IP Licence as an Investment: Insights from Bridgestone v. Panama

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ABSTRACT

The relationship between intellectual property (IP) and investment is old, but the debates are new. Recent high profile cases in which intellectual property rights (IPRs) are being sought to be protected by means of international investment law and treaties have generated visible debate and discussion. In the light of the recent decision on expedited objections in Bridgestone Licensing v. Republic of Panama, this article will explore arguments put forward by both parties regarding the interaction between IP Licence Agreements and the definition of investment, as well as the Tribunal’s finding on the question whether an IP Licence with a revenue sharing model qualifies as an investment.

1. INTRODUCTION

Intellectual Property (IP) grows every day and reaches into every nook and cranny of our lives. IP does not operate in the same way as it did in the early 1990s, or even before this, when it featured in the 1947 General Agreement on Tariffs and Trade (GATT 1947). This may be due to the expansion of international law—the relationship between IP and other branches of law seems to have welded together to form part of the regulatory system and be included in trade, health and investment regulations. In 1995 saw a watershed moment in which trade liberalisation and a non-trade agenda gave rise to the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), which commodified IP as ‘tradable’ goods, and further, through TRIPS Plus agreements. The very idea of ‘investment’ in the IP system can be seen through the lens of incentivising and rewarding innovation. In other words, IP is a reward, or a return on an ‘investment’ of labour.

In international investment law, ‘investment’ is understood purely in an economic sense, but while the notion of ‘investment’ may differ, the relationship between IP and international investment law is not a new phenomenon. The link between the two fields can be traced back many decades. Unfortunately, this association was discussed in such a way that stronger IP regime attracts foreign direct investment, but this is debatable. It is also important to realise that a decade ago the field of international investment law was not as evolved as it is now. Does this mean that scholars did not foresee that the proliferation of international investment agreements (IIAs) could create new IP norm-setting? This is hard to imagine. In fact, the literature reveals that there have been several studies

1 Susy Frankel, ‘It’s raining carrots: the trajectory of increased intellectual property protection’ in G. Ghidini, H. Ullrich & P. Drahos (eds), Kritika: Essays on Intellectual Property, (Cheltenham, UK/Northampton, USA: Edward Elgar, 2017) 159-186. (discussing increasing levels of protection and the diverse range of incentive [carrots] may backfire to the system and further point out that 20th-century opponents of the TRIPS Agreement are now supporters of TRIPS-Plus Agreement in particular BRICs.)
3 See generally, Henning Grosse Ruse-Khan, The Protection of Intellectual Property in International Law (Oxford: Oxford University Press, 2016), (discussing how intellectual property law interplays with international legal order such as WHO, UNESCO etc.)
5 Intellectual Property was part of the General Exceptions of GATT, 1947. Before TRIPS, intellectual property was considered as an ‘acceptable obstacle’ to free trade. According to Gervais, ‘intellectual property was basically considered in the GATT context as an “acceptable obstacle” to free trade, at least until the Tokys Round. During that Round, held between 1973 and 1979, trade in counterfeit [trademark] goods had started to emerge as a serious issue.’ See Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis (London: Sweet & Maxwell, 2008), para 1.09.
post-TRIPS Agreement where scholars have discussed how free trade agreements (FTAs) may be a threat to TRIPS flexibilities.\textsuperscript{14} I will not explore these threats here. However, in recent times, this relationship has attracted attention through high profile cases such as Philip Morris\textsuperscript{15} and Eli Lilly.\textsuperscript{16} In these cases, protection of IPRs has been sought through international investment law and treaties, generating visible debate\textsuperscript{17} and discussion.\textsuperscript{18} I have discussed the final awards in both cases elsewhere.\textsuperscript{19} In this article I will begin with a brief exploration of the relationship between IP and investment, and will then move on to discuss the notion of an IP Licence as an investment, in the light of the recent decision on expedited objections in Bridgestone Licensing v. Republic of Panama.\textsuperscript{20}

2. IP AND INVESTMENT: OLD RELATIONSHIP, NEW DEBATES

In our daily life, we often refer to the term investment. ‘We are investing for the future’ is a common phrase we admire and adopt in our own life. We never attempt to define the term, but we consciously understand ‘investment’ as commercial gain, economic development, money, and power. However, underlying these synonyms, many scholars and professionals may find difficulties in defining ‘investment’ in an accurate manner.\textsuperscript{21} The literature reveals two notions of investment. First, the process or transaction by which a person or legal entity makes an investment. Second, the assets required as a result of investing.\textsuperscript{22} The relevant question that arises here is whether IP rights fit in both notions of investment. The current trends in investment agreements show that definitions of investment includes an illustrative list of assets.\textsuperscript{23} Before analysing IP in invest-

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**References**

14 There are cases where intellectual property has been featured directly or indirectly in ISDS, such as; Apotex v. United States (ICSID Case No. ARB(AF)/12/1); Erbiti Sertex v. France (ICSID Case No. ARB(13)/22); Joseph Charles Lemine v. Ukraine (ICSID Case No. ARB(16)/18); MHS v. Malaysia (ICSID Case No. ARB(05/10); Nicaragua S.A. v. The Republic of Nicaragua (ICSID Case No. ARB(06/14)). See generally, Gabriele Gagliani, ‘International economic disputes, Investment Arbitration and Intellectual Property: Common Descent and Technical Problems’ (2017) 51(2) Journal of World Trade 355-355.


18 Bridgestone Licensing Services, Inc. And Bridgestone America, Inc. v. Republic of Panama (ICSID Case No. ARB(14)/34) Decision on Expedited Objections (13 December 2017). (Hereafter Bridgestone v Panama).

19 Martin Hunter and Alexei Barbuk, ‘Reflections on the Definition of an Investment’ in Gerald Asken and Robert Briner (eds) Global Reflections on International Law, Commerce and Dispute Resolution: Liber Amicorum in honor of Robert Briner (ICC Publication, 2008) 383. (In authors view; ‘Businessman, lawyers, economists, journalists, and politicians use the term ‘investor’ and ‘investment’ on a daily basis, although few would be able to provide a precise definition. It is somewhat like the terms ‘soverignty’ or ‘public order.’)


21 Ibid.

ment agreements, I will briefly explore the relationship between IP and Foreign Direct Investment (FDI).

The existing literature generates predictions, questions, and confusion concerning the relationship between IP and FDI.27 The impact of IP on inward investment in a country is a classic research question which has been explored even before the TRIPS Agreement. There are two schools of thought that raise different questions. First, do stronger IP rights diminish the potential of local firms to imitate and build on the advanced technologies of foreign firms, potentially slowing economic progress?28 Secondly, what role do IP rights play in encouraging foreign direct investment?29 Mostly, literature revolves around these two questions, resulting in diverse findings. However, the lack of conclusive empirical studies has left the question open to discussion. The literature also highlights that the finding may differ amongst jurisdictions. One commentator observes that the empirical evidence based on US data shows a clear positive relationship between a stronger IP environment and investment inflow.30 On the contrary, data from outside the US indicates that stronger patent rights have a negative effect.31 The lack of conclusive evidence to establish a positive relationship between FDI and IP has resulted in a scenario which I prefer to term the ‘investment paradox’32 which has kept discussions alive between the fields.

2.1 Investment: ‘Everything under the sun that is made’ by the investor

The first International Investment Agreement (IIAs) between Germany and Pakistan in 1959, had explicitly included ‘patents and technical knowledge’ in the definition of investment.33 Similarly, modern IIAs explicitly include intellectual property within the definition of investment. For example, the Australia-India Bilateral Investment Treaty (BIT) defines investment as ‘every kind of asset, including intellectual property rights invested by an investor’.34 Some IIAs explicitly define copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout, designs of integrated circuits, undisclosed information as investments.35 The specific incorporation of intellectual property under the definition of investment means that IP could be potentially subject to the general guarantee afforded to the investor under BITs. The explicit mention of ‘intellectual property rights’ (not categorised as patent, design, etc.) may refer to all kinds of intellectual property, even if these are not protected in the host country, as the treaty language shows that it intended to protect current and future investment including IPRs.36 To avoid unnecessary interpretation, one should be mindful of ‘catch all provisions’.37 There are certain agreements which have adopted an innovative approach in defining investment. For example, the draft Free Trade Area of the Americas (FTAA)38 states;

“The term ‘investment’ does not mean real estate or other property, tangible or intangible, nor acquired in the expectation or used for the purpose of economic benefit or other business purposes. The term also does not imply stock or share (portfolio investment) of companies in one Party acquired for speculative purpose and held for a short-term by nationals of the other Party.”39

27 Ibid, Branstetter and Saggi.
33 Ibid.
In general, a broad definition of intellectual property may provide an advantage to the investor. In some BITs, intellectual property is placed in other categories of definition other than investment. For example, the US-Turkey BIT includes intellectual property in its definition of ‘associated activities’. The intention here is to further broaden the concept of investment so as to include all kinds of activities. Interestingly, few BITs define investment to include intellectual property which is not protected in their home state. For instance, the Ethiopia-Israel BIT includes geographical indications and plant-breeder rights. At the time of the agreement, Ethiopia did not have a legal framework for plant-breeder rights. Moreover, Ethiopia is not a member of World Trade Organization (WTO). Certain BITs include “goodwill” under the definition of investment, but there has been debate whether folklore, traditional knowledge, and genetic resources are to be covered under the definition of investment. Interestingly, the US-Jamaica BIT refers to ‘patentable inventions’ rather than the common practice of including ‘patent’. This suggests that all patentable inventions (and possibly patent applications) in the host country may amount to investment. Even more broadly, the United States-Mongolia BIT defines intellectual property to include ‘inventions in all fields of human endeavour’. Thus, the language used in BITs is so broad that it somehow conveys that ‘everything under the sun that is made’ by investors is an investment. To conclude, the recently released investment chapter of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has included a limitation clause in its definition of investment. This definition includes intellectual property rights, but the insertion of a limitation clause – ‘investment does not mean an order or judgment entered in a judicial or administrative action’ – aims to avoid litigation over judicial decisions in the home state.

The inclusion of intellectual property within the definition of investment is not enough to litigate IPRs in investor-state dispute settlement (ISDS). To bring a dispute to the International Centre for Settlement of In-

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37 Ibid, Art. 25g defines ‘associated activities’ include 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 contract; the acquisition, use, protection and disposition of property of all kinds including intellectual property rights ……“
41 Belgium-Luxembourg-India BIT entered into force on 8 January 2001< http://investment-policyhub.unctad.org/I1A/mappedContent/treaty/444>.
43 The Treaty between the United States of America and Mongolia Concerning the Encouragement and Reciprocal Protection of Investment, signed 6 October 1994, entered into force 4 January 1997 - Article 1 1a [iv].
45 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)- Art 9.1 investment < https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Text/9.-In
dvestment-Chapter.pdf> accessed 20 February 2018.
vestment Disputes (ICSID), one has to prove that the activities that are the subject of the dispute fulfill the tribunal’s criteria of investment. While the drafting history of the ICSID Convention suggests that there were discussions regarding the definition of ‘investment’, this term remains undefined under the Convention. The initial draft of the Convention shows an intention to put a time limit on the definition of investment. For example: the first draft defines investment as ‘any contribution of money or other assets of economic value for an indefinite period.’

The idea of a ‘time limit’ on investments may be to encourage investment for a long duration. However, such a proposal could disqualify investors investing a huge sum of money for less than five years, whereas investors of lesser amounts may have an advantage. After deliberation, an open-ended definition was opted for so as to incorporate all kinds of situations. As one commentator reminds us;

“the term ‘investment’ is not defined in the Convention. This omission is intentional. To give a comprehensive definition... would have been of limited interest since any such definition would have been too broad to serve a useful purpose or might have arbitrarily limited the scope of the Convention by making it impossible for the parties to refer to the Centre a dispute which would be considered by the parties as a genuine ‘investment’ dispute though such dispute would not be one of those included in the definition in the Convention.”

The literature also reveals that the inclusion of ‘intellectual property’ under the definition of investment was opposed by several countries but was incorporated because of its commercial nature. As a rule of thumb, the Tribunal assesses a dispute arising out of an investment based on criteria laid down by other tribunals. In general, arbitral tribunals have identified four characteristics of an investment, commonly known as the ‘Salini criteria’: i) commitment (ii) duration (iii) risk and (iv) contribution to economic development in host state. These characteristics are not always applied simultaneously and arbitral tribunals are reluctant to term the Salini criteria as a conclusive and exhaustive list. For instance, the Tribunal has questioned the criterion of ‘contribution to economic development’ and found that:

“the economic development of a host State is one of the proclaimed objectives of the ICSID Convention, this objective is not in and of itself an independent criterion for the definition of an investment. The promotion and protection of investments in host States is expected to contribute to their economic development. Such development is an expected consequence, not a separate requirement, of the investment projects carried out by a number of investors in the aggregate.”

A similar view is taken in Pey Casado v. Chile, where the Tribunal observed that the economic development of the host state ‘must be seen as a consequence, not as a condition of investment by protecting investments [...] this does not mean that development of the host state becomes a constitute element of the concept of investment.’ It shows that the Tribunals are not willing to strictly adhere to the Salini criteria in determining whether there is an investment. In one case, the Tribunal observed that “there is no basis for a rote, or overly strict, application of Salini criteria in every case. These criteria are not fixed and mandatory as a matter of law. They do not appear in the ICSID Convention.” Generally, arbitral tribunals refer to the Salini criteria in determining investment, but several arbitral tribunal decisions suggest some divergence on acceptance of the criteria. However, sometimes the Tribunal directly applies the Salini criteria in determining ‘investment’ without reflecting the terms of the relevant BITs. The Tribunal in Philip Morris Brands v. Uruguay found the investment under article 25(1) of the ICSID Convention must be analysed with reference to the definition of ‘investment’ under the BIT without going beyond the outer limit set by the Convention. This outer limit refers to:

“the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose. The notion covers a wide range of economic operations confirming the broad scope of its application, subject to the possibility for States to restrict the jurisdiction rational material by limiting their consent either in their investment legislation or in the applicable treaty.”

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60 Article 25(1) of ICSID Convention deals with jurisdiction. It states: ‘The jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a contracting state and a national of another contracting state, which the parties to the dispute consent in writing to submit to the Centre...’ [emphasis added].
61 Ibid., at 385. Also see G.R. DeLaume, ‘Conventional on the Settlement of Investment Disputes Between States and Nationals of Other States’ (1964) 111 Intl. Lawyer 70.
64 See generally Upreti, above n 15.
65 Saba Fakes v. Republic of Turkey, ICSID Case No. ARB/07/20 (Award) July 14, 2010. For similar discussion see Malaysian Historical Salvors SDN BHD v. The Government of Malaysia, ICSID Case No ARB/05/10, Decision on Annulment, 16 April 2009.
66 Ibid, Saba Fakes v. Republic of Turkey at para 111.
67 Victor Pey Casado and President Allende Foundation v. Republic of Chile, ICSID Case No. ARB/98/2 (Award) 8 May 2008.
69 Ibid at 312.
70 Philip Morris Brands, above n12, para 199.
71 Ibid.
72 Ibid., para 201.
73 Ambiente Ufficio S.PA. and others v. The
Further, the Tribunal did not accept that the Preamble of the ICSID Convention and the BIT make a significant contribution to the meaning and scope of the term investment. There are cases where the Tribunal has found the Salini criteria to be a useful tool to assess investment. Nonetheless, the jurisprudence of arbitral decisions indicates that one may consider the Salini criteria as a guideline but not a rule.

To conclude, in light of the divergence of arbitral decisions and the open-ended definition of investment, it is possible to identify two approaches to interpreting investment. First, the ‘jurisdictional approach’ can be used whereby the arbitral tribunal strictly applies all the criteria (such as the Salini criteria) to determine investment. Second, the ‘characteristic approach’ follows one of the several criteria to investigate whether given conduct qualifies as an investment. The logic behind an open-ended definition may be to attract investment flow and to clarify the scope of protection regarding predictable subject matter. Nonetheless, it is also convenient for an investor to bring a dispute and states, at no cost, could avoid ICSID jurisdiction. Therefore, it may be concluded that case-by-case analysis is the de facto rule in determining intellectual property as an investment.

3. IP LICENCE AS AN INVESTMENT: BRIDGESTONE V. PANAMA

Bridgestone Licensing v. Republic of Panama is a dispute arising from the United States–Panama Trade Promotion Agreement (TPA). The dispute arose after the Panamanian Supreme Court set aside a decision of the First Superior Court of the First Judicial District, held that the trademark opposition proceedings had been carried out in bad faith, and awarded Bridgestone a penalty of USD 5,000,000 in damage and USD 431,000 in attorney’s fees (roughly equivalent to 65% of Bridgestone’s annual sale in Panama). BSAM, a subsidiary company of Bridgestone Corporation, initiated arbitration proceedings on the ground that the Supreme Court decision diluted, and ‘operates as a de facto protectionist device allowing potentially confusingly similar marks’ and created difficulties in enforcing, trademarks. The precise grounds for arbitration were that the Supreme Court decision was unjust and arbitrary, violated Panama’s obligations under the TPA, expropriated its investment, and violated the requirement of fair and equitable treatment to BSLS’s and BSAM’s investments.

In this article, I will only deal with arguments raised by both parties on questions resulting from the interaction between intellectual property licence agreement and definition of investment. On 13 December 2017, the decision on expedited objections was out where the Tribunal clarified the question of IP Licence as an investment, but the final award is awaiting. There are other issues besides IP Licence as an investment, which is out of the scope of this article. After briefly providing the background to the case, I will analyse above question in detail.

3.1 Background to the Case

Bridgestone Corporation (BSJ), a Japanese company, owns the trademarks ‘BRIDGESTONE’ and ‘FIRESTONE’, registered in several countries including Panama. BSJ does not itself use and market its trademark but allows subsidiary companies owned by BSJ to use the trademark under licence or sub-licence agreements. Bridgestone Licensing Services, Inc. (BSLS) and Bridgestone American, Inc. (BSAM) are subsidiary companies of the Bridgestone Group registered in the United States. The FIRESTONE trademark was assigned to BSLS. On 1 December 2001, BSLS entered into a Licence Agreement with BSAM to use the FIRESTONE trademark registered in South American countries, including Panama, in return for modest royalties paid to BSLS. Based on the Licence Agreement BSAM then sub-licensed to another subsidiary, Bridgestone Costa Rica (BSCR), which manufactures tires using the FIRESTONE trademark for the Panama market. However, no sub-licence agreement was executed between BSAM and BSCR. Additionally, parent company BSR granted a licence to Bridgestone American Tire Operations, LLC (BATO) to use the ‘BRIDGESTONE’ trademark in relation to all tire products in the US and elsewhere. Furthermore, a sub-licence agreement was executed between BATO AND BSCR to manufacture tires with the ‘BRIDGESTONE’ trademark for sale in Costa Rica and worldwide.

According to the Bridgestone group policy, any trademark application with the suffix “stone” should be oppo-
The case revolved around the question: **does an IP Licence Agreement with a revenue sharing model qualify as an investment?**

Based on the TPA, Panama questioned the nature of BSAM's transactions, arguing that the Licence Agreement, with its revenue sharing model, are forms that an investment may take pursuant to the TPA rather a substance that constitutes investment, and such forms of investment do not constitute investment under the definition of the TPA. According to Article 10.29(f) of the TPA, ‘investment’ is defined as follows:

> “Investment means every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of Capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include... intellectual property rights (emphasis added)”

Panama argues that the Licence Agreement is not an investment on the ground that it is not an ‘asset in Panama, rather a limited and non-exclusive ‘right to use’ a Panamanian trademark’ and, even if it is considered an asset, it is neither owned nor controlled by BSAM. Interestingly, in spite of IPRs being included in the definition of investment under the TPA, Panama questioned whether the Licence Agreement, which allowed to use FIRESTONE and BRIDGESTONE trademarks as an investment. According to Panama, the first question is whether the act comes within the definition of investment. The second question is whether IP rights are an investment. This distinction was based on the fact that the definition of investment under TPA includes other elements which need to be satisfied beforehand. To elaborate this, Panama argues, the specific nature of intellectual property rights. In other words, it must be clear that the conduct is an asset which is owned and controlled directly or indirectly by BSAM.

It is interesting to note that Panama makes a distinction between asset and intellectual property rights. Panama defines an asset as:

> “an item of property owned by a person or company, regarded as having value and available to meet debts, commitments or legacies”

Based on the above definition, Panama argues that BSAM’s does not have a legitimate right because there is no evidence to show that it holds ownership of trade-
marks, not qualifying as property under Panamanian law. Therefore, the inability of BSAM to assign the licence without the permission of licensor fails to fulfil the second elements of assets: availability to meet debts.

On the other hand, BSAM contends that its core investment is its BRIDGESTONE and FIRESTONE trademarks licence, which allowed BSAM to use, manufacture, sell, and distribute. Therefore, this qualifies as an investment under the TPA and Article 25(1) of the ICSID Convention. Citing previous arbitral decision, BSAM advised the Tribunal that the definition of investment under the TPA and the ICSID Convention should be understood together to give a broad meaning to the definition of investment.

BSAM highlighted that the right to royalty payments and trademarks fall within the ordinary meaning of Article 25. BSAM concluded that their IP rights and licence with a revenue sharing model fell within the definition of an investment. Further, BSAM contended that the Licence Agreement provides a right to use the marks and to undertake all of its activities in Panama - the sale and distribution of tire bearing the BRIDGESTONE mark, which, it was argued, is enough to establish an intellectual property investment in Panama. Furthermore, BSAM clarified that the TPA does not require that the IP is subject to domestic law to qualify as an investment, rather, this limitation applies to licences under Article 10.29(g) of the TPA. Therefore, these rights are assets in Panama which have the characteristics of an investment. In order to establish characteristics of investment BSAM's identified the following points.

1. BSAM’s activities of hiring, monitoring sales, and marketing in Panama reflect a commitment of ‘some economic value’. Similarly, a commitment to capital is obtained through IPRs and, as BSAM highlighted, the trademarks are ‘the brands that BSAM is spending capital to use and market’.
2. The Licence Agreement gave BSAM the right to sell tires in Panama, and to enter into a franchise agreement, reflecting an intention to earn money in Panama.
3. The Supreme Court decision results in dilution of the value of the trademark, hindering sales and profit, and giving rise to ‘payment risk’ from customers and distributors.
4. The use of the BRIDGESTONE and FIRESTONE trademarks through a Licence Agreement since 2001 is evidence of duration of investment.

BSAM rejected Panama’s argument that BSAM transactions were simply cross-border sales. BSAM accepted that cross-border sales per se cannot be an investment but argued that they could be part of the activities of an investor. In the words of BSAM, ‘cross border sales are part of the activities in Panama in which BSAM is engaged on the basis of its intellectual property investment’. Similarly, BSAM asserted that the BRIDGESTONE and FIRESTONE trademark licences were assets because the licenceree derives its right over Panamanian intellectual property rights from the Licence Agreement. In order to assert its control over the IP investment, the BSAM drew the Tribunal’s attention to the fact that the Licence Agreement gave BSAM control over the manner in which the trademark could be used, marketed, and sub-licenced, and used to exercise quality control over the product. Further, BSAM clarified that the consent of the trademark holder to transfer BSAM’s right cannot be treated as a loss of control or ownership. On the question of assets, BSAM contended that the criteria to determine assets depends on whether it can be sold. To illustrate this point, BSAM argued that the value of the licence allowed BSAM to generate revenue, and that the licence could be converted to cash or assigned for consideration, including through monetary transactions.

It is interesting to note that Panama distinguished between intellectual property rights and the right to use the trademarks. The rationale for such distinction was made in reference to the text of TPA. According to Panama, Article 10.29(f) refers to intellectual property rights which are different from the right to use the trademark. Their argument was based on the premise that trademarks, as intellectual property rights, are investments under Article 10.29(f), and the right to use the trademark, provided by the Licence Agreement, derives from the ‘licence’ clause of Article 10.29(g). In making this distinction, Panama asserted that the Trademark Licence Agreement fell under the category of ‘licence’ and should therefore be assessed as an investment, as opposed to the trademark being assessed as an intellectual property investment.

This argument was supported by showing that the Licence Agreement was not governed by US Law and that the claimant to the dispute is not the owner of the trademark. The distinction between intellectual property rights and right to use intellectual property, it was argued, establishes that the purported investment lacks the necessary characteristics of an investment. In addition, Panama argued that the claimant was not entitled to use the ‘goodwill’ of the brand because goodwill derives from IPRs which, in this case, the claimant did not possess. BSAM clarified this point by comparing its licensing agreement with oil exploration and production licences where the licenceree does not own the concession area but are entitled to explore and produce in that area in accordance with the Licence.
3.2.1 When does a trademark qualify as an investment?

The question before the Tribunal was whether a licence to use the relevant trademark satisfies the definition of investment under the TPA and the ICSID Convention. In order to answer this, the Tribunal sought to establish when a trademark qualifies as an investment. First, the Tribunal analysed the functions of trademarks and acknowledged that past arbitral tribunals have not discussed this question;

“Nor has this Tribunal been referred to any other decision that considers the circumstances in which a trademark can constitute an investment when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment.”107

To elaborate, two sub-questions were raised. First, does the mere registration of trademarks in a country qualify as an investment? Second, can exploitation of trademarks in a country be treated as a prerequisite to qualify as an investment?

Answering the first question, the Tribunal held that mere registration does not amount to or have the characteristics of investment because registration only gives a negative right to exclude others from use of the trademark. Therefore, it cannot be termed as an investment or have the characteristics of investment. The Tribunal writes:

“The effect of registration of a trademark is negative. It prevents competitors from using that trademark on their products. It confers no benefit on the country where the registration takes place, nor, of itself, does it create any expectation of profit for the owner of the trademark. No doubt for these reasons the laws of most countries, including Panama, do not permit a trademark to remain on the register indefinitely if it is not being used.”108

Answering the second question, the Tribunal confirmed that exploitation of a registered trademark may amount to an investment or have the characteristics of investment. According to the Tribunal, exploitation of a trademark requires manufacture, promotion, sales, marketing of goods that bear the mark, after-sale servicing, and guarantees. To achieve this requires resources. Therefore, such exploitation might result in some benefit to the home states. To establish this point, the Tribunal cited the Philip Morris v. Uruguay case as an example of where ‘the activities that included marketing the cigarettes under the trademark constituted a qualifying investment’109. The Tribunal elaborated that exploitation can be achieved by trademark owners or through franchise agreements which give ‘exploitation rights’ to the licencsee for its own benefit.108 The Tribunal also acknowledged the fact that, in some cases, qualified investment can be determined from interrelated activities. According to the Tribunal, ‘interrelated activities’ include selling products bearing the trademark. The Tribunal disagreed with Panama’s argument that ‘an interrelated series of activities, built round the asset of a registered trademark, that do have the characteristics of an investment does not qualify as such simply because the object of the exercise is the promotion and sale of marked goods’,110 and instead ruled that if Panama’s argument was to be accepted, this would result in a preference of form over substance. Thus, the Tribunal concluded that, if the licencsee can exploit the licence in the same way manner as a trademark, this would be sufficient to consider it an investment.111

3.2.2 IP-driven contractual rights as assets

The BSAM Trademark Licence Agreement shows that the use of the licence is subject to approval by BSLS, and that BSLS retains all rights, title and interest in respect of the trademarks and goods associated with the mark.111 Based on these two clauses, Panama argued that the restrictive nature of the licence cannot be described as an IPR, or license, or asset, as BSAM does not own or control the rights.

The Tribunal did not accept this argument, concluding that BSAM’s exclusive right to use the mark meant that the ‘goodwill’ remained attached to the mark, and the question regarding the title of goodwill was therefore immaterial.112 ‘The Tribunal identified two important points from the Licence Agreement. First, BSAM is not granted any interest in the FIRESTONE mark. Second, BSAM possesses contractual rights to use the mark.113 However, the questions before the Tribunal were whether a contractual right can be described as an ‘asset’ and, if so, does a contractual right under the Licence Agreement make BSAM the owner of that asset?

In the view of the Tribunal, both questions should be analysed based on the ‘effect under the law of Panama of the FIRESTONE Trademark Licence’.114 Based on the expert witness and cross examination, the Tribunal concluded that, under Panama’s trademark law, the registered trademark constitutes intellectual property and the Licensor is allowed to pass its right to use its trademark to the licen- cee.115 In the Tribunal’s view, this is enough to conclude that the Licence Agreement grants intellectual property rights under Panama’s trademark law. The Tribunal stated as follows:
“if the owner licences the use of the trademark, the licence constitutes an intellectual property right. The owner of the trademark has to use the trademark to keep it alive, but use by the licencee counts as use by the owner. The licensee cannot take proceedings to enforce the trademark without the participation of the owner.”

Regarding the question of contractual rights. The Tribunal didn't accept Panama's argument that inability to transfer or assign without the consent of licensor has hindered to treat such contractual rights as an asset. Similarly, on Panama's argument of lack of ownership and control, the Tribunal writes ‘it is axiomatic that a licence must be obtained from the licensor, but that does not mean that the licensee does not own the licence’. Also, the Tribunal acknowledged the fact that BSJ and BSLS as owners of BRIDGESTONE and FIRESTONE trademarks have passed their rights through the Licence Agreement to BSCR which allows exploiting rights. In the Tribunal’s view, allowing the use of the trademark to BATO was an example of such exploitation. Thus, the Tribunal concludes that activities of BSCR to exploit the trademark together with the right under which they are entitled to do had the characteristic of investments.

In the tribunal’s words:

“Where the owner of a trademark licences its use to a licensee, it is necessary to distinguish carefully between the interest of the owner and the interest of the licensee, each of which may be capable of constituting an investment. If the owner does no more than grant a licence of the trademark, in consideration of the payment of royalties by the licensee, the value of the trademark to the owner will reflect the amount of royalties received, while the value of the licence to the licensee will reflect the fruits of the exploitation of the trademark, out of which the royalties are paid.”

3.2.3 Article 25 of ICSID Convention: Immediate cause and effect

According to Article 25(1) of ICSID Convention;

“The Jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a contracting state and a national of another contracting state, which the parties to the dispute consent in writing to submit to the Centre.” (emphasis added)

The issue before the Tribunal was whether the dispute to the present case arose directly out of an investment. It is important to note that the dispute before the Tribunal was brought by BSAM, not by BSJ or BSLS who were handed a penalty by the Panamanian Supreme Court. Based on this fact and the previous tribunal decision in the case of Metalpar, Panama argues that there is no “immediate cause and effect” or “causal link” between Panama’s actions and injury to BSAM’s alleged investment. In establishing this, Panama raised three points. First, BSAM was not party to the Panamanian court proceedings. Second, BSAM did not pay the penalty imposed by the Panamanian Supreme Court. Third, BSAM did not own either trademark in question and were entitled only to the use, sale, marketing, or distribution of the trademark, activities that were unaffected by the Supreme Court decision.

On the other hand, BSAM argued that the decision of the Supreme Court affected them in three ways. First, IPRs under the Trademark Licences were diluted as a result of the Supreme Court decision, and the decision ‘made it much more costly for BSAM to maintain its investment in Panama and other regions’. Second, BSAM argued that the decision was likely to encourage trademark applications which are similar or confusingly similar to BSAM trademark. Third, BSAM argued that the decision resulted in a loss of market share, and that this may ‘establish a precedent’ that it is ‘likely’ to be followed within and outside of Panama. BSAM emphasised its loss by arguing that royalties paid to the licensor were dependent on the sales, manufacture, and use of the trademark. In fact, BSAM claimed that it has suffered the majority of the loss arising from ‘the value of its assets’ being ‘directly contingent on the value of the trademarks to which those assets relate’.

In this way, BSAM highlighted that there was an “immediate cause and effect” between the actions of the host state and its effect on BSAM investment. However, BSAM did not demonstrate loss through evidence but submitted that its factual allegations were sufficient.

The Tribunal observed that both owners BSLS and BSJ and licencee BSAM benefitted from the exploitation of the trademarks. The owner’s interest was in royalties, whereas the licencee benefited from exploitation of the trademarks. In the tribunal’s view, both licensor and licensor work mutually, the owner relies on the licencee to
protect the trademark and its interest and vice versa. Additionally, the Tribunal took into account expert opinions that, under the Panamanian law, the licensor could join the licensor in trademark opposition proceedings. The Tribunal was satisfied with the fact that the Supreme Court decision may have a chilling effect, making the trademark more expensive to enforce, less attractive and less valuable, resulting in diminished goodwill. Therefore, the Tribunal concluded that the dispute arose out of the investment, but that there was no ‘immediate cause-and-effect relationship’ between the Supreme Court decision and effects of the investment outside Panama.

4. CONCLUDING THOUGHTS

This case is the first instance of an IP Licence Agreement being subject to an arbitral tribunal. However, this should come as no surprise. Since the prior cases of Philip Morris and Eli Lilly, scholars have speculated on disputes concerning IP related transactions coming before an arbitral tribunal. Considering the territorial nature of IPRs, the possibility of catch-22 situations arises. For example, does the mere registration of IPRs qualify as an investment? To some extent, this case offers clarification to this question. The Tribunal has explicitly emphasized that the mere registration of a trademark in a country does not amount to or have the characteristics of an investment. To be an investment or have the characteristics of an investment, exploitation of the trademark is essential, however the Tribunal does not explicitly reveal the extent of exploitation necessary. The reference to exploitation of the trademark in relation to the economic welfare of the host country shows that exploitation should be apparent and measurable. Given the use of the term ‘licence’ alongside intellectual property rights in defining investments in recent IIAs, this clarification may be necessary. However, the problem lies in the fact that how arbitral tribunal is willing to consider activities of parent companies in relation to the interrelated business transaction in determining investment in host state where the subsidiary companies operate. It is debatable whether the arbitral tribunal should or to what extent should it consider activities of parent companies in determining the investment in the host state.

It is notable that the Bridgestone case is related to trademarks and, in most jurisdictions, domestic trademark law requires a mark to be in use in the market in order for protection to be sought. Additionally, investment is one of the functions of trademarks in some national jurisdiction. In contrast, only a few countries have a working requirement for patents. In light of the on Bridgestone v Panama case, one may argue that, in order to bring proceedings regarding a patent, the patent should first be exploited in the host country. According to the Tribunal, exploitation requires manufacture, promotion, sales, marketing, etc. Following this logic, compulsory licensing of patents based on the working requirement would not amount to expropriation because it will not satisfy investment requirement. On the other hand, entities such as universities, research firms, etc. simply hold patents either through purchase or initial grant without commercializing the patent. The sources of income of such entities is mostly through royalty earned by licensing. In such cases, will arbitral tribunal considers it as exploitation? These are the questions which may open the door for future potential claims. However, this debate is beyond the scope of this paper.

The final Award of the case being awaited, it will be interesting to see how the Tribunal addresses the issues of expropriation and fair and equitable treatment (FET).

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134 Bridgestone v Panama, above n 18, para 242.
135 Bridgestone v Panama, above n 18, para 244.
136 Bridgestone v Panama, above n 18, para 247.
138 Bridgestone v Panama, above n 18, para 161. (in) principle, when considering whether an investment is owned or controlled by a claimant in a chain of companies the corporate veil is withdrawn when looking down the chain from the claimant, but the fact that all the benefits of the investment may ultimately pass up the chain to the parent is ignored. It is perfectly legitimate for a group of companies so to structure their inter-relationship as to gain the benefit of international investment treaties........
139 See L’Oréal SA v. Bellure NVC-489/07).
142 These entities are referred to as Non-Practicing Entity (NPE). For more discussion on NPE; See Jae-il Park, ‘Non-practicing Entities (NPEs) and Patent Remedies for Future Infringement’ (2013) <http://eprints.nottingham.ac.uk/13144/1/phd_2013_Jaeil_Park.pdf> accessed 16 May 2018. (Park defines NPE as a patent owner who hold patents either through initial grants to themselves or through purchase from previous owners, and enforces her patent against a manufacturing company or ‘practicing entity’ with a view to earning royalty revenues by licensing out rather than making a profit by commercializing the patented inventions. For instance, NPEs may include individual inventors, universities, research institutes, research firms, patent trading firms, licensing firms, and so forth).
143 Eli Lilly and Company v The Government of Canada, above n 13, para 223.
144 Mercario, above n 11.
Like *Eli Lilly*, this case has also raised domestic court decision in the international arbitral tribunal. Although, the Tribunal in *Eli Lilly* denied to conclude that the ‘denial of justice’ as the only ground for judicial expropriation. Therefore, it will be interesting to see how the Tribunal in the present dispute review domestic court decision in determining expropriation and FET claims. This raises a relevant question: How will the *ad hoc* international arbitral tribunal review the legality of domestic court decisions related to IPRs? What standards will arbitral tribunal apply to determine legitimacy of domestic courts? Considering the territoriality, contingent nature of IP rights and flexibilities in the application of TRIPS at the national level, the final Award on *Bridgestone v. Panama* may create jurisprudence on judicial expropriation in IP related investment disputes. To conclude, Bryan Mercurio describes recent cases of litigating IP rights in ISDS as an ‘awakening [of] the sleeping giant’. Indeed, this giant is slowly moving towards attracting more IP disputes in ISDS. Unlike previous cases where IP issues were related to health and regulatory matters, this case purely reflects the nature of commercial transactions. Therefore, all eyes will be on the Tribunal’s final Award.

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