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# IP And Investor-State Arbitration After Bridgestone

By **James Ferguson** (March 8, 2019, 12:34 PM EST)

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Investor-state arbitration is a unique form of dispute resolution in which an arbitral tribunal decides claims for compensation brought by corporations against nation states. The corporations base their claims on trade agreements or investment treaties in which the signatory nations adopt certain legal standards to govern "investments" made in their country by companies based in the other nation. These standards generally require the host countries to provide investing companies with "fair and equitable treatment" and to comport with due process in dealing with the investors' property.

The treaties also generally require the host nation to refrain from discriminatory measures giving preferential treatment to domestic companies over foreign investors. If a host country violates a treaty norm in dealing with a foreign investment — and if the foreign investor resides in a signatory nation — the investor can seek compensation through arbitration under (for example) the International Centre for Settlement of Investment Disputes.

One of the most controversial areas of investor-state arbitration involves the treatment of foreign investors' intellectual property under investment treaties and trade agreements. In this area, ICSID tribunals have grappled with complex issues arising from host nations' efforts to limit or invalidate foreign investors' patents, trademarks and other intellectual property.[1]

These issues are especially complex in cases where multinational companies use cross-border structures to license their intellectual property to subsidiaries in different countries. Such structures give rise to challenging questions, such as (1) whether an intellectual property license can qualify as an "investment," (2) whether a licensee can qualify as an "investor" and (3) whether a subsidiary has sufficient connections with its host nation to claim the benefits of that nation's treaties.

Many of these questions have now been answered. In a recent decision, an ICSID tribunal addressed a wide range of issues relating to Panama's treatment of certain intellectual property owned by the Bridgestone companies.[2] In so doing, the tribunal laid the ground work for a comprehensive approach to intellectual property disputes in investor-state arbitrations. Indeed, as shown below, in light of the tribunal's decision, a framework now exists for analyzing virtually the entire range of intellectual property issues in investment arbitration, including issues arising from cross-border licensing structures.

**When Does Intellectual Property Qualify as an "Investment"?**

The first question arising from any ICSID dispute involving intellectual property is whether the IP at issue qualifies as a protected "investment." This question arose in the Bridgestone case when Panama mounted a jurisdictional challenge to an ICSID claim brought by two U.S. Bridgestone affiliates based on Panama's treatment of certain trademarks.

To resolve the jurisdictional claim, the Bridgestone tribunal first had to determine whether a trademark (or any other form of intellectual property) qualified as an "investment" under the U.S.-Panama Trade Promotion Agreement. To this end, the tribunal began by noting that, like many other investment treaties, the TPA defines "investments" to include intellectual property rights recognized by the laws of the host country. The tribunal then noted that under Panamanian law a properly-registered trademark constitutes a protected form of intellectual property.[3]

This finding, however, did not end the inquiry. The tribunal stressed that an "investment" must confer a benefit on the host country, while creating at least some risk for the investing company.[4] Under these principles, the mere act of registering a trademark does not constitute an "investment" because it confers no benefit on the host state, and it creates no risk for the mark owner.[5] Only when the mark owner "exploits" the mark by manufacturing and promoting mark-bearing products in the host country — thereby assuming risk and conferring a benefit on the host country — does a registered mark become an "investment."[6]

Accordingly, under the Bridgestone decision, a trademark and other forms of intellectual property can generally qualify as protected "investments" if the host state recognizes the intellectual property as a legal right and the owner then exploits that right through commercial activity within the state.

**When Does an IP License Qualify as an "Investment"?**

If a registered trademark can sometimes qualify as a protected investment, what about a trademark license? Does a license to use the mark constitute a protected investment when the licensee sells mark-bearing products in the host state?

This question is especially important for multinational companies that rely on cross-border licensing structures for patents, trademarks and other kinds of intellectual property. In these structures, the companies owning the intellectual property often create subsidiaries to license the corporate IP to other affiliates throughout the world. For example, in the Bridgestone case, the Japanese company owning the trademarks created two U.S. licensing affiliates, which subsequently sublicensed the marks to other subsidiaries in Central America and elsewhere. The sublicensees then promoted the marks by marketing and selling the mark-bearing products within various countries, including Panama.[7]

On these facts, the Bridgestone tribunal held that the trademark license could qualify as an investment as long as the licensee exploited the mark through commercial activity in Panama.[8] The tribunal stressed that under Panamanian law a trademark license is an intellectual property right because the license confers the right to use a properly registered mark.[9] Consequently, if the licensee exploits the license rights through commercial activity in Panama, the license may qualify as a protected investment.

**When Can a Licensing Subsidiary Invoke the Benefits of a Treaty?**

Another issue arising from the use of multi-national licensing structures is what criteria determine whether licensing subsidiaries can claim the benefits of an investment treaty. Or, stated differently, what connections must a subsidiary have with the signatory nations in order to invoke such a treaty?

The Bridgestone tribunal addressed these issues in the context of two questions raised by Panama's jurisdictional objections: (1) can a U.S. licensing subsidiary invoke the benefits of a U.S. treaty with Panama when the subsidiary has no full-time U.S. employees or even a separate U.S. office? and (2) can a licensing subsidiary claim to be "investing" in Panama when it does not actually own the trademark, and another subsidiary (the sublicensee) is the only entity selling mark-bearing products in that country?

These questions were critical to the tribunal's jurisdiction under the TPA which required a finding that the U.S. subsidiary had "invested" in Panama while engaged in "substantial business activities" in the U.S.

In resolving the first question, the tribunal noted that the Japanese parent had created two U.S. subsidiaries and delegated to those subsidiaries the responsibility for overseeing virtually all of the relevant trademark rights. This responsibility included the registration and renewal of the relevant marks, the monitoring of potential infringements, and the receipt of royalties from licensees, all of which occurred in the U.S.[10] The tribunal found that these facts established a "real and continuous link" with the U.S. that allowed the U.S. subsidiaries to invoke the benefits of the U.S. agreement with Panama.[11]

In resolving the "investment" question, the tribunal stressed that the U.S. licensing subsidiary oversaw all of the sublicensee's activities promoting the sale of the mark-bearing products in Panama. Based on this fact, the tribunal concluded that the U.S. licensing subsidiary controlled the "exploitation" of the mark in Panama and therefore invested both "directly and through its subsidiary" in Panama.[12]

This is true, moreover, even though the owner of the trademark was the Japanese parent having no rights under the U.S. treaty with Panama. The tribunal found that the Japanese owner had "passed on" to the U.S. subsidiary all of the relevant trademark rights so that the subsidiary could carry out the activities necessary to exploit those rights in Panama.[13]

Consequently, under Bridgestone, a licensing subsidiary may be entitled to the benefits of an investment treaty if it is incorporated in a signatory nation and plays an active role in exploiting the intellectual property in the host country.

**Conclusion**

The Bridgestone decision provides a useful framework for analyzing a wide range of intellectual property issues in investment arbitrations, including what kinds of IP licenses qualify as protected investments and what licensing subsidiaries can claim the benefits of investment treaties. This framework is likely to have a growing importance as intellectual property disputes become more frequent in investor-state arbitrations.

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[1] See, e.g., Eli Lilly & Co. v. Canada, (ICSID Case No. UNCT/14/2); Philip Morris Brand Sari (Switzerland) v. Uruguay, ICSID Case No. ARB/10/7 (July 8, 2016).

[2] Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama, ICSID Case No. ARB/16/34, Decision on Expedited Objections.

[3] Id. at ¶¶ 164-66, 195.

[4] Id. at ¶¶ 164-65.

[5] Id. at ¶ 171.

[6] Id. at ¶ 172-74.

[7] Id. at ¶ 161.

[8] Id. at ¶ 198.

[9] Id. at ¶ 195.

[10] Id. at ¶¶ 293-300.

[11] Id. at ¶ 302.

[12] Id. at ¶¶ 210, 217.

[13] Id. at ¶ 217.