

International report - The TPP battle begins

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After years of negotiations, the Trans-Pacific Partnership (TPP) – a 12-nation Pacific Rim trade agreement – has been submitted to Congress for approval. A sustained fight over ratification is expected, with opposition from groups in both political parties. Central to the dispute are TPP provisions that arguably weaken IP protection. In particular, opponents point to the investor-state dispute settlement (ISDS) provisions, which will allow foreign investors to bring action directly against the United States in international tribunals.

ISDS rights and procedures are covered by Chapter 9 of the TPP. Chapter 9 defines the term 'investment' broadly, and explicitly includes "intellectual property rights". Section A of the chapter describes the various obligations of the state with respect to investors from another state that is a TPP party (ie, foreign investors). These obligations include the following:

- National treatment – treatment no less favourable than that accorded to domestic inventors (Article 9.4).
- Most-favoured-nation treatment – treatment no less favourable than that accorded to investors of any other country (Article 9.5).
- Minimum standard of treatment – treatment in accordance with applicable customary international law principles, including fair and equitable treatment and full protection and security (Article 9.6).
- Expropriation – no nationalisation or expropriation, directly or indirectly, of a covered investment except for a public purpose, in a non-discriminatory manner and in accordance with due process of law, on payment of prompt, adequate and effective compensation (Article 9.7).

Section B of Chapter 9 establishes the ISDS procedures. A foreign investor initially seeks to resolve an investment dispute with a state by submitting a written request for consultations. Investment disputes include breach of one of the state's obligations under Section A, or

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breach of an investment authorisation or agreement. If the dispute is not resolved within six months, the claimant – on its own behalf or on behalf of an enterprise that the foreign investor owns or controls, directly or indirectly – may bring a claim for loss or damage by reason of or arising out of the alleged breach. The dispute is heard before an arbitration panel with three private arbitrators: one selected by each disputed party and the third appointed by agreement of the parties. The tribunal decides the issues in accordance with the TPP and applicable international law, and can award monetary damages and applicable interest or the restitution of property, in which case the award shall also provide that the state may pay monetary damages and interest in lieu of restitution.

Opponents point out that the ISDS proceedings can serve as a means for a foreign investor to attack an adverse agency or court action involving its intellectual property, including the invalidation of or refusal to grant an IP right. For example, Eli Lilly used a similar ISDS system under the North American Free Trade Agreement to bring expropriation claims against Canada for invalidations of two Eli Lilly patents for new uses of known medicines.

The US trade representative has attempted to deflect criticism by pointing to an exclusionary clause in Article 9.7(5):

"This Article shall not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the [Agreement on Trade-Related Aspects of IP Rights (TRIPs)], or to the revocation, limitation or creation of intellectual property rights, to the extent that the issuance, revocation, limitation or creation is consistent with Chapter 18 (Intellectual Property and [TRIPs])."

However, this provision is unlikely to be effective. In addition to being limited to expropriation claims under Article 9.7, the decision as to whether issuance, revocation, limitation or creation of intellectual property is consistent or inconsistent is made by the same arbitration tribunal that will decide the merits of the claim. If brought as an objection by the state that the claim submitted is not a claim for which an award in favour of the claimant may be made, the tribunal is directed to assume that the claimant's factual allegations in support of its claim are assumed to be true.

Moreover, there is no independent review of the substance of a tribunal decision on the merits. While a proposed decision or award may be sent to the parties for written comment, it is the tribunal that considers any comments before issuing its final decision or award. Although a party can seek revision or annulment of a final award under applicable

arbitration rules (eg, the International Centre for Settlement of Investment Disputes Convention), these requests go to the tribunal itself or are based on procedural aspects of the arbitration.

The US government has had a good record defending ISDS cases brought in relation to other investment-related treaties and does not appear to be worried about a possible increase in ISDS cases due to the TPP. Moreover, US-based private investors can make equal use of the ISDS provisions when investing in countries with arguably weaker IP protection.

The full text of the TPP is available at ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text.

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