PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

UNDER INVESTMENT ARBITRATION

by

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Koç University

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ABSTRACT

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In today's global world where the development of technology is unpredictably in tendency to enhance, protection of intellectual property rights has become even more important. In the era of innovation and rapid technological development and accordingly in the era when awareness about the importance of intellectual property rights is increased, intellectual property rights whose nature is independent from any physical existence can easily be transferred across the world. The right holders who desire to benefit from immeasurable worth of intellectual property rights through the utilization of such rights across the world do have also concerns about duly protection of their intellectual property rights in every country where such rights are transferred. When the acknowledgement highly associating intellectual property rights with public policy considerations of host states is taken into consideration, it would not be surprising to observe the concentrated concerns of right holders with respect to possible rejections of their being protected demands due to the public policy claims of host states or with respect to the seizure of such rights by host states through the public policy claims of host states. Under the circumstances, the right holders whose rights have been transferred to another country have been in search of the most available dispute settlement mechanism for the protection of their intellectual property rights internationally. In this direction, the purpose of this study is going to be to exhibit the conditions and consequences of an alternative dispute settlement mechanism for the protection of intellectual property rights internationally. Accordingly, within the scope of this study, investment arbitration under ICSID Convention will be proposed as the most available dispute settlement mechanism by providing the reasons of such preference specific to intellectual property rights.

Key Words: Intellectual Property Rights, Investment Arbitration, ICSID Convention

ÖZETÇE

FİKRİ MÜLKİYET HAKLARININ YATIRIM TAHKİMİ KAPSAMINDA KORUNMASI

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Teknoloji gelişiminin öngörülemez şekilde arttığı günümüz küresel dünyasında, fikri mülkiyet haklarının korunması daha da önem kazandı. Yenilik ve hızlı teknolojik gelişmeler çağında ve dolayısıyla fikri mülkiyet haklarının korunması hakkında bilincin arttığı bu çağda, doğası herhangi bir fiziksel varlıktan bağımsız olan fikri mülkiyet hakları, dünya çapında kolayca transfer edilmektedirler. Bu hakların dünya çapında kullanımı sayesinde fikri mülkiyet haklarının ölçülemez değerinden yararlanmak isteyen hak sahipleri ayrıca, fikri mülkiyet haklarının, bu hakların transfer edildiği her ülkede layıkıyla korunmasına ilişkin endişeleri taşımaktadır. Fikri mülkiyet hakları ile ev sahibi devletlerin kamu politikası faktörünü yüksek derecede ilişkilendiren kabul ediş göz önüne alındığında, hak sahiplerinin, korunmaya yönelik taleplerinin ev sahibi devletlerin kamu politikası iddiaları nedeniyle muhtemel reddine veya yine kamu politikası iddiaları aracılığıyla haklarının ev sahibi devlet tarafından gaspına ilişkin yoğunlaşmış iddialarını gözlemlemek sürpriz olmayacaktır. Bu şartlar altında, hakları başka bir ülkeye transfer edilmiş hak sahipleri, fikri mülkiyet haklarının uluslararası ölçekte korunması için, en ulaşılabilir uyuşmazlık çözüm mekanizması arayışı içindedirler. Bu doğrultuda, bu çalışmanın amacı, fikri mülkiyet haklarının uluslararası ölçekte korunabilmesi için, alternatif bir uyuşmazlık çözüm mekanizmasının şartlarını ve sonuçlarını ortaya koymaktır. Buna göre, bu çalışma çerçevesinde, ICSID Konvansiyonu tahtında yatırım tahkimi, fikri mülkiyet hakları özelinde böyle bir tercihin sebepleri sunularak, en ulaşılabilir uyuşmazlık çözüm mekanizması olarak önerilecektir.

Anahtar Kelimeler: Fikri Mülkiyet Hakları, Yatırım Tahkimi, ICSID Konvansiyonu

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ABBREVIATIONS

AAA	American Arbitration Association
Berne Convention	Berne Convention for the Protection of Literary and Artistic Works
BITs	Bilateral Investment Treaties
DR-CAFTA	Dominican Republic - Central American Free Trade Agreement
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
FCN	Friendship, Commerce and Navigation
FTAs	Free Trade Agreements
GATT	General Agreement on Tariffs and Trade
ICC	Internatiional Chamber of Commerce
ICSID Convention	Convention on the Settlement of Investment Disputes between States and Nationals of Other States
IIAs	International Investment Agreements
IPRs	Intellectual Property Rights
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
SCC	Stockholm Chamber of Commerce
TPP Agreement	Trans-Pacific Partnership Agreement
TRIPS Agreement	Trade-Related Aspects of Intellectual Property Rights
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

INTRODUCTION

The improvement of technological and scientific vehicles has enabled the knowledge to become more increasingly mobile, crossing the borders of states more easily than ever. Such improvement has caused an important amendment in the manner which sovereign states have applied for the promotion and protection of foreign investment. Such amendment pursuit has required the embracement of the manner where direct cooperation and coordination between foreign investors and host states is going to be introduced. It is expected that such direct cooperation and coordination between foreign investors and host states will immediately respond to the needs of foreign investors with respect to the protection of their intellectual property rights presented as investment in the host states. It seems that introduction of international investment agreements has been answer to the expectation of immediate answer to the needs of foreign investors. However, at this point, there is a growing debate whether such international investment agreements do reflect the interests of foreign investors and host states in more balanced manner. Since the international investment agreements executed between developed and developing countries are mostly drafted by capital exporting states, it is argued that such international investment agreements are mainly foreign investor centric and "limit the host state's policy space to implement measures on behalf of the public interest".[1] Accordingly, this study aims to provide the major points causing the debate arising out from balance conflicts between foreign investors and host states, and more specifically to procure the arguments which may overcome the claims put forward by the host states with public policy considerations and accordingly to propose international investment agreements as the most available mechanism for the protection of intellectual property rights internationally.

This study is divided into three main parts. The first section of this study addresses the intrinsic features of intellectual property rights. Through this section, it will be tried to highlight the origination point of public policy claims set forth by the host states. Further, substantial international conventions on intellectual property rights which foreign investors

[1] Vivian Daniele Rocha Gabriel & Alebe Linhares Mesquita, *Repackaging Intellectual Property Protection in International Investment Law: Lessons From the Philip Morris v. Uruguay Case*, GEORGETOWN JOURNAL OF INTERNATIONAL LAW (2018), p.1118.

develop their arguments pursuant to the rights and obligations of such conventions will also be presented. Subsequently, this paper analyzes the definition of investment term from the perspective of legal sense by especially focusing on the case-law developed by the decisions of investment arbitral tribunals. As the milestone of this study, the questioning of whether intellectual property rights can be evaluated as investment will be investigated by specifically concentrating on the embracement of intellectual property rights under international investment agreements under the first chapter, too. Following such investigation, the examination of substantive standards which foreign investors have mostly built their claims with respect to the infringement of their intellectual property rights on is going to be subject of the second section. Under this section, on the face of being protected claims through substantive standards put forward by foreign investors, possible counter arguments of host state will also be analyzed. Lastly, in the third section, following the investigation whether the protection of intellectual property rights is more advantageous under arbitration proceedings rather than traditional litigation proceeding or alternative dispute resolutions or conciliation; the evaluation with respect to the questioning of which arbitration forum will be more available and favoured for the protection of intellectual property rights belonging to foreign investors as investment will be placed out.

Chapter 1

INTELLECTUAL PROPERTY RIGHTS AS PROTECTED INVESTMENTS

Intellectual property rights ("IPRs") are one of the most precious assets in the international economy. Commonly, it is alleged that "most of a company's value consists in its intangible assets such as its IPRs, whereas its tangible property, such as the production facilities, has much less value".[2] Intellectual property rights, as an important element in technology and production, play also a key role in international investment. Accordingly, strong and effective protection of IPR is deemed as an important factor in an investment decision taken by internationally operating corporations.[3]

So indeed, views from the officials of many of the investors reveal that, in deciding whether a particular country's system of protection is too weak, they are especially interested in the answers to these questions: "(i) Can the country's laws protect their technology? (As an illustration, some countries do not allow chemical or drug products to be patented.) (ii) Is there an adequate legal infrastructure in the country? (Some countries contain few patent attorneys or other specialists in this area of expertise.) (iii) Do the relevant government agencies in the country enforce the laws and provide prompt and equitable treatment to foreign firms? (In some countries, there are reports of corruption and of discrimination against foreign firms)."[4] It may easily be claimed that investors are more interested to determination whether the intellectual property protection in the host state is sufficiently strong rather than the determination whether the investment decision concerned should be made or not.

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[2] Bertram Boie, *The Protection of Intellectual Property Rights through Bilateral Investment Treaties: Is there a TRIPS-plus Dimension?*, SWISS NATIONAL CENTRE OF COMPETENCE IN RESEARCH (2010), p.4.
[3]Gabriel M. Lentner, *The Protection of Intellectual Property Rights through International Investment Agreements*, THE KOREAN COMMERCIAL ARBITRATION BOARD, p.30.
[4] Edwin Mansfield, *Intellectual Property Protection, Foreign Direct Investment, and Technology Transfer*, INTERNATIONAL FINANCE CORPORATION DISCUSSION PAPER (1994), p.9-10.

In today's global economy, the divergence between economic needs and the legal situation of foreign right holders obviously creates problems and risks for IPR-holders. First, they have to ensure that their rights, which are of economic interest to them, are adequately protected in every jurisdiction. This can be a long, burdensome and expensive process. The procedure is further complicated by the fact that intellectual property laws differ with regard to possible registration formalities, the scope of rights granted and the lifetime of an IPR. Second, even if formal protection has been granted in various countries, IPR-holders still face the risk that the protection is not effective, *i.e.* either that national laws do not grant an adequate level of protection or that they are not enforced in an efficient way.[5] An obvious risk is that national enforcement agencies might treat complaints of foreigners differently from well-connected local counterparts. Accordingly, it has been detected that"in order to bridge the gap between territoriality limited IPRs and a globally integrated economy, various international treaties have been concluded since the end of the 19th century".[6]

Ultimately, the transfer of intellectual property rights protection from national platform bearing the threat of discriminative treatment to international platform arranged in compliance with the impartial standards has been seemed as the safest harbour for investors. In compliance with such transfer endeavours, incorporation of intellectual property rights ("IPRs") into investment definition under international investment agreements, as the main subject matter of this study, is crucially influential on investment decisions of investors. The investors, who desire to procure the safest protection for their intellectual property rights deemed as the most precious assets in modern world, apply to the instrument of international investment agreements providing protective covenants, such as national treatment, most favoured nation treatment, fair and equable treatment, against the infringements of such rights by host states. Afterwards, if specifically agreed on, investor-state dispute settlement mechanism offering to investors the right to directly bring a claim against host state without the need of interference by home state of foreign

[5] Bryan Mercurio, *Awakening the Sleeping Giant: Intellectual Property Rights in International Investment Agreements*, JOURNAL OF INTERNATIONAL ECONOMIC LAW (2013), p.877.
[6]Markus Perkams &James M. Hosking, *The Protection of Intellectual Property Rights Through International Investment Agreements: Only a Romance or True Love?* (2009), p.3.

investors will be in question. However, existence of such advantages requires the inclusion of intellectual property rights into investment definition drafted in international investment agreements.

Following such implications with respect to importance of the evaluation of intellectual property rights as protected investments, in order to provide legitimate answers to the question of whether and/or to which extent intellectual property rights can be evaluated as protected investments, I believe that the definition of intellectual property rights and investment term themselves should be examined seperately hereunder by remaining loyal to the purpose and requirements of this study. Subsequent to such examination with respect to the definitions of intellectual property rights and investment term, consideration of intellectual property rights as protected investments under TRIPS Agreement, bilateral investment agreements and free trade agreements individually will be remarked elaborately.

1.1. Defining Intellectual Property

Term confusion regarding the area of law consisting the foundation of this study does exist in theory and application. For the inclusive term which the meaning of in English is "intellectual property" and which the meaning of in French is "*propriété intellectuelle*", various notions are used in Turkish, such as "intellectual property" ("*fikri mülkiyet*"), "intellectual and industrial property" ("*fikri ve sınai mülkiyet*") or "intellectual, industrial and commercial property" ("*fikri, sınai ve ticari mülkiyet*").[7]Indeed, each notion referred above, "intellectual property", "*propriété intellectuelle*" and "*fikri mülkiyet*" includes literary and artistic works, computer programs and databases, patents, trademarks, utility models, designs, geographical names, new varieties of plants, biotechnology, gene technology, commercial and company names, domain names, know-how, trade secrets, signs, topography of semiconductors and digital communications. It should be significantly noted that the content of this list is in tendency to enlarge considering recent developments

[7] Levent Yünlü, *Fikri Mülkiyet Hakkı*, MİLLETLERARASI HUKUK VE MİLLETLERARASI ÖZEL HUKUK BÜLTENİ (2003), p.892.

in the fields such as bio-diversity and nanotechnology and the intimate connection of the term of "intellectual property" with competition law.[8]

Substantially, it should be emphasized that the term of "intellectual and industrial property" ("*fikri ve sınai mülkiyet*") whose ground is actualized in the distinction between the Paris Convention dated 1883 and inclined for the purpose of protecting industrial property and the Bern Convention dated 1886 and inclined for the purpose of protecting literary and artistic works is losing its effect progressively. Accordingly, the argument evaluating literary and artistic works under the title of "intellectual property", in return evaluating innovations, inventions and unique designs in industry and agriculture such as patents, trademarks, commercial names and other names and signs under the title of "industrial property" isdiscredited since not only literary and artistic works but also patents, utility models and industrial designs are the "products of mind" and results of creative idea.[9]

Furthermore, the subject of both the Convention Establishing the World Intellectual Property Organization ("WIPO") and the Agreement on Trade-Related Aspects of Intellectual Property Rights referred as the TRIPS Agreement are composed of both patents, trademarks, designs and literary and artistic works.[10] The term of "intellectual property"with the meaning of "*fikri mülkiyet*" in Turkish includes all of the components listed above in such Convention and Agreement. As is seen, the application under the leadership of the Convention Establishing the World Intellectual Property Organization and the TRIPS Agreement is in tendency to prefer the term of "intellectual property" with the meaning of "fikri mülkiyet" in Turkish in the inclusive manner.[11]

In a similar vein, neither the WIPO nor World Trade Organization ("WTO") sets forth a distinction between the terms of "intellectual property" and "intellectual and industrial property" and the term of "intellectual property" is favoured as the inclusive notion. So indeed, according to the WIPO, the term of "intellectual property" refers to the "products of mind": inventions, literary and artistic works, any symbols, names, images, and designs

[8] ÜNAL TEKİNALP, FİKRİ MÜLKİYET HUKUKU (Beta. 2004), p.1; AKIN BEŞİROĞLU, DÜŞÜNCE ÜRÜNLERİ ÜZERİNDEKİ HAKLAR (AFB Yayınları. 1999), p.31.
[9] TEKİNALP, supra note 8, p.1-2.
[10] Id. at p.2.
[11] Id. at p.3.

used in commerce. In the same direction, WTO has offered its own definition: "Intellectual property' refers to creations of the mind. These creations can take many different forms, such as artistic expressions, signs, symbols and names used in commerce, designs and inventions" It goes on as follows: "Governments grant creators the rights to prevent others from using their inventions, designs or other creations – and to use that right to negotiate payment in return for others using them. These are 'intellectual property rights'".[12]

Considering the wide currency granting broad meaning to the term of "intellectual property", and the reality where the field of literary and artistic works is industrialized as a result of enormous development in the area of technology such as computer programs, digital communications and multimedia, the term of "intellectual property" is going to be preferred as inclusive notion within this study in compliance with WIPO, WTO, doctrine and internationalpractice.[13]

1.1.1 Sui Generis Characteristics of Intellectual Property

Hereinabove, we have reviewed that intellectual property includes various subfields such as literary and artistic works, patents, utility models, industrial designs and digital communications. Under this title, beyond the investigation of the definition and subfields of intellectual property, the common characteristics of such subfields of intellectual property defined as "products of mind" are going to be analyzed.

1.1.1.1 Abstract Nature of Intellectual Property

Unlike real property or movable property, intellectual property does not have any material existence. For instance, a song, a picture, pattern of a dress, innovation of a machine or chemical formula of a perfume do not have any physical existence. Intellectual property is reflected to external world with a scratch, dance step, poetry, physical formula or resonance and neither of these reflections is concrete.[14]In this direction, it should be emphasized that the nature of intellectual property is independent from any physical existence differently

[12] World Trade Organization, *Intellectual Property: protection and enforcement.*
[13] SAMİ KARAHAN & CAHİT SULUK &TAHİR SARAÇ & TEMEL NAL, FİKRİ MÜLKİYET HUKUKUNUN ESASLARI (Seçkin, 2013), p.1-2.
[14] TEKİNALP, supra note 8, p.5.

from real or movable property. Although intellectual property may be intangible or abstract, the question relating to the terms of ownership and possession of intellectual property which is going to be examined below is arisen once the existence of intellectual property is associated with real property. It is indeed the case that, while intellectual property is itself intangible, it will be embodied in real objects. A Coca-Cola sign, a best-selling novel and a new wonder drug may each constitute the physical embodiment of an intellectual property right: a registered trademark, a copyright and a patent, respectively.[15]

1.1.1.2 Divided Nature of Intellectual Property

Intellectual property is usually embodied in real objects. However, intellectual property and the objects which intellectual property are concretized on are different from each other. Herein, it should be emphasized that the abstract nature of intellectual property is not affected by the embodiment of intellectual property in a real object. Furthermore, such embodiment does not turn intellectual property into the real object which such intellectual propertyis concretized on.[16]

Such divided nature of intellectual property[17]also determines the area of law which intellectual property and real objects where intellectual property are concretized on are subject to. For instance, while the right on a book copy with tangible existence is protected by property law, the intellectual property concretized on a book copy, in other works literary works, is protected by intellectual property law. In the similar vein, acquisition of the book copy does not mean the acquisition of the intellectual property.[18] For this reason, the person purchasing the book copy (property) can sell such book to others while such person does not have the right to copy the book (intellectual property) and release it to the market.

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[15] JENNIFER DAVIS, INTELLECTUAL PROPERTY LAW (Oxford University Press. 2012), p.2.
[16] Id. at p.6.
[17] ESRA DARDAĞAN, FİKİR VE SANAT ESERLERİ ÜZERİNDEKİ HAKLARDAN DOĞAN KANUNLAR İHTİLAFI (Betik Yayıncılık. 2000), p.15.
[18] KARAHAN, et al., supra note 13, p.5.

1.1.2 Sui Generis Characteristics of Intellectual Property Rights

The analysis of the *sui generis* characteristics of intellectual property rights is going to be required for the resolution of possible problems which may be encountered within the development of this study.

1.1.2.1 Absolute Right Nature of Intellectual Property Rights

Within the scope of intellectual property rights' historical development, by the reason of the abstract and intangible nature of intellectual property as detailed above, the embracement of intellectual property rights as "property" has been questionable.[19] So indeed, conceptual differences in this respect also reflected on early decisions of the Constitutional Court of Turkey. Under the decision adopted within the period of 1961 Constitution Act, following the detailed arguments, the Constitutional Court, by basing on the preparatory studies of the relevant article, resolved that intellectual property rights cannot be evaluated under Article 36 designating ownershipright. Further, the Court based its such resolution on the fact of that ownershiprights and intellectual property rights are designated within two separate articles under Universal Declaration of Human Rights. Ultimately, although the Court did not perceive intellectual property rights as property (as indicating to'ownership' with its meaning of legal relationship between persons and things which give persons control over things), it did accept that such rights would benefit from constitutional protection to some extent because of the evaluation of intellectual property rights under freedom of science and arts designated within 1961 Constitution Act. However, the approach of Constitutional Court established during the period of 1961 Constitution Act has been amended in the recent times. So indeed, with its decision dated 2008, the Constitutional Court of Turkey has returned from its ruling case rejecting the embracement of intellectual property rights as property (as indicating to 'ownership') and

[19] CHRISTOPHER MAY, A GLOBAL POLITICAL ECONOMY OF INTELLECTUAL PROPERTY RIGHTS-THE NEW ENCLOSURES? (Routledge. 2005), p.12-13.

resolved that intellectual property rights should be evaluated under Article 35 of 1982 Constitution Act designating ownership rights without going into details.[20]

Saving these explanations regarding the amendments on the ruling case of Constitutional Court of Turkey, even if intellectual products are not terminologically deemed as "property" under jurisdictions[21], the protection of intellectual property rights is embraced under property concept due to absolute right nature of intellectual property rights. To put it differently, even though intellectual products are not considered as "property"[22], the reason of why the word of "property" is used in the term of "intellectual property" is the exclusive nature of absolute right on intellectual product.[23] Intellectual property rights grant absolute authorities bearing monopoly nature to the right holders and such intellectual property rights are considered as absolute rights. These rights can be alleged to anyone and such rights can be exercised by the only right holder or the ones allowed to by the right holder.[24]

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[20] Burak Gemalmaz, *Anayasa Mahkemesi Bireysel Başvuru Usulünde Mülkiyet Hakkının Uygulanabilirliği Meselesi I: AYM Kararlarının Mülkiyet Hakkının Mevcudiyetinin Dayanağı Olarak Uluslararası Hukuka Açıklık Açısından Eleştirel Değerlendirmesi*, ANAYASA YARGISI (32) (2005), p.395-396.

[21] It should be kindly noted that the approaches evaluating whether intellectual property rights are deemed as property can be collected under two groups, which are pragmatic approach and approach of national law. Accordingly, pursuant to pragmatic approach, only if the creators of intellectual property rights are awarded, society may obtain intellectual property rights more efficiently. In other words, in order to encourage the creators to product intellectual works, grant of property right to such creators is essential. It is defended that no other right except property right does offer protection so that creators will be encouraged to create or develop new works. On the other hand, Aristo, with his counter argument, defends that such award system decreases public welfare contrary to exceptions. See Edwin C. Hettinger, *Justifying Intellectual Property*, PHILISOPHY & PUBLIC AFFAIRS (1989), p.31-52. Secondly, pursuant to approach of national law, although it is stipulated that author owns an ethical right which arises from creativity and individuality over the original work created by the author and which does worth to be protected duly, such right cannot defined as property right technically since whereas the rights on movable and immovable properties are not limited by time, intellectual property rights are limited by a certain time. See Paul Durdik, *Utility or a Natural Right* in ANTHONY D'AMOTO & DORIS E. LONG, INTERNATIONAL INTELLECTUAL PROPERTY LAW (Kluwer Law International. 1997), p.27-28.

[22] Intellectual products are not considered as "property", rather than, evaluated under a different category named as "intellectual property right", which is an absolute right. See, M. KEMAL OĞUZMAN & ÖZER SELİÇİ & SAİBE OKTAY-ÖZDEMİR, EŞYA HUKUKU (Filiz Kitabevi. 2013), p.7; M. KEMAL OĞUZMAN & NAMİ BARLAS, MEDENİ HUKUK (Vedat Kitapçılık. 2012), p.159; TUĞRUL ANSAY & DON WALLACE JR, INTRODUCTION TO TURKISH LAW (Walters Kluwer. 2011), p.148.

[23] TEKİNALP, supra note 8, p.5-6; JEREMY PHILIPS & ALISON FIRTH, IS IT "INTELLECTUAL"? IS IT "PROPERTY"? (Butterworths. 2001), p.3-4. The distinction between the terms of tangible property and intangible property arising out from Roman Law has caused to the usage of the term of "propriété intellectuelle" ("intellectual property") for intellectual property rights. See OĞUZMAN & SELİÇİ & OKTAY-ÖZDEMİR, supra note 22, p.7; OĞUZMAN & BARLAS, supra note 22, p.159.

[24] PHILIPS & FIRTH, supra note 23, p.5-6.

The other characteristics of intellectual property rights, which are related to the absolute right nature of intellectual property rights, is exclusive nature. Intellectual property rights entitle right holders with exclusive authoritiesincluding the prohibition of such intellectual property rights to be exercised by third parties. The right holder of intellectual property right can prohibit the exercise of his own intellectual property right without the need of permission of anyone else. Such right holder may not permit for access of the products infringing his own intellectual property rights to market.[25] In this direction, it may be even claimed that the intellectual property rights bear the ability to restrict the competition in market.[26] To conclude, absolute right nature and accordingly exclusive nature of intellectual property rights grants protection to such rights as if they are embraced under property concept.

1.1.3 Sui Generis Principles of Intellectual Property Rights

Some certain *sui generis* principles of intellectual property rights come up together with *sui generis* characteristics of intellectual property and intellectual property rights. Hereunder, such fundamental principles which are specific to and in compliance with *sui generis* characteristics of intellectual property rights will be studied in detail.

1.1.3.1 Registration Principle

Establishment of the intellectual property rights relating to industrial property such as trademarks, patents and designs is subject to the registration of such rights to the related registry. Pursuant to territoriality principle to be detailed below, the registration of such rights in the country where the protection is demanded is required. Otherwise, the protection cannot be requested in the country where registration certificate concerning trademarks, patents and designs has not been obtained.

Herein, it should be emphasized that such registration condition bears some exceptions. For instance, protection of design without registration for a period of three years across

[25]MAY, supra note 19, p.92; DAVID BAINBRIDGE, INTELLECTUAL PROPERTY (Pearson Longman. 2002), p.9-10.
[26] See also PHILIPS & FIRTH, supra note 23, p.17.

European Union countries and the protection of well-known trademarks without registration in the countries where recognition of such trademark does exist in can be listed among the exceptions to registration principle.[27]

Furthermore, it should be noted that registration is obligatoryonly for the intellectual property rights relating to industrial property such as trademarks, patents and designs. Registration condition is not set forth for the establishment of literary and artistic works under jurisdictions as far as I am concerned. Provided that any registration is stipulated by law, it should be bear in mind that such registration condition is not related to establishment of the intellectual property rights concerning literary and artistic works. The qualification of such registration can be defined as explanatory at the most.[28] For instance, under Turkish jurisdiction, the registration of such rights, saving films and phonograms, is not a legal requirement for the establishment of rights. However, the Law on Intellectual and Artistic Works numbered 5846 published in the Official Gazette of Turkey dated 13.12.1951 and numbered 7981 proposes an optional registration system for facilitating proof of ownership.

1.1.3.2 Territoriality Principle

Beside *sui generis* characteristics of intellectual property rights, among the fundamental principles which are exclusive to intellectual property rights, territoriality principle will also be examined for the efficient result of this study.

The rules governing the area of intellectual property rights differ from country to country. Although considerable steps have been taken for the sake of the globalization of intellectualproperty rights through international agreements[29], in this day and age, it still cannot be alleged that the protection of intellectual property rights is provided by only one legal order. Indeed, pursuant to the territoriality principle of intellectual property rights, it is still informed that "the rights conferred under an IP right are limited to the territory of the

[27]Article 6*bis*1 of the Paris Convention for the Protection of Industrial Property and accordingly, Article 6(4) of the Industrial Property Law numbered 6769; Cahit Suluk, *2023 Vizyonu Işığında Türk Sınai Mülkiyet Raporu*, MÜSİAD ARAŞTIRMA RAPORLARI:88 (2014), p.25; Esin Gürbüz Güngör, *Paris Sözleşmesi Kapsamında Tanınmış Markaların Sınai Mülkiyet Kanunu'na Göre Korunması*, ULUSLARARASI İKTİSADİ VE İDARİ İNCELEMELER DERGİSİ (2017), p.294-297.

[28] Ayşe Saadet Arıkan, *Avrupa Topluluğu'nda Fikri-Sınai Mülkiyet Hakları ve Son Gelişmeler,* ANKARA AVRUPA ÇALIŞMALARI DERGİSİ:7/1 (2007), p.153.

[29] See also Peter Drahos, *Expanding Intellectual Property's Empire: The Role of FTAs,* GRAIN (2003), p.6.

state that grants or protects the right".[30] Accordingly, the rights granted by the laws of a specific country will be valid only within the boundaries of this specific country.

On the contrary to uncompromising nature of territoriality principle, the European Patent Conventionand the Patent Cooperation Treaty[31] granting the facility of "international" patent application and making possible to seek patent protection for an invention simultaneously in each of a large number of countries can be listed among the considerable steps taken for the sake of globalization so far.[32] Madrid AgreementConcerning the International Registration of Trademarks and Hague Agreement Concerning the International Registration of Industrial Designsshould also be included among such steps.[33] Through the instrument of such international endeavours, it is possible to obtain registration certificates which are valid in multiple countries or regions with minimum formalities. However, it should be noted that such registration certificate grants the rights arising from itself pursuant to the provisions of law of the country where the registration has been actualized. For this reason, in the event of the dispute relating to such intellectual property rights registered in multiple countries as a result of only one application process, the national courts settle the dispute with respect to the validity of intellectual property rights concerned by applying the rules of their own countries. In this direction, there is no restraint to claim that the protection of intellectual property rights which have been registered in France is not provided by the law of Spain governing the intellectual property rights.[34]

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[30]Linda Lundstedt, *Territoriality in Intellectual Property Law*, STOCKHOLM UNIVERSITY PUBLISHING (2016), p.91.

[31] Approved by the Law numbered 4115 and dated 07.07.1995 and entered into force with the Official Gazette of Turkey numbered 22341 and dated 12.07.1995.

[32] KARAHAN, et al., supra note 13, p.6-7.

[33] The Protocol Relating to the Madrid Agreement has been approved by the Official Gazette of Turkey numbered 23637 and dated 12.03.1999 and entered into force as of 01.01.1999. Hague Agreement Concerning the International Registration of Industrial Designs has been approved by Council of Ministers Decision numbered 2004/7489 published in the Official Gazette of Turkey numbered 25592 and dated 23.09.2004.

[34] See also Lundstedt, supra note 30, p.474; WIPO, *The Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to that Agreement: Objectives, Main Features, Advantages* WIPO 418 (E) (2016), p.3; Silvia Vincenti, *The Hague Agreement Concerning the International Registraion of Industrial Designs and Recent Developments, Including the Accession of the EC to the 1999 Act of the Hague Agreement*, EUROPEAN COMMUNITIES TRADE MARK ASSOCIATION (2008), p.77.

The other exception to territoriality principle is observed in the European Union law. The procurement of protection concerning intellectual property rights across the European Union countries is available through the only one application process for Community designs and trademarks. Once the registration certificate relating to Community design or Community trademark is obtained, protection of such intellectual property rights is accessible throughout all European Union countries. Lastly, the protection of well-known trademarks across the world without registration can be stated among the exceptions to territoriality principle provided under this sub-title. Recognition of such trademark in the related country as a well-known trademark is going to be the only condition for the related protection.[35]

Apart from such exceptions listed above, pursuant to territoriality principle, each country protects intellectual property rights provided that the conditions concerning procedure and principle have been fulfilled within its boundaries. Furthermore, in accordance with territoriality principle, countries grant protection to the infringements actualized within their boundaries pursuant to the laws of them governing intellectual property rights.[36]

1.1.4 International Agreements on Intellectual Property Rights

Since international agreements specifying core principles in respect of protection of intellectual property rights are mentioned above and significant references to such agreements will be made through the progression of this study, examination of some substantial international agreements regarding intellectual property rights is considered necessary under this chapter.

Despite of the territoriality principle relating to intellectual property rights, the necessity of intellectual property rights protection over borders should be considered as a result of the ability of intellectual protection rights to cross the borders easily. In this regard, intellectual property law is considered as law pertaining to agreements since international agreements regarding intellectual property rights is one of the most applied protection mechanisms in order to eliminate the effect of boundaries where intellectual property rights protection is

[35] KARAHAN, et al., supra note 13, p.8.
[36] Lundstedt, supra note 30, p.91.

confined into. International agreements in respect of intellectual property rights are considered as substantial solution in order to centralize and harmonize notions and conditions of intellectual property rights.[37]

In this respect, the international agreements to be most applied within this study are going to be analyzed below from their necessary perspectives.

1.1.4.1 Berne Convention for the Protection of Literary and Artistic Works

The Berne Convention adopted in September 9, 1886 and dealing with the protection of works and the rights of their authors is the first international regulation in this respect.[38] The protection granted by the Berne Convention is associated to "every production in the literary, scientific and artistic domain, whatever the mode or for of its expression" (Article 2(1) of the Bern Convention). The Berne Convention was revised in Berlin in 1948 and is mentioned as "Revised Bern Convention" thereafter.[39] Each revision on the Bern Convention is accepted as an independent agreement and should be accepted by each member.

One of the core principles stipulated in the Berne Convention is reciprocity principle. In this regard, contracting states reciprocatively recognize the protection which such states grant to intellectual property rights owner in their national laws to each other's nationals. As a complement nature of reciprocity principle, the principal of national treatment stipulates that works originating in one of the contracting states (that is, works the author of which is a national of such a state or works first published in such a state) must be given the same protection in each of the other contracting states as the latter grants to the works of its own nationals. The other significant principle which should be mentioned in the respect of national treatment principle is the principle of independence of protection. According to such principle, protection is independent from the existence of protection in the country of

[37] TEKİNALP, supra note 8, p.67.
[38] For the detailed analysis of the developments towards the Berne Convention, see CATHERINE SEVILLE, THE INTERNATIONALISATION OF COPYRIGHT LAW-BOOKS, BUCCANEERS AND THE BLACK FLAG IN THE NINETEENTH CENTURY (Cambridge. 2006), p.41-78.
[39] Turkey initially adopted the Berne Convention on the date of 01.01.1952 and the Revised Berne Convention was adopted by Turkey with the Law dated 07.07.1995 and numbered 4117 and entered into force with the Official Gazette of Turkey numbered 22341 and dated 12.07.1995.

origin of the work. If, however, a contracting state provides for a longer term of protection than the minimum prescribed by the Berne Convention and the work ceases to be protected in the country of origin, protection may be denied once protection in the country of origin ceases.

The Berne Convention also includes minimum standard principle for the case of failure to provide minimum protection by national treatment principle. Foreign intellectual property rights owner can directly refer to such principle. Pursuant to minimum standard principle, if the rights of the country where protection is demanded by intellectual property rights owner fall behind the minimum standards and/or rights stipulated in the Berne Convention, such foreign right owners can directly refer to the Berne Convention. The opportunity granted by minimum standard principle in the Berne Convention leads to the situation which nationals and foreigners are not subjected to equal treatment and the rights of nationals fall behind the rights of foreigner in their own countries. Such circumstance obliges the contracting states to accept the minimum standard specified in the Berne Convention in their related legislations at least. The minimum rights include the right to translate, the right to perform in public dramatic, dramatic-musical and musical works, the right to broadcast, the right to make adaptations and arrangements of the work, right to recite literary works in public, the right to make reproductions.[40]

Beside the institution of minimum rights, the Berne Convention also provides the "moral right" which should be evaluated under the content of minimum standard principle. The substance of moral rights can be defined as the right to claim authorship of the work and the right to object to any mutilation, deformation or other modification of, or other derogatory action in relation to, the work that would be prejudicial to the author's honor or reputation.[41]

[40] TEKİNALP, supra note 8, p.67-68.
[41] Elizabeth Schere, *Where is the Morality? Moral Rights in International Intellectual Property and Trade Law*, FORDHAM INTERNATIONAL LAW JOURNAL (2018), p.777.

1.1.4.2 Paris Convention for the Protection of Industrial Property

The first Convention in respect of protection of industrial property was adopted in March 20, 1883.[42] The subject of the Paris Convention is evaluated in the widest sense by including patents, utility models, trademarks, industrial designs, prevention of unfair competition, service marks, geographical indications and trade names.

The principle of national treatment is listed among the substantial institutions of the Paris Convention. In this direction, the Paris Convention ensures that the Contracting States grant the same protection of industrial property to nationals of other Contracting States which it grants to its own nationals.[43] Further, it should be noted that most national regulations enabling the protection of well-known trademarks without registration obtain their basis from the Paris Convention. Pursuant to Article 6*bis*1 of the Paris Convention,

> "The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trademarks which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an imitation liable to create confusion therewith."

Such facility is undoubtedly useful especially against the negative actions of trademark pirates on a well-known trademark which has not yet been registed in that country by the rightful owner.

1.1.4.3 The Agreement on Trade-Related Aspects of Intellectual Property Rights

Under the leadership of US and with the contributions of European states, Japan and other states which are parties to the General Agreement on Tariffs and Trade ("GATT"),

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[42] Turkey adopted the revised version of Paris Convention dated 1934 and published the Law numbered 6894 and dated 30.01.1957and adopting Paris Convention on the Official Gazette of Turkey dated 07.02.1957 and numbered 9529.

[43] G.H.C. Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property*, UNITED INTERNATIONAL BUREAUX FOR THE PROTECTION OF INTELLECTUAL PROPERTY (1968), p.12-13.

inclusion, regulation and development of new intellectual property provisions with trade-related aspect in a specific international agreement was campaigned in the Uruguay Round of Multilateral Trade Negotiations ("Uruguay Rounds"). Accordingly, the Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") which is an annex of the Marrakesh Agreement Establishing the World Trade Organization came into force on January 1, 1995.[44]

TRIPS Agreement, likewise other international intellectual property treaties, sets only minimum standards which signatory states of TRIPS Agreement must adhere to for protection and enforcement of intellectual property rights within their territories and presents itself as a floor for harmonized standards.[45]To put it differently, "TRIPS Agreement sets minimum standards of protection, which constitutes a floor and not a ceiling as to adequate intellectual property rights protection. TRIPS Agreement thus provides signatories with the right to adopt higher and more extensive levels of protection if they willingly do so as long as they apply the general principles of national treatment and most favoured nation treatment"[46] which will be detailed in the following chapter of this study by providing correlation with intellectual property rights.

In compliance with the easily-transferred structure of intellectual property rights globally due to their unconnected nature with any physical asset, TRIPS Agreement providing harmonized standards is deemed by many commentators as a major step in the direction of globalization of standards relating to intellectual property rights. Therefore, Peter K. Yu states that "no surprise that some leading commentators have described TRIPS Agreement as a "sea change" or "tectonic shift" in intellectual property law and policy".[47]

Notwithstanding TRIPS Agreement is mostly perceived as the necessary step in order to be complied with the globalized nature of intellectual property rights, still, the agreement is

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[44] Turkey published the Law numbered 4067 and dated 26.01.1995 adopting the Agreement on Trade Related Aspects of Intellectual Property Rights on the Official Gazette of Turkey numbered 22186 and dated 29.01.1995.

[45] Lentner, supra note 3, p.31-32.

[46] Lahra Liberti,*Intellectual Property Rights in International Investment Agreements: An Overview, OECD Working Papers on International Investment*, OECD PUBLISHING, (2010), p.4.

[47]Peter K. Yu, *The Investment-Related Aspects of Intellectual Property Rights*, AMERICAN UNIVERSITY LAW REVIEW (2017), p.831.

often criticized by especially state authorities assuming international regulations as a substantial interference with the domestic intellectual property system.[48] So indeed, beside the concerns of developing countries about the questioning whetherthe obligations arisen out from TRIPS Agreement were imposed upon them as the extension of then former colony position, state authorities of even developed countries bearing more negotiation power with respect to formalizing of international agreements are concerned about the threat of such agreements setting forth minimum standards which member states must adhere to. So indeed, a letter of 1994 from Pfizer INC, which was primarily responsible for the lobbying that brought TRIPS Agreement into being, saw the threat to international markets of developing countries, like India posed for the research and development pharmaceutical industry, using superior numbers of developing countries in the World Intellectual Property Organization to put forward initiatives that favoured their own position as net importers of foreign technology, to the United States Trade Representative captures this thinking quite nicely:

> "Finally, GATT does not do it. Many Indians mistakenly (often very honestly) believe that if they endorse GATT, they will have solved their intellectual property and pharmaceutical patent issue. Not so, particularly if they truly want to create an environment that attracts investment and provides better medicine – legalistically agreeing to something (GATT) that brings into play in ten years or more achieves neither of these two objectives".[49]

However,it should be indicated that the most important determinative of such floor presenting the minimum standards is public policy space of member states. TRIPS Agreement provides so called "TRIPS flexibilities" to secure that the obligations stipulated by TRIPS Agreement relating to intellectual property rights do not unduly interfere with important public policy goals of states. In other words, signatory states retain a policy space for the implementation of their obligations under TRIPS Agreement.[50] For instance, Article 27(2) of TRIPS Agreement stipulates that "Members may exclude from patentability

[48] For the view of that "the repetition of intellectual property standards in multiple bilateral, investment, and multilateral treaties were not meant to change the substantive meaning of these obligations under domestic law, but rather to entrench accepted criteria in the fabric of international economic relations", see Ruth L. Okediji, *Is Intellectual Property "Investment"? Eli Lilly v. Canada and the International Intellectual Property System*, UNIVERSITY OF PENNSYLVANIA JOURNAL OF INTERNATIONAL LAW (2014), p.1129.

[49] Drahos, supra note 29, p.1-3.

[50] Lentner, supra note 3, p.32.

inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality…" Article 30 follows the same policy and grants member states the right to "provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking into account of the legitimate interests of third parties." By going a step further, TRIPS Agreement makes an exception for the fulfilment of its own obligations for the least developed countries under Article 66 by stating that "In view of the special needs and requirements of least-developed country Members, their economic, financial and administrative constraints, and their need for flexibility to create a viable technological base, such Members shall not be required to apply the provisions of this Agreement, other than Article 3, 4, and 5 [provisions relating to national treatment and most favoured nation treatment principles] for a period of 10 years from the date of application."

As a final point, it should be highlighted that The TRIPS Agreement is named as the most comprehensive international agreement in the field of intellectual property.[51] So indeed, the TRIPS Agreement is not allocated to only one area of intellectual property rights. The Agreement involves copyright and related rights, geographical indications, industrial designs,undisclosed information, trademarks involving service marks, patents including the protection of new varieties of plants.[52]

The other substantial features of the TRIPS Agreement can be listed as follows, involving:

> "(i) the TRIPS Agreement provides the minimum standards, including the subject matter to be protected, the rights to be granted, exceptions to be introduced and the duration of protection, to be enacted by each of Contracting States which are also allowed to provide protection of intellectual property rights broader in scope, (ii) the TRIPS Agreement sets out general principles for the enforcement procedures relating to intellectual property rights. Civil and administrative remedies such as confiscation at customs and annihilation of counterfeit goods

[51] Anna Lanoszka, *The Global Politics of Intellectual Property Rights and Pharmaceutical Drug Policies in Developing Countries*, INTERNATIONAL POLITICAL SCIENCE REVIEW (2003), p.183; SUSAN K. SELL, PRIVATE POWER, PUBLIC LAW-THE GLOBALIZATION OF INTELLECTUAL PROPERTY RIGHTS (Cambridge. 2003), p.7-10.

[52] See WTO, *Guide to the TRIPS Agreement-Module 1-Introduction to the TRIPS Agreement*, WTO (2018).

> against infringements have been also stipulated in the TRIPS Agreement. More importantly, withdrawal of rights and facilities granted by the WTO from the Contracting States infringing their obligations has been set forth as one of the most important sanction and remedy in the TRIPS Agreement, (iii) the TRIPS Agreement has specified dispute settlement procedures in respect of disputes relating to the obligations arising from the TRIPS Agreement".[53]

Beside the substantial features stipulated above, the TRIPS Agreement has provided the acceptance of patent medicines in general[54], equal protection for computer programs and databases with literary and artistic works (Article 10 and Article 27 of the TRIPS Agreement)and protection of rental and lending rights on literary and artistic works (Article 11 of the TRIPS Agreement). Lastly, it should be emphasized that the Agreement also includes certain basic principles such as national treatment (Article 3 of the TRIPS Agreement) and most favoured nation treatment (Article 4 of the TRIPS Agreement).

1.1.5 Concluding Remarks

As a response to considerable change pertaining to the area of economy, technology and industry; it is impossible to disregard the transformation of wealth from physical capital into intellectual capital in the world where the content of intellectual property rights is dramatically in tendency to be amended.[55]

In compliance withthe motive to protect intellectual property rights as the new source of wealth, the influence of intellectual property rights on globalization of markets should also be analyzed in this respect. In the process of globalization, intellectual capital has been a vector of internationalization and intellectual property has been an instrument of competitive positioning in global markets. For instance, the products of high-tech industries such as communication and transportation have safely crossed the borders through the

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[53] TEKİNALP, supra note 8, p.78. See also Alison Slade, *The Objectives and Principles of the WTO TRIPS Agreement: A Detailed Anatomy*, OSGOODE HALL LAW JOURNAL (2016).

[54] See also Beata Udvari, *The TRIPS Agreement and Access to Medicines: Who Are the Main Losers?*, UNIVERSITY OF SZEGED (2011).

[55] Mario Cimoli & Giovanni Dosi & Roberto Mazzoleni & Bhaven N. Sampat, *Innovation, Technical Change, and Patents in the Development Process: A Long-Term View* in MARIO CIMOLI & GIOVANNI DOSI & KEITH E. MASKUS & RUTH L. OKEDIJI 6 JEROME H. REICHMAN & JOSEPH E. STIGLITZ, INTELLECTUAL PROPERTY RIGHTS-LEGAL AND ECONOMIC CHALLENGES FOR DEVELOPMENT (Oxford University Press. 2014), p.64; MEIR PEREZ PUGATCH, THE INTERNATIONAL POLITICAL ECONOMY OF INTELLECTUAL PROPERTY RIGHTS (Edward Elgar. 2004), p.47-76.

instrument of intellectual property rights protection and markets have been globalized in competitive environment where the similar products in different brands are offered to consumers under equal conditions.[56] Despite of the existence of such demand to geographical coverage not only in a single market but also across each of the markets, it should be stated that the availability of fulfilment of such demand is not easily possible since intellectual property titles are national in nature. It was pointed out to such nature of intellectual property rights within the chapter above by indicating *sui generis* principles of intellectual property rights including registration principle and territoriality principle.

Although some considerable efforts has been put in the direction of unification of intellectual property rights protection mechanisms such as regional patent and industrial design systems[57] and execution of international agreements specifying core principles in respect of protection of intellectual property rights to be executed in the countries entering into such agreements such as the TRIPS Agreement[58] providing a comprehensive international code on the protection of intellectual property, the progression of new system expanding the number of the countries which can provide intellectual property owners with enjoyment of a adequate level of their intellectual property rights and ensure that such intellectual property owners will not be subject to different restrictions or conditions from other countries is still be required. Furthermore, it should be reminded that the other substantial reason in respect of requirement for new system is the definition of intellectual property rights which content of is constantly amending. So indeed, even the TRIPS Agreement, despite of its comprehensive content, is not found sufficient to correspond constantly changing definition of intellectual property rights in consequence of the latest and most sophisticated technological advances.[59]

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[56] Francis Gurry, Evolution of Technology and Markets and the Management of Intellectual Property Rights, SYMPOSIUM ON GLOBAL COMPETITION AND PUBLIC POLICY IN AN ERA OF TECHNOLOGICAL INTEGRATION (1996), p.371-375.
[57] Lundstedt, supra note 30, p.474.
[58] PETER DRAHOS & RUTH MAYNE, GLOBAL INTELLECTUAL PROPERTY RIGHTS-KNOWLEDGE, ACCESS AND DEVELOPMENT (Oxfam. 2002), p.203.
[59] Gurry, supra note 56, p.375.

Given these realities, it is inevitable to ascertain that the markets and intellectual property owners yearn for the system satisfying the needs of protection mechanism with inclusive nature of swift response posed by new technological developments.

1.2 Defining Investment Term

Foreign direct investment is one of the most remarkable branches of international law in recent times since such field comprises the movement of assets and persons from one state to another.[60] In the current world where the boundaries have commenced to lost their own clarity, it is inevitable to bear witness the conflict between investor and host state resulting from the concerns of host state relating to the purpose of securing the competitive advantages of local entrepreneurs. Such disputes may become subject to either domestic courts or international arbitration. However, it should be substantially indicated that the involvement of international law to the settlement of such disputes arising from foreign investment is deemed as necessary since such area of law has been formed in order for state responsibility for injuries to aliens and diplomatic protection of citizens abroad, which shall be linked to protection of foreign investment.

Within the scope of the transition of foreign investment from domestic sphere to international law, a successfully established balance between the interests of investor and host state is required. Within this frame, the definition of investment term is having a great importance in terms of its substantial effect on the determination of whether the investment in question would be protected under the investment treaty stipulating the scope of the investment to be protected. Accordingly, under the perspective of legal sense, the approach of investment protection treaties to investment terms will be analysed by especially focusing on bilateral investment treaties. Subsequently, embracement of investment definitions under investment treaties by arbitral tribunals will be evaluated by particularly concentrating on Salini criteria and criticisms against such criteria.Following such evaluation, the existence of the tendency towards the extension of the scope of investment's

[60] J.W. Salacuse, *Direct Foreign Investment and the Law in Developing Countries*, ICSID REVIEW-FOREIGN INVESTMENT LAW JOURNAL (2000), p.382.

definition in compliance with the purpose of providing the treaty protection of the investment in broad terms will be observed.

Along with the development of investment treaties, the formula of "property, rights and interests"[61] traditionally stipulated in friendship, commerce and navigation ("FCN") treaties has switched to the term of "investment" in investment treaties even though the phrase of "property, rights and interests" had a considerable extent possessing a distinct legal meaning and the term of "investment" has its origin in economic terminology and needed to be understood and defined as a legal concept when first used in investment treaties. Such need is considerable since the content of investment is essential to be determined in order to confirm whether the parties to a dispute have consented to arbitration and whether the arbitral tribunal has jurisdiction to hear the disputes arising from the investment.[62] The reason of such switch is tied to the purpose of investment treaties; they were not meant to cover all types of property, rights and interests.

The requirement pertaining to understand and define the content of investment as a legal concept is going to be met under two different and complimentary approaches. At first, the definition of investment is going to be analysed from the perspective of investment protection treaties. Subsequently, the approaches of arbitration tribunals are going to be evaluated with the objective of defining the investment term precisely and accurately.

1.2.1 From the Perspective of Investment Protection Treaties

When investment protection treaties are examined for the determination of the definition of investment term, it is observed that bilateral and multilateral treaties provide specific, comprehensive and elaborate definitions in relation to investment term, especially at the

[61] Treaty of Friendship, Commerce and Navigation between the United States of America and the Republic of Korea of 1956, Article 1; Friendship, Commerce and Navigation Treaty between Federal Republic of Germany and the United States of America, Article 5; for the approach of UNCTAD to the junction of investment term to international agreements, see also UNCTAD, Scope and Definition, UNCTAD/ITE/IIT/11 Vol.II (New York: United Nations, 1999), p.9:
"Customary international law and earlier international agreements did not generally utilize this notion. They relied instead on the notion of 'foreign property', approaching in the same … manner cases on imported … capital and cases of property of long-resident foreign nationals, where no transfer of capital took place or the original transfer was lost in history".

[62]ANDRES RIGO SUREDA, INVESTMENT TREATY ARBITRATION-JUDGING UNDER CERTAINITY(Cambridge University Press. 2012), p.56.

beginning of such treaties, usually with open-ended lists of examples[63] and in typical manner in order to satisfy the objective of protection. One of the examples pertaining to multilateral investment treaties is North American Free Trade Agreement ("NAFTA") defining "investment" inArticle 1139[64].

Other remarkable samples in this respect can be listed as Energy Charter Treaty (the "ECT") in Article 1 section 6[65] and ASEAN Agreement in Article 2[66].

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[63] For the view of that "the tendency of many treaties in the area of foreign investment, particularly the model treaties drafted by the United States and other capital-exporting states, has been to broaden the scope of the definition of foreign investment. The objective behind this is to ensure that treaty protection could be given to a wide variety of activities associated with foreign direct investment", see MUTHUCUMARASWAMY SORNARAJAH, THE INTERNATIONAL LAW ON FOREIGN INVESTMENT (Cambridge University Press, Third Edition. 2010), p.10; for the broad interpretation of investment term, see SEDAT ÇAL, ULUSLARARASI YATIRIM TAHKİMİ VE KAMU HUKUKU İLİŞKİSİ (Seçkin Yayıncılık. 2009), p.226-227.

[64]Article 1139 of North American Free Trade Agreement executed on 1 January 1994 reads:
"investment means:
(a) an enterprise; (b) an equity security of an enterprise; (c) a debt security of an enterprise (i) where the enterprise is an affiliate of the investor, or (ii) where the original maturity of the debt security is at least three years, but does not include a debt security, regardless of original maturity, of a state enterprise; (d) a loan to an enterprise (i) where the enterprise is an affiliate of the investor, or (ii) where the original maturity of the loan is at least three years, but does not include a loan, regardless of original maturity, to a state enterprise; (e) an interest in an enterprise that entitles the owner to share in income or profits of the enterprise; (f) an interest in an enterprise that entitles the owner to share in the assets of that enterprise on dissolution, other than a debt security or a loan excluded from subparagraph (c) or (d); (g) real estate or other property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes; and (h) interests arising from the commitment of capital or other resources in the territory of a Party to economic activity in such territory, such as under (i) contracts involving the presence of an investor's property in the territory of the Party, including turnkey or construction contracts, or concessions, or(ii) contracts where remuneration depends substantially on the production, revenues or profits of an enterprise;

but investment does not mean, (i) claims to money that arise solely from (i) commercial contracts for the sale of goods or services by a national or enterprise in the territory of a Party to an enterprise in the territory of another Party, or (ii) the extension of credit in connection with a commercial transaction, such as trade financing, other than a loan covered by subparagraph (d); or (j) any other claims to money, that do not involve the kinds of interests set out in subparagraphs (a) through (h)"

[65] Article 1(6) of Energy Charter Treaty executed on December 1994 reads:
"'Investment' means every kind of asset, owned or controlled directly or indirectly by an Investor and includes: (a) tangible and intangible, and movable and immovable, property, and any property rights such as leases, mortgages, liens, and pledges; (b) a company or business enterprise, and bonds and other debt of a company or business enterprise, (c) claims to money and claims to performance pursuant to contract having an economic value and associated with an Investment; (d) Intellectual Property; (e) Returns; (f) any right conferred by law or contract or by virtue of any licenses and permits granted pursuant to law to undertake any Economic Activity in the Energy Sector."

See also Article 1(5) of the Energy Charter Treaty for the explanation of 'Economic Activity in the Energy Sector':

In respect to the multilateral investment treaties mentioned above, some substantial characteristics which of subject to the precedent cases should be specifically pointed out. The definition of investment in NAFTA follows the conventional format listing types of investment. However, claims that arise solely from commercial transactions for the sale of goods or the extension of credit in connection with a commercial transaction are expressly excluded. Besides, definition of investment stipulated in the ECT follows the familiar form providing for every kind of asset and then setting out a comprehensive list of specific asset types. At one of its broadest points, it includes 'returns' which are defined as 'the amounts derived from or associated with an Investment, irrespective of in which they are paid, including profits, dividends, interest, capital gains, royalty payments, management, technical assistance or other fees and payment in kind'.[67]

Regarding to such specific definition of Energy Charter Treaty which itself contains a reference to the term of investment, which is"claims to money and claims to performance pursuant to contract having an economic value and associated with an investment", special issues may arise. This logical problem was raised in Petrobart Limited v. the Kyrgyz Republic Case dated 29 March 2005 and it was concluded by drawing the attention of the requirement of recourse to a general concept of 'investment'.[68]

"'Economic Activity in the Energy Sector' means an economic activity concerning the exploration, extraction, refining, production, storage, land transport, transmission, distribution, trade, marketing, or sale of Energy Materials and Products except those included in Annex NI, or concerning the distribution of heat to multiple premises."

For the application of Article 1(5) of the ECT, see also, Petrobart Ltd v. Kyrgyz Republic, SCC Case 126/2003, Award)

[66]Article 2 of ASEAN Agreement, reads:

"This Agreement shall apply only to investments brought into, derived from or directly connected with investments brought into the territory of any Contracting Party by nationals or companies of any otherContracting Party and which are specifically approved in writing and registered by the host country and upon such conditions as it deems fit for the purposes of this Agreement."

[67] CAMPBELL MCLACHLAN QC & LAURENCE SHORE & MATTHEW WEINIGER, INTERNATIONAL INVESTMENT ARBITRATION-SUBSTANTIVE PRINCIPLES (Oxford University Press. 2007),p.173.

[68] Petrobart Ltd v. Kyrgyz Republic, supra note 65

"If we assume that at least the terms "associated with an Investment" also relate to "claims for money", we are faced with the logical problem that the term "Investment" is not only the term to be defined but is also used as one of the terms by which "Investment" is defined. This means that the definition is in reality a circular one which raises a logical problem and creates some doubt about the correct interpretation.

In compliance with the formula stipulated in multilateral treaties, most bilateral treaties also contain a general phrase defining investment with illustrative categories. These categories usually include property, shares, contracts, intellectual property rights, and rights conferred by law. If the investment which is subject to a dispute is covered by such illustrative categories, no debate relating to the interpretation of the clause containing investment definition will be created. The Bilateral Investment Treaty between Argentina and the United States is a concrete example of this approach:

> " 'Investment' means every kind of investment in the territory of one Party owned or controlled directly or indirectly by nationals or companies of the other Party, such as equity, debt, and service and investment contracts; and includes without limitation: tangible and intangible property including rights, such as mortgages, liens and pledges; a company or shares of stock or other interests in a company or interests in the assets thereof;a claim to money or a claim to performance having economic value and directly related to an investment; intellectual property which includes, inter alia, rights relating to: literary and artistic works, including sound recordings, inventions in all fields of human endeavour, industrial designs, semiconductor mask works, trade secrets, know-how, and confidential business information, and trademarks, service marks, and trade names; and any right conferred by law or contract, and any licenses and permits pursuant to law…;"[69]

Commonly, bilateral investment treaties are based on two different BIT models, which are the UK model BIT and the US model BIT. The UK model BIT provides that:

> "For the purposes of this Agreement:

However, in this case further guidance can be sought in Article 1(6)(f) which provides that as an asset constituting an investment shall also be counted "any right conferred by law or contract or by virtue of any licences and permits granted pursuant to law to undertake any Economic Activity in the Energy Sector". "Economic Activity in the Energy Sector" is in Article 1(5) defined as "economic activity concerning the exploration, extraction, refining, production, storage, land transport, transmission, distribution, trade, marketing, or sale of Energy Materials and Products except those included in Annex NI, or concerning the distribution of heat to multiple premises". It is not contested that the gas condensate which Petrobart sold in the Contract is to be regarded as Energy Materials and Products. It may be added that gas condensate is not one of the exceptions in Annex NI. Thus, a right conferred by contract to undertake an economic activity concerning the sale of gas condensate is an investment according to the Treaty. This must also include the right to be paid for such a sale.

The Arbitral Tribunal thus concludes on this point that Petrobart was an investor having an investment in the Kyrgyz Republic and that the Republic owed Petrobart protection under the Treaty."

[69] Article 1 of the Treaty Between United States of America and the Argentine Republic Concerning the Reciprocal Encouragement and Protection of Investment executed on the date of 14.11.1991 and entered into force on the date of 20.10.1994.

a) 'investment' means every kind of asset and in particular, though not exclusively, includes:
   i. movable and immovable property and any other property rights such as mortgages, liens or pledges;
   ii. shares in and stock and debentures of a company and any other form of participation in a company;
   iii. claims to money or to any performance under contract having a financial value;
   iv. intellectual property rights, goodwill, technical processes and know-how;
   v. business concessions conferred by law or under contract, including concessions to search for, cultivate, extract or exploit natural resources."[70]

On the other hand, the US model BIT is 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:

a) an enterprise;
b) shares, stock, and other forms of equity participation in an enterprise;
c) bonds, debentures, other debt instruments, and loans;
d) futures, options, and other derivatives;
e) turnkey, construction, management, production, concession, revenue-sharing, and other similar contracts;
f) intellectual property rights;
g) licenses, authorizations, permits, and similar rights conferred pursuant to applicable domestic law; and
h) other tangible or intangible, movable or immovable property, and related property rights, such as leases, mortgages, liens and pledges."[71]

[70] Article 1 of the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of El Salvador for the Promotion and Protection of Investments executed on the date of 14.10.1999 and entered into force on the date of 01.12.2000.
[71] Article 1 of the Treaty Between the Government of the United States of America and the Government of the Republic of Rwanda Concerning the Encouragement and Reciprocal Protection of Investment executed on the date of 19.02.2008 and entered into force on the date of 01.01.2012.

On the other aspect, Turkey has adopted a bilateral investment treaty model which is similar to US model BIT to some extent by specifying the characteristics of investment as follows:

> "The term 'investment' means every kind of asset, that is owned or controlled directly by an investor of the other Contracting Party connected with business activities, acquired for the purpose of establishing lasting economic relations in the territory of a Contracting Party in conformity with its laws and regulations, and shall include in particular, but not exclusively;
>
> a. movable and immovable property, as well as any other rights as mortgages, liens, pledges and any other similar rights as defined in conformity with the laws and regulations of the Contracting Party in whose territory the property is situated;
> b. reinvested returns, claims to money or any other rights having financial value related to an investment;
> c. shares, stocks or any other form of participation in companies;
> d. industrial and intellectual property rights such as patents, industrial designs, technical processes, as well as trademarks, goodwill, know-how and other similar rights;
> e. business concessions conferred by law or by contract, including concessions to prospect, explore, extract or utilize resources;
>
> provided that such investments are not in the nature of acquisition of shares or voting power less than 10 percent of a company through stock exchanges (portfolio investments) which shall not be covered by this Agreement."[72]

Differently from US model BIT, the bilateral investment treaties executed by Turkey have imposed the conformity with the laws and regulations of the host state for the protection of investments made by foreign investor under the terms of relevant bilateral investment treaties. In such situations, an ICSID Tribunal is expected to examine the relevant national law for the determination of the existence of investment. Further, the approachof the organs of the host state to, for instance, validity of a contract or rights granted to an investor under national law is expected from an ICSID Tribunal. However, in reality, tribunals have rejected such expectations and ruled that reference to a host state's national law concerns

[72] Article 1.1 of the Agreement between the Government of the Republic of Turkey and the Government of the State of Kuwait Concerning the Reciprocal Promotion and Protection of Investments executed on the date of 27.05.2010 and entered into force on the date of 08.05.2013.

not the definition of term of investment but exclusively the legality of the investment.[73] On this matter, the Tribunal in Salini v. Morocco ICSID Case stated that: "This provision (the required compliance with the laws and regulations of the host state) refers to the validity of the investment and not to its definition. More specifically, it seeks to prevent the Bilateral Treaty from protecting investments that should not be protected because they would be illegal."[74]

Nevertheless, the analysis of the definition of investment from the perspective of investment protection treaties by only indicating the certain formulasstipulated elaborately in such bilateral and multilateral treaties is not going to provide enough clarification since the complexity of the current debates on the term of investment especially arising out of its simple and non-defined use in the jurisdictional clause, which is Article 25 of the ICSID Convention.[75] Although Article 25 is accepted as jurisdictional gateway to the ICSID Convention[76] and the protection provided by the ICSID Convention and perception of investment term is acknowledged as the foremost consideration in the awards of tribunals, Article 25 does not offer the definition for the investment term.[77] Nevertheless, the absence of investment definition is not accepted as drawback by ICSID Convention negotiators, and further, the negotiators draw specifically attention to the "consent" conception in Article 25 and indicate that the emphasis of the Article 25 on "consent" means that the parties could specify beforehand the categories of disputes they wished to refer to ICSID arbitration giving them, in turn, the possibility to specify what they understood as "investment" for the

[73] Tokios Tokeles v. Ukraine, ICSID Case No. ARB/02/18, Decision on Jurisdiction, paras 83 et seq; PSEG Global, Inc., The North American Coal Corporation, and Konya Ingin Electrik Üretim ve Ticaret Limited Sirketi v. Republic of Turkey, ICSID Case No. ARB/02/5, Decision on Jurisdiction, paras 109, 116-120; Bayindir Insaat Turizm Ticaret ve Sanayi A.S v. Islamic Republic of Pakistan, ICSID Case No. ARB/03/29, Decision on Jurisdiction, paras 105-110; Saluka Investments B.V. v. The Czech Republic, UNCITRAL Partial Award, paras. 202-221.

[74]Salini Costruttori SpA and Italstrade SpA v. Kingdom of Morocco, ICSID Case No. ARB/00/4, Decision on Jurisdiction, para. 46.

[75]"(1) The jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a Contracting State (or any constituent subdivision or agency of a Contracting State designated to the Centre by that State) and a national of another Contracting State, which the parties to the dispute consent in writing to submit to the Centre. When the parties have given their consent, no party may withdraw its consent unilaterally."

[76] Turkey has ratified the ICSID Convention with the Law dated 27.05.1998 and numbered 3453.

[77] For the view of that the lack of clear definition of investment is a conscious preference by the negotiating parties of ICSID Convention, see YALÇIN TORUN, ULUSLARARASI YATIRIM UYUŞMAZLIKLARININ ÇÖZÜM MERKEZİ (ICSID) HAKEM KARARINA KARŞI HUKUKİ BAŞVURU YOLLARI (Seçkin Yayıncılık. 2011), p.17-18.

purposes of ICSID.[78] The Report of the Executive Directors has placed its understanding on the debates of the lack of investment definition in ICSID Convention with this clarification: "No attempt was made to define the term 'investment' given the essential requirements of consent by the parties, and the mechanisms through which Contracting States can make known in advance, if they so desire, the classes of disputes which they would or would not consider submitting to the Centre."[79]

It is crucial to state that the approach defending that the absence of investment definition in ICSID Convention is not a major drawback is criticized by Schreuer stating that the absence of any clarification in the ICSID Convention means that, within a wide area of discretion, the parameters of what constitutes an investment fall to be supplied by the parties' consent and ultimately by tribunals.[80] On the other hand, as dissenting opinion to the view of Schreuer, it is defended that Article 25 of the ICSID Convention limits the Centre's jurisdiction to legal disputes arising 'directly out of an investment'[81] and places a limit upon the parties' ability to consent to ICSID jurisdiction, whether the consent is expressed in a concession agreement or in a treaty.[82] Further, Broches has also suggested his own dissenting opinion by pointing out that the discretion left to the parties is limited

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[78] SUREDA, supra note 62, p.57.

[79] World Bank, Report of the Executive Directors on the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, 1965'1 ICSID Rep 23, 28.

[80] CHRISTOPH H. SCHREUER & LORETTA MALINTOPPI & AUGUST REINISCH & ANTHONY SINCLAIR, THE ICSID CONVENTION: A COMMENTARY (Cambridge University Press, Second Edition. 2009), p.121-125.

[81] Fedax N.V. v. The Republic of Venezuela, ICSID Case No. ARB/96/3, Decision of the Tribunal on Objections to Jurisdiction, para. 24

"In addition to the background of Article 25(1) of the Convention, there is also a problem of textual interpretation that the Tribunal must consider. The Republic of Venezuela has made the argument that the disputed transaction is not a 'direct foreign investment' and therefore could not qualify as an investment under the Convention. However, the text of Article 25(1) establishes that the 'jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment.' It is apparent that the term 'directly' relates in this Article to the 'dispute' and not to the 'investment'. It follows that jurisdiction can exist even in respect of investments that are not direct, so long as the dispute arises directly from such transaction. This interpretation is also consistent with the broad reach that the term 'investment' must be given in light of the negotiating history of the Convention."

ZİYA AKINCI, MİLLETLERARASI TAHKİM (Vedat Kitapçılık. 2016)., p.40 ff; CEMAL ŞANLI, ULUSLARARASI TİCARİ AKİTLERİN HAZIRLANMASI VE UYUŞMAZLIKLARIN ÇÖZÜM YOLLARI (Beta Yayınevi. 2016), p.533.

[82]MCLACHLAN, et al., supra note 67, p.164; İnci Ataman-Figanmeşe, *Manufacturing Consent to Investment Treaty Arbitration By Means of the Notion of « Arbitration Without Privity*«, ANNALES DE LA FACULTE DE DROIT D'ISTANBUL (2009), p.39 ff.

and needs to be exercised within the objective of the ICSID Convention.[83] Nevertheless, it should be reminded that the Preamble of the ICSID Convention[84], where the objective of the ICSID Convention is provided, is too broad to be accepted as limitation to the discretion of the parties. Therefore, it seems that the tension pertaining to the interpretation of the investment definition during arbitration will continue. When the essential attitude of ICSID Convention endeavouring to level up the interests of both foreign investors and host states to the same degree is taken into consideration, it is not so hard to foresee that the freedom of contract will be much more appreciated under ICSID Convention in comparison to other investment protection conventions where public policy claims of the host state are reciprocated almost unexceptionally. I believe that incorporation of excessive restrictive conditions for the definition of investment term into Article 25 of ICSID Convention would not be compatible with the understanding where freedom of contract is valued. On the other hand, the fact which should be embraced is that executed bilateral investment treaties between the host states and the home states of foreign investors are mostly the model bilateral investment treaties of the countries possessing more effective negotiating power. In this direction, I support the existence of some certain conditions (*e.g.* 'directly out of an investment') within Article 25 of ICSID Convention. Otherwise, the investors of developing countries would be completely to the terms of the bilateral investment treaties drafted by developed countries.

1.2.2 From the Perspective of Arbitral Tribunals' Approaches

As promised above, the approaches of arbitral tribunals in terms of deciding what is qualified as investment are going be examined under this section. In the first phase, it should be stated that such examination is of outstanding importance since, because of the silent nature of the ICSID Convention oriented to investment definition, arbitral tribunals have tried to set the basis of certain characteristics for the determination of the existence of investment.

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[83] ARON BROCHES, SELECTED ESSAYS: WORLD BANK, ICSID, AND OTHER SUBJECTS OF PUBLIC AND PRIVATE INTERNATIONAL LAW (Martinus Nijhoff Publishers. 1995), p.362.

[84] Preamble of the ICSID Convention,"… considering the need for international cooperation for economic development, and the role of private international investment therein; …"

1.2.2.1 Broad Interpretation of Investment Definition

The earliest award of the evolving case law relating to the meaning of "investment" term is Fedax NV v. Republic of Venezuela. In summary, Fedax, a company claiming under the Netherlands-Venezuela Bilateral Investment Treaty[85], was the beneficiary, by way of endorsement, of debt instruments issued by Venezuela. Thus, Fedax had not come into possession of the promissory notes as a result of any relationship with Venezuela, or any direct investment made in its territory. Venezuela argued that Fedax's holding of the promissory notes in question did not qualify as an investment because Fedax had not made a direct foreign investment involving a long-term transfer of financial resources.[86] The Tribunal rejected this argument by indicating the ambiguous nature of the ICSID Convention in the first place[87] and concluded that promissory notes own an investment's basic characteristics pointed out below in its words by providing such conclusion based upon the approach of Schreuer:

> "The status of the promissory notes under the Law of Public Credit is also important as evidence that the type of investment involved is not merely a short-term, occasional financial arrangement, such as could happen with investments that come in for quick gains and leave immediately thereafter – i.e. "volatile capital." The basic features of an investment have been

[85] Article 1(a) of the Agreement on the Encouragement and Reciprocal Protection of Investments Between the Kingdom of the Netherlands and the Republic of Venezuela executed on the date of 22.10.1991 and entered into force on the date of 01.11.1993 provides the definition of investment as follows:
"the term 'investments' shall comprise every kind of asset and more particularly though not exclusively:

i. movable and immovable property, as well as any other rights in rem in respect of every kind of asset;
ii. rights derived from shares, bonds, and other kinds of interests in companies and joint-ventures;
iii. title to money, to other assets or to any performance having an economic values;
iv. rights in the field of intellectual property, technical processes, goodwill and know-how;
v. rights granted under public law, including rights to prospect, explore, extract, and win natural resources."

[86] MCLACHLAN, et al., supra note 67, p.165; Fedax N.V. v. The Republic of Venezuela, supra note 81, paras. 21-33.

[87] Fedax N.V. v. The Republic of Venezuela, supra note 81, para. 21:
"The Tribunal shall first examine the meaning of the term 'investment' under Article 25(1) of the Convention. It is well established that numerous attempts to define investments were made during the negotiations of the Convention, but none were generally acceptable. Because of this difficulty, it was finally decided to leave any definition of the 'investment' to the consent of the parties."

> described as involving a certain duration, a certain regularity of profit and return, assumption of risk, a substantial commitment and a significance for the host State's development[88]…"[89]

The approach belonging to the Tribunal in Fedax v. Venezuela ICSID Case which has preferred to examine the question relating to investment definition in more broad manner rather than looking at the single transaction subject to the dispute and has set out "criteria" list for the separation of ordinary commercial transaction from an investment has also been adopted by the Tribunal in CSOB v. Slovakia ICSID case where the eligibility of loan facilities as an investment is presented as disputable by Slovakia by claiming that CSOB had not undertaken any spending, outlays or expenditure in the Slovak Republic. The Tribunal in CSOB v. Slovakia has concluded that:

> "In the Tribunal's view, the basic and ultimate goal of the Consolidation Agreement was to ensure a continuing and expanding activity of CSOB in both Republics. This undertaking involved a significant contribution by CSOB to the economic development of the Slovak Republic; it qualified CSOB as an investor and the entire process as an investment in the Slovak Republic within the meaning of the [ICSID] Convention. This is evident from the fact that CSOB's undertakings include the spending or out-lays of resources in the Slovak Republic in response to the need for the development of the Republic's banking infrastructure.
>
> The Tribunal concludes, accordingly, that CSOB's claim and the related loan facility made available to the Slovak Collection Company are closely connected to the development of CSOB's banking activity in the Slovak Republic and that they qualify as investments within the meaning of the [ICSID] Convention and the BIT."[90]

Examination of the transactions underlying the disputes in the broadest context has also been applied by the Tribunal in Joy Mining Machinery Ltd v. The Arab Republic of Egypt ICSID case where such preference is explained with the statement of that"…, that a given element of a complex operation should not be examined in isolation because what matters is to assess the operation globally or as a whole, …".[91] So indeed, I presume that examining

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[88] C. Schreuer, *Commentary on the ICSID Convention*, ICSID REVIEW-FOREIGN INVESTMENT LAW JOURNAL (1996), p.316, 355-358; İLHAN YILMAZ, ULUSLARARASI YATIRIM UYUŞMAZLIKLARININ TAHKİM YOLUYLA ÇÖZÜMÜ VE ICSID (Beta Yayıncılık. 2004), p.178.

[89]Fedax NV. v. The Republic of Venezuela, supra note 81, para. 43.

[90]Ceskoslovenska Obchodni Banka, A.S. v. The Slovak Republic, ICSID Case No. ARB/97/4, Decisions of the Tribunal on Objections to Jurisdiction, paras.88 and 91.

[91]Joy Mining Machinery Limited v. The Arab Republic of Egypt, ICSID Case No. ARB/03/11, Award on Jurisdiction, para.54.

the case concerned in pieces will detract the competent tribunal from the essence of the facts and will direct the competent tribunals to improper conclusions.

1.2.2.2 Salini Criteria

The Tribunal in Fedax v. Venezuela ICSID case has adopted five criteria including substantial commitment, a certain duration, assumption of risk, a significance for the host state's development and a certain regularity of profit and return. However, the criterion of "a certain regularity of profit and return" has been disputable and considered seldomly relevant by the tribunals. Pursuant thereto, the remaining four criteria were explicitly stipulated in the Salini v. Morocco ICSID case[92] in 2001 and the definition of investment in legal perspective has found its essence in Salini v. Morocco ICSID case with recognition of *"Salini criteria"* or *"Salini test"* by inactivating the Fedax award.[93] Thereby, the debates relating to the question whether there is a limit for the party autonomy in the general understanding of an investment have been concluded by setting out these cumulative mandatory requirements known as Salini criteria in the manner of supporting Joy Mining v. Egypt approach emphasizing that

> "The fact that the Convention has not defined the term investment does not mean, however, that anything consented to by parties might qualify as an investment under the Convention. The Convention itself, in resorting to the concept of investment in connection with jurisdiction, establishes a framework to this effect: jurisdiction cannot be based on something different or entirely unrelated. In other word, it means that there is a limit to the freedom with which the parties may define an investment if they wish to engage the jurisdiction of ICSID tribunals."[94]

Although the Tribunal in Joy Mining v. Egypt ICSID case embraced the view of that the freedom of parties with respect to the definiton of investment is not limitless and although it seemed that Salini criteria has been indisputably accepted in successive arbitral awards for a while such as Bayindir[95], Jan de Nul[96], Kardassopoulos[97] and Quiborax[98], some

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[92]Salini Costruttori SpA and Italstrade SpA v. Kingdom of Morocco, supra note 74, para.56.
[93] Farouk Yala, *The Notion of "Investment" in ICSID Case Law: A Drifting Jurisdictional Requirement?*, JOURNAL OF INTERNATIONAL ARBITRATION (2005), p.106.
[94]Joy Mining Machinery Limited v. The Arab Republic of Egypt, supra note 91, para.49.
[95]Bayindir Insaat Turizm Ticaret ve Sanayi A.S v. Islamic Republic of Pakistan, supra note 73,para.130
[96] Jan de Nul N.V. and Dredging International N.V. v. Arab Republic of Egypt,ICSID Case No. ARB/04/13, Decision on Jurisdiction, para.91.

dissenting arbitral awards against the Salini criteria have also been set out so far. The first digression from the Salini approach has been placed in Biwater Gauff v. Tanzania ICSID Case by clearly pointing out that "The Arbitral Tribunal notes in this regard that, over the years, many tribunals have approached the issue of the meaning of 'investment' by reference to the parties' agreement, rather than imposing a strict autonomous definition, as per the Salini test".[99]Further, the Tribunal has made a reference to various previous arbitral awards in the same paragraph where it had stipulated its explicit attack against the Salini criteria. One of those referred arbitral awards was Mihaly v. Sri Lanka ICSID Casewith the explanation of the Tribunal in Mihaly v. Sri Lanka ICSID case expressing that "the definition was left to be worked out in the subsequent practice of States, thereby preserving its integrity and flexibility and allowing for future progressive development of international law on the topic of investment".[100]

Beside the clear preference of the Tribunal in Biwater Gauff v. Tanzania ICSID Case in the direction of disregarding the Salini test presenting firm criteria for the evaluation of an 'investment" based on the explanation of "Give that the Convention was not drafted with a strict, objective, definition of 'investment', it is doubtful that arbitral tribunals sitting in individual cases should impose one such definition which would be applicable in all cases and for all purposes"[101],the Salini test has also been criticized by the Tribunal in Biwater Gauff v. Tanzania ICSID Case on the basis of the claim of certain types of transactions may be excluded from the scope of the ICSID Convention because of the typical characteristics expected from the Salini test for the confirmation of the existence of an investment.[102] In

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[97] Ioannis Kardassopoulos v. The Republic of Georgia, ICSID Case No. ARB/05/18,Decision on Jurisdiction, para. 116.

[98] Quiborax S.A., Non-Metallic Minerals S.A. and Allan Fosk Kaplun v. Plurinational State of Bolivia, ICSID Case No. ARB/06/2, Decision on Jurisdiction, para. 219.

[99]Biwater Gauff (Tanzania) Ltd. v. United Republic of Tanzania, ICSID Case No. ARB/05/22, Award, para. 317.

[100] Mihaly International Corporation v. Democratic Socialist Republic of Sri Lanka, ICSID Case No. ARB/00/2, Award, para.33.

[101]Biwater Gauff (Tanzania) Ltd. v. United Republic of Tanzania, supra note 99, para. 313.

[102] Id. at para.314

"Further, the Salini Test itself is problematic if, as some tribunals have found, the 'typical characteristics' of an investment as identified in that decision are elevated into a fixed and inflexible test, and if transactions are to be presumed excluded from the ICSID Convention unless each of the five criteria are satisfied. This risks the arbitrary exclusion of certain types of transaction from the scope of the [ICSID] Convention. It also leads to a definition that may contradict individual agreements (as here), as well as a developing consensus in parts

this direction, the Salini test has been found in contradiction with the understanding of the ICSID Convention which left the term 'investment' intentionally undefined while such test appeared to be firmly accepted by the tribunals leads to the approach allowing to envisage only 'special and privileged arrangements' to be fallen under the ICSID Convention.[103] As a consequence, the Tribunal in Biwater Gauff v. Tanzania ICSID Case, by aiming at a compromise between party autonomy and the Salini approach, suggested "a more flexible and pragmatic approach to the meaning of 'investment', which takes into account the features identified in Salini, but along with all circumstances of the case, including the nature of the instrument containing the relevant consent to ICSID".[104]

It should be highlighted that, more strikingly, the Salini approach has been criticized as 'gross error' by the Annulment Committee in Malaysian Historical Salvors v. Malaysia ICSID Case in more direct and elaborate manner. In the first place, the Annulment Committee has set out the 'ordinary meaning' of the term 'investment' with the definition of "the commitment of money or other assets for the purpose of providing a return."[105] After this determination, the Annulment Committee has reached out the interpretation of the *travaux préparatoires* of the ICSID Convention and concluded that *"*it is important to note that the travaux préparatoires do not support the imposition of 'outer limits'…little more about the nature of outer limits is indicated in the travaux than is contained in Article 25 (1), namely that, 'the jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment…' It appears to have been assumed by the Convention's drafters that use of the term 'investment' excluded a simple sale and like transient commercial transactions from the jurisdiction of the Centre. Judicial or arbitral construction going further in interpretation of the meaning of 'investment' by the establishment of criteria or hallmarks may or may not be regarded as plausible, but the intentions of the

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of the world as to the meaning of 'investment' (as expressed, e.g., in bilateral investment treaties). If very substantial numbers of BITs across the world Express the definition of 'investment' more broadly than the Salini Test, and if this constitutes any type of international consensus, it is difficult to see why the ICSID Convention ought to be read more narrowly."

[103]Biwater Gauff (Tanzania) Ltd. v. United Republic of Tanzania, supra note 99, para. 315.

[104] Id. at para.316.

[105]Malaysian Historical Salvors SDN BHD v. The Government of Malaysia, ICSID Case No. ARB/05/10, Decision on the Application for Annulment, para. 57.

draftsmen of the ICSID Convention, as the travaux show them to have been, lend those criteria (and still less, conditions) scant support".[106]

In short, it was resulted that the outer limits of term 'investment' considered in the *travaux* are related to that simple sales and transient commercial transactions fell outside the scope of the ICSID Convention and within these boundaries, the parties are free to submit whatever dispute they wished to be decided. As conclusion, the Salini criteria is criticized because of its characteristic narrowing the circumstances under which parties could have recourse to ICSID arbitration due to the exclusive nature of ICSID Convention granting foreign investors to directly initate an arbitration proceding against host states.[107] Also, it has been pointed out that "to ignore or depreciate the importance of the jurisdiction [many bilateral and multilateral treaties] bestow upon ICSID, and rather to embroider upon questionable interpretations of the term 'investment' as found in Article 25(1) of the Convention, risks crippling the institution."[108]

Beyond to the perspective defending a compromise (*double keyhole*) between party autonomy and the Salini approach[109] and presented by the Tribunal in Biwater Gauff v. Tanzania ICSID Case, the Tribunal in the Pantechniki v. Albania ICSID Case, party autonomy in the definition of the term 'investment' has been specifically and especially emphasized by clearly setting out that "For ICSID arbitral tribunals to reject an express definition desired by two States-party to a treaty seems a step not to be taken without the certainty that the Convention compels it".[110]In the other respect, in line with the Tribunal in Malaysian Historical Salvors v. Malaysia ICSID Case, the Tribunal in the Pantechniki v. Albania ICSID Case has considered that the Salini criteria are introducing subjective judgement which transforms arbitrators into policy-makers and are increasing unpredictability about the availability of ICSID to settle given disputes.[111]

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[106] Id. at para. 69.
[107] Id. at para. 62.
[108] Id. at para. 73.
[109]Melis Avşar, *ICSID Konvansiyonu'na Göre Yatırım Kavramı*, PUBLIC AND PRIVATE INTERNATIONAL LAW BULLETIN (2017), p.130-131.
[110]Pantechniki S.A. Contractors & Engineers v. The Republic of Albania, ICSID Case No. ARB/07/21, Award, para.42.
[111] Id. at para.43.

The review directed against the Salini criteria has also been supported by the Tribunal in Inmaris v. Ukraine ICSID Case with the concern of improvement of such mandatory definition through case law. However, the Tribunal in Inmaris v. Ukraine ICSID Case has suggested an area of utilization for the Salini test.

> "The Salini test may be useful in the event that a tribunal were concerned that a BIT or contract definition of investment was so broad that it might appear to capture a transaction that would not normally be characterized as an investment under any reasonable definition. These elements could be useful in identifying such aberrations. Indeed, of late a number of tribunals and *ad hoc* committees have expressed the view that these elements should be viewed as non-binding, non-exclusive means of identifying (rather than defining) investments that are consistent with the ICSID Convention".[112]

I believe that the embracement of Salini criteria does not mean that the examination of specific features of each case and parties' actual intent would be ruled out by the competent arbitral tribunal. Further, under favour of determined criteria which arbitral tribunals may follow, the frequency of making reference to previous arbitral awards resolved under ICSID Convention will be provided among the privileges of ICSID dispute settlement mechanism in terms certainty and predictability about arbitral awards.

1.2.3 Concluding Remarks

So far, we have analyzed the investment definition from the perspective of legal sense. Under the perspective of legal sense, the first analysis was pertaining to the analysis of investment definition under investment protection treaties, especially by focusing on bilateral investment treaties. Hereunder, the most debatable issue was related to Article 25 of ICSID Convention which does not include any specific investment definition. We have observed that, on the face of the views approaching such situation as a substantial lack, there are numerous commentators interpreting the position of Article 25 of ICSID Convention as a supportive element appreciating the discretion of the parties. To put it differently, since Article 25 of the ICSID Convention, which is accepted as gateway to investment protection provided by the ICSID Convention, does not provide any specific

[112]Inmaris Perestroika Sailing Maritime Services GMBH and Others v. Ukraine, ICSID Case No. ARB/08/8, Decision on Jurisdiction, para. 131.

definition for the investment term as mentioned above, party autonomy reflected on bilateral investment treaties and interpretations of arbitral tribunals based on these bilateral investment treaties have become the cornerstones in terms of the determination of the investment term definition.

Although the absence of investment definition is not accepted as drawback by ICSID Convention negotiators and the institutions of "the parties' consent to arbitration" and "being arisen directly out of an investment" provided in Article 25 and the objective of ICSID Convention set out in the Preamble of the Convention is deemed as qualified and sufficient limitation to indeterminate nature of Article 25 by some scholars (such as Broches), such limitation is criticized to be too broad. It has been defended by Schreuer that the parameters of what constitutes an investment fall to be supplied ultimately by arbitral tribunals.

So indeed, as it can be observed from many ICSID Cases provided above within this study, the tribunals have made substantial effort in order to determine the parameters of what constitutes an investment due to the absence of clearly framed investment definition in the ICSID Convention.

In the atmosphere where the debates of whether the institutions of parties' discretion and the Preamble of the ICSID Convention are sufficient in order to preclude the uncertainty relating to investment definition are carrying on, the spotlights are expectedly on the interpretations of the tribunals whose awards are most likely deemed as precedent by others. At this point, the tribunals should be reminded that the investment arbitration platform provided with the ICSID Convention is the exclusive platform where investors can assert their own concerns and claims against the host State under equal terms without the need of the intervention of the State which investors are citizen of. For the very reason, without the need for any other limitation such as clearly framed investment definition in the Convention, the parties' discretion reflected on investment protection treaties should be sufficient in order to determine what constitutes an investment. Otherwise, the reason of the preferability of the investment arbitration platform provided with the ICSID Convention over other platforms may be damaged. However, such affection must not mean an invitation proposing a policy-oriented approach to the tribunals and the tribunals should not

be in tendency of broadening of the jurisdiction of the tribunals beyond what may have been intended by the parties to the investment treaty and the meaning attributed to it in state practice. Further, arbitration tribunals should balance between the international interests of investors whose primary objective with the commencement of investment arbitration is the protection of their foreign investment in the host State and the interests of the host State whose primary concern with the acceptance of foreign investment and providing its continuance within its territory is to secure competitive advantages of its own local entrepreneurs within its national market.

1.3 Intersection of Intellectual Property Rights and Investment Term

The connection between intellectual property rights and the investment term can be traced back until the beginning of 1960s and earlier.Tagi Sagafi-Nejad and John Dunning recalled that period from the perspective of the United States of America perceived as the most critical player in terms of intellectual property rights export as:

> "The period from 1945 to the 1960s can be called as the golden area of foreign direct investment. During this phase, foreign direct investment grew dramatically both in volume and in spread. The number of foreign affiliated of US based transnational corporations grew from around 7,400 in 1950 to 23,000 in 1966, with an annual growth rate averaging near 10 percent."[113]

On the other aspect, 1960s were the first time when these two substantial concepts have received a great attention from both the worlds of investors and scholars.Tagi Sagafi-Nejad and John Dunning continued their recalls for the period of 1960s and later as follows:

> "Meanwhile, outward flow of foreign direct investment from the United States increased from $1.7 billion in 1960 to $4.4 billion in 1970, while inward foreign direct investment into the United States from the rest of the world went from $140 million in 1960 to $1 billion a decade later."[114]

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[113] TAGI SAGAFI-NEJAD & JOHN H. DUNNING, THE UN AND TRANSNATIONAL CORPORATIONS: FROM CODE OF CONDUCT TO GLOBAL COMPACT (United Nations Intellectual History Project Series. 2008), p.26.
[114] Id. at p.26.

In this direction, the first bilateral investment treaty executed between Pakistan and West Germany in 1959 should be recalled since such agreement is deemed by many academicians as the origin of the intersection point of intellectual property rights and the investment term. Likewise, it was again the period of 1960s when the Convention on the Settlement of Investment Disputes between States and Nationals of Other States ("ICSID Convention") was adopted in March 1965.[115] 1960s was not only the period which developed countries were in search for the new markets where their investments could be safely directed to under the regime promising the protection through an international instrument, this period was also the time which developing countries were in demand of being benefited from such investments spreading from developed countries. Having said that, it should be reminded that developing countries, which had newly gained their independency from developed countries at that time, were dissatisfied with the international investment protection regime since they "questioned whether succeeding to obligations that the former colonial powers entered into on their behalves was a good idea".[116]

With respect to such questioning of former colonies, Peter K. Yu has reflected his own observation with regard to the Berne Convention for the Protection of Literary and Artistic Works ("*Berne Convention*") as follows:

> "When the Berne Convention was revised in Brussels in 1948, only India and Pakistan participated as fully independent nations. While other less developed countries were previously subject to the Berne provisions, the Convention applied to them only by virtue of their status 'as dependent territories'. Once they became independent, they therefore began to question the extant international copyright relationship – in particular, whether they should continue as members of the Berne Convention in their own right or whether they should withdraw from the Union. While India, Pakistan, the Philippines, and many former French and Belgian African colonies elected to remain bound by the Convention, Indonesia decided to withdraw from the Union."[117]

Despite of such reservations or questionings, developing countries have always been aware of the fact that being able to promise the protection of foreign direct investment through

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[115] SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, p.4-5.
[116] Yu, supra note 47, p.838.
[117]Peter K. Yu, *A Tale of Two Development Agendas*, OHIO NORTHERN UNIVERSITY LAW REVIEW, DEAN'S LECTURE SERIES (2009), p.471.

international instruments rather than the instruments provided by their own national laws seen as insecure to foreign investors is crucial for the attraction of foreign investment from developed countries.

Policies welcoming foreign investments have become a common feature in developing countries considering investment agreements with broad obligations on host states for the protection of foreign investments, particularly against expropriation, non-fair and non-equal treatment, as an instrument in order to attract foreign investors. In this direction, developing countries have entered into a large number of bilateral investment treaties, free trade agreements and regional trade agreements. And accordingly, Correa detected that "the number of bilateral investment treaties quintupled during between 1980s and 1990s, rising from 385 at the end of the 1980s to 1,857 at the end of the 1990s, while the number of countries involved in bilateral investment treaties reached 173".[118]

So indeed, it is inevitable to observe that developed countries who are signatories/parties to bilateral investment treaties, free trade agreements and regional trade agreements can influence the domestic political economy of developing countries through the instrument of such international investment agreements. The establishment of bilateral investment treaties and investment chapters in free trade agreements has strategic value for developed countries, especially the major capital exporters, in terms to advance the interests of their corporations in the markets of developing countries. Especially, the United States of America started to include provisions on intellectual property rights into its bilateral investment treaty program during the 1980s; at that time "the US had set the scene for TRIPS through a series of strategic bilateral negotiations on intellectual property with countries like South Korea and Brazil".[119]

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[118]Carlos M. Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, MICHIGAN JOURNAL OF INTERNATIONAL (2004), p.332. Further, it should be noted that pursuant to the "Recent Developments in the International Investment Regime" report issued by UNCTAD in May 2018, investment treaty making has reached a turning point, and accordingly, the year 2017 concluded with the lowest number of new international investment agreements since 1983. The report indicating that "the number of effective treaty terminations outpaced the number of new international investment agreements conclusions for the first time has connected such results with the fact that negotiations for certain megaregional agreements have maintained momentum, especially in Africa and Asia.", see UNCTAD, IIA Issues Note: Recent Developments in the International Investment Regime, (2018/1).

[119] Drahos, supra note 29, p.6.

Within the scope of modern world of intellectual property rights, IPRs as protected investments are indeed subject to various international agreements[120], which is the growing universe of international investment agreements comprising bilateral investment treaties ("BITs") and free trade agreements ("FTAs") with provisions relating to intellectual property rights protection. Hereunder, consideration of intellectual property rights as protected investments under bilateral investment agreements and free trade agreements individually will be studied elaborately.

1.3.1 Intellectual Property Rights under International Investment Agreements

Although developing countries' endeavours in terms of improvement of international intellectual property regime were increasingly slowing down at the beginning of 1980s since the time was coinciding with the weakening of their positions because of the imposition of Bretton Woods institutions on adjustment policies of developing countries[121], following the adoption of TRIPS Agreement, under the effect of expiration date of the TRIPS transition periods[122] and use of bilateral and multilateral treaties by the European

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[120] "*TRIPS-plus provisions*", additional standards which are set out within these treaties by going further than the standards of multilaterally negotiated TRIPS Agreement should also be pointed out among international regulations which IPRs as protected investments are subject to. Valentina S. Vadi, in her study called as "*Trade Mark Protection, Public Health and International Investment Law: Strains and Paradoxes*" refers to TRIPS-plus provisions as "a relative concept which refers to and develops the intellectual property provided by the TRIPS Agreement. There is no single exhaustive definition of TRIPS-plus, as investment provisions are negotiated on an *ad hoc* basis. Generally, though, this concept has a cumulative nature, as negotiators tend to increase the standards building on past experience." see Valentina S. Vadi, *Trade Mark Protection, Public Health and International Investment Law: Strains and Paradoxes*, THE EUROPEAN JOURNAL OF INTERNATIONAL LAW (2009), p.778.
To go even further, it can be observed that some BITs itself should be considered as TRIPS-plus effect. For instance, the Treaty Between the Government of the United States of America and the Government of the Republic of Nicaragua Concerning the Protection of Intellectual Property Rights executed on 07.01.1998 makes the Bilateral Intellectual Property Agreement to be executed between contracting states conditional for the execution of the actual bilateral investment treaty and, pursuant to its Article 20, continues as follows: "Effective upon signature, each Party agrees to submit to its legislature any legislation and to issue any regulations necessary to carry out fully the obligations of this Agreement and to enact and implement such legislation and give effect to such regulations within 18 months."

[121] SAGAFI-NEJAD & DUNNING, supra note 113, p.29.

[122] Article 65 of the TRIPS Agreement:
"Transitional Agreements
1. Subject to the provisions of paragraphs 2, 3 and 4, no Member shall be obliged to apply the provisions of this Agreement before the expiry of a general period of one year following the date of entry into force of the WTO Agreement.
2. A developing country Member is entitled to delay for a further period of four years the date of application, as defined in paragraph 1, of the provisions of this Agreement other than Articles 3, 4 and 5.

Union and the United States to enhance their bargaining positions and to avoid stalemates in the international intellectual property arena upon the increased demands from less developed countries for diversification[123], the negotiations for the updated intellectual property provisions have accelerated in the mid-2000s. International investment agreements will be analysed as the conclusions of such negotiations hereunder.

Investment treaties are agreements on an international level, whether embodied in one single instrument, in two or more, between two or more contracting states, by which they agree to certain legal rules that will govern investments undertaken by nationals of one party (home state, which is historically developed states as capital exporting nations) in the territory of another party (host state, which is historically developing states as capital importing nations). The treaty is binding for the parties and leads, in cases of breach, to legal consequences and damages. Although some certain provisions of the international investment agreements ("IIAs") are not uniform, "their content is of similar structure and it can be argued that they all address the same issues".[124]

As Mendenhall stipulates that while IPR treaties are prescriptive, i.e. they provide a set of rules that have to be implemented in the national legal orders, IIAs are result-oriented, *i.e.* they are focused on the actual application of a given law[125], the result which it is tried to achieve through international investment agreement is to protect certain types of property

3. Any other Member which is in the process of transformation from a centrally-planned into a market, free-enterprise economy and which is undertaking structural reform of its intellectual property system and facing special problems in the preparation and implementation of intellectual property laws and regulations, may also benefit from a period of delay as foreseen in paragraph 2.
4. To the extent that a developing country Member is obliged by this Agreement to extend product patent protection to areas of technology not so protectable in its territory on the general date of application of this Agreement for that Member, as defined in paragraph 2, it may delay the application of the provisions on product patents of Section 5 of Part II to such areas of technology for an additional period of five years.
5. A Member availing itself of a transitional period under paragraphs 1, 2, 3 or 4 shall ensure that any changes in its laws, regulations and practice made during that period do not result in a lesser degree of consistency with the provisions of this Agreement."

[123]Peter K. Yu, *Currents and Crosscurrents in the International Intellectual Property Regime*, LOYOLA OF LOS ANGELES LAW REVIEW, (2004), p.392.

[124]Stefania-Despoina Efstathiou, *Intellectual Property Rights under International Investment Treaties: Overview, Protection and Dispute Settlement*, INTERNATIONAL HELLENIC UNIVERSITY, (2017),p.4

[125]James E. Mendenhall, *Fair Treatment of Intellectual Property Rights under Bilateral Investment Treaties*, TRANSNATIONAL DISPUTE MANAGEMENT, (2009), 2 f.

owned by a national of home state but invested in a host state against undue interference by public authorities of the host state.[126]

Taking into consideration of IIAs' objects in direction to encourage foreign direct investment so as to "stimulate the flow of private capital and economic development of the parties"[127] and "maximize effective utilization of economic resources and improve living standards"[128], when a foreign investor controls or has the ownership of certain types of property in the host state, and in respect thereof, intellectual property rights held by such properties are negatively affected by any measure or treatment of the host state, the issue of protection under the substantive standards of the applicable international investment agreement come into question.[129]

In order to benefit from the protection in question provided by international investment agreements, the subject property should be evaluated as "investment" under the relevant international investment agreement. IIAs can be broadly divided into two groups: bilateral investment treaties ("BITs") of which the focus is on the encouragement and protection of foreign investments between two States and the connection with intellectual property rights is the inclusion of such rights into the definition of investment and the free trade agreements ("FTAs") of which is on more broadly on trade, that have already been touched upon in connection with international conventions on IPRs and the connection with intellectual property rights is the inclusion of intellectual property chapter into the same agreement as investment chapter.[130] Hereunder, the approaches of BITs and FTAs to the intellectual property rights under investment definition will be examined separately.

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[126]Perkams&Hosking, supra note 6, p.10.
[127] Preamble of the Treaty Between the United States of America and Ukraine Concerning the Encouragement and Reciprocal Protection of Investment entered into force on 16.11.1996.
[128] Preamble of the Agreement between the People's Republic of China and the Federal Republic of Germany on the Encouragement and Reciprocal Protection of Investments entered into force on 11.11.2005.
[129] Efstathiou, supra note 124, p.3.
[130] Perkams & Hosking, supra note 6, p.14; Susy Frankel, *Interpreting the Overlap of International Investment and Intellectual Property Law*, JOURNAL OF INTERNATIONAL ECONOMIC LAW (2016), p.6.

1.3.1.1 Intellectual Property Rights under Free Trade Agreements

In Law of Nations (1758), Emmerich de Vattel argued that a state has the right to control and set conditions on the entry of foreigners. Once admitted, foreigners are subject to local laws and the state is under a duty to protect foreigners in the same manner as its own subjects. At the same time, however, foreigners retained their citizenship in their own state and were not obliged to submit, like the subjects, to all commands of the sovereign. In Vattel's view, foreigners' membership in their home state extended to their property, which remained part of the wealth of their home nation. As a result, a state's mistreatment of foreigners or their property was an injury to the foreigners' home state. This approach has eventually been merged with the international legal principle of diplomatic protection.[131]

In compliance with such argument improved by Vattel, it can be observed that the reference to intellectual property rights was common feature of the US Friendship Commerce and Navigation ("FCN") Treaties with the purpose of the protection of such rights as part of the duty to protect a foreigner which is imposed to host states as the basic requirement of international law. Throughout the 18th century and well into 20th century, states executed the treaties of friendship, commerce and navigation in order to determine "the legal status that each country grants to citizens of the other country living on its territory".[132] Such treaties designated lots of various subject matters all together, such as human rights, trade, intellectual property, inheritance or taxation in a single texton contrary to the today's approach embracing the agreements specialized on certain topics. FCN treaties, which are historical relics nowadays, tried to provide "certain legal and economic rights across a range of areas"[133] for treaty nationals. The FCN Treaty negotiated between US and China in 1903 and including copyright protection can be stipulated as a sample regarding to intellectual property rights hereunder. Furthermore, under some FCN treaties, it is detected

[131]Andrew Newcombe&Lluis Paradell, *Law and Practice of Investment Treaties, Standards of Treatment*, KLUWER LAW INTERNATIONAL (2009), p.4.
[132] John F. Coyle, *The Treaty of Friendship, Commerce and Navigation in the Modern Era*, COLUMBIA JOURNAL OF TRANSNATIONAL LAW (2013), p.304.
[133] Id. at p.311; SORNARAJAH, supra note 63, p.180-181.

that "the term "property" was simply extended to such intangible rights, while in others explicit reference was made to patents, copyrights and trademarks".[134]

One of the manners where the connection between the legal rules relating to intellectual property rights and investment is realized is free trade agreements. Free trade agreements can be bilateral and multilateral. The North American Free Trade Agreement ("NAFTA") and Dominican Republic - Central American Free Trade Agreement ("DR-CAFTA") can be listed among the samples of free trade agreement. Numerous free trade agreements include chapters, one of which is related to the definition of investment and other of which is connected with intellectual property rights including the incorporation of TRIPS and TRIPS-plus requirements (the requirements including higher levels of intellectual property protections than the level obliging member states to adopt pursuant to TRIPS Agreement). Chapter 11 of NAFTA and Chapter 10 of DR-CAFTA, the latter of which is based on the U.S. Model Investment Treaty of 2004, contain provisions dealing with subject matter of investment similar to that found in a BIT.[135]

1.3.1.2 Intellectual Property Rights under Bilateral Investment Treaties

In the 1950s, following the independence of former colonies and accordingly adoption of New International Economic Order[136], agents of developed nations made substantial endeavours with respect to create a new type of international treaty in order to protect their citizens' investments more efficiently in the host state. Should it be evaluated specific to the subject matter of this study, in this respect, bilateral investment treaties have appeared as the platform where two protective regimes, under general terms, granted separately by IPRs protection regime and IIAs protection regime do overlap. Correa and Viñuales emphasized the differences principally between the protection regimes provided by IPRs

[134] Liberti, supra note 46, p.6.
[135] Perkams & Hosking, supra note 6, p.14.
[136] A set of proposals provided by developing countries and first formally committed by the United Nations General Assembly in April 1974 with its own words as " to work urgently for the establishment of a new international economic order based on equity, sovereign equality, common interest and co-operation among all States, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations." See SORNARAJAH, supra note 63, p.183.

and IIAs as follows: "Protection' in the context of IPRs law generally means that the right-holders are granted the right to exclude others from the use of the covered intangibles. They essentially grant an *ius prohibendi*. Under IIAs, 'protection' has a different meaning; it provides right-holders the legal power to seek compensation for adverse act/omissions by a sovereign State regarding IPRs recognized in its territory. Infringements by third parties may, in some cases, amount to an omission by a State in breach of an IIA".[137]

To put it differently, whereas the protection regime set out by IPR law embraces intellectual property rights as negative rights and equips the right holders only with the right to exclude third persons from the infringements to such protected rights, the protection regime embraced by international investment agreements determines the rights which the right holders may follow in order to compensate the damages arisen out from infringements by the host state. Although the negative rights character of intellectual property rights will be elaborated in the following chapters of this study, I prefer to confine my explanations in this respect to the comparison of protection regimes provided by IPRs law and IIAs.

The effect of having intellectual property rights included in investment definition is that intellectual property rights can be subject to the general protection instruments presented to investors under bilateral investment treaties such as most-favoured nation, national and fair and equal treatment and the right to submit investment disputes to international arbitration against host state without need of interference of home state of foreign investors.At this point, the issue of to which extent intellectual property rights are embraced as investments under bilateral investment treaties come to the force.

In this direction, as the other manner where the connection between the legal rules relating to intellectual property rights and investment is realized, on November 25, 1959, Germany and Pakistan signed the first bilateral investment treaty, as the predominant form of international investment agreements. This first bilateral investment treaty included intellectual property rights as protected investments in an explicit manner as follows:

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[137]Carlos Correa & Jorge E. Viñuales,*Intellectual Property Rights as Protected Investments: How Open are the Gates?*, JOURNAL OF INTERNATIONAL ECONOMIC LAW (2016), p.91-92.

GERMANY-PAKISTAN BIT (1959)

Article 8

(1)(a) The term "investment" shall comprise capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, patents and technical knowledge. The term "investment" shall also include the returns derived from and ploughed back into such "investment".

1.3.1.2.1 General Differences on Wording of Bilateral Investment Treaties

Under bilateral investment treaties, the coverage of intellectual property rights within the frame of investment definition is generally placed with certain forms[138] as follows:

i. as part of an illustrative list added to the standard formula "every asset that an investor owns or controls";

> "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[139].

ii. as part of a list of different categories of intellectual property rights including all sorts of industrial and artistic rights as well as business-related intangible assets such as business secrets and trade names:

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[138] It should further be indicated that, differently from such certain forms of specifying intellectual property rights under investment definition in BITs, observation of the appearance of intellectual property rights in the preamble of related bilateral investment treaty is also possible as provided in the Agreement between the Government of the United States of America and the Government of the Federal Republic of Nigeria Concerning the Development of Trade and Investment Relations concluded on the date of 16.02.2000. The preamble of such Agreement does include intellectual property rights into the scope of the protection provided by the Agreement as follows:
"The Government of the United States of America and the Government of the Federal Republic of Nigeria (individually a "Party" and collectively the "Parties"):
(11) Recognizing the importance of providing adequate and effective protection and enforcement of intellectual property rights, and taking into account each Party's obligations contained in the Agreement on Trade-Related Aspect of Intellectual Property Rights (TRIPS) and in intellectual property rights conventions…"

[139] Article 1 of the Treaty Between the United States of America and the Oriental Republic of Uruguay Concerning the Encouragement and Reciprocal Protection of Investmentexecuted on the date of 04.11.2005 entered into force on the date of 31.10.2006.

> the term "investment" means every kind of asset affected as investments in accordance with the laws and regulations of the Contracting Party which accepts investment in its territory and shall include in particular, though not exclusively:
>
> d) industrial and intellectual property rights such as patents, industrial designs, technical processes, as well as trademarks, goodwill, know-how and other similar rights;[140];

iii. as part of a list referring to "every kind of asset" and containing intellectual property rights in detail in a non-exhaustive list[141].

> the term "investment" means every kind of asset invested directly or indirectly by investors of one Contracting Party in the territory of the other Contracting Party, and in particular, though not exclusively, includes*:*
>
> d) intellectual property rights, in particular copyrights, patents and industrial designs, trade-marks, trade-names, technical processes, trade and business secrets, know-how and good-will[142].

Beside such differences on wording between bilateral investment treaties, however, eventually embracing intellectual property rights as investment in a kind of way[143]; some treaties may not specifically refer to intellectual property rights and may confine their provisions providing investment definition to only "property" or "asset" terms.[144] Under the circumstances, for the evaluation of intellectual property rights as investment, two phased verification should be concerned. Firstly, it must be investigated whether the right claimed by the foreign investor does constitute a form of property under the domestic law of the host state. If such investigation is concluded affirmatively, secondly, it should be questioned whether the features of such right do meet the requirements (such as the

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[140] Article 1 of the Agreement between the Arab Republic of Egypt and the Federal Republic of Germany Concerning the Encouragement and Reciprocal Protection of Investmentsexecuted on the date of 16.06.2005 and entered into force on the date of 22.11.2009.

[141] Boie, supra note 2, Chapter 1.1.

[142] Article 1 of the Agreement between the Government of the Republic of Turkey and the Government of the Sultanate of Oman Concerning the Reciprocal Promotion and Protection of Investments executed on the date of 04.02.2007 and entered into force on the date of 15.03.2010.

[143]SORNARAJAH, supra note 63, p.190, 192-193; Julian Davis Mortenson, *Intellectual Property as Transnational Investment: Some Preliminary Observations*, TRANSNATIONAL DISPUTE MANAGEMENT (2009), p.6-7.

[144] Ermias Tekeste Biadgleng, *IP Rights under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protection of Public Interest*, SOUTH CENTRE (2006), p.3.

elements of financial contribution, time, risk etc.) to be defined as investment under the relevant bilateral investment treaty.

The difference between the bilateral investment treaties specifically referring to intellectual property rights and the bilateral investment treaties referring only to the terms of property or assets is viewed as follows. Under the bilateral investment treaties specifically referring to intellectual property rights, the existence of the intellectual property right concerned under the domestic law of the host state is questioned. For instance, if the claimed right by the foreign investor is a right requiring a registration process under the law of the host state for its existence, by way of illustration, if the right claimed by the foreign investor is patent and such registration has not been made yet, the investor will not be able to claim the protection of such patent right as investment under the relevant bilateral investment treaty.However, if such right is qualified as another form of investment such as know-how, the protection of such right will be possible on condition of the allowance by applicable investment provisions. On the other hand, if patent is registered under the domestic law of the host state, it is suggested that "it will be a patent and therefore it will [be] qualified as an investment irrespective of whether or not a patent as conceptually an investment (i.e. whether or not it involves a financial contribution, a certain duration, a risk element and so on)."[145]Correa and Viñuales defined the case providing the protection of intellectual property rights whose existence is approved under the domestic law of the host state even if the requirementsto be defined as investment are not met as "safe harbour".[146]Pursuant to such argument, under the bilateral investment treaties which do not specifically refer to intellectual property rights, it will not be available to benefit from the case named as "safe harbour" since the questioning whether the claimed right which may fall under the terms of property or assets is indeed an investment remains to be discussed by the arbitral tribuınals.

[145]Correa & Viñuales, supra note 137, p.98; Biadgleng, supra note 144, p.6; Tania Voon & Andrew Mitchell & James Munro, *Intellectual Property Rights in International Investment Agreements: Striving for Coherence in National and International Law*, MELBOURNE LEGAL STUDIES RESEARCH PAPER (2018), p.6-7. For the view of that "IP rights will normally satisfy even the more rigorous set of jurisdictional criteria defining an investment, so long as the investor is active (or intends to be active in the case of a purchase of IP rights) in the development and exploitation of its IP within the host states", see Christopher S. Gibson, *Latent Grounds in Investor-State Arbitration: Do International Investment Agreements Provide New Means to Enforce Intellectual Property Rights*, YEARBOOK ON INTERNATIONAL INVESTMENT LAW & POLICY (2010), p.435.

[146] Correa &Viñuales, supra note 137, p.98.

Similar to safe harbour theory defended by Correa and Viñuales, without stipulating any substantial reason, Douglas also approached intellectual property rights as investments with no need to investigate whether such rights involve the characteristics of investment such as financial contribution, certain duration or a risk element.

> "Intellectual property rights have frequently been the object of international reclamations and there is no conceptual problem in recognising such rights as investments. It is, nonetheless, important to emphasize the territorial nature of intellectual property rights and the role of the law of the host state pursuan to Rule 4 [The law applicable to an issue relating to the existence or scope of property rights comprising the investment is the municipal law of the host state, including its rules of private international law.]."[147]

Beside scholars, the question of that, in which circumstances, intellectual property rights are qualified as an investment has also been evaluated by arbitral tribunals. One of the most recent decisions resolved by arbitral tribunals in this respect belongs to the ICSID Case carried out by and between Bridgestone Licensing Services, Inc., Bridgestone Americas, Inc. and Republic of Panama.The relevant arbitration arose "in the context of a world-wide battle between two groups of companies that manufacture and sell tires. One, the Chinese owned Luque Group, markets, or seeks to market, tires under the mark "RIVERSTONE." The other, the Japanese owned Bridgestone Group, markets tires under the marks "BRIDGESTONE" and "FIRESTONE"."[148] Muresa Intertrade S.A, a member of the Luque Group, made an application published by the Panamian Trademark and Patent Office for the registration of Riverstone trademark in Panama. However, Bridgestone Corporation ("BSJ"), which is the parent company and the owner of the Bridgestone trademark registered in Panama and Bridgestone Licensing Services, Inc. ("BSLS"), which is the wholly-owned subsidiary of Bridgestone Corporation and the owner of the Firestone trademark in all countries except the United States, initiated proceedings before local courts of Panama by opposing the registration of the Riverstone trademark on the grounds that it is confusingly similar to the Firestone and Bridgestone trademarks. With the intervention of L.V. International and Tire Group of Factories Ltd., also a member of the Luque Group,

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[147] ZACHARY DOUGLAS, THE INTERNATIONAL LAW OF INVESTMENT CLAIMS (Cambridge University Press. 2009), para.395.

[148] Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama, ICSID Case No. ARB/16/34, Decision on Expedited Objections, para.48.

beside Muresa Intertrade S.A., the opposition of BSJ and BSLS was denied. Subsequently, Muresa and Tire Group initiated seperate proceedings in the Panamian courts against BSJ and BSLS by alleging that the opposition of BSJ and BSLS against the Riverstone trademark caused to decrease of the sales of Riverstone tires because of the "fear that their inventory would be sized if they were to lose the proceedings"[149]. Although the claims of Muresa and Tire Group had been rejected at first instance and by the Panamian Court of Appeal, the Panamian Supreme Court resolved for joint and several liability of BSJ and BSLS for the losses incurred by Muresa and Tire Group allegedly. This judgement of the Panamian Supreme Court consisted the basis of the arbitration proceeding initiated by BSLS and Bridgestone Americas, Inc. ("BSAM") equipped by BSLS and BSJ with the license to sell, market and distribute Bridgestone and Firestone tires in Panama. Under this arbitration proceeding, BSLS and BSJ contended that the judgement of the Panamian Supreme Court was arbitrary and unjust. Further, the Claimants alleged that, with this judgement, Panama has violated its obligations arising out from fair and equitable treatment, national treatment and expropriation clauses stipulated under the Trade Promotion Agreement ("TPA") entered into between the United States of America and the Republic of Panama. However, in the expedited proceedings, although Panama did not challengethe investment characteristics of Firestone trademark registered in Panama and owned by BSLS, it did challenge the contention put forward by BSAM of that the licenses pertaining to Bridgestone and Firestone trademarks and granted by BSLS and BSJ to itself are intellectual property rights constituting investments that fall within the protection of TPA.

As per the arguments of the parties, the Tribunal detected that "the arguments has largely focused on the differences between the ownership of the relevant trademarks and the licenses to use these, and whether or not the latter satisfies the definition of an 'investment' in Article 10.29 of the TPA"[150]. Following the emphasis put by the Tribunal on the conditions provided under Article 25 of ICSID Convention, which are that "each Claimant should have an 'investment' and secondly that any dispute raised by a Claimant should

[149] Id. at para.57.
[150] Id. at para.160.

'arise directly' out of that investment"[151], it highlighted the necessity to examine relevant clause defining investment under the relevant bilateral investment treaty.

> "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:
>
> a. an enterprise;
> b. shares, stocks, and other forms of equity participation in an enterprise;
> c. bonds, debentures, other debt instruments, and loans;
> d. futures, options and other derivatives;
> e. turnkey, construction, management, production, concession, revenue-sharing, and other similar contracts;
> f. intellectual property rights;
> g. licenses, authorizations, permits, and similar rights conferred pursuant to domestic law; and
> h. other tangible or intangible, moveable or immovable property, and related property rights, such as leases, mortgages, liens and pledges."[152]

Further, a footnote to (g) stipulates that

> "Whether a particular type of license, authorization, permit ot similar instrument (including a concession, to the extent that it has the nature of such an instrument) has the characteristics of an investment depends on such factors as the nature and extent of the rights that the holders has under the law of the Party. Among the licenses, authorizations, permits, and similar instruments that do not have the characteristics of an investment are those that do not create any rights protected under domestic law. For greater certainty, the foregoing is without prejudice to whether any asset associated with the license, authorization, permit or similar instrument has the characteristics of an investment."[153]

Subsequently, the Tribunal mapped out its route and were determined to finalize the arguments by providing the questions[154] of "(i) in what circumstances does trademark

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[151] Id. at para.154.
[152] Article 10.29 of the United States-Panama Trade Promotion Agreement entered into force on the date of 31.10.2012.
[153] Id.
[154] The other questions directed by the Tribunal, which are "(i) Was the Firestone trademark license an investment in Panama owned or controlled by BSAM? (ii) Was the Bridgestone trademark license an investment in Panama owned or controlled by BSAM?"", were not studied within this study since the

qualify as an investment? (ii) in what circumstances, if any, are the Firestone trademark license and the Bridgestone trademark license capable of qualifying as an investment?"[155].

Pursuant to the first question, although Panama did prefer not to challenge the contention of BSLS that Firestone trademark constitutes an investment in Panama without stipulating any reason, the Tribunal denied to follow safe harbour theory and was persistent on the satisfaction of other characteristics of investment stipulated under Article 10.29, which are commitment of capital or other resources, expectation of gain or profit and assumption of risk. Further, the Tribunal emphasized that "the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country. 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."[156] Lastly, the Tribunal concluded its findings by stating that "a registered trademark will constitute a qualifying investment provided that it is *exploited* by its owner by activities that, together with the trademark itself, have the normal characteristics of an investment."[157] Beside the fulfillment of the conditions including commitment of capital or other resources, expectation of gain or profit and assumption of risk and exploitation, for the acceptance of relevant trademark as investment, the Tribunal undisputably set forth that such trademark should also be protected and desribed as "intellectual property right" under the law of Panama, even though, within the TPA, there isn't any record, pertaining to intellectual property right contrary to licenses, indicating that an intellectual property right "will not have the characteristics of an investment unless it creates rights protected under domestic law"[158].

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delivered answers were not deemed specifically relevant to the intersection of intellectual property rights and investment.

[155]Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama, supra note 148, para.162.

[156] Id. at para.171.

[157] Id. at para.177.

[158] Id. at para.178.

Pursuant to the second question of that "in what circumstances, if any, are the Firestone trademark license and the Bridgestone trademark license capable of qualifying as an investment?", the Tribunal provided the same conditions for the existence of license as investment, as described for intellectual property rights above. However, it should be pointed out that, in contrast to intellectual property rights, the investigation of whether a license is a right protected under the law of the host state is carried out by the Tribunal as the requirement of the footnote to Article 10.29 (g) of the TPA, *not ex officio*.

To put it differently, unlike the approaches of Correa, Viñuales and Douglas embracing intellectual property rights as investment without investigating whether or not such rights involveinvestment criteria provided under the investment definition within the relevant investment treaty and/or appeared as Salini criteria, such as a financial contribution, a certain duration and a risk element provided that the intellectual property right concerned exists under the domestic law of the host state, the Tribunal in Bridgestone v. Panama ICSID Case has considered the investigation with respect to the fulfillment of other investment criteria necessary. Further, it defined the exploitation of such trademark as indicative for the acceptance of a trademark as investment.

I believe that, in order to reach to an effective conclusion, it should be questioned that why Panama did not challenge the investment characteristics of Firestone trademark owned by BSLS without stipulating any reason, whereas it did challenge investment characteristics of the licenses belonging to BSAM.So indeed, the statement of Panama challenging investment characteristics of the licenses was arguing that "the issue is not whether the Firestone and Bridgestone trademark licenses qualify as an 'intellectual property right' because that 'does not matter'. BSAM is first required to demonstrate that such revenue sharing and intellectual property rights meet the chapeau of the TPA definition of 'investment', that is, that they constitute an '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"[159], whereas it did not request the satisfaction of the conditions provided under the relevant chapeau for the trademark owned by BSLS reasonlessly.Most likely, it

[159] Id. at paras.125, 128.

can be claimed that either Panama has based its non-challenge position on safe-harbour theory or it was "reluctant to explain the basis on which this concession has been made in order not to prejudice any subsequent challenge to BSLS's claim"[160]. In either events, in my opinion, it is not understandable why intellectual property rights should be excluded out of the investigation of the chapeau defining the conditions for the existence of investment. Following the procurement of investment definition under bilateral investment treaties, mostly, intellectual property rights are non-exclusively listed among the forms which an investment *may* take. From the language of bilateral investment treaties, it is understood that legal existence of relevant intellectual property right under the domestic law of the host state is not satisfactory evidence for its appearance as investment. Besides, from the statements of scholars defending safe harbour theory, it is not possible to observe any specific characteristic of intellectual property rights enabling us to interpret the language of relevant bilateral investment treaty differently. Consequently, it should be noted that, from my point of view, unjustified embracement of intellectual property rights as investment by Correa, Viñuales and Douglas and Panama is not reasonable, other conditions imposed for the presence of investment characteristics should also be investigated by arbitral tribunals. However, in contrast to the Tribunal's suggestion embracing the exploitation of trademarks as indicative for a trademark as investment, I believe that the existence of trademark's exploitation in the host state does not mean the fulfillment of investment criteria sipulated under the relevant bilateral investment treaty or arbitral tribunals' decisions. Each case is in need of individual investigation from this perspective.

1.3.1.2.2 Enterprise-Based Definitions v. Asset-Based Definitions

An additional distinction at the level of "enterprise-based definitions" and "asset-based definitions" of investment and intellectual property rights can also be introduced. Pursuant to the bilateral investment treaties following enterprise-based definition of investment, acquisition or establishment of an enterprise within the host state is required, otherwise, the right holder of intellectual property rights will not be able to challenge the national decisions resolved by the relevant authorities of the host state where any established or

[160] Id. at para.163.

acquired enterprise of the investor/right holder do not exist and restricting the validity or enforceability of such intellectual property rights.

The case of India can be provided as sample for the countries which had to decide between the choices of enterprise-based definition and asset-based definition for their bilateral investment treaties. So indeed, the implementation of bilateral investment treaties under India case was exposed to intense critics. Some of those critics were in direction to that "India receives substantial foreign investments from the US and Canada without any BIT, on the other hand, seventeen foreign companies serves arbitration notices challenging various policy measures and demanding billions of dollars in compensation for the alleged violation of India's BITs".[161] Further, related concerns were triggered "about India BITs not balancing investment protection with India's regulatory power following the BIT claims brought by foreign investors against India challenging various regulatory measures like cancellation of telecom licenses and imposition of retrospective taxes"[162] under the 1993 Indian Model BITs containing asset-based definition of investment. Accordingly, India's 1993 Model Treaty was revised and enterprise-based definition of investment approach has been adopted in such model rather than asset-based definition of investment approach drafted in broader terms by including every kind of asset as investment. When the 2015 Indian Model BIT following enterprise-based definition of investment approach is analysed, it is observed that the scope of protected investment has been narrowed down:

> 1.4 "investment" means an enterprise constituted, organised and operated in good faith by an investor in accordance with the law of the Party in whose territory the investment is made, taken together with the assets of the enterprise, has the characteristics of an investment such as the commitment of capital or other resources, certain duration, the expectation of gain or profit, the assumption of risk and a significance for the development of the Party in whose territory the investment is made[163]. An enterprise may possess the following assets:

[161]Kavaljit Singh of Madhyam, *India and Bilateral Investment Treaties – Are They Worth It?*, FINANCIAL TIMES, (21 January 2015).
[162]Prabhash Ranjan, *India and Bilateral Investment Treaties – A Challenging Landscape*, ICSID REVIEW-FOREIGN INVESTMENT LAW JOURNAL, (2004), p.1.
[163] Please note that the criteria listed within this clause reflects the Salini test criteria detailed above within this study to some extent.

> (f) Copyrights, know-how and intellectual property rights such as patents, trademarks, industrial designs and trade names, to the extent they are recognized under the law of a Party,[164]

In turn, the term of "enterprise" is defined within such model bilateral investment treaty as:

> 1.3 "enterprise" means:
>
> i. any legal entity constituted, organised and operated in compliance with the law of a Party, including any company, corporation, limited liability partnership or a joint venture; and
>
> ii. a branch of any such entity established in the territory of a Party in accordance with its law and carrying out business activities here[165].

Accordingly, any acts affecting the validity or enforceability of patents, trademarks, etc. would not provide sufficient ground for an investment claim, unless the right holder has established an enterprise that meets the requirements mentioned above.[166] The approach of the host states which is commonly in tendency to narrow down the scope of the intellectual property rights promised for their protection is again appeared under the case of India. It seems that, in 2015, by narrowing the scope of investment term with the adoption of enterprise-based definition, India has made its choice in direction to decrease the possibility of the arbitration proceedings initiated by foreign investors against itself. On the other aspect, time will show how such choice of India will affect the investment decisions of foreign investor to make investment in India and time will reveal the concerns of foreign investors about making investment in India drafting its bilateral investment treaties in narrower manner compared to the past when asset-based definition approach had been adopted.

Following the analysis the approach of free trade agreements and bilateral investment treaties to intellectual property rights, it should be emphasized that the facility with respect to coexisting of both IPRs protection provisions provided by bilateral investment treaties and IPRs protection provisions procured by TRIPS Agreement grants the backdoor to

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[164]Article 1.4 of 2005 Model Text for the Indian Bilateral Investment Treaty.
[165] Article 1.3 of 2005 Model Text for the Indian Bilateral Investment Treaty.
[166]Correa & Viñuales, supra note 137, p.109.

developed states to incorporate higher standards than TRIPS Agreement[167], such as submitting investment disputes to international arbitration without need of interference by home state and diminishing the policy space a government may have for domestic regulation.[168] Such facility is being criticized due to ensuring developed countries with another tool considering the negotiation of IPRs protection and the circumstance is summarized by A.M. Anderson and B. Razavi as "the spread of BITs has been major phenomenon in ratcheting-up international IPR standards post-TRIPS. As a result of the TRIPS-plus phenomenon, IPR commitments are theoretically higher now than they have been at any previous time. BITs continue to proliferate, and IPR provisions are included more frequently and robustly than in prior decades".[169]

In my opinion, within this analysis, the most outstanding complexity becoming evident is the contradiction relating to endeavours on standardization between intellectual property rights protection provisions designated under various international investment agreements. In compliance with the objective of TRIPS Agreement endeavouring for providing a standardization in terms of intellectual property rights protection by obliging member states to adopt minimum standards within their national laws, although, at first sight, it seems that bilateral investment treaties, too, are trying to procure a standardization for the inclusion of

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[167]Peter Drahos, *Developing Countries and International Intellectual Property Standard-Setting*, COMISSION ON INTELLECTUAL PROPERTY RIGHTS, (1995), p. 776:
"Each bilateral or multilateral agreement dealing with intellectual property contains a provision to the effect that a party to such an agreement may implement more extensive protection than is required under the agreement or that the agreement does not derogate from other agreements providing even more favourable treatment. This means that each subsequent bilateral or multilateral agreement can establish a higher standard."
Biadgleng advises developing countries "to have a cautious approach when negotiating the agreements", warns that "investment agreements in particular should not circumvent the achievements in multilateral negotiations that are more favourable for developing countries" and suggest to consider such instruments in their negotiations:"

1. ascertaining the role of domestic laws for validity, determination of scope and applicable exceptions to IP rights and avoiding categories of rights not protected under the domestic laws;
2. providing a general exception that the agreement does not affect the parties' rights and obligations under multilateral IP rights agreements to which they are parties, including the TRIPS Agreement;
3. in the case of a country with bilateral or regional IP rights instruments, the agreements should not require the extension of the treatment accorded to third countries by virtue of bilateral/regional agreements on IP rights; and

the exclusion of the administration, acquisition, maintenance, enforcement and protection of IP rights from the dispute settlement provisions of the investment agreement." Biadgleng, supra note 144, p.34-35.

[168] Boie, supra note 2, p.5.

[169]A.M. Anderson &B. Razavi, *International Standards for Protection of Intellectual Property Rights Post-TRIPS: The Search for Consistency*, TRANSNATIONAL DISPUTE MANAGEMENT (2009), p.13-14.

intellectual property rights within their protection scope, Perkams and Hosking refers to the quantitative analysis of Rachel Lavery evidencing the lack of standardization across treaties and even amongst international investment agreements entered into by the same state and noting that this divergence creates ambiguities that may provide fertile ground for dispute.[170]

When the reasons of such lack of standardization and consistency are investigated, two basic justification has been suggested by A.M. Anderson and B. Razavi. At first place, it is argued that while the types of intellectual property are constantly developing over time, expecting bilateral investment agreements covering intellectual property rights to be standardized in a certain form is rather unconvincing. Such confliction was reflected by A.M. Anderson and B. Razavi as follows:

> *"*In theory, they [IP treaties] do this by creating particular definitions of "investment" that simultaneously encourage trade between nations while also putting in place safeguards for protection of both existing and future IPRS.
>
> Nevertheless, history teaches us that innovation can occur without any IP protection at all. Switzerland is an example of a nation that may have seen more innovation without IP law than with it, disallowing chemical patents until 1978. Similarly, Spain did not allow chemical or medicine patents until 1992. Thus, for Switzerland and Spain, innovation occurred without IP protection in certain areas."[171]

Contemporary international relations between developed and developing countries are presented as the other justification for the presence of such lack of standardization and consistency in bilateral investment treaty by A.M. Anderson and B. Razavi. The authors note that "the history of international IPR protection has been profoundly influence by power struggles between developed and developing nations which in turn have fuelled a periodic rewriting of the rules of the game"[172] and as the "forum-shifting" vehicle of this rewriting process, bilateral investment treaties are evaluated by the authors as "bilateral agreements, typically between a developed nation and a developing one that establish

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[170] Perkams & Hosking, supra note 6, p.20; see also Rachel Lavery, *Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements*, TRANSNATIONAL DISPUTE MANAGEMENT (2009).
[171] Anderson & Razavi, supra note 169, p.3.
[172] Id. at p.6.

additional IPR commitments that are layered upon pre-existing IPR obligations set forth in TRIPS and other agreements".[173] However, it should be noted that the authors are concerned about the considerable future of intellectual property rights protection due to the investment relationships which are "fundamentally fluid rather than static".[174] As conclusion, the authors suggest that "the push-and-pull between developed and developing nations that has gradually created heightened IPR standards will be undermined, and protections will reflect the specific agendas of particular developed nations rather than an overarching international agenda that promises improved IPR protections for years to come".[175]

1.3.2 Other Relevant Issues

Under some circumstances, even if the intellectual property right, which is *ratione materiae,* is qualified as investment according to the provision in where investment definition is set out, more certain requirements, such as the requirement of location as other treaty incumbencies[176] should be fulfilled in order to benefit from the protection guaranteedby the bilateral investment treaty. Later on, patent applications as another prerequisite regarding investment will be studied hereunder for the promised treaty protection.

1.3.2.1 Location Requirement

With respect to the distinction at the level of "enterprise-based definitions" and "asset-based definitions" of investment, in some cases, even if the related international investment agreement follows asset-based definition of investment approach including a list of covered assets, inclusion of an asset into the list is not enough to be treated as protected investment under such international investment agreement. Other treaty incumbencies ("qualified asset-based definition of investment approach"[177]) which the international investment

[173] Id. at p.8.
[174] Id. at p.16.
[175] Id. at p.17.
[176] SORNARAJAH, supra note 63, p.195-196.
[177]Correa &Viñuales suggest that "This approach may lead to a scope of protection broader than the enterprise-based approach, as the presence of an enterprise in the host state is not an explicit condition for an

agreement provides and elaborately studied on under the chapter with the title of "Defining Investment Term" within this study should be met in order for treaty protection. Beside suchincumbencies, it should also be noted that the feature of "location" of the investment may be considered among other treaty incumbencies. Pursuant to especially NAFTA and other similarly designated international investment agreements, it is accepted that acquisition of intellectual property rights as such is not enough for investments to be protected under the terms of NAFTA. Correa & Viñuales stipulate that "stronger link between the territory of the host State and the R&D investment leading to development of the IPR or, at least, the manufacturing activities based on the IPR would have to be present." In the manner proving such statement, the Tribunal in the ICSID Case between Apotex Holdings Inc. and Apotex Inc. v United States of America, Case No. ARB(AF)/12/1, concluded that "Chapter 11 of the NAFTA is not intended to protect a company's activities as a foreign exporter of goods into the territory of a NAFTA Party" by observing that "Apotex could, of course, have invested in U.S.-based manufacturing, development, or testing facilities, but opted instead to create and manufacture its generic pharmaceuticals in Canadian factories. It follows that Apotex's formulation, development

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asset to be protected, but still narrower than the scope created by other options where such conditions are not spelled out ("*non-qualified asset-based definition of investment approach*")" in Correa & Viñuales, supra note 137, p.110.

Philip Morris v. Uruguay ICSID Case (Philip Morris Brands Sárl, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Decision on Jurisdiction) should be indicated as an attention sign especially for the formation of asset-based definitions of investment. The Bilateral Investment Treaty executed between Switzerland and Uruguay follows non-qualified asset-based definitions of investment since no qualification is stipulated within the treaty with respect to which features such assets should bear and the treaty in question provides "copyrights, industrial property rights (such as patents of inventions, utility models, industrial designs or models, trade or service marks, trade names, indications of source or appellation of origin), know-how and good-will" as investments pursuant to its Article 1(2)(d). Philip Morris invoked such bilateral investment treaty in order to challenge Uruguay's plain-packaging legislation. Although Uruguay challenged the jurisdiction of the Tribunal and defended that the feature of contribution to the economic development of the country was deficit, the Tribunal concluded that "the four constitutive elements of the Salini list do not constitute jurisdictional requirements to the effect that the absence of one or the other of these elements would imply a lack of jurisdiction (para.206)". At this point, Correa & Viñuales warns treaty negotiators about such broad provisions not qualified by certain characteristics and sets out that "purely [non-qualified] asset-based definitions may open the possibility of claims grounded on the nullification or impairment of IPRs, even in the absence of any affective presence or assumption of risk in the country where investment protection is sought. This kind of broad provisions would have to be avoided by countries wishing to prevent investment claims in cases where IPRs are merely used to control an export market without any contribution of capital, local value added or job creation (Correa & Viñuales, supra note 137, p.110)".

and manufacture of pharmaceuticals in issue does not qualify for the purposes of NAFTA Chapter Eleven."

I presume that the requirement of location set out under the relevant international investment agreement should not be interpreted in strict manner when the nature of intellectual property rights which does not have physical existence is taken into consideration. Otherwise, for the cases where location requirement is stipulated as condition for the existence of investment under the relevant international investment agreement, nonconciliatory interpretation of the requirement of location may not enable intellectual property rights to be protected under the terms of relevant international investment agreements.

1.3.2.2 Patent applications

As analysed within the the section of this study titled as "Defining Intellectual Property", intellectual property rights differ from other property types especially in terms of their territorial limitations. Principally, intellectual property rights following territoriality principle can affirmatively exists only when the related conditions defined under national legal order are fulfilled.[178] However, it should be noted that such conditions vary substantially between various intellectual property rights. By way of illustration, while some kinds of intellectual property such as copyrights and trade secrets do not oblige any registration process to be acquired and accordingly lack of registration does not affect the status of such rights as covered investments, other intellectual property rights, especially patents, trademarks[179,] industrial designs and utility models "can only be acquired, through a registration process, upon the application processed by the interested party"[180]and approved by national authorities.

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[178] Please consider the minimum standards which TRIPS Agreement obliges its member states to adopt within their own legal orders.

[179] Kindly be remembered that well-known trademarks may benefit from intellectual property rights protection without any registration process under Article 6*bis* of the Paris Convention (1967) and accordingly Article 16 of TRIPS Agreement and Article 6 of the Industrial Property Law numbered 6769. Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization on September, 1999 can be provided another example in this respect.

[180]Correa & Viñuales, supra note 137, p.115.

Regarding to another prerequisite regarding investment and territoriality principle mentioned with regard to such prerequisite, the question of whether the applications for the registration or grant of intellectual property rights within the host state are also covered as protected investments under bilateral investment treaties takes on a new significance.

Not directly related to patent rights and investment disputes, however, European Court of Human Rights has dealt with the question of whether a trademark application can be regarded as protected property in the Case of Anheuser-Busch Inc. v. Portugal[181] pursuant to the Protocol No.1 to the European Convention on Human Rights. The Court decided that such trademark application should be considered as a protected property by taking into consideration the legitimate expectations and accordingly legal affects to be realized under the light of Article 4 of the Paris Convention for the Protection of Industrial Property emphasizing the right of priority[182] and concluded that:

> "These elements taken as a whole suggest that the applicant company's legal position as an applicant for the registration of a trade mark came within Article 1 of Protocol No.1, as it gave rise to interests of a proprietary nature. It is true that the registration of the mark – and the greater protection it afforded – would only become final if the mark did not infringe legitimate third-party rights, so that, in that sense, the rights attached to an application for registration were conditional. Nevertheless, when it filed its application for registration, the applicant company was entitled to expect that it would be examined under the applicable legislation if it satisfied the other relevant substantive and procedural conditions".[183]

Under the light of such award concluded by The European Court of Human Rights, when the question relating to the protection of patent applications as protected investment is considered, the similar double headed discussion appeared between the questions of whether a patent may enjoy the protection as an investment under the related bilateral investment treaty only when the patent has been granted by the host state and whether an application process for a patent must be considered as the part of the property of the an

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[181]Anheuser-Busch Inc. v. Portugal,ECtHR (Grand Chamber),Application No. 73049/01.

[182] Article 4 of the Paris Convention for the Protection of Industrial Property signed on March 20, 1883, as amended on September 28, 1979:
A. (2): "Any filing that is equivalent to a regular national filing under the domestic legislation of any country of the Union or under bilateral or multilateral treaties concluded between countries of the Union shall be recognized as giving rise to the right of priority."

[183]Anheuser-Busch Inc. v. Portugal, supra note 181, para.78.

investor within the scope of legitimate expectations created upon such application process can be observed.[184] Boie defends that the circumstance where the patent protection with all respects is granted to the investor on the condition of grant of patent by the host state constitutes an "unreasonable hindrance" to investments and continues as "if such broad coverage of IPRs under BITs were not accepted, any investor would be able to invest with some legal certainty in a foreign country only once all application processes for his patents had been completed under domestic procedures. If it was within the host state's discretion to grant treaty protection to a patent since this host state's authorities were in a position to decide upon the granting and validity of a patent within its borders, the main goal of international investment law – to guarantee investment protection on an international level independent from possibly biased interference of the host state – would be undercut".[185] So indeed, I defend that emphasis on the goal of international investment law put by Boie should be appreciated, and accordingly, the approach of that patent applications should benefit from such international protection has to be taken into consideration. However, I believe that such broad embracement for patent applications as protected investment does not coincide with the purpose of international investment law one to one. Instead, for the fulfillment of such purpose, patent applications, whose all procedures required under relevant jurisdiction have been duly completed and whose origination is only depend on the discretion of related authorities of host state, should be perceived as protected investments. Only in this case, perception of patent applications as protected investments can be justified with the need of avoidance from biased interference of the host state.

Further, it can be observed that some bilateral investment treaties have already taken their precautions in order to preclude some possible discussions before arbitration tribunals and preferred broader definition whose extent is determined in accordance to the negotiation power of contracting states in the manner which may include the patents in an application process. For instance, Treaty between the United States of America and Jamaica Concerning the Reciprocal Encouragement and Protection of Investment entered into force on March 7, 1997 has included "patentable invention" within its investment definition.

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[184] HENNING GROSSE RUSE-KHAN, THE PROTECTION OF INTELLECTUAL PROPERTY IN INTERNATIONAL LAW (Oxford University Press. 2016), paras.7.10-7.14.
[185] Boie, supra note 2, p.10.

At this point, the ICSID Case between Apotex Holdings Inc. and Apotex Inc. v United States of America (Apotex v. United States) should be remembered where the question of whether the Apotex's potentially patentable products, whose applications were submitted to Abbreviated New Drug Applications with utmost endeavour, are covered as protected investments under Chapter 11 of NAFTA was discussed within the frame of Apotex's arguments which are in the direction of that Apotex had already made substantial investments to file the related applications. In conclusion, the Tribunal considered "property" status of such applications, however, declined the jurisdiction on the basis of the lack of other requirements imposed by enterprise-based and asset-based definition of investment approached, and conclusively resolved that

> "First, whilst an ANDA [Abbreviated New Drug Application] may be characterised for certain purposes as 'property', the Tribunal does not consider that the nature of an ANDA is such as to fall within the contemplated scope of NAFTA Article 1139(g), as that provision must be understood as a whole, by reference to the objects and purposes of NAFTA Chapter Eleven. Notwithstanding its very substantial nature, and the time and cost required for its compilation, an ANDA, ultimately, remains simply an application for revocable permission to (in this case) export a product for sale (by others) in the United States. Even if, as a technical matter, the application may be 'owned', unlike Apotex's approach, the Tribunal does not consider that NAFTA Article 1139(g) can be approached by divorcing the concept of 'property' from its context, and applying it in the abstract."[186]

Further, the inclusion of the expression of "rights with respect to copyrights, patents…" into the investment definition is also observable in the Agreement between the Government of Canada and the Government of the Republic of Argentina for the Promotion and Protection of Investment entered into force on April 29, 1993. In the broadest concept, the formula including all existing and future intellectual property rights without questioning whether such rights have been registered or not or without questioning even whether such rights are registrable or not can be appeared as in the case of the Treaty between the United States of America and Mongolia Concerning the Encouragement of Reciprocal Protection of Investment entered into force January 4, 1997 with the investment definition as follows:

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[186] Apotex Holdings Inc. and Apotex Inc. v United States of America, Case No. ARB(AF)/12/1, Award, para.207.

"1. For the purpose of this Treaty,

(a) "investment" means every kind of investment in the territory of one Party owned or controlled directly or indirectly by nationals or companies of the other Party, such as equity, debt, and services and investment contracts; and includes:

(iv) intellectual property which includes, inter alia, rights relating to: inventions in all fields of human endeavour."[187]

1.3.3 Concluding Remarks

This part of the study has analysed intellectual property rights as covered investments under various international investment arrangements within their own contentions and complexities by looking at intersection point of intellectual property rights and investment law. Thus far, it has been observed that protection of intellectual property rights under international investment agreements requires the involvement of such rights into the investment definition drafted in such agreements and fulfillment of other investment criteria stipulated under the relevant investment agreement and/or provided by arbitral tribunals. Besides, it has been detected that simply reference to "property" under the investment treaty requires the investigation whether the concerned intellectual property right is treated as "property" under the national law of host state and investment criteria designated under such such treaty and/or arbitral awards are satisfied or not. Moreover, it has been revealed that although the practice of arbitral tribunals is in tendency to treat patent applications under investment concept, the parties to investment agreements are keen to include the terms making enable the interpretation of patent applications as investment more certain, such as "rights with respect to copyrights, patents…" under their investment agreements.

Indeed, the critical consideration for the parties has always been the formulation of such involvement. In this respect, even though the origin of investment agreements arises out from standardized model agreements, differences between bargaining power of states, differentials between skills of individual negotiators, the minimum standards which should

[187] Article 1 of the Treaty Between the United States of America and Mongolia Concerning the Encouragement of Reciprocal Protection of Investment entered into force on the date of 04.01.1997.

be adhered by member states and entailed by multilateral agreements, ever-changing nature of intellectual property rights scope deeply influence the manner of the incorporation of intellectual property rights within investment definition, and connectedly, the margin of the protection granted by investment agreements. Accordingly, it should be pointed out that such differences in wording of investment agreements reflect themselves on the scope of IPR protection, legal liability of the parties, possible claims brought out by the contracting parties and frame of obligations which may be borne on the parties. By way of illustration, the balance[188] between the interests of investors and host states has required to design the stipulation of investment definition provisions between enterprise-based definitions of investment entailing location or manufacturing activities regarding intellectual property rights in host states and non-qualified asset-based definitions of investment where other treaty incumbencies, as explained below, are not spelled out under investment definition provisions.

In consideration of the approaches of arbitral tribunals and individual negotiators to the perception of intellectual property rights within international investment agreements as detailed above, it is striking to notice that to which extent the formulation of intellectual property rights within investment definition is critical with respect to determine the scope of IPR protection as covered investments under such international investment agreements. The tendency on the part of the countries which are notably intellectual property rights exporters is in the direction to formulate intellectual property rights within investment definition in quite vogue terms with the purpose of the utilization from the protection procured by international investment agreements as much as possible. On the other part, under the suspicion with respect to the question how effective the existence of investment treaties on attracting the investments to the country as questioned in the Indian case detailed above, the countries which are notably intellectual property rights importers are in tendency to formulate intellectual property rights within investment definition in more sharp terms by proposing other restrictive conditions in order to define the claims which

[188] SORNARAJAH, supra note 63, p.231-232; RUDOLF DOLZER & CHRISTOPH SCHREUER, PRINCIPLES OF INTERNATIONAL INVESTMENT LAW (Oxford University Press. 2008), p.7-11.

may be encountered to the extent such formulation will not preclude possible investments to be directed.

Chapter 2

SUBSTANTIVE STANDARDS FOR INVOKING INTELLECTUAL PROPERTY RIGHTS CLAIMS UNDER INVESTMENT AGREEMENTS

Following the analysis with respect to the determination of the scope of intellectual property rights and investment term and the incorporation of intellectual property rights within investment term, under this chapter of the study, the substantive standards specifically granted by international investment agreements to investors will be evaluated. Investors who are willing to benefit from extensive intellectual property rights as required by contemporary economic conditions are indeed aware of that political and non-political risks especially arising from sovereignty rights claims of host states do always exist even if otherwise agreed under international investment agreements. Hereunder, it will be analyzed whether sovereignty rights of host states are limitless, and if they are not, to which extent such sovereignty can be constrained pursuant to the related provisions of international investment agreements.

Before passing on to detailed analysis of such substantive standards, it should be reminded that international investment agreements propose the provisions relating to substantive standards with only purpose of precluding unlawful state acts and such provisions cannot be directed to the infringements carried out by private actors except the case where states have been involved into such private infringements in a manner.

Accordingly, the investigation and analysis will be commenced with national treatment clause, most favoured nation clause and fair and equitable treatment clauses and interrelatedly legitimate expectations of investors under the light of the questions normatively invoked before arbitral tribunals, be proceeded with umbrella clauses and be concluded with the possible situations of expropriation conducted by host states.

2.1 Intellectual Property Rights and National Treatment Clauses

As the result of the territoriality principle analyzed in detail within the section of this study providing the definition and scope of intellectual property rights, while intellectual property rights protection granted by national law is limited to the boundaries of the territory, worldwide protection seems inevitably as a requirement on the face of worldwide harmonization of intellectual property rights. Thus, clauses on national treatment belong to the standard repertoire of bilateral investment treaties[189] and are cornerstones of international conventions on intellectual property rights.

In order to perceive the reason and the substantial importance in relation to the incorporation of national treatment clause as the cornerstones of international conventions, it will be beneficiary to take into consideration of the rationale presented out by the UNCTAD:

> "For many countries, the standard of national treatment serves to eliminate distortions in competition and thus is seen to enhance the efficient operation of the economies involved. An extension of this argument points to the ongoing internationalization of investment and production and concludes that access to foreign markets under non-discriminatory conditions is necessary for the effective functioning of an increasingly integrated world economy."[190]

Further, the Report carries on providing the definition of national treatment principle with the following expression:

> "The national treatment can be defined as a principle whereby a host country extends to foreign investors treatment that is at least as favourable as the treatment that it accords to national investors in like circumstances. In this way the national treatment standard seeks to ensure a degree of competitive equality between national and foreign investors."[191]

In other words, national treatment of intellectual property rights protection denotes a rule of non-discrimination on the basis of nationality of ownership of an investment, "promising foreign intellectual property owners that they will enjoy in a protecting country at least the

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[189] DOLZER & SCHREUER, supra note 188, p.178.
[190] UNCTAD Series on Issues in International Investment Agreements,*National Treatment*, UNCTAD/ITE/IIT/11, Vol.IV(1999), p.3.
[191] Id. at p.1.

same treatment as the protecting country gives to its own nationals".[192] Hence the purpose of national treatment clause is to oblige a host state to make no negative differentiation between foreign and national investors when enacting and applying its rules and regulations and thus to promote the position of the foreign investor to the level accorded to nationals.[193] Under such definition, Dolzer and Schreuer referred to "a positive differentiation remains possible and will even be obligatory where the general standards of international law are higher than the ones applying to nationals".[194]

Further, by the means of national treatment clause, it is targeted to provide competitive equality between local investors and foreign investors in compliance with the requirements of quite liberalized and globalized economic world. Beyond its recopricity on the requirements of current economic world, by guaranteeing that foreign investors would not be treated less favourable than domestic investors through national treatment warranties stipulated under international investment agreements, it is undoubtedly expected that the percentage of foreign direct investment will increase since the foreign investors' concerns relating to any possible negative discrimination will be accordingly abolished.Undoubtedly,

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[192] Manzoor Elahi Laskar & Chetan Narang, *National Treatment and Efficient Protection of IPR as adopted in IP Treaties*, SYMBIOSIS LAW SCHOOL (2013), p.1.

[193] FARUK KEREM GİRAY, MİLLETLERARASI YATIRIM TAHKİMİNDE KAMULAŞTIRMADAN DOĞAN TAZMİNAT VE TAZMİNATIN HESAPLANMASINDA KULLANILAN YÖNTEMLER (Beta. 2012), p.41; Esen Akıntürk & Pınar Baklacı, *İki Taraflı Yatırım Anlaşmaları Hakkında Genel Bir İnceleme*, BANKA VE TİCARET HUKUKU DERGİSİ: PROF. DR. REHA POROY'UN ANISINA ARMAĞAN (2009), p.498-499; Kaj Hober, MFN Clauses and Dispute Resolution in Investment Treaties: Have We Reached the End of the Road? in CHRISTINA BINDER & URSULA KRIEBAUM & AUGUST REINISCH & STEPHAN WITTICH, INTERNATIONAL ONVESTMENT LAW FOR THE 21ST CENTURY: ESSAYS IN HONOUR OF CHRISTOPH SCHREUER (Oxford University Press. 2009), p.33-34.

[194] DOLZER & SCHREUER, supra note 188, p.178; SORNARAJAH, supra note 63, p.337

So indeed, in 1926, the case between U.S.A (L.F. Neer) and United Mexican States has been the landmark for the approached which should be followed by the countries in this respect. Accordingly, as the requirement of its revolutionary activity in the beginning of twentieth century, United Mexican State executed agreements with the United States for the settlement of the cases concerning the injuries suffered by the nationals of United States and a joint commission was appointed for such settlement. In the case where the wife of Paul Neer who was a murdered U.S. national claimed that the diligence taken by Mexican government for the investigation of the murder was lack, the commission found out that:

"*The propriety of governmental acts should be put to the test of international standards*. The treatment of an alien, in order to constitute an international delinquency, should amount to an outrage, to bad faith, to willful neglect of duty, or to an insufficiency of governmental action sof far short of international standards that every reasonable and impartial man would readily recognize its insufficiency. Whether this insufficiency proceeds from deficient execution of an intelligent law or from the fact that the laws of the country do not empower the authorities to measure up to international standards is immaterial."

See also Adriana Sanchez Mussi, International Minimum Standard of Treatment, GEORGETOWN UNIVERSITY (2004), p.7-8.

Turkey, too, has adopted Article 3(2) of the Foreign Direct Investment Law adopted on June 5, 2004 with such expectation, which continues as follows: "Unless stipulated by international agreements and other special laws, foreign investors shall be subject to equal treatment with domestic investors." I presume that World Investment Report 2012 of UNCTAD declares that such expectation of the host states will not be unreciprocated with its statements of that "new generation investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. This leads to specific investment policy challenges at the national and international levels. At the international level, there is need to strengthen the development dimension of international investment agreements, balance the rights and obligations of States and investors, and manage the systemic complexity of the international investment regime."

Under the requirement of the existence with respect to national treatment clause within international conventions and agreements with the reasons stipulated above, it should be noted that the formulation of such existence has always been in the trap between two facets of national treatment principle. One of these facets has its origins in the Calvo doctrine[195] under which aliens and their property are entitled only to the same treatment accorded to nationals of the host country under its national laws. Undoubtedly, the facet supported by the Calvo doctrine has been favoured by developing countries. The other has its basis in the doctrine of state responsibility for injuries to aliens and their property under which customary international law is regarded to have established a minimum international standard of treatment to which aliens are entitled. On the other hand, such facet which bears the possibility to grant more favourable treatment than that directed to nationals where this falls below international minimum standard has inevitably favoured by developed countries.

Under the endeavors with respect to provide the balance between these two facets during the formulation of national treatment clauses, before incorporation into international conventions, national treatment clauses were included in bilateral friendship and commerce agreements during the 19th century. Belgian-American Diplomacy Treaty of Commerce and

[195] For detailed explanations in this respect, see Felix Oghenekohwo Okpe, *Foreign Direct Investment and Investment Treaty Arbitration with Reference to Nigeria*, UNIVERSTIY OF ABERDEN (2014), p.120-128.

Navigation executed on 10 November 1845 was the first example of such incorporation with the expression as follows:

> "There shall be full and entire freedom of commerce and navigation between the inhabitants of the two countries; and the same security and protection which is enjoyed by the citizens or subjects of each country shall be guaranteed on both sides. The said inhabitants, whether established or temporarily residing within any ports, cities or places whatever, of the two countries, shall not, on account of their commerce or industry, pay any other or higher duties, taxes, or imposts, than those which shall be levied on citizens or subjects of the in which they may be; and the privileges, immunities, and other favors, with regard to commerce or industry, enjoyed by the other citizens or subjects of one of the two States, shall be common to those of the other."[196]

International conventions have detected internationalization of investment and the expectations of foreign investors for an environment promising equal treatment with nationals and accordingly, shortly after, have supported such approach bilateraly created between the states.

2.1.1 From the Perspective of International Conventions on Intellectual Property Rights

With respect to intellectual property rights and in compliance with the nature of internationally oriented flow of such rights, the incorporation of national treatment clause was firstly actualized within the scope of the Paris Convention for the Protection of Industrial Property signed on March 20, 1883. Pursuant to national treatment principle included into Article 2 of the Paris Convention, it is required that each contracting party shall grant nationals of any country of the Union the same protection and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with. Further, Article 3 of the Paris Convention extends national treatment principle to nationals of countries outside the Union who are domiciled or who have real and effective industrial or commercial establishments in the territory of one of the countries of the Union.

[196] Article 1 of the Belgian-American Diplomacy Treaty of Commerce and Navigation concluded on the date of 10.11.1845.

The Berne Convention for the Protection of Literary and Artistic Works, which is an international agreement adopted in 1886 and governing copyrights should also be indicated among the samples of first incorporations of national treatment clauses into international conventions on intellectual property rights. Similar to the Paris Convention, Article 5 of the Berne Convention grants authors the same enjoyment of the rights which their respective laws do now or may hereinafter grant to their nationals, as well as the rights specially granted by this Convention in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin. Additionally, the personal scope of application stipulated under Article 3 and Article 4 of the Berne Convention is set out as "either nationals of one of the countries of the Berne Union, or those who have their habitual residence in one of these countries, or those who are not nationals of one of these countries, for their works first published in one of those countries (or simultaneously in a country outside the Union and a country of the Union)".[197] Undoubtedly, the application scope of national treatment clause stipulated under the Berne Convention will be subject to the personal scope of application as detailed above.

The International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (the "Rome Convention"), which is another international convention on intellectual property rights adopted on October 26, 1961 in Rome and providing limitations and exceptions with respect to the above-mentioned rights under domestic laws. Similar to the Paris Convention and the Berne Convention, the Rome Convention also provides the provision designating the conditions of national treatment. Accordingly, national treatment has been defined with the categories of beneficiaries, which are "(i) to performers who are its nationals, as regards performances taking place, broadcast, or first fixed, on its territory, (ii) to producers of phonograms who are its nationals, as regards phonograms first fixed or published on its territory, (iii) to broadcasting organizations which have their headquarters on its territory as regards broadcasts transmitted from that territory"[198]. Beside the limitation of the application of

[197] Laskar & Narang, supra note 192, p.11.

[198] Article 2 of the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations adopted on the date of 26.10.1961. Turkey has ratified the Rome Convention with

national treatment only to national performers, phonograms and broadcasts, it has also been stipulated that even if a contracting state does not provide the minimum protection granted by the Rome Convention to its own nationals, such contracting state should grant such minimum protection to the nationals of other contracting states.

Lastly and most importantly, Article 3.1 of the TRIPS Agreement requires a contracting state to "accord to the nationals of other Members treatment no less favourable than it accords to its own nationals with regard to the protection of intellectual property". Through the TRIPS Agreement, this obligation extends to all parts of the agreement, including 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 the Agreement. Now, it can be alleged that, as a result of the inclusion of national treatment clause in the TRIPS Agreement, national treatment principle applies to the enforcement of intellectual property rights.[199] The additional point which should be emphasized under the subject with respect to the inclusion of national treatment clause within the TRIPS Agreement is that national treatment principle now applies to intellectual property rights not stipulated in the Paris Convention or the Berne Convention such as trade secrets.

Concerning the inclusion manner of national treatment principle within the TRIPS Agreement, Article 3.1 of the TRIPS Agreement qualifies the exceptions provided under the Paris Convention[200], the Berne Convention, the Rome Convention or the Treaty on

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the law dated 07.07.1995, numbered 4116 and published in the Official Gazette of Turkey dated 12.07.1995 and numbered 22341.

[199] Laskar & Narang, supra note 192, p.21.

[200] As a sample for the exceptions provided under the Paris Convention in this respect, the second sentence of Article 2 of the Paris Convention may be presented out. Accordingly,

"(1) Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, *provided that the conditions and formalities imposed upon nationals are complied with*.

(3) The provisions of the laws of each of the countries of the Union relating to judicial and administrative procedure and to jurisdiction, and to the designation of an adress for service or the appointment of an agent, which may be required by the laws on industrial property are expressly reserved."

For further explanations with respect to exceptions matter, see JUSTIN MALBON & CHARLES LAWSON & MARK DAVISON, THE WTO AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGTS-A COMMENTARY (Edward Elgar.2014), p.135-136.

Intellectual Property in Respect of Integrated Circuits as the exceptions to national treatment principle within the content of itself, too.

With respect to the case of performers, producers of phonograms and broadcasting organizations, apparently, a certain obscurity in terms of the rights such as the participation of local and foreign performers in funds generated by levies on blanks types does exist since the protection under the TRIPS Agreement is limited to "the rights provided under this Agreement"[201] and the right of such participation is not provided under TRIPS Agreement. In the circumstances, the environment of uncertainity has been created in terms of the application of national treatment principle to the rights illustrated above. Correa suggest that the question that to which extent such kind of exception would survive the all-encompassingnational treatment principle as applied in the context of investment agreement will remain unanswered until the issue is clarified by case law.[202]

It would appear that national treatment principle under international conventions has been formulated in the interconnected manner from the perspective of exceptions and the exceptions stipulated under the Paris Convention, the Berne Convention and the Rome Convention have been incorporated within TRIPS Agreement.[203] At this point, it is probable to confront with the questionings such as what if the imposed exceptions are the ones which the parties have not priorily negotiated about. Such questionings can be removed with the reservation provided pursuant to Article 3(1) of TRIPS Agreement, which is "…, subject to the exceptions *already* provided in, …" By excluding the exceptions stipulated under such mentioned international conventions before the enactment of TRIPS Agreement, at least, predictability is granted to the member states. However, still, I believe that the formulation stipulated under TRIPS Agreement makes inevitably the

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[201] Article 3(1) of TRIPS Agreements
"In respect of performers, producers of phonograms and broadcasting organizations, this [national treatment] obligations *only applies in respect of the rights provided under this Agreement*."

[202] Carlos M. Correa, *Bilateral Investment Agreements: Agents of New Global Standards for the Protection of Intellectual Property Rights*, GRAIN (2004), p.11.

[203] Frankly, TRIPS Agreement has not been formulated only from the perspective of exceptions, TRIPS Agreement is based on the incorporations from certain international conventions as it is confirmed by Article 2(2) of TRIPS Agreement as follows:
"Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits."

implementation of national treatment principle quite restrictive by incorporating the exceptions stipulated under other certain international conventions into TRIPS Agreement. When the nature of TRIPS Agreements designating minimum standards to be followed by bilateral investment treaties is taken into consideration, it will be clarified that the parties to the relevant bilateral investment treaties will accordingly be imposed by further obligations designated by the Paris Convention, the Berne Convention and the Rome Convention. At the level where the question of that whether the rules stipulated by TRIPS Agreement are customary is being investigated, claiming that the states which are member to TRIPS Agreement are aware of the rules to be obliged by and they have the full discretion to be member to TRIPS Agreement or not is counterintuitive. Further, I presume that the inclusion of relevant exceptions within TRIPS Agreement does contradict with the driving force behind the adoption of TRIPS Agreement, which has been to eliminate multilayered structure of international intellectual property rights regulations. Indeed, such contradiction was also put into words by scholars as follows; "The TRIPS Agreement was consciously built upon this established framework, yet its very purpose was to be a dramatic departure from it: hence, it both reaffirmed the multilateral law of IP and fundamentally restructured its base".[204]

2.1.2 From the Perspective of International Investment Agreements

Under the regulatory power of the TRIPS Agreement recognizing national treatment principle, it does not seem possible for international investment agreements, especially bilateral investment treaties, to become distanced from such developments with respect to national treatment principle. National treatment clause has become a common provision of most, if not all, bilateral investment treaties.[205] The UNCTAD Report has also accounted for such common utilization of national treatment clause as follows:

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[204] Antony Taubman, *Thematic Review: Negotiating "Trade-Related Aspects" of Intellectual Property Rights* in JAYASHREE WATAL & ANTONY TAUBMAN, THE MAKING OF THE TRIPS AGREEMENT PERSONAL INSIGHTS FROM THE URUGUAY ROUND NEGOTIATIONS (World Trade Organization. 2015), p.16.

[205] Efstathiou, supra note 124, p.21.

> "It is also a standard that has its origins primarily in trade treaties, though, as noted below, the term has also been used in a quite different context, namely in relation to the customary international law standards for the treatment of aliens and their property. A certain degree of adaptation of the standard to the characteristics of investment is therefore required so that it may be used in an effective way in IIAs."[206]

The precise procedure for evaluating a national treatment claim brought before arbitral tribunals will depend upon the specific wording of the relevant international investment agreements.[207] Hence, notwithstanding of the fact that high level of standardization of national treatment clauses in terms of drafting has generally resulted in an effortless interpretation of the standard in practice, there is still necessity to observe that whether such treatment has been formulated to be applied to the foreign and the domestic investors in"identical" or "similar"[208] situations or "in like situations"[209]. Alternatively, the provision where national treatment principle is placed out may refer to "similar enterprises", "similar investments" or even to investors "with similar [economic] activities"[210].[211] Inevitably, such small nuances in the formulation of national treatment standard under international investment agreements cause to various interpretations and the analysis of such interpretations will be provided hereunder.It should be noted that the evaluations to be put forward are general findings in terms of the application of national treatment clause.

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[206] UNCTAD Series on Issues in International Investment Agreements, supra note 190, p.3-4.

[207] David Collins, *National Treatment in Emerging Market Investment Treaties*, THE CITY LAW SCHOOL OF CITY UNIVERSITY LONDON(2013), p.6.

[208] Article 3(1) of the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Belize for the Promotion and Protection of Investments executed on the date of 30.04.1982 and entered into force on the date of 30.04.1982:
"Neither Contracting Party shall in its territory subject investments or returns of nationals or companies of the other Contracting Party to treatment less favorable than that which it accords in the same circumstances to investments or returns of its own nationals."

[209] Article 2.2 of the Treaty between the United States of America and the Republic of Senegal Concerning the Reciprocal Encouragement and Protection of Investment executed on the date 06.12.1983 and entered into force on date of 25.10.1990:
"treatment not less favorable than that which it accords in like situations to investments and associated activities of its own nationals or companies."

[210] Article 3.2 of the Treaty between the Republic of Kenya and the Federal Republic of Germany Concerning the Encouragement and Reciprocal Protection of Investments executed on date of 03.05.1996 and entered into force on the date of 07.12.2000:
"Neither Contracting Party shall subhect nationals or companies of the other Contacting Party, as regard their activity in connection with investments in its territory, to treatment less favourable than it accords to its own nationals or companies of any third State."

[211] RUDOLF DOLZER & MARGRETE STEVENS, BILATERAL INVESTMENT TREATIES (Martinus Nijhoff Publishers. 1995), p.63.

However, such findings should not be ruled out since the application of such standard under international investment agreements has naturally some relevance to intellectual property rights context and should be deemed as requirement in order to reach probable conclusions for the analysis of international investment agreements on intellectual property rights from the perspective of national treatment clause.

2.1.2.1 Same Treatment v. No Less Favourable Treatment

Accordingly, the formulation of the standard of national treatment may also been divided into two categories. The first category refers to the term of "same" within national treatment clause as in the case of the Unified Agreement for the Investment of Arab Capital in the Arab States. Article 6 of the Unified Agreement requires that "the capital of the Arab investor shall, without discrimination, be treated in the same manner as capital owned by the citizens of that State."

Such formulation suggests that the treatment offered to foreign investors is no better than that received by national investors while it excludes the possibility of the foreign investor claiming preferential treatment as a matter of treaty obligation on the part of the host country at the same time.[212] In this manner, foreign investors may confront with the Achilles' heel, which means that a foreign investor would also be treated badly and would not have any legitimate expectation where the host country's environment is not as favourable as in other countries or indeed, limited and hostile.[213] To be more elaborated, the existence of the term of "same treatment" may deprive foreign investors of even the "general standards of international law which are higher than the ones applying to nationals".[214]Accordingly, for instance, from the perspective of intellectual property rights, the foreign investors complying with the rules and transactions which are also imposed on

[212] UNCTAD Series on Issues in International Investment Agreements, supra note 190, p.35.
[213]Efstathiou, supra note 124, p.21.
[214] DOLZER & SCHREUER, supra note 188, p.178.

national investors such as the registration of inventions or trademarks do have the same protection and legal remedies possessed by national investors.[215]

On the other hand, the second category, which is the most commonly used version in international investment agreements, refers to the term of "no less favourable" within the context of the formulation of national treatment clause as in the case of French model BIT. Article 4(1) of such model provides that "Each Contracting Party shall apply on its territory and in its maritime area to the nationals and companies of the other Party, with respect to their investments and activities related to the investments, a treatment not less favorable than that granted to its nationals or companies, or the treatment granted to the nationals or companies of the most favoured nation, if the latter is more favorable."

Similar to the first category, such formulation offers treatment which will usually result in treatment as favourable as that received by national investors of a host country. However, on the contrary to the first category, the formulation stipulated in the second category leaves open the possibility for host country actions to be reviewed in accordance with the standards of treatment that may be in practice more favourable for foreign investors, as compared to national investors in the event of that standards of treatment accorded to national investors below international minimum standards.[216]

Consequently, I should suggest that the term of "no less favourable" should be preffered over the term of "same treatment" if the foreign investor wishes to avoid from the possibilities of where national investors are treated pursuant to the standards which are below international minimum standards.

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[215] Cahit Suluk, *Fikri Mülkiyet Hukukunda Milli Muamele Yetkisi ve Yabancıların Teminat Gösterme Yükümlülüğü* in ÖMER TEOMAN, PROF. DR. HÜSEYİN ÜLGEN'E ARMAĞAN (Vedat Kitapçılık. 2007), p.1182-1883.

[216] UNCTAD Series on Issues in International Investment Agreements, supra note 190, p.36; SORNARAJAH, supra note 63, p.202, 335-336.

2.1.2.2 Like Circumstances[217]

With regard to the nature of the term of "like circumstances", foreign investors and domestic investors are inevitably settled in a comparable position. Therefore, national treatment principle is accepted as a "relative standard whose content depends on the underlying state of treatment for domestic and foreign investors alike".[218] In conjunction with, the questions concerning the factual situations in which national treatment standard is applied and the precise standard of comparison by which the treatment of national and foreign investors is to be compared should be answered.[219] In that case, the question of whether the national and foreign investors are in "a like situation" or in "like circumstances" should be achieved to an answer. It becomes known that the main cause for concern with the national treatment obligation is the difficulty in determining whether circumstances are "like". It is clarified by the commentators that "the text of [bilateral investment treaties] does not mean "identical", but neither do any of the treaties give any guidance on how to determine whether circumstances are sufficiently similar as to trigger this standard".[220] Under these circumstances, the duty to find out the answer with respect to

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[217] For the interpretation of the term of "like circumstances" from trade-related aspect, see Methanex Corporation v. United States of America, In the Matter of an International Arbitration Under Chapter 11 of the North American Free Trade Agreement and the Uncitral Arbitration Rules, Final Award of the Tribunal on Jurisdiciton and Merits, Part IV, Chapter B, p.12.
For the the criticism concerning the utilization of "like circumstances" in trade-related aspect directed by M. Sornarajah, see SORNARAJAH, supra note 63, p.203:
"The two areas [international trade law and foreign investment law] do not mix that easily. The trade-related term 'in like circumstances' is used to limit the effect of the national treatment requirement. It is difficult to understand the nature of such a limitation in the context of investment. A large multinational corporation as an investor is never 'in like circumstances' because of its size and vertically integrated global organization. If this is a basis for discrimination, then the granting of national treatment becomes pointless. But, it is the precise reason why foreign multinational corporations should be discriminated against. There is a dilemma presented by the unthinking extension of notions of trade law into the area of investment."
For detailed explanation "like circumstances" test, see Antonia Menezes, *Developing States' Long Walk to Freedom: An Examination of the Principle of Non-Discrimination, Substantive Equality and Proportionality in Investor-State Disputes*, MCGILL UNIVERSITY (2008), p.33-45.
[218] UNCTAD Series on Issues in International Investment Agreements, supra note 190, p.3.
[219] UNCTAD Series on Issues in International Investment Agreements, supra note 190, p.1.
[220] Aaron Cosbey & Howard Mann & Luke Eric Peterson & Konrad Von Moltke, *Investment and Sustainable Development: A Guide to the Use and Potential of International Investment Agreements*, INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD) (2004), p.10.

the question of which circumstances are deemed as "like" has been delivered to the facts of each case.[221]

As regards to the analysis of the various arbitral awards in this respect, it can be observed that the issue still remains controversial. By way of illustration, in Feldman v. Mexico ICSID Case, the term of "like circumstances" was interpreted as to refer to same business and accordingly left discrimination between producers and re-sellers out of the scope of its national treatment investigation.

> "As discussed in the Article 1110 section, there are at least some rational bases for treating producers and re-sellers differently, e.g., better control over tax revenues, discourage smuggling, protect intellectual property rights, and prohibit gray market sales, even if some of these may be anti-competitive.
>
> In this instance, the disputing parties agree that CEMSA is in 'like circumstances' with Mexican owned resellers of cigarettes for export, including the two members of the Poblano Group, Mercados Regionales and Mercados Extranjeros, although Mexico of course denies that there has been any discrimination largely on the ground CEMSA and the Poblano Group are effectively the same entity. In the Tribunal's view, the 'universe' of firms in like circumstances are those foreign-owned and domestic-owned firms that are in the business of reselling/exporting cigarettes. Other Mexican firms that may also export cigarettes, such as Mexican cigarette producers, are not in like circumstances."[222]

On the contrary, the Tribunal in Occidental v. Ecuador ICSID Case referred to local producers generally and stipulated that "in fact, 'in like situations' cannot be interpreted in the narrow sense advanced by Ecuador as the purpose of national treatment is to protect investors as compared to local producers, and this cannot be done by addressing exclusively the sector in which that particular activity is undertaken."[223]

As a conclusive point, Dolzer and Schreuer has observed that "tribunals have been cautions not to construe the basis of comparison for the applicability of the national treatment

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[221] Please kindly note that OECD, in its report dated 1985, specified two factors determining whether the two enterprises are in the same sector: (a) the impact of policy objectives of the host country in particular fields; (b) the motivation behind the measure involved.
[222] Marvin Feldman v. Mexico, ICSID Case No. ARB(AF)/99/1, Award, para.170-171.
[223] Occidental Exploration and Production Company v. the Republic of Ecuador, UNCITRAL, Final Award, para.173.

standardtoo narrowly" and supported that "conditions such as 'like situations' or 'like circumstances' should be interpreted broadly in order to open the way for a full review of the measure".[224]

In compliance with such observation and support procured by Dolzer and Schreuer, the Tribunal in SD Myers v. Canada has preferred to apply to the broadly interpretation manner and to consider Chapter 11 and NAFTA as a whole and concluded that

> "The concept of 'like circumstances' invites an examination of whether a non-national investor complaining of less favourable treatment is in the same 'sector' as the national investor. The Tribunal takes the view that the word 'sector' has a wide connotation that includes the concepts of 'economic sector' and 'business sector'."[225]

I believe that such broad interpretation is completely out of the scope of the efforts trying to balance of public policy concerns of the host states and the interests of foreign investors to be expected from their investments made in the host states. On the contrary, giving rise to broad interpretation of national treatment principle by evaluating all actors in "economic sector" without drawing any limitation in "like circumstances" causes the national treatment to be totally left to the enjoyment of the foreign investorsunrestrictedly. Whereas, the idea to be desired to be achieved is to bring foreign investors and host states in equal position in compliance with the requirements of modern investment world. Accordingly, my suggestion is to evaluate the actors which are carrying out the similar commercial activities and which are subject to similar market and competition conditions pursuant to the regulations of the host states as in "like circumstaces", saving the requirement of analysis of the facts of each case.

2.1.3 Concluding Remarks

As it can be observed from the statements which I have provided so far, national treatment standard is one of the fundamental principles of international investment law with the

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[224] DOLZER & SCHREUER, supra note 188, p.180; Hendrik Hugh Angus Van Harten, *The Emerging System of International Investment Arbitration*, LONDON SCHOOL OF ECONOMICS (2005), p.131.
[225] S.D. Myers, Inc. v. Government of Canada, UNCITRAL, Partial Award, para.250.

purpose of annihilation the negative discrimination between the nationals of host state and foreign investors.

Considering the protection of intellectual property rights requiring an international aspect, national treatment principle is gaining more importance when the target of the principle to eliminate negative discrimination between foreign investors and national investors is taken into consideration. As we have observed under the chapter with title of "From the Perspective of International Conventions on Intellectual Property Rights", a number of international conventions on intellectual property rights, the Paris Convention, the Rome Convention, the Berne Convention and TRIPS Agreement being in the first place, have incorporated the provisions relating to national treatment principle within the content of themselves. In this respect, we have inserted our criticism against the incorporation of the exceptions stipulated under the Paris Convention, the Berne Convention and the Rome Convention within TRIPS Agreement by asserting that such multilayered structure with respect to the exceptions granted to national treatment principle will cause the restriction of the implementation of such principle under international investment agreements. For need for a decent international regulation of national treatment principle, it is commonly accepted that such need is accomplished by investment treaties. In this direction, moving to the analysis of international investment agreements in this respect, I should add the emphasis on the fact of that although the application of national treatment principle may be easier than the other standards due to the relative homogeneity of national treatment clauses in investment treaties, the practical implications differ as a matter of various legal drafting techniques. Therefore, it is generally agreed that the application of national treatment clause is fact-specific[226] as reminded by the World Trade Organization Appellate Body in the case of Japan – Taxes on Alcoholic Beverages in its report dated October 4, 1996 with the simulation of that "the concept of 'likeness' is a relative one that evokes the image of an accordion. The accordion of 'likeness' stretches and squeezes in different places as different provisions of the WTO Agreement are applied. The width of the accordion in any one of those places must be determined by the particular provision in which the term 'like' is encountered as well as by the context and the circumstances that prevail in any given

[226] DOLZER & SCHREUER, supra note 188, p.179.

case to which that provision may apply."[227] To put it differently, whereas the presence of national treatment clauses within international investment agreements is mostly accepted and expected, the real contradiction arises out from the formulation of such clauses and the need for the balance between the public interest of host state and the interests of foreign investor, which it will be observed that such contradictions will also be brought to light under other standards to be examined below.

2.2 Intellectual Property Rights and Most Favoured Nation Clauses

Most favoured nation clauses ("MFN") have been formed as a substantial part of international treaties for centuries.[228] Although MFN clauses are not required under customary international law[229], it can be observed that they are incorporated into all bilateral investment treaties almost customarily due to the traditional significance of the clause in economic treaties.

The platform where MFN clause was first established was The General Agreement on Tariff and Trade within its first article considered as the origin stone of entire regime.[230] From the perspective of trade law, the General Agreement on Tariff and Trade grants the "benefits wherever the parties have not previously agreed to liberalize their relations in the same ways as is done in a treaty with a third state".[231]

On the other aspect, with regard to MFN clauses pertaining to intellectual property rights as investment, it has been found out that the MFN clause does not exist within the context of the international conventions on intellectual property rights which were executed before

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[227] World Trade Organization, *Japan – Taxes on Alcoholic Beverages, Appellate Body Report*, WT/DS8, -10, -11/AB/R (1996), p.20-21.

[228] DOLZER & SCHREUER, supra note 188, p.186.

[229] R.A. Ziegler, Most Favoured Treatment in AUGUST REINISCH, STANDARDS OF INVESTMENT PROTECTION (Oxford University Press. 2008).

[230]Article 1 of The General Agreement on Tariff and Trade entered into force on 01.01.1948
"With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege, or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

[231] DOLZER & SCHREUER, supra note 188, p.186.

TRIPS Agreement. So indeed, in contrast to earlier intellectual property rights conventions, MFN clause with respect to intellectual property rights has been firstly designated under TRIPS Agreement[232] with the expectation of intellectual property rights equally granted across countries. Thus, it has been aimed to emphasize "the intentions of WTO members to integrate intellectual property firmly into multilateral trading system and accordingly to set out the common "floor" for intellectual property rights internationally".[233]

It would seem that the expectation of TRIPS Agreement has come to the life and accordingly the content of MFN cluase is incorporated within The Draft Articles on Most Favoured Nation Clauses of the International Law as follows:

> Article 5
>
> "Most favoured nation treatment is treatment accorded by the granting State to the beneficiary State, or to persons or things in a determined relationship with that State, not less favourable than treatment extended by the granting State to a third State or to persons or things in the same relationship with that third State."[234]

Through the content of Article 5 of the Draft Article on Most Favoured Nation Clauses of the International Law reveals the meaning of MFN principle and accordingly what is provided by MFN clauses is the "allowance to foreign investors to profit from the highest

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[232] Article 4 of the Agreement on Trade-Related Aspects of Intellectual Property Rights as Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, was signed in Marrakesh, Morocco on 15 April 1994 and came into effect on 1 January 1995

""With regard to the protection of intellectual property, 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. Exempted from this obligation are any advantage, favour, privilege or immunity accorded by a Member:

a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property;
b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country;
c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement;
d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members."

[233] Bertram Boie, supra note 2, p.12.

[234] International Law Commission, *Draft Articles on Most Favoured Nation Clauses*, (REPORT OF THE INTERNATIONAL LAW COMMISSION, 13th Session. 1978), Article 5.

standards of treatment provided to any country under any bilateral investment treaty the host country has signed and ratified".[235] Under the definition set out byArticle 5 of the Draft Articles on MFN Clauses of the International Law, the question of that to which extent the frame of MFN clause is limited to "in like circumstances" or "in a like situation" does certainly arises out. Most international investment agreements, as such draft, do formulate MFN clause in the manner precluding discrimination between investors and/or their investments where those investors or investment share the same relationship with the relevant host state.[236] This "same relationship" criterion is usually and textually expressed in international investment agreements as "in like circumstances" or "in a like situation"[237]. Accordingly, the concept of "like circumstances" has been evaluated by the Arbitral Tribunal in the dispute between Pope & Talbot Inc. and the Government of Canada as follows: "The Tribunal must resolve this dispute by defining the meaning of 'like circumstances.' It goes without saying that the meaning of the term will vary according to the facts of a given case. By their very nature, 'circumstances' are context dependent and have no unalterable meaning across the spectrum of fact situations. And the concept of 'like' can have a range of meanings, from 'similar' all the way to 'identical'. In other words, the application of the like circumstances standard will require evaluation of the entire fact setting surrounding (…)."[238]

Rather than to be bound with broad interpretation of "like circumstances" term as suggested by Tribunal in the case between S.D. Myers and Canada, I presume that, to be bound with a formula to be determined according to the facts of each case is preferable. However, in order to eliminate the predictability issue for the parties about the determinants of "like circumstances" term, with respect to such interpretation issue, I suggest to be bound with

[235]Boie, supra note 2,p.11.
[236] İnci Ataman-Figanmeşe, *The Impact of Maffezini Decision on the Interpretation of MFN Clauses in Investment Treaties*, ANKARA LAW REVIEW (2011), p.221-237; AYSEL ÇELİKEL & GÜNSELİ ÖZTEKİN GELGEL, YABANCILAR HUKUKU (Beta Yayınevi. 2010), p.60-62; BİLGİN TİRYAKİOĞLU, DOĞRUDAN YATIRIMLARIN ULUSLARARASI HUKUKTA KORUNMASI (Dayınlarlı Yayıncılık. 2003), p.174; HÜSEYİN PAZARCI, ULUSLARARASI HUKUK DERSLERİ (Turhan Kitabevi. 2016), p.208-209.
[237] Voon et al., supra note 145, p.10; Ziegler, supra note 229, p.75.
[238] Pope& Talbot Inc. and the Government of Canada, NAFTA, Award on the Merits, para. 75.

the principles of international investment law rather than international commercial law, where historical and teleological differences exist between them.[239]

Beside the interpretation concerns with respect to "like circumstances" term, various comments may appear depend on various formulations of MFN clause.Since, through the existence of MFN clause, the rights whose scope cannot be determined during the execution of the relevant international investment agreement are granted to foreign investors, drawing the frame of MFN clause concerned properly is vital. The formulations of MFN clauses can be detailed and be limited to certain subject matters or can be drafted in general terms.

As the sample for MFN clauses formulated in general terms, it can be observed that some versions may even prefer to refer to "all matters subject to this agreement" as in the case of the bilateral investment treaty executed between Spain and Argentina in 1991.

> Article 4-Treatment
>
> 3. "In all matters governed by this Agreement, such treatment shall be no less favourable than that accorded by each Party to investments made in its territory by investors of a third country."[240]

Rather than the general reference to "all matters subject to the agreement [concerned]", investment agreements may only be confined to the investments of foreign investors or both to foreign investors and their investments, still, without setting out any limitation with respect to the subject matter for the implementation of MFN clauses as in the case of the bilateral investment treaty between Turkey and Morocco:

> "Each Contracting Party shall in its territory accord to investments of investors of the other Contracting Party treatment no less favourable than that it accords to investments of its own

[239] N. Dimascio & J. Pauwelyn, *Nondiscrimination in Trade and Investment Treaties: Worlds Apart or Two Sides of the Same Coin?*, AMERICAN JOURNAL OF INTERNATIONAL LAW (2008), p.89-102.

[240] Article 4(2) of the Agreement between the Argentine Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection on Investments executed on the date of 03.10.1991 and entered into force on the date of 28.09.1992.

> investors or to investments of investors of any third State, the most favourable treatment being retained."[241]

On the contrary, preference in direction to determine specific provisions under the agreements in order to assign the areas that MFN clause can be applied to is also observable. This is so, for example, in the case of NAFTA (Article 1103) entitling both foreign investors and their investments to MFN for the limited subject matters as follows:

> "Each Party shall accord to investors of another Party treatment no less favorable than that is accords, in like circumstances, to investors of any other Partty or of a non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.
>
> Each Party shall accord to investments of investors of another Party treatment no less favorable than that it accords, in like circumstances, to investments of investors of any other Party or of a non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments."

Undoubtedly, these preferences with respect to such listed formulations will be interpreted by tribunals under the light of Article 31 of the Vienna Convention.[242]

Accordingly, while arbitral tribunals are analyzing the formulations of such clauses under Article 31 of the Vienna Convention, the intention of the parties with respect to the determination whose perspective (perspective of the host state or the foreign investor) has been weighted during the drafting of the relevant agreement should be revealed. So indeed, if the perspective of the host states is weighted, the MFN clauses limited to certain subject matters do enable the host states to avoid from unexpected claims to be alleged by the foreign investors in future. On the other hand, if the perspective of the foreign investor is

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[241] Article 3(1) of the Agreement between the Government of The Republic of Turkey and the Government of Kingdom of Morocco For the Promotion and Protection of Investments executed on the date of 08.04.1997 and entered into force on the date of 30.05.2004.

[242]"… the Tribunal will interpret the Treaty as required by the Vienna Convention. Article 31 of the Convention requires an international treaty to 'be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in light of its object and purpose'. As regards the intention of the parties, the approach of the Vienna Convention and of the ICJ is that 'what matters is the intention of the parties as expressed in the text, which is the best guide to the more recent common intention of the parties'. The Convention does not establish a different rule of interpretation for different clauses. The same rule of interpretation applies to all provisions of a treaty, be they dispute resolution clauses or MFN clauses." see National Grid PLC v. The Argentine Republic, UNCITRAL, Decision on Jurisdiction, para.80.

weighted, the MFN clauses drafted with general terms do enable the foreign investors to activate their various claims under the protection of such MFN clauses. As conclusion, I believe that the negotiation power of the contracting states and caution to be exhibited during the negotiations of the agreement concerned will be determinative in this respect.

2.2.1 Common Critics Against MFN Clauses

Subsequent to the analysis in general terms about certain formulations regarding the incorporation of MFN clauses in international investment agreements and approach preference of tribunals to such incorporations under the light of Article 31 of the Vienna Convention, we will evaluate specific questions and concerns invoked before tribunals with respect to MFN clauses and associatively intellectual property rights.

The substantial criticism, which may be deemed as the most striking one since it was directed by not a private party but an international institution, was verbalized by UNCTAD against the institution of MFN clauses in 1999 as follows:

> "Despite its importance for appropriate investment protection, MFN may at the same time limit countries' room for maneuver in respect of investment agreement they want to conclude in the future. This is so because the MFN standard obliges a contracting party to extend to its treaty partners any benefits that it grants to any other country in the future agreement dealing with investment."[243]

In relation to the concern asserted by UNCTAD, some commentators have also grown doubts with respect to the possibility where exceptions stipulated in a particular investment agreement could be overridden by MFN clauses. So indeed, Correa, within his study, has indicated that "there is a risk that the MFN clause be invoked to override exceptions to certain rights specified in a particular agreement and not recognised in an agreement with other parties".[244] Further, from the perspective of intellectual property rights, the same approach has also been adopted by White and Szczepanik with the expression of that "MFN clauses may limit the use of exceptions in BITs with regard to IPR regulation, since

[243] UNCTAD Series on Issues in International Investment Agreements, *Most Favoured Nation Treatment*, UNCTAD/ITE/IIT/10(Vol. III) (1999),p.9.
[244] Correa, supra note 202, p.12.

broader rights may be borrowed from other BITs via the MFN clause, and accordingly, the MFN clause in a BIT may thus nullify any advantages obtained by a host country by inscribing exceptions to certain IPRs in a particular BIT".[245]

Beside such general complaints[246] and investigations oriented to MFN clause due to its nature creating unclearness for future developments, one substantial concern is related to *rationae materiae* limitations carried out by MFN standard itself. With the awareness of expander nature of MFN clause, the critical question has arisen out whether foreign investors can borrow more favourable procedural and substantive protections included in the host state's international investment agreement with other countries. To be clear, the concern has been expressed with such questioning: "If a party is obliged under a BIT to provide a certain standard of protection, but a higher standard exists in a BIT signed by that party with another country, does the MFN obligation mean that the higher standard prevails? For example, if the existing U.S.-Zaire (now Democratic Republic of the Congo) BIT were to set a very low threshold for finding regulatory expropriation, could that standard by accorded to non-DRC foreign investors in the U.S. by means of Chapter 11 [of NAFTA] or BIT-based MFN obligations?"[247] Such questioning can be evolved to the investigations that whether bilateral investment treaties could borrow rights from intellectual property conventions (TRIPS Agreement or any other international agreement, possibly even with TRIPS-plus characteristics) or if they could broaden the rights inscribed in bilateral investment treaties with regard to intellectual property rights by wiping out exceptions provided for in investment agreements.[248] Such questionings and investigations will tried to be answered under *ejusdem generis* principle specific to intellectual property rights hereunder.

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[245] Brian A. White & Ryan J. Szczepanik, *Remedies Available Under Bilateral Investment Treaties for Breach of Intellectual Property Rights*, TDM 2 IN INTELLECTUAL PROPERTY RIGHTS AND INVESTMENT DISPUTES (2009),p.5.

[246] For the view relating to the effect of MFN clauses on the harmonization of the subject of protection of foreign investors, see S.W. Schill, The Multilateralization of International Investment Law: The Emergence of a Multilateral System of Investment Protection on the Basis of Bilateral Treaties, TRADE, LAW AND DEVELOPMENT (2010); SORNARAJAH, supra note 63, p.270-271.

[247] Cosbey et al., supra note 220, p.11.

[248]Boie, supra note 2,p.12.

2.2.1.1 From the Perspective of Intellectual Property Rights

Within the intellectual property context, a key question is "whether investors may use MFN provisions to effectively incorporate into an international investment agreement more favourable intellectual property protections from the host state's international intellectual property agreements with other countries and claim the benefit of these through investor-state dispute settlement".[249] Related international agreements may contain the TRIPS Agreement, trade agreements including higher levels of intellectual property protections than the level obliging member states to adopt pursuant to TRIPS Agreement (so called as TRIPS-Plus agreements) and intellectual property agreements governed by the World Intellectual Property Organization ("WIPO")[250]. More specifically, with respect to MFN clause in international investment agreements, the question of "Can an investor invoke a MFN rule in an international investment agreement to demand more favourable treatment that may be available under an international IP treaty to be applied to his intellectual property rights as investment protected under the international investment agreement?"[251] arises.[252]

Pursuant to *ejusdem generis* principle which is followed by arbitral tribunals in terms of the application of MFN clause, "the third party treaty must, in principle, regulate the same subject matter as the basic treaty, since otherwise the treaty's specific standards would be read in a different way than its original context, with a high risk of misinterpretation".[253] Under the similar approach, Ziegler points out that "no other rights can be claimed under an MFN clause than those falling within the subject matter of the clause."[254] Under light of

[249] Voon et al., supra note 145, p.11.
[250] Boie, supra note 2, p.11.
[251] Henning Grosse Ruse-Khan, *Litigating Intellectual Property Rights in Investor-State Arbitration: From Plain Packaging to Patent Revocation*, UNIVERSITY OF CAMBRIDGE FACULTY OF LAW, LEGAL STUDIES RESEARCH PAPER SERIES (2014).
[252] Vice versa version of this question has also been recalled by Ruse-Khan : "Can an investor rely on an IIA MFN rule in order to challenge compliance of the host state with IP protection or enforcement obligations under TRIPS or even TRIPS-plus FTAs by arguing that such protection must be made available to him as a more favourable treatment of his IP rights as investments? The answer to this question has immediately and easily has been conveyed by Ruse-Khan to readers as that "TRIPS of course does not allow private parties to rely on its MFN or national treatment clauses in WTO dispute settlement." Ruse-Khan, supra note 251.
[253] Boie, supra note 2, p.13.
[254] Ziegler, supra note 229.

such expressions directed with respect to *ejusdem generis* principle[255], the question will certainly be arisen out that how probable to import more favourable rights from intellectual property conventions including totally different subject matter and regulatory intent than bilateral investment treaties. Sure enough, while the protection granted by investment agreements is directed to the protection of intellectual property rights as investments, international intellectual property conventions aim to protect foreign intellectual property rights itself. To be more specific, under international investment agreements, differently from international intellectual property conventions, intellectual property rights can receive protection to the extent they meet the requirements of a protected investment under the relevant international investment agreement. Intellectual property treaties on the other hand focus on various types of creative or inventive expressions of the human mind, define under which conditions and how these creations or inventions are to be protected and regulate some of the limits of protection.[256] Thus, by taking into consideration different subject matters of intellectual property convention and bilateral investment treaties, and accordingly under the context of *ejusdem generis* principle, it should be concluded that foreign investors are not allowed to base their intention to benefit from intellectual property protection granted by international intellectual property conventions on MFN clause unless the MFN clause in a particular international investment agreement explicitly suggests otherwise. I presume that the parties wishing to extent their obligations even further to the obligations assumed to other countries under various fields of international law would reveal their such intents in an explicit manner. Article 31(3)(c)[257] of the Vienna Convention is also a substantial ground for our critics which are against the broad perception of most favoured nation clause.

[255]PINAR BAKLACI, ULUSLARARASI YATIRIM HUKUKUNDA EN ÇOK GÖZETİLEN ULUS MUAMELESİ (Beta. 2009), p.55.
[256] Ruse-Khan, supra note 251.
[257] Article 31(3)(c) of the Vienna Convention on the Law of Treaties concluded at Vienna on 23.05.1969: "There shall be taken into account, together with the context: … (c) any relevant rules of international law applicable in the relations between the parties."

2.2.2 Concluding Remarks

From the all statements we have provided under the title of "Intellectual Property Rights and Most Favoured Nation Clauses", the result of that the formulation of MFN clause under the relevant investment agreement is quite critic. My evaluations with respect to the formulation of MFN clause can be put forward from the perspective of two different trivets, as suggestions to the negotiators acting on behalf of the homes state of foreign investors. The first trivet is that MFN clause should be formulated in the manner not restricting to any specific subject matter, such as "management, maintenance, use, enjoyment and disposal of an investment". Such formulation will enable foreign investors to include more various claims under MFN clause. On the other aspect, the second trivet is, instead of the expectation from arbitral tribunals supporting*ejusdem generis* principle, negotiators acting on behalf of the home state of foreign investors should pay attention to draw the frame of MFN clauses in clearer manner. Accordingly, express intention of the parties with respect to the importation of more favourable rights from international conventions on intellectual property rights should be placed within the content of MFN clauses. Otherwise, such importation would not be possible due to differences between intellectual property conventions and bilateral investment treaties in terms of their subject matter and regulatory intent. However, it should be pointed out that this would not mean that major basic principles have to be annulled or set aside but a more *ad hoc* based approach on the parties' intentions would be of greater value.[258] Further, I presume that such placement will also eliminate the inconsistency between arbitral awards grounding on *ejusdem generis* principle whose interpretation bears open-ended nature.

2.3 Intellectual Property Rights and Fair and Equitable Treatment

Most international investment agreements[259] and international conventions on intellectual property rights such as TRIPS Agreement[260] do include fair and equitable treatment[261] of

[258] Efstathiou, supra note 124, p.24.
[259] Article 2.3.a of the Treaty between the Government of the United States of America and the Government of the Republic of El Salvador Concerning the Encouragement and Reciprocal Protection of Investment signed on the date of 10.03.1999:

intellectual property rights in the form of investment. Although fair and equitable treatment is the most ambiguous standard[262] as set out by Yannaca-Small as that "The FET standard has its own meaning, and is not necessarily satisfied by treating the investor as well as the host state treats its own nationals or other foreigners. Fair and equitable is a flexible, elastic standard, whose normative content is being constantly expanded to include new elements."[263], under international investment law, IIA jurisprudence and commentary has attempted to clarify the rather ambiguous notion of fair and equitable treatment by resorting to a number of elements such as "reasonableness, consistency, non-discrimination, transparency, due process as well as the protection of legitimate expectations and protection against bad faith, coercion, threats and harassment".[264] It would seem that the Tribunal in MTD V. Chile ICISD Case whose subject was about the failure of the construction of a

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"Each Party shall at all times accord to covered investments fair and equitable treatment and full protection and security, and shall in no case accord treatment less favorable than that required by international law."
On the other hand, rather than to formulate the standard in the manner not providing less protection than the rules of international law, the standard may also be formulated in the manner being an element of the general rules of international law, as in the case of French Model Treaty:
"Either Contracting Party shall extend fair and equitable treatment in accordance with the principles of international law to investments made by nationals and companies of the other Contracting Party on its territory"
However, in each case, the fact that no single version of the standards exists and every type of clause has to be interpreted in accordance with Article 32 of the Vienna Convention on the Law of Treaties should be bear in in mind as mentioned by Dolzer and Schreuer in their study called as Principles of International Investment Law and reffered in this study.

[260] Article 41(2) and Article 42 of TRIPS Agreement.

[261] Pursuant to the determination of Biadgleng in his study referred within this study, tribunals have used fair and equitable treatment and full protection and security almost simultaneously except the case of US Model BIT discriminating such terms from each other with specific definitions as follows:

a) "fair and equitable treatment" includes the obligation not to deny justice in criminal, civil, or administrative adjudicatory proceedings in accordance with the principle of due process embodied in the principal legal systems of the World; and
b) "full protection and security" requires each Party to provide the level of police protection required under customary international law.

Since intellectual property rights do not bear any physical existence, it is seemed that intellectual property rights are not susceptible to physical destruction requiring police protection and accordingly not subject to *full protection and security*, however, the standard of fair and equitable treatment as applied to due process of the law and protection from denial of justice requires host countries to make available acceptable procedures for protection of the investment as the requirement of the investment agreement.
With respect to the discrimination between the terms of "fair and equitable treatment" and "full protection and security", see also SURYA P. SUBEDI, INTERNATIONAL INVESTMENT LAW RECONCILING POLICY AND PRINCIPLE (Hart Publishing. 2008), at p.67.

[262]SORNARAJAH, supra note 63, p.204.

[263] Katia Yannaca-Small, *Fair and Equitable Treatment Standard: Recent Developments*, AUGUST REINISCH, STANDARDS OF INVESTMENT PROTECTION (Oxford University Press. 2008), p.112.

[264] Ruse-Khan, supra note 251.

large planned community due to the inconsistency with the zoning regulations of the host state adopted such elements with its resolution:

> "In their ordinary meaning, the terms 'fair' and 'equitable' used in Article 3(1) of the BIT mean 'just', 'even-handed', 'unbiased', 'legitimate'. As regards the object and purpose of the BIT, the Tribunal refers to its Preamble where the parties state their desire 'to create favourable conditions for investments by investors of both Contracting Parties and to stimulate the flow of investments and individual business initiative with a view to the economic prosperity of both Contracting Parties.' Hence, in terms of the BIT, fair and equitable treatment should be understood to be treatment in an even-handed and just manner, conducive to fostering the promotion of foreign investment. Its terms are framed as a pro-active statement – 'to promote', 'to create', 'to stimulate' – rather than prescriptions for a passive behavior of the State or avoidance of prejudicial conduct to the investors."[265]

Among the endeavors[266] to determine the clear definition of fair and equitable treatment, Sacerdoti stated that "the treatment should be understood as the obligation for the host state to adopt all reasonable measures to physically protect assets and property form threats or attacks which may target particularly foreigners or certain groups of foreigners".[267] Further, Mercurio stipulated a guideline to the identification of fair and equitable treatment by indicating to three various factors: "a) a violation of domestic law by the host state as such is not sufficient for a fair and equitable treatment breach; b) fair and equitable treatment however, can be breached without necessarily having the host state showing bad faith; and c) the protection of the investor's legitimate expectation, if any recognized at all, must be balanced against the legitimate right of the state to regulate according to the public interest".[268]

Taking into consideration of the fact that fair and equitable standard is the most invoked standard in investment disputes[269], the endeavors of arbitral tribunals in terms to determine

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[265] MTD Equity Sdn. Bhd. And MTD Chile S.A. v. Republic of Chile, ICSID Case No. ARB/01/7, Award, para.113.

[266] Akıntürk &Baklacı, supra note 193, p.504-505; ALPER ÇAĞRI YILMAZ, ULUSLARARASI ENERJİ YATIRIMLARININ KORUNMASI (On İki Levha Yayıncılık. 2013), p.221.

[267] Giorgio Sacerdoti, *Bilateral Treaties and Multilateral Instruments on Investment Protection*, RECUEIL DES COURS, TOME 269 (1997), p.347.

[268]Mercurio, supra note 5, p.894.

[269] Rudolf Dolzer, *Fair and Equitable Treatment: A Key Standard in Investment Treaties*, THE INTERNATIONAL LAWYER (2005), p.87; Jeswald W. Salacuse, *Towards a Global Treaty on Foreign*

objective criteria for the application of such standard should not be striking. In this direction, the mostly referred definition presented out by the Tribunal in Tecmed v. Mexico ICSID Case with respect to fair and equitable treatment should also be placed out herein:

> "The Arbitral Tribunal considers that this provision of the Agreement, in light of the good faith principle established by international law, requires the Contracting Parties to provide to international investments treatment that does not affect the basis expectations that were taken into account by the foreign investor to make the investment. The foreign investor expects the host State to act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations. Any and all State actions conforming to such criteria should relate not only to the guidelines, directives or requirements issued, or the resolutions approved thereunder, but also to the goals underlying such regulations. The foreign investor also expects the host State to act inconsistently, i.e. without arbitrarily revoking any preexisting decisions or permits issued by the State that were relied upon by the investor to assume its commitments as well as to plan and launch its commercial and business activities. The investor also expects the State to use the legal instruments that govern the actions of the investor or the investment in conformity with the function usually assigned to such instruments, and not to deprive the investor of its investment without the required compensation."[270]

The approach of the Tribunal in Tecmed v. Mexico ICSID Case was summarized by the Tribunal in Saluka v. Czech Republic UNCITRAL Case with spot-on determinations as follows:

> "A foreign investor whose interests are protected under the Treaty is entitled to expect that the host state will not act in a way that is manifestly inconsistent, non-transparent, unreasonable (i.e. unrelated to some rational policy), or discriminatory (i.e. based on unjustifiable distinctions)."[271]

Investment: The Search for a Grand Bargain, ARBITRATING FOREIGN INVESTMENT DISPUTES: STUDIES IN TRANSNATIONAL ECONOMIC LAW (2004), p.64; BANU ŞİT KÖŞGEROĞLU, ENERJİ YATIRIM SÖZLEŞMELERİ VE BUNLARIN ULUSLARARASI YATIRIM ANLAŞMALARI İLE KORUNMASI (Vedat Kitapçılık. 2012), p.273.

[270] Tecnicas Medioambientales Tecmed S.A. v. The United Mexican States ICSID Case No. ARB(AF)/00/2, Award, para. 154.

[271] Saluka Investments BV v. The Czech Republic, supra note 73, para.309.

In conclusion, the obligation of the host state with respect to fair and equitable standard is "to exercise due diligence or to be vigilant by taking all measures necessary to ensure the full enjoyment of protection and security of foreign investment as opposed to creating strict liability"[272] as emphasized by the Tribunal in AMT v. Zaire ICSID Case:

> "The obligation such as cited above contracted by the Republic of Zaire and the United States of America constitutes an obligation of guarantee for the protection and security of the investments made by nationals and companies of one or the other Party, in the case before us, by American nationals or companies, AMT, in the territory of Zaire, at Kinshasa. The obligation incumbent upon Zaire is an obligation of *vigilance*, in the sense that Zaire as the receiving State of investments made by AMT, an American company, shall take all measures necessary to ensure the full enjoyment of protection and security of its investment and should not be permitted to invoke its own legislation to detract from any such obligation. Zaire must show that it has taken all measure of precaution to protect the investments of AMT on its territory."[273]

I presume that procurement of a clearly framed definition for fair and equal treatment which may be defined as the heart of investment arbitration[274] does not seem possible since listing the claims which the host states can confront with under such standard in advance will not be available. The content of fair and equitable treatment differs from case to case upon based on the measures of the host states. However, I believe that, while deciding whether fair and equitable treatment principle has been infringed or not, the content of fair and equitable treatment should be determined by case law, just as in the case where the elements of consistency, transparency, being reasonable and not-being discriminatory have beenconformably set out by the Tribunal in Tecmed v. Mexico ICSID Case and the Tribunal in Saluka v. Czech Republic UNCITRAL Case.

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[272] Biadgleng, supra note 144, p.25.
[273] American Manufacturing & Trading, Inc. v. Republic of Zaire,ICSID Case No. ARB/93/1, Award, Part 3, para.6.05.
[274] Rudolf Dolzer, *Fair and Equitable Treatment: Today's Contours*, SANTA CLARA JOURNAL OF INTERNATIONAL LAW (2014), p.10.

2.3.1 Legitimate Expectations

When the practice of the tribunals has been observed, it is noted that several principles are in evidence to the embracement of the standard of fair and equitable treatment. The tribunals which will be indicated below have tried to set out clear and evident principles based on the broad definitions provided above and have clearly spoken to the central role of transparency, stability, and the investor's legitimate expectations in the current understanding of the fair and equitable standard.[275]

As might be expected, the principles of transparency and investor's legitimate expectations are closely related to each other and accordingly the requirements relating to transparency and the protection of legitimate expectations are closely and firmly evaluated by arbitral tribunals in investment disputes. To begin with the comprehension of the principle of transparency together with the standard of fair and equitable treatment, UNCTAD has thrown some light in this respect as follows:

> "The concept of transparency overlaps with fair and equitable treatment in at least two significant ways. First, transparency may be required, as a matter of course, by the concept of fair and equitable treatment. If laws, administrative decisions and other binding decisions are to be imposed upon a foreign investor by a host State, then fairness requires that the investor is informed about such decisions before they are imposed. This interpretation suggests that where an investment treaty does not expressly provide for transparency, but does for fair and equitable treatment, then transparency is implicitly included in the treaty. Secondly, where a foreign investor wishes to establish whether or not a particular State action is fair and equitable, as a practical matter, the investor will need to ascertain the pertinent rules concerning the State action; the degree of transparency in the regulatory environment will therefore affect the ability of the investor to assess whether or not fair and equitable treatment has been made available in any given case."[276]

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[275] DOLZER & SCHREUER, supra note 188, p.133; for the criticism against the broad interpretation of legitimate expectations by stating that "their attitude, as the principal backers of both the international minimum standard and the fair and equitable standard in treaty practice, will deprive the latter standard of any content, if it indeed did have any", see SORNARAJAH, supra note 63, p.356-357.

[276]UNCTAD Series on Issues in International Investment Agreements, *Fair and Equitable Treatment*, UNCTAD/ITE/IIT/11 (Vol. III) (1999), p.51.

Further, the interpretation of such standard has been provided by the Tribunal in Tecmed v. Mexico ICSID Case where the replacement of the unlimited license by the licence with the limited duration for the operation of a landfill was discussed is as follows by including both of the principles oftransparency and stability:

> "The Arbitral Tribunal considers that this provision of the Agreement, in light of the good faith principle established by international law, requires the Contracting Parties to provide to international investments treatment that does not affect the basic expectations that were taken into account by the foreign investor to make the investment. The foreign investor expects the host State to act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations."[277]

To the extent that, investor's legitimate expectations may also be clearly based in this framework and fair and equitable treatment has often been understood "as a requirement for governments to refrain from interfering with an investor's legitimate expectations".[278] Pursuant thereto, the principles of transparency and stability will be evaluated under one common title, which is legitimate expectations of foreign investors.

The fair and equitable treatment standard is the platform where the investor's expectations are mostly contradicting with the regulatory power of the host state, and thus, such contradiction is proposing public policy considerations for the agenda inevitably. However, as Dolzer &Schreuer stated that "recent jurisprudence is making an effort to give confidence to host states with respect to their concerns about the possible infringements to their regulatory interests which the host states desire it to be unshakeable and emphasizing that the legitimate expectations of the investor will be grounded, *inter alia*, in the legal order of the host state as it stands at the time when the investor acquires the investment".[279] To be more clear, such approach of the Tribunals can be proven with the clear expression of the Tribunal in GAMI v. Mexico UNCITRAL Case:

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[277] Tecnicas Medioambientales Tecmed S.A. v. The United Mexican States, supra note 270, para.154.
[278]Boie, supra note 2, p.17.
[279] DOLZER & SCHREUER, supra note 188, p.134.

> "To repeat: NAFTA arbitrators have no mandate to evaluate laws and regulations that predate the decision of a foreigner to invest. The present Tribunal endorses and adopts the following passages from S.D. Myers:
>
> > 'When interpreting and applying the 'minimum standard', a Chapter 11 tribunal does not have an open-ended mandate to second-guess government decision-making. Governments have to make many potentially controversial choices. In doing so, they may appear to have made mistakes, to have misjudged the facts, proceeded on the basis of a misguided economic or sociological theory, placed too much emphasis on some social values over others and adopted solutions that are ultimately ineffective or counterproductive. The ordinary remedy, if there were one, for errors in modern governments is through internal political and legal processes, including elections.'"[280]

On the contrary, the concerns of the investors are awaited to be taken into consideration at the same time and such concerns with respect to the planning and stability of their investments are recognized by the arbitral tribunals, too. However, the main question is to which extent the expectations of the investors are deemed as legitimate and whether such expectations do include the event which law and regulations of the host state do remain unchanged. The Tribunal in Saluka v. Czech Republic UNCITRAL Case has set out the answer to the latter question in the manner consisting the precedent for most other disputes. Pursuant to the resolution of the Tribunal in Saluka v. Czech Republic UNCITRAL Case:

> "No investor may reasonably expect that the circumstances prevailing at the time the investment is made remain totally unchanged. In order to determine whether the frustration of the foreign investor's expectations was justified and reasonable, the host State's legitimate right subsequently to regulate domestic matters in the public interest must be taken into consideration as well. As the S.D. Myers tribunal has stated, the determination of a breach of the obligation of 'fair and equitable treatment' by the host Statemust be made in the light of the high measure of deference that international law generally extends to the right of domestic authorities to regulate matters within their own borders."[281]

As it can be observed, the Tribunal has drawn the line to the expectation of the investor concerning stationary law and regulations of the host state by also drawing to attention to the legitimate regulatory interests of the host state and further determined the boundaries of

[280] GAMI Investments, Inc. v. The Government of the United Mexican States, UNCITRAL, Final Award, para.93.
[281]Saluka Investments BV v. The Czech Republic, supra note 73, para.305.

the legitimate investor expectations by struggling to provide the balance between the investor's expectations and regulatory interest of the host state:

> "A foreign investor protected by the Treaty may in any case properly expect that the Czech Republic *implements its policies bona fide* by conduct that is, as far as it affects the investors' investment, reasonably justifiable by public policies and that such conduct does not manifestly violate the *requirements of consistency, transparency, even-handedness and non-discrimination*. In particular, any *differential treatment of a foreign investor must not be based on unreasonable distinctions and demands*, and must be justified by showing that *it bears a reasonable relationship to rational policies not motivated by a preference for other investments over the foreign-owned investment.*"[282]

I believe that it is highly critic to notice that even the boundaries of the host state's treatment are drawn in order to procure the compliance with fair and equitable treatment standard, a significant discretion for differential treatment to foreign investors is left to the host state by creating a linkage to rational public policy.

2.3.1.1 From the Perspective of Intellectual Property Rights

Specific to the main subject of this study, TRIPS Agreement is the platform where the interaction of intellectual property rights and fair and equitable treatment is observable. However, in contrast to national treatment and MFN treatment standards, fair and equitable treatment is not approached as a standard of treatment under TRIPS Agreement since fair and equitable treatment is only mentioned with respect to the procedures[283] concerning the enforcement of intellectual property rights.

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[282] Id. at para.307.

[283] Article 41(2) of TRIPS Agreement:
"Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays."
Article 42 of TRIPS Agreement:
"Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements."

On the other side, the approach of bilateral investment treaties to fair and equitable treatment is quite different from TRIPS Agreement. In contrary to TRIPS Agreement, fair and equitable treatment is perceived as the most substantial treatment standard under bilateral investment treaties by prescribing the standard "as a substantive requirement encompassing due process of the law, measures that amount to denial of justice, and arbitrariness and other matters arising from state responsibility for its injurious conduct towards aliens and their property".[284] Given these differences between the application of fair and equitable treatment under TRIPS Agreement and bilateral investment treaties, the question relating to the protection of intellectual property rights under fair and equitable treatment within the scope of bilateral investment treaties should be specifically answered hereunder. Since the protection of intellectual property rights under fair and equitable treatment is mostly demanded by foreign investors with the expectation of transparency, stability and satisfaction of the investor's legitimate expectations from the host states, the element of satisfaction of the investor's legitimate expectation will be specifically treated hereunder associatively intellectual property rights.

By taking into consideration general findings with respect to fair and equitable treatment, investors' legitimate expectation and accordingly invoked public policy issues, two substantial questions are arisen with respect to the intersection of intellectual property rights and fair and equitable treatment : "(a) to what extent can investor expectations be legitimately grounded in the grant of an intellectual property right as such? (b) can an investor rely on international intellectual property norms as a legitimate source of expectations?".[285] The answers to these questions will be inquired under the analysis provided by the Tribunals in the cases of Eli Lilly v. Canada and Philip Morris v. Australia hereunder.

[284] Biadgleng, supra note 144, p.24.
[285]Ruse-Khan, supra note 251.

2.3.1.1.1 To What Extent Can Investor Expectations Be Legitimately Grounded in the Grant of an Intellectual Property Right As Such?

The first question should be examined under the reality of the exclusive nature of intellectual property rights within the territorial boundaries of the host state and the question should be examined from the perspecitive of Eli Lilly v. Canada case where patent validity issue is weighted and Philip Morris v. Australia case where public health concerns are weighted, separately.

2.3.1.1.1.1 Eli Lilly v. Canada

Under the Eli Lilly v. Canada case where patent invalidity issue was concerned, the related question is taking the form of "whether the grant of the patent by the host state and the exclusivity it entails under the domestic patent law constitute state representations which in turn create legitimate expectations the patent holding investor may rely upon".[286] The dispute arose between Eli Lilly, a US pharmaceutical company, and the government of Canada, with respect to the invalidation of Eli Lilly's patents by Canadian courts for failing to fulfill the utility requirement stipulated under Canadian patent law. So indeed, to be "useful" is required as a substantial condition under the Canadian Patent Act for a patent to be granted. Accordingly, "this 'utility' must be specific (a particular utility must be disclosed, rather than a generic indication that the invention may be 'useful' in a given field) practical (in the sense of addressing a need in a manual or productive art) and credible (in the sense of being supported by the description in a manner sufficient for the person skilled in the art to expect it to be realizable and to be able to operate it to the same advantage as the inventors)".[287] In the sequel, Eli Lilly asserts that, together with the requirement subsequently introduced by the Supreme Court of Canada "to disclose the factual basis of the prediction in the patent, where the utility of a patent was based on a

[286] Id.
[287] Lisa Diependaele & Julian Cockbain & Sigrid Sterckx, *Eli Lilly v. Canada: The Uncomfortable Liaison Between Intellectual Property and International Investment Law*, QUEEN MARY JOURNAL OF INTELLECTUAL PROPERTY (2017), p.285.

sound prediction"[288], the requirement of utility would be "retroactively applied" and "drastically altered"[289].Accordingly, the Claimant argues that

> "The judicial decisions invalidating the Strattera Patent, the failure of the Government of Canada to rectify the Judge-made law on utility and disclosure, and the incorporation of these new and additional requirements into the practices of the Canadian Intellectual Property Office are measures that violate the principle of fair and equitable treatment.
>
> The combined effect of the measures constitutes a sudden, arbitrary and discriminatory alteration of the framework governing Lilly's investment that contravenes Lilly's most basic and legitimate expectations of a stable business and legal environment.
>
> At the time of its investment, Lilly reasonably relied on disclosure obligations that were enshrined in domestic law and could not have anticipated that non-statutory, new and additional disclosure obligations adopted years later would be retroactively applied to invalidate the Strattera Patent"[290]

The Tribunal in Eli Lilly v. Canada Case could not go further from the analysis of whether the amendment in Canadian patent law was dramatic or not and dismissed the claims relating to infringement of legitimate expectations arising out from the amendments under Canadian patent law since by stating that the claimant had "failed to demonstrate a fundamental or dramatic change in Canadian patent law".[291]

However, the scholars have not kept the silence about this issue and commonly proposed that the measures revealed as the amendments on the relevant regulations by the host state are against the findings of interference with legitimate expectations.[292] Ruse-Khan proposed an answer to such question by stating that "the grant of the patent certainly does

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[288] Eli Lilly and Company v. The Government of Canada, Notice of Intent (Strattera and Zyprexa), NAFTA, para.58.

[289] Eli Lilly and Company v. The Government of Canada, Notice of Arbitration, UNCITRAL Case No. UNCT/14/2, paras.82-83.

[290] Eli Lilly and Company v. The Government of Canada, Notice of Intent, NAFTA, paras.99-100, 102.

[291] Eli Lilly and Company v. Government of Canada, Final Award, Case No. UNCT/14/2, para.389; not directly related to intellectual property rights, however, a general statement has been thrown out in this respect by the Tribunal in Saluka Investments BV v. The Czech Republic, supra note 73, para.305 as follows: "No investor may reasonably expect that the circumstances prevailing at the time the investment is made remain totally unchanged."

[292]See also T-Y Lin, *Compulsory Licenses for Access to Medicines, Expropriation and Investor State Arbitration under Bilateral Investment Agreements – Are there Issues beyond the TRIPS Agreement?*, 40 INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW (2009), p.157-158.

not and cannot create any legitimate expectation that the exclusivity it confers is absolute and will remain without interference from accepted checks and balances inherent in the intellectual property system. Even instead, the investor's expectations should be seen a priori as very limited by the domestic regulations of the host state as well as by the internationally widespread regulatory measures"[293] that can be strongly expected, as in the case of measures beneficial to public health.[294] So indeed, at first sight, it may be seemed that the judicial amendment in question with respect to utility requirement violates the legitimate expectations of Eli Lilly. However, I believe that such a strict examination of utility based on patents should not be regarded strange by taking into account the right of host states to hold intellectual property right holders accountable for the sake of public benefit promised by such right holders in return of patent grant. Further, the government of Canada made its reservation and stated that irrevocable certainty for granted patent is not available by providing that "yet as Claimant is well aware, all such administrative patent grants are only presumptively valid, subject to court review. Patent Office review is based upon the applicant's patent specification and an examination of available prior art. If an examiner discovers no evidence contradicting the asserted utility, the applicant's description of the invention is taken at face value, with the knowledge that such assertions must eventually withstand court scrutiny if subsequently challenged in private-party litigation"[295]. In compliance with such defence of the government of Canada, commonly held scholar view is as follows; "patent scholars have previously noted that the public should not expect issued patents to be valid based on the current system which in fact relies on litigation challenges as a more efficient mechanism to weed out improper patents, than to have patent offices spend more time preventing invalid patents from issuing"[296].In sum, I agree with the view of that protection of legitimate expectations of foreign investors through fair and equitable treatment standard should not be in the manner preventing host

[293] Ruse-Khan, supra note 251; C. Gibson, supra note 145, p.453-454.
[294]Efstathiou, supra note 124, p.27; see also C. Gibson, *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*; TDM (2009), p.25-27.
[295] Eli Lilly and Company v. Government of Canada, Government of Canada Statement of Defence, Case No. UNCT/14/2, para.45.
[296] Cynthia M. Ho, *Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions*, BERKELEY TECHNOLOGY LAW JOURNAL (2015), p.271.

states from exercising their regulatory powers unless the results thereof are inequitable, arbitrary and unfair.

2.3.1.1.1.2 Philip Morris v. Australia

From the perspective of tobacco packaging disputes, under the Philip Morris v. Australia UNCITRAL case where public health concerns are weighted, the related question is taking the form of that "whether trademarks and the other IP rights claim can, as such, provide the right holder with a legitimate expectation that measures interfering with the use of these rights in the host state will not occur".[297] Accordingly, the Claimant has claimed that its "rights to use certain intellectual property", namely its investment in Australia, were affected by the Australian plain packaging measures:

> "In respect of each of these brands, PML currently has, whether as owner of licensee, *rights to use certain intellectual property* on and in relation to tobacco products and packaging:
>
> a) Pursuant to a licence agreement, PML is licensed to use registered trade marks and other industrial and intellectual property rights (including unregistered trade marks, copyright, patents, know-how, confidential information, trade secrets and designs owned by Philip Morris Products SA in respect of the Choice, Wee Willem and GT brands.
>
> b) Pursuant to a licence agreement, PML is licensed to use registered trade marks and other industrial and intellectual property rights (including unregistered trade marks, copyright, patents, know-how, confidential information, trade secrets and designs) owned by Philip Morris Brands Sari in respect of the Alpine, Longbeach, Bond Street and Marlboro brands.
>
> c) PML is the owner and exclusive user in Australia of registered trade marks and other industrial and intellectual property rights in respect of the Peter Jackson brand."[298]

The dispute between Philip Morris Asia and Australia arose following the adoption of so-called plain packaging legislation obliging the name of the tobacco company in standard font and size on tobacco products and accordingly making difficult to distinguish brands from each other.Subsenquent to the arbitration proceeding initiated by Philip Morris Asia

[297] Ruse-Khan, supra note 251.
[298] Philip Morris Asia Limited v. The Commonwealth of Australia, UNCITRAL, PCA Case No. 2012-12, Notice of Arbitration, para.4.5

with the claim of the restriction of their use of relevant trademarks, the question whether the Australian trade mark law confers a positive right to use a trademark or merely a negative right[299] to exclude should be arisen out. It should be asked since "the negative rights character of intellectual property rights allows a right holder to prevent anyone else to utilize the protected subject matter in any commercially relevant way without guaranteeing a positive (exclusive) right to exploit and such fact does inevitably result in further regulatory controls"[300] imposed by host states as confirmed by the WTO Panel as follows:

> "These principles reflect the fact that the TRIPS Agreement does not generally provide for the grant of positive rights to exploit or use certain subject matter, but rather provides for the grant of negative rights to prevent certain acts. This fundamental feature of intellectual property protection inherently grants Members freedom to pursue legitimate public policy objectives since many measures to attain those public policy objectives lie outside the scope of intellectual property rights and do not require an exception under the TRIPS Agreement."[301]

So indeed, if it is detected that Australian trade mark law has equipped the right holders with positive rights instead of negative rights, then, such situation would restrict the exclusivity power of the host state and the question of "whether trademarks and the other IP rights claim can, as such, provide the right holder with a legitimate expectation that measures interfering with the use of these rights in the host state will not occur" would be answered affirmatively.

However, the Australian High Court took up its position by stating that "it is a common feature of the statutory rights asserted in these proceedings that they are negative in character." and continuing as follows:

> "As Laddie, Prescott and Vitoria observed:

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[299] For more detailed discussions concerning negative right character of intellectual property rights, see Talat Kaya, *Uluslararası Ticaret ve Yatırım Hukuku Bakımından Tütün Ürünlerinin Düz Paketlenmesi Meselesi*, MARMARA ÜNİVERSİTESİ HUKUK FAKÜLTESİ HUKUK ARAŞTIRMALARI DERGİSİ (2008), p.1064-1072.

[300] Ruse-Khan, supra note 251.

[301] World Trade Organization, *Report of the Panel,European Communities-Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs*, , WT/DS174/R (2005), para.7.210, p.59.

> 'Intellectual property is … a purely negative right, and this concept is very important. Thus, if someone owns the copyright in a film he can stop others from showing it in public but it does not in the least follow that he has the positive right to show it himself.'[302]

> It also is true, as another threshold proposition, that while the TMA [Trade Marks Act 1995] facilitates the exploitations of registered trade marks in trade and commerce, trade mark registration systems ordinarily do not confer a liberty to use the trade mark, free from what may be restraints found in other statues or in the general law."[303]

> Certain valuable rights and interests of registered owners, authorized users and applicants for registration under the Trade Marks Act are not affected by the operation of the Packaging Act. For example, the right of a registered owner (or an authorized user) to seek relief for infringement of a registered trade mark pursuant to Pt 12 of the Trade Marks Act is not disturbed."[304]

In this case, on the face of the determinations by the Australian High Court, "unless the Tribunal in Philip Morris v. Australia UNCITRAL Case wishes to second-guess the interpretation of Australian trade mark law, it will have to accept that under the relevant law of the host state, the intellectual property rights at issue are solely negative rights to exclude, hence do not offer a basis for any form of expectations that stand against plain packaging".[305]

Considering the sensivity of the states with respect to the issue of validity of intellectual property rights under public policy concerns, it cannot be reasonably expected that the host states will embrace the positive rights theory under their national legislations with respect to intellectual property rights. Accordingly, it cannot be reasonably expected that arbitral tribunals will reach to the conclusion of that intellectual property rights provide the right holders with legitimate expectation that such rights would not be interfered by host states' regulatory power on their national laws.

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[302] JT International SA v Commonwealth of Australia, British American Tobacco Australia Limited v The Commonwealth, HCA 43 (2012), para.36.
[303] Id. at para.78.
[304] Id. at para.258.
[305]Ruse-Khan, supra note 251.

2.3.1.1.2 Can an Investor Rely on International Law Provisions on Intellectual Property Rights as a Legitimate Source of Expectations? – Philip Morris v. Australia

Regarding the second question about the evaluation of international law provisions on intellectual property rights as a legitimate source of expectations, it can be detected that investors are keen to invoke international intellectual property obligations assumed by host states as the basis of their legitimate expectations. Philip Morris Asia was one of these keen investors who had desired to invoke such obligations as it had put forward in its Notice of Arbitration to the case between Philip Morris Asia Limited and the Commonwealth of Australia as follows:

> "Neither is plain packaging legislation (and for the same reasons the GHW regulation) fair and equitable as required by Article 2(2) of the Hong Kong-Australia BIT. Plain packaging legislation will severely curtail the commercial utility of the intellectual property and goodwill and has a severe negative impact on the value of PM Asia's investments in Australia. It contravenes Australia's international obligations under TRIPS, the Paris Convention, and TBT [The Agreement on Technical Barriers to Trade]
>
> For the same reasons, plain packaging legislation and the GHW [Graphic Health Warnings] regulation each constitutes an unreasonable impairment to the management, maintenance, use, enjoyment or disposal of PM Asia's Investments in Australia in breach of Article 2(2) of the BIT. Finally, and also pursuant to Article 2(2) of the BIT, contravention of Australia's international trade treaty obligations results in a failure by Australia to observe obligations it entered into with regard to investments of investors in its territory."[306]

Accordingly, the critical question requiring the tribunals to present a satisfying answer comes to the fore, which is that can an investor legitimately expect that the host state complies with its international intellectual property obligations? Under the cases where the relevant international investment agreement does not explicitly refer to such treaty obligations, it is defended by the host states that it is difficult to assume that the international investment agreement parties wished to interpret the fair and equitable treatment standard in such a wide-ranging manner,as such respondedby Australia in Philip Morris v. Australia Case against the similar allegation by the Philip Morris Asia Limited:

[306] Philip Morris Asia Limited v. The Commonwealth of Australia, supra note 298, para.45-46.

> "Such claims are plainly outside the scope of protection of the BIT, whether as a matter of the fair and equitable treatment standard established under Article 2(2) or the 'umbrella clause' in Article 2(2), which provides that each Contracting Party to the BIT has an obligation to 'observe any obligation it may have entered into with regard to investments of investors of the other Contracting Party."[307]

Since the Tribunal in the case between Philip Morris and Australia has not concluded its final award yet, the answer of the question of whether Philip Morris Asia would manage to invoke international intellectual property obligations of Australia by basing on fair and equitable treatment obligation of Australia is still ambiguous. However, the common understanding of arbitral tribunals' practices and scholars in this respect may be determinative for possible answer to be provided by the Tribunal in the case between Philip Morris and Australia. For instance, in the case between Grand River Enterprises Six Nations Ltd., et al and the United States of America, the Tribunal concluded that Article 1005 of NAFTA designating fair and equitable treatment principle does not allow to incorporate legal protections from other law sources[308]:

> "The Tribunal concludes that it has not been shown that they are. As the basis of the fair and equitable treatment standard of Article 1105, the customary standard of protection of alien investors' investments does not incorporate other legal protections that may be provided investors or classes of investors under other sources of law. To hold otherwise would make Article 1105 a vehicle for generally litigating claims based on alleged infractions of domestic and international law and thereby unduly circumvent the limited reach of Article 1105 as determined by the Free Trade Commission in its binding directive."[309]

In the compliance with the conclusion achived by the Tribunal in the case between Grand River Enterprises Six Nations Ltd., et al and the United States of America, Newcombe and Paradell discuss that business environment and national law of the host state are critical to create legitimate expectation from the perspective of the investor for any intellectual property related investments. Accordingly, "an investor can expect host state compliance with international intellectual property rules as soon as these rules are cumulatively (i)

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[307] Philip Morris Asia Limited v. The Commonwealth of Australia, supra note 298, para.34.
[308]Mercurio, supra note 5, p.897.
[309] Grand River Enterprises Six Nations, Ltd., et al. v. United States of America, UNCITRAL, Award, 12 January 2011, para.219.

directly applicable as part of the domestic law; (ii) sufficiently concrete to be applied by domestic institutions; and (iii) give rise to individual rights of the investor".[310] Taking into consideration of the facts that most of the countries adopt such international intellectual property conventions "by reserving substantial discretions for implementing them into their own national system and only some international intellectual property provisions are sufficiently concrete and provide for executable rights for right holder"[311], it relatively seems tough for an investor to claim a legitimate expectation that the host state complies with related international intellectual property norm.

Therefore, I believe that such criteria set out by Newcombe and Paradell do not seem as applicable and practical. I presume that such criteria highly restricting the expectation of the implementation of international conventions on IP rights within domestic law will grant a great range of motion to host states. Expecting from foreign investors to analyze whether the international convention concerned is concretely and directly applied by domestic institutions would impose impractical obligation on foreign investors. Besides, it is known that implementation of such conventions on national legal sytems appropriately is an obligation imposed on the host states customarily. Accordingly, total exclusion of international conventions from the scope of legitimate expectation of foreign investors as suggested in the case between between Grand River Enterprises Six Nations Ltd., et al and the United States of America does also not seem compatible with the rules of international law. As conclusion, I suggest to arbitral tribunals to approach more broadly to the questioning of whether while the foreign investor concerned is expecting the implementation of international conventions by domestic institutions is legitimate or not. In this direction, rather than imposing an obligation on foreign investors to investigate whether the rules of international conventions concerned are concretely and directly applicable within national legal system, which requires an internal investigation and accordingly cannot be reasonably expected from alien investors, I believe that, arbitral tribunals should pay regard to the question of whether the host states have made the

[310] Newcombe & Paradell, supra note 131, p.286.
[311]Ruse-Khan, supra note 251; see also Todd Weiler, *Philip Morris vs. Uruguay, An Analysis of Tobacco Control Measures in the Context of International Investment Law*, REPORT 1 FOR PHYSICIANS FOR A SMOKE FREE CANADA (2010).

reservations on the rules of international conventions which foreign investors desire to benefit from in international platform, which requires a non-internal investigation and accordingly can be reasonably expected from alien investors. As conclusion, considering the obligation customarily imposed on host states to implement the rules of international conventions on their own national legal sysytems, I believe that foreign investors should have right to legitimately expect the host states to comply with the rules of international conventions on IP rights which they are member to, unless host states have made reservations on such rules in international platform.

So far, we have analyzed the question of whether an investor can legitimately expect a host state to comply with international intellectual property norms for the cases where the international investment agreement in question does not refer to such compliance requirement. On the other hand, the international investment agreements[312] including the obligation of treatment in accordance with international law requires a different analysis. In this respect, the essential question comes into the question to be answered by commentators and/or the tribunals: "Does 'international law' mean customary international law only or does it extend to the full range of international law sources?"[313] The three contracting states including the United States of America, the United Mexican States and the Government of Canada reserved their opinion concerning Article 1105(1) of NAFTA referring to "international law" regarding to fair and equitable treatment and stated that:

> "Article 1105(1) prescribes the customary international law minimum standard of treatment of aliens as the minimum standard of treatment to be afforded to investments of investors of another Party.

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[312] Article 2(3) of the Treaty Between the United States of America and The Republic of Turkey Concerning the Reciprocal Encouragement and Protection of Investments signed on the date of 3.12.1985 and entered into force on the date of 18.5.1990:
"Investment shall at all times be accorded fair and equitable treatment and shall enjoy full protection and security in a manner consistent with international law. Neither Party shall in any way impair by arbitrary or discriminatory measures the management, operation, maintenance, use, enjoyment, acquisition, expansion, or disposal of investments. Each Party shall observe any obligation it may have entered into with regard to investments."
Article 1105 of the North American Free Trade Agreement entered into force on 01.01.1994:
"Each Party shall accord to investments of investors of another Party treatment in accordance with international law, including fair and equitable treatment and full protection and security."

[313] Boie, supra note 2,p.18.

> The concepts of 'fair and equitable treatment' and 'full protection and security' do not require treatment in addition to or beyond that which is required by the customary international law minimum standard of treatment of aliens.
>
> A determination that there has been a breach of another provision of the NAFTA, or of a separate international agreement, does not establish that there has been a breach of Article 1105(1)"[314]

In this respect, Boie points out that "although the matter has never been tested for intellectual property rights yet, it must be assumed that similar views to United States, Mexico and Canada will be expressed by the tribunals if the issue comes up under bilateral investment treaties".[315]

Beside the reference to international law, in some cases, the reference may be made to "international minimum standard of treatment"[316] under international investment agreements. As it is repeated, TRIPS Agreement establishes a floor to be adopted by member states for intellectual property protection with regard to protection and enforcement of intellectual property rights. Hereunder, the question is that whether the international minimum standard of treatment is applied to only enforcement of TRIPS Agreement or beyond it. Such question can be answered under two possibilities. Pursuant to the first possibility, if the expression of international minimum standard under bilateral investment treaty is perceived as equaling treatment under customary international law[317], since TRIPS Agreement is not accepted as customary international law, it is quite hard to accept that the standards provided by TRIPS Agreement constitute the international minimum standard. Pursuant to the second possibility where the international minimum

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[314] NAFTA Free Trade Commission, *North American Free Trade Agreement, Notes of Interpretation of Certain Chapter 11 Provisions* (2001).

[315]Boie, supra note 2, p.18.

[316] Please consider the possibility where "the protection of the highest international standards" is referred as the case of EU Association Agreement. In view of the nature of TRIPS Agreement procuring the floor rather than a ceiling, with such expression, it should be understood that the reference is made to the standards in TRIPS-plus characteristics; see Abhijit P.G. Pandya, *Interpretations and Coherence of the Fair and Equitable Treatment Standard in Investment Treaty Arbitration*, LONDON SCHOOL OF ECONOMICS (2011), p.246; see also SORNARAJAH, supra note 63, p.345.

[317] IOANA TUDOR, THE FAIR AND EQUITABLE TREATMENT STANDARD IN THE INTERNATIONAL LAW OF FOREIGN INVESTMENT (Oxford University Press. 2008), p.67-68.

standards is evaluated as disconnected from customary international law[318], embracement of the standards provided by TRIPS Agreement within the scope of international minimum standard is surely easier by taking into consideration of the globally recognized nature of TRIPS Agreement. On the other aspect, my opinion is that international minimum standard is a norm of customary international law, as embraced by Canada with respect to Article 1105 of NAFTA: "Article 1105, which provides for treatment in accordance with international law, is intended to assure a minimum standard of treatment of investments of NAFTA investors…this article provides for a minimum absolute standard of treatment, based on long-standing principles of customary international law."[319] Embracing the term of international minimum standard as disconnected from customary international law does not serve for the intended purpose herewith. To put it differently, the purpose intended with the inclusion of international minimum standard within the relevant international investment agreement is to benefit from evolving structure of customary international law over time in contrast to frozen structure of other international law sources whose evolvement is subject to mutual agreement of contracting states. From this perspective, if international minimum standard is perceived as disconnected from customary international law, there would not be no difference between reference to international minimum standard and making reference simply to international law. And, it cannot be alleged that preference between reference to international minimum standard and international law has been made unconsciously by contracting states. For these reasons, I support the view embracing international minimum standards under customary international law.

2.3.2 Concluding Remarks

Within this chapter of study, fair and equitable treatment commonly provided under bilateral investment treaties has been analyzed, by trying to focus on the aspect of intellectual property rights. In this direction, we have tried to clarify the definitive elements of fair and equitable treatment by providing varios approaches of arbitral tribunals and drawn the attention to the elements of stability, transparency and legitimate expectations of

[318] Christoph Schreuer, *Fair and Equitable Treatment in Arbitral Practice*, THE JOURNAL OF WORLD INVESTMENT & TRADE (2005), p.364.
[319] Canada Gazette, *Canadian Statement of Implementation for NAFTA* (1994), p.149.

foreign investors. By focusing on the legitimate expectations of foreign investors, we have tried to bring the aspect of intellectual property rights to this part of the study. From the perspective of intellectual property rights, two substantial questions have been arisen out. These questions have been formulated as "(i) to what extent can investor expectations be legitimately grounded in the grant of an intellectual property right as such? (ii) can an investor rely on international intellectual property norms as a legitimate source of expectations?". Following the detailed explanations in this respect, it has been observed that relevant tribunals have concluded that granting of intellectual property rights cannot be grounded on legitimate expectations of foreign investors and foreign investors cannot legitimately expect from the host states to comply with the rules of international conventions on intellectual property rights, which was criticized. Afterwards, it has been stated that such conclusions are reserved to the cases where the bilateral investment treaties do not include a clear reference to the compliance with international law to be carried out by the host states. On this wise, I would like to highlight the importance of proper drafting of substantive standards, including fair and equitable treatment, for foreign investors once more. As the definition of fair and equitable treatment itself, the formulation of the provisions relating to such treatment is also not stable and open to expand in direction to new elements. Accordingly, such differences in the formulation of the provisions concerning fair and equitable treatment will be determinative to draw the application conditions and consequences of such treatment.

2.4 Intellectual Property Rights and Umbrella Clauses

Subedi suggests that "traditionally, it has been accepted that in international law a breach of a contract by a state does not give rise to direct international responsibility on the part of that state".[320] Through an umbrella clause which is a provision in an investment protection treaty that "guarantees the observation of obligations assumed by the host state vis-à-vis the investor"[321], it is possible to bring the obligations of the host states stipulated in the

[320] SUBEDI, supra note 261, p.104.
[321] DOLZER & SCHREUER, supra note 188, p.153; Ethan G. Shenkman & D. Jason File, *Recent Developments in Investment Treaty Jurisprudence: Arbitrating Contract Claims under Umbrella Clauses*, ICLG TO INTERNATIONAL ARBITRATION (2008), p.6.

agreements and/or authorizations other than the relevant investment agreement.[322] A typical version of such clauses can be provided as follows:

> "Each Party shall observe any other obligation it has assumed with regard to investments in its territory by investors of the other Party."[323]
>
> or
>
> "Each Contracting Party shall comply with any other obligation that it may have incurred in respect of investments within its territory by nationals or companies of the other Contracting Party."[324]

However, the formula of umbrella clauses under international investment agreements is not always uniform. So indeed, the obligations provided by the agreements except the relevant investment agreement and covered by an umbrella clause may be variously described as "obligations, undertakings, commitments, legal frameworks, the obligations assumed with regard to investments, the obligations entered into with regard to investments or the obligations entered into with regard to specific investments".[325]

The language preferred under umbrella clauses is determinative for their scope. For instance, in the case of SGS v. Philippines, it was indicated to the different interpretations which may be occurred because of the differences between wordings of various umbrella clauses as follows:

> "This provisional conclusion – that Article X(2) means what is says – is however contradicted by the decision of the Tribunal in SGS v. Pakistan, the only ICSID case which has so far directly rules on the question. It should be noted that the 'umbrella clause" in the Swiss-

[322] Voon et al., supra note 145, p.20; ERGİN NOMER & NURAY EKŞİ & GÜNSELİ ÖZTEKİN, MİLLETLERARASI TAHKİM (Beta Yayınları. 2003), p.88-89.
[323]Article 10(2) of the Agreement between the Swiss Confederation and the United Mexican States on the Promotion and Reciprocal Protection of Investments signed on the date of 10.07.1995 and entered into force on the date of 15.031996.
[324] Article 7(2) of the Treaty Between the Federal Republic of Germany and the Republic of Turkey Concerning the Reciprocal Promotion and Reciprocal Protection of Investments executed on the date of 20.06.1962 and entered into force on the date of 16.12.1965.
[325] Voon et al., supra note 145, p.20-21; ÇAL, supra note 63, p.323-325.

> Pakistan BIT was formulated in different and rather vaguer terms than Article X(2) of the Swiss-Philippines BIT".[326]

Accordingly, the wording of umbrella clauses provided under bilateral investment treaties will essentially determine the rights and obligations of private investors and the host states.

2.4.1 From the Perspective of Intellectual Property Rights

Under the context of intellectual property rights, the specific concern with respect to the utilization from the rules of international conventions on intellectual property rights through umbrella clauses provided under the relevant investment agreement is also brought before arbitral tribunals. In the investment disputes where intellectual property rights are considered as investment, the investors do rely on such umbrella clauses "to import obligations of the host state vis-à-vis the protected investment from other legal sources"[327] in order to benefit from the rules of international conventions on intellectual property rights.

2.4.1.1 Philip Morris v. Uruguay

By way of illustration, in the Philip Morris v. Uruguay ICISD Case, Philip Morris presented its arguments under the bilateral investment treaty between Uruguay and Switzerland that the tobacco packaging measures of Uruguay did affect Philip Morris' ability to use its trademarks adversely and the measures taken by Uruguay were in breach of the fair and equitable treatment standard, especially its legitimate expectations in a continuous and substantial marketing of tobacco use under its brands, such as Marlboro:

> "Moreover, while a host State has the sovereign right to change its regulatory framework, including for the purpose of pursuing its public health policies, such changes must be fair and equitable in light of the investor's legitimate expectations. By issuing Ordinance 514, which contains both the single presentation requirement and the requirement concerning the demeaning programs, and Decree 287/009 setting out the excessive health warning requirement, the Respondent failed to maintain a stable and predictable regulatory framework

[326]SGS Société Générale de Surveillance S.A. v. Republic of Philippines, Decision on the Tribunal on Objections to Jurisdiction, ICSID Case No. ARB/02/6, para.119.
[327]Ruse-Khan, supra note 251.

> consistent with Philip Morris legitimate expectations. In particular, the measures frustrate one of the most fundamental expectations that any investor may have, which is that a host State will comply with its own law and respect private property.
>
> Ordinance 514 and Decree 287/009 must also be considered unfair and inequitable because they are incompatible, inter alia, with Uruguay's treaty obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights ('TRIPS') as well as the Paris Convention for the Protection of Industrial Property (the 'Paris Convention')."[328]

Respodent's arguments in regard to such claim put forward by the Claimant did remain limited to the evaluation of whether Article 11 of the bilateral investment treaty executed between Switzerland and Uruguay, which provides that "Either Contracting Party shall constantly guarantee the observance of the commitments it has entered into with respect to the investments of the investors of the other Contracting Party"[329] can be perceived as umbrella clause or not. The explanations of Uruguay with respect to Uruguay's obligations under international conventions were restricted to the statement of "… even if it did operate as an umbrella clause, Article 11 should not be interpreted as covering commitments made under generally applicable municipal law. Thus, Uruguay's registration of the Claimants' trademarks cannot be considered an international law obligation on the basis of Article 11".[330]

In compliance with the defense of Uruguay to some extent, in the award concluded for the case between Philip Morris and Uruguay, the Tribunal did prefer to investigate the question of whether the trademarks granted by Uruguay were "commitments" under Article 11 rather than to evaluate the claims of the Claimant with respect to Uruguay's treaty obligations under TRIPS Agreement and the Paris Convention. Eventually, the Tribunal merely concluded that "trademarks are not 'commitments' falling within the intended scope

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[328] Philip Morris Brands Sàrl, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Request for Arbitration, para.84-85.

[329] Article 11 of the Agreement between the Swiss Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments executed on the date of 07.10.1988 and entered into force on the date of 22.04.1991.

[330]Philip Morris Brands Sàrl, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay, ICSID Case No. ARB/10/7, Award, para.464.

of Article 11 of the BIT. Accordingly, the Claimants' claim of breach by the Respondent of Article 11 by the adoption of the Challenged Measures is rejected."[331]

2.4.1.2 Philip Morris v. Australia

The following year, the bilateral investment treaty between Hong Kong and Australia providing the umbrella clause of that "each Contracting Party shall observe any obligation it may have entered into with regard to investments of investors of the other Contracting Party"[332] was invoked by Philip Morris Asia. Not surprisingly, Philip Morris Asia also has grounded on such clause in its notice of arbitration and contended that "Australia has violated the umbrella clause by violating (inter alia) Australia's obligations under the TRIPS Agreement"[333] and the Paris Convention:

> "This obligation is broader than specific obligations or representation made by the host State to investors from the other Contracting State. It also encompasses other international obligations binding on the host State that affect the way in which property is treated in Australia, regardless of the nationality of the owners of that property."[334]

On the face of the demand of Philip Morris Asia from Australia to comply with its obligations arising out from international conventions, Australia's prompt answer to such allegations by Philip Morris Asia is enlightening:

> "Even if were correct (which it is not) that Article 2(2) could somehow be understood as extending an arbitral tribunal's jurisdiction to obligations owed by Australia to other States under various multilateral treaties, the treaties that PM Asia seeks to invoke all contain their own dispute settlement mechanisms. It is not the function of a dispute settlement provision such as that contained at Article 10 of the BIT to establish a roving jurisdiction that would enable a BIT tribunal to make a broad series of determinations that would potentially conflict with the determinations of the agreed dispute settlement bodies under the nominated

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[331] Id. at para.482.
[332] Article 2 of the Agreement between the Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments signed on the date of 15.09.1993 and entered into force on the date of 15.10.1993.
[333] Voon et al., supra note 145, p.21.
[334] Philip Morris Asia Limited v. The Commonwealth of Australia, supra note 298, para.7.16.

> multilateral treaties. This is all the more so in circumstances where such bodies enjoy exclusive jurisdiction."[335]

It should be noted that since the Tribunal in the case between Philip Morris and Australia has not concluded the award yet, the answer of the question of whether Philip Morris Asia would manage to import the rules of international conventions on intellectual property rights by basing on umbrella clause is still ambiguous for the case of Philip Morris Asia v. Australia.

2.4.1.3 Eli Lilly v. Canada

Three years later, in the case between Eli Lilly and Canada, Eli Lilly did argue against Canada the violation of TRIPS Agreement in the arbitral tribunal established under NAFTA Chapter 11 and contended that "the utility test and anti-discrimination mandate embodied in NAFTA are also enshrined in the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement"), concluded in 1994. This is to be expected, since NAFTA Article 1709 was based on a December 1991 draft of the TRIPS Agreement".[336] On the face of the claims stipulated by Eli Lilly, as Australia did in the case of Philip Morris v. Australia, Canada countered the jurisdiction of the competent arbitral tribunal and put forward that

> "The Tribunal's jurisdiction in this matter related only to alleged breaches of NAFTA Chapter Eleven obligations. Chapter Eleven does not grant this Tribunal jurisdiction 'at large' to rule on alleged breaches of any and all of Canada's other international obligations.
>
> The Tribunal notably lack jurisdiction to rule on alleged violations of any of TRIPS, PCT [Patent Cooperation Treaty] or NAFTA Chapter Seventeen. Disputes in respect of an alleged breach of TRIPS obligations may only be brought pursuant to the Dispute Settlement Understanding of the World Trade Organisation. Allegations of a breach of the PCT are, in accordance with that Treaty, to be brought before International Coutr of Justice. Allegations of

[335] Philip Morris Asia Limited v. The Commonwealth of Australia, Australia's Response to the Notice of Arbitration, Under the 2010 Arbitration Rules of the United Nations Commission of International Trade Law, para.35.
[336] Eli Lilly and Company v. Government of Canada, Notice of Arbitration, UNCITRAL, para.42.

> a breach of NAFTA Chapter Seventeen are to be brought on a State-toState basis before a tribunal constituted pursuant to NAFTA Chapter Twenty."[337]

Since the competent arbitral tribunal in the case of Eli Lilly v. Canada did prefer not to address the jurisdiction issue concerned, the procurement of the answer for the question whether WTO do possess an exclusive jurisdiction over the obligations arising out from the agreements covered by the World Trade Organization is left to the answers to be provided by scholars. Hereunder, we will endeavor to aggregate the opinions in this respect under the light of Article 23 of the Dispute Settlement Understanding ("DSU")[338].

2.4.2 Exclusive Jurisdiction of World Trade Organization

As we have observed through this part of the study, most bilateral investment treaties do include substantive rights and obligations which are in parallel to the World Trade Organization agreements.[339] Accordingly, the disputes arising out from the same obligations can be brought before both investor-state arbitral tribunals and the WTO. Beyond that, the substantive terms which are not provided under the relevant bilateral investment treaty are argued before investor-state arbitral tribunals with WTO claims, especially through umbrella clauses stipulated under bilateral investment treaties. One of the reasons[340] why foreign investors do endeavor to allege WTO claims before investor-state arbitral tribunals rather than dispute settlement proceedings of WTO is, under WTO forum, only states[341] can initiate such dispute settlement proceeding. On the contrary, under investor-state arbitral tribunals, foreign investors can directly initiate an arbitration proceeding against the host state without the need to lobby its home state to take action in this respect and without being affected from political relationships between the states.

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[337] Eli Lilly and Company v. Government of Canada, supra note 295, paras.83-84.

[338]Annex-2 of the Agreement Establishing the World Trade Organization executed on the date of 15.04.1994 and entered into force on the date of 01.01.1995, namely Understanding on the Rules and Procedures Governing the Settlement of Disputes, to be referred as "DSU" from time to time.

[339] Gaetan Verhoosel, *The Use of Investor-State Arbitration Under Bilateral Investment Treaties to Seek Relief for Breaches of WTO Law*, JOURNAL OF INTERNATIONAL ECONOMIC LAW (2003), p.493-495.

[340] Benedict Kingsbury & Stephan Schill, *Investor-State Arbitration as Governance: Fair and Equitable Treatment, Proportionality and the Emerging Global Administrative Law*, INTERNATIONAL INVESTMENT LAW (2017).

[341] JÜRGEN KURTZ, THE WTO AND INTERNATIONAL INVESTMENT LAW: CONVERGING SYSTEMS (Cambridge. 2015), p.229.

Further, the fact of that whereas the solutions suggested by the WTO are exclusively prospective, investor-state arbitral awards allow for the remedies to be offered for the retrospective damages.[342]

In the cases of Philip Morris v. Uruguay, Eli Lilly v. Canada and Philip Morris v. Australia where the WTO claims are argued before an investor-state arbitral tribunal, Australia and Canada countered the jurisdiction of investor-state arbitral tribunals by emphasizing that the WTO does possess exclusive jurisdiction over such claims and investor-state arbitral tribunals do not have. The arguments of Austalia and Canada can be grounded on Article 23 of the Dispute Settlement Understanding. Accordingly, "when Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements, …, they shall have recourse to, and abide by, the rules and procedures of this Understanding." To put it differently, Article 23 "mandates recourse to the multilateral system of the WTO for the settlement of disputes"[343] and "subjects all WTO Members to the dispute settlement system for all disputes arising under the WTO Agreement"[344] The exclusive jurisdiction of the WTO setting out in Article 23 has also been reflected on the Report of the Panel of the WTO as follows: "This [Article 23] requirement is violated not only when Members submit a dispute concerning rights and obligations under the WTO Agreement to an international dispute settlement body outside the WTO framework but also when Members act unilaterally to seek to obtain the results that can be achieved through the remedies of the DSU".[345]

Although the exclusive jurisdiction of the WTO forum seems indisputable pursuant to Article 23 of the DSU and panel reports, with regard to investor-state arbitration, there are various opinions about whether the WTO claims can be argued before an investor-state arbitral tribunals. Some argue that it is acceptable to allow private parties to remedy WTO violations under investor-state arbitral tribunals since the Dispute Settlement Understanding is available for an arbitration forum where only states have standing whereas investment

[342] Id. at p.230.
[343] Dispute Settlement System Training Module, *Introduction to the WTO Dispute Settlement System*, WORLD TRADE ORGANIZATION.
[344] Id.
[345]World Trade Organization, *Report of the Panel, European Communities-Measures Affecting Trade in Commercial Vessels*, WT/DS301/R (2005), para.7.195.

tribunals is also available to private investors. Because of such mentioned difference, Shany argued that jurisdictional competition does not exist between such forums by defending that "overlap is only objectionable where there is meaningful jurisdictional competition – i.e. where the parties and issues are essentially the same".[346] In other words, "WTO dispute bodies and investor-State tribunals do not compete for jurisdiction".[347]

On the other hand, there are some certain counterarguments against the approach of Shany. For instance, it is argued that although it seems that WTO and investor-state disputes do include different parties in appearance, arbitral tribunals have continued to discuss whether foreign investors assert "direct"[348] or "derivative" rights under investor-state arbitration and some of them have voted on behalf of the derivative rights theory. So indeed, in the case of AdM/Tate&Lyle v. Mexico, it was concluded that "…, if the substantive investment obligations under Section A remain inter-state, the issue of whether the host State breached any of these obligations vis-à-vis qualified investors is to be considered in the context of the treaty relations with the other Member States. This approach is supported by a traditional derivative theory – pursuant to which when investors trigger arbitration proceedings against a State they are in reality stepping into the shoes and asserting the rights of their home State…".[349] According to this view, the rights exercised by private investors are essentially the rights of the states and there is no differences between WTO forum and investment tribunals from the perspective of the issues under such forums. Where the sameness of the issues between the forums is in question, it is argued that the existence of jurisdictional competition is not disputable. Accordingly, Article 23 of the DSU should be applied to private investors, on the contrary to the conclusion achieved by Shany.

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[346] Dispute Settlement System Training Module, supra note 343; YUVAL SHANY, THE COMPETING JURISDICTIONS OF INTERNATIONAL COURTS AND TRIBUNALS (Oxford University Press. 2003), p.24.

[347] Brooks E. Allen & Tommaso Soave, *Jurisdictional Overlap in WTO Dispute Settlement and Investment Arbitration*, THE JOURNAL OF THE LONDON COURT OF INTERNATIONAL ARBITRATION, p.14.

[348] It is asserted that private investors do not put forward their claims before investor-state arbitration by proxy of the states, instead, they have their own dispute settlement rights. See Zachary Douglas, The Hybrid Foundations of Investment Treaty Arbitration, BRITISH YEARBOOK OF INTERNATIONAL LAW (2003); Cargill Incorporated v. United Mexican States, Award, ICSID Case No. ARB(AF)/05/2, para. 422.

[349] Archer Daniels Midland Company and Tate&Lyle Ingredients Americas, Inc. v. The United Mexican States, Award, ICSID Case No. ARB(AF)/04/05, para.163.

Upon the acceptance of derivative rights theory by even investor-state arbitral tribunals, foreign investors have been in search for contracting out of Article 23 of the DSU. Private investors may try to take shelter under Article 41 of the Vienna Convention. Pursuant to such article, it is allowed to the parties to modify a multilateral treaty which they are parties to on condition of the satisfaction of some certain critera, which are listed as follows: "

> (a) The possibility of such a modification is provided by the treaty; or
>
> (b) The modification in question is not prohibited by the treaty and:
>
> (i) Does not affect the enjoyment by the other parties of their rights under the treaty or the performance of their obligations;
>
> (ii) Does not relate to a provision, derogation from which is incompatible with the effective execution of the object and purpose of the treaty as a whole."[350]

To put it differently, Article 41 means that parties are allowed to modify a multilateral treaty between them unless the treaty prohibits the modification, effects the rights of the third parties and "relate[s] to a provision, derogation from which is incompatible with the effective execution of the object and purpose of the treaty as a whole".[351] Siqing Li argues that "private investors may argue that any two states have modified Article 23 [of the DSU] between them through the umbrella clause in a given BIT. Contracting out of Article 23 likely does not go against the object and the purpose of the DSU as a whole because, unlike unilateral action by one state, both states agreed to subject the dispute to another forum".[352] Such possibility which may be utilized by private investors has been supported with the examples from the practice. Within the Report of the Appellate Body of the World Trade Organization with respect to United States-Continued Suspension of Obligations in the EC-Hormones Dispute, contracting out of Article 17(10) of the DSU designating that the appellate proceeding should be confidential was permitted to be contracted out since "in [Appelate Body]'s view, the confidentiality requirement in Article 17.10 is more properly

[350] Article 41(1) of the Vienna Convention on the Law of the Treaties concluded on the date of 23.05.1969.
[351] Article 41(1)(b)(ii) of the Vienna Convention on the Law of the Treaties concluded on the date of 23.05.1969.
[352] Siqing Li, *Convergence of WTO Dispute Settlement and Investor-State Arbitration: A Closer Look at Umbrella Clauses*, CHICAGO JOURNAL OF INTERNATIONAL LAW (2018), p.204-205.

understood as operating in a relational manner"[353] and "the confidentiality rule in Article 17.10 is not absolute".[354] From this point of view, Luiz E. Salles has argued that "DSU Article 23(1) could be said to operate in a relational manner, as a promise of each WTO member to each other WTO member, and it could be said to implicate a less than absolute commitment that is subject to derogation by two disputing parties jointly".[355] As it can be observed, it seems that the possibility which may be utilized by private investors through Article 41 of the Vienna Convention and suggested by Siqing Li remains limited to the operation of contracting out of Article 23 of the DSU only in a relational manner and does not extend to absolute commitments. In the manner approving such conclusion, the Appelate Body in its Report in Peru-Additional Duty on Imports of Certain Agricultural Products explicitly provides that "while Article 3.7 of the DSU acknowledges that parties may enter into a mutually agreed solution, we do not consider that Members may relinquish their rights and obligations under the DSU beyond the settlement of specific disputes".[356] On the face of such explicit disallowance[357], it appears that umbrella clauses formed in a general manner under bilateral investment treaties will not meet the specific dispute requirement and accordingly umbrella clauses[358] executed under bilateral investment treaties will not able the private investors to contract out Article 23 of the DSU.

2.4.3 Concluding Remarks

From the statements with respect to sameness of the issues of WTO forum and investment tribunals and non-allowance for contracting out of Article 23 of the DSU, it is understood

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[353] Report of the Appelate Body, United States-Continued Suspension of Obligations in the EC-Hormones Dispute, AB-2008-5, 16 October 2008, Annex IV-Procedural Ruling of 10 July to Allow Public Observation of the Oral Hearing, 10 July 2008, para.6.

[354] Id. at para.4.

[355] Luiz Eduardo Salles, *A Deal is a Deal: Party Autonomy, the Multiplication of PTAs and WTO Dispute Settlement*, QUESTIONS OF INTERNATIONAL LAW (2005), p.28.

[356] Report of the Appellate Body, Peru-Additional Duty on Imports of Certain Agricultural Products, AB-2015-3, 20 July 2015, footnote 106.

[357] Joost Pauwelyn, *Interplay Between the WTO Treaty and Other International Legal Instruments and Tribunals: Evolution After 20 Years of WTO Jurisprudence*, PROCEEDINGS OF THE QUEBEC CITY CONFERENCE ON THE WTO AT 20 HELD IN SEPTEMBER 2015.

[358] Voon, Andrew and Munro has also supported this argument for most favoured nation clauses by stating that "In our view, the WTO Appellate Body is unlikely to interpret the TRIPS MFN provision as extending to investor-State dispute settlement or even substantive investment protections with respect to intellectual property" in Voon et al., supra note 145, p.13.

that, under these circumstances, bringing WTO claims before investor-state arbitral tribunals through umbrella clauses provided under bilateral investment treaties does not seem possible. However, I would like to present my counterarguments and solution recommendations against such statements hereunder.

It is alleged that the rights exercised by private investors before investor-state arbitral tribunals are essentially the rights of the states. By basing on this allegation, it is argued that the issues discussed under WTO forum and investor-state arbitral tribunals are the same and both are related to the rights of the states and accordingly there is "jurisdictional competition" between such forums. Thereby, the jurisdiction of investment tribunals is objectionable pursuant to Article 23 of the DSU. However, under the realities of the practice, although it seems that same governmental measures are challenged on the grounds of same legal grounds before both WTO forum and investor-state arbitral tribunals, it cannot be denied that such legal grounds provided under WTO agreements and bilateral investment treaties are drafted with different regulatory intents and within the scope of different subject matters under such agreements and treaties. Hence, the sameness of the titles of the claims does not mean that the content of such demanded claims are also the same. Consequently, I suggest the re-evaluation of the reference point of the scholars rejecting the lack of jurisdiction competition and embracing the derivative rights theory suggesting that the rights exercised by the private investors are essentially the rights of the states. When such scholars properly consider the differences of WTO agreements and bilateral investment treaties with respect to their regulatory intent and subject matters, I believe that they will find out the lack of jurisdictional competition between such forums and accordingly settle on the non-execution of Article 23 of the DSU from this perspective.

Further, we have analyzed the possibility of contracting out of Article 23 of the DSU through umbrella clauses and it has been detected that appellate bodies concluded that such possibility cannot be extended to absolute commitments and is only limited to the settlement of specific disputes. In the circumstances, contracting out Article 23 of the DSU through umbrella clauses in the manner enabling private investors to allege their WTO claims under investment tribunals does not seem possible. However, I argue that the requirement of "specific dispute" needs more clarification from the World Trade

Organization. Nevertheless, making the scope of umbrella clauses more specific by incorporating the phrase such as "including obligations undertaken under other international treaties, including WTO agreements"[359] can be an option for addressing this issue from the perspective of private investors. On the other side, from the perspective of the host states, even total removal of umbrella clauses can be considered for the elimination of possible drawbacks for host states. For instance, Turkey has preferred not to include umbrella clauses within its bilateral investment treaties since the year of 2000[360], just as the United States did in its 2012 model bilateral investment treaty. On the face of the WTO's approach broadly interpreting Article 23 of the DSU[361] and the concerns with respect to the fragmentation of international law, it seems that WTO is going to continue its position rejecting the jurisdiction of investment tribunals over WTO claims. Such attitude of WTO can be based on the concerns regarding the fragmentation of international law. However, I believe that isolating the forums from each other under the light of conservative approaches deepens such fragmentation. Removal of the concerns with respect to the fragmentation of international law can only be realized with the clash of interpretation of similar claims under different forums.

2.5 Intellectual Property Rights and Expropriation

In investment law, expropriation, with the simple meaning as "the taking of the assets of foreign companies or investors by a host state against the wishes or without the consent of the company or investor concerned"[362], is the most intense form of interference with property.[363] In order to preclude such interference to some extent and to be able to offer a reliable investment climate to investors, in virtually all international investment agreements, "states have established a guarantee for foreign investors against the expropriation of their investments without compensation".[364] Herein, we reserved the term

[359] Li, supra note 352, p.229.
[360] ÇAL, supra note 63, p.341.
[361] For the demands of European Communities in order for narrow interpretation and for the rejection of such demands by WTO, see World Trade Organization, supra note 345, para.7.179.
[362] SUBEDI, supra note 261, p.120.
[363] DOLZER & SCHREUER, supra note 188, p.89.
[364] United Nations Conference on Trade and Development, *Expropriation*, UNCTAD SERIES ON ISSUES IN INTERNATIONAL INVESTMENT AGREEMENTS II (2012), p.5.

of "to some extent", since the rules of international law do acknowledge the right of host state to expropriate the property of foreign investors due to the notion of territorial sovereignty. To put it differently, even current investment agreements with the purpose of the promotion and protection of foreign investment pay tribute to such right of host states. Such tribute manifests itself with the approach of international investment agreements to determine the conditions of lawful expropriation. A standard example for the provision prohibiting an unlawful expropriation by setting out the conditions for lawful expropriation is as follows:

> "Neither Party may expropriate or nationalize a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization ('expropriation'), except:
>
> (a) for a public purpose;
> (b) in a non-discriminatory manner;
> (c) on payment of prompt, adequate, and effective compensation in accordance with paragraphs 2 to 4; and
> (d) in accordance with due process of law".[365]

In compliance with such formulation, it should be emphasized once more that, pursuant to the Hull formula[366] adopted in many international investment agreements, the legality of expropriation measurement is conditioned on four requirements which should be satisfied by host state cumulatively.[367] (i) The act should be justified under a public purpose (ordre public reasons*)*,[368] (ii)The expropriation should not be arbitrary*[369]* and discriminatory

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[365] Article 10.11(1) of the Australia-Chile Free Trade Agreement executed on the date of 30.07.2008 and entered into force on the date of 06.03. 2009

[366] METİN GÜNDAY, İDARE HUKUKU (İmaj Yayınevi. 2004), p.220.

[367] TİRYAKİOĞLU, supra note 236, p.187-188; SORNARAJAH, supra note 63, p.395; IAN BROWNLIE, PRINCIPLES OF PUBLIC INTERNATIONAL LAW (Oxford University Press. 2003), p.519.

[368]The reference to public purpose requirement should be read by arbitral tribunals by reference to their meaning under international law as indicated by Article 10.10 (footnote 10-9) of the Peru-Signapore Free Trade Agreement executed on the date of 29.05.2008 and entered into force on the date of 01.08.2009:
"For greater certainty, for the purposes of this Article, public purpose refers to a concept in customary international law. Without prejudice to its definition under customary international law, public purpose may be similar or approximate to concepts under domestic law, for example, the concept of 'public necessity'".

[369] International Court of Justice describes arbitrariness in its Judgement in Elettronica Sicilia S.p.A. (ELSI) v. United States of America as follows:
"Arbitrariness is not so much something opposed to a rule of law, as something opposed to the rule of law. This idea was expressed by the Court in the Asylum case, when it sopek of 'arbitrary action' being 'substituted for the rule of law' (Asylum, Judgement, ICJ Reports 1950, P.284). It is a wilful disregard of due process of law, an act which shocks, or at least surprises, a sense of judicial propriety. Nothing in the decision

against the investor (non-discrimination standard), (iii) The investor should be fully compensated, and this compensation should be prompt, adequate and effective. It should be detailed that compensation is considered to be prompt if paid without delay; adequate, it if has a reasonable relationship with the market value[370] of the investment concerned; and effective[371], if paid in convertible or freely useable currency[372] and (iv) It should be in accordance with due process of law.[373]Pursuant to the expropriation report of United Nations, "the due-process principle requires (i) that the expropriation comply with procedures established in domestic legislation and fundamental internationally recognized rules in this regard and (ii) that the affected investor have an opportunity to have the case reviewed before an independent and impartial body".[374]

Beside the difference between unlawful and lawful expropriation whose conditions are provided above, the differences between direct and indirect expropriation should also be

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of the Prefect, or in the judgement of the Court of Appeal of Palermo, conveys any indication that the requisition order of the Mayor was to regarded in that light."

[370] The World Bank Guidelines on the Treatment of Foreign Direct Investment defines "fair market value" in its Article 4-5 as follows:

"Determination of the 'fair market value' will be acceptable if conducted according to a method agreed by the State and the foreign investor (hereinafter referred to as the parties) or by a tribunal or another body designated by the parties.

In the absence of a determination on agreed by, or based on the agreement of, the parties, the fair market value will be acceptable if determined by the State according to a reasonable criteria related to the market value of the investment, i.e., in an amount that a willing buyer would normally pay to a willing seller after taking into account the nature of the investment, the circumstances in which it would operate in the future and its specific characteristics, including the period in which it has been in existence, the proportion of tangible assets in the total investment and other relevant factors pertinent to the specific circumstances of each case."

See also, Newcombe & Paradell, supra note 131, p.385.

[371] Pınar Baklacı, *Uluslararası Yatırımlarda "Dolaylı Kamulaştırma" ve Düzenleyici Yetkiler,* MİLLETLERARASI HUKUK VE MİLLETLERARASI ÖZEL HUKUK BÜLTENİ (2008), p.5.

[372] United Nations Conference on Trade and Development, supra note 364, p.40

For possible future earnings, by taking various precedent decisions of arbitral tribunals including the *Chorzow Factory case* referred above within the main text into consideration, Amerasinghe arrives to the conslusion that:

"What is important is that for a lawful taking only *damnum emergens* is payable as compensation, i.e. the value of the property, however, established *lucrum cessans* (lost future profits) and other consequential damage not being taken into account. For an unlawful taking it is damages and not merely compensation that ara payable – this includes *damnum energens* (value of the property), *lucrum cessans* (lost profits), and any other consequential damage that may be found and is directly connected with the taking of the property"

[373] Efstathiou, supra note 124, p.15.

[374] United Nations Conference on Trade and Development, supra note 364, p.36. In other respects, it should be noted that arbitral tribunals assume the obligation to assess against the national laws, judicial and administrative system of host state even if concerned investment treaty refers to such requirement or not. See ADC Affiliate Limited and ADC & ADMC Management Limited v. The Republic of Hungary, ICSID Case No. ARB/03/16, Award of the Tribunal, para. 435.

investigated with respect to their conditions and consequences. So indeed, while direct expropriation is described as a "situation where an investment is nationalized or otherwise directly expropriated through formal transfer of title or outright seizure"[375], indirect expropriation involves taking a governmental, whether administrative or legislative, measure that does not directly take property but has the same impact by deriving the owner of the substantial benefits of the property.[376] Nowadays, since a precise conduct to be carried out by host state such as directly taking the legal title of the investment owner will cause a negative publicity for the host state across the world, host states are reluctant to perform direct expropriation against the property of foreign investors.[377] In conclusion, indirect expropriation has gained importance in practice and the main issue has become the "drawing of the line between non-compensable regulatory and other governmental activity and measures amounting to indirect, compensable expropriation"[378] and the formulation of the provisions drawing the frame of indirect expropriation under international investment agreements.

Bilateral investment treaties include references to expropriation measurement which are mostly in a manner of either directly reference to "indirect expropriation"[379] or to "measures tantamount to expropriation"[380].

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[375] Article 10-C(3) of Chapter 10 of the Central American Free Trade Agreement executed on the date of 05.08.2004.

[376] SUBEDI, supra note 261, p.76; Catherine Yannaca-Small, *Indirect Expropriation and the Right to Regulate in International Investment Law*, OECD-WORKING PAPERS ON INTERNATIONAL INVESTMENT (2004), p.6; Margaret Devaney, *The Remedies Stage of the Investment Treaty Arbitration Process: A Public Interest Perspective*, QUEEN MARY UNIVERSITY OF LONDON (2015), p.47; Hoffman K. Anne, *Indirect Expropriation* in REINISCH AUGUST, STANDARDS OF INVESTMENT PROTECTION (Oxford University Press. 2008), p.156; GİRAY, supra note 193, p.51.

[377]SORNARAJAH, supra note 63, p.367-368.

[378] DOLZER & SCHREUER, supra note 188, p.93.

[379] Article 4.2 of the Draft Convention on the Protection of Foreign Property, 1967:

"No Party shall take any measure depriving, directly or indirectly, of his proprety a national of another Party unless the following conditions are complied with:

(i) The measures are taken in the public interest and under due process of law;

(ii) The measures are not discriminatory or contrary to any undertaking which the former Party may have given; and

(iii) The measures are accompanied by provision for the payment of just compensation. Such compensation shall represent the genuine value of the property affected, shall be paid without undue delay, and shall be transferable to the extent necessary to make it effective for the national entitled thereto."

The passage of "a measure tantamount to nationalization or expropriation" was read by the Tribunal in Metalclad v. Mexico case as follows:

> "Thus, expropriation under NAFTA includes not only open, deliberate and acknowledged takings of property, such as outright seizure or formal or obligatory transfer of title in favour of the host State, but also covert or incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or reasonably-to-be-expected economic benefit of property even if not necessarily to the obvious benefit of the host State."[381]

As the Metalclad v. Mexico case given as the explanatory sample for the term of "a measure tantamount to nationalization or expropriation", the ICSID Tribunal has also found out that the determination of "unreasonable measure" in the interference of host state is not enough in order to give effect to the expropriation provision. Together with the expressions such as "measures having the effect of an expropriation" in bilateral investment treaties, the Tribunal indirectly indicated that an elaboration with respect to the intent of the government of the host state and the effect of such measure is required.

> "When measures are taken by a State the effect of which is to deprive the investor of the use and benefit of his investment, the measures are often referred to as a 'creeping' or 'indirect' expropriation or, as in the BIT, as measures 'the effect of which is tantamount to expropriation'. As a matter of fact, the investor is deprived by such measures of parts of the value of his investment. This is the case here, and, therefore, it is the Tribunal's view that such a taking amounted to an expropriation within the meaning of Article 4 of the BIT and that, accordingly, Respondent is liable to pay compensation therefor."[382]

> From the perspective of the effect of the measure concerned and the intention of the government of the host state, in many precedential cases including Tecmed v. Mexico and Siemens v. Argentina cases, it seems that arbitral tribunals have come to an agreement in the direction that "the government's intention is less important than the effects of the measures on

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[380] Article 4.2 of the Treaty between the Federal Republic of Germany and the Kingdom of Bahrain Concerning the Encouragement and Reciprocal Protection of Investments executed on the date of 05.02.2007 and entered into force on the date of 27.05.2010:
"Investments by nationals or companies of either Contracting State shall not be expropriated, nationalized or subjected to any other measure the effects of which would be tantamount to expropriation or nationalization in the territory of the other Contracting State except for the public benefit and against compensation.

[381] Metalclad Corporation and the United Mexican States, Award, ICSID Case No. ARB(AF)/97/1, para.103.

[382] Middle East Cement Shippinh and Handling Co. S.A. v. Arab Republic of Egypt, Award, ICSID Case No. ARB/99/6, para.107.

> the owner of the assets or on the benefits arising from such assets affected by the measures; and the form of the deprivation measure is less important than its actual effects"[383].

In the circumstances, it is understood that "whenever the effect of the measure concerned is substantial and lasts for a significant period of time, it will be assumed *prima facie* that a taking of the property has occurred".[384] It should be noted that arbitral tribunals have mostly considered the permanence of the effect concerned while analyzing the "duration" requirement in question. In a number of cases including SD Myers v. Canada, Wena Hotels v. Egypt and LG&E v. Argentina, it has been pointed out to such approach, for instance, with the expressions like "… the effect of the Argentine States's actions has not been permanent on the value of the Claimants' shares, and Claimant's investment has not ceased to exist. Without a permanent, severe deprivation of LG&E's rights with regard to its investment, or almost complete deprivation of the value of LG&E's investment, the Tribunal concludes that these circumstances do not constitute expropriation."[385]

2.5.1 From the Perspective of Intellectual Property Rights

In compliance with the main subject of this study, if it is desired to examine the conditions and consequences of expropriation clauses from the perspective of intellectual property rights, since it is clear that an expropriation measure would not be applied on intellectual property rights in the manner of direct expropriation because of the absence of outright seizure or title transfer, the institution of indirect expropriation will be our focus point in this respect. Accordingly, our aforementioned explanations concerning indirect expropriation including but not limited to the substantial effect and duration of the related measure are also going to be effective hereunder. Beyond that, the requirement of proportionality provided by balancing the interests and legitimate expectations of foreign investor and public interest pursued by host state does gain a critical importance under investment disputes related intellectual property rights whose scope and grant conditions are intensely dependent upon the discretion of host state.

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[383] Tecnicas Medioambientales Tecmed S.A. v. The United Mexican States, supra note 270, para.116.
[384] DOLZER & SCHREUER, supra note 188, p.101.
[385] LG&E Energy Corp., LG&E Capital Corp., LG&E International Inc. v. Argentine Republic, ICSID Case No. ARB/02/1, Decision on Liability, para.200.

Herein, the review of the need for the abovementioned balance which is also valid for all disputes including expropriation claims is required specific to the investment disputes relating to intellectual property rights. The case between Philip Morris and Australia is providing such review. In the case, Philip Morris asserted that "plain packaging legislation is plainly equivalent to deprivation of PM Asia's investments in Australia in that it substantially deprives PM Asia of the intellectual property and the goodwill derived from these use of that intellectual property".[386] Upon such allegation, in compliance with the requirement of substantial effect of expropriation measure, it is clear that, Philip Morris Asia will not be able to claim the existence of unlawful expropriation in the absence of substantial effect of the plain packaging legislation such as the complete loss of its ability to manufacture and/or distribute. At this point, it should be reminded that the determination by the High Court of Australia with respect to a similar dispute of JT International SA v Commonwealth of Australia; British American Tobacco Australasia Limited v. Commonwealth of Australia is in direction to that "the legislation might ultimately reduce the value of the relevant intellectual property rights and harm the plaintiffs' businesses by reducing their sales"[387] On the other hand, Judge Heydon J, in his dissenting opinion, found out that "In applying [this] reasoning to the current case, Heydon J found out that while the rights granted by the Trade Marks Act remained with their owners, the Tobacco Plain Packaging Act 'deprived them of control of their property, and of the benefits of control".[388]

Apparently, the question whether the plain packaging regulation constitutes indirect expropriation will be continuing until the award published by the related Tribunal. However, in order to preclude such contradictions in understanding, international investment treaties have already started to attempt to include the provisions harmonizing the expropriation standard as follows:

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[386] Philip Morris Asia Limited v. The Commonwealth of Australia, supra note 335, para.7.3.
[387] Voon et al, supra note 145, p.18; see also, WHO Framework Convention on Tobacco Control adopted on 21 May 2003 and entered into force on 27 February 2005, supporting the position of Autralia with its regulations.
[388] JT International SA v Commonwealth of Australia,British American Tobacco Australia Limited v The Commonwealth, supra note 302, p.16.

> "This Article [on expropriation] does not apply to the issuance of compulsory licences granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such revocation, limitation, or creation is consistent with Chapter 17 (Intellectual Property)."[389]

2.5.1.1 Compulsory Licences

Hereunder, to discuss why a reservation with respect to compulsory licences has been put within the content of the article provided above will be beneficial to perceive another junction point of expropriation measures and intellectual property rights. So indeed, among the other issues in terms of the protection of intellectual property rights taking the form of investment under various bilateral investment treaties, the issue with regard to compulsory licences may be deemed as being one of the most remarkable. Pursuant to a definition procured by Robert Bird, "Compulsory licence refers to circumstances in which a government intervenes to compel the owner of an intellectual property right, normally a patent, to grant use of that right to the state or other third parties."[390] In accordance with such definition, it is clear that the government of the host state is authorized to issue a relevant legislation for the deprivation of the patent use without prior consent of patent owner. To put it differently, "compulsory licences are generally an authorization granted by a government to a party other than the holder of a patent on an invention to use that invention without the consent of the patent holder".[391]As it will be detailed below, there is also benefit to emphasize herein that a compulsory licence is mostly formulated as to be subject to certain conditions determining which other third party will be entitled to use the patent concerned, time and place restrictions on that use and the payment of the remuneration to be conveyed to the right holder. Beside, in the event of that governments

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[389] Article 10.11.5 of the Australia-Chile Free Trade Agreement executed on the date of 30.07.2008 and entered into force on the date of 06.03.2009.

[390] Robert Bird & Daniel R. Cahoy, *The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective Bargaining Approach*, AMERICAN BUSINESS LAW JOURNAL (2008), p.283; Nagehan Kırkbeşoğlu, *Sınai Mülkiyet Hukukunda Zorunlu Lisans*, PROD. DR. HÜSEYİN HATEMİ'YE ARMAĞAN (2009), p.1097; Cameron Hutchison, *Over 5 Billion Not Served: The TRIPS Compulsory Licensing Export Restriction*, UNIVERSITY OF OTTAWA LAW &TECHNOLOGY JOURNAL (2008), p.49.

[391] UNCTAD &ICTSD, UNCTAD-ICTSD PROJECT ON IPRS AND SUSTAINABLE DEVELOPMENT, RECOURSE BOOK ON TRIPS AND DEVELOPMENT (Cambridge University Press. 2005), p.461.

decide to use a patented invention for non-commercialpurposes by itself or through a subcontractor, such event is mostly referred as the "government use".[392]

Although the controversial structure and nature of compulsory licences, they have been recognized with respect to intellectual property rights for long time and its first consideration under an international convention can be observed in the Paris Convention, dating from 1883, as follows:

> "Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licences to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work."[393]

Afterwards, TRIPS Agreement and later declarations announced by World Trade Organization members called as Doha Declaration have followed such stream and the development, concerns and debates have unavoidably reflected on domestic law. Preparatory to the analysis of such international regulations concerning compulsory licences including TRIPS Agreement, the sample of the reflection of compulsory licence implementation at domestic level should also be analyzed herein. For instance, in Turkey, trademarks, patents, utility models, designs and geographical indications designated under various had been delegated legislations prior to the enactment of the Industrial Property Law numbered 6769 published in the Official Gazette of Turkey dated 10.01.2017 and numbered 29944 ("Industrial Property Law"). Together with the introduction of this Law, the designation of trademarks, patents, utility models, designs and geographical indications have been collected under the same regulation. The most reformist amendment under the Law numbered 6769 is the extension of the situations granting the state authorities for compulsory licencing. So indeed, before the enactment of the Law numbered 6769, the situations allowing for compulsory licences were limited to the circumstances of "(a) If the invention forming the subject of patent is not used according to provisions of Article 130 [Compulsory license in case of disuse], (b) If the dependence of patent issues mentioned in Article 131 [Compulsory license in case of dependency of patent issues] comes into

[392] Correa, supra note 202, p. 15; see also Keith Alcorn, *Brazil Issues Compulsory License on Efavirenz*, AIDSMAP NEWS (2007).
[393] Article 5.A.2 of the Paris Convention for the Protection of Industrial Property executed on 20 March 1883.

question, (c) If the public interest mentioned in Article 132 [Compulsory lincese in arising from the public interest] comes into question".[394] Following the introduction of the law approving the protocol amending the TRIPS Agreement, which was adopted with the General Council Decision dated 30 August 2003, the additional circumstances[395] allowing for compulsory licensing have been incorporated within the content of the Industrial Property Law numbered 6769, which are as follows: "(ç) In case that conditions specified in the protocol amending Agreement on Trade Related Aspects of Intellectual Property Rights to which our participation was deemed appropriate by Law dated 30/04/2013 numbered 6471 are provided, if exportation of pharmaceutical products comes into question due to public health issues in other countries, (d) If the breeder fails to develop a new plant variety without infringing on a previous patent, (e) If patentee carries out activities distorting, hindering or limiting the competition while patent is used".[396]Neverthless, the newly adopted Law following the necessities of international regulations such as Aricle 5(A) of the Paris Convention and Article 31 of TRIPS Agreement has been exposed to intense critics by scholars since it is alleged that the Law numbered 6769 bears some substantial uncertainities with respect to the implementation of compulsory licensing in comparison to the cancelled delegated legislation numbered 551 previously designating the application conditions and consequences of compulsory licensing.[397]

Another striking example does belong to the domestic form of compulsory licence issued by Brazil in May 2007. In May 2007, Brazilian President Luiz Inacio Lula de Silva executed a degree enabling Brazil to make or import anti-retroviral drug Efavirenz, following the rejection the offer submitted by Merck & Co. with respect to a discount of a 30% of the initial price. Such execution has been highly criticized by many scholars with the reasons of that such implementation is outside the frame drawn by international

[394] Article 129(1) of the Industrial Property Law numbered 6769.
[395] Suluk, supra note 215, p.91-110.
[396]Article 129(1) of the Industrial Property Law numbered 6769.
[397] İbrahim Bektaş, *6769 sayılı Sınai Mülkiyet Kanunu'na Göre Patent Hukukunda Zorunlu Lisans, Değişiklikler ve Eksiklikler*, PROF. DR. SABİH ARKAN'A ARMAĞAN (2019), p.277-317; İlhami Güneş, Sınai Mülkiyet Kanununda Zorunlu Lisans, ANKARA BAROSU FİKRİ MÜLKİYET VE REKABET HUKUKU DERGİSİ (2017), p.47-56.

standards and specifically by TRIPS Agreement.[398] So indeed, Antony Taubman highlighted the strain between the interests of private and public rights appeared once more under the circumstances of this Brazilian case:

> "The grant of a compulsory licence is inevitably a contested issue in trade relations, within or beyond the TRIPS regime, because it directly calibrates the boundary between legitimate expectations of patent holders and the public interest, in exceptional and egregious cases when the interests of producers and users of technology most closely approach a zero sum character: in these cases, the presumed systemic spur to technology diffusion created by an exclusive right in the hands of technology developer gives way to a bare entitlement to adequate remuneration."[399]

Beside the scholars, rather than applying to Article 31 of TRIPS Agreement specifying the implementation of compulsory licences, Merck invoked the concept of expropriation and stated that "This expropriation of intellectual property sends a chilling signal to research-based companies about the attractiveness of undertaking risky research on diseases that affect the developing world, potentially hurting patients who may require new and innovative life-saving therapies." and emphasized that "this decision by the GOB [Government of Brazilian] will have a negative impact on Brazil's reputation as an industrialized country seeking to attract inward investment, and thus its ability to build world-class research and development."[400]

Accordingly, under such circumstances, the foreign investor may prefer to initiate an investor-state arbitration directly against the host state just as the case Merck did by claiming the existence of unlawful expropriation under the terms of relevant bilateral investment treaty. On the other aspect, as another available means to seek recourse, the World Trade Organization's Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) procuring a dispute settlement between states on the contrary to investor-state arbitration can be considered. Under such dispute settlement mechanism,

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[398] Elena Pantopoulou, *The Status and Legal Effect of Compulsory License in Investment Law*, INTERNATIONAL JOURNAL OF LAW, Vol. 1, No. 1 (2016), p.34-35.
[399] Antony Taubman, *Rethinking TRIPS: 'Adequate Remuneration' for Non-Voluntary Patent Licensing*, JOURNAL OF INTERNATIONAL ECONOMIC LAW (2008), p. 942-943.
[400] Merck & Co., Inc. Statement on Brazilian Government's Decision to Issue Compulsory Licence for Efavirenz (STOCRIN. 2007).

the complaining state can establish its claims on the ground of Article 31 of TRIPS Agreement stipulating the application conditions and consequences of compulsory licensing.

At this point, the analysis of the approach of TRIPS Agreement to compulsory licences is required. During the negotiations of TRIPS Agreement, the matter of compulsory licences become the subject of one of the most heated debates. The lasting interest debate between developed and developing countries showed itself once more in that respect and on the face of the concerns of developing countries that the requirement of high standard for the protection of intellectual property rights would create a obstacle in their policy making especially in the sectors regarding public policy concerns such as public health and education, the concerns of developed countries whose artistic and technological works has extended to every part of the world in direction to take itself under protection are also indispensable.[401] As the consequence of such negotiations and debates, Article 31, which is one of the most detailed provisions of TRIPS Agreement, was included within the Agreement with respect to the conditions and consequences of compulsory licences. The first result required to be achieved when the content of Article 31 is analyzed is that the concept of compulsory licence is recognized by TRIPS Agreement with the expression of that "where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government". It can be observed that TRIPS Agreement preferred to use the term of "without authorization of the right holder" rather than explicity referring to the notion "compulsory licence".

The second result which should be achieved with respect to Article 31 of TRIPS Agreement is that such article contains "a splay of conditions".[402] Indeed, Article 31 of TRIPS Agreement permits to the issuance of compulsory licence by a World Trade Organization member as long as certain conditions are met and fulfilled:

> "…the following provisions shall be respected:

[401] Pantopoulou, supra note 398, p.35.
[402]Gibson, supra note 294, p.11.

(a) authorization of such use shall be considered on its individual merits;

(b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonable practicable. In the case of public non-commerical use, where the government of contractor, witout making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;

(c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;

(d) such use shall be non-exclusive;

(e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;

(f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;

(g) authorization for such use shall be liable, subject to adequate protection of legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it ceases to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

(h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive The need to correct anti-competitive

practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

(l) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:

(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and

(iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of second patent"[403]

To sum up, Article 31 refers to various specific grounds such as the national emergency or circumstances of extreme urgency, public (governmental) non-commercial use, remedy for anti-competitive practices and permission to the exploitation of an important second patent for the authorization of compulsory licence, not surprisingly, in the exhaustive manner. More broadly, it can be observed that there are two main rationales behind such allowed government intervention, which are to serve an overriding public interest and to correct anti-competitive behavior.[404]

The relation of the concept of compulsory licences with investment law does arise out from the question whether the authorization of compulsory licence can be evaluated as indirect expropriation or not. Under the light of our explanations with respect to indirect expropriation provided above, it is known that the issuance of compulsory licence will fall under indirect expropriation rather than direct expropriation which requires the total transfer of legal title of the right holder to the host state since the authorization of compulsory licence will undoubtedly create a harmful effect on the integral part of that intellectual property rights based investment. In place of the question whether the compulsory licence is evaluated under indirect or direct expropriation, the main question is

[403] Article 31 of TRIPS Agreement.
[404]Gibson, supra note 294, p.12.

whether the compulsory licence amounts to an indirect expropriation. To properly answer such question, the other certain determinations including the level of deprivation concerned will be in question. However, the lack of a determined formula with respect to the question whether the level of the deprivation concerned has raise to the level of an indirect expropriation is emphasized by UNCTAD itself as follows:

> "The lack of clarity concerning the degree of interference with rights of ownership that is required for an act or series of acts to constitute an indirect expropriation has been one of the most controversial issues during the last decade."[405]

Accordingly, the scholars including Jan Paulsson and Zachary Douglas have set out two stages in order to override such uncertainity by declaring that "the analysis should focus on the nature or magnitude of the interference to the investor's property interests in its investment caused by measures attributable to the host state to determine whether those acts amount to a taking. [Further], there should be a determination of whether this taking or interference rises to the level of an expropriation by reference to the relevant treaty standard".[406]

This orthodox approach is dominant in international law and such approach is reflected to the writings of jurists, the decisions of tribunals and the texts of investment instruments.[407] The common approach attributing importance to the effect occurred on investors rather than the intention of the host state[408] has been described as "sole effect doctrine"[409] by Dolzer. Further, the reflection of such approach on the award belonging to the dispute between Starrett Housing Corporation v. Islamic Republic of Iran is deemed as the critical response of sole effect doctrine to the practice:

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[405] United Nations Conference on Trade and Development, *Investor-State Dispute Settlement and Impact on Investment Rulemaking* (2007), p.75.

[406] Jan Paulsson & Zachary Douglas, *Indirect Expropriation in Investment Treaty Arbitrations*, NORBERT HORN, et al. ARBITRATING FOREIGN INVESTMENT DISPUTES: PROCEDURAL AND SUBSTANTIVE LEGAL ASPECTS, (Kluwer Law International. 2004), p. 148.

[407] Andrew Newcombe, *The Boundaries of Regulatory Expropriation in International Law*, 20:1 ICSID REVIEW(2005), p.8.

[408] Rudolf Dolzer, *The Impact of International Investment Treaties on Domestic Administrative Law*, JOURNAL OF INTERNATIONAL LAW AND POLITICS (2005), p.959.

[409] Rudolf Dolzer, *Indirect Expropriations: New Developments*, NEW YORK UNIVERSITY ENVIRONMENTAL LAW JOURNAL, 11 (2002), p.64.

> "It is recognized in international law that measures taken by a state can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the state does not purport to have expropriated them and the legal title to the property formally remains with the original owner".[410]

To be explained in other words, upon the result of any government interference, it can be put out that there are three types of "taking". Whereas the first type is the ordinary "taking"causing to total transfer of formal title belonging to the right holder, the second type is the "taking" in the form of indirect expropriation leading the right holder to the substantial deprivation from his rights pursuant to the sole effect doctrine detailed above. On the other aspect, the gap between these two types appeals to the compulsory licences not placed under investment law, but under Article 31 of TRIPS Agreement. Pursuant to such situation, as it is detailed above, in the event of that the conditions and the requirement of adequate remuneration are fulfilled, the taking in the form of compulsory licences could be legal and does not reach the level of expropriation in investment law.[411]

We havedeliberatively put out the term of "the compulsory licenses not placed under investment law" above, since bilateral investment treaties which are not specifically focusing on intellectual property rights, mostly, do not explicitly cover the issue compulsory licences. Even so, it is not possible to easily claim that the approach of TRIPS Agreement and bilateral investment treaties are contradictory to each other. Above all, both approach respect to the ownership rights of intellectual property rights owners and stipulate a compensation mechanism for their losses. Nevertheless, to be elaborated, whereas bilateral investment treaties provide some requirements to enable an expropriation to be justified, TRIPS Agreement mostly focuses on the conditions. Still, Boie claims that "there may be a tendency to fill the gaps left by investment law with the logic applied by intellectual property law and vice versa".[412]

It would seem that such incorporation between investment law and intellectual property law has exceeded the concept of tendency and has become the reality with the inclusion of the expression of "This Article [Expropriation] does not apply to the issuance of compulsory

[410] Newcombe, supra note 407, p.8.
[411] Pantopoulou, supra note 398, p.39-40.
[412] Boie, supra note 2,p.27.

licences granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement"[413] to the content of US Model BIT. It is understandable from the perspective of states to adopt such reservation within the content of relevant bilateral investment treaties in order to avoid from the WTO claim concerning Article 31 of TRIPS Agreement to be brought before investor-state arbitral tribunals.[414] In this respect, we are reserving our explanations with respect to exclusive jurisdiction of World Trade Organization which we have provided above. Further, I presume that the inclusion of revocation, limitation or creation of intellectual property rights to the exception to expropriation clause beside compulsory licence reveals the intent of the parties in direction to preference to primarily application of investment law for the interferenes of a host state concerning intellectual property rights.

2.5.2 Concluding Remarks

So far, it has been analyzed the conditions of an expropriation to be lawful. Accordingly, it has been detected that an expropriation can be lawful on the conditions of the expropriation should be justified under a public purpose, should not be arbitrary and discriminatory against the investor, should be in accordance with due process of law and the investor should be fully compensated, and this compensation should be prompt, adequate and effective. Following the procurement of the discrimination between lawful and unlawful expropriation, the differences between direct and indirect expropriation have also been examined through this chapter of the study. Pursuant thereto, the lack of the transfer of formal title of intellectual property rights within the scope of indirect expropriation is appeared as the major difference between direct and indirect expropriation. For the determination of indirect expropriation, the measure in question should deprive the investor form the use and benefit of his investments. Further, such adverse effect arising out from

[413] Article 6.5 of the Treaty Between the United States of America and the Oriental Republic of Uruguay Concerning the Encouragement and Reciprocal Protection of Investment executed on the date of 04.11.2005 and entered into force on the date of 31.10.2006.
[414] Gibson, supra note 294,p.34-35.

the measure concerned should be substantial and should last for a significant period of time. When we attempted to analyze the institution of expropriation from the perspective of intellectual property rights, it has been observed that either the affected foreign investor can apply to the clauses designating the conditions and consequences of indirect expropriation under bilateral investment treaties and choose investment tribunals as dispute settlement mechanism or the state which foreign investor is national of can apply to Article 31 of TRIPS Agreement stipulating the conditions and consequences of compulsory licensing. Eventually, I would like to conclude by reminding our explanations concerning the exclusive jurisdiction of World Trade Organization and slight possibility to bring WTO claims before investor-state arbitral tribunals. It would seem that the foreign investor affected from compulsory licensing would have significant difficulties while claiming the infringement of Article 31 of TRIPS Agreement because of the consequences of Article 23 of the DSU causing the exclusive jurisdiction of WTO forum for WTO claims.

Chapter 3

THE SETTLEMENT OF INVESTMENT DISPUTES CONCERNING INTELLECTUAL PROPERTY RIGHTS

So far, we have evaluated the treatment of intellectual property rights as investment following the analysis of the content of intellectual property rights and investment term separately and we have observed possible disputes which may be put forward by foreign investors through substantive standards stipulated under investment treaties. Herein, it should be noted that a foreign investor who desires to settle the relevant dispute has numerous options to follow.The options to be followed for the settlement of investment disputes concerning intellectual property rights can be categorized under two main headings, which are (i) the options to be followed by foreign investors themselves and (ii) the options to be followed by the states ("home states") which such foreign investors are national of.

Our intention hereunder is to detect and present ICSID arbitration to be directly followed by foreign investors against host state as the most available settlement mechanism for investment disputes relating to intellectual property rights, following the analysis of such options with their advantages and disadvantages comparatively.

3.1 Options to be Followed by Foreign Investors

In order to solve the disputes arising out from the infringement of intellectual property rights treated as investment under the relevant investment treaty, foreign investors may prefer one of the mechanisms among (i) conciliation, (ii) alternative dispute resolutions, (iii) national courts, or (iv) arbitration.[415]

[415] Ebru Karademir, *Milletlerarası Kurumsal Tahkim Merkezlerinin Karşılaştırılması*, PUBLIC AND PRIVATE INTERNATIONAL LAW BULLETIN (2015), p.74.

3.1.1 Options Other Than Arbitration

Through the methods of conciliation and alternative dispute resolutions, foreign investors may desire to sit down at the negotiation table with the host state, to itemize the issue which parties do have dispute about, to detect and make clear the facts concerning such dispute and to propose some settlement methods in order to reach a conciliation between the parties. Alternative dispute resolutions is the method seeking the offers making enable parties to come to a settlement. The differential feature of alternative dispute resolutions is the existence of a neutral third party, whose only duty is to provide proper techniques and skills in order to establish a healthy conversation between the parties and accordingly to assist them to reach an agreement. Differently from the arbitration forum, within alternative dispute resolutions, the parties decide on the terms of their settlement rather than the same imposed upon them by any third party. For these reasons, the forum of arbitration will not be evaluated within the scope of alternative dispute resolutions under this study.

Beside the conciliation; negotiation, mini trial, disputes adjudication board, adaptation of contracts and nonbinding arbitration[416] can be listed among the methods of alternative dispute resolutions.Under favour of alternative dispute resolution mechanisms, foreign investors may provide savings from cost and money due to non-existence of court and/or arbitrator fee, litigation expenses and non-existence of waiting periods with respect to procedural requirements. Further, the active participation of foreign investors and host states to the dispute settlement process increases the possibility of parties' satisfaction from the generated solution through alternative dispute resolutions. Nevertheless, it is not possible to claim that the dispute settlement mechanism of alternative dispute resolution is the most available method for foreign investors desiring to settle their investment disputes, since the results achieved through a third person under alternative dispute resolutions is not binding for foreign investors or host states and is not enforceable on contrary to the decisions of national courts and arbitral tribunals. Because of this major drawback pertaining to alternative dispute resolutions, foreign investors seeking more concrete and feasible solutions have been pursued other possible dispute settlement mechanisms.

[416] For more detailed explanations, see Ziya Akıncı, *Milletlerarası Ticari Uyuşmazlıkların Alternatif Çözüm Yolları*, BATİDER (1996), p.93-109.

Accordingly, in order to settle investment disputes concerning intellectual property rights, host states' national courts[417] have been appeared as another possible dispute settlement mechanism for foreign investors. Even though the promises of national courts such as legitimacy and accountability[418] may be presented out as the advantages of such dispute settlement mechanism, considering the nature of investment disputes resulting from host states' sovereignty acts, impartiality of local judicial system[419], which is a part of host state, will always be contestable. So indeed, foreign investors which are party to the relevant dispute do avoid from local legal jurisdictions with the concerns of national bias and unfamiliarity with the language, culture and the principles and procedures of a foreign jurisdiction. For this reason, the dispute settlement mechanism pertaining to national courts does not seem aspreferable choice which is sensitive to differences of the parties in terms of law, language and institutional culture.

Beyond this, speaking of the complex nature of intellectual property rights including technical information within the content of itself, it should be once more emphasized that the complexity of intellectual property rights takes time for the proper solution of intellectual property disputes.[420] Within the context of intellectual property rights, the importance of time in terms of verdict and enforcement of such verdict shows itself critically since the compensation of a loss arising out from the infringement of intellectual property rights is much more difficult to afford for a corporation comparing with the loss

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[417] For the theory of that disputes should be considered to have a close relationship with the states where investment had been made, see DOLZER & SCHREUER, supra note 188, p.214. On the other aspect, the choice of home states' national courts and/or national courts of third states may not be eligible due to possible state immunity claims of host states arising out from international law principles. For more detailed explanations, see United Nations Conference on Trade and Development, *Dispute Settlement, Internatioal Centre For Settlement of Investment Disputes, Selecting the Appropriate Forum*, 2.2 (2003), p.10-11; YILMAZ, supra note 88, p.8.

[418] Esra Yıldız Üstün, *The Development of International Investment Dispute Settlement Systems*, THE ACADEMIC ELEGANCE (2019), p.304.

[419] Directly applicable rules are the rules introduced by states in line with their economic, social and political policies and applied to the disputes arising out from private law relationship with the purpose to realize such policies. In compliance with such definition, foreign investment regulations reflecting the economic policies of states are included within the directly applicable rules. Therefore, even in the event of choice of law to be applied to the substance of dispute, within the proceeding of national courts, the implementation of directly applicable rules of the host state will be still in question. For more detailed information, see HATİCE ÖZDEMİR KOCASAKAL, DOĞRUDAN UYGULANAN KURALLAR VE SÖZLEŞMELER ÜZERİNDEKİ ETKİLERİ (Galatasaray Üniversitesi Yayınları. 2001), p.147 ff.

[420] YUSUF ÇALIŞKAN, ULUSLARARASI FİKRİ MÜLKİYET HUKUKUNDA UYUŞMAZLIK ÇÖZÜM MEKANİZMALARI: WIPO TAHKİMİ VE DÜNYA TİCARET ÖRGÜTÜ (Değişim Yayınları. 2008), p.20.

arising out from an infringement pertaining to a physical asset when fast-paced technology is taken into consideration. Further, taking into account of the fact that intellectual property rights are mostly granted for a limited time or the nature of the markets which may become obsolete even within a few months such as computer software, time savings to be obtained through an arbitration proceeding is highly critical for the right owners. So indeed, such unavoidable fact is put into words by James F. Henry, longtime President of the International Institute for Conflict Prevention and Resolution as follows: "In an era when product lives are measured in months and litigation is measured in decades, you can't afford litigation".[421] Considering the overcrowded workload of national courts, it seems that the facility enabling parties to choose lighter procedures is required for foreign investors. However, it should be critically noted that the criticism directed against the structure of traditional litigation proceedings which is non-responsive to fast-paced intellectual property rights was provided by excluding the institution of interim-relief, whose procurement is available under both litigation proceedings and arbitration forums.

Further, considering the structure of intellectual property rights requiring technical information pertaining to both technology and relevant law (e.g. internet law), free from any doubt, judges not trained in this respect will remain incapable to properly evaluate the facts of the relevant case. Such inadequacy is put into words by a judge itself, by Judge Friendly in the case of General Tire & Rubber Co. v. Jefferson Chemical Co. as follows: "This patent appeal is another illustration of the absurdity of requiring the decision of such cases to be made by judges whose knowledge of the relevant technology derives primarily, or even solely from explanations by counsel who does not have access to a scientifically knowledgeable staff".[422] This inadequacy will inevitably cause to involve experts and/or expert witnesses to the settlement of the dispute with high cost and loss of time. Thus, application to a forum where the parties are allowed to choose arbitrators with necessary expertise causing to the disposal of such high costs and uneducated decisions is still required.In search of the forum addressing the needs of investment disputes which intellectual property rights are currently one of the most substantial elements of, the

[421] Deborah L. Jacobs, *Controlling Litigation Costs with a Neutral Third Party*, N.Y. TIMES (1990), C12.
[422] 497 F.2d 1283 (2d. Cir. 1974).

question of that which forum can be a proper answer to such search should be concerned. While the answer is being sought for, the ever-changing and thus non-predictable nature of intellectual property rights defined as the product of human mind should be taken into consideration. The shift from "industrial property" to "intellectual property" in terminology which is remembered as the "historical transition from an industrial age founded on tangible assets to an information society based on intangible assets generated by talented individuals"[423] is a concrete proof for such ever-changing nature.

3.1.2 Option of Arbitration

In the circumstances, the forum of arbitration comes to mind since it comes mostly into prominence with the advantages of arbitration over traditional litigation including neutrality,speed and expertise. With respect to neutrality issue, arbitration forum seems as the most available mechanism for the settlement of investment disputes concerning intellectual property rights considering the right granted to the parties to choose arbitrators from various jurisdictions.

Regarding speed issue pertaining to litigation proceeding, arbitration forum is again appeared as substantial time saving mechanism as of the fact that the parties to the relevant dispute do not have to wait for a court date, they can freely set up the beginning date of the arbitration proceeding. The case of Portugal should be perceived as one of the most striking examples in this respect. So indeed, because of the reason that marketing authorizations for generic drugs were frequently appealed to administrative courts by patent holders and thus such drugs were barely available after the expiry dates of such patents due to the massive work load occurred in the litigation proceedings of Portugal, on 14 December 2011, the Law numbered 62/2011 was adopted by Portugal. Thereby, the parties intending to argue its patent rights against the producer of such drugs should do so before an authorized arbitral tribunal.[424]

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[423] Bryan Niblett, *IP Disputes: Arbitrating the Creative*, DISPUTE RESOLUTION JOURNAL (1995).
[424] Dario Vicente, *Arbitrability of Intellectual Property Disputes: A Comparative Survey*, ARBITRATION INTERNATIONAL (2015), p.158-159.

Further, it should be noted that the case which can be subject to the scope of authority of multiple courts' action under litigation proceeding can be resolved through a single arbitration proceeding by lessening not only the costs to the parties but also the jurisdictional dispute which is possibly emerged between multiple courts whose authority scopes are different from each other. We need hardly to mention that such facility is easily associated with time saving by the parties.More importantly than the obtainment of the resolution speedier, I believe that the most important facility procured by an arbitration proceeding in terms of timing is predictability. Through a provision inserted into the relevant investment treaty, the parties can determine the time period which the arbitrator is required to achieve a verdict within. The inclusion of such provision into the relevant investment treaty offers predictability for the parties and thus they would not have to wait for an indefinite time in order to realize transactions on their assets bearing the intellectual property rights which are subject to the dispute in question.

To conclude, time saving which is crucially important for intellectual property disputes cannot be anyhow presented by litigation proceeding at the level of arbitration proceeding with the facilities of being able to determine the commencement and completion date of arbitration proceeding and the resolution of the relevant dispute through a single arbitration proceeding.

Moving to the expertise issue, although it does not seem that arbitration proceeding eliminates all issues relating to expertise concerns since it cannot be reasonably expected that arbitrators do have all professional knowledge in all possible subject matters, still, the parties can expect arbitrators to be familiar of with the technical matters of the dispute or to have necessary expertise to fill the gaps in their own knowledge professionally.[425] For instance, arbitrators can have a productive communication with an expert witness more easily on comparison with the judges carrying out their duties under an ordinary litigation proceeding. Whereas the judges in litigation proceedings do almost ensure expert witnesses with the right to achieve a legal verdict due to the lack of familiarity of themselves with technical expressions, arbitrators prefer to receive the opinion of expert witnesses owing to

[425] YVES DEZALAY & BRYANT G. GARTH, DEALING IN VIRTUE: INTERNATIONAL COMMERCIAL ARBITRATION AND THE CONSTRUCTION OF A TRANSNATIONAL LEGAL ORDER (The University of Chicago Press. 1996), p.34-35.

their expertise with respect to technical language and afterwards arbitrators themselves do achieve to a proper legal conclusion on their own discretion. For instance, under the arbitration proceeding pertaining to the case of IBM v. Fujitsu, arbitrators attended to a four day presentation carried out by a computer science professor, IBM and Fujitsu.[426] Upon direct technical information submission by the parties itself, arbitrators could achieve a proper legal verdict without need for interference of expert witnesses unqualified for legal knowledge. Through the facility whose one example was observed in the case of IBM v. Fujitsu, I believe that, in arbitration proceeding, incorporation point of technical and legal knowledge has been found out. For this reason, introduction of the specialized courts for intellectual and industrial property rights with the judges only trained on this specific area of law, like in the case of Turkey[427], does not counterpoise the promise of arbitration proceeding in terms of productive communication with experts in more direct and fast manner.To be concluded, expertise appeared as privilege under the favour of arbitration proceedings does contribute to the cost saving and quality of awards for intellectual property disputes requiring both technical information and legal knowledge, which can be satisfied at the same time by only arbitrators.[428]

As a consequence, for foreign investors which desire to settle their investment disputes concerning intellectual property rights, choice of arbitration forum seems as the most favourable decision. In the case where foreign investors decide to apply to the arbitration forum as dispute settlement mechanism, preference pertaining to the form of arbitration, which are *ad hoc* arbitration or institutional arbitration[429] pursuant to the facts and circumstances of their investment disputes is required.[430] Whereas institutional arbitration is carried out by an arbitration institution possessing the regulations including the rules to

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[426] International Business Mach. Corp. v. Fujitsu Ltd., No. 13T-117-0636-85 American Arbitration Ass'n Commercial Arbitration Tribunal 4 (Mnookin and Jones, Arbs.).

[427] Article 156 of the Industrial Property Law numbered 6769.

[428] It should be indicated that there is no requirement for arbitrators to be appointed to have legal knowledge. The eligibility of arbitrators is fully depend on the choices of parties.

[429] TIBOR S. VARADY & JOHN J. BARCELO III & ARTHUR T. VON MEHREN, INTERNATIONAL COMMERCIAL ARBITRATION: A TRANSNATIONAL PERSPECTIVE (American Case Book Series. 1999), p.527.

[430] See such difference stipulated under Article 2(a) of UNCITRAL Model Law on International Commercial Arbitration with amedments as adopted in 2006;

"For the purposes of this Law:

(a) 'arbitration' means any arbitration whether or not administered by a permanent arbitral institution…"

be implemented to the arbitration proceeding, a specific arbitration institution does not exist under ad-hoc arbitration and ad-hoc arbitration is carried out by the arbitrators chosen by the parties pursuant to the arbitration rules drawn out by the parties, namely home states and host states, themselves.[431] Accordingly, in practice, within the frame of institutional arbitration, the parties may agree upon that the prospective investment disputes pertaining to intellectual property rights will be settled down pursuant to the arbitration rules of specific arbitration institutions such International Chamber of Commerce ("ICC") or Stockholm Chamber of Commerce ("SCC") or American Arbitration Association ("AAA"). ICSID arbitration is also treated as *sui generis* institutional arbitration. The *sui generis* nature of ICSID arbitration is arisen out from the fact of that the relevant dispute can be brought before arbitral tribunals directly by foreign investor basing on the investment treaty which such foreign investors are not party to and are not engaged in the negotiations of.[432] On the other aspect, within the frame of *ad hoc* arbitration, the parties, namely home states and host states, may prefer to determine the arbitration rules to be followed during the arbitration proceeding for the settlement of the dispute arisen out between foreign investors and host states, without being dependent to any arbitration rules of any specific arbitration institution. However, again, within the frame of *ad hoc* arbitration, it should be noted thathome states and host states may prefer to follow UNCITRAL arbitration rules as revised in 2010 ("UNCITRAL arbitration rules") introduced in order to procure *ad hoc* arbitration proceedings in harmonized manner without being in need of any institutional arbitration rules.[433]

As a consequence, *ad hoc* arbitration or institutional arbitration may be preferred for the foreign investor intending to bring their own investment dispute relating to intellectual

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[431] ŞANLI, supra note 81, p.377.

[432] For the reference of "arbitration without privity" for ICSID arbitration due to its such *sui generis* nature, see Noemi Gal-Or, *NAFTA Chapter Eleven and the Implications for the FTAA: The Institutionalization of Investor Status in Public International Law*, TRANSNATIONAL CORPORATIONS (2005), p.149-150; Hamid G. Gharavi, Yatırım Tahkiminin Avantaj ve Dezavantajları in EROL ULUSOY & ASLI YILDIRIM, II. ULUSLARARASI ÖZEL HUKUK SEMPOZYUMU VE "TAHKİM" (Marmara Üniversitesi Hukuk Fakültesi. 2009), p.76; İnci Ataman-Figanmeşe, Milletlerarası Ticari Tahkim ile Yatırım Tahkimi Arasındaki Farklar, PUBLIC AND PRIVATE INTERNATIONAL LAW BULLETIN (2001), p.98.

[433] GARY B. BORN, INTERNATIONAL COMMERCIAL ARBITRATION (Kluwer Law International. 2009), p.152; CEMAL ŞANLI, MİLLETLERARASI TİCARİ TAHKİMDE ESASA UYGULANACAK HUKUK (Banka ve Ticaret Hukuku Araştırma Enstitüsü. 1986), p.238.

property rights before arbitral tribunals. Hereunder, in order to detect why ICSID arbitration is the most available forum for the settlement of investment disputes considering intellectual property rights, comparison between *ad hoc* arbitration and ICSID arbitration and comparison between ICSID arbitration and institutional arbitration to be carried out under ICC arbitration rules which is principally applied for such disputes will be provided.

3.1.2.1 Ad Hoc Arbitration v. ICSID Arbitration

In the first phase, it should be noted that the major feature differentiating ICSID arbitration from *ad hoc* arbitration is the fact of that ICSID arbitration is a genre of institutional arbitration with its own *sui generis* characteristics to be detailed below under the comparison between ICC arbitration and ICSID arbitration. Accordingly, in order to duly embrace the view of that ICSID arbitration should be preferred instead of *ad hoc* arbitration for the investment disputes relating to intellectual propery rights, firstly, the notable differences between *ad hoc* arbitration and institutional arbitration should be presented out hereunder.

As it is provided above, "the arbitration will be *ad hoc* if it is one is not administered by an institution as the arbitration agreement does not specify an institutional arbitration".[434] In more detail, under *ad hoc* arbitration, arbitration rules possessed by a specific institutional arbitration centre and an administrative organization to carry out arbitration proceeding does not exist. Instead, *ad hoc* arbitration is carried out relying on the authority granted by the parties to the arbitral tribunal pursuant to the arbitration clause or arbitration agreement directly designated by the parties, namely host states and home states; or directly referred to by the parties; or in the absence of such clause or agreement, established by the arbitral tribunal authorized by the parties.[435] In compliance with such character of *ad hoc* arbitration, the parties should determine all aspects of the arbitration proceeding such as applicable law, the method of selection and appointment of the arbitral tribunal and other various procedural matters required for conducting the arbitration proceeding "without

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[434] Sundra Rajoo, *Institutional and Ad Hoc Arbitrations: Advantages and Disadvantages*, THE LAW REVIEW (2010), p.548.

[435] AKINCI, supra note 81, p.5; Geral Aksen Naklen, *Ad Hoc Versus Institutional Arbitration*, THE ICC INTERNATIONAL COURT OF ARBITRATION BULLETIN (1991), p.8-14.

assistance from or recourse to an arbitral institution".[436] Although *ad hoc* arbitration seems more available option for the parties which are in need of flexibility in terms of the arbitration rules to be applied for the concerned disputes or which resolve on the arbitration as dispute settlement mechanism following the occurrence of dispute[437], still, it should be accepted that divergent expectations and possible misunderstandings the partiesremains on the agenda. Due to such divergences, the parties may have some difficulties in concretizing the set of arbitration rules precisely addressing their own specific needs.[438] Unsurprisingly, such difficulties will cause to loss of considerable time.Considering the structure of intellectual property rights whose scope changing quite fast, preference of *ad hoc* arbitration with such nature causing to loss of time will not be sensible for foreign investors intending to settle their own investment disputes with respect to intellectual property rights. On the other side, under institutional arbitration including ICSID arbitration, the determined set of arbitration rules to be applied for the arbitration proceeding is perceived as the principal advantage by foreign investors in terms of speed and expertise. Under favour of certain arbitration rules presented by institutional arbitration centers, the parties do not have to waste their time in order to determine such rules and they do not have to be worried about the question whether there is any missing matters not provided by the parties for the relevant arbitration proceeding. For the foreign investors yearning for flexibility, it should be reminded of that the arbitration rules framed by a specific arbitration institution are open to be adapted by the parties to some extent.[439] On the face of such argument, it can be argued that the parties wishing not to lose their time and cause to damage the cooperation between the parties while establishing arbitration rules may incorporate the UNCITRAL arbitration rules which are specifically designated for *ad hoc* arbitration

[436] Rajoo, supra note 434, p.548.
[437] Karademir, supra note 415, p.76.
[438] YILMAZ, supra note 88, p.14.
[439] The view of that the parties may adopt the arbitration rules of a particular arbitration institution for the settlement of their investment disputes without submitting such disputes to such arbitration institution is not suggested since such rules contain many references to the competence of institution in the manner to prevent the functionality of such rules under *ad hoc* arbitration. For detailed explanations, see, KEMAL DAYINLARLI, UNCITRAL KURALLARINA GÖRE UZLAŞMA VE TAHKİM (Dayınlarlı Hukuk Yayınları. 2012), p.1 ff; THOMAS WEBSTER, HANDBOOK OF UNCITRAL ARBITRATION: COMMENTARY, PRECEDENTS & MODELS FOR UNCITRAL BASED ARBITRATION RULES (Sweet & Maxwell & Thomson Reuters. 2010), p.1 ff.

proceedings. Hereunder, the question should be why ICSID arbitration rules should be preferred in the presence of UNCITRAL arbitration rules.

3.1.2.1.1 UNCITRAL Arbitration v. ICSID Arbitration

The parties behaving timid toward *ad hoc* arbitration by taking into consideration the criticism which we have directed above against *ad hoc* arbitration may try to eliminate their concerns by adopting UNCITRAL arbitration rules, in a sense a book of rules, to be applied for the settlement of investment disputes of foreign investors concerning intellectual property rights. So indeed, when the relevant clause of UNCITRAL arbitration rules determining the scope of the disputes which can be settled under such rules is observed, it is detected that such scope is quite extensive in the manner including investor-State disputes. Pursuant to the General Assembly Resolution 65/22, "…the Arbitration Rules … are used in a wide variety of circumstances covering a broad range of disputes, including disputes between private commercial parties, *investor-State disputes*, State-to-State disputes and commercial disputes administered by arbitral institutions, in all parts of the world." To put it differently, UNCITRAL arbitration rules is appeared as another available dispute settlement mechanism for the foreign investors to settle their investment disputes regarding intellectual property rights.

In this regard, in order to confirm ICSID arbitration as the most suitable option for the investment disputes concerning intellectual property rights, it is required to focus on the differences between such two different arbitration rules from the perspectives of choice of applicable substantive law and applicable procedural lawand implementation of confidentiality principle.

3.1.2.1.1.1 Applicable Substantive Law

The clauses choosing the applicable law are of capital importance for investment disputes under arbitration proceedings since arbitral tribunals do not have a determinative code including substantive law rules which are applicable to the case concerned, in other words a

lex fori.[440] Therefore, the choice of substantive law to be applied carries out the right to be examined in detail from the perspective of ICSID arbitration and UNCITRAL arbitration comparatively hereunder.

Considering the applicable substantive law[441], the first determination should be that rules of international law bear an intense application area under ICSID arbitration. So indeed, Section 3, Article 42(1) of the ICSID Convention has evidential value in this respect:

> "The Tribunal shall decide a dispute in accordance with such rules of law as may be agreed by the parties. In the absence of such agreement, the Tribunal shall apply the law of the Contracting State party to the dispute (including its rules on the conflict of laws) and such rules of international law as may be applicable."

The extensive approach of such clause referring to "rules of law" rather than to a system of national law enable the parties to choose not only the law of the home state or the host state but also the law of the host state together with the rules of international law or the law of third state. In other words, the structure of Article 42(1) of the ICSID Convention referring to "rules of law" presents a numerous options for the choice of applicable substantive law, including the option "to combine, to select and to exclude rules or set of rules of different origin"[442] as the substantive law to be applied to investment disputes. Accordingly, it can be detected that "a frequently used formula lists (a) the host state's law, (b) the BIT itself together with other treaties, (c) any contract relating to the investment, and (d) general international law".[443]

As can be observed, while the first sentence brings great flexibility to the parties in terms of law choice, the second sentence of the Article 42(1) determines the default formula

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[440] ŞANLI, supra note 433, p.123; Margaret Moses, *The Principles and Practice of International Commercial Arbitration*, CAMBRIDGE UNIVERSITY PRESS (2003), p.55-63.

[441]SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, p.558-563.

[442]SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, p.563. For the sample including the combination of domestic law and international law as the applicable substantive law, see Article 10(5) of the Agreement between the Argentine Republic and the Kingdom of Spain on the Reciprocal Promotion and Protection of Investments executed on the date of 03.10.1991 and entered into force on the date of 28.09.1992:

"The Arbitral Tribunal shall decide the dispute in accordance with the provisions of this Agreement, the terms of other Agreements concluded between the parties, the law of the Contracting Party in whose territory the investment was made, including its rules on conflict of laws, and general principles of international law."

[443] DOLZER & SCHREUER, supra note 188, p.267.

indicating to the applicable substantive law in the case of lack of law choice by the parties and grants clarity and predictability. Accordingly, on such an occasion, the applicable substantive law is going to be the law of the host state with its rules regarding conflicts of law together with the rules of international law. The application of rules of international law[444], together with the law of host state and its rules on conflict of law, seems required under ICSID arbitration. Although it seems that the absence of choice of law provision under the relevant investment treaty leads arbitral tribunals to the application of the default rule stipulated under Article 42(1), "it is generally accepted that the substantive provisions of these [investment] treaties constitute the rules of law applicable to the dispute"[445]. However, even in the event of where the existence of such implicit choice of law is accepted, it is not renounced from the implementation of rules of international law by ICSID tribunals. It is argued that "the treaty being an instrument of international law, it is […] also implicit in such cases that the arbitrators should have recourse to the rules of general international law to supplement those of the treaty"[446]. In compliance with the ICSID tribunals' approach granting wide implementation field to the rules of international

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[444] As the requirement of rules of international law, it should be emphasized that Article 31 of the Vienna Convention will be substantial directive for the application of rules of international law under ICSID arbitration. So indeed, whereas the interpretation of arbitration provisions stipulated in the agreement subject to non-ICSID arbitration is bound to the interpretation rules of a specific governing state law, arbitration provisions under bilateral investment treaties are interpreted pursuant to Article 31 of the Vienna Convention. Accordingly, the difference between non-ICSID and ICSID arbitration in terms of the interpretation of arbitration provisions lays down on the fact that whereas even implicit wills of the parties are considered under non-ICSID arbitration on the condition of the satisfaction of interpretation rules of the specific governing state law; under ICSID arbitration, only parties' regular wills revealed during the negotiations of bilateral investment treaties are taken into consideration in compliance with the requirements of Article 31 of the Vienna Convention since such article pushes parties' implicit intentions into the background of parties' wills whose existence is concretely reflected on bilateral investment treaties. See MELDA SUR, ULUSLARARASI HUKUKUN ESASLARI (Beta Yayıncılık. 2010), p.63.

[445]SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, p.578.By way of illustration, see Asian Agricultural Products Ltd. v. Republic of Sri Lanka, ICSID Case No. ARB/87/3, Final Award, para.20. In AAPL v. Sri Lanka ICSID case initiated by basing on the BIT between Sri Lanka and the United Kingdom which does not contain a clause on applicable law, the Tribunal concluded that "…both Parties acted in a manner that demonstrates their mutual agreement to consider the provisions of the Sri Lanka/U.K. Bilateral Investment Treaty as being the primary source of the applicable legal rules."

[446] SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, p.578.See, Asian Agricultural Products Ltd. v. Republic of Sri Lanka, ICSID Case No. ARB/87/3, Final Award, para.21:

"Furthermore, it should be noted that the Bilateral Investment Treaty is not a self-contained closed legal system limited to provide for substantive material rules of direct applicability, but it has to be envisaged within a wider juridical context in which rules from other sources are integrated through implied incorporation methods, or by direct reference to certain supplementary rules, whether of international law character or of domestic law nature."

law, it should be suggested that the role of international law rules under ICSID arbitration is more than a supplemental and corrective function:

"This Tribunal notes that Article 42(1) refers to the application of host-state law and international law. If there are no relevant host-state laws on a particular matter, a search must be made for the relevant international laws. And, where there are applicable host-state laws, they must be checked against international laws, which will prevail in case of conflict. Thus international law is fully applicable and to classify its role as 'only supplemental and corrective' seems a distinction without a difference."[447]

Embracement of international law rules under ICSID arbitration with their fully applicable function is sensible since possible risks which foreign investors may confront with are not only commercial risks on contrary to merchants. Rather, political risks arising out from unexpected amendments and instabilities on government policies also fall into the scope of foreign investors.[448] Further, it has been stated by Gülan that such amendments and instabilities may sometimes get up to the attitudes in the form of "being grinch". To put it differently, Gülan has enlarged upon such claim with the statement as follows:

> "The necessities of public services may change unexpectedly sometimes, for this reason, even if the necessity to interfere in lasting agreements *ex parte* comes into question as the requirement of adjusting principle of public service, most of the time, such interference may be the problems arising out from the attitudes in the manner of infringing the agreement which is perceived as the right by administrative authorities trusting on sovereignty power, in the manner of 'being grinch'"[449]

On the other hand, under UNCITRAL arbitration rules, which also offers an extensive choice of law options by including the term of "rules of law"; in the event of the lack of determined applicable substantive law by the parties, it seems that, arbitral tribunals are

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[447] Amco Asia Corporation, Pan American Development Limited and P.T. Amco Indonesia v. The Republic of Indonesia, ICSID Case No. ARB/81/1, Resubmitted Case: Award, para.40.

[448] DENİZ KIRLI AYDEMİR, YABANCI YATIRIMLARIN KORUNMASI (Legal Yayıncılık. 2005), p.50; Sedat Çal, *Uluslararası Yatırım Tahkimine Yönelik Kimi Eleştirilerin Değerlendirilmesi*, ANKARA ÜNİVERSİTESİ HUKUK FAKÜLTESİ DERGİSİ (2008), p.151.

[449] Aydın Gülan, *Kamu Hizmetinin Dönüştürücü Etkisi Karşısında Tahkimin Geleceği Yeri: Hukuk-Ekonomi Perspektifinden Uluslararası Tahkim ve Kamu Hizmeti* in ALİ ULUSOY, HUKUK-EKONOMİ PERSPEKTİFİNDEN ULUSLARARASI TAHKİM VE KAMU HİZMETİ (Liberte Yayınları. 2001), p.152.

assigned to determine the law to be applied to the substance of the dispute. Pursuant to Article 35 of UNCITRAL Arbitration Rules;

> "The arbitral tribunal shall apply the rules of law designated by the parties as applicable to the substance of the dispute. Failing such designation by the parties, the arbitral tribunal shall apply the law which it determines to be appropriate.
>
> The arbitral tribunal shall decide as *amiable compositeur* or *ex aequo et bono* only if the parties have expressly authorized the arbitral tribunal to do so.
>
> In all cases, the arbitral tribunal shall decide in accordance with the terms of the contract, if any, and shall take into account any usage of trade applicable to the transaction".

Under Article 35 of UNCITRAL arbitration rules, the first noticed indicator is that "whereas the parties may designate 'rules of law' applicable to the substance of the dispute, the tribunal may only determine 'law'".[450] Firstly, it should be noted that the choice of "law" rather than "rules of law" is not unconscious. It has been declared that "The Working Group understood the term 'rules of law' to be wider than the term 'law', allowing the parties 'to designate as applicable to their case rules of more than one legal system, including rules of law which have been elaborated on the international level'".[451] It is understood that UNCITRAL arbitration rules have the intention to grant more great flexibility area to the parties than the arbitral tribunal in terms of the determination of applicable substantive law. Further, it should be accepted that,in comparison to Article 33(1) of 1976 UNCITRAL arbitration rules requiring arbitral tribunals to choose "the law determined by the conflict of laws rules which it considers applicable" and resulting only in the application of a national law in the absence of choice of law by the parties[452], referring only to term of "law" under Article 35 of UNCITRAL arbitration rules is promising for the application of international law instruments, such as "the United Nations Convention on Contracts for the International Sale of Goods, the Unidroid Principles of International Commercial Contracts, texts adopted by the International Chamber of Commerce, such as the Incoterms and the Uniform Customs and Practices for Documentary Credit, or lex

[450] DAVID CARON & LEE CAPLAN, THE UNCITRAL ARBITRATION RULES: A COMMENTARY (Oxford Commentaries on International Law. 2013), p.118.
[451] Id. at p.114.
[452] Id. at p.118.

mercatoria".[453] Despite of such endeavours to draw discretion frame of arbitral tribunals narrower than the parties and to include international law instruments within the scope of applicable substantive law in the absence of choice of law, drawbacks for the choice of UNCITRAL arbitration as dispute settlement mechanism do still exist in the face of the existence of ICSID arbitration. It can be easily observed that the discretion of arbitral tribunals in terms of the determination of applicable substantive law is not limited by a term, such as "based on objective criteria". Although it has been suggested that "… the broad discretion of the arbitral tribunal to determine the appropriate law was bound already by the obligation of the tribunal to render a reasoned award"[454], pursuant to Article 35 of UNCITRAL arbitration rules, arbitral tribunals may still assign a law on completely their own discretion in the manner to create the situation of uncertainty and being bound with the rules of a law which the parties have not agreed upon or may have not foreseen.Under the circumstances, the implementation of international law rules is unable to go beyond being a *choice* which is subject to total discretion of arbitral tribunals within UNCITRAL arbitration in contrast to ICSID arbitration, where the application of international law rules is beyond being supplemental and corrective as detailed above.

In the circumstances, I believe that the fully application of rules of international law under ICSID arbitration is interpreted as more advantageous for foreign investors. To put it differently, undoubtedly, foreign investors prefer to be bound with the rules of international law[455]representing internationally shared values rather than the rules of the host state protecting the notions of the national policiesrather than justice.

Nonetheless, Article 42(1) of the ICSID Convention could not manage to be totally detached from the shield of classical approach[456] including domestic legislation as

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[453] Id. Please note that reference to "the law" is interpreted by some scholars as reference to the rules of a state law. See, NURAY EKŞİ, MİLLETLERARASI TİCARET HUKUKU (Beta. 2010), p.31; SİBEL ÖZEL, MİLLETLERARASI TİCARİ TAHKİMDE KANUNLAR İHTİLAFI MESELELERİ (Legal Yayıncılık. 2008), p.125. However, within this study, the interpretation of the reference to "the law" in the manner including international law instruments is supported in compliance with the necessities of the time and accordingly evolving demands of the parties.

[454] Id. at p.119.

[455] DOLZER &SCHREUER, supra note 188, p.268-269; SORNARAJAH, supra note 63, p.299-300.

[456] Günseli Öztekin, *1965 Tarihli Washington Sözleşmesine Genel Bir Bakış*, MİLLETLERARASI HUKUK VE MİLLETLERARASI ÖZEL HUKUK BÜLTENİ (1990), p.146.

applicable substantive law and refers to the law of the host state[457] in order to protect public policy concerns of the host state. Although the public policy of host state is not favoured unrestrictedly and accordingly is limited[458] through the application of the rules of international law[459], non-detachment from a national legislation does not serve for the purpose which ICSID arbitration is trying to pursue and which is not to surrender the rights of foreign investors to the margin of host states' sovereignty. However, it seems that the possible concern which may be arisen out in this respect on the part of foreign investors has been removed to some extent by the Tribunal in the case of LG&E v. Argentina stating that "International law overrides domestic law when there is a contradiction since a State cannot justify non-compliance of its international obligations by asserting the provisions of its domestic law".[460] Beyond, it should be reminded of that, under the first drafts of ICSID Convention, the application of national and international law rules which arbitral tribunals seem appropriate in the absence of choice of law by the parties was suggested. The rationale behind such suggestion was the believe of that the law which the legal transaction is most strictly connected to would be appeared as the applicable law pursuant to the rules on conflicts of law. Still with the possibility of the application of other national laws, under most circumstances, the applicable susbstantive law would be the law of the host state.

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[457] SORNARAJAH, supra note 63, p.284-289. It should further be noted that most bilateral investment treaties do not contain the provision specifying the applicable law to be applied under ICSID arbitration. Thus, separate investigation of the situation where applicable law is specifically appointed by the parties will be out of the scope of this study. However, it is beneficial to incorporate the opinion of Schreuer whose study in this respect is treated as gloss. Accordingly, Schreuer defends that foreign investor should be binding with the applicable law determined by the bilateral investment treaty which such foreign investor is not party to. See SCHREUER & MALINTOPPI & REINISCH &SINCLAIR, supra note 80, para.80.

[458] Dikran M. Zenginkuzucu, *Uluslararası Ticaret ve Yatırım Uyuşmazlıklarından Dostane Çözüm*, LEGAL YAYINCILIK (2013), p.21.

[459] Article 38 of the Statue of the International Court of Justice, 24 October 1945

1. The Court, whose function is to decide in accordance with international law such disputes as are submitted to it, shall apply:
   a. international conventions, whether general or particular, establishing rules expressly recognized by the contesting states;
   b. international custom, as evidence of a general practice accepted as law;
   c. the general principles of law recognized by civilized nations;
   d. subject to the provisions of Article 59, judicial decisions and the teachings of the most highly qualified publicist of the various nations, as subsidiary means for the determination of rules of law.
2. This provision shall not prejudice the power of the Court to decide a case *ex asquo et bono*, if the parties agree thereto.

[460] LG&E Energy Corp., LG&E Capital Corp., LG&E International Inc. v. Argentine Republic, supra note 385, para.94.

However, since the requests relating to certainty had been outweighted during the negotiations of ICSID Convention, the current version directly referring to the law of the host state has been accepted. At all events, such formula seems more being in compliant with the predictability requests of the parties and with the fact of that the law of the host state is the one most strictly connected with investment relationship.

3.1.2.1.1.2 Applicable Procedural Law

Considering the determination of applicable law for the procedural rules to be applied for the proceedings belonging to UNCITRAL arbitration and ICSID arbitration, Article 44 of the ICSID Convention should be primarily incorporated within this part of the study:

> "Any arbitration proceeding shall be conducted in accordance with the provisions of this Section and, except as the parties otherwise agree, in accordance with the Arbitration Rules in effect on the date on which the parties consented to arbitration. If any question of procedure arises which is not covered by this Section or the Arbitration Rules or any rules agreed by the parties, the Tribunal shall decide the question."[461]

As it is seen, in compliance with the feature of that ICSID arbitration is not based on a specific state law, the dispute subject to ICSID arbitration is carried out pursuant to the relevant provisions of the ICSID Convention except as the parties otherwise agree. The parties cannot come to the terms specifying that ICSID rules will not be applied totally or partly for the dispute between them saving the provisions of the ICSID Convention itself granting the parties the right to make a choice of law or the choice of Arbitration Rules which is annexed to the ICSID Convention itself.[462] After all, the principal conclusion to be achieved is that ICSID arbitration does not confront with the limitations of arbitration legislation of any state except the case where the parties have agreed upon the choice of applicable procedural law.

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[461] Section 3, Article 44 of the ICSID Convention entered into force on 14 October 1966.
[462]SCHREUER & MALINTOPPI & REINISCH & SINCLAIR, supra note 80, p.674.

On contrary to ICSID arbitration, UNCITRAL arbitration does feel obliged to be binding on a specific state law[463] in some way as it is proven by Article 1 of the UNCITRAL Arbitration Rules respectively as follows:

> "Where parties have agreed that disputes between them in respect of a defined legal relationship, whether contractual or not, shall be referred to arbitration under the UNCITRAL Arbitration Rules, then such disputes shall be settled in accordance with these Rules subject to such modification as the parties may agree."
>
> These rules shall govern the arbitration except that where any of these Rules is in conflict with a provision of the law applicable to the arbitration from which the parties cannot derogate, that provision shall prevail."

As things stand, under UNCITRAL arbitration, even in the case where the parties have agreed upon the application of UNCITRAL arbitration rules itself, tribunals still are not completely free from the law applicable to the arbitration, they are still bound with the mandatory rules of the applicable law to the merits of the case.

Under the light of all these statements which we have put forward so far, it can be concluded that the substantial difference between ICSID arbitration and UNCITRAL arbitration does lay down on the fact that whereas ICSID arbitration is "non-national", UNCITRAL arbitration is harbored to a specific state law under any circumstances.

3.1.2.1.1.3 Confidentiality

One of typical features of arbitration forums is confidentiality. In other words, it is put forward that confidentiality is mostly one of the most substantial reasons for preferability of arbitration forums. However, strikingly, confidentiality perceived as privilege is under storm of criticism for ICSID arbitration since the subject matter of ICSID arbitration is mostly the matters such as public health, high profile environmental disputes and state wealth. Today, it is possible to observe that the borders of confidentiality under ICSID arbitration are being eased up. Upon the request by both scholars and public for the shift from confidentiality to transparency, ICSID Commission did not keep silent for such

[463] Karl-Heinz Böckstiegel, *The Relevance of National Arbitration Law for Arbitrations under the UNCITRAL Rules*, JOURNAL OF INTERNATIONAL ARBITRATION (1984), p.228.

request and ICSID arbitration rules were amended in the year of 2006 in the manner meeting such requests. Accordingly, an additional paragraph[464] was incorporated into Article 32(2) of ICSID arbitration rules as follows:

> "Unless either party objects, the Tribunal, after consultation with the Secretary-General, may allow other persons, besides the parties, their agents, counsel and advocates, witnesses and experts during their testimony, and officers of the Tribunal, to attend or observe all or part of the hearings, subject to appropriate logistical arrangements. The Tribunal shall for such cases establish procedures for the protection of proprietary or privileged information."

Before the 2006 amendment, such article was drafted on the condition of obtainment of express consent of the parties rather than non-existence of express objection of the parties. Although it does not seem as wide-ranging amendment, I believe that such attitude enlightens the approach of ICSID Commission in future for the disputes concerning confidentiality. So indeed, Meg Kinnear, Secretary-General of ICSID, stated that they have applied to the parties in order to obtain their allowance for the publication of arbitral awards and the target they desire to achieve in the near future is to publish the summaries of the cases even if the obtainment of the parties' consent is not possible.[465]

On the other hand, UNCITRAL arbitration, whose proceedings are confidential by default unless otherwise agreed by the parties,under its arbitration rules, presents Article 28(3) requiring the hearings to be held in camera and Article 34(5) conditioning the publication of award on the consent of both parties.[466]Additionally, it can be alleged that, because of the absence of any arbitration institution or administration due to the nature of *ad hoc* arbitration, it cannot be mentioned about any record[467] in the manner serving to confidentiality nature of UNCITRAL arbitration rules. However, it should be precise that parties' expectation from confidentiality principle is not the records not followed up by a certain institution, the expectation of the parties is being able to foresee which

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[464] Meg Kinnear, *Institutional Developments at ICSID*, ICSID REVIEW (2009), p.19.
[465]Id. Associatively, see Working Paper #3 on Proposals For Amendment of the ICSID Rules published by International Centre for Settlement of Investment Disputes on August 2019 and including the proposals enhacing transparency in both the conduct and outcome of proceedings, available at https://icsid.worldbank.org/en/Documents/WP_3_VOLUME_1_ENGLISH.pdf
[466] CARON & CAPLAN, supra note 450, p.36.
[467] Çal, supra note 448, p.148.

confidentiality or transparency provisions they will be subject to when the arbitration proceeding is initiated.

It is understandable that the choice of parties may be transparency or confidentiality depending on thedivergent concerns of the parties to the relevant arbitration proceeding, which may be relating to public policy or their pure strategic purposes. In compliance with this fact, whereas UNCITRAL arbitration rules appreciate confidentiality requests of the parties since such rules have been mostly designated for commercial disputes involving commercial secrets of the parties, ICSID arbitration attaches value on transparency since it has been regulated for investment disputes involving public policy considerations of host statates and foreign investors' claims regarding possible infringements directed by host states to their investments. Considering the subject matter of this study, ICSID arbitration esteeming transparency is appeared as the most available dispute settlement mechanism in this respect since host states should not demand confidentiality as the sovereign due to public policy perspectives of such disputes and foreign investors should prefer transparency so that they can benefit from the world public opinion to be created against the infringements of host states.

3.1.2.2 ICC Arbitration v. ICSID Arbitration

Following the established fact of that ICSID arbitration keeps ahead of the game in comparison with *ad hoc* arbitration and associatively UNCITRAL arbitration rules, the chance of other institutional arbitration forums in the face of ICSID arbitration is still worth to be investigated. Accordingly, hereunder, the relevant question should be why the arbitration rules of reputable institutional arbitration forums such as International Chamber of Commerce or Stockholm Chamber of Commerce would not be sufficient for the settlement of investment disputes relating to intellectual property rights. In order to detect the answer to such question, a comparative study between ICSID arbitration rules and ICC arbitration rules, which is mostly made reference to among all other institutional arbitration forums, will be provided below. Previous to this, the reasons of a necessity relating to introduction of a novel institutional arbitration forum, such as ICSID arbitration, will be mentioned.

Article 1(1) of 1998 ICC arbitration rules stipulated that "The International Court of Arbitration (the "Court") of the International Chamber of Commerce (the "ICC") is the arbitration body attached to the ICC… The function of the Court is to provide for the settlement by arbitration of *business disputes*…".[468]Together with the revision introduced in 2012, which is also currently applicable under its 2017 version, ICC arbitration rules now apply to "disputes" as opposed to "business disputes" as designated under 1998 ICC arbitration rules. Under the circumstances, it is clear that investment treaty disputes are also covered by ICC arbitration rules. In that case, it should be investigated that which circumstances make the existence of ICSID arbitration required.Firstly, it is not easy to claim that the exclusion of "business" term from the scope of ICC arbitration rules would be qualified enough to fulfill the expectations from ICSID arbitration. So indeed, in despite of the 2012 revision in ICC arbitration rules enabling the settlement of investment disputes under such rules, the necessity for the rules to provideand to encourage an environment where the persons possessing capital surplus can make investments into developing countries and to take measures against not only commercial risks but also political perils was still in question until the introduction of ICSID arbitration.Indeed, ICSID arbitration has come into existence from the necessities of being protected from the host states' acts arisen out from their sovereign title, not the title of being a commercial party to an agreement.[469] In harmony with such necessities, special regulations concerning the protection of investments have been required. In this respect, ICSID Convention has set forth the establishment of an arbitration mechanism with special arbitration rules whose exclusive purpose is to protect investments. From only this perspective, such exclusive nature of ICSID arbitration rules proves its advantegous position in comparison with ICC arbitration rules for investment disputes relating to intellectual property rights. In compliance with such exclusivity, it should be noted that the major features pertaining to the arbitration rules of ICSID are so *sui generis*, it can be alleged that it is not possible for other arbitration forums except ICSID to have the design which is intrinsic to the

[468] International Chamber of Commerce, *ICC Commission Report, States, State Entities and ICC Arbitration*, 2 (2012), p.4-5.

[469] For the criticism relating to inappropriate utilization of commercial rules for the settlement of investment disputes under Energy Charter Treaty, see Thomas W. Walde, *Investment Arbitration Under the Energy Charter Treaty*, CONFERENCE ON ENERGY-ARBITRATION, GULF ARBITRATION CENTRE (1998), p.25.

arbitration rules of ICSID. One of the remarkable features is the facility of foreign investors to initiate an arbitration proceeding against host states, which is granted by an investment treaty executed between home states and host states. Further, for instance, it is not required to obtain a separate decision from state courts for the enforcement of ICSID arbitral awards. In relation to that, the national courts of contracting states to ICSID Convention are excluded from reviewing or setting aside ICSID awards, including the awards resolved by an*ad hoc* committee appointed by the Chairman of Administrative Council of ICSID upon the valid annulment request by one of the parties to the concerned dispute. Therefore, ICSID arbitral awards is final and decisive, as clearly stated by Article 54(1) of the arbitration rules of ICSID as follows, "each Contracting State shall recognize an award rendered pursuant to this Convention as binding and enforce the pecuniary obligations imposed by that award witj-hin its territories as if it were a final judgement of a court in that State". Beyond that, considering the internal appeal mechanism of ICSID, it is observed the reasons which may lead to the annulment of ICSID arbitral awards are quite limited and conditioned on material grounds as stipulated under Article 50 of ICSID arbitration rules, in the manner supporting the nature of intellectual property rights seeking for certain conclusions as promptly as practicable. Further, the adoption of a motion for stay of execution by ICSID Committee is effective in all member states.[470] Such material features belonging to ICSID arbitration put it in a different position in the eyes of foreign investors. To put it differently, beyond the benefits procured through these listed features of ICSID arbitration such as predictability and certainty, these features also reflect rationale behind ICSID arbitration to be independent from reign of a specific domestic law, for instance, by keeping away ICSID arbitral awards from an enforcement proceeding under any national legislation.

Beside such major differences between ICSID arbitration and ICC arbitration, as promised, a comparative study between such forums from the perspective of applicable substantive law, applicable procedural law and confidentiality will be also detailed hereunder. Considering the comparison of such forums with regards to applicable substantive law and applicable procedural law, it should be recorded that the procurement of such comparison

[470]Ataman-Figanmeşe, supra note 432, p.98-99.

will not provide the input which is materially deviated from the comparison between ICSID arbitration and UNCITRAL arbitration in this respect due to the similar formulations of relevant articles under UNCITRAL arbitration rules and ICC arbitration rules. Accordingly, our criticism which we have directed against UNCITRAL arbitration rules above will also be valid to some extent for the comparison between ICSID arbitration and ICC arbitration.

So indeed, similar to UNCITRAL arbitration rules, Article 21 of ICC arbitration rules[471]determines how the rules governing the merits of the dispute are determined and provides that "The parties shall be free to agree upon the rules of law to be applied by the arbitral tribunal to the merits of the dispute. In the absence of any such agreement, the arbitral tribunal shall apply the rules of law which it determines to be appropriate". Analogically to UNCITRAL arbitration rules, under ICC arbitration rules, the parties are set free to establish "rules of law" in the manner allowing them to "choose not only a domestic legal system but also a set of laws or guidelines that depart from that classical understanding of the law (e.g. model laws issued by non-governmental or supranational entities, international trade guidelines)"[472]. On the other hand, differently from UNCITRAL arbitration rules, such flexibility granted to the parties to choose "rules of law" as the applicable law to the merits of the dispute is also conferred to arbitral tribunals under ICC arbitration rules. Whereas flexibility area of arbitral tribunals is consciously limited to "law" rather than "rules of law" in the absence of choice of law under UNCITRAL arbitration rules, the extent of flexibility area of both the parties and arbitral tribunals is equalized to the term of "rules of law" under ICC arbitration rules. Such worrying approach of ICC arbitration rules equalizing the extent of discretionary powers of the parties and arbitral tribunals may be defended as follows: "Article 21(1) deliberately refers not to 'law' but to 'rules of law'. The latter term has gained currency in international arbitration. Its purpose is to avoid any restrictive presumption that parties and arbitral tribunals must adopt the law of a domestic legal system, which could be inferred from use of the word 'law'

[471] Rules of Arbitration of the International Chamber of Commerce of 2012, as amended in 2017, in force as from 01.03.2017.
[472] JASON FRY & SIMON GREENBERG & FRANCESCA MAZZA, THE SECRETARIAT'S GUIDE TO ICC ARBITRATION (International Chamber of Commerce. 2012), p.219.

alone"[473]. Nevertheless, such defence does not seem acceptable since UNCITRAL arbitration rules has opened its doors to the utilization from international law instruments by virtues of referring to the term of "law".[474]To conclude, ICC arbitration rules conferring a flexibility area to arbitral tribunals as great as granted to the parties in terms of the choice of applicable substantive law without stipulating any objective criteria is in a disadvantageous position in comparison with ICSID arbitration rules promising certainity and predictability by stipulating the national law of host state and rules of international law as the applicable substantive law in the absence of choice of law. Further, due to the lack of clear reference to the rules of international law under ICC arbitration rules, our concern which is that the role of international law rules cannot exceed being a *choice* at discretion of arbitral tribunals,on the contrary to ICSID arbitration rules where the application of international law rules is beyond being supplemental and corrective is also valid under ICC arbitration rules.

In a similar vein with UNCITRAL arbitration rules failing to depart itself from a state law, with respect to applicable procedural law, it can be detected that the relevant article of ICC arbitration rules governing the proceedings to be carried out under ICC arbitration, which is Article 19, provides that "The proceedings before the arbitral tribunal shall be governed by the Rules and, where the Rules are silent, by any rules which the parties or, failing them, the arbitral tribunal may settle on, whether or not reference is thereby made to the rules of procedure of a national law to be applied to the arbitration." In the presence of "non-national" structure of ICSID arbitration rules preventing the concerns relating to possible partiality issues, ICC arbitration rules harbored to a specific state law seems more disadvantegous.

Moving to confidentiality perspective of the comparison between ICSID arbitration and ICC arbitration, by keeping transparency preference of ICSID arbitration in the back of our minds, it can be observed that ICC arbitration is appeared with its confidentiality preference due to the rationale behind its introduction, which is to settle commercial

[473] Id. at p.222.
[474]CARON & CAPLAN, supra note 450, p.118.

disputes. Pursuant to Article 22(3) of ICC arbitration rules, "Upon the request of any party, the arbitral tribunal may make orders concerning the confidentiality of the arbitration proceedings or of any other matters in connection with the arbitration and may take measures for protecting trade secrets and confidential information". It is obvious that ICC arbitration rules finding only one party's consent sufficient for the confidentiality without stipulating any further criteria to be determinative for the establishment of such confidentiality over the relevant dispute will not be suitable for the investment disputes with high profile and public policy aspects, as mentioned previously.

Beside such features, average cost to be imposed upon the parties due to the initiated arbitration proceeding is another substantial determinative point for the selection of appropriate forum. By excluding expert costs, representation costs to be set by each party with its own counsel and charges for special services such as interpretation,the categories of cost can be provided under main three groups, which are filing fees, arbitrator fees and expenses and administrative fees. Pursuant thereto, under ICSID arbitration, the party requesting the arbitration proceeding is required to pay the filing fee of US$25,000. On the other hand, the requested filing fee from the claimant under ICC arbitration is US$5,000. As regards to arbitrator fees and expenses, firstly, it should be noted that ICC arbitration rules determine a minimum and maximum amount for such fees and expenses by taking into consideration "whether the procedure is expedited or not, the diligence of the arbitrators, time spent, rapidity of the proceedings and complexity of the dispute".[475] On the contrary, under ICSID arbitration, the fee which conciliators, arbitrators, commissioners and ad hoc committee members are entitled to obtain is certain and US$3,000 per day of meetings. I presume that the criterion put into word with the term of "diligence of arbitrators" among the determinative features of arbitrators' fees and expenses under ICC arbitration is quite worrisome for the legitimacy of arbitral awards to be resolved. I believe that parties should not be worried about the competence of the arbitrators in charge to be varied depending on the fees to be received from the parties. Instead of such approach, the arbitration proceeding to be carried out by the arbitrators whose diligence is not varied

[475] International Chamber of Commerce, Costs and Payments, available at https://iccwbo.org/dispute-resolution-services/arbitration/costs-and-payments/.

upon the fees to be received from the parties, as in the case of ICSID arbitration, is more preferable. Beyond that, with regard to administrative fees, ICSID arbitration, again, provides a decisive charge for the arbitration proceedings to be proceeded under ICSID arbitration rules, which is US$42,000[476] per year upon the registration of a request for arbitration. On the other hand, provisional advance and advance on costs can be categorized under administrative charges for ICC arbitration. However, it should be indicated that such fees are not clearly specified and it has been resolved that provisional advance and advance on costs shall be fixed by the Secretary General and International Court of Arbitration by basing on the monetary value of disputes. Although a certain cost corporation between ICC arbitration and ICSID arbitration due to variables of ICC arbitration depending on the amount of dispute or diligence of arbitrators to be charged[477], it seems that ICSID arbitration comes into prominence with its promise of predictability.

3.2 Options to be Followed by Home States

Subsequent to the findings revealing ICSID arbitration as the most available dispute settlement mechanism among other options which can be followed by foreign investors themselves for the investment disputes relating to intellectual property rights, the same question concerning the preference of ICSID arbitration should also be investigated for the options which can be followed by the home states including diplomatic protection and Dispute Settlement Body ("DSB") of World Trade Organization ("WTO"). As the title implies, under the remedies of diplomatic protection and WTO, foreign investors do not have direct access to such remedies against the host state for the infringement of their rights. They are bound up with their own states to obtain a protection on international level and therefore, foreign investors are required to persuade home states to attempt to protect the rights of foreign investors within international affairs.[478]Further, whereas a balance reflecting all political and economic relationships between host states and home states is

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[476] For more detailed information, see https://icsid.worldbank.org/en/Pages/services/Cost-of-Proceedings.aspx.

[477] See cost calculator for ICC arbitration at https://www.international-arbitration-attorney.com/icc-arbitration-cost-calculator/ and for ICSID arbitration at https://www.international-arbitration-attorney.com/icsid-arbitration-cost-calculator-2/.

[478] Yıldız Üstün, supra note 418, p.305.

considered under the remedy proceedings conducted between states, the interests and rights of foreign investors are mostly featured and the disputes are resolved pursuant to more narrow-scoped balance under ICSID arbitration.[479]As a comprehensive critique, in the presence of ICSID arbitration ensuring foreign investors themselves with right to legal remedies by relieving them of the necessity to apply diplomatic protection of home states and providing the facility to avoid from political tension between states, the remedies of both diplomatic protection and Dispute Settlement Body of WTO are sentenced to be in a disadvantegous position. Nevertheless, beside such common criticism, there is still need to separately examine each remedy which can be followed by home states with their own merits.

3.2.1 Diplomatic Protection

As elaborated above, under traditional international law, private investors were not able to have direct access to dispute settlement mechanisms initiated by themselves directly against the host states with the claims of infringement of their rights. Diplomatic protection provided by their home states was the only available option. So indeed, such traditional approach was reflected on the decision resolved in the case of Mavrommatis Palestine Concessions:

> "It is an elementary principle of international law that a State is entitled to protect its subjects, when injured by acts contrary to international law committed by another State, from whom they have been unable to obtain satisfaction through the ordinary channels. By taking up the case of one of its subjects and by resorting to diplomatic action or international judicial proceedings on his behalf, a State is in reality asserting its own rights – its right to ensure, in the person of its subjects, respect for the rules of international law."[480]

However, the procurement of diplomatic protection is only available on condition of the satisfaction of several criteria. Nationality bond with protecting state and the exhaustion of local remedies in the protecting state can be listed among such criteria.[481] Further, the utilization of diplomatic protection by private investors is dependent on the discretion of

[479] Çal, supra note 448, p.145.
[480] Mavrommatis Palestine Concessions, Greece v. Britain, Permanent Court of International Justice, Judgement, para.21.
[481] Yıldız Üstün, supra note 418, p.305.

the host states. In other words, the government of the host state may decline to bring the claims of the investors within the scope of diplomatic protection or prefer to amend the content of such claims as it desires. Beyond that, the host state may discontinue such diplomatic protection and settle the dispute concerned by waiving the claims of private investors at any time.

The broad discretion granted to the states under diplomatic protection was explained in the case of Barcelona Traction case as follows:

> "The State must be viewed as the sole judge to decide whether its protection will be granted, to what extent it is granted, and when it will cease. It retains in this respect a discretionary power the exercise of which may be determined by considerations of a political or other nature, unrelated to the particular case. Since the claim of the State is not identical with that of the individual or corporate person whose cause is espoused, the State enjoys complete freedom of action."[482]

In the circumstances, the investors who desire to be saved from the absolute discretion area of their home states are rarely applying to the dispute settlement mechanism of diplomatic protection on the face of the existence of ICSID dispute settlement mechanism where foreign investors can directly bring their claims before investment tribunals against the host state.

3.2.2 Dispute Settlement of World Trade Organization

The establishment of World Trade Organization was one of the result of the Uruguay negotiations. Accordingly, the formation of Dispute Settlement Body possessing compulsory jurisdiction in order to settle the disputes arising out between WTO member states and from the covered agreements listed in Annex-1 of the Dispute Settlement Understandingwas also realized. Pursuant thereto, a foreign investor whose intellectual property rights are infringed by the acts of host state may try to persuade his home state to find a remedy through the WTO dispute settlement with the claim of that the relevant host state is in breach of the covered agreements, which TRIPS Agreement is among of. Indeed,

[482] Barcelona Traction, Light and Power Company, Limited, Belgium v. Spain, International Court of Justice, Judgement, para.79.

the substantive claims which can be directly invoked by foreign investors through the provisions stipulated under the relevant investment treaties can also be invoked by WTO member-home state against the WTO member-host state before WTO panels through the prosivions drafted similarly to investment treaties under TRIPS Agreement. However, beside our concerns relating to possible reluctance of home states due to possible politic tensions to be occurred between states as a result of the claim brought before WTO panels, it should be noted that the regimes of WTO and ICSID "serve different objectives and have different design features"[483]. Subsequent to the analysis of such differences between WTO and ICSID, it will be achieved to the result of that ICSID arbitration is the survivor dispute settlement mechanism for the settlement of investment disputes concerning intellectual property rights in the most suitable manner.

So indeed, "WTO dispute settlement is, for example, purely state-to-state and has a two-tiered system of *ad hoc* panels and a standing Appellate Body. … [ICSID arbitration] offers private standing to companies and individual investors, but lacks appellate review (ICSID awards are, however, subject to review by *ad hoc* annulment committees but on limited procedural grounds)."[484] Although ICSID arbitration comes in a lot of criticism because of the lack of a permanent appellate body[485];together with the fact of that resolution of different verdicts for the same subject matter will be still inevitable despite of the existence of a universal appellate body[486], I believe that decisiveness exempted from obscurity to be originated due to appeal proceeding should be considered as virtue considering the rapidly and unforeseeably growing nature of intellectual property rights.

Further, the rationale behind the criticism directed to the absence of an appellate body under ICSID arbitration is the concern relating to possibility of non-conformity between

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[483] Joost Pauwelyn, *WTO Panelists Are From Mars, ICSID Arbitrators Are From Venus, Why? And Does It Matter?*, SOCIAL SCIENCE RESEARCH NETWORK (2015), p.1.
[484] Id. at p.2.
[485]Mark Feldman, *Investment Arbitration Appellate Mechanism Options: Consistency, Accuracy, and Balance of Power*, ICSID REVIEW-FOREIGN INVESTMENT LAW JOURNAL (2017), p.528-544; Elsa Sardinha, *The Impetus for the Creation of an Appellate Mechanism*, ICSID REVIEW-FOREIGN INVESTMENT LAW JOURNAL (2017), p.503-527; Christian J. Tams, *An Appealing Option? The Debate about an ICSID Appellate Structure*, ESSAYS IN TRANSNATIONAL ECONOMIC LAW (2006), p.17.
[486] Jan Paulsson, *Avoiding Unintended Consequences* in KARL P. SAUVANT & MICHAEL CHISWICK-PATTERSON, APPEALS MECHANISM IN INTERNATIONAL INVESTMENT DISPUTES (Oxford University Press. 2008), p.244-245.

arbitral awards under ICSID arbitration due to such absence. I presume thatit is possible to claim that the "closed network" of with a small number of ICSID arbitrators attracting most nominations serves for the centralization of arbitral awards to a certain extent and compensates the absence of a permanent appellate body. Further, it should be reminded of that WTO is the forum where the substantive rules are both drafted and enforced by technocrats and political appointees whereas ICSID is the forum where the substantive rules negotiated outside of ICSID are applied by ICSID arbitrators with valued legal skills. For that reason alone, while "in the WTO, legitimacy flows from within its diplomatic, governmental surroundings, …, legitimacy at ICSID comes from a different source: the individual neutrality, expertise and status of adjudicators".[487] Hence, the necessity for an appellate body is understandable under WTO dispute settlement in order to compensate such legitimacy differences, on the contrary to ICSID arbitration whose awards do possess self-standing value without any need to the adoption of such awards in any diplomatic meeting at ICSID or elsewhere.[488]

Similar to previous comparisons among UNCITRAL arbitration rules, ICSID arbitration rules and ICC arbitration rules, the disputes relating to applicable law and application to international law rules for the settlement of investment disputes relating to intellectual property rights are also in question under the comparison between WTO dispute settlement and ICSID arbitration. In order to provide a proper response to such comparison, the relevant question should be framed as follows: "What is the applicable law for the DSB? Is it limited to WTO law enshrined in the covered agreements or, can the entire body of public international law be used in settling disputes among the WTO member countries?"[489] Even though application of public international law as a defence directed to the claims under WTO covered agreements has been supported by Pauwelyn[490], such support cannot be grounded in the presence of the open expression of Article 3(2) of the Dispute Settlement Understanding, which provides as follows: "Recommendations and rulings of the DSB

[487] Pauwelyn, supra note 483, p.45,47.
[488] Id. at p.39.
[489] Prabhash Ranjan, *Applicable Law in the Dispute Settlement Body of the WTO*, ECONOMIC AND POLITICAL WEEKLY (2009), p.23.
[490] Joost Pauwelyn, *The Role of Public International Law in the WTO: How Far Can we Go?*, AMERICAN JOURNAL OF INTERNATIONAL LAW (2001).

cannot add to or diminish the rights and obligations provided in the covered agreements". To put it differently, such articlestrengthening member-driven position of WTO and equipping only the member countries with the power to introduce new rules and amend the existing ones does disprove the thesis supported by Pauwelyn. Further, turning to Article 7(1) of the Dispute Settlement Understanding, which provides that "…To examine, in the light of the relevant provisions in (name of the covered agreement(s) cited by the parties to the dispute), the matter referred to the DSB by (name of party)in document … and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in that/those agreement(s)". According to Pauwelyn, reference to "such findings" under Article 7(1) "acknowledges that WTO panels may need to resort to and apply rules of international law beyond WTO covered agreement"[491]. However, such interpretation would cause to a finding that action of a WTO member state which is in breach with the covered agreements can be permissible due to its consistence with the non-WTO law. However, such finding would be inconsistent with the Article 7(2) of Dispute Settlement Understanding, which provides that "Panels shall address the relevant provisions in any covered agreement or agreements cited by the parties to the dispute". Moreover, in the manner disproving the arguments of Pauwelyn, Article 11 of the Dispute Settlement Understanding stipulates that "The function of panels is to assist the DSB in discharging its responsibilities under this Understanding and the covered agreements. Accordingly, a panel should make an objective assessment of the matter before it, including an objective assessment of the facts of the case and the applicability of and conformity with the relevant covered agreements, and make such other findings as will assist the DSB in making the recommendations or in giving the rulings provided for in the covered agreements. Panels should consult regularly with the parties to the dispute and give them adequate opportunity to develop a mutually satisfactory solution". Article 11 designating the function of panels also does not provide any duty on panels to objectively assess the matter and the facts pursuant to non-WTO law. However, it should be importantly noted that such counter arguments delivered against the argument of Pauwelyn should not be considered as the effort to isolate WTO from the body of public international law.

[491] Id at p.562.

Distinction between "the use of international law or non-WTO law in clarifying the WTO covered agreements and in making the international law or non-WTO law the basis of substantive claims or defences in the WTO disputes"[492] should be made. We are in support with the former in compliance with many panel's decisions referring to many other non-WTO laws.[493]Nevertheless, in the face of ICSID arbitration rules expressly embracing the rules of international law as the basis of claims or defences under the investment disputes, WTO dispute settlement remains within the quite strict framed rules in the manner which is inconvenient with universally growing and internationally spreading nature of intellectual property rights.

Pertaining to comparison between WTO dispute settlement and ICSID arbitration, it should be indicated that the relevant provisions of Dispute Settlement Understanding with respect to confidentiality are quite strict and are not even open to any flexibility upon the obtainment of parties' consent. Not only panel deliberations and proceedings of appellate body but also all submissions made to panels and appellate bodies should be strictly confidential and anonymous. Further, the reports of panels and appellate body "shall be drafted without the presence of the parties to the dispute and in the light of the information provided and the statements made"[494]. As repeatedly emphasized above, transparency rather than confidentiality should be preferable for investment disputes with high profile for both foreign investors desiring to benefit from world public opinion to be built against the infringements of host state and host states bearing responsibility against their citizens as the sovereign for such disputes with public policy perspectives.

To conclude, in every aspect which we have considered above, ICSID arbitration is revealed as the more suitable settlement mechanism for the investment disputes with regard to intellectual property rights than WTO dispute settlement.

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[492] Ranjan, supra note 489, p.26.
[493] See *US-Import Prohibition of Certain Shrimp and Shrimp Products*, Report of the Appellate Body, WT/DS58/AB/R, 12.10.1998.
[494] Article 14(2) and Article 17(10) of the Dispute Settlement Understanding

3.3 Concluding Remarks

Within this chapter, we have reached to the conclusion of that the investment disputes relating to intellectual property rights can be settled down by various options which can be categorized under two headings, which are (i) the options which can be followed directly by foreign investors and (ii) the options which can be followed by home states. It has been detected that under the option (i), conciliation, alternative dispute resolutions, nationals courts, *ad hoc* arbitration and accordingly UNCITRAL arbitration rules and institutional arbitration and accordingly ICC arbitration rules and ICSID arbitration rules are among the possible choices which the parties, namely home states and host states, can make within investment treaties. Under the option (ii), diplomatic protection and WTO dispute settlement are appeared as the choices to be followed by homes states by taking in charge for foreign investors' claims.

Subsequently, it has been noticed that beside the intrinsic features of ICSID arbitration such as that arbitral awards resolved under ICSID arbitration is decisive and final, such arbitral awards can be directly enforced in the member states, interim measures issued by ICSID arbitral tribunals are applicable in any member state to ICSID Convention and foreign investors can directly initiate an arbitration proceeding against the host state without need for interference of the state which they are national of, we have focused on the elements differentiating ICSID arbitrationfor the purpose of this chapter of the study. It has been detected that the one of the most substantial discriminative element between ICSID arbitration and other dispute settlement mechanisms stipulated above is the independency of ICSID arbitration from any specific state law for applicable procedural rules. On the other aspect, with respect to the rules to be applied to the merits of the case, requirement of fully application of international law rules under ICSID arbitration without need of being regarded as appropriate by arbitral tribunals is another discriminative element. The impartiality desire of foreign investors demanding impartiality and accordingly their understandable desire of being binding with customarily accepted rules of international law brings ICSID arbitration into more advantageous position in the eyes of foreign investor. Further, I presume that the shift from confidentiality to transparency under ICSID arbitration does comply with the high profile nature of investment disputes with public

policy aspects.Accordingly, even if ICSID arbitration and other dispute settlement mechanisms provided aboveare compared from the perspective of same points saving the intrinsic features of ICSID arbitration, advantageous position of ICSID arbitration for foreign investors is quite obvious.

CONCLUSION

The developments improved in transportation and communication sectors in the recent years have allowed to increase of international investment relationship and swiftly shifting of production facilities across the world. Within this substantial period, international legal relationships have become more complicated. For this reason, the parties to international investment relationships do embark on a quest for the mechanism with respect to the settlement of the dispute at the beginning of the relationship between them, even before the arising of the dispute.

On the other aspect, especially after the World War II, the approach of the states to foreign capital has been affirmative and foreign capital has been deemed as the development vehicle specifically for developing states. Accordingly, such developing countries have been in competition in order to attract foreign capital from developed countries. Nowadays, foreign capital can translocate across the states expeditiously. The important part of such capital mobility is composed of international foreign direct investment transferred from developed countries to developing states. Intellectual property rights qualified as investment under international investment agreements are a huge part of such foreign direct investment in the world where the mobility of such rights is quite rapid independently from any physical existence.

One of the substantial issues in the disputes where intellectual property rights are deemed as investment is inequality of the parties during the settlement of the dispute. Since one of the parties is a sovereign state where the investment has been made whereas the other party is a private foreign investor. At this point, foreign investors do prefer arbitration forums where equality with respect to the parties' wills and interests does exist on contrary to traditional litigation proceedings where the interest of administration will be deemed as superior over the interests of the persons. Beyond that, political, economic and legal stability of the host states bear so much importance from the perspective of foreign investors since one of the constructive elements of being qualified as investment is continuance. For the very reason, foreign investors do aim to be protected against such political risks and demand assurances against the transactions causing to the limitation of

their rights. International investment agreements executed between the host state where investment has been made and home states which foreign investors are citizen of and international conventions on intellectual property rights and investment protection should be listed among such assurances. The substantial international convention introduced exclusively in terms of the protection of foreign investment and which is also the main subject of this study is ICSID Convention.

Within this study prepared with respect to the settlement of international investment disputes where intellectual property rights are evaluated as investment pursuant to the terms of international investment agreements which foreign investors have based their claims on, it is possible to summarize the results achieved in this regard as follows.

Starting with the analysis where the intrinsic features of intellectual property rights were provided, territoriality and registration principle pertaining to intellectual property rights were set forth as the milestones of the host states' claims considering their public policy considerations. Subsequent to such analysis, the definition of investment terms was analyzed from the perspective of legal sense. Specific to legal sense, the analysis of investment term has been focused on the approach of investment protection treaties. It was detected that the determination of investment definition which is lack under ICSID Convention is left to the discretion of the parties to international investment agreements. Further, the arguments defending that more restrictive conditions should be incorporated within Article 25 of the ICSID Convention were refuted by emphasizing freedom of contract much more appreciated under ICSID Convention in comparison to other treaties where public policy claims of the host state are reciprocated almost unexceptionally. Such refutation was supported with the reminder of the fact of that the investment arbitration platform provided with the ICSID Convention is the exclusive platform where investors can assert their own concerns and claims against the host State under equal terms without the need of the intervention of the State which investors are citizen of. Because of these reasons, it was defended that there is no need for the limitation such as clearly framed investment definition within Article 25 of the ICISD Convention, whereas the parties' discretion reflected on investment protection treaties was supported for the determination of

what constitutes an investment. Nevertheless, it was highlighted the importance of the existence of the balance between the interests of host states and foreign investors.

Beside such sections providing descriptive norms with respect to intellectual property rights and investment definition, as the milestone of this study, the question of whether intellectual property rights can be evaluated as investment was analyzed by especially focusing on the configurations provided by international investment agreements. Conclusively, it was detected that protection of intellectual property rights under international investment agreements indispensably requires the involvement of such rights into the investment definition drafted in such agreements. For the investment agreements which do not specifically refer to intellectual property rights within their investment definitions, for the evaluation of intellectual property rights as investment, two phased verification was foreseen. Firstly, it must be investigated whether the right claimed by the foreign investor does constitute a form of property under the domestic law of the host state. If such investigation is concluded affirmatively, secondly, it should be questioned whether the features of such right do meet other requirementsto be defined as investment under the relevant bilateral investment treaty. In this direction, incorporation of intellectual property rights within investment definition pursuant to the terms of qualified asset-based definition of investment approach was suggested.

Following the determination of that intellectual property rights can be covered as investment under international investment agreements, the substantive claims which foreign investors may apply under investment arbitration have been studied. Accordingly, national treatment, most favoured nation treatment, fair and equitable treatment and umbrella clauses were subject to such study with expropriation analysis. Such analysis and study have been realized by being specific to intellectual property rights and with some related detections from the cases of Eli Lilly v. Canada, Philip Morris v. Australia and Philip Morris v. Uruguay. With respect to national treatment standard, it was concluded that considering the protection of intellectual property rights requiring an international aspect, national treatment principle eliminating negative discrimination between foreign investors and national investors is gaining more importance. Considering the application of most favoured nation clauses under investment agreements, it was established that

importation of more favourable rights from international conventions on intellectual property rights are not available for foreign investors without express consent of the parties in this respect within the related bilateral investment treaty. Moving to fair and equitable treatment, from the perspective of intellectual property rights, the answers to two questions have been tried to found out, which are "(i) to what extent can investor expectations be legitimately grounded in the grant of an intellectual property right as such? (ii) can an investor rely on international intellectual property norms as a legitimate source of expectations?" and, pursuant to dominant views of scholars and arbitral tribunals, such questions were concluded that granting of intellectual property rights cannot be grounded on legitimate expectations of foreign investors and foreign investors cannot legitimately expect from the host states to comply with the rules of international conventions on intellectual property rights. Afterwards, by reserving such answers to the cases where the bilateral investment treaties do not include a clear reference to the compliance with international law, the importance of proper drafting of substantive standards was highlighted once more. With respect to umbrella clauses which foreign investors in the cases of Eli Lilly v. Canada, Philip Morris v. Uruguay and Philip Morris v. Australia have based their claims on, it was stipulated that the common acceptance is that bringing World Trade Organization claims before investor-state arbitral tribunals through umbrella clauses provided under bilateral investment treaties does not seem possible due to Article 23 of the DSU. In this direction, although it had been defended that issues discussed under WTO forum and investor-state arbitral tribunals are the same and both are related to the rights of the states and accordingly there is "jurisdictional competition" between such forums, I have argued that because of the differences between regulatory intent of the parties and subject matters of WTO treaties and investment agreements, jurisdictional competition between such forums does not exist. Lastly, for the achievement of expropriation claims put forward by foreign investors, it has been detected that an expropriation can be lawful only on the conditions of the expropriation should be justified under a public purpose, should not be arbitrary and discriminatory against the investor, should be in accordance with due process of law and the investor should be full compensated, and this compensation should be prompt, adequate and effective. Beside the discrimination between lawful and unlawful expropriation, specific to intellectual property rights, differentiation between indirect and

direct expropriation has been more emphasized since the institution of indirect expropriation is more available due to its nature not requiring transfer of formal title of intellectual property rights. Lastly, we have concluded our explanations with the conditions and consequences of compulsory licensing and repeat our statements with respect to the difficulty about bringing Article 31 of TRIPS Agreement designating compulsory licensing institution as WTO claim before investment tribunals due to Article 23 of the DSU.

Within the last chapter of this study, after listing the reasons why the investment disputes relating to intellectual property rights should be brought before arbitration forums rather than traditional litigation proceedings, alternative dispute resolutions, conciliation; ICSID arbitration was proposed as the most available arbitration forum for the protection of intellectual property rights covered as investment due to the independency of ICSID arbitration from any specific state law both procedural rules and estimation of international law rulesfor the merits of the case, beside the intrinsic features of ICSID arbitration such as that arbitral awards resolved under ICSID arbitration is decisive and final, such arbitral awards can be directly enforced in the member states, interim measures issued by ICSID arbitral tribunals are applicable in any member state to ICSID Convention and foreign investors can directly initiate an arbitration proceeding against the host state without need for interference of the state which they are national of.

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