its action could not be considered as expropriation. The respondent further put forward that the threshold of expropriation can be triggered only when the investor is deprived wholly of use, enjoyment or benefit of its investment.[50]

As to the claimants' trademark rights, the respondent argued the colors used on tobacco packaging have significant strength and meaning to customers.[51] Furthermore, the respondent alleged that firstly, the claimants did not own the trademarks, and secondly, Uruguay's trademark law only confers upon trademark owners the rights to exclude others from using their trademarks, but not the right to use their trademarks.[52]

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[43] *Id.* ¶ 65.
[44] *Id.* ¶144.
[45] *Id.* ¶72.
[46] *Id.*
[47] *Id.* ¶450.
[48] *Id.* ¶110.
[49] *Id.* ¶450.
[50] *Id.* ¶¶187-90.
[51] *Id.* ¶250.
[52] *Id.* ¶453.

1.3. Eli Lily and Company v. The Government of Canada

Another recent case dealing with expropriation of IP has emerged in the field of patent law. In 2012, Eli Lilly and Company brought a claim against the government of Canada based upon the NAFTA.[53]

Eli Lily and Company claims that the invalidation of its Strattera and Zyprexa patents constituted an act of direct or indirect expropriation.[54] Canada granted Eli Lilly the Zyprexa patent on April 24, 1991 and the Strattera patent on January 4, 1996.[55] However, in 2005 the Federal Court of Canada and the Federal Court of Appeal created a new judicial doctrine, the so-called "promise doctrine".[56] The promise doctrine requires that at the time of filing a drug patent application, the patent applicants are required to prove the utility of the drug in a certain degree.[57] Canada invalided the two patents based on the promise doctrine.[58]

To refute claimant's expropriation claim, the government of Canada argues that "in all but rare circumstances, a determination by a domestic court concerning the existence of a property right, including an intellectual property right, cannot amount to an expropriation at international law".[59]

Similarly to *Philip Morris v. Uruguay*, the regulatory power of the host state to regulate IP rights within its territory is debated by parties. Once such IP rights have been granted, foreign investors are protected under international investment law.[60] To constitute an exercise of state's regulatory power, the requirements provided under international investment law must be satisfied. It is worth to note that the claimant argues that the invalidation of its Strattera and Zyprexa patents constituted an

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[53] *Eli Lilly v. Canada*, Notice of Intent to Submit a Claim to Arbitration under NAFTA Chapter Eleven, ¶¶1 et seqq.
[54] *Eli Lilly v. Canada*, Notice of Arbitration, ¶75.
[55] *Id*. ¶¶25 et seqq.
[56] *Id*. ¶9.
[57] *Id*. ¶10.
[58] *Id*. ¶¶49 et seqq.
[59] *Eli Lilly v. Canada*, Government of Canada Statement of Defense, ¶107.
[60] *See*, *e.g*., LUKAS VANHONNAEKER, INTELLECTUAL PROPERTY RIGHTS AS FOREIGN DIRECT INVESTMENT FROM COLLISION TO COLLABORATION 70 (2015).

act of direct or indirect expropriation. Invalidation of the patents means that the property rights in question cease to exist.

In this case, Canada adopted a new doctrine which substantially modified its IP law under which the patent rights in question were granted. As a result, the patent rights could be and later were invalidated on this new ground. In such a scenario, it is "necessary to evaluate the conformity of the new legal regime with international law" and the investor's legitimate expectations.[61] This analysis must be undertaken on a case-by-case basis and must pay attention to whether the character of the measure under consideration was arbitrary or discriminatory and whether investors could have expected such a change in patent law.[62]

As *Eli Lilly v. Canada* is still pending, the following analysis will mainly focus on scrutinizing the arbitral award recently delivered in *Philip Morris v. Uruguay*. Nonetheless, before doing so, the current state of interpreting the concept of expropriation in international investment law is examined.

2. Expropriation in International Investment Law

Private investment is generally protected by international investment treaties. However, their protection is not unlimited since expropriation is allowed under specific circumstance.[63] To balance a state's sovereign rights of expropriation and an investor's interests, uncompensated direct and indirect expropriations are prohibited.[64] Expropriation usually involves a transfer of investor's investment to a state or to a third party.[65] It always appeared as straight-out taking of investor's property in the 20th century, such as "takings of foreign investments in developing

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[61] *See* VANHONNAEKER, *supra* note 60, at 72.
[62] *See, e.g.*, RUDOLF DOLZER & CHRISTOPH SCHREUER, PRINCIPLES OF INTERNATIONAL INVESTMENT LAW 105 (2d ed. 2008).
[63] See VANHONNAEKER, *supra* note 60, at 37.
[64] *See* HENCKELS, *supra* note 12, at 75.
[65] *See, e.g.*, CAMPBELL MCLACHLAN QC, LAURENCE SHORE & MATTHEW WEINIGER, INTERNATIONAL INVESTMENT ARBITRATION: SUBSTANTIAL PRINCIPLES 266 (2010).

countries in the course of decolonization process".[66] Such an outright taking is considered as direct expropriation.

The concept of expropriation is reasonably defined as follows: "[I]t is a governmental taking of property for which compensation is required. Actions 'short of direct possession of the assets may also fall within the category' of expropriation".[67] However, such definition makes it difficult to precisely confirm the situations covered by the concept.[68] Therefore, arbitral tribunals have to assess whether measures taken by states constitute expropriations. It is the lack of precise definition that creates the opportunities and possibilities for parties to dispute whether an expropriation has occurred.[69]

The definitions of expropriation in international investment treaties distinguish between direct and indirect expropriations. Direct expropriation is relatively easy to recognize. For instance, it occurs when "governmental authorities take over a mine or factory, depriving the investor of all meaningful benefits of ownership and control, or there has been a compulsory transfer of property rights".[70] Accordingly, direct expropriation involves transfer of title to a state or a third party.[71]

In recent years, investor-state investment disputes have mostly focused on indirect expropriation.[72] Indirect expropriation is usually described as "'de facto', 'creeping' expropriation, or measures 'tantamount to' or 'equivalent to' expropriation".[73] Some describe indirect expropriation as "measures that significantly affect the value of the investment or that result in the effective loss of the investor's enjoyment of or control over their property".[74] However, not every significant inter-

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66 *See id.*
67 *See id.* at 266.
68 *See* HENCKELS, *supra* note 12, at 75-6.
69 *See* MCLACHLAN ET AL., *supra* note 65, at 267.
70 *See id.* at 290.
71 *See* HENCKELS, *supra* note 12, at 75.
72 *See* DOLZER ET AL., *supra* note 62, at 101; *see also* Henckels, *supra* note 12, at 75.
73 *See* MCLACHLAN ET AL., *supra* note 65, at 292.
74 *See*, *e.g.*, JAMES CRAWFORD, BROWNLIE'S PRINCIPLES OF PUBLIC INTERNATIONAL LAW 621 (2012); *see also* HENCKELS, *supra* note 12, at 75.

ference with the investment of a foreign investor will always amount to an act of indirect expropriation.[75] It is internationally recognized that states are permitted to exercise their regulatory powers under certain circumstances without any liability even when such actions might significantly interfere with investment.[76] Therefore, any decision on indirect expropriation depends on specific circumstances of a regulatory measure in question.

In their examination of states' regulatory measures, arbitral tribunals first determine whether any indirect expropriation has actually occurred in a particular case. If the answer is positive, they examine whether the expropriation was legitimate.[77] For this purpose, international investment treaties stipulate when an act of expropriation is lawful. However, they provide little guidance on whether a state's action constitutes an expropriation.[78]

Consequently, several essential elements for identifying whether a state's action constitute an act of indirect expropriation are established by case law and further developed by scholars. They include intensity of interference with property rights, effect on investor, legality, transparency, and consistency, protection of investor's legitimate expectations, proportionality and discrimination.

Before examining these elements, it is important to clarify what kind of property is protected under investment treaties. The scope of protected rights has broadened over the time. It is therefore significant to make clear to what extent investor's property can be protected.

2.1. Scope of Protected Property

For deciding whether an act of expropriation has occurred, the question of how to identify a foreign investor's investment or property rights is inevitable. Investment treaties must clarify this issue. Unless the scope of protected property is clearly defined in a treaty, individuals will not be able to realize that they have lost any property right and any act of

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75 *See* HENCKELS, *supra* note 12, at 75.
76 *See* DOLZER ET AL., *supra* note 62, at 120-23; *see also* HENCKELS, *supra* note 12, at 75.
77 *Parkerings Compagniet v. Lithuania*, Award, ¶¶441-2.
78 *See* HENCKELS, *supra* note 12, at 75.

expropriation has occurred.[79] As commentators put it, "investment treaties have to some degree remedied this problem because many include detailed provisions defining the types of investment protected from expropriation."[80] At the same time, the same commentators point out that "[t]reaty provisions tend to go beyond the scope of property protected by customary international law".[81]

In the past, there were two common grounds for international protection against expropriation. One was "repudiation" of agreements, *i.e.* "repudiation or breach by the state of a contract with a national of another state".[82] The other common ground was "denial of justice", particularly in the pre-twentieth century era.[83]

Nowadays, it is undisputed that "contractual and quasi-contractual rights, as a subset of property protected by the law of expropriation, deserve special mention, particularly government-issued permits and contracts with government entities".[84] In the case of *Libyan American Oil Company (LIAMCO) v. The Libyan Arab Republic*, the tribunal treated concessions rights in the following way:

> Concession rights did constitute 'property', as it could be both corporeal and incorporeal, as long as those rights had a pecuniary or monetary value. The Tribunal held that the right of property, including incorporeal property of concession rights, was inviolable in principle, as recognized by both Libyan and international law.[85]

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[79] *See, e.g.*, ROSALYN HIGGINS, THE TAKING OF PROPERTY BY THE STATE: RECENT DEVELOPMENTS IN INTERNATIONAL LAW 267-78 (1982).

[80] *See, e.g.*, CHRISTOPHER DUGAN, DON WALLACE, NOAH RUBINS & BORZU SABAHI, INVESTOR-STATE ARBITRATION 439 (2011).

[81] *See id.*

[82] *See, e.g.*, LOUIS HENKIN, RESTATEMENT OF THE LAW, THIRD: FOREIGN RELATIONS LAW OF THE UNITED STATES 96 (1987).

[83] *See* DUGAN ET AL., *supra* note 80, at 431.

[84] *See* DUGAN ET AL., *supra* note 80, at 429.

[85] *See, e.g.*, Case summary: Libyan American Oil Company (LIAMCO) v. The Libyan Arab Republic, ¶5, at 4, http://www.biicl.org/files/3939_1977_liamco_v_libya.pdf (last visited Jan. 9, 2017).

In a more recent case, *CME Czech Republic B.V. v. The Czech Republic*, the tribunal found that “the expropriation by consent that the Czech Republic extorted from CNTS through its administrative proceedings is no more permissible under international law than the outright appropriation of an investment” and that the right to use a license constituted the legal basis.[86] Further, the tribunal emphasized that “investment assets of CME in the Czech Republic also plainly include CNTS’s tangible and intangible property-including […] intellectual property rights, such as its rights to air licensed programs”.[87]

Most of modern international investment treaties thus assign protection to every kind of asset. For instance, under *Agreement between the Government of Hong Kong and the Government of Australia for the Promotion and Protection in Investment*, Article 1(e) clearly defines the “investment” as every kind of assets including intellectual property rights.[88] According to Article 1(2) of the Switzerland-Uruguay BIT, the protected “investment” includes “every kind of assets and particularly copyrights, industrial property rights”.[89]

2.2. Approaches in Identifying the Existence of Expropriation

As mentioned above, investment treaties do not provide for specific guidance to identify whether a state’s action constitutes an expropriation.[90] The expropriation disputes represents tensions between two opposite interests—investor’s interests and state’s interests. In case law, we can find three directions of settling such disputes. Some tribunals have only focused on investor’s interests without taking into consideration the reasons of adopting a regulatory measure in question. This approach is known as the “sole effect doctrine”. Conversely, other tribunals have

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86 *CME Czech Republic B.V. v. The Czech Republic*, UNCITRAL, Partial Awards, ¶154 (Sep. 13, 2001), http://www.italaw.com/sites/default/files/case-documents/ita0178.pdf; *see also* DUGAN ET AL., *supra* note 80, at 440.

87 *CME v. Czech Republic*, Partial Awards, ¶147.

88 Agreement for the Promotion and Protection of Investments, H.K.-Austl., art. 6, Sep. 15, 1993, 1748 U.N.T.S. 385, https://www.tid.gov.hk/english/ita/ippa/files/01.IPPAAustraliae.pdf.

89 Agreement on the Reciprocal Promotion and Protection of Investments, Switz.-Uru., Oct. 7, 1988, 1976 U.N.T.S. 413, http://www.italaw.com/sites/default/files/laws/italaw6239.pdf.

90 *See* HENCKELS, *supra* note 12, at 75.

adopted the so-called "radical police power doctrine" which concentrates on the interest of host states without taking into account the impact of such regulatory measures. Recently, the third approach has emerged. It attempts to draw a proper and adequate line between the exercise of state's regulatory power and the protection of investor's property. It has been adopted by an increasing number of tribunals. This approach is called the "moderate police power doctrine".

2.2.1. The Sole Effect Doctrine

According to the sole effect doctrine,[91] the effect of a state's action is the central factor or even the sole factor in determining whether a state's regulatory measure constitutes an expropriation.[92] In other words, this approach regards that every significant interference with an investment amounts to an expropriation.[93]

In the cases of *Metalclad v. Mexico*,[94] *Marion Unglaube and Reinhard Unglaube v. Costa Rica*[95] and *BG v. Argentina*[96], the tribunals held that the consideration of the states' objective of regulatory measures was not required when determining whether an expropriation had taken place. They therefore regarded the effect of assessed measure on the investment as sole element.

This approach is criticized that the only factor for assessing a state's regulatory measure is its effect regardless of its purpose. For establishing expropriation no balance between the interests of investors and states is required by the approach.

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[91] *See*, *e.g.*, Ursula Kriebaum, *Regulatory Takings: Balancing the Interests of the Investor and the State*, 8.5 J. INV. & TRADE 717, 725 (2007), http://www.univie.ac.at/intlaw/kriebaum/pub_uk_12.pdf.

[92] *See*, *e.g.*, Rudolf Dolzer, *Indirect Expropriations: New developments?*, 11 N.Y.U. ENVTL L.J. 64, 79-80 (2002), http://heinonline.org/HOL/Page?handle=hein.journals/nyuev11&div=11&g_sent=1&collection=journals.

[93] *See* HENCKELS, *supra* note 12, at 75.

[94] *Metalclad Corporation v. The United Mexican States*, ICSID, Case No. ARB (AF)/97/1, Award (Aug. 30, 2000).

[95] *Marion Unglacube and Reinhard Unglaube v. Republic of Costa Rica*, ICSID Case No. ARB/08/1, ICSID Case No. ARB/09/20, Award (May 16, 2012).

[96] *BG Group Plc. v. The Republic of Argentina*, UNCITRAL, Final Award (Dec. 24, 2007).

2.2.2. The Radical Police Power Doctrine[97]

According to the radical police power doctrine, the decisive criterion is the action's public purpose. Under this doctrine, there is no expropriation when a state's action is adopted for public purpose.[98] This doctrine was applied in the *MethanexCorp. v. USA*[99] as well as *Saluka Investments BV v. Czech Republic*.[100] The lack of considering the consequences and degree of state's interference with foreign investments makes it quite difficult for foreign investors to bring arbitration against host states.[101]

However, this doctrine is also criticized. The reason is that in assessing an expropriation claim the existence of an expropriation should be considered first and then whether it was lawful should be further examined. Under the radical police power doctrine, the "non-discrimination", "public interest" and "due process" factors were used to determine the existence of an expropriation. However, these factors are originally used to determine whether an expropriation is lawful. Therefore, under this doctrine, the criteria used to determine the existence of an expropriation are the same as the criteria used to determine the lawfulness of an occurred expropriation.[102]

2.2.3. The Moderate Police Power Doctrine[103]

Pursuant to the moderate police power doctrine, the effect of state's interference, the purpose of the measure as well as the investor's legitimate expectations need to be taken into consideration for finding an

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97 *See*, *e.g.*, Kriebaum, *supra* note 91, at 725.
98 *See* HENCKELS, *supra* note 12, at 77.
99 *Methanex Corporation v. United States of America*, UNCITRAL, Final Award of The Tribunal on Jurisdiction and Merits (Aug. 3, 2005), Part IV-Chapter D-p4, http://www.italaw.com/sites/default/files/case-documents/ita0529.pdf.
100 *Saluka Investment BV (The Netherlands) v. The Czech Republic*, UNCITRAL, Partial Award (May 17, 2006), at 53, http://www.italaw.com/cases/documents/963.
101 *See* HENCKELS, *supra* note 12, at 77.
102 *See*, *e.g.*, Ben Mostafa, *The Sole Effects Doctrines, Police Powers and Indirect Expropriation under International Law*, 15 AUSTL. INT'L L.J. 267, 274 (2008), http://www.austlii.edu.au/au/journals/AUIntLawJl/2008/12.pdf; *see also* HENCKELS, *supra* note 12, at 77.
103 *See* Kriebaum, *supra* note 91, at 727-28.

expropriation.[104] In other words, both states' interests and investor's interests should be taken into account.[105]

Under the moderate police power doctrine, the proportionality test is required.[106] Recently, many investment arbitral tribunals have begun to emphasize the proportionality analysis when determining state's acts of indirect expropriation. For instance, in the case of *Tecnicas Medioambientales Tecmed S.A. v. The United Mexican States*, with reference to case law of the European Court of Human Rights (ECHR), the arbitral tribunal held that there must be a reasonable proportionality between the burden imposed on foreign investors and the aim sought to be realized though the adopted measures.[107] In the recent case of *Azurix Corp. v Argentine Republic*, the ICSID tribunal also sought guidance in the case law of the ECHR. It found that the proportionality analysis provides for helpful guidance of determining acts of indirect expropriation.[108] As August Reinisch put it forward, "although a proportionality analysis carried out in the context of expropriation is typical for the case-law of the ECHR, such a balancing approach may be regarded as inherent in the tests relied upon by many investment arbitral tribunals".[109] Generally, the proportionality test consist of four elements: (1) a legitimate end for a measure; (2) suitability of measure to achieve the end; (3) necessity; and (4) proportionality in narrow sense.[110]

While all the three abovementioned approaches have been applied by arbitral tribunals, the moderate police power doctrine seems to be the most suitable approach for assessing expropriation claims by arbitral

[104] *See id*.
[105] *See* HENCKELS, *supra* note 12, at 77.
[106] *See id*, at 78.
[107] *Tecnicas Medioambientales Tecmed S.A v. The United Mexican States*, ICSID Case No. Arb(AF)/00/2, Award, ¶122 (May 29, 2003), http://www.italaw.com/sites/default/files/case-documents/ita0854.pdf.
[108] *Azurix Corp. v. The Argentine Republic*, ICSID Case No. ARB/01/12, Award, ¶311 (Jul. 14, 2006), http://www.italaw.com/sites/default/files/case-documents/ita0061.pdf.
[109] *See* Reinisch, *supra* note 11, at 450.
[110] *See*, *e.g.*, MATTHIAS KLATT & MORITZ MEISTER, THE CONSTITUTIONAL STRUCTURE OF PROPORTIONALITY 7 (2012).

tribunals.[111] The sole effect and radical power police doctrines represent two extremes. They seem not to consider the complexity of investment operations and assess the existence of an expropriation on the basis of fewer criteria.[112] The moderate police power doctrine is thus much more flexible for tribunals when assessing an expropriation claim.

2.3. Typical Expropriation Clauses in Recent Bilateral Investment Treaties

The standards in determining the lawfulness of an expropriation have changed over time. Prior to World War II, the proper remedy for expropriation was considered to be nothing but full compensation.[113] By the 1950s, an opposite movement emerged.[114] Some states argued for the right to expropriate foreign-owned property without full compensation.[115] Starting from the 1980s, lots of important expropriation decisions were made by the Iran-U.S. Claims Tribunals.[116] Those tribunals dealt with expropriation from both the liability and compensation sides.[117]

Typical expropriation clauses, such as clauses in the Hong Kong-Australia bilateral investment treaty and Switzerland-Uruguay BIT, provide less autonomy compared to most recent treaties such as the *Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area*.[118] For instance, Article 6 of the Hong Kong-Australia bilateral investment treaty stipulates the requirements for constituting an expropriation, as follow:

> Investors of either Contracting party shall not be deprived of their investments nor subjected to measures having effect equivalent to such deprivation in the area of the other Contracting Party except

[111] *See* VANHONNAEKER, *supra* note 60, at 46.
[112] *See id.*
[113] *See* DUGAN ET AL., *supra* note 80, at 433.
[114] *See id.* at 435.
[115] *See id.*
[116] *See id.* at 437.
[117] *See id.*
[118] *See*, *e.g.*, Benn McGrady, *Implications of Ongoing Trade and Investment Disputes Concerning Tobacco: Philip Morris v. Uruguay*, *in* TANIA VOON, ANDREW D. MITCHELL & JONATHAN LIBERMAN, PUBLIC HEALTH AND PLAIN PACKAGING OF CIGARETTES: LEGAL ISSUES 182-85 (2012).

> under due process of law, for a public purpose related to the internal needs of that Party, on a non-discriminatory basis, and against compensation.[119]
> Accordingly, this provision sets up four following requirements: (1) a purpose for public interest; (2) due process of law; (3) non-discriminatory; and (4) compensation. These four requirements are common to many other international treaties, such as the clauses in the Switzerland-Uruguay BIT and NAFTA.[120]

3. Lessons from Philip Morris v. Uruguay

In *Philip Morris v. Uruguay* the tribunal dealt with expropriation claim in three steps. The tribunal started its inquiry with examining

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[119] Agreement between the Government of Hong Kong and the Government of Australia for the promotion and protection of Investments, Article 6, *available at* https://www.tid.gov.hk/english/ita/ippa/files/01.IPPAAustraliae.pdf (last visited 9 Jan. 2017).
[120] *See*, *e.g.*, Article 5.1 the Switzerland-Uruguay BIT:

> Neither of the Contracting Parties shall take, either directly or indirectly, measures of expropriation, nationalization or any other measure having the same nature or the same effect against investments belonging to investors of the other Contracting Party, unless the measures are taken for the public benefit as established by law, on a non-discriminatory basis, and under due process of law, and provided that provisions be made for effective and adequate compensation. The amount of compensation, interest included, shall be settled in the currency of the country of origin of the investment and paid without delay to the person entitled thereto.

Article 1110(1) the North American Free Trade Agreement (NAFTA):

> No Party may directly or indirectly nationalize or expropriate an investment of an investor of another Party in its territory or take a measure tantamount to nationalization or expropriation of such an investment ("expropriation"), except:
>
> (a) for a public purpose;
> (b) on a non-discriminatory basis;
> (c) in accordance with due process of law and Article 1105(1); and
> (d) on payment of compensation in accordance with paragraphs 2 through 6.

whether the claimants owned the banned trademarks. It then scrutinized whether a trademark confers the right to use or only the right to be protected against others. At the end, it inquired into whether the challenged measures expropriated the claimants' investment.

At the first step of inquiry, both parties disputed whether the claimants owned the banned trademarks. If the claimants had not owned the banned trademarks, there would have been no trademarks capable of being expropriated. Under Uruguayan trademark law, "once the application is submitted, no modifications will be allowed to the representation of the mark".[121] As reaction to the 2005 amendment, the claimants removed the prohibited descriptors from their tobacco packages and renamed their brands.[122] For instance, claimants changed "Marlboro Light" into "Marlboro Gold". The respondent therefore argued that the claimants did not own the altered trademarks, because they did not re-apply for those altered trademarks.[123] However, in the tribunal's view, even if the claimants failed to apply for new registrations as required by Article 13 of Uruguayan Trademark Act, there is no provision under the Uruguay trademark law denying protection to alternations of first registration. Therefore, the tribunal concluded that the altered trademarks continued to be protected under the Uruguay trademark law.[124]

After concluding that the trademarks continued to be protected under the domestic trademark law, the tribunal continued with the second issue. It examined whether a trademark confers the right to use or only the right to protect against use by others. The significance of this distinction is in clarifying whether the claimants owned a right capable of being expropriated. The tribunal viewed "the case as a question of an absolute versus exclusive right to use".[125]

However, the tribunal came to the conclusion that "absence of a right to use does not mean that trademark rights are not property rights under Uruguayan law."[126] In other words, regardless of whether trade-

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[121] *Philip Morris v. Uruguay*, Award, ¶236.
[122] *Id.* ¶241.
[123] *Id.* ¶¶236 et seqq.
[124] *Id.* ¶254.
[125] *Id.* ¶267.
[126] *Id.* ¶272.

marks confer the right to use, the trademark rights are protected as property rights under the Uruguayan law. The tribunal thus concluded that "the claimants had property rights regarding their trademarks capable of being expropriated"[127]. Hence, the tribunal refused a narrow construction of property rights which would cover only property rights to tangible objects.

Here, it is also important to take into consideration that in addition to legal dimension, trademarks still have commercial dimension.[128] As one commentator pointed out, "[a] brand comprises both of trademark itself and its commercial worth."[129] Legal protection of trademarks as commercial assets with considerable value is therefore essential.

Finally, the tribunal moved to the third issue. It scrutinized whether the challenged measures had expropriated the claimants' investment. The tribunal came to the conclusion that there was no expropriation. It based its decision on two supporting arguments. First, "as long as sufficient value remains after the challenged measures are implemented, there is no expropriation".[130] Second, regardless of that, the tribunal found that the challenged measures were proportionate and the adoption of the challenged measures by Uruguay was a valid exercise of the state's police power.[131] The following analysis will examine the strengths and drawbacks of both lines of argument.

3.1. No Substantial Deprivation

Regarding their expropriation claim, the claimants argued that the tribunal must "examine whether the investor was deprived, wholly or partially, of the use, enjoyment, or benefit of the investment".[132] To determine whether there occurred at least partial deprivation, they put forward that the threshold is whether an investor was substantially deprived of the value of its investment.[133] Even when the state takes the measures in question for public purpose, they argued that the expropriation must be

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127 *Id.* ¶274.
128 *See* Dean, *supra* note 32, at 558.
129 *See id.*
130 *Philip Morris v. Uruguay*, Award, ¶286.
131 *Id.* ¶287.
132 *Id.* ¶¶183 et seqq.
133 *Id.* ¶¶183 et seqq.

accompanied by adequate compensation pursuant to Article 5 of the Switzerland-Uruguay BIT.[134] A purpose for the public is only one of several prerequisites for a lawful expropriation.[135]

On the contrary, relying on the awards in *Archer Daniels Midland Company and Tate & Lyle Ingredients Americas, Inc. v. United Mexican States*,[136] *LG&E Energy Corp., et al. v. Argentine Republic*,[137] *CMS Gas Transmission Company v. Argentine Republic*,[138] and *Encana Corporation v. Republic of Ecuador*,[139] the respondent claimed that "if sufficiently positive value remains, there is no expropriation".[140]

The tribunal sided with the latter's position. While it stated that to establish an expropriation, the state's measures should amount to a "substantial deprivation" of the value, use or enjoyment of the investment,[141] it clearly pointed out that "as long as sufficient value remains […] there is no expropriation".[142] Accordingly, it held that "a limitation to 20% of the space available to such purpose could not have a substantial effect on the claimants' business",[143] and thus the 80/80 Regulation did not violated the BIT. Similarly, it found that "the effects of the SPR were far from depriving Abal of the value of its business or even causing a substantive deprivation of the value, use or enjoyment of the claimants' investment".[144]

The problem with the tribunal's approach is that it failed to ade-

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[134] *Id.* ¶184.
[135] *Id.* ¶¶184-6.
[136] *Archer Daniels Midland Company and Tate & Lyle Ingredients Americas, Inc. v. United Mexican States*, ICSID Case No. ARB (AF)/04/5, Award, ¶¶ 246 et seqq. (Nov. 21, 2007).
[137] *LG&E Energy Corp. et al. v. Argentine Republic*, ICSID Case No. ARB/02/1, Decision on Liability, ¶ 191 (Oct. 13, 2006).
[138] *CMS Gas Transmission Company v. Argentine Republic*, ICSID Case No. ARB/01/8, Award, ¶¶ 262-264 (May12, 2005).
[139] Encana Corporation v. Republic of Ecuador, UNCITRAL, Award (Feb. 3, 2006).
[140] *Philip Morris v. Uruguay*, Award, ¶190.
[141] *Id.* ¶192.
[142] *Id.* ¶286.
[143] *Id.* ¶276.
[144] *Id.* ¶284.

quately clarify the adopted standard for assessing the interference with investor's property interests. Moreover, the tribunal's analysis has several significant drawbacks and treats intangible property differently than tangible property.

While the tribunal acknowledged that lost profits can amount to an expropriation, it also set up high threshold for such expropriation, since in case of lost profits sufficient value of investment tends to remain. In practice, even when the entire profit is lost, sufficient value usually remains.

The drawbacks of this approach can be observed on the following three scenarios of state's interference with an investor's proprietary interests. For instance, a state plans to construct a railway line for public transportation and a foreign company owns three buildings along this line. In the first possible scenario, the company is deprived of all the three buildings. In the second scenario, only one or two of buildings are taken. In the third scenario, none of buildings is taken. Instead, the state sets up a maximum price for renting those buildings or even prohibits the company from renting the buildings to others. Applying the tribunal's approach to these scenarios can lead to completely different conclusions in the cases of tangible property and intangible property.

In the first scenario, the state deprives the company of all the three buildings. In other words, the investor is deprived of its entire investment by the host state's regulatory measures. Under this premise, no one can deny that there is a substantial deprivation regardless of being deprived of buildings or trademarks. Therefore, the taking of either tangible or intangible property usually amounts to an expropriation.

In the second scenario, the state takes of one or two of the investor's three buildings. In other words, the investor is deprived only partially of its investment. In the case of tangible property, the state's action amounts to an expropriation no matter how many of buildings were affected.

However, the conclusion might be considerably different when it comes to intangible property. The reason is that the tribunal refused to assess the impact of regulatory measures only on the claimants' affected trademarks, but examined the measures' impact on the claimants' entire

investment. Accordingly, it came to the conclusion that the deprivation of some trademarks did not amount to expropriation, since substantial value of investment remained.[145]

In the third scenario, the state does not deprive the investor of buildings themselves. Instead, the state sets up the maximum price for renting those buildings or even prohibits the company from renting the buildings to other persons. In other words, the investor is deprived of the ability to charge a premium price and thus lost profit from its investment. The point is that corporations could have made more profits by renting the buildings or renting the buildings for higher price to someone. In this scenario, the investor's investment would be even more profitable if the regulatory measure was not adopted.

This is exactly the case in *Philip Morris v. Uruguay*. In the case of tangible property, lost profit can amount to expropriation, if such taking constitute a substantial deprivation. For instance, in *Wena Hotel Ltd. v. Arab Republic of Egypt* case, where Egypt interfered with the use of the hotels, the tribunal held that "the seizure and illegally possessions of the hotels for nearly a year is more than an ephemeral interference in the use of that property or with the enjoyment of its benefits, thus the action of Egypt constitutes an expropriation."[146]

However, with regards to intangible property, the tribunal set up a "sufficient value remains" standard to measure whether there is a substantial deprivation. In the present case, the enjoyment or use of the claimant's trademark rights was limited by Uruguay. As mentioned above, in practice, it is thus almost impossible that lost profit related to intangible property can amount to an expropriation. Therefore, it seems that the protection of intangible property is weaker than that of tangible property and the tribunal did not provide for any justification for such distinction.

As shown above, the tribunal set up too high threshold for expropriation in case of intangible property by requiring that the remaining

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[145] *Id.* ¶283 et seqq.

[146] *Wena Hotels Ltd. v. Arab Republic of Egypt*, ICSID Case No. ARB/98/4, Award, ¶99 (Dec.8, 2000), http://www.italaw.com/sites/default/files/case-documents/ita0902.pdf.

value of entire investment must be less than sufficient. If entire loss of property is needed to establish an expropriation, the threshold is too stringent to protect foreign investor. Therefore, the future tribunal should be more cautious in using the approach adopted by the tribunal in the present case.

3.2. Proportionality

The tribunal used proportionality as additional supporting argument for finding that the regulatory measure in question did not amount to expropriation.[147] It therefore also dismissed claimants' expropriation claim on the reason that the challenged measures were proportionate and the adoption of the challenged measures by Uruguay was a valid exercise of the state's police power.

3.2.1. Tribunal's Finding

In the present case, the tribunal took both purpose and effect of the measures into consideration. In other words, it took the state's as well as the investors' interests into account.[148] Hence, the tribunal adopted the moderate police power doctrine, which requires the proportionality test.[149]

The doctrine permits uncompensated taking of property from a foreign investor. Accordingly, it is necessary to distinguish the exercise of police power, which does not require any compensation, from lawful expropriation. The reason is that even if a state's action is regarded as lawful expropriation, the payment of compensation is still required. On the contrary, if a state's action complies with the police power doctrine, no payment of compensation is required. As the tribunal put it, "[a] consistent trend in favor of differentiating the exercise of police powers from indirect expropriation emerged after 2000".[150]

The tribunal reiterated the requirements for a state's action during the exercise of regulatory power in the following way: "[A]mong those most commonly mentioned are that the action must be taken *bona fide*

147 *Philip Morris v. Uruguay*, Award, ¶287.
148 *Id.* ¶¶284 et seqq.
149 *See* HENCKELS, *supra* note 12, at 78.
150 *Philip Morris v. Uruguay*, Award, ¶295.

for the purpose of protecting the public welfare, must be non-discriminatory and proportionate".[151] The tribunal then found that both SPR and 80/80 Regulation satisfy these requirements.[152]

The tribunal based its findings also on the fact that the challenged measures adopted by Uruguay were based on obligations or recommendations under the Framework Convention. Some therefore argue that the tribunal's findings highlighted the importance of Framework Convention and confirmed that states need not submit any local evidence, because "it was sufficient that measures are an attempt to address a public health concern and taken in good faith."[153]

Moreover, the tribunal also relied upon reports which were presented by the respondent and confirmed the decline of tobacco prevalence in Uruguay after the enforcement of challenged measures.[154] In addition, these reports were submitted to a record. The record showed that Uruguay got support from the WHO, Pan American Health Organization and Mercosur Member States which demonstrated the decrease in smoking in Uruguay.[155] These facts were thus for the tribunal sufficient to prove that the challenged measures were proportionate.

3.2.2. Drawbacks of Tribunal's Approach

Although the approach adopted by the tribunal appears to set relatively reasonable requirements for exercise of states' regulatory power, there are several issues which need to be pointed out.

Firstly, the tribunal has not clearly explained what kind of test it applied. If the tribunal used proportionality test, it failed to clarify individual requirements of proportionality test and did not use this test as normal. As mentioned above, proportionality test requires a legitimate end for a measure, suitability, necessity and proportionality in narrow sense. However, the tribunal just concluded that challenged measures

151 *Id.* ¶305.
152 *Id.* ¶306.
153 *See*, *e.g.*, TobaccoFreeKids.org, *Philip Morris v. Uruguay: Findings from the International Arbitration Tribunal*, http://www.tobaccofreekids.org/content/press_office/2016/2016_07_12_uruguay_factsheet.pdf (last visited Jan. 9, 2017).
154 *Philip Morris v. Uruguay*, Award, ¶140.
155 *Id.* ¶141.

were proportional and referred to some local evidence to show that these measures are effective. Thus the question that will emerge is what kind of evidence is needed. Considering that measures which are effective in other countries might not work in Uruguay, should the evidence be local evidence or any evidence is enough?

Furthermore, to demonstrate that Uruguay's action did not constitute indirect expropriation, the tribunal held that the SPR and the 80/80 regulation were taken *bona fide* for public health, non-discriminatory and proportionate. The tribunal did not apply the necessity analysis which requires that "no other hypothetical exists that would be less harmful to the right in question while equally advancing the purpose."[156]

However, the way to employ the proportionality test without consideration of the necessity of the measures may be problematic. The proportionality test is used to limit a state's interference with investor's property. Without a determination that a challenged measure is necessary to achieve the objective, it could result in a consequence that a measure is lawful even if it is ineffective at achieving the objective. Accordingly, engaging in proportionality test without consideration of necessity will give tribunals "extremely broad discretion".[157]

Secondly, according to the concurring and dissenting opinion, arbitrator Gary Born expressed his agreement with the tribunal's findings on expropriation claim.[158] In other words, he agreed that there is no expropriation at all. As he stated as follows:

> The protection of consumers from misleading or deceptive marketing in order to safeguard the public health is within the scope of any government's regulatory powers. That conclusion is non-controversial and indisputable.[159]

He agreed with the finding on expropriation claim as well as the tribunal's adoption of the moderate police power which requires that the

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156 *See* AHARON BARAK, PROPORTIONALITY: CONSTITUTIONAL RIGHTS AND LIMITATIONS 317 (2012); *see also* HENCKELS, *supra* not 12, at 87.
157 See HENCKELS, *supra* note 12*,* at 107.
158 *Philip Morris v. Uruguay*, Concurring and Dissenting Opinion, ¶¶1 et seqq.
159 *Id.* ¶148.

adopted measures must be proportionate.

On the other hand, he dissented on the issue that the SPR measure is neither required nor contemplated by the Framework Convention and that considering the factual backgrounds and the evidence record, the SPR measure is "manifestly" arbitrary and disproportionate.[160] The statement that the measure is arbitrary and disproportionate contradicts his conclusion that the tribunal's approach is reasonable and there is no expropriation. It seems that the exercise of state's regulatory power can be disproportionate?

3.3. Problem of Forum Shopping

Disputes concerning tobacco regulation have also highlighted problem of forum shopping. In *Philip Morris v. Uruguay*, Philip Morris targeted a developing country where it expected to succeed in investment arbitration. It might be a wise choice for a large multinational corporation to bring investment or other international arbitration against a developing country rather than developed one. As *Philip Morris v. Uruguay* shows, international arbitrations tend to be quite expensive and not each developing country can afford to spend several millions of US dollars on defending its legitimate domestic regulation.[161] Accordingly, Philip Morris might have had confidence in winning the case against such country at the time of filing the arbitration. If it won the case, it would be able to use the case as precedent to seek for protection against similar regulatory measures under other multilateral or bilateral international treaties.

In addition, this was not the only time for Philip Morris to file arbitration against a host state. In 2011, Philip Morris Asia Limited brought an arbitration against Australia regarding Australia's enactment and enforcement of the *Tobacco Plain Packaging Act 2011* and the *Tobacco Plain Packaging Regulations 2011*.[162] Philip Morris Asia argued that the plain packaging legislation had restricted its enjoyment of its trademark and therefore the state's action constituted an expropriation under *Agreement between the Government of Hong Kong and the*

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[160] *Id,* ¶¶1 et seqq.
[161] *See*, *e.g.*, *Philip Morris v. Uruguay*, Award.
[162] *Philip Morris Asia Limited v. Australia*, Written Notification of Claim, http://www.italaw.com/sites/default/files/case-documents/ita0664.pdf (last visited Jan. 9, 2017).

Government of Australia for the Promotion and Protection of investment.[163]

However, Australia argued that the reason of why Philip Morris Asia invested in Australia was to bring arbitration against Australia to challenge the tobacco control legislation. This was supported by the fact that Philip Morris Asia initiated arbitration shortly after the commence of the investment in Australia. Therefore, Australia claimed that the claimant's claim amounted to an abuse of right.[164]

The tribunal in this case sent a clear message to such forum shopping practices. It found that Australia had expressed its intention to introduce the tobacco control legislation as early as in 2008[165] and therefore this dispute was considered foreseeable to Philip Morris Asia. The tribunal then concluded as follows:[166]

> The commencement of treaty based investor-state arbitration constitutes an abuse of right (or abuse of process) when an investor has changed its corporate structure to gain the protection of an investment treaty at a point in time where a dispute was foreseeable.

Consequently, the tribunal dismissed the claim on the ground that the tribunal lacked jurisdiction over the dispute.[167]

CONLUSION

The previous analysis showed that we can learn several lessons from currently ongoing investment arbitrations dealing with IP protection. Now, it is clear that IP rights are protected as investment under interna-

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163 *Philip Morris Asia Limited v. Australia*, Written Notification of Claim.
164 *Philip Morris Asia Limited v. Australia*, Award on Jurisdiction and Admissibility, p3, http://www.italaw.com/sites/default/files/case-documents/italaw7303_0.pdf (last visited Jan. 9, 2017).
165 *See id*.
166 *Philip Morris Asia Limited v. Australia*, Award on Jurisdiction and Admissibility.
167 *See id.*

tional investment treaties. Therefore, national regulatory measures affecting the IP rights and the level of their protection can be challenged under international investment treaties.

Most importantly, this case confers that states have the right to regulate, but the right is not unlimited. The adopted measures must be non-discriminatory, proportionate and taken for public purpose. However, the tribunal failed to clarify the criteria of the proportionality test. Thus the proportionality test needs to be further discussed in future cases. Furthermore, the tribunal set up a too high threshold for expropriation in case of intangible property without any justification, future tribunals should be more cautious in using this approach.