By Alain Strowel, 15 January 2016

Does Intellectual Property Qualify as a Foreign Direct Investment?

This article is the first part of a three-piece series written by Lukas Vanhonnaeker. Lukas Vanhonnaeker is a doctoral candidate at McGill University. After completing his bilingual (French/English) bachelor's degree in law at the Facultés Universitaires Saint-Louis (Brussels, Belgium) in 2010, Mr Vanhonnaeker received his law degree (cum laude) from the Catholic University of Louvain, Belgium in 2012. Before enrolling at McGill University, he received a LL.M. in international business law from the Free University of Brussels, Belgium in 2013 (magna cum laude). At McGill University, Mr. Vanhonnaeker pursued a LL.M. (2015), where he specialised in the fields of international trade law and international investment law. Mr Vanhonnaeker mainly focuses on international trade law and international investment law and had the opportunity to study corporate and IP law, which leads him to write on topics characterized by the intersection of these different legal fields. As a DCL candidate he is currently conducting research on international investment law, investor-state arbitration and international corporate law.

Philip Morris (PM), the global cigarette and tobacco company, owns several trademarks which are key to the marketing strategies and global activities of the company and are valued at several billions of dollars. What would happen if a country where PM sells its products restricts the use of such trademarks? This question, far from being theoretical, also has practical implications currently analysed by an arbitral tribunal after Australia enacted a "plain packaging legislation" limiting the use of trademarks on cigarette packages (plain packaging of tobacco products has already been discussed on this blog; see post 1, post 2, post 3 and post 4). This measure led PM to bring a claim before arbitration under an international investment agreement. The interaction between intellectual property and international investment law, as illustrated by this example, raises numerous questions, some of which are analysed below.

Corporations are, today, increasingly dependent on transnational activities in a trade context defined by the intertwinement of national economies and foreign direct investment (FDI) has become an increasingly common way to interact in the international scene. Intellectual property (IP) is undeniably part of this trend. Indeed, "[i]n a global economy increasingly based upon conceptual products, converged technologies and international networks" [1], IP is nowadays widely recognized as a critical asset for corporations. However, with the internationalization of operations, corporations face additional risk, especially if intellectual property is involved. Accordingly, it is critical for IP owners to always have the protection of their intangible assets in mind and to be particularly prudent when investing IP abroad in light of risks associated with conducting business in countries that do not share the same commitment to property rights and whose IP regimes differ substantially from the ones they know.

International investment law aims to guarantee the protection of investors when they are conducting operations in a foreign state and to avoid as much as possible negative interference by the foreign state (or "host state") with the investment. This is achieved *via* the more than 3,200 existing international investment agreements ("IIAs", UNCTAD, World Investment Report 2014 at 114), including bilateral investment treaties (BITs) and investment chapters in free trade agreements (FTAs). However, in order to benefit from the protection of such agreements, intellectual property, or intellectual property rights (IPRs), must qualify as "investments" under the relevant treaty.

Intellectual Property and the Definition of "Investment" Under IIAs: The quiet…

It is noteworthy that most IIAs provide for a definition of the term "investment" that includes IPRs. However, there is no global standard concerning the way in which IPRs are covered by investment treaties.

Consider the following example definitions of "investment":

German 2008 Model BIT:

> *(…)*
>
> *(d) intellectual property rights, in particular copyrights and related rights, patents, utility-model patents, industrial designs, trademarks, plant variety rights;*
>
> *(e) trade-names, trade and business secrets, technical processes, know-how, and good-will (…).*

French 2006 Model BIT:

> *1. (…) every kind of asset, such as goods, rights and interests of whatever nature, and in particular though not exclusively (…)*

> *d) intellectual, commercial and industrial property rights such as copyrights, patents, licences, trademarks, industrial models and mock-ups, technical processes, know-how, trade names and goodwill (…).*

Chinese 1997 Model BIT:

> *(…)*
>
> *(d) intellectual property rights, in particular copyrights, patents, trademarks, trade-names, technical process, know-how and good-will (…) [2]*

Other agreements, such as most of the UK's investment treaties from the 1970s and 1980s (see for example the UK's BITs with Antigua and Barbuda, the Republic of Korea, and the Yemen Arab Republic), are less precise and provide for intellectual property under the definition of "investment" without listing each specific type of IP that should be considered as such.

Finally, other IIAs such as the UK-Ecuador BIT provide that "every kind of asset" or, such as the US-Bulgaria BIT, in a circular fashion, that "every kind of investment", qualify as investments (*see also* the France-Singapore BIT: "*les avoirs de toute nature"* and the Netherlands-Pakistan BIT: "every kind of goods, rights, and interests of whatsoever nature"). In these last examples, even if intellectual property would have not been explicitly listed in the non-exhaustive list of what can constitute an investment, it would still qualify as such *via* an article 31 VCLT interpretation of these open-ended definitions.

… before the storm: Additional Requirements

Even if intellectual property is considered as being encompassed under the general definition of "investment" under IIAs, the latter often necessitate other requirements to be met for the operation or assets to enjoy the protections of a given IIA.

For instance, the US 2012 Model BIT provides in its first article that:

> *'**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:*
>
> *(…)*
>
> *(f) intellectual property rights (…)*

Accordingly, if the intellectual property is not used substantively in the host country and is not committed, for example, to an investment with expectation of gain or without any risk component, it likely will not qualify as an investment: the mere possession of IPRs or their use in a given operation does not, thus, automatically qualify them as an "investment". This is applicable regardless of whether IP is explicitly provided under the definition of the IIA at stake.

IIAs often require, also, that investments have a financial value. While it is common knowledge that in today's society IP is often an extremely valuable asset, a licensing contract for the use of trade secrets involving intangible assets that have already been disclosed might be considered as part of the public domain, and thus devoid of any financial value and unable to qualify as investment under domestic law.

A final example of such additional requirements is that the intellectual property right must be granted in accordance with the legal regime of the host state (see for example article 1(2)(iv) of the Ghana-India BIT and article 1(1)(iv) of the Benin-Ghana BIT). The imposition of such a prerequisite is particularly important given the strong territorial logic often inherent in some IPRs: patents, for instance, if granted in a given country will not necessarily be recognized in other countries (we should, however, note the fast evolution towards the creation of a unitary European patent), mainly as a result of the fact that countries do not necessarily share the same conditions for a technical invention to be protected by a patent.

Conclusion

Intellectual property law is a widely studied field of law mostly because in today's economies, IP is a dominant asset for companies and as such, it needs protection. Whenever IP interacts with another field of law, new and often complex questions arise. In this short introduction to the interaction between intellectual property law and international investment law, the aim was to pinpoint and briefly analyse one of these questions: can IP or IPRs qualify as "investment" as understood in the field of international investment law. This question is much more than just theoretical as in practice, depending on the answer to this query, foreign investors might see their IP protected or at the mercy of the host state.

This is one of the many issues that is analysed in great details in the recently published book: "Intellectual Property Rights as Foreign Direct Investments: From Collision to Collaboration" (Edward Elgar 2015). For more information, please visit:

> *http://www.elgaronline.com/abstract/9781784712501.xml*

> *http://www.e-elgar.com/shop/isbn/9781784712501*

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[1] Third Chinese Model BIT, Agreement Between the Government of the People's Republic of China and the Government of ___________ on the Promotion and Protection of Investments, in Norah Gallagher and Wenhua Shan, *Chinese Investment Treaties: Policies and Practice* (Oxford University Press, 2009), Appendix, at 427–431.

[2] Sophie Lamb and Alejandro Garcia, “Arbitration of Intellectual Property Disputes”, *The European & Middle Eastern Arbitration Review* (2008), available at http://www.globalarbitrationreview.com/ (accessed 5 December 2015).