
**INTELLECTUAL PROPERTY IN INVESTMENT AGREEMENTS: THE TRIPS-PLUS
IMPLICATIONS FOR DEVELOPING COUNTRIES**

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EXECUTIVE SUMMARY

In an era characterised by the proliferation of forums for norm-setting in intellectual property (IP) and a growing understanding by developing countries of the implications of IP rules on their socio-economic and cultural development, the North-South investment agreements are increasingly being used as additional and/or alternative route for enhancing and expanding the protection and enforcement of IP. The investment agreements are being used to protect and enforce IP by including IP rights, licenses and intangible property in the definition of 'investment' and 'royalty' payments related to the use of IP in the definition of 'return'. In this context, investment agreements are being employed to promote stringent IP protection and enforcement, to sustain the expansion of the scope of coverage of IP and to undermine the flexibilities available to developing countries under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and other international IP agreements.

In order for developing countries to take appropriate action, it is imperative to examine the trends of IP protection under the investment agreements to identify the implications for the multilateral processes of norm-setting in IP, dispute settlement and determination of the applicable law, protection of biodiversity, traditional knowledge and folklore, implementation of policies for technology transfer, education, public health, public moral and other policies for sustainable development.

In this analytical note we examine, in particular, the implication of the emerging approaches relating to the fair and equitable treatment and the national and most-favoured nation (MFN) treatment in investment agreements for the overall regimes for the protection and enforcement of IP in developing countries. Based on fairly extensive desktop research, the Analytical Note arrives at the following major findings and recommendations:

Summary of the Major Findings

- The bilateral investment agreements (BITs) and Investment chapters of free trade agreements (FTAs) protect IP by including IP, licenses and intangible property in the definition of 'investment' and 'royalty' payments related to the use of IP in the definition of 'return;'
- There is a conscious and increased use of investment agreements by developed countries to undermine the provisions of the TRIPS that provide exceptions and flexibilities for developing countries and to circumvent the resistance by these countries at multilateral forums;
- It is doubtful whether there is a substantial causal relationship between the existence of an investment agreement and the flow of investments to developing countries;
- The extension of the fair and equitable standard treatment to IP of covered investment is a major TRIPS-plus aspect of investment agreements;

- The kind of proprietary interest of investors protected under investment agreements is broader than the proprietary rights of IP holders recognised under TRIPS and hence, expanded national and MFN treatment is provided for IP of investors;
- Even where investment agreements attempt to accommodate the exceptions and flexibilities of the multilateral IP instruments, the legality of measures against IP of investors could be open for challenge under the investment dispute settlement mechanisms. Furthermore, disputes on the grounds of the fair and equitable standard of treatment or the expanded interpretation of international minimum standards as applied to IP of covered investment could be ground for investment disputes.

Policy Recommendations

- Developing countries should not sign BITs, and investment chapters of FTAs except where there is a demonstrable long-term benefit for them. Since there is no clear evidence of a causal relationship between the existence of investment agreements generally or those with strong protection of IP with the levels of investment flows to developing countries, they should reconsider the reasons for signing investment agreements which have significant implications with respect to the protection and enforcement of foreign IP rights.
- Where developing countries decide to enter into BITs, protection and enforcement of IP should be excluded from application of these agreements and the definition of investment should be subject to national laws and regulations, thereby limiting the IP of investors to the extent recognised under the domestic laws;
- The investment agreements should clearly stipulate that the protection and enforcement of IP shall not exceed what is required under the TRIPS Agreement and/or other multilateral agreements to which the parties are signatories except where there is clear evidence that the overall economic and social benefit to the developing country of any new rules would exceed the costs;
- An explicit clause is also required to prevent resort to the investor-to-state dispute settlement mechanism on disputes arising from the protection and enforcement of IP of covered investment, and implementation of 'waivers,' exceptions and flexibilities under multilateral IP agreements.

I. INTRODUCTION

1. In an era characterised by the proliferation of forums for norm-setting in intellectual property (IP) coupled with a growing understanding by developing countries of the implications of IP rules on their socio-economic and cultural development, the North-South investment agreements are increasingly being used as additional and/or alternative route for enhancing and expanding the protection and enforcement of IP. The investment agreements protect IP by including intellectual property rights, licenses and intangible property in the definition of 'investment' and 'royalty' payments related to the use of IP in the definition of 'return'. As a result, the investment agreements are increasingly being employed to promote stringent IP protection and enforcement, to sustain the expansion of the scope of coverage of IP and to undermine the flexibilities available to developing countries under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and other international IP agreements.

2. It is, therefore, imperative to examine the trends of IP protection under the investment agreements. Particularly, investment agreements should be examined to identify the implications for the multilateral process of norm-setting in IP, treatment of IP, dispute settlement and determination of the applicable law, protection of biodiversity, traditional knowledge and folklore, implementation of policies for technology transfer, education, public health, public moral and other policies for sustainable development.

3. This analytical note examines, in particular, the implication of the emerging approaches relating to the fair and equitable treatment and the national and most-favoured nation (MFN) treatment in investment agreements for the overall regimes for the protection and enforcement of IP in developing countries. The examination is limited to BITs and investment chapters of FTAs (investment agreements, hereinafter). In this regard, Section II examines the trends and policies of developed countries particularly the United States (U.S.), Canada, Japan, Australia, the European Union (EU) and other developed country forums, as well as the approach of developing countries towards IP protection in investment agreements. Section III then evaluates, in detail, the investment agreements with respect to the fair and equitable, most-favoured-nation and national treatment standards of investment and their implications for the obligations of developing countries with respect to the protection and enforcement of IP.

4. The research in the Analytical Note is based on the extensive literature and the provisions of the BITs and FTAs available online, in number of websites including UNCTAD,¹ Office of the U.S. Trade Representative, and treaty databases of the ministry of foreign affairs of different countries. Examination of multilateral instruments is also made by reference to treaties administered by World Bank, WTO²,

¹ See: United Nation Conference on Trade and Development (UNCTAD), www.unctad.org.

² See: World Trade Organisation, www.wto.org.

WIPO³ and OECD.⁴ Analyses of trends and policy of developed countries are made based on documents, submissions, and reports by the governments and other documents and studies of the OECD as well as reports of intergovernmental meetings.

II. THE USE OF INVESTMENT AGREEMENTS TO PROMOTE A TRIPS-PLUS REGIME

5. Bilateralism for the promotion of trade and investment is not a new phenomenon that can be ascribed to the 20th century alone.⁵ The earlier bilateral agreements, however, were developed in the absence of multilateral forums for trade, investment and IP negotiation. As a result, their particular features may not help to analyse the present trend.

6. The first BIT signed between Germany and Pakistan expanded the international interpretation of property to include patents and technical knowledge.⁶ This was followed with an expanded definition under the first BIT of the U.S. signed with Panama in 1982.⁷ The interface between investment and IP was also the subject of discussion during the negotiation of the failed Multilateral Agreement on Investment (MAI) where no agreement was reached on the link of the MAI and multilateral IP instruments.⁸

7. The most aggressive move in using bilateralism in the promotion of the IP-investment link was the expansion of the trade review process of the U.S. to specifically include IP protection under Special Section 301 of the Trade Act in 1988. The review was designed to enhance the ability of the U.S. to negotiate improvements in foreign IP regimes.⁹ The Fact Sheet on U.S. Bilateral Investment Treaty Program for the year 2000 states that:

The U.S. Government also believes that adequate and effective protection for IP is an essential element of an attractive investment climate. Consequently, prospective BIT partners are generally expected, at the time the BIT is signed,

³ See: World Intellectual Property Organisation, www.wipo.int .

⁴ See: Organisation for Economic Co-operation and Development, www.oecd.org .

⁵ Okediji, Ruth L, (2004), "Back to Bilateralism? Pendulum Swings in International Intellectual Property Protection," *University of Ottawa Law and Economics Journal*, 2003-2004 Volume 1: 1-2, available at [http://web5.uottawa.ca/techlaw/resc/UOLTJ_1.1&2.doc%206\(Okediji\).pdf](http://web5.uottawa.ca/techlaw/resc/UOLTJ_1.1&2.doc%206(Okediji).pdf), last visited on December 16 2004, pp. 131-132.

⁶ See: UNCTAD, Investment Instruments online, Pakistan and Germany, Treaty for the Promotion and Protection Investments (with protocol and exchange of notes), Bonn, 1959, Article 8 (1) (a). All the Bilateral Investment Treaties sited here are available at <http://www.unctadxi.org/templates/DocSearch.aspx?id=779> . (References to BITs hereinafter are abbreviated as 'Name of a country-Name of a country, BIT (year)')."

⁷ US-Panama BIT (1982), Article I (d) (iv).

⁸ OECD (2004), "Relationship between International Investment Agreements," (May 2004), *Working Papers on International Investment*, Number 2004/1, available at <http://www.oecd.org/dataoecd/8/43/31784519.pdf>, p. 21

⁹ Drahos, Peter, "Developing Countries and International Intellectual Property Standard Setting," *Commission on Intellectual Property Rights*, Study Paper 8, available at, http://www.iprcommission.org/papers/pdfs/study_papers/sp8_drahos_study.pdf , visited on December 16, 2004, pp. 10.

to make a commitment to implement all World Trade Organization (WTO) Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement obligations within a reasonable period of time.¹⁰

8. The alternative strategy to concluding BITs, which are seen as coercive and one-sided, is the use of FTAs, where developing countries may feel that they have obtained concessions and benefits during negotiations.¹¹ It could be argued that the strategy of using bilateral mechanisms to promote the protection and enforcement of IP has been implemented to undermine the provision of the TRIPS Agreement that provide for a certain level of exceptions from the general principles and flexibilities of implementation for least developed and developing countries. In addition, the strategy is used to expand the coverage of IP to fields that are not covered or sufficiently covered by international instruments, and other non-patentable intangibles, including know-how, trade secret and other confidential information.

9. Moreover, the strategy is used to overcome resistance and proposals by developing countries that are seen as undermining the TRIPS Agreement or thwarting efforts for further strengthening of the TRIPS.¹² One author traces the move towards FTAs in the behaviour of the U.S. pharmaceutical industry that pressed for bilateral and regional free trade negotiations as the mechanism to bring about changes and influence the development and implementation of domestic laws and regulations to utilise TRIPS flexibilities.¹³

II.1. Recent Policies and Trends on the use of Investment Agreements to Promote a TRIPS-Plus Regime by Industrialised Countries

A. United States

10. The U.S. 2004 Special 301 Report outlined the role that the improvement of IP regime plays in the expansion of trade and investment opportunities for the U.S. firms.¹⁴ Moreover, the 2004 Trade Barriers report appears to make the assertion that the U.S. investors are more protected under the investment chapter of CAFTA than by the BITs entered with member states.¹⁵

¹⁰ States Department of the United States of America, "U.S. Bilateral Investment Treaty Program," *Fact Sheet*, Released by the Office of Investment Affairs (IFD/OIA), available at <http://www.state.gov/www/issues/economic/7treaty.html>, visited on December 16, 2004.

¹¹ Okediji (2004), *op. cite.* 5, p.139.

¹² *Op. cite.*, p.141.

¹³ See: Abbott, Fredrick, "Towards a New Era of Objective Assessment in the Field of TRIPS and Variable geometry for the preservation of Multilateralism," 2005, *Journal of international Economic Law* 8 (1), p. 87-88.

¹⁴ USTR (2004), 2004 Special 301 Report, available at, http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_Special_301/asset_upload_file16_5995.pdf, visited on December 16, 2004, p. 15.

¹⁵ See pages 106, 116, 135, 201, 349 of the 2004 Trade Barriers report available at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_National_Trade_Estimate/2004_NTE_Report/asset_upload_file231_4191.pdf, last visited on December 16, 2004.

11. The 2004 model BIT¹⁶ of the U.S. and the investment chapters of recently negotiated FTAs follow the tradition of including IP, intangibles and licenses under the definition of investment. The agreements, however, exclude TRIPS compliant compulsory license as a form of expropriation and performance requirements. In this regard, restriction on performance requirements are not applicable when a party authorise use of an IP with respect to addressing anti-competitive practices, for public non-commercial use, or in cases of national emergency, or circumstances of extreme urgency, in accordance with provisions of the intellectual property chapter and Article 31 the TRIPS Agreement. Disclosure of proprietary information that fall within the scope of, and are consistent with Article 39 of the TRIPS Agreement, are also similarly exempted from restrictions of performance requirements.¹⁷ Article 7 of the model, however, obliges each party to permit the transfer of 'royalty' and proceeds of sale.

12. Under the U.S.-Chile FTA, CAFTA and U.S.-Morocco FTA, footnotes are provided stating that the reference to Article 31 of the TRIPs agreement includes footnotes 7 to Article 31,¹⁸ and to any waiver in force between the parties granted in accordance with the WTO Agreement.¹⁹ The U.S.-Australian FTA includes Agreed Principles which provided for the importance of research and development in the pharmaceutical industry and of appropriate government support, including through IP protection and other policies.²⁰ In general, there is therefore an increasing use by the U.S. of FTAs to promote the IP-investment link.

B. Canada, Japan and Australia

13. The Canadian model BIT of 2003 provides the traditional reference to IP as part of investment.²¹ It also provides for exemption from national treatment and MFN treatment in accordance with the commitments of the parties under the WTO rules and general exception for human life and health as well as specific exception for the use of compulsory licence not to form expropriation in as far as the measure is consistent with the WTO rules. The model also provides an obligation to permit all

¹⁶ The U.S. develops model bilateral investment treaty (Model BIT, hereinafter) that are used as negotiation proposal of the U.S. to counter part states. The 2004 model replaced the 1994 model that was used as a negotiating text following the adoption of TRIPS. See: USTR, 'The 2004 U.S. Model Bilateral Investment Treaty (BIT),' available at, http://www.ustr.gov/Trade_Sectors/Investment/Model_BIT/Section_Index.html, last visited on December 16, 2004.

¹⁷ *Op cite.*, Article 1 and Article 1, "investment," 6(3) (b) & (5). See, further, the United States-Morocco Free Trade Agreement (2004), Investment Chapter 10, Article 10.6 (5), 10.8(3)(b), Section C, (hereinafter FTAs are cited as 'the Name of the country-the name of the country (year)', all U.S. FTAs are available at http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html), visited on December 16, 2004.

¹⁸ United States- Chile FTA (2003), Investment Chapter Article 10.5 (3) (b).

¹⁹ U.S.-Morocco FTA (2004), Article 10.8(3) (b).

²⁰ The United States-Australia FTA (2004), Chapter 2, Annex 2-C, 1.

²¹ DFA, International Trade of Canada (2003), Model Bilateral Investment Agreement of Canada , Agreement Canada and _____ For the Promotion and Protection of Investment, available at <http://www.naftaclaims.com/Papers/Canada%20Model%20BIT.pdf>, visited on December 6, 2004, Article 1, 9(4), 10 (1) and 13(5).

transfers relating to an investment, including royalty.²² The Canada-Chile FTA, however, specifically refers to TRIPS consistency of any measure, unlike the model Agreement that refers to WTO rules in general.²³

14. The Japanese Business Federation (Nippon Keidanren) conducted *Questionnaire Survey on Investment* in which the Japanese business community pointed out as key point that BITs should not only cover FDI, but also IP among others and the definition of investment should go beyond foreign direct investment to include IP.²⁴ Accordingly, the Business Federation developed model BIT that the Japanese government should follow, including IP in the definition of Investment.²⁵

15. In similar manner, the BITs between Japan and Vietnam and Republic of Korea included IP and the amount yielded by investment which include royalty and intangible property as investment and required TRIPS consistent measures on the transfer of IP. The Japan-Vietnam BIT specifically provided that its provisions should not be construed so as to derogate from the rights and obligations under multilateral agreements in respect of protection of IP. The obligation of the state which is party to a multilateral agreement on IP protection is restricted where the other contracting party is not member of the same multilateral agreement. In the latter case, the agreement provides for consultation procedure.²⁶ The Japan-Singapore Agreement for the New Age Economic Relationship provides that the national treatment provision of the investment section shall apply only to the extent as provided in the TRIPS.²⁷

16. Most of the BITs signed by Australia have specifically indicated in a more consistent manner that investment includes IP, and 'returns' include payment in connection with IP among others and those activities of the investor associated with the investment (associated activities) includes all juridical acts in relation to IP.²⁸ The Australian BITs with India, Peru and Hong Kong, however, omits specific language on payments in connection with IP to form 'returns' subject to repatriation guarantee.

C. The European Union

17. The investment provisions of the EU Economic Association Agreements (EAAs), FTAs and Economic Partnership Agreements (EPAs) are not as detailed as those found in BITs, since the member states have not given the European

²² *op. cite.*, Article 14.

²³ Canada-Chile FTA (1996), Chapter G-10 (7). The definition of investment does not specifically include intellectual property, though a reference is made to intangible properties (all Canadian FTAs available at <http://www.dfait-maeci.gc.ca/tna-nac/reg-en.asp>).

²⁴ Nippon Keidanren, "Towards the Creation of Investment Rules and Improvement of Japanese Investment Environment," Annex 3, available at <http://www.keidanren.or.jp/english/policy/2002/042/annex3.html>, Questioner visited on 02/12/2004.

²⁵ Nippon Keidanren, Model Bilateral Investment Agreement, Annex 2, available at <http://www.keidanren.or.jp/english/policy/2002/042/annex2.html>, last visited on 02/12/2004.

²⁶ Japan-Vietnam BIT(2003), Article 18., Japan-Republic of Korea BIT (2002).

²⁷ MOFA (2002), Agreement Between Japan and the Republic of Singapore For a New-Age Economic Partnership, available at <http://www.mofa.go.jp/policy/economy/fta/>, visited on December 16, 2004, Article 86.

²⁸ See, for example, UNCTAD, Australia-Pakistan BIT, 1998, Article 1.

Commission substantial competence to deal with investment.²⁹ The EAA, FTAs and EPAs provide for both protection and promotion of investment and, to some extent liberalization of investment in the services sector. Investment is largely described in terms of ‘company’ and economic activities and not in terms of asset.³⁰ A reference is usually made to the BITs of the Member States of the EU and the country negotiating for EAA, FTAs and EPAs.³¹

18. The earlier BITs by Europeans are largely focused on protection and standards of treatment, as opposed to investment promotion, and liberalization.³² IP forms part of the definition of investment in the agreements, but without any further additional provisions specifically referring to IP. This is also followed in the recent models of BITs of EU Member states.³³ The EU also has employed a review mechanism under the Trade Barriers Regulation with similar role with that of the annual review of the U.S. Trade Representatives (under the Special 301 provision of the Trade act) to cover IP.

D. Other Developed Countries Policy Forums

19. Other policy forums of the developed countries have also continued to analyse IP in the context of investment standards and investment rules. The OECD, in particular, in its work of Investment Compact, under the Stability Compact (South East Europe Compact for Reform, Investment, Integrity and Growth), reviewed, in 2003, the national treatment standards of the South East European countries with full consideration of their coverage of IP in the scope of investment.³⁴

II.2. Developing Countries’ Approach to IP Protection and Enforcement in Investment Agreements

20. The BITs among developing countries are not substantively different in their inclusion of IP as investment from the models of the developed countries. However, there is a particular emphasis under; for example, the Chinese and Chilean model, on

²⁹Szepesi, S. (2004), “Comparing EU Free Trade Agreements: Investment,” *ECDPM InBrief 6D.*, Maastricht ECDPM, available at http://www.ecdpm.org/Web_ECDPM/Web/Content/Navigation.nsf/index.htm, last visited on 10 December 2004.

³⁰*Op. cite.*

³¹*Op. cite.*

³²Walter, Andrew (DR.) (2000), “British Investment Treaties in South Asia: Current Status and Future Trends,” *Report prepared for the International Development Centre of Japan*, p. 3.

³³UNCTAD (2000), “Agreement on Encouragement and Reciprocal Protection of Investment Between _____ and the Kingdom of the Netherlands,” *International Investment Instruments: A Compendium*, Vol. V, United Nations, New York and Geneva, p. 317, available at http://www.unctad.org/en/docs/dite2vol5_en.pdf, visited on December 17, 2004, UNCTAD (2002), Agreement Between the Government of the Hellenic Republic and the Government of _____ on the Promotion and Protection of Investment (Model 2001), *International Investment Instruments: A Compendium*, Vol. VIII, United Nations, New York and Geneva, 2002, available at http://www.unctad.org/en/docs/dite3vol7_en.pdf, visited on December 17, 2004, p.287.

³⁴OECD (2003), National Treatment of International Investment in South East European Countries: Measures Providing Exceptions, available at <http://www.oecd.org/dataoecd/2/41/20637291.pdf>.

the laws and regulations of the host-state, which define the extent of proprietary rights, for the definition of investment.³⁵ IP form investment, in these models, only to the extent of rights recognised and enforced by the domestic laws.

21. However, the majority of BITs and investment chapters of FTAs which developing countries have signed between them and developed countries follow the models of the latter with expanded definition of assets. This is particularly important because there have been cases where tribunals in investment arbitrations have held that legal terms in BITs should be considered to have an autonomous meaning appropriate to the contents of the specific treaty, not necessarily being the same as similar terms in the domestic law of the contracting parties.³⁶ Such decisions, at the same time recognise the relevance of the domestic law to determine whether or not there is financial value in the asset claimed.

22. The major question here is whether developing countries by agreeing to adopt the developed country models of investment agreements are significantly able to increase investment inflows through BITs and investment chapters of FTAs. The fact that BITs are very rare among developed countries suggests that the agreements are targeted at developing countries with the objective of promoting norms beneficial to the firms of developed countries. The possible use of investment agreements could be that multinationals may consider the existence of such agreements in their risk assessment, favourable for protection against expropriation. The absence of such agreements, however, does not deter multinationals from investing. For example, though the U.S. and China or the U.S. and India have not signed BITs, investment flows from the U.S. to China and India have been some of the best among developing countries. Brazil, the other developing country with high investment inflows, has very limited number of BITs. In essence, it is doubtful whether there is a substantial causal relationship between the existence of an investment agreement and the flow of investments to developing countries. Developing countries therefore should reconsider the reasons for signing investment agreements which have significant implications with respect to the protection and enforcement of foreign intellectual property rights when such agreements do not play a significant role in increasing investment flows to their benefit.

III. IP RIGHTS AS COVERED INVESTMENT: THE TRIPS-PLUS IMPLICATIONS

23. The definition of 'investment' under investment agreements to include IP and the actual practice varies widely and does not evidence a consistent and reasoned approach. For example, it is not clear what exactly is covered when reference is made to IP as a generic term as is the case in most recent BITs and investment chapters of

³⁵ UNCTAD (1996), *International Investment Compendium*, Volume III, Regional Integration, Bilateral and Non-governmental Instruments, United Nations, New York and Geneva, See Model BIT of Chile, Article 1(2), Chinese Model, Article 1 (1).

³⁶ Mr. X. (U.K. businessman) Vs Respondent Republic (in Central Europe), SCC case 49/2002, Final arbitration Award Rendered in 2003, Stockholm Arbitration Report 2004:1, available at http://www.sccinstitute.com/upload/poncet_mouawad_2004_1.pdf, p.141

FTAs as well as the current models BIT of the U.S.³⁷ Because of the lack of consistency and justification of the various approaches, one author, borrowing from the International Court of Justice (ICJ) decision on bilateral agreements, has stated that the analysis of BITs, and the practice has manifested:

[S]o much uncertainty and contradiction, so much fluctuation and discrepancy in the rapid conclusion of BITs, and the practice has been so much influenced by considerations of political expediency in the various cases.³⁸

As a result, BITs can be understood as *lex specialis* –specialised laws between parties designed to create a mutual regime of investment protection³⁹ as opposed to general principles of international law or customary rules.

24. Moreover, the provisions of investment agreements are available only for those IP holders that have invested in the host-state as opposed to other foreign IP holders. During the negotiation of the MAI, there were some experts who suggested the exclusion of IP from the definition of investment.⁴⁰ The negotiators agreed that the MAI should not extend national treatment and MFN obligations in existing IP agreements.⁴¹ There was no agreement whether the definition of “investment” should be limited to those IP included in the TRIPS Agreement, whether it should exclude copyright and related rights, whether it should include only the “economic aspect” of IP, whether it should include only those rights provided domestically and what implications the definition of “investor” has for an IP holder.⁴²

25. Once the IP is included as investment, the provisions of the investment agreements apply for the protection of IP, in as much they apply to the protection of investment. The investment agreements provide national treatment, MFN and fair and equitable treatment (otherwise described as minimum standards of treatment) to the investments and investors covered in the agreements. The international instruments on IP, however, accord only national and MFN treatment.

26. National treatment and MFN treatment are relative standards to be implemented in comparison with the treatment accorded to the national investor and investors from third countries. The fair and equitable treatment is a standard that establishes the treatment in particular terms, the exact meaning of which has to be

³⁷ USTR, the 2004 Model U.S. BIT, *op cite* note 20, Article 1 and ³⁷ DFA, International Trade of Canada (2003), Model BIT of Canada, *op cite* note at 25, Article 1.

³⁸ Kishoiyian, Bernard (1994), “The Utility of Bilateral Investment Treaties in the Formulation of Customary International Law,” *Northwestern Journal of International Law & Business*, Vol. 14, p. 372.

³⁹ *op. cite.*, p. 329.

⁴⁰ OECD (1997), Report to the Negotiating Group on Intellectual Property, Negotiating Group on the Multilateral Agreement on Investment (MAI), DAFFE/MAI(97)1, available at <http://www1.oecd.org/daf/mai/pdf/ng/ng9732e.pdf>, p. 4.

⁴¹ OECD (1998), Report to the Negotiating Group on Intellectual Property, Negotiating Group on the Multilateral Agreement on Investment (MAI), DAFFE/MAI/IP(98)1, available at <http://www1.oecd.org/daf/mai/pdf/ip/ip981e.pdf>, p. 3.

⁴² *op. cite.*, p.4.

determined by reference to specific circumstances/situation of application.⁴³ On the other hand, the ‘covered investment’ refers widely to investment made and the investor covered under the agreements. The following section examines the implications of extending the minimum standards of treatment of covered investment to IP in the investment agreements.

III.1. The Implications of Extending the Fair and Equitable Treatment Standard to the IP of Covered Investment

27. The recent investment chapters of FTAs and the 2004 model BIT of the U.S. provide for fair and equitable treatment with greater specificity. Canada’s model also provides a link with international minimum standard. These new generation of treaties have become more explicit in promoting the standard of fair and equitable treatment as ‘international minimum standard’ required by customary international law as opposed to a standard applicable ‘depending on the circumstances of each instance of treatment.’ The requirement that a party’s treatment of investors be no less than that required by international law arguably represent an effort to establish a universal minimum standard against which all standards of treatment are to be measured and below which non are permitted to fall.⁴⁴ This expansionist approach promotes fair and equitable treatment as consisting of:

- an obligation not to deny justice in criminal, civil, or administrative adjudatory proceedings in accordance with the principle of due process embodied in the principal legal systems of the world;
- full protection and security requiring the level of police required under customary international law;
- non-discrimination regarding measures adopted relating to losses suffered due to armed conflict or civil strife; and,
- Restitution and compensation where the covered investment was requisitioned or destroyed by forces or authorities of the host-state.⁴⁵

28. The fair and equitable treatment standard is also understood by the U.S. and Canada under NAFTA as part of the evolving international minimum standard that develops through time.⁴⁶ UNCTAD had made an important observation that the attempt to link fair and equitable standards of treatment with international minimum may be perceived as paying insufficient regard to the substantial debate in

⁴³ Vivas-Eugui, David (2003), “Regional and bilateral agreements and a TRIPS-plus world: the Free Trade Area of the Americas (FTAA),” *TRIPS Issues Paper 1*, Quakers United Nations Office (QUINO), Geneva, p.8.

⁴⁴ Bergman, Mark S.(1983), “Bilateral Investment Protection: An Examination of the Evolution and Significance of the U.S. Prototype Treaty,” *N.Y University Journal of International Law and Politics*, Vol. 16:1, Fall 1983, p.20.

⁴⁵ USTR, 2004 Model BIT of the U.S. *op cite* note 16, Article 5:5.

⁴⁶ See: OECD (2004), “Fair and Equitable Treatment Standard in International Investment Law,” *Working Papers on International Investment*, Number 2004/3, pp.11-12.

international law.⁴⁷ The 2004 model BIT of the U.S. in this regard reflects the keen interest to promote customary international law as evolving and developing through consistent practice of States.⁴⁸

29. When it comes to the protection and treatment of IP, fairness and equity arises only in relation to enforcement and not as a standard of treatment. There is no reference to the fair and equitable standard of treatment for IP under TRIPS, though it relies expressly on national treatment and MFN.⁴⁹ The TRIPS Agreement provides that members are free to determine the appropriate method of implementing the agreement within their own legal system and practise as opposed to adhering to an international standard. TRIPS further requires that national procedures concerning the enforcement of IP shall be fair and equitable, not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.⁵⁰

30. What are challenges of extending fair and equitable treatment as international minimum standard of treatment of investment to IP? Basically, the promotion of an international minimum standard eliminates the TRIPS flexibility with respect to the method of implementation and the design of the national procedures for enforcement. Furthermore, in the interpretation of fair and equitable standard of treatment as part or equivalent to international minimum standard, the investment agreements will require that:

- IP of covered investment receive fair and equitable treatment recognised as arising from the international minimum standard of treatment under customary international law that is evolving and developing through consistent practice of States;
- Where the investment agreements refers to the “highest international standard” or “international law” in general, IP of covered investment to receive fair and equitable treatment arising from the international minimum standard that are developing through harmonisation processes, such as the harmonisation process at WIPO,⁵¹ and,
- More importantly, in addition to state-to-state dispute Settlement, disputes on the grounds of fair and equitable standard of treatment or the expanded interpretation as arising from international minimum standard and as applied to IP of covered investment could be subjects of investor-to-state dispute settlement. In this regard, it is important to note that the fair and equitable

⁴⁷ UNCTAD (1999), “Fair and Equitable Treatment,” *UNCTAD Series on issues in international investment agreements*, UNCTAD/ITE/IIT/11 VOL. III, United Nations, New York and Geneva, p 13.

⁴⁸ Annex A of the 2004 Model BIT of the U.S., *op cite* note 20, provides that: “The Parties confirm their shared understanding that “customary international law” generally and as specifically referenced in Article 5 [Minimum Standard of Treatment] and Annex B [Expropriation] results from a general and consistent practice of States that they follow from a sense of legal obligation. With regard to Article 5 [Minimum Standard of Treatment], the customary international law minimum standard of treatment of aliens refers to all customary international law principles that protect the economic rights and interests of aliens.”

⁴⁹ UNCTAD (1999), *op. cite.* 48, p.23.

⁵⁰ TRIPS Article 1:1 and 41:2.

⁵¹ Vivas-Eugui, *op. cite*, 44, p.8

treatment standard is among the most commonly used grounds for claims in investment disputes.

III.2. The Implications of Extending the National Treatment Standard to the IP of Covered Investment

32. The language on the national treatment varies slightly from treaty to treaty. Some regional investment agreements describe the national treatment to mean that the treatment accorded to foreign investment should be in the 'same manner' or 'as favourable as' the treatment given to national investment.⁵² Other agreements such as the UK-China BIT, requires the extension of national treatment only 'to the extent possible.'⁵³ The most common formulation of the national treatment principle is that which requires that the treatment to be accorded shall be 'not less favourable than' that accorded in like situation/circumstances to national investors and investment.⁵⁴

33. National treatment for IP is established by the TRIPS agreement under article 3 which provides that members shall accord treatment no less favourable than that they accord to their own nationals with regard to the 'protection' of IP.⁵⁵ The language used in the Paris Convention for the Protection of Industrial Property, under article 2, is that:

Members shall extend to other nationals the advantages that their respective laws now grant, or may hereafter grant, to their nationals and the same protection, and same legal remedy against any infringement of the rights.

Nationals of countries outside the Member states party to the treaty who are domiciled or who have real and effective industrial or commercial establishments (comparable to investment or commercial presence) in the territory of one of the members of the treaty are also provided with treatment in the 'same manner' as nationals of the members of the treaty (union). Similar language is used in the Bern Convention for the Protection of Literary and Artistic Works, under article 5, though the extent of protection is governed exclusively by the laws of the country where protection is claimed. TRIPS therefore modified, for WTO Members, the language previously applied under the Paris and Bern conventions by the using of the phrase 'not less than favourable' treatment.

34. There are three categories of issues that are relevant to determine the implications of the extension of national treatment of investment to IP. These are:

⁵² See, for example, The Unified Agreement for the Investment of Arab Capital in the Arab States, Article 6, UNCTAD (1996), Vol. II, *op. cite.* 36, p. 214.

⁵³ UK-China BIT (1986) Article 3 (3).

⁵⁴ UNCTAD (1999), *op. cite.* 48, p.37-38.

⁵⁵ A footnote is provided to Article 3 of TRIPS stating that "protection" shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use of intellectual property rights specifically addressed in this Agreement.

- whether the application of national treatment to IP of covered investment would expand the extent of protection of IP;
- whether the exceptions and flexibilities under international IP instrument are preserved; and
- whether there would be more onerous enforcement mechanisms than those prescribed under multilateral IP instruments.

A. *The Expanded Protection of IP*

35. The TRIPS Agreement defines “protection,” in relation to national and MFN treatment, as including matters affecting *the availability, acquisition, scope, maintenance and enforcement* of IP as well as those matters affecting *the use* of IP specifically addressed in the Agreement.⁵⁶ The proprietary interest protected under the investment agreements is broader than TRIPS. The U.S. model BIT (2004), the FTAs negotiated recently and some of the European BITs provide for national treatment with respect to *the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition* of investments.⁵⁷ There are also BITs that provide for national treatment with respect to associated activities defined as including:

The organization, control, operation, maintenance and disposition of companies, branches, agencies, offices, factories or other facilities for the conduct of business; the making, performance and enforcement of contracts; the acquisition, use, protection and disposition of property of all kinds including IP; the borrowing of funds; the purchase, insurance and sale of equity shares and other securities; and the purchase of foreign exchange for imports.⁵⁸

36. As a result, under investment agreements, the proprietary interest to be protected as IP is wider than those recognised under TRIPS. Accordingly, the national treatment provisions, and the MFN provisions of investment agreements provide for expanded protection of IP of covered investment. In this regard, it is important to note that the IP Chapters of the U.S. FTAs demonstrate the interest of U.S. to explicitly expand the proprietary interest of IP. The provisions provide for what was provided under the footnote of the national treatment provision of TRIPS requiring for the extension of the treatment not only with regard to “protection,” but also to the “enjoyment” of such rights “and to any benefit derived from such rights.” The investment chapters of FTAs have gone further to extend protection in all investment activities.

⁵⁶ WTO, TRIPS Agreement, Footnote 3 (emphasis added).

⁵⁷ USTR (2004), Model BIT of the U.S., *op cite* note 16, Article 3:1, CAFTA, II: 3 : 1&2, US-Chile FTA , UK-India BIPP (1974), Article 4.3 (emphasis added).

⁵⁸ UNCTAD, U.S.-Sri Lanka BIT (1993), Article I.1 (e), See also the US BITs with Ecuador (1993), DRC (19 93) Tunisia (1993), Argentina (1995), Bangladesh (1986).

B. Restriction on the Use of Exceptions and Flexibilities

37. During the negotiation of the MAI, several negotiators attempted to limit the application of the national treatment provision only to the extent provided by the TRIPS and multilateral agreements. All multilateral treaties on IP include exception to the national treatment principle, while the Convention on the Protection of Producers of Phonograms against Unauthorised Duplication of Their Phonograms (1971) does not state the principle of national treatment at all. Moreover, some of the recent bilateral agreements provide for the application of the principle of reciprocity instead of national treatment.⁵⁹ The IP chapters of FTAs also recognise a number of exceptions provided under the TRIPS to the national treatment. These include:

- exception where a work is protected in the country of origin solely as industrial design and not as subject of copyright laws;
- exception to the rights enjoyed by the author to an interest in sale of a work subsequent to the first transfer of the work;⁶⁰
- exception on national treatment obligations applicable to performers, producers of phonograms and broadcasting organisations as limited to those rights provided under the TRIPS, and the IP chapters of the FTA;⁶¹
- exceptions with regard to judicial and administrative procedural laws including the designation of address for service or the appointment of agents, where derogations are necessary to secure compliance of laws and regulations that are not inconsistent with the provisions of TRIPS/ IP chapters of FTAs and where such practices are not applied in a manner that would constitute a disguised restriction on trade;⁶² and
- Exceptions with regard to procedures provided in multilateral agreements concluded under the auspices of WIPO.⁶³

38. Most of the pre-1994 North-South BITs do not recognise any of the exceptions to national treatment provided under the multilateral instruments. The BITs of U.S. signed since 1994 until 2000, provided a paragraph restating Article 5 of the TRIPS Agreement to the effect that the national treatment and MFN do not apply to

⁵⁹ See the EU Directive on the Protection of Database, 1996 (Directive 96/9), the Agreement for Mutual Recognition of Patent Priority Right between Taipei Representative Office in Netherlands and Netherlands Trade and Investment Office in Taipei, Memorandum of Understanding between Taipei MOEA/IPO and Patent and Trademark Office, in which Taiwan agreed for reciprocity on priority of patents.

⁶⁰ WIPO, Paris Convention Article 2(3), IPIC Article 5(2), Bern Convention, Article 2(7), Article 14 ter (1) and (2).

⁶¹ TRIPS Article 3(1). The U.S. has not followed consistent approach in its various FTAs. The exception provided to national treatment for secondary uses of phonograms by means of analogue communications and “free over-the radio broadcasting” appears only in the U.S. agreement with Australia and Chile. See also Roffe, Pedro (2004) Bilateral agreements and a TRIPS-plus World: the Chile-USA Free trade Agreement, Quaker International Affairs programme, Ottawa, available at [http://geneva.quno.info/pdf/Chile\(US\)final.pdf](http://geneva.quno.info/pdf/Chile(US)final.pdf), visited on 7 January 2004, page 17.

⁶² See Article 3(2) of TRIPS, Article 17.7 of the U.S. Chile FTA, Article 3(1) of TRIPS, Article 17.3 and its footnote of the U.S. Chile FTA. The U.S. FTAs do not provide explicit recognition of exceptions provided under the Paris, Bern and Rome Conventions and the Washington Treaty.

⁶³ See Article 5 of TRIPS, Article 14.1:7 of the U.S. Bahrain FTA.

procedures provided in multilateral agreements concluded under the auspices of the WIPO relating to the acquisition or maintenance of IP. The exception is, however, limited to procedural laws relating to treaties negotiated under WIPO.⁶⁴ Moreover, the exception does not extend to exceptions under national and MFN provisions of the TRIPS. Under the FTAs there exists ambiguity as to whether the exceptions and limitations provided fully under the Paris, Bern and Rome Conventions and the Washington Treaty are preserved under the IP chapters of FTAs. Moreover, the scope and extent of the adoption of these exceptions varies among FTAs. There are some FTAs that provide under their investment chapters for maintaining general exceptions of TRIPS as incorporated under the IP Chapters.⁶⁵

40. As a result, most of investment agreements undermine the exceptions and limitations provided under TRIPS and other multilateral IP agreements to a varying degree depending on the extent of recognition of such exceptions. The current model BIT of the U.S. has explicit provision to maintain the exceptions provided under Article 3, 4 and 5 of the TRIPS Agreement, in which case the BIT may not provide a TRIPS-plus national and MFN treatment.⁶⁶ The Canadian model also provide for derogation from national treatment and MFN in a manner consistent with the WTO Agreement.⁶⁷ The provisions are, however, not adequate to cover all exceptions and limitations recognised under multilateral IP agreements.

41. The TRIPS Agreement also provide general exceptions and flexibilities in the implementation of the agreement to address the public interest. These flexibilities include, among others:

- flexibilities through waiver under article IX of the Marrakesh Agreement that established the WTO;
- the general rule under article 1.1 that grant Members the freedom to determine the “appropriate method of implementing the provisions of... [TRIPS] within their own legal system and practice”;
- the general principle under Article 8 recognising that members may adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of TRIPS. It also recognises the need to take steps “to prevent the abuse of intellectual property rights by right holders or the resort to practice which unreasonably restrain trade or adversely affect the international transfer of technology;”
- the flexibility available for members to exclude certain inventions from patentability under article 27.2 and 3; to require disclosure of the invention and provision of further information under article 29; and to specify in their

⁶⁴ US BITs with Honduras (1995), Azerbaijan (1997), Bahrain (1999), Bolivia (1998), Costa Rica (1996), Georgia (1994), Trinidad and Tobago (1995), Vietnam (2000), Article II (2)(b).

⁶⁵ See for example, Article G-08: 4 of the Canada-Chile FTA, and Article 10.13:4 of CAFTA.

⁶⁶ USTR, 2004 Model BIT of the U.S., *op. cite.* 16, Article 14:4.

⁶⁷ DFA, International Trade of Canada (2003, Model BIT, *op cite* note 22 Article 9 (4).

legislations prohibited licensing practices or conditions pertaining to IP under article 40; and,

- Members' rights to provide exceptions to rights conferred under article 30 and to provide other use without the authorisation of patent holders, including compulsory license or other use as remedy for anti-competitive practices under article 31;

42. Investment agreements follow two different approaches on regulation of investment in the public interest, which has direct bearing on implementation of flexibilities under multilateral IP instruments. While some of the agreements provide for general exception clauses applicable to the agreement as a whole, others provide exception only under selected provisions. The Canadian model BIT, for example, provides for a general exception clause for the adoption or enforcement of measures necessary to protect human, animal or plant life or health, to ensure compliance with laws and regulations and for the conservation of living and non-living exhaustible natural resources.⁶⁸ The Japan-Vietnam BIT under article 15 (1) (c) and 15 (2) also provides for general exception for measures to protect human, animal or plant life or health.

43. The U.S. model, however, does not provide general exception clause. Instead it provides for exceptions under selected provisions.⁶⁹ The model also provides for preservation, continuation and amendment of non-conforming measures as an exception to the provisions on national and MFN treatment, performance requirements and senior management and board of directors.⁷⁰ In relation to new measures, the model provides exception only in accordance with article 3 or 4 of TRIPS that does not necessarily include all flexibilities under the TRIPS, enumerated above.⁷¹ As a result, investment agreements undermine the flexibilities provided under TRIPS and other multilateral IP instruments, when they do not provide a general exception clause.

44. With regard to waivers provided under article IX of the Marrakesh Agreement that established the WTO, the Canadian model provides exception for any measure adopted by a party in conformity with such waiver decision. It goes further to provide that an investor purporting to act pursuant to the dispute settlement section of the agreement may not claim that measures in conformity with WTO waiver are in breach of the BIT.⁷² The U.S. FTAs and the model BIT maintain such exceptions, without excluding disputes arising from such measures taken in accordance with waiver decisions.⁷³ The 2004 model BIT of the U.S., in particular, provides in a footnote the

⁶⁸ *Op. cite*, Article 10 (1), Annex B.13 (1) C.

⁶⁹ Measures to protect public interest are provided as exception under the provisions on 'Transparency' and on 'Disclosure of Information.' Measures to protect human health and life are authorised as exception under the provisions on 'Performance Requirements,' 'Investment and Labour,' and 'Expert Report Expropriation.' see, USTR (2004), Model BIT *op. cite.*, 20, Article 8:3(c) (2), 11 & 19, 13, 32 and Annex B (4) (b).

⁷⁰ *Op. cite*. Article 14.

⁷¹ *Op. cite*. Article 14 (4).

⁷² *Op. cite*. Article 10 (7).

⁷³ U.S.-Morocco FTA, 2004, Article 10.8(3) (b).

definition of “TRIPS Agreement” which includes any waiver in force between the parties of any provision of the TRIPS Agreement granted by WTO members in accordance with the WTO Agreement.⁷⁴ Other investment agreements do not usually provide explicit provision on implementation of waivers. Hence, investment agreements can undermine the implementation of measures adopted in accordance with a waiver decision, where they do not specifically recognise the rights of governments to implement measures under such waivers and do not restrict investors from resorting to disputes against measures taken in the implementation of such waivers.

45. The other aspect of the recognition of flexibilities on treatment of IP relates to the regulation of anti-competitive practices. The licensing practices of multinationals may be detrimental to the implementation of development policies in developing countries. The practices that frustrate technology development and transfer include the use of “grant-back” clauses covering the development of improvements by the licensee which must be licensed back to the licensor, “field of use” restrictions, which limit the areas of use by the licensee, “tie-in” or “tie-out” relationships, which require the licensee to either purchase various products from the licensor or refrain from purchasing various products from other parties, package licensing and other restrictions on granting licenses to third parties.

46. In this regard the IP chapters of the U.S. FTAs’ recognise that its provisions shall not prevent the parties from taking measures necessary to prevent anti-competitive practise.⁷⁵ The BITs and investment chapters of the U.S. FTAs, as well as many of investment agreements, however, maintain competition laws only in relation to performance requirements, with the possibility that in all other cases the standards of treatment apply.⁷⁶ In which case, developing countries may not enjoy the policy space adequate to regulate foreign investment. It is important to note here that the U.S. has been a major player in discriminating foreign investors from acquiring patents, license and technologies under its compulsory licensing and competition practices in general.⁷⁷

⁷⁴ USTR (2004), Model BIT of the U.S., *op. cite*, 16 Footnote 7 to Article 1.

⁷⁵ See, Article 17.13 of the U.S. Chile FTA.

⁷⁶ USTR, 2004 Model BIT of the US, *op cite* note 16, Article 8.3 (b) (ii).

⁷⁷ The United States courts have been subjecting compulsory licensing to “qualified domestic applicant(s),” “any domestic applicant,” “any United States citizen or domestic corporation,” and “any domestic applicant approved by the Federal Trade Commission (FTC).” In 1980, the FTC accused a U.S. company called Eli Lilly for monopolising the domestic insulin market. After negotiation the FTC ordered Eli Lilly to license its existing insulin technology, patented and unpatented, to any domestic company on a royalty-free basis and to any foreign company at a reasonable royalty. In addition, the order restricted access to certain technology and patents of Eli Lilly only to domestic companies. Two U.S. incorporated subsidiaries of Danish companies which were insulin manufacturers and the Danish government objected to the discriminatory licensing provision on national treatment ground. The FTC acknowledge that the order’s provisions were departure from its general policy of treating foreign and domestic companies alike, but failed to alter the order. The U.S. Company reminded the FTC to take into consideration the legitimate interest of the U.S. in technological advancement and competitive success of domestic companies as different from their foreign competitors. Van Kampen, Al (1982-1983), “Commercial Treaties and Foreign Companies: The Mutuality of Reinforcing Principles of Remedial Antitrust and National treatment”, *16 University of Michigan Journal of Law Reform* p. 190-192.

47. Furthermore, flexibilities to promote the public interest in sectors of vital importance to the socio-economic and technological development of developing countries are recognised under article 8.2 of TRIPS. In India, for example, only whole owned subsidiaries were allowed to pay royalty to offshore companies abroad without any restriction on the duration of payment.⁷⁸ Equal treatment in payment of royalty was provided to all companies irrespective of the extent of foreign equity in the shareholding, who has entered into foreign technology collaboration agreement very recently.⁷⁹ Other measures related to the socio-economic and technological development include: restriction on the rate and duration of the obligation to remit royalties to be paid by the local party under a licensing or any other form of technology transfer agreement; regulations to ascertain that substantial know-how is transferred to local companies or partners of joint ventures and legal limitation of licenses to the life of the know-how and to products made by the use of the know-how. Hence, national treatment and MFN provisions of investment agreements may limit the flexibilities provided under the TRIPS where they undermine the policy space to take measures for socio-economic and technological development in sectors of vital importance for developing countries.

48. Though the investment agreements vary in their recognition of flexibilities and the right to regulate, it is vital to note that national and MFN treatment of investors and their assets in the form of IP could be a major source of uncertainties and grounds for disputes. The TRIPS-plus nature of investment agreements, however, clearly exists in the possibility that the regulatory measures could be challenged under investment disputes, on the grounds of national and MFN treatment.

C. Implication for Enforcement of IP

49. Even where investment agreements fully accommodate the exceptions and flexibilities of the multilateral IP instruments, the legality of measures against covered investments including IP assets is open to challenge under the investor-to-state dispute settlement mechanisms. The U.S. and Canada models do not attempt to further limit the possibility of resort to disputes settlement mechanism by investors claiming against measures of the host-state in the implementation of the exceptions on national and MFN treatment provided under the TRIPS. Furthermore, the recent investment agreements have a more expanded provision on “transparency” than the TRIPS.

⁷⁸ Reserve bank of India, Exchange Control Department, Foreign Technology Collaboration-Royalty Payment-Liberalisation, A.P. (DIR Series) Circular NO.5, July 21, 2003, available at <http://www.rbi.org.in/sec14/37974.pdf>, last visited on 10 December 2004.

⁷⁹ SIDO News, available at <http://www.smallindustryindia.com/policies/central/fdi.htm>, visited on 10/12 2004., Government of India, Ministry of Commerce and Industry, Department of Industrial Policy & Promotion, SIA (FC Division), Press Note No. 2 (2003 series), 24th July 2003, available at http://siadipp.nic.in/policy/changes/press2_03.htm, visited on 10 December 04.

III.3. The Implications of Extending the Most-Favoured-Nation Treatment to the IP of Covered Investment

50. The discussion above on the implications of the extension of national treatment of investment to IP is also applicable to the MFN treatment. There are, however additional points that need to be made.

51. The MFN standard requires the host-state to extend to investors of the home-state the same treatment that it accords to investors of any other country in like case/circumstances or situations.⁸⁰ Developed countries interpret this formulation of the MFN principle to mean “multinationalisation” of the benefits accorded to foreign investors and their investment.⁸¹ There is, however, no direct claim as to the basis of treatment in customary international law, recognising the prevailing view that MFN obligation exist only when a treaty provision creates it.⁸² The MFN clause of the European BITs are largely, as in other standards of treatment, limited to treatment of investment after establishment (post-entry) and are combined with national treatment clause,⁸³ whereas the U.S. and Canada practice provide for both treatment with regard to investment permits (pre-entry) and post entry treatment, and in several occasions provide for a separate MFN clause.⁸⁴

52. Many of the WTO Members have registered reservation on the MFN provisions of BITs under the General Agreement for Trade in Service (GATS). Costa Rica, for example, has reserved for all service sectors, "measures granted under bilateral treaties for the promotion and protection of investment designed to encourage in a preferential manner the investments of certain countries covered by such agreements". Jordan has notified that "measures extending preferential treatment are pursuant to bilateral investment treaties". Trinidad and Tobago exempted all existing and future bilateral investment and protection treaties.⁸⁵

53. The TRIPS Agreement provides that any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. In this regard, TRIPS can be said to have extended the MFN obligation to the protection of IP covered by the Paris convention and other instruments that did not explicitly

⁸⁰ UNCTAD (1999), “Most-Favoured-Nation Treatment,” *UNCTAD Series on issues in international investment agreement*, United Nations, New York and Geneva, available at <http://www.unctad.org/en/docs/psiteiitd10v3.en.pdf>, visited on 7 January 2005, pp. 5-6.

⁸¹ OECD (2004), “Most-Favoured-Nation Treatment In International Law,” *Working Paper on International Investment*, number 2004/2, OECD, available at <http://www.oecd.org/dataoecd/21/37/33773085.pdf>, visited on 7 January 2005, p.2.

⁸² *Op. cite.*

⁸³ *op. cite.*, pp. 3-4.

⁸⁴ See: U.S.-Argentine BIT (1991), Article II.

⁸⁵ WTO, Service Database, List of Article II, MFN Exemptions, available at <http://tsdb.wto.org/wto/WTOHomepublic.htm>, visited on 7 January 2005

provided for the MFN.⁸⁶ TRIPS, however, maintained differentiated treatment based on general agreements for legal and judicial assistance, IP instruments entered before the TRIPS, and in respect of the rights of performers, producers of phonograms and broadcasting organizations.⁸⁷

54. The pre-1994 BITs may extend MFN to the IP of covered investment without incorporating the TRIPS exceptions. In which case, legal and judicial assistance agreements with third countries as well as MFN treatment extended to third countries under IP instruments entered before the TRIPS could be required to be available for IP of the covered investment under the BITs. Treatment of broadcasting organizations could also be subjected to MFN, affecting the availability of preferential treatment to regional organisations.

55. The Canada model BIT provides that the MFN provision shall not apply to treatment accorded under any existing or future bilateral or multilateral agreement with respect to free trade area or customs union.⁸⁸ Similar provision is provided under the Japan-Vietnam BIT under article 22(3) with the effect that general exception is provided both from national treatment and MFN treatment to the IP of covered investment. There is no general exception clause from national treatment and MFN with respect to investors and investment from regional trade arrangement, under the U.S. model BIT as well as in many of the U.S. BITs and investment chapters of FTAs. Hence, the MFN provisions of investment agreements may have implications to the protection and enforcement of IP, where they do not comprehensively recognise the exceptions, limitations and flexibilities provided under multilateral IP agreements.

IV. CONCLUSION AND RECOMMENDATIONS

56. Given the fact that the role of investment agreements in enhancing inward investment flow remains minimal, developing countries must rationalise the objectives to be attained by entering into BITs and signing FTAs with investment chapters. Developing countries have also entered into BITs among themselves without any foreseeable benefit. Consequently, developing countries should not sign BITs, and investment chapters of FTAs except where there is a demonstrable long-term benefit for them. Since there is no clear evidence of a causal relationship between the existence of investment agreements generally or those with strong protection of IP as covered investment with the levels of investment flows to developing countries, they should reconsider the reasons for signing investment agreements which have significant implications with respect to the protection and enforcement of foreign IP rights.

⁸⁶ WTO (2002), United States – Section 211 Omnibus Appropriations Act of 1998, Report of the Appellate Body, WT/DS176/AB/R, available at http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm#disputes, visited on 7 January 2005, p. 85.

⁸⁷ WTO, TRIPS, Article 4.

⁸⁸ DFA, International Trade of Canada (2003), Model BIT of Canada, *op cite* 22 above at 34, Annex III.

57. Where they decide to enter into BITs, developing countries should consider excluding the protection and enforcement of IP from application of these agreements and the definition of investment should be subject to national laws and regulations, thereby limiting the IP of investors to the extent recognised under the domestic laws. They could also consider more specifically, excluding IP from the scope of application of the standards of treatment and procedures for dispute settlement under the BITs and investment Chapters of FTAs. In this regard, an explicit clause is required to prevent resort to the investor-to-state dispute settlement mechanism on disputes arising from the protection and enforcement of IP of covered investment, and implementation of ‘waivers,’ exceptions and flexibilities under multilateral IP agreements.

58. In this context, special attention should also be given to the work of international organisations, such as UNCTAD, that has been promoting BITs among developing countries with a view to establish a network of BITs that they consider will create consistent state practice and general accepted principle of international law. It is also notable that developing countries have been entering into such agreements for political reasons, to show solidarity and friendship. It is questionable; however, if BITs, especially those modelled on the developed country approaches to investment agreement, are the proper instruments for solidarity.

59. The provisions of BITs signed before 1994 should be construed in line with the exceptions and regulatory autonomies recognised under the TRIPS and all other international IP instruments. The post-1994 BITs and most of the FTAs attempt with various degree to maintain the exceptions under TRIPS and other international instruments. In particular, measures should be taken to ensure that the enforcement of IP under investment agreements shall not exceed what is required under the TRIPS Agreement and/or other multilateral agreements to which the parties are signatories except where there is clear evidence that the overall economic and social benefit to the developing country of any such rules would exceed the costs.



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