

# Crossfertilizing ISDS with TRIPS

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*This Article focuses on the growing use of investor-state dispute settlement (“ISDS”) in the intellectual property area and explores what reforms can be undertaken to improve this mechanism. It begins by highlighting the substantive problems posed by ISDS in this area. It further examines the mechanism’s deleterious impact on the multilateral intellectual property system built upon the TRIPS Agreement. This Article then calls for greater crossfertilization between ISDS and the WTO system. Specifically, it advances a two-tier proposal calling for institutional reforms concerning arbitral panels while advocating the establishment of a new ISDS appellate body. This proposal draws on both the European Union’s proposal for the investment chapter in the Transatlantic Trade and Investment Partnership Agreement and the existing WTO dispute settlement process. This Article concludes by assessing the strengths and limitations of this proposal and offers some preliminary responses to its critics.*

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## INTRODUCTION

In the past few years, investor-state dispute settlement (“ISDS”) has garnered considerable scholarly, policy, and media attention.<sup>1</sup> Such attention can be partly attributed to the negotiation of the Trans-Pacific Partnership<sup>2</sup> (“TPP”) and the Transatlantic Trade and Investment Partnership<sup>3</sup> (“TTIP”). The TPP Agreement includes an investment chapter featuring an ISDS mechanism<sup>4</sup> similar to the one found in the North American Free Trade Agreement<sup>5</sup> (“NAFTA”) and other bilateral and regional investment agreements.<sup>6</sup> Similarly, the proposed TTIP

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1. For the Author’s discussions of ISDS, see generally Peter K. Yu, *The Investment-Related Aspects of Intellectual Property Rights*, 66 AM. U. L. REV. 829 (2017) [hereinafter Yu, *Investment-Related Aspects*]; Peter K. Yu, *Investor-State Dispute Settlement and the Trans-Pacific Partnership*, in INTELLECTUAL PROPERTY AND THE JUDICIARY (Christophe Geiger ed., Edward Elgar Publ’g, forthcoming 2018); Peter K. Yu, *The Pathways of Multinational Intellectual Property Dispute Settlement*, in INTELLECTUAL PROPERTY AS PROPERTY: OF PHARMACEUTICALS, TOBACCO, COMMODITIES AND OTHER MATTERS (Christopher Heath & Anselm Kamperman Sanders eds., Kluwer Law International, forthcoming 2018).

2. Trans-Pacific Partnership Agreement, Feb. 4, 2016, <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text> (not yet in force) [hereinafter TPP Agreement]. For the Author’s discussions of the TPP, see generally Peter K. Yu, *The ACTA/TPP Country Clubs*, in ACCESS TO INFORMATION AND KNOWLEDGE: 21ST CENTURY CHALLENGES IN INTELLECTUAL PROPERTY AND KNOWLEDGE GOVERNANCE 258 (Dana Beldiman ed., 2013); Peter K. Yu, *TPP, RCEP and the Crossvergence of Asian Intellectual Property Standards*, in GOVERNING SCIENCE AND TECHNOLOGY IN THE MEGA-REGIONALS: REGULATORY DIVERGENCE AND CONVERGENCE (Peng Shin-yi et al. ed., Edward Elgar Publ’g, forthcoming 2018) [hereinafter Yu, *Crossvergence*]; Peter K. Yu, *TPP, RCEP and the Future of Copyright Normsetting in the Asia-Pacific*, in MAKING COPYRIGHT WORK FOR THE ASIAN PACIFIC? JUXTAPOSING HARMONISATION WITH FLEXIBILITY (Susan Corbett & Jessica Lai eds., ANU Press, forthcoming 2018) [hereinafter Yu, *Copyright Normsetting*]; Peter K. Yu, *The Alphabet Soup of Transborder Intellectual Property Enforcement*, 60 DRAKE L. REV. DISCOURSE 16 (2012); Peter K. Yu, *Thinking About the Trans-Pacific Partnership (and a Mega-Regional Agreement on Life Support)*, 21 SMU SCI. & TECH. L. REV. (forthcoming 2018) [hereinafter Yu, *Thinking About TPP*]; Peter K. Yu, *TPP and Trans-Pacific Perplexities*, 37 FORDHAM INT’L L.J. 1129 (2014).

3. See *Transatlantic Trade and Investment Partnership (T-TIP)*, OFF. U.S. TRADE REPRESENTATIVE, <https://ustr.gov/ttip> (last visited Aug. 5, 2017) (providing information about the negotiations).

4. See TPP Agreement, *supra* note 2, arts. 9.18–30 (providing for ISDS).

5. North American Free Trade Agreement, Can.-Mex.-U.S., arts. 1115–1120, Dec. 17, 1992, 32 I.L.M. 289 (1993) (providing for ISDS).

6. See, e.g., Agreement Between the Government of Hong Kong and the Government of Australia for the Promotion and Protection of Investments art. 10, Austl.-H.K., Sept. 15, 1993, 1748 U.N.T.S. 385 (providing for the settlement of investment disputes); Agreement Between the Swiss

Agreement allows private investors involved in investor-state disputes to seek compensation from sovereign states.<sup>7</sup> In lieu of the traditional ISDS mechanism, the European Union's proposal for the investment chapter ("EU Proposal") specifically calls for the establishment of a new investment court system.<sup>8</sup>

Since the early 2010s, the growing use of ISDS to address international disputes involving intellectual property investments has also dominated the public debate. For instance, Philip Morris used the mechanism to challenge the tobacco control measures in Uruguay and Australia, taking advantage of the bilateral agreements these host states have set up with Switzerland and Hong Kong, respectively.<sup>9</sup> Likewise, Eli Lilly utilized Chapter Eleven of NAFTA to seek compensation for the Canadian courts' invalidation of its patents on the hyperactivity drug Strattera (atomoxetine) and the anti-psychotic drug Zyprexa (olanzapine).<sup>10</sup>

Interestingly, many of the ISDS-related developments have since paused or slowed down considerably. The TPP, along with its investment chapter, has been seemingly placed on life support<sup>11</sup> following the United States' withdrawal from the partnership at the beginning of the Trump administration.<sup>12</sup> The eleven remaining TPP partners have since explored ways to move the pact forward without the United States' participation, creating what is now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership—or "CPTPP," for short.<sup>13</sup> As

Confederation and the Oriental Republic of Uruguay on the Reciprocal Promotion and Protection of Investments, Switz.-Uru., art. 10, Oct. 7, 1988, 1976 U.N.T.S. 389 (addressing disputes between a contracting party and an investor of the other contracting party).

7. See EUROPEAN COMM'N, EUROPEAN UNION'S PROPOSAL FOR INVESTMENT PROTECTION AND RESOLUTION OF INVESTMENT DISPUTES (2015), [http://trade.ec.europa.eu/doclib/docs/2015/november/tradoc\\_153955.pdf](http://trade.ec.europa.eu/doclib/docs/2015/november/tradoc_153955.pdf) [hereinafter TTIP INVESTMENT CHAPTER PROPOSAL] (advancing the EU Proposal).

8. *Id.* at § 3, art. 10(2).

9. See *Philip Morris Asia Ltd. v. Commonwealth of Austl.*, PCA Case No. 2012–12, Notice of Claim (June 22, 2011); *Philip Morris Brands Sàrl v. Oriental Republic of Uru.*, ICSID Case No. ARB/10/7, Request for Arbitration (Feb. 19, 2010).

10. See *Eli Lilly & Co. v. Gov't of Can.*, ICSID Case No. UNCT/14/2, Notice of Arbitration, ¶ 4 (Sept. 12, 2013).

11. See Yu, *Thinking About TPP*, *supra* note 2, pt. II (discussing the seemingly life support status of the TPP Agreement).

12. See Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement, 82 Fed. Reg. 8497 (Jan. 23, 2017) (directing the United States Trade Representative "to provide written notification to the Parties and to the Depository of the TPP . . . that the United States withdraws as a signatory of the TPP and withdraws from the TPP negotiating process").

13. See *TPP and CPTPP: The Differences Explained*, N.Z. MINISTRY FOREIGN AFF. & TRADE, <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/cptpp-2/tpp-and-cptpp-the-differences-explained/> (last visited Dec. 14, 2017) (explaining the differences between the TPP and the CPTPP).

to the TTIP, the negotiations between the European Union and the United States had been suspended, or indefinitely stalled, even before the departure of the Obama administration.<sup>14</sup>

As if these setbacks were not frustrating enough for those advocating the greater use of ISDS in the intellectual property area, the case filed by Philip Morris against Australia was dismissed for a lack of jurisdiction in December 2015.<sup>15</sup> Meanwhile, the arbitrators in the other case found for Uruguay, as opposed to the tobacco giant.<sup>16</sup> In March 2017, Canada also prevailed in its NAFTA investment dispute with Eli Lilly, handing host states complete victories in all three recent intellectual property-related ISDS cases.<sup>17</sup>

Notwithstanding these major setbacks to private investors and their supportive governments, the ongoing developments seem to suggest that ISDS is here to stay and will soon return to the intellectual property arena.<sup>18</sup> After all, ISDS issues have remained important in the ongoing negotiations for the Regional Comprehensive Economic Partnership<sup>19</sup> (“RCEP”) and the proposed renegotiation of NAFTA.<sup>20</sup> The EU proposal

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14. See Jim Zarroli, *German Official Says U.S.-Europe Trade Talks Have Collapsed, Blames Washington*, NAT’L PUB. RADIO (Aug. 28, 2016), <http://www.npr.org/sections/thetwo-way/2016/08/28/491721332/german-official-says-u-s-europe-trade-talks-have-collapsed-blames-washington> (reporting the collapse of the TTIP negotiations).

15. Philip Morris Asia Ltd. v. Commonwealth of Austl., PCA Case No. 2012–12, Award on Jurisdiction and Admissibility, ¶ 588 (Dec. 17, 2015) [hereinafter Philip Morris v. Australia Award]; see also *supra* text accompanying note 9 (discussing Philip Morris’ ISDS complaint against Australia).

16. Philip Morris Brands Sàrl v. Oriental Republic of Uru., ICSID Case No. ARB/10/7, Award, ¶ 235 (July 8, 2016) [hereinafter Philip Morris v. Uruguay Award]; see also *supra* text accompanying note 9 (discussing Philip Morris’ ISDS complaint against Uruguay).

17. Eli Lilly & Co. v. Gov’t of Can., ICSID Case No. UNCT/14/2, Final Award, ¶ 480 (Mar. 16, 2017) [hereinafter Eli Lilly Final Award]; see also *supra* text accompanying note 10 (discussing Eli Lilly’s ISDS complaint against Canada).

18. See Ruth L. Okediji, *Is Intellectual Property “Investment”?* Eli Lilly v. Canada and the International Intellectual Property System, 35 U. PA. J. INT’L L. 1121, 1122 (2014) [hereinafter Okediji, *Is Intellectual Property “Investment”?*] (noting that ISDS arbitrations involving intellectual property disputes represent “not only a new frontier in investment arbitration, but more importantly, uncharted territory in the increasingly complex and contested landscape of international intellectual property obligations”); Yu, *Investment-Related Aspects*, *supra* note 1, at 835 (“[I]nvestment law has now rudely entered the intellectual property domain.”).

19. See 2015 Oct 16 Version: RCEP Draft Text for Investment Chapter, KNOWLEDGE ECOLOGY INT’L (Apr. 21, 2016, 1:19 PM), <http://keionline.org/node/2474> (providing the leaked October 16, 2015, text of the draft RCEP investment chapter). For the Author’s discussions of the RCEP, see generally Yu, *Copyright Normsetting*, *supra* note 2; Yu, *Crossvergence*, *supra* note 2; Peter K. Yu, *The RCEP and Trans-Pacific Intellectual Property Norms*, 50 VAND. J. TRANSNAT’L L. 673 (2017).

20. See OFF. OF THE U.S. TRADE REPRESENTATIVE [USTR], SUMMARY OF OBJECTIVES FOR THE NAFTA RENEGOTIATION 9 (2017), <https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>; see also David Dayen, *Trump’s Renegotiation of NAFTA Is Starting to Look a Lot Like the TPP*, NATION (July 18,

for the TTIP investment chapter has also been incorporated into recent bilateral and regional trade and investment agreements.<sup>21</sup>

Thus, when all of the recent ISDS-related activities are taken into consideration, there is a growing need for a closer look at the activities lying at the intersection of intellectual property and investment. If ISDS is to be used more widely and frequently in the intellectual property area, we will need to develop a better understanding of the mechanism—in particular, why it does or does not work well with the protection and enforcement of intellectual property rights.<sup>22</sup> We will also need to explore how the ISDS mechanism can be improved. In fact, if we do not start paying attention now, it may be too late to do so should ISDS become more widely and frequently used in the intellectual property area.<sup>23</sup>

There are certainly those who believe that ISDS does not belong in the intellectual property arena.<sup>24</sup> I am actually quite sympathetic to that position, especially in regard to issues involving obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>25</sup> (“TRIPS Agreement”) of the World Trade Organization (“WTO”). However, acquiring a deeper understanding of ISDS in the intellectual

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2017), <https://www.thenation.com/article/trumps-renegotiation-of-nafta-is-starting-to-look-a-lot-like-the-tpp/>:

While the document states that ISDS would have to be more transparent (hearings and judgments would be public) and “consistent with U.S. legal principles and practice,” it still exists, meaning corporations could still functionally overturn sovereign laws outside of the court system, and win billions of damages when governments try to write rules in the public interest.

21. Comprehensive Economic and Trade Agreement Between Canada and the European Union and Its Member States, Can.-EU, ch. 8, Oct. 30, 2016 [hereinafter CETA]; European Union–Vietnam Free Trade Agreement, EU-Viet., ch. 8 (Jan. 2016 Draft), <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>.

22. See Yu, *Investment-Related Aspects*, *supra* note 1, at 910:

Greater preparation and engagement in this area will help us improve ISDS while enhancing our understanding of this highly controversial mechanism. For those who want to keep ISDS outside the intellectual property field, a deepened understanding will also strengthen our ability to resist the use of investment law in the intellectual property field.

23. As I noted in a recent article:

[I]t will be important to start thinking more deeply about the investment-related aspects of intellectual property rights. After all, policymakers, commentators, and civil society organizations are unlikely to propose solutions to improve ISDS if they just focus on how to keep ISDS outside the intellectual property field. By the time they realize that the mechanism cannot be kept outside the field, it will just be too late to start studying the investment-related aspects of intellectual property rights.

*Id.*

24. See sources cited *infra* notes 26 and 147.

25. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

property area will not undermine the ongoing effort to prevent ISDS from being used in this area. In fact, it will help advocates develop stronger arguments explaining why intellectual property carve-outs are badly needed in ISDS.<sup>26</sup> To date, those arguments have scored some important victories. A case in point is the Comprehensive Economic and Trade Agreement Between Canada and the European Union<sup>27</sup> (“CETA”). Signed in October 2016, this agreement imposes limits on the use of ISDS to “determin[e] . . . the existence and validity of intellectual property rights.”<sup>28</sup>

This Article focuses on the growing use of ISDS in the intellectual property area and explores what reforms can be undertaken to improve the mechanism. Part I highlights the substantive problems posed by ISDS in this area. It further examines the mechanism’s deleterious impact on the multilateral intellectual property system built upon the TRIPS Agreement. Part II calls for greater crossfertilization between ISDS and the WTO system. Specifically, it advances a two-tier proposal calling for institutional reforms concerning arbitral panels while advocating the establishment of a new ISDS appellate body. This proposal draws on both the EU Proposal and the existing WTO dispute settlement process.<sup>29</sup> Part

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26. See, e.g., Brook K. Baker & Katrina Geddes, *Corporate Power Unbound: Investor-State Arbitration of IP Monopolies on Medicines—Eli Lilly v. Canada and the Trans-Pacific Partnership Agreement*, 23 J. INTEL. PROP. L. 1, 58 (2015) [hereinafter Baker & Geddes, *Corporate Power Unbound*] (proposing “to rewrite the [TPP] Investment Chapter to explicitly exclude IPRs [intellectual property rights] and to clarify that IPRs are not even indirectly protected by the definition of ‘investment’”); Cynthia M. Ho, *A Collision Course Between TRIPS Flexibilities and Investor-State Proceedings*, 6 U.C. IRVINE L. REV. 395, 458 (2016) [hereinafter Ho, *A Collision Course*] (calling for “states to exclude IP [intellectual property] from ICSID [International Centre for Settlement of Investment Disputes] disputes under Article 25(4) of [the] ICSID [Convention]”); Cynthia M. Ho, *Sovereignty Under Siege: Corporate Challenges to Domestic Intellectual Property Decisions*, 30 BERKELEY TECH. L.J. 213, 255 (2015) [hereinafter Ho, *Sovereignty Under Siege*] (“Intellectual property should be excluded from investor-state arbitration because providing enhanced protection of IP does not satisfy traditional justifications for investment arbitrations.”); Sean Flynn, *TPP Carve out for Tobacco Shows Core Flaws in Investor-State Dispute Settlement (ISDS)*, INFOJUSTICE.ORG (Oct. 1, 2015), <http://infojustice.org/archives/35107>:

Tobacco should be carved out of free trade agreements. But so should all other claims of “indirect” expropriation of expected profits of a company through health and safety regulations, including the regulation of intellectual property. At minimum, the treating of the IP chapter differently than all other substantive chapters (which remain subject only to state to state adjudication) needs to be fixed.

27. CETA, *supra* note 21.

28. *Id.* Annex 8-D (Joint Declaration Concerning Article 8.12.6) (“Mindful that the Tribunal for the resolution of investment disputes between investors and states is . . . not an appeal mechanism for the decisions of domestic courts, the Parties recall that the domestic courts of each Party are responsible for the determination of the existence and validity of intellectual property rights.”).

29. See Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401 [hereinafter Dispute Settlement Understanding] (providing the rules for the WTO dispute

III assesses the strengths and limitations of this proposal and offers some preliminary responses to its critics.

### I. ONGOING CONCERNS

In a recent article, I outlined three distinct sets of problems relating to the existing ISDS mechanism: process-related, interpretation-related, and outcome-related.<sup>30</sup> Collectively, these problems reveal its substantive and procedural flaws. They also explain why this mechanism has attracted trenchant critiques from policymakers, commentators, civil society organizations, mass media, and members of the public.<sup>31</sup> Given the discussion in the earlier work, this Part does not intend to re-identify these problems. Instead, it focuses on problems that will arise when ISDS is being used in the intellectual property area. To underscore these more specific problems, this Part regroups them based on three distinct sets of ongoing concerns: inconsistency, incoherence, and inequity. This Part discusses each set of concerns in turn.

#### A. Inconsistency

The first set of concerns relates to the high volume of inconsistencies the ISDS mechanism has produced.<sup>32</sup> These inconsistencies can be found

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settlement process).

30. See Yu, *Investment-Related Aspects*, *supra* note 1, at 851–65.

31. See Clinton and Sanders Oppose “Lame Duck” Vote on the Trans-Pacific Partnership, OR. FAIR TRADE CAMPAIGN (May 6, 2016), <http://www.citizenstrade.org/ctc/oregon/2016/05/05/clinton-and-sanders-oppose-lame-duck-tpp-vote> (reporting that Hillary Clinton described ISDS as “flawed” and called for “a new paradigm for trade agreements that doesn’t give special rights to corporations, but not to workers and NGOs”); Deirdre Fulton, *As Countries Line up to Sign Toxic Deal, Warren Leads Call to Reject TPP*, COMMON DREAMS (Feb. 3, 2016), <http://www.commondreams.org/news/2016/02/03/countries-line-sign-toxic-deal-warren-leads-call-reject-tpp> (reporting that Senator Elizabeth Warren condemned ISDS for giving large multinational corporations “the right to challenge laws they don’t like—not in court, but in front of industry-friendly arbitration panels that sit outside any court system”); see also Jessica Hopper & Ines de la Cuetara, *Donald Trump Slams Trans-Pacific Partnership as ‘A Continuing Rape of Our Country,’* ABC NEWS (June 29, 2016, 7:17 AM), <http://abcnews.go.com/Politics/donald-trump-slams-trans-pacific-partnership-continuing-rape/story?id=40213090> (reporting that then-presidential candidate Donald Trump lambasted the TPP as “another disaster, done and pushed by special interests who want to rape our country”).

32. See Charles N. Brower & Stephan W. Schill, *Is Arbitration a Threat or a Boon to the Legitimacy of International Investment Law?*, 9 CHI. J. INT’L L. 471, 473 (2009) (“[U]npredictability and incoherence in investor-state dispute settlement . . . are considerable and in need of serious attention. . . .”); Susan D. Franck, *The Legitimacy Crisis in Investment Treaty Arbitration: Privatizing Public International Law Through Inconsistent Decisions*, 73 FORDHAM L. REV. 1521, 1558–82 (2005) [hereinafter Franck, *Legitimacy Crisis*] (discussing inconsistent decisions in investment treaty arbitrations); Stefanie Schacherer, *TPP, CETA and TTIP Between Innovation and Consolidation—Resolving Investor-State Disputes Under Mega-regionals*, 7 J. INT’L DISP. SETTLEMENT 628, 640 (2016) (“Inconsistency of arbitral awards is [a] frequent criticism of investment arbitration.”); Stephan W. Schill, *The European Commission’s Proposal of*

in “(1) cases involving the same facts, related parties, and similar investment rights, (2) cases involving similar commercial situations and similar investment rights, and (3) cases involving different parties, different commercial situations, and the same investment rights.”<sup>33</sup> Although inconsistent arbitral decisions affect all ISDS cases, not just those in the intellectual property area, having a more consistent and predictable arbitration system will be important regardless of what subject matter the investor-state disputes cover.

In ISDS cases, the lack of consistency and predictability is generally attributed to three reasons. The first reason is that ISDS lacks binding precedents.<sup>34</sup> As Christoph Schreuer and Matthew Weiniger reminded us:

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an “Investment Court System” for TTIP: *Stepping Stone or Stumbling Block for Multilateralizing International Investment Law?*, ASIL INSIGHTS (Apr. 22, 2016), <https://www.asil.org/insights/volume/20/issue/9/european-commissions-proposal-investment-court-system-ttip-stepping>:

[T]he decentralized structure of arbitration has resulted in a significant number of inconsistent and incoherent decisions as regards the interpretation of not only similar provisions across different [international investment agreements], but also provisions of the same agreement in relation to virtually identical facts. These inconsistencies have fueled concern about the lack of predictability of international investment law, adding to the sense of a legitimacy crisis of the field.

33. Franck, *Legitimacy Crisis*, *supra* note 32, at 1559 (footnotes omitted).

34. The debate on the lack of binding precedents, however, is not that clear-cut. Compare Christoph Schreuer & Matthew Weiniger, *A Doctrine of Precedent?*, in THE OXFORD HANDBOOK OF INTERNATIONAL INVESTMENT LAW 1188, 1196 (Peter Muchlinski et al. eds., 2008) [hereinafter OXFORD HANDBOOK]:

[I]n some cases tribunals did not follow earlier decisions but adopted different solutions. At times, they simply adopted a different solution without distancing themselves from the earlier decision. At other times, they referred to the earlier decision and pointed out that they were unconvinced by what another tribunal had said and that, therefore, their decision departed from the one adopted earlier.

with Marc Bungenberg & Catharine Titi, *Precedents in International Investment Law*, in INTERNATIONAL INVESTMENT LAW: A HANDBOOK 1505, 1508 (Marc Bungenberg et al. eds., 2015) [hereinafter INTERNATIONAL INVESTMENT LAW HANDBOOK] (“Despite the absence of a formal doctrine of binding precedent, investment tribunals generally rely on earlier awards to buttress their legal reasoning, often treating them as determinative or authoritative statements of applicable rules or principles of law.” (footnote omitted)), Loretta Malintoppi, *Independence, Impartiality, and Duty of Disclosure of Arbitrators*, in OXFORD HANDBOOK, *supra*, at 789, 792 (“While it cannot be said that the rule of legal precedent (*stare decisis*) applies in international arbitration in general, investment arbitration has witnessed a growth in reported jurisprudence. Litigation parties frequently rely on this jurisprudence to support their legal arguments and tribunals often apply these precedents as grounds for their findings.” (footnote omitted)), and Cheng Tai-Heng, *Precedent and Control in Investment Treaty Arbitration*, 30 FORDHAM INT’L L.J. 1014, 1016 (2007) (“[A]lthough arbitrators in investment treaty arbitration are not formally bound by precedent in the same manner as common-law judges, there is an informal, but powerful, system of precedent that constrains arbitrators to account for prior published awards and to stabilize international investment law.” (footnote omitted)). For discussions of the doctrine of precedent in relation to international investment arbitration, see generally Bungenberg & Titi, *supra*; Joshua Karton, *Lessons from International Uniform Law*, in RESHAPING THE INVESTOR-STATE DISPUTE SETTLEMENT SYSTEM: JOURNEYS FOR THE 21ST CENTURY 48 (Jean E. Kalicki & Anna Joubin-



Reliance on past decisions is a fundamental feature of any orderly decision process. Drawing on the experience of past decision plays an important role in securing the necessary uniformity and stability of the law. The need for a coherent case-law is evident. It strengthens the predictability of decisions and enhances their authority.<sup>35</sup>

Although *stare decisis* remains a special feature of common law and is unlikely to be available in other types of jurisdictions, disputing parties from around the world increasingly expect similar cases to be decided consistently and predictably.<sup>36</sup> In the WTO, for example, even though the dispute panels and the Appellate Body are not required to follow any precedent, they have used previous cases for explanation and support.<sup>37</sup> As the Appellate Body reasoned in *Japan—Taxes on Alcoholic Beverages*,<sup>38</sup> the use of earlier relevant cases could help “create legitimate expectations among WTO Members.”<sup>39</sup> Similarly, in a case filed by Serbia and Montenegro against Portugal, judges of the International Court of Justice declared, “[I]n exercising its choice, [the Court] must ensure consistency with its own past case law in order to provide predictability. Consistency is the essence of judicial reasoning. This is especially true in different phases of the same case or with regard

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Bret eds., 2015) [hereinafter *RESHAPING THE ISDS SYSTEM*]; Schreuer & Weiniger, *supra*; Andres Rigo Sureda, *Precedent in Investment Treaty Arbitration*, in *INTERNATIONAL INVESTMENT LAW FOR THE 21ST CENTURY: ESSAYS IN HONOUR OF CHRISTOPH SCHREUER 830* (Christina Binder et al. eds., 2009) [hereinafter *INTERNATIONAL INVESTMENT LAW*].

35. Schreuer & Weiniger, *supra* note 34, at 1189.

36. See August Reinisch, *The Future of Investment Arbitration*, in *INTERNATIONAL INVESTMENT LAW*, *supra* note 34, at 894, 905–08 (discussing the danger of inconsistent investment arbitral awards).

37. As the WTO noted in its training materials:

Even if adopted, the reports of panels and the Appellate Body are not binding precedents for other disputes between the same parties on other matters or different parties on the same matter, even though the same questions of WTO law might arise. As in other areas of international law, there is no rule of *stare decisis* in WTO dispute settlement according to which previous rulings bind panels and the Appellate Body in subsequent cases. This means that a panel is not obliged to follow previous Appellate Body reports even if they have developed a certain interpretation of exactly the provisions which are now at issue before the panel. Nor is the Appellate Body obliged to maintain the legal interpretations it has developed in past cases. . . . If the reasoning developed in the previous report in support of the interpretation given to a WTO rule is persuasive from the perspective of the panel or the Appellate Body in the subsequent case, it is very likely that the panel or the Appellate Body will repeat and follow it. This is also in line with a key objective of the dispute settlement system which is to enhance the security and predictability of the multilateral trading system. . . .

7.2 *Legal Status of Adopted/Unadopted Reports in Other Disputes*, WORLD TRADE ORG., [https://www.wto.org/english/tratop\\_e/dispu\\_e/disp\\_settlement\\_cbt\\_e/c7s2p1\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c7s2p1_e.htm) (last visited Feb. 5, 2017).

38. Appellate Body Report, *Japan—Taxes on Alcoholic Beverages*, WTO Docs. WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (adopted Oct. 4, 1996).

39. *Id.* at 13.

to closely related cases.”<sup>40</sup>

The second reason is that ISDS lacks an appellate mechanism. As Cynthia Ho lamented, “[a]lthough tribunals often rely on prior decisions and awards, and counsel for parties regularly cite prior decisions, the lack of hierarchy among tribunals as compared to traditional court systems, as well as the lack of an appellate system, may result in unpredictability.”<sup>41</sup> Likewise, Asif Qureshi observed, “[m]ost successful judicial systems are accompanied by an appellate process.”<sup>42</sup> Indeed, the call for introducing an appellate mechanism to international investment arbitration can be traced back to at least the 1980s.<sup>43</sup> In regard to investment, Section 2102 of the U.S. Trade Act of 2002 also included among the principal trade negotiating objectives the provision of “an appellate body or similar mechanism to provide coherence to the interpretations of investment provisions in trade agreements.”<sup>44</sup> It is therefore no surprise that Article 9.23.11 of the TPP Agreement includes obligations that are conditioned on the future development of “an appellate mechanism for reviewing awards rendered by investor-State dispute settlement tribunals.”<sup>45</sup>

To address the shortcoming in this area, commentators have advanced several institutional reforms. For instance, Rochelle Dreyfuss and Susy Frankel have supported “the creation of a central appellate body for investment disputes to address both consistency and substantive issues, . . . [as such a body] would have the same appreciation for IP [intellectual property] rationales as . . . the [WTO] Appellate Body would have for public-regarding principles.”<sup>46</sup> Focusing on the active

40. Legality of Use of Force (Serb. & Montenegro v. Port.), Judgment, 2004 I.C.J. 1160, 1208, ¶ 3 (Dec. 15) (joint declaration of Vice-President Ranjeva, Judges Guillaume, Higgins, Kooijmans, Al-Khasawneh, Buergenthal, and Elaraby).

41. Ho, *Sovereignty Under Siege*, *supra* note 26, at 234.

42. Asif H. Qureshi, *An Appellate System in International Investment Arbitration?*, in OXFORD HANDBOOK, *supra* note 34, at 1154, 1155.

43. See Ieva Kalnina & Domenico Di Pietro, *The Scope of ICSID Review: Remarks on Selected Problematic Issues of ICSID Decisions*, in INTERNATIONAL INVESTMENT LAW, *supra* note 34, at 221, 245 (“The idea of a permanent review institution that could ensure consistency of the international arbitral jurisprudence has been contemplated in doctrine since the 1980s.”).

44. 19 U.S.C. § 3802(b)(3)(G)(iv) (2012).

45. The provision states:

In the event that an appellate mechanism for reviewing awards rendered by investor-State dispute settlement tribunals is developed in the future under other institutional arrangements, the Parties shall consider whether awards rendered under Article 9.29 (Awards) should be subject to that appellate mechanism. The Parties shall strive to ensure that any such appellate mechanism they consider adopting provides for transparency of proceedings similar to the transparency provisions established in Article 9.24 (Transparency of Arbitral Proceedings).

TPP Agreement, *supra* note 2, art. 9.23.11.

46. Rochelle Dreyfuss & Susy Frankel, *From Incentive to Commodity to Asset: How International Law Is Reconceptualizing Intellectual Property*, 36 MICH. J. INT’L L. 557, 601

involvement of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID"), many commentators have also explored the possibility of creating an appeals facility within ICSID.<sup>47</sup>

The last reason is that the existing ISDS mechanism does not provide much transparency. As Kate Miles lamented, although ISDS cases "resolve questions that can affect significant matters of public policy, the public generally does not have access to the documents, the proceedings are conducted behind closed doors, and the submission of amicus curiae briefs is restricted, if permitted at all."<sup>48</sup> Even worse, policymakers, commentators, and civil society organizations thus far have had great difficulty uncovering what happens in ISDS proceedings.<sup>49</sup> A case in point is Philip Morris' ISDS case against Australia, whose notice of claim was made available only through a request for declassification under the Australian Freedom of Information Act.<sup>50</sup> Had the case not been publicly disclosed, one has to wonder whether it would have received as much public attention as it did.<sup>51</sup>

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(2015); *see also* Franck, *Legitimacy Crisis*, *supra* note 32, at 1606–10 (discussing the benefits of establishing an appellate mechanism in investment treaty arbitrations); Okediji, *Is Intellectual Property "Investment"?*, *supra* note 18, at 1137 (calling for the provision of "a form of appellate review for investor-state disputes involving intellectual property, such as the type that exists in the WTO system or in national law"); Qureshi, *supra* note 42 (discussing the expediency and feasibility of having an appellate system in international investment arbitration); Reinisch, *supra* note 36, at 910–11 (discussing the need for an appellate mechanism in investment arbitration). For a collection of articles on the development of an appellate mechanism within ISDS, *see generally* RESHAPING THE ISDS SYSTEM, *supra* note 34, at 403–505.

47. *See* ICSID Secretariat, *Possible Improvements of the Framework for ICSID Arbitration* (ICSID Secretariat, Discussion Paper, 2004), <https://icsid.worldbank.org/en/Documents/resources/Possible%20Improvements%20of%20the%20Framework%20of%20ICSID%20Arbitration.pdf> (advancing the proposal for an ICSID appeals facility); Kalnina & Di Pietro, *supra* note 43, at 245–46 (discussing the potential creation of an ICSID Appeals Body); Donald McRae, *The WTO Appellate Body: A Model for an ICSID Appeals Facility?*, 1 J. INT'L DISP. SETTLEMENT 371 (2010) (doubting that the success of the WTO Appellate Body could be emulated in an appeals facility for the investment area); Yen Kong Ngangjoh-Hodu & Collins C. Ajibo, *ICSID Annulment Procedure and the WTO Appellate System: The Case for an Appellate System for Investment Arbitration*, 6 J. INT'L DISP. SETTLEMENT 308, 326–30 (2015) (discussing whether ICSID should have an appellate mechanism).

48. Kate Miles, *Reconceptualising International Investment Law: Bringing the Public Interest into Private Business*, in INTERNATIONAL ECONOMIC LAW AND NATIONAL AUTONOMY 295, 295–96 (Meredith Kolsky Lewis & Susy Frankel eds., 2010).

49. *See* Ho, *Sovereignty Under Siege*, *supra* note 26, at 234 (noting that "the proceedings and decisions may lack the same level of transparency as most judicial decisions"); Schacherer, *supra* note 32, at 647 ("The lack of transparency of the proceedings has been among the first criticisms raised against investment arbitration.").

50. *See* Yu, *Investment-Related Aspects*, *supra* note 1, at 853–54 (noting the request for declassification).

51. *See* ANNA JOUBIN-BRET, ESTABLISHING AN INTERNATIONAL ADVISORY CENTRE ON INVESTMENT DISPUTES? 2 (2015) ("[A] host of cases brought under investment contracts or before the International Chamber of Commerce (ICC) or regional arbitration institutions are not publicly

### B. Incoherence

The second set of concerns pertains to the growing incoherence in the international intellectual property system, which has been built upon not only the TRIPS Agreement, but also other international intellectual property agreements administered by the World Intellectual Property Organization (“WIPO”).<sup>52</sup> These concerns can be attributed to at least four reasons.

The first reason is that the proliferation of ISDS cases and the arrival of new investment discussions in the intellectual property area have greatly fragmented the multilateral system.<sup>53</sup> Indeed, the growing trend of using investment law and fora to set international intellectual property norms has led norm-setting activities to shift from the intellectual property regime to the investment regime.<sup>54</sup> Such a regime shift could greatly reduce the historical context concerning international intellectual

known. . .”); Gary B. Born & Ethan G. Shenkman, *Confidentiality and Transparency in Commercial and Investor-State International Arbitration*, in *THE FUTURE OF INVESTMENT ARBITRATION* 5, 28 (Catherine A. Rogers & Roger P. Alford eds., 2009):

The UNCITRAL Rules . . . provide for *ad hoc* arbitration with no central registry or requirement that the existence of UNCITRAL cases be publicly registered. For this reason, investors seeking to keep their disputes with states out of the public eye may decide, treaty permitting, to opt for an *ad hoc* arbitral mechanism rather than ICSID. Some non-trivial percentage of investor-state arbitrations are thus never made public.

52. See Peter K. Yu, *International Enclosure, the Regime Complex, and Intellectual Property Schizophrenia*, 2007 MICH. ST. L. REV. 1, 18 (2007) (noting the growing “focus on the coherence of intellectual property policies, in addition to the maintenance of balance and flexibility in those policies”).

53. See Peter K. Yu, *The Non-multilateral Approach to International Intellectual Property Normsetting*, in *INTERNATIONAL INTELLECTUAL PROPERTY: A HANDBOOK OF CONTEMPORARY RESEARCH* 83, 93–94 (Daniel J. Gervais ed., 2015) [hereinafter Yu, *Non-multilateral Approach*] (discussing the growing fragmentation of the international regulatory system); see also Eyal Benvenisti & George W. Downs, *The Empire’s New Clothes: Political Economy and the Fragmentation of International Law*, 60 STAN. L. REV. 595, 597–98 (2007) (noting that the growing proliferation of international regulatory institutions with overlapping jurisdictions and ambiguous boundaries has helped powerful states to preserve their dominance); Jagdish Bhagwati, *U.S. Trade Policy: The Infatuation with Free Trade Areas*, in *THE DANGEROUS DRIFT TO PREFERENTIAL TRADE AGREEMENTS* 1, 2–3 (Jagdish Bhagwati & Anne O. Krueger eds., 1995) (warning that the negotiation of a new wave of preferential trade agreements could lead to the creation of a “spaghetti bowl”).

54. See Dreyfuss & Frankel, *supra* note 46, at 566 (“While TRIPS laid the platform for commodification, much of the current regime shifting is reconceptualizing IP as an asset and progressively detaching it from its grounding in incentive-based principles.”); James Gathii & Cynthia Ho, *Regime Shifting of IP Lawmaking and Enforcement from the WTO to the International Investment Regime*, 18 MINN. J.L. SCI. & TECH. 427, 430 (2017) (footnote omitted):

[T]he preference for bringing investor-state arbitration is not merely a case of forum shopping which would entail pursuing a one-time successful case—but regime shifting designed to re-draw international and domestic laws and regulations that balance intellectual property law protections with public purposes such as safeguarding the regulatory autonomy of states in the areas of health, human rights, and development.

property laws and policies while at the same time taking away the technical expertise needed to deal with specific rules in this challenging area.<sup>55</sup>

In addition, the allowance for the use of parallel proceedings<sup>56</sup> to challenge intellectual property and intellectual property-related regulations in host states threatens to “make the multilateral system less appealing and thereby undermine its stability and growth.”<sup>57</sup> For many host states with limited resources, such as those in the developing world, the greater focus on defending ISDS cases can also “[force these] countries to divert scarce time, resources, energy, and attention from other international intergovernmental initiatives,” including the development of the multilateral intellectual property system.<sup>58</sup>

The second reason is that ISDS awards can upset the TRIPS bargain. In fact, those awards could slowly rewrite the TRIPS Agreement—or, for that matter, other multilateral trade or intellectual property agreements.<sup>59</sup>

55. See P. BERNT HUGENHOLTZ & RUTH L. OKEDIJI, *CONCEIVING AN INTERNATIONAL INSTRUMENT ON LIMITATIONS AND EXCEPTIONS TO COPYRIGHT: FINAL REPORT* 39–40 (2008) (“[T]he WTO lacks the important historical context and technical considerations to evaluate the need for an international instrument on [limitations and exceptions to copyright] and to analyze the nature and scope of what might be contained in such an instrument.”); JAYASHREE WATAL, *INTELLECTUAL PROPERTY RIGHTS IN THE WTO AND DEVELOPING COUNTRIES* 5 (2001) (“WIPO . . . has a mandate to strengthen IPR protection and can thus start discussions on IP subjects more easily than the WTO. It can also draw upon experts from both the government and private sector for more broad-based discussions.”); Peter K. Yu, *Currents and Crosscurrents in the International Intellectual Property Regime*, 38 *LOY. L.A. L. REV.* 323, 367–75 (2004) [hereinafter Yu, *Currents and Crosscurrents*] (noting the need for intellectual property norm setting to move from the WTO back to WIPO for the negotiation of two new Internet-related treaties). For discussions of “forum shifting” or “regime shifting” strategies, see generally JOHN BRAITHWAITE & PETER DRAHOS, *GLOBAL BUSINESS REGULATION* 564–71 (2000); Laurence R. Helfer, *Regime Shifting: The TRIPs Agreement and New Dynamics of International Intellectual Property Lawmaking*, 29 *YALE J. INT’L L.* 1 (2004); Yu, *Currents and Crosscurrents*, *supra*, at 408–16.

56. See Daniel Kalderimis, *Exploring the Differences Between WTO and Investment Treaty Dispute Resolution*, in *TRADE AGREEMENTS AT THE CROSSROADS* 46, 58 (Susy Frankel & Meredith Kolsky Lewis eds., 2014) (discussing the various cases in which “the same dispute has triggered both WTO and arbitration procedures”); Yu, *Investment-Related Aspects*, *supra* note 1, at 833 (providing an example of parallel proceedings relating to efforts to challenge the plain-packaging regulations for tobacco products in Australia); see also Katia Yannaca-Small, *Parallel Proceedings*, in *OXFORD HANDBOOK*, *supra* note 34, at 1008 (discussing parallel proceedings in investment arbitration).

57. Yu, *Non-multilateral Approach*, *supra* note 53, at 92.

58. Peter K. Yu, *Intellectual Property and Human Rights in the Nonmultilateral Era*, 64 *FLA. L. REV.* 1045, 1089 (2012).

59. See Ho, *Sovereignty Under Siege*, *supra* note 26, at 223 (arguing that “permitting companies to challenge domestic decisions regarding intellectual property through investor-state disputes is problematic because they disrupt internationally agreed norms under TRIPS, and also because the historical justifications for protecting foreign investors do not apply”); Okediji, *Is Intellectual Property “Investment”?*, *supra* note 18, at 1123–24 (footnote omitted):

On face value, Eli Lilly’s claims could effectively constitute a revision of NAFTA. If

Such rewriting will undermine the hard-earned bargains developing countries have won through the WTO negotiations.<sup>60</sup> A case in point is the moratorium imposed on non-violation complaints—complaints of nullification or impairment of trade benefits when no substantive violation has occurred.<sup>61</sup> Since the adoption of the TRIPS Agreement, this moratorium has been repeatedly extended—most recently during the Eleventh WTO Ministerial Conference in Buenos Aires, Argentina, in December 2017.<sup>62</sup> Despite this extension, nothing can prevent ISDS arbitrators from considering complaints that are based on impaired benefits or frustrated expectations, as opposed to substantive violations.

Similarly, Brook Baker and Katrina Geddes expressed concern that “there is a risk that an IP rightholder might bring a claim because of a governmental failure to intercept alleged infringing products in-transit via stringent border measures.”<sup>63</sup> In their view, such a failure “might be interpreted to violate the right to fair and equitable treatment in administrative border procedures.”<sup>64</sup> Their concern is highly understandable considering the controversy generated by repeated in-transit seizures of pharmaceutical products<sup>65</sup> during the negotiations for

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Lilly is successful in its grander objective—a ruling that Canada is required to change its current utility standard—the implications for intellectual property multilateralism, and for intellectual property policy in all countries, would be stunning indeed.

60. See Susy Frankel, *Interpreting the Overlap of International Investment and Intellectual Property Law*, 19 J. INT’L ECON. L. 121, 124 (2016) [hereinafter Frankel, *Interpreting the Overlap*] (“The current investment disputes where investors claim indirect expropriation or the absence of fair and equitable treatment of IP are not just IP in a new forum, but point toward a shift away from the balancing mechanisms that are integral to IP (even if those mechanisms do not always operate as well as they might) to a sphere which has fewer (if any) equivalent balancing mechanisms.” (footnotes omitted)); Ho, *Sovereignty Under Siege*, *supra* note 26, at 250 (“Beyond interfering with an existing dispute resolution process and producing potentially inconsistent decisions, permitting investor-state arbitrations to overrule internationally agreed upon domestic flexibilities under TRIPS seems particularly unfair to countries since TRIPS already encroaches on traditional domestic authority in the area of intellectual property rights.”); see also Ruth L. Okediji, *Back to Bilateralism? Pendulum Swings in International Intellectual Property Protection*, 1 U. OTTAWA L. & TECH. J. 125, 129 (2004) (lamenting that bilateral free trade agreements threaten to “roll back both substantive and strategic gains” won by developing countries in the multilateral process).

61. See generally Susy Frankel, *Challenging TRIPS-Plus Agreements: The Potential Utility of Non-Violation Disputes*, 12 J. INT’L ECON. L. 1023 (2009) (discussing non-violation complaints in the TRIPS context).

62. See World Trade Organization, *TRIPS Non-Violation and Situation Complaints: Draft Ministerial Decision of 13 December 2017*, WTO Doc. WT/MIN(17)/W/7 (providing the draft ministerial decision indicating the WTO members’ agreement to refrain from initiating any non-violation complaints under the TRIPS Agreement until the next WTO Ministerial Meeting in December 2019).

63. Baker & Geddes, *Corporate Power Unbound*, *supra* note 26, at 34 (footnote omitted).

64. *Id.*

65. See Peter K. Yu, *Six Secret (and Now Open) Fears of ACTA*, 64 SMU L. REV. 975, 1009 (2011) (“[I]n the middle of the negotiations, the discussion of the seizure of in-transit generic drugs became a very hot issue due to new developments in Germany, the Netherlands, and the United

the Anti-Counterfeiting Trade Agreement<sup>66</sup> (“ACTA”). At that time, the seizures were so contentious that India and Brazil filed complaints against the European Union and the Netherlands before the WTO Dispute Settlement Body.<sup>67</sup> Although India and the European Union eventually reached an interim settlement in July 2011 amid their negotiations for a new economic partnership agreement,<sup>68</sup> neither Brazil nor India has withdrawn its complaint.

The third reason is that ISDS could ratchet up the standards of intellectual property protection and enforcement, thereby amplifying the widely documented deleterious impacts of TRIPS-plus bilateral, regional, and plurilateral agreements.<sup>69</sup> As I noted in an earlier article:

[T]he ISDS mechanism will enable intellectual property rights holders to push for protection not yet covered by the TRIPS Agreement. Thus far, many host states have been actively avoiding additional intellectual property obligations under TRIPS-plus bilateral, regional, and plurilateral trade agreements. Yet the broad definition of covered investment may allow intellectual property rights holders to use ISDS to demand higher standards of intellectual property protection and enforcement even when those standards are not required. If ISDS-based strategies prove successful, developed country governments and multinational corporations may become more eager to rewrite

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Kingdom.”); Peter K. Yu, *Virotech Patents, Viropiracy, and Viral Sovereignty*, 45 ARIZ. ST. L.J. 1563, 1588 (2013) (“During the ACTA negotiations, stories about the seizure of pharmaceuticals in Europe have raised important questions about the intellectual property enforcement standards set in the TRIPS Agreement and the handling of in-transit goods under the General Agreement on Tariffs and Trade.”). For discussions of the seizure of in-transit drugs, see generally CYNTHIA M. HO, ACCESS TO MEDICINE IN THE GLOBAL ECONOMY: INTERNATIONAL AGREEMENTS ON PATENTS AND RELATED RIGHTS 285–323 (2011); Frederick M. Abbott, *Seizure of Generic Pharmaceuticals in Transit Based on Allegations of Patent Infringement: A Threat to International Trade, Development and Public Welfare*, 1 WIPO J. 43, 44 (2009); Bryan Mercurio, ‘Seizing’ Pharmaceuticals in Transit: Analysing the WTO Dispute That Wasn’t, 61 INT’L & COMP. L.Q. 389 (2012).

66. Anti-Counterfeiting Trade Agreement, *opened for signature* May 1, 2011, 50 I.L.M. 243.

67. See Request for Consultations by Brazil, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WTO Doc. WT/DS409/1 (May 19, 2010); Request for Consultations by India, *European Union and a Member State—Seizure of Generic Drugs in Transit*, WTO Doc. WT/DS408/1 (May 19, 2010).

68. See Times News Network, *India, EU Ink Deal to End Drug Seizure for Now*, TIMES INDIA (July 29, 2011, 1:21 AM), <http://timesofindia.indiatimes.com/business/india-business/India-EU-ink-deal-to-end-drug-seizure-for-now/articleshow/9401916.cms> (reporting the interim settlement).

69. See generally INTELLECTUAL PROPERTY AND FREE TRADE AGREEMENTS (Christopher Heath & Anselm Kamperman Sanders eds., 2007) (collecting essays discussing free trade agreements in the intellectual property context); Robert Burrell & Kimberlee Weatherall, *Exporting Controversy? Reactions to the Copyright Provisions of the U.S.-Australia Free Trade Agreement: Lessons for U.S. Trade Policy*, 2008 U. ILL. J.L. TECH. & POL’Y 259 (criticizing the Australia-United States Free Trade Agreement); Yu, *Currents and Crosscurrents*, *supra* note 55, at 392–400 (discussing the growing use of bilateral and regional trade agreements to push for higher intellectual property standards).

international intellectual property rules outside the usual multilateral fora, such as the WTO and WIPO.<sup>70</sup>

Even worse, ISDS could take away the many limitations, flexibilities, and safeguards that have been carefully built into the TRIPS Agreement and the larger international intellectual property system.<sup>71</sup> The proliferation of ISDS cases could even create what commentators, intergovernmental bodies, and civil society organizations have widely referred to as “regulatory chill”<sup>72</sup>—a chilling effect that undermines a country’s sovereign ability to regulate harmful conduct, including conduct committed by transnational corporations.<sup>73</sup> In fact, those host states that find it costly to go through the ISDS process may be too eager to change their laws to avoid costly arbitrations.<sup>74</sup>

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70. Yu, *Investment-Related Aspects*, *supra* note 1, at 875; *see also* Carlos M. Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, 26 MICH. J. INT’L L. 331, 352 (2004):

Intellectual property rights, registered or not, are protected investments under BITs [bilateral investment treaties] and trade agreements that incorporate rules on investment. This adds another layer of treaty-based protection onto rights protected under the TRIPS Agreement and other international conventions. But this protection goes beyond TRIPS, because investment agreements apply to rights not covered by the TRIPS Agreement and incorporate the national treatment principle clause without the exceptions provided for under IPR treaties.

71. *See* Frankel, *Interpreting the Overlap*, *supra* note 60, at 124 (“The current investment disputes where investors claim indirect expropriation or the absence of fair and equitable treatment of IP are not just IP in a new forum, but point toward a shift away from the balancing mechanisms that are integral to IP (even if those mechanisms do not always operate as well as they might) to a sphere which has fewer (if any) equivalent balancing mechanisms.” (footnotes omitted)); Ho, *A Collision Course*, *supra* note 26, at 453–57 (discussing ISDS’s potential chilling effects to maintaining TRIPS flexibilities); Kathleen Liddell & Michael Waibel, *Fair and Equitable Treatment and Judicial Patent Decisions*, 19 J. INT’L ECON. L. 145, 146 (2016) (“[The recent] IP cases in investment arbitration serve as an important wake-up call that investment tribunals could constrain national IP flexibilities.”).

72. *See, e.g.*, LONE WANDAHL MOUYAL, INTERNATIONAL INVESTMENT LAW AND THE RIGHT TO REGULATE: A HUMAN RIGHTS PERSPECTIVE 67–68 (2016) (providing examples of “regulatory chill”); UNCTAD, WORLD INVESTMENT REPORT 2015: REFORMING INTERNATIONAL INVESTMENT GOVERNANCE 128 (2015) (considering “regulatory chill” to be a concern of ISDS); Kyla Tienhaara, *Regulatory Chill and the Threat of Arbitration: A View from Political Science*, in EVOLUTION IN INVESTMENT TREATY LAW AND ARBITRATION 606 (Chester Brown & Kate Miles eds., 2011) [hereinafter EVOLUTION IN INVESTMENT TREATY] (using political science to analyze the “regulatory chill” hypothesis).

73. *See* Ho, *Sovereignty Under Siege*, *supra* note 26, at 233 (“A major issue is that the suits appear to improperly encroach on domestic authority and even have a chilling effect on legitimate state regulatory functions due to substantial awards, as well as legal costs of defending such cases.”).

74. *See* TPP’s ISDS: *Moving from State-to-State to Company-to-World Dispute Resolution*, LEGAL READER (May 1, 2015), <http://www.legalreader.com/tpps-isds-moving-from-state-to-state-to-company-to-world-dispute-resolution> (surmising that New Zealand “decided against changing their smoking laws out of fear of . . . retribution through ISDS”); *see also* MOUYAL, *supra* note 72, at 68:



To be sure, regulatory chill is difficult to prove because it requires proving a negative.<sup>75</sup> Nevertheless, such chill should not be overlooked, especially in the intellectual property area.<sup>76</sup> In this area, autonomy and policy space are badly needed for countries to tailor laws and policies to local needs, interests, conditions, and priorities.<sup>77</sup> As Ruth Okediji lamented:

Intellectual property obligations in the investment context . . . pose a new threat to states' traditional lawmaking powers by providing foreign actors [with] a singular opportunity to challenge laws that have been enacted with the domestic public interest in full view, even when they are in conformity with international intellectual property treaties. Subverting a core judicial function—interpretation of a domestic law *already* infused with multilateral obligations—to the oversight of a private international tribunal precariously alters the contours of state power and responsibility for compliant domestic legislation and policy prescriptions.<sup>78</sup>

The final reason is that ISDS arbitrators are generally unfamiliar with intellectual property issues and may therefore take on an oversimplified view of intellectual property.<sup>79</sup> For example, they may focus primarily on

In response to [the foreign mining industry's threat based on the Indonesia-United Kingdom BIT or the Australia-Indonesia BIT], Indonesia retreated from the ban [on open-cast mining in protected forest areas], first by exempting several of the companies from the ban and promising to assess the situation of other affected companies. Subsequently the government decided to repeal the ban.

75. As Jonathan Bonnitcha explained:

Chilling effects are difficult to identify because they require counterfactual evidence about the regulations that would have existed in the absence of the purported chilling. Regulatory chill due to [international investment treaty] protection is particularly difficult to isolate because, in addition to identifying a chilling effect, one must be able to exclude the possibility that it was attributable to some other cause.

Jonathan Bonnitcha, *Outline of a Normative Framework for Evaluating Interpretations of Investment Treaty Protections*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 72, at 117, 134 (footnote omitted).

76. See Okediji, *Is Intellectual Property "Investment"?*, *supra* note 18, at 1133 ("The conception of intellectual property as a tool to advance national welfare has long been part of multilateral intellectual property relations. The basis for determining the 'legitimate expectations' of an intellectual property 'investment' thus must resonate in domestic law." (footnote omitted)). For examples of potential regulatory chill in the intellectual property area, see Brook K. Baker & Katrina Geddes, *The Incredible Shrinking Victory: Eli Lilly v. Canada, Success, Judicial Reversal, and Continuing Threats from Pharmaceutical ISDS*, 49 *LOY. U. CHI. L.J.* 229, 505 (2017).

77. See Henning Grosse Ruse-Khan, *Protecting Intellectual Property Rights Under BITs, FTAs and TRIPS: Conflicting Regimes or Mutual Coherence?*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 72, at 485 (discussing the impact of the TRIPS Agreement and TRIPS-plus bilateral and regional trade and investment agreements on the state's enjoyment of its policy space); see also Peter K. Yu, *The International Enclosure Movement*, 82 *IND. L.J.* 827, 833–55 (2007) (discussing why policymakers need wide policy space to devise solutions to address internal problems).

78. Okediji, *Is Intellectual Property "Investment"?*, *supra* note 18, at 1122.

79. As I noted in an earlier article, the experts' unfamiliarity with another discipline goes in

the protection levels without adequately considering the corresponding limitations, flexibilities, and safeguards. They may also have tunnel vision, thereby overemphasizing intellectual property rights as investors' rights.<sup>80</sup> As Rochelle Dreyfuss and Susy Frankel described:

Because investor rights and IP rights are both private rights, IP holders tend to equate the investment protectable under these instruments to the private economic value of their IP rights. Further, they see IP rights as reliance interests that are defined by the law at the time they made their investment or, more extremely, when the agreement references TRIPS or its own IP chapter, the law at the time when the investment agreement was made.<sup>81</sup>

In addition, there is growing concern that ISDS arbitrators will focus narrowly on the intellectual property side of the investment bargain, thus ignoring the concessions the host state has made outside the intellectual property field, such as free lands, tax breaks, exemption from export custom duties, and preferential treatment on foreign exchange.<sup>82</sup>

### C. Inequity

The last set of concerns regards inequity, especially the inequity

both directions:

Just as investment issues are new to those in the intellectual property field, intellectual property issues are also new to those in the investment field. For example, investment law experts may not be fully knowledgeable about the many complexities and nuances within intellectual property law and policy. Likewise, intellectual property law experts may be unfamiliar with the tradition and unique language of investment law, such as "direct and indirect expropriation of property," "minimum standard of treatment," "fair and equitable treatment," and "full protection and security."

Yu, *Investment-Related Aspects*, *supra* note 1, at 876; *see also* Liddell & Waibel, *supra* note 71, at 147 (noting the "doubts about whether investment arbitrators have the relevant expertise to appreciate complex issues of IP law").

80. *See* Yu, *Investment-Related Aspects*, *supra* note 1, at 872–73 (discussing the concern about the ISDS arbitrators' tunnel vision).

81. Dreyfuss & Frankel, *supra* note 46, at 589.

82. As Peter Muchlinski observed:

Incentives are used by governments to attract investment, to steer investment into favoured industries or regions, or to influence the character of an investment, for example, when technology-intensive investment is being sought. They can take two major forms, fiscal incentives, based on tax advantages to investors, and financial incentives based on the provision of funds directly to investors to finance new investments, or certain operations, or to defray capital or operational costs. Other types of incentives may not be easy to discern but they can have a positive effect on the overall profitability of an investment. These may include general infrastructure development by the host country, market preferences or preferential treatment on foreign exchange.

Peter Muchlinski, *Policy Issues*, in OXFORD HANDBOOK, *supra* note 34, at 3, 33 (footnote omitted); *see also* Anastasia Telesetsky, *A New Investment Deal in Asia and Africa: Land Leases to Foreign Investors*, in EVOLUTION IN INVESTMENT TREATY, *supra* note 72, at 539 (discussing the various concessions that states in Asia and Africa have made to attract foreign direct investment).

suffered by host states in the developing world. Thus far, the existing ISDS mechanism has been heavily criticized for having partial and unaccountable arbitrators.<sup>83</sup> For instance, the arbitrators involved may have worked in law firms that have clients in the same industry as those filing ISDS complaints.<sup>84</sup> They may also have a tendency to serve corporate clients who are similar to the complainants.<sup>85</sup> As Joost Pauwelyn summarized:

ICSID arbitrators . . . get referred to as “elite lawyers,” “ambitious investment lawyers keen to make a lucrative living,” a “mafia,” “super arbitrators” who are “not just the mafia but a smaller, inner mafia,” adjudicators—not faceless—but with conflicts of interest and a “hidden agenda” (“one minute acting as counsel, the next framing the issue as an academic, or influencing policy as a government representative or expert witness”).<sup>86</sup>

When ISDS is used against host states in the developing world, policymakers, commentators, and civil society organizations have also noted their concern for the mechanism’s “development bias,”<sup>87</sup> which enables the process to favor the interests of transnational corporations at

83. See Ho, *Sovereignty Under Siege*, *supra* note 26, at 234 (“Some . . . contend that arbitrators lack the independence and impartiality of typical domestic or international tribunals.”); Joost Pauwelyn, *The Rule of Law Without the Rule of Lawyers? Why Investment Arbitrators Are from Mars, Trade Adjudicators from Venus*, 109 AM. J. INT’L L. 761, 783 (2015) [hereinafter Pauwelyn, *The Rule of Law*]:

Why is it that, on average, WTO panelists tend to be relatively low-key diplomats from developing countries (very few U.S./EU nationals), with a government background, and often without a law degree or legal expertise, whereas ICSID arbitrators are likely high-powered, elite private lawyers or legal academics from western Europe or the United States? Why is the pool of ICSID arbitrators an ideologically divided, closed network with a small number of individuals attracting most nominations, whereas the universe of WTO panelists is ideologically more homogeneous, with a relatively low reappointment rate and nominations more evenly distributed (with the consequence that panelists, on average, have relatively little experience)?

84. See Ernst-Ulrich Petersmann, *Transformative Transatlantic Free Trade Agreements Without Rights and Remedies of Citizens?*, 18 J. INT’L ECON. L. 579, 604 (2015) (“The comparatively small number of commercial arbitrators dominating ISDS procedures is often interpreted as a sign of ‘capture’ of ICSID and UNCITRAL investor-state arbitration by a limited number of law firms.”); David Gaukrodger & Kathryn Gordon, *Investor-State Dispute Settlement: A Scoping Paper for the Investment Policy Community* 44 (Organisation for Economic Co-operation and Development, Working Papers on International Investment No. 2012/03, 2012) (“It appears that over 50% of ISDS arbitrators have acted as counsel for investors in other ISDS cases while it has been estimated about 10% of ISDS arbitrators have acted as counsel for States in other cases.”).

85. See Pauwelyn, *The Rule of Law*, *supra* note 83, at 764 (noting “the closed network of specialist ISDS arbitrators and lawyers” in “the terrain of subject-matter specialists”).

86. *Id.* at 780 (footnotes omitted).

87. Susan D. Franck, *Development and Outcomes of Investment Treaty Arbitration*, 50 HARV. INT’L L.J. 435, 451 (2009) [hereinafter Franck, *Development and Outcomes*].

the expense of host states in the developing world.<sup>88</sup> As President Evo Morales of Bolivia declared, “Governments in Latin America and I think all over the world never win the cases. The transnationals always win.”<sup>89</sup> These sentiments are unsurprising considering that the majority of the complaints in ISDS cases were filed by investors from developed countries.<sup>90</sup>

To address the development bias of the ISDS mechanism, developing country governments and their supporters have called for the creation of an appellate process. As Susan Franck observed:

If outcome is linked to the development status of the presiding arbitrator and there is disparate pressure to favor the developed world, having standing judges with secure tenures may enhance integrity and independence. In order to eliminate pressure to join a club or secure repeat appointments, a standing body could provide judicial oversight and create an environment that favors rule of law adjudication. Moreover, such an institution could foster the judicialization of international economic law and provide a backstop to create certainty about contested legal issues, thereby increasing the integrity of the dispute resolution system.<sup>91</sup>

In sum, the arrival of ISDS in the intellectual property area has brought with it many substantive and procedural problems that are inherent in the

88. As Susan Franck observed:

In investment arbitration, there is a lurking concern that the development status of arbitrators, particularly presiding arbitrators who wield especially strong influence, may be inappropriately associated with certain outcomes. One author even explains that there is “some concern in developing countries over the selection of arbitrators” at entities such as ICSID, and such appointments may create a “systemic . . . bias in favor of Western legal concepts and the positions.”

*Id.* at 450 (quoting AMAZU A. ASOUZU, INTERNATIONAL COMMERCIAL ARBITRATION AND AFRICAN STATES: PRACTICE, PARTICIPATION AND INSTITUTIONAL DEVELOPMENT 404–05 (2001)) (ellipsis in original) (citation omitted); *see also id.* at 451 (second ellipsis in original):

In a 2005 speech, Roberto Dañino, then Secretary-General of ICSID, . . . explained that there is a concern “expressed by a few . . . that ICSID arbitrators are predominantly nationals from developed countries, the implication being that they may be more favorably inclined towards investors” from the developed world and less favorably inclined towards governments from the developing world.

89. Leslie Mazoch, *Chavez Takes Cool View Toward OAS, Says Latin America Better Off Without World Bank*, ASSOCIATED PRESS INT’L (Apr. 30, 2007, 3:09 PM).

90. As stated in the 2016 *World Investment Report*:

Developed-country investors brought most of the 70 known cases in 2015. This follows the historical trend in which developed-country investors have been the main ISDS users, accounting for over 80 per cent of all known claims. The most frequent home States in ISDS in 2015 were the United Kingdom, followed by Germany, Luxembourg and the Netherlands. . . .

UNCTAD, WORLD INVESTMENT REPORT 2016: INVESTOR NATIONALITY: POLICY CHALLENGES 105 (2016).

91. Franck, *Development and Outcomes*, *supra* note 87, at 484.

ISDS mechanism. This Part groups these problems based on three distinct sets of concerns: inconsistency, incoherence, and inequity. If the use of ISDS is to be encouraged in the intellectual property area, policymakers and commentators will have to find ways to provide considerable improvements to the existing ISDS mechanism.

## II. A MODEST TWO-TIER PROPOSAL

To alleviate the concerns about inconsistency, incoherence, and inequity identified in Part I, commentators have advanced a large number of institutional reforms, including the establishment of international investment courts<sup>92</sup> and the development of an appellate mechanism.<sup>93</sup> The need for institutional reforms has attracted even more analysis and debate in the wake of the EU Proposal,<sup>94</sup> which called for the creation of a two-tier investment court system that includes a Tribunal of First Instance and an Appeal Tribunal.<sup>95</sup> Unlike the existing ISDS mechanism, all the judges in this proposed court system will be appointed through a joint committee by the European Union and the United States, not the disputing parties.<sup>96</sup>

Following the release of the EU Proposal, policymakers and commentators have quickly offered their evaluations.<sup>97</sup> A close variant

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92. See Omar E. García-Bolívar, *Permanent Investment Tribunals: The Momentum Is Building Up*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 394 (discussing the ongoing push to establish permanent investment tribunals); Eduardo Zuleta, *The Challenges of Creating a Standing International Investment Court*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 403 (identifying the challenges for creating a standing international investment court as an alternative to the existing ISDS system); Franck, *Legitimacy Crisis*, *supra* note 32, at 1617–25 (calling for the establishment of an “Investment Arbitration Appellate Court”); Ho, *Sovereignty Under Siege*, *supra* note 26, at 235 (“[S]ome suggest replacing private arbiters with an international investment court to promote impartiality and independence.”); Schill, *supra* note 32 (suggesting the option “to create permanent investment courts in important mega-regionals, such as TTIP, structured so as to morph easily into a multilateral institution with third states simply joining the tribunal’s statute”).

93. For articles calling for the development of an appellate mechanism within ISDS, see sources cited *supra* note 47.

94. TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7.

95. See *id.* § 3, arts. 9–10 (advancing the proposal).

96. See *id.* § 3, art. 9(2) (“The [Services and Investment] Committee shall, upon the entry into force of this Agreement, appoint fifteen Judges to the Tribunal. Five of the Judges shall be nationals of a Member State of the European Union, five shall be nationals of the United States and five shall be nationals of third countries.”); *id.* § 3, art. 10(3):

The [Services and Investment] Committee, shall, upon the entry into force of this Agreement, appoint the members of the Appeal Tribunal. For this purpose, each Party shall propose three candidates, two of which may be nationals of that Party and one shall be a non-national, for the . . . Committee to thereafter jointly appoint the Members.

97. For these analyses, see generally Schacherer, *supra* note 32; Schill, *supra* note 32; Daniel J. Gervais, *Investor-State Dispute Settlement: Human Rights and Regulatory Lessons from Lilly v. Canada*, 8 U.C. IRVINE L. REV. (forthcoming 2018).

of this proposal has also been incorporated into the investment chapter of the recently adopted CETA.<sup>98</sup> While I do not plan to rehash these earlier analyses, I appreciate the EU Proposal's many benefits and have modified it to crossfertilize ISDS and the WTO system. In developing this new proposal, especially regarding the part about arbitral panels, I have also relied on the existing WTO dispute settlement process.<sup>99</sup> If this proposal is to strengthen the connections between these two rather different systems, it will have to draw on the strengths of both systems.

#### A. Arbitral Panels

As shown in the arbitrations involving Eli Lilly and Philip Morris, arbitral panels in investor-state disputes typically involve three panelists.<sup>100</sup> While the investor and host state each select one arbitrator, the two selected arbitrators determine the third arbitrator, often with the help of a neutral appointing authority,<sup>101</sup> such as the Secretary-General of ICSID or the Secretary-General of the Permanent Court of Arbitration. Thus far, this widely used format has seen great success. Nevertheless, when it is used outside the traditional investment area, policymakers and commentators have lamented the arbitrators' lack of expertise in WTO issues, including those relating to the specific WTO obligations involved in the dispute.

In view of this shortcoming, my proposal calls for a modified version of the existing ISDS mechanism, in which the arbitral panel handling a dispute involving WTO obligations will have to include at least one arbitrator who has demonstrated knowledge and experience in issues concerning the specific obligations involved. For example, in a dispute involving either Eli Lilly or Philip Morris, the panel will have to include at least one arbitrator who has specialized expertise regarding TRIPS

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98. See CETA, *supra* note 21, arts. 8.27–29 (providing for the Tribunal and Appellate Tribunal).

99. See Dispute Settlement Understanding, *supra* note 29 (providing the rules for the WTO dispute settlement process).

100. See Eli Lilly Final Award, *supra* note 17, ¶¶ 12–16 (identifying the three panelists); Philip Morris v. Australia Award, *supra* note 15, ¶¶ 13, 16, 17 (identifying the three panelists); Philip Morris v. Uruguay Award, *supra* note 16, ¶ 18 (identifying the three panelists).

101. See International Centre for Settlement of Investment Disputes, World Bank, Arbitration (Additional Facility) Rules, art. 6(1) (2006) (“In the absence of agreement between the parties regarding the number of arbitrators and the method of their appointment, the Tribunal shall consist of three arbitrators, one arbitrator appointed by each party and the third, who shall be the President of the Tribunal, appointed by agreement of the parties, all in accordance with Article 9 of these Rules.”); U.N. Comm’n on Int’l Trade Law [UNCITRAL], Arbitration Rules, art. 9(1) (2010) (amended in 2013) (“If three arbitrators are to be appointed, each party shall appoint one arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the arbitral tribunal.”).

obligations. By contrast, in a dispute involving only traditional investment issues, no arbitrator with WTO expertise will be required because the dispute will not implicate any specific WTO obligations.

To determine whether this WTO expertise requirement has been met, the proposal calls for the development of a list of arbitrators who are familiar with each WTO area. This list will be similar to the “indicative list of governmental and non-governmental individuals” specified in the WTO rules,<sup>102</sup> the Roster for NAFTA Dispute Settlement Panels and Committees,<sup>103</sup> or the list of judges in the investment court system under the EU Proposal.<sup>104</sup> Having a list of qualified arbitrators in a specific WTO area will ensure that the arbitral panels will have the right expertise to make high-quality decisions. It will also accelerate the panel-selection process, thereby reducing the overall arbitral costs involved.

For illustrative purposes, consider an ISDS case involving a TRIPS claim. In this case, the investor can easily pick an arbitrator from the list of those having demonstrated knowledge and experience concerning the TRIPS Agreement. If the investor chooses not to do so, the host state will be able to make such a selection instead. If the host state also chooses not to select somebody from that list, the two parties or the neutral appointing authority *must* do so when selecting the final and presiding arbitrator.

If one party has already selected somebody from that list, nothing will prevent the other party from choosing another person from the same list or the final arbitrator from that list. The goal of this proposal is to ensure that the arbitral panel will have an informed and high-quality discussion of TRIPS obligations. If the panel ends up with two or more arbitrators with specialized expertise concerning these obligations, there will be even more beneficial crossfertilization between ISDS and the WTO system.

Under my current proposal, the total number of arbitrators is three, similar to the arrangements in the WTO, the TPP, and the EU Proposal.<sup>105</sup>

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102. See Dispute Settlement Understanding, *supra* note 29, art. 8.4 (“To assist in the selection of panelists, the Secretariat shall maintain an indicative list of governmental and non-governmental individuals possessing the qualifications outlined in [article 8.1 of the Dispute Settlement Understanding], from which panelists may be drawn as appropriate.”).

103. *Roster for NAFTA Dispute Settlement Panels and Committees*, NAFTA SECRETARIAT, <https://www.nafta-sec-alena.org/Home/Dispute-Settlement/Roster-Members> (last visited July 24, 2017).

104. See TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 9(2) (outlining the process for appointing judges of the Tribunal of First Instance); *id.* § 3, art. 10(2)–(3) (outlining the process for appointing judges of the Appeal Tribunal).

105. See Dispute Settlement Understanding, *supra* note 29, art. 8.5 (“Panels shall be composed of three panelists unless the parties to the dispute agree, within 10 days from the establishment of the panel, to a panel composed of five panelists.”); TPP Agreement, *supra* note 2, art. 9.22(1) (“Unless the disputing parties agree otherwise, the tribunal shall comprise three arbitrators, one

Although this proposal requires the existence of a neutral appointing authority to oversee compliance with the WTO expertise requirement, it leaves considerable flexibility regarding the selection of this authority. Such selection will likely require serious deliberation within the international community.

While this aspect of the proposal remains tentative, its international coverage will require it to differ considerably from the EU Proposal. Under the latter proposal, judges in the investment court system are to be appointed by the European Union and the United States. By contrast, the current proposal will require arbitral panels to feature international representation.<sup>106</sup> Their appointment can be made by “a multilateral body representing the entire international community, such as the UN General Assembly and the UN Security Council (as with the International Court of Justice),” similar to what Stephan Schill proposed in his effort to multilateralize the EU Proposal.<sup>107</sup>

### B. Appellate Mechanism

With respect to the appellate mechanism, this proposal will closely follow the EU Proposal. Under that proposal, the Appeal Tribunal will include two judges selected from the European Union, two from the United States, and two from third states.<sup>108</sup> While the EU Proposal is straightforward due to its bilateral nature, a proposal that is designed for ISDS cases across the world will require a much more complicated

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arbitrator appointed by each of the disputing parties and the third, who shall be the presiding arbitrator, appointed by agreement of the disputing parties.”); TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 9(6) (stating that “[t]he Tribunal shall hear cases in divisions consisting of three Judges”).

106. This appointment process should strive to achieve equal and meaningful representation from both developed and developing countries, similar to the proposal outlined for the development of an ISDS appellate body in Part II.B. *See infra* text accompanying notes 110–112 (outlining the proposal involving developed and developing countries as well as one involving high-income, middle-income, and low-income countries).

107. Schill, *supra* note 32; *see also* Statute of the International Court of Justice, art. 4(1), June 26, 1945, 59 Stat. 1031, 33 U.N.T.S. 933 (“The members of the Court shall be elected by the General Assembly and by the Security Council from a list of persons nominated by the national groups in the Permanent Court of Arbitration . . . .”); Franck, *Legitimacy Crisis*, *supra* note 32, at 1623:

[T]o retain its perceptions of legitimate authority, appellate judges should come from a variety of backgrounds, and the mix would fairly need to represent both developed and developing countries. The standards for appointment should also enumerate the qualifications of judges to ensure a mix of expertise in areas such as arbitration, economics, investment law, and public international law.

108. *See* TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 10(2) (“The Appeal Tribunal shall be composed of six Members, of whom two shall be nationals of a Member State of the European Union, two shall be nationals of the United States and two shall be nationals of third countries.”).



selection process.<sup>109</sup>

Although one could widely debate which selection process will result in the best mix of experts in the proposed ISDS appellate body, an easy choice is to select two members from developed countries and two from developing countries, as opposed to two each from the European Union and the United States. With respect to the two other members who are supposed to come from third states, this proposal will call for those two members to be selected from the WTO system—for instance, former WTO panelists, former members of the WTO Appellate Body,<sup>110</sup> or even experts who are qualified to serve on WTO panels.<sup>111</sup> In doing so, this proposal will equip the proposed ISDS appellate body with arbitrators who are familiar with the WTO and its obligations. The WTO expertise requirement for this body is similar to the arrangement for arbitral panels, except that the panels will require knowledge and experience regarding the specific WTO obligations involved in the dispute, as opposed to general familiarity with the WTO and its obligations.

If one takes the same view as I do—that the arrival of powerful middle-income countries such as Brazil, China, and India has greatly distorted the international economic system<sup>112</sup> to the point that the separation of developed and developing countries no longer provides satisfactory representation—the proposed ISDS appellate body could easily be expanded to have eight seats. Those eight seats would include two members each from three groups of countries: high-income, middle-income, and low-income. The remaining two seats would be reserved for those with WTO expertise, as discussed earlier.

Under the current proposal, the total membership of the ISDS appellate body will be either six or eight, depending on whether the body is

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109. See Schill, *supra* note 32.

110. See Yu, *Investment-Related Aspects*, *supra* note 1, at 901 (calling for “the inclusion of some previous WTO panelists or Appellate Body members in [a proposed] appellate mechanism”); see also Theodore R. Posner & Marguerite C. Walter, *The Abiding Role of State-State Engagement in the Resolution of Investor-State Disputes*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 381, 389–91 (discussing the use of state-to-state dispute settlement to support ISDS).

111. See *Dispute Settlement Understanding*, *supra* note 29, art. 8.1:

Panels shall be composed of well-qualified governmental and/or non-governmental individuals, including persons who have served on or presented a case to a panel, served as a representative of a Member or of a contracting party to GATT 1947 or as a representative to the Council or Committee of any covered agreement or its predecessor agreement, or in the Secretariat, taught or published on international trade law or policy, or served as a senior trade policy official of a Member.

112. See Peter K. Yu, *The Middle Intellectual Property Powers*, in *LAW AND DEVELOPMENT IN MIDDLE-INCOME COUNTRIES: AVOIDING THE MIDDLE-INCOME TRAP* 84 (Randall Peerenboom & Tom Ginsburg eds., 2014) (discussing the complications created by emerging intellectual property powers).

structured under the original or modified version of the proposal. That total number, however, can be easily expanded by multiples of three or four. This proposal chooses six or eight members based on the EU Proposal and the fact that a higher number tends to make decisions more difficult. Nevertheless, the arrangements can be modified with the right justification. Indeed, Article 10(4) of the EU Proposal states specifically that “the number of the Members of the Appeal Tribunal [may be increased] by multiples of three.”<sup>113</sup>

To be sure, having WTO expertise is not the same as having TRIPS expertise.<sup>114</sup> Indeed, the WTO has about thirty agreements, whose coverage ranges from goods to services and from agriculture to textiles.<sup>115</sup> Nevertheless, it is impossible to include experts in all the subject matters covered by the WTO in the proposed ISDS appellate body. Nor is it easy to find many individual experts with a broad range of WTO expertise who can serve as appellate body members. The goal of this proposal is to ensure that somebody in the proposed appellate body will have demonstrated knowledge and experience in WTO issues so as to promote coherence between ISDS and the WTO system. This proposal, however, recognizes the inability to equip the proposed ISDS appellate body with expertise in every single area covered by the WTO.

Moreover, the arbitral panel below already includes at least one arbitrator with demonstrated knowledge and expertise concerning the specific WTO obligations, such as TRIPS obligations in an intellectual property case. That panel will therefore be in a good position to provide a record of the various WTO-related issues, concerns, and challenges involved even if it ends up with a decision somewhat inconsistent with the prevailing interpretations of the TRIPS Agreement. Drawing on this record, the proposed ISDS appellate body should be able to make an informed decision. Members who are already familiar with the WTO and its obligations should be able to draw on their own experience and use analogical reasoning<sup>116</sup> to examine the TRIPS-related issues identified by the arbitral panel as if those issues concerned their own field of expertise. They will also be in a good position to share their WTO experience with fellow members who do not have similar expertise.

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113. TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 10(4).

114. Thanks to Gus Van Harten for pushing me on this point.

115. *The WTO Agreements*, WORLD TRADE ORG., [https://www.wto.org/english/thewto\\_e/whatis\\_e/inbrief\\_e/inbr03\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr03_e.htm) (last visited July 26, 2017).

116. For discussions of analogical reasoning, see generally Scott Brewer, *Exemplary Reasoning: Semantics, Pragmatics and the Rational Force of Legal Argument by Analogy*, 109 HARV. L. REV. 923 (1996); Dan Hunter, *Reason Is Too Large: Analogy and Precedent in Law*, 50 EMORY L.J. 1197 (2001); Emily Sherwin, *A Defense of Analogical Reasoning in Law*, 66 U. CHI. L. REV. 1179 (1999); Cass R. Sunstein, *On Analogical Reasoning*, 106 HARV. L. REV. 741 (1993).

Finally, beyond the two members who have been selected for their WTO expertise, additional WTO expertise may be found in those members of the proposed ISDS appellate body that have been selected by developed and developing countries—or, in the modified proposal, by high-income, middle-income, and low-income countries. If that is the case, the WTO expertise in the proposed appellate body will greatly increase. Thus, this proposal strongly encourages the selection of members with a diverse and complementary range of WTO expertise. In doing so, the proposed ISDS appellate body will be well-equipped to handle ISDS cases covering many different WTO areas.

### III. ASSESSMENT

To assess the strengths and limitations of this proposal, this Part explores how the proposal can help address the various concerns and problems identified earlier in the Article. It further discusses potential criticisms and offers some preliminary responses to the proposal's critics.

#### A. Strengths

In relation to the problems identified in Part I, the current proposal features four sets of strengths. The first strength targets inconsistent interpretations. While this proposal does not introduce a precedential system and arbitral panels can still reach contradictory decisions as a result, the proposed ISDS appellate body will help ensure greater consistency and predictability. To a large extent, the process is reminiscent of the WTO system. Even though that system is not precedential by nature, WTO panelists and members of the Appellate Body have taken great effort to follow past decisions to promote consistency and predictability<sup>117</sup> and to “create legitimate expectations among WTO Members.”<sup>118</sup>

The second strength addresses the incoherence in the international intellectual property system. By crossfertilizing ISDS with the WTO system, this proposal helps reduce fragmentation in the international intellectual property arena—in particular, the fragmentation brought about by the increased use of ISDS in this arena.<sup>119</sup> Specifically, the

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117. See discussion *supra* text accompanying notes 37–39.

118. Appellate Body Report, *Japan—Taxes on Alcoholic Beverages* 14, WTO Docs. WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R (adopted Oct. 4, 1996).

119. See SURYA P. SUBEDI, INTERNATIONAL INVESTMENT LAW: RECONCILING POLICY AND PRINCIPLE 158 (2d ed. 2012) (“Foreign investment law is . . . influenced by cross-fertilisation from other areas of public international law, especially those relating to human rights and environmental protection, as well as certain fundamental principles of international economic law such as the principle of economic self-determination of states, the right to develop, and the permanent sovereignty of states over their natural resources.”); Ho, *A Collision Course*, *supra* note 26, at 464

proposal will ensure that the arbitral panels and the proposed ISDS appellate body will include personnel with demonstrated knowledge and experience in WTO issues, and likely also expertise in public international law.<sup>120</sup> As Andreas Ziegler observed:

It may be useful to encourage arbitrators and the members of judicial bodies of multilateral organizations like the WTO and ICSID to refer to each other's case law and engage in a judicial debate. This could avoid the scenario where each system operates in clinical isolation and would certainly be beneficial for the development of an inter-institutional debate on special issues affecting global trade and investment flows.<sup>121</sup>

To be sure, the proposal does not ensure that all decisionmakers will be familiar with the WTO and its obligations. Nevertheless, it is still important to have at least one decisionmaker with such knowledge who can help explain to others the potential WTO-related issues, concerns, and challenges involved.

At the panel stage, this proposal will also ensure that all arbitral panels will include at least one arbitrator who has demonstrated knowledge and

("[I]ncreased awareness and cross-fertilization in the investment arena of TRIPS norms would be desirable.").

120. Cf. CETA, *supra* note 21, art. 8.27.4 ("The Members of the Tribunal . . . shall have demonstrated expertise in public international law. It is desirable that they have expertise in particular, in international investment law, in international trade law and the resolution of disputes arising under international investment or international trade agreements."); *id.* art. 8.28.4 ("The Members of the Appellate Tribunal shall meet the requirements of Article 8.27.4. . . ."); TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 9(4) ("The Judges . . . shall have demonstrated expertise in public international law. It is desirable that they have expertise in particular, in international investment law, international trade law and the resolution of disputes arising under international investment or international trade agreements."); *id.* § 3, art. 10(7) ("The Members of the Appeal Tribunal . . . shall have demonstrated expertise in public international law. It is desirable that they have expertise in international investment law, international trade law and the resolution of disputes arising under international investment or international trade agreements.").

121. Andreas R. Ziegler, *Investment Law in Conflict with WTO Law?*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 34, at 1784, 1800; *see also* Appellate Body Report, *United States—Standards for Reformulated and Conventional Gasoline* 17, WTO Doc. WT/DS2/AB/R (adopted Apr. 29, 1996) (declaring that "the General Agreement [on Tariffs and Trade] is not to be read in clinical isolation from public international law"); UNCTAD-ICTSD PROJECT ON IPRS AND SUSTAINABLE DEVELOPMENT, RESOURCE BOOK ON TRIPS AND DEVELOPMENT 130 (2005) (noting that, in *United States—Import Prohibition on Certain Shrimp and Shrimp Products*, the Appellate Body "moved firmly away from the notion of the WTO as a 'self-contained' legal regime"); Miles, *supra* note 48, at 296:

There is . . . a need for greater engagement with principles from other areas of international law. Although international investment agreements do not exist in a vacuum, the logical consequences of this appreciation are not often embraced in arbitral awards or investment treaty negotiation. If they were, we would already have seen the development of more socially and environmentally responsible norms of international investment law—and more emphasis on protecting the host state's right to regulate in the public interest.

experience in issues concerning the specific WTO obligations implicated in the dispute—for example, TRIPS obligations in the ISDS disputes involving *Eli Lilly and Philip Morris*. While nothing prevents the arbitral panel from going beyond the consideration of TRIPS obligations, the proposal aims to ensure that the panelists will be able to make an informed decision regarding those obligations. In doing so, it seeks to reduce the tensions and conflicts between ISDS and the TRIPS-based international intellectual property system. It also hopes that a more informed deliberation will eventually convince the arbitral panel to honor the decades-old TRIPS bargain.

The third strength relates to equity. By including in the proposed ISDS appellate body members from both developed and developing countries—or, in the modified proposal, members from high-income, middle-income, and low-income countries—this proposal will ensure that the members selected will be able to take into account the unique problems confronting host states, including those in the developing world. In doing so, the proposal will help address the concern about the development bias to which Part I.C alluded.

The inclusion of members selected from developing countries—or, in the modified proposal, middle-income and low-income countries—will also enable the proposed ISDS appellate body to better understand the complicated investment deals that many host states in the developing world have struck. For instance, to compensate for their less-than-favorable investment conditions, some host states may have offered to investors free lands, tax breaks, exemption from export custom duties, and preferential treatment on foreign exchange.<sup>122</sup> Not only should these concessions be taken into account in an investor-state dispute, but the arbitral panel or the proposed ISDS appellate body should also take note of the investors' frustrations and demands before they entered the host state.<sup>123</sup> After all, those frustrations and demands are highly relevant to a determination of the investors' legitimate expectations and the minimum standard of treatment they should have received under the agreement at hand.

The final strength, which reinforces the earlier strengths, pertains to

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122. See sources cited *supra* note 82.

123. See Yu, *Investment-Related Aspects*, *supra* note 1, at 892:

ISDS arbitrators should take those benefits into account if they are to obtain a more complete picture of what attracts foreign intellectual property rights holders to invest in the first place. After all, if intellectual property rights were as strong as the claimants expected them to be, offsetting contributions would not have been needed in the first place.

transparency.<sup>124</sup> One of the major criticisms of the ISDS mechanism is that private arbitrators do not have any obligation to make the documents involved in the dispute publicly accessible. The lack of transparency is indeed why the TPP sought to improve the system by making arbitral proceedings open and publicly accessible.<sup>125</sup> Before its withdrawal from the TPP, the United States also promised that the State Department's website would contain all submissions, hearing transcripts, and other key documents regarding TPP-based ISDS cases against the United States.<sup>126</sup> In addition, the EU proposal for the TTIP investment chapter calls for the application of the UNCITRAL Rules on Transparency in Treaty-Based Investor-State Arbitration in its investment court system.<sup>127</sup>

Taking full advantage of these transparency-related improvements, the current proposal will help ensure the public availability of a large trove of ISDS documents and decisions for future consultation and utilization. The greater transparency in this area, in turn, will help build trust and legitimacy into ISDS. The availability of these documents and decisions will also provide the much-needed technical assistance to those host states that have limited resources in handling ISDS disputes, as well as to those experts providing technical assistance.

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124. See Joachim Delaney & Daniel Barstow Magraw, *Procedural Transparency*, in OXFORD HANDBOOK, *supra* note 34, at 721, 761–62 (discussing the benefits of procedural transparency in ISDS); Yu, *Investment-Related Aspects*, *supra* note 1, at 871 (noting that greater transparency in ISDS “will ensure high-quality decision making while promoting democratic values, public participation, accountability, and legitimacy”).

125. Article 9.24.1 of the TPP Agreement requires the host state to make publicly available the following documents:

- (a) the notice of intent;
- (b) the notice of arbitration;
- (c) pleadings, memorials and briefs submitted to the tribunal by a disputing party and any written submissions submitted pursuant to Article 9.23.2 (Conduct of the Arbitration) and Article 9.23.3 and Article 9.28 (Consolidation);
- (d) minutes or transcripts of hearings of the tribunal, if available; and
- (e) orders, awards and decisions of the tribunal.

TPP Agreement, *supra* note 2, art. 9.24.1.

126. See USTR, TPP CHAPTER SUMMARY—INVESTMENT 4 (2016), <https://ustr.gov/sites/default/files/TPP-Chapter-Summary-Investment.pdf> (“For investor-State cases against the United States under TPP, all submissions, hearing transcripts, and other key documents will be available on the U.S. State Department website.”).

127. See TTIP INVESTMENT CHAPTER PROPOSAL, *supra* note 7, § 3, art. 18(1) (stipulating the application of the UNCITRAL Transparency Rules); Barnali Choudhury, 2015: *The Year of Reorienting International Investment Law*, ASIL INSIGHTS (Feb. 5, 2016), <https://www.asil.org/insights/volume/20/issue/3/2015-year-reorienting-international-investment-law> (“The EU’s proposal additionally ensures the applicability of the UNCITRAL Transparency Rules, meaning that many of the documents of the court’s process will be publicly available.”); see also UNCITRAL, UNCITRAL RULES ON TRANSPARENCY IN TREATY-BASED INVESTOR-STATE ARBITRATION (2014), <https://www.uncitral.org/pdf/english/texts/arbitration/rules-on-transparency/Rules-on-Transparency-E.pdf> (providing the transparency rules).

### B. Limitations

Although this proposal features many strengths, it also comes with some unavoidable limitations. The first limitation concerns the enormous costs of ISDS. According to the Organisation for Economic Co-operation and Development (“OECD”), the costs of an ISDS arbitration “have averaged over USD 8 million with costs exceeding USD 30 million in some cases.”<sup>128</sup> These costs could go up to as high as US\$70 million, as in the highly unusual case concerning Russia’s wrongful expropriation of the now-defunct Yukos Oil, which was once the country’s biggest oil producer.<sup>129</sup>

By streamlining the panel-selection process, this proposal—in particular, its list of experts with demonstrated knowledge and experience in issues concerning specific WTO obligations—is likely to save some costs that would have been incurred by the delay in establishing arbitral panels.<sup>130</sup> A considerable part of the ISDS costs, however, will remain because the current proposal will still allow investors and host states to select arbitrators at the panel stage.

In addition, because this proposal introduces an appellate mechanism, the extended time it will take to process the appeal will likely raise the costs even further.<sup>131</sup> In the WTO context, for example, Håkan Nordström and Gregory Shaffer noted that the costs of a case of average complexity will increase by about US\$135,000 from US\$420,000 if the case is appealed to the WTO Appellate Body.<sup>132</sup> Likewise, Mallory

128. Gaukrodger & Gordon, *supra* note 84, at 19; *see also* Matthew Hodgson, *Costs in Investment Treaty Arbitration: The Case for Reform*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 748, 749 (footnotes omitted):

The average Party Costs for Claimants and Respondents are in the region of U.S. \$4.4 million and U.S. \$4.5 million, respectively. To this can be added average Tribunal Costs of around U.S. \$750,000. The average ‘all in’ costs of an investment treaty arbitration are therefore just short of U.S. \$10 million. The median figure is notably lower, but still substantial, at around U.S. \$6 million.

129. *See* JOUBIN-BRET, *supra* note 51, at 2 (stating that “the legal fees [in the *Yukos Oil* case] for the claimant alone [were] US\$ 70 million”).

130. *See* Monique Sasson, *Investment Arbitration: Procedure*, in *INTERNATIONAL INVESTMENT LAW HANDBOOK*, *supra* note 34, at 1288, 1321–22 (“The time to constitute the tribunal varies between 90 days and 12 months and has been criticized as often being very time-consuming.” (footnote omitted)).

131. *See* Schacherer, *supra* note 32, at 643 (“The biggest drawback is certainly that the possibility for appeal adds costs and time to an already highly cost- and time-intensive dispute settlement.”).

132. *See* Håkan Nordström & Gregory Shaffer, *Access to Justice in the WTO: A Case for a Small-Claims Procedure?*, in *DEVELOPING COUNTRIES IN THE WTO LEGAL SYSTEM* 205–06 (Chantal Thomas & Joel P. Trachtman eds., 2009):

Under . . . back-of-the-envelope calculations, a case of average complexity would cost \$100,000 if it ends after the initial consultations because the parties have settled or the complaint is otherwise withdrawn. If the case advanced to the panel stage, it would cost

Silberman observed in regard to an annulment proceeding: “If pursued all the way through to a decision, [this] proceeding can add anywhere from 44 to 180 weeks to a proceeding, not to mention legal expenses ranging from GBP83,345 [about US\$125,000–130,000] to nearly U.S.\$2.4 million.”<sup>133</sup>

The second limitation relates to the lack of finality at the panel stage. For many investors, having the ability to quickly and efficiently resolve a dispute with a sovereign state is one of the major attractions of ISDS.<sup>134</sup> Expedited action is indeed why many investors have favored this mechanism over the domestic court process. Commentators have therefore expressed concern that the introduction of an appellate mechanism could undermine this key attraction of ISDS.<sup>135</sup> After all, the more steps there are in a process—appellate or otherwise—the longer it will take for a dispute to be finally resolved.

Thus far, arbitral rules have varied considerably, with some jurisdictions allowing arbitral awards to be appealed to local courts.<sup>136</sup> For instance, in England and Wales, Section 69(1) of the Arbitration Act

another \$320,000. And if the panel decision were appealed, the bill would rise by another \$135,000. The total cost would then top one-half of \$1 million.

133. Mallory Silberman, *ICSID Annulment Reform: Are We Looking at the Right Problem?*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 853, 857 (footnotes omitted).

134. See Chester Brown & Kate Miles, *Introduction: Evolution in Investment Treaty Law and Arbitration*, in *EVOLUTION IN INVESTMENT TREATY*, *supra* note 72, at 3, 11 (“Investment arbitration has, until recently, been characterised by an approach traditionally seen in international commercial arbitration, being that of a simple desire for a quick and inexpensive decision to resolve the dispute.”).

135. See Kalnina & Di Pietro, *supra* note 43, at 245–46 (“The main disadvantages [of the creation of the ICSID Appeals Body] include jeopardy of the principle of finality, which has always been considered among the main advantages of arbitration over judicial settlement . . . .”); Lee Jaemin, *Introduction of an Appellate Review Mechanism for International Investment Disputes: Expected Benefits and Remaining Tasks*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 474, 493 (“The benefit of arbitration lies in the promptness of the proceedings; this should not be undermined for the sake of having an appellate system.”); Park Eun Young, *Appellate Review in Investor State Arbitration*, in *RESHAPING THE ISDS SYSTEM*, *supra* note 34, at 443, 444 (“[The] emphasis on securing the finality of the award has contributed to timely and efficient enforcement of awards.”); Thomas W. Walsh, Note, *Substantive Review of ICSID Awards: Is the Desire for Accuracy Sufficient to Compromise Finality?*, 24 *BERKELEY J. INT’L L.* 444, 446 (2006) (“[A]lthough accuracy is a valid factor motivating the promotion of appeal, investors continue to prefer finality and so there is insufficient interest to compel the adoption of the [ICSID] Appeals Facility.”); see also Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, Mar. 18, 1965, art. 53(1), 4 *I.L.M.* 532 (1965) [hereinafter ICSID Convention]:

The award shall be binding on the parties and shall not be subject to any appeal or to any other remedy except those provided for in this Convention. Each party shall abide by and comply with the terms of the award except to the extent that enforcement shall have been stayed pursuant to the relevant provisions of this Convention.

136. See Franck, *Legitimacy Crisis*, *supra* note 32, at 1551–54 (discussing judicial review of an arbitral award).



1996 stipulates, “Unless otherwise agreed by the parties, a party to arbitral proceedings may (upon notice to the other parties and to the tribunal) appeal to the court on a question of law arising out of an award made in the proceedings.”<sup>137</sup> Likewise, Section 49(1) of the Singapore Arbitration Act provides, “A party to arbitral proceedings may (upon notice to the other parties and to the arbitral tribunal) appeal to the Court on a question of law arising out of an award made in the proceedings.”<sup>138</sup>

Ultimately, whether a proposal will receive widespread support, including support from the international business and investment communities,<sup>139</sup> will depend on whether it succeeds in balancing efficiency and expedition against fairness and legitimacy. Given the high stakes involved in ISDS arbitrations and the related controversy and opposition, having an appellate mechanism built into ISDS to ensure greater fairness and legitimacy will make good practical sense.<sup>140</sup> Such improvement can also help increase its use in new areas, like intellectual property.

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137. Arbitration Act 1996, c. 23, § 69(1) (Eng.).

138. Arbitration Act, (2002) Cap. 10, § 49(1) (Sing.). Interestingly, at the time of Philip Morris’ ISDS case against Australia, this Act, which has since been amended, did not allow for a review of a negative ruling on jurisdiction. Had Australia succeeded in changing the arbitral seat from Singapore to London, *see* Philip Morris v. Australia Award, *supra* note 15, ¶ 26, the tobacco giant might have been able to seek judicial review. *See* Antony Crockett & Daniel Mills, *A Tale of Two Cities: An Analysis of Divergent Approaches to Negative Jurisdictional Rulings*, KLUWER ARB. BLOG (Nov. 8, 2016), <http://kluwerarbitrationblog.com/2016/11/08/a-tale-of-two-cities-an-analysis-of-divergent-approaches-to-negative-jurisdictional-rulings/>:

Under Singapore law—as it applied to the Arbitration—PMA [Philip Morris Asia] could only challenge decisions of the Tribunal *upholding* jurisdiction; it had no ability to challenge *negative* rulings on jurisdiction before the Singapore courts. Had the place of the arbitration been London, however, PMA could have challenged the Tribunal’s negative decision on jurisdiction under Section 30(2) of the English Arbitration Act 1996.

139. As one commentator observed:

Investor opinions are particularly important. Investors do not have the authority to alter the ICSID Convention, but the Contracting States, which do, often advance the interests of investors. Capital-exporting States do not generally conceive of themselves as potential defendants in investor-State disputes; they primarily adopt an offensive view of foreign investment law, promoting the rights of their investors. In contrast, capital-importing States are aware that they may appear as defendants to an ICSID dispute. However, they too promote investors’ interests with the hope of boosting foreign investment flows. Even if capital-importing States do not choose to support investors’ interests, they cannot amend the Convention without the support of the capital-exporting States.

Walsh, *supra* note 135, at 445 (footnote omitted).

140. *See* Schacherer, *supra* note 32, at 643 (“For the sake of good justice, considerations of consistency and predictability are more important than finality.”); Yu, *Investment-Related Aspects*, *supra* note 1, at 903 (“Given the high stakes involved in ISDS arbitrations and the arbitrations’ controversial nature and continuous opposition, having an appellate mechanism built into the ISDS process to ensure greater fairness and legitimacy is eminently sensible.”).

The third limitation pertains to the potential explosion of cases in the appellate mechanism. Critics may ask, “what if all investors and host states insisted on having their unfavorable ISDS decisions reviewed by the proposed ISDS appellate body?” At the moment, arbitral awards cannot be annulled except under a very limited set of circumstances.<sup>141</sup> Nevertheless, if the losing party had a right to appeal, as provided in the current proposal, there might be an explosion of appeals that ISDS has not seen before. That explosion could easily undermine a lot of the attractive strengths mentioned in Part III.A.

This type of criticism is actually quite common whenever a new adjudicatory process is proposed. One process that immediately comes to mind is the WTO dispute settlement process. When this process was first mandated to address TRIPS disputes,<sup>142</sup> commentators expressed concern that a litigation explosion would emerge in the intellectual property area once the TRIPS transition period for developing countries expired.<sup>143</sup> Concerns about a similar explosion were also expressed

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141. Article 52(1) of the ICSID Convention allows for an award to be annulled under one or more of the following grounds:

- (a) that the Tribunal was not properly constituted;
- (b) that the Tribunal has manifestly exceeded its powers;
- (c) that there was corruption on the part of a member of the Tribunal;
- (d) that there has been a serious departure from a fundamental rule of procedure; or
- (e) that the award has failed to state the reasons on which it is based.

ICSID Convention, *supra* note 135, art. 52(1). For discussions of proceedings to annul, review, or set aside arbitral awards, see generally Vladimír Balaš, *Review of Awards*, in OXFORD HANDBOOK, *supra* note 34, at 1125; Jean-Christophe Honlet et al., *ICSID Annulment*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 34, at 1431; Kalnina & Di Pietro, *supra* note 43; Irmgard Marboe, *ICSID Annulment Decisions: Three Generations Revisited*, in INTERNATIONAL INVESTMENT LAW, *supra* note 34, at 200; Lars Markert & Helene Bubrowski, *National Setting Aside Proceedings in Investment Arbitration*, in INTERNATIONAL INVESTMENT LAW HANDBOOK, *supra* note 34, at 1460; Nikolaos Tsolakidis, *ICSID Annulment Standards: Who Has Finally Won the Reisman v. Broches Debate of Two Decades Ago?*, in RESHAPING THE ISDS SYSTEM, *supra* note 34, at 828.

142. See TRIPS Agreement, *supra* note 25, art. 64 (requiring that all disputes arising under the TRIPS Agreement be settled by the WTO dispute settlement process); see also Peter K. Yu, *The Comparative Economics of International Intellectual Property Agreements*, in COMPARATIVE LAW AND ECONOMICS 282, 298 (Theodore Eisenberg & Giovanni B. Ramello eds., 2016) [hereinafter Yu, *Comparative Economics*] (“Before the formation of the WTO, international intellectual property agreements were largely unenforceable. Although both the Paris and Berne Conventions contain an optional dispute settlement mechanism utilizing the International Court of Justice, no country has ever used this mechanism to resolve an international intellectual property dispute.” (footnote omitted)).

143. See Jerome Reichman, *The TRIPs Agreement Comes of Age: Conflict or Cooperation in the Post-Transitional Phase?*, in INTELLECTUAL PROPERTY: TRADE, COMPETITION, AND SUSTAINABLE DEVELOPMENT 115, 125 (Thomas Cottier & Petros C. Mavroidis eds., 2003) (“Seasoned observers already expect the number of dispute settlement actions to increase exponentially once the developing countries lose their immunities, and the coalition of intellectual property owners can hardly wait to bring test cases.”); Joost Pauwelyn, *The Dog That Barked but*

regarding China's accession to the WTO—not just in the intellectual property area, but in all areas.<sup>144</sup>

Nevertheless, in the past twenty years, we have yet to see such an explosion of WTO disputes with respect to either intellectual property or China. In the intellectual property area, for example, there have been only more than thirty requests for consultations, nine panel decisions, and three Appellate Body reports.<sup>145</sup> As to China, the country has been involved in the WTO dispute settlement process only fifteen times as a complainant and thirty-nine times as a respondent.<sup>146</sup> Given the gap between original fears and eventual developments, one cannot help but wonder whether the fear for an ISDS explosion can be justified.

The fourth limitation regards the remaining substantive and procedural flaws in ISDS. By making the mechanism more appealing than it is, this proposal may actually make matters worse, as it will encourage investors and host states to use the mechanism even though it continues to feature many of the flaws documented by its critics.

While this criticism is understandable, the response will be quite different depending on one's view on the potential expansion of the use of ISDS through bilateral, regional, and plurilateral agreements. If such use does greatly expand, despite the repeated calls for its exclusion, our options will be limited. Because the flaws in ISDS are unlikely to disappear on their own, remediation will have to start somewhere—even if we cannot address all the problems at the same time.

The final limitation involves the entrenchment of ISDS in the intellectual property area. By improving the existing ISDS mechanism

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*Didn't Bite: 15 Years of Intellectual Property Disputes at the WTO*, 1 J. INT'L DISP. SETTLEMENT 389 (2010) [hereinafter Pauwelyn, *The Dog That Barked*] (recalling that “one of the few opinions both proponents and critics of TRIPS shared was that the WTO would see a flood of TRIPS disputes”).

144. See Deborah Z. Cass, *China and the “Constitutionalization” of International Trade Law*, in CHINA AND THE WORLD TRADING SYSTEM: ENTERING THE NEW MILLENNIUM 40, 45 (Deborah Z. Cass et al. eds., 2003) [hereinafter CHINA AND THE WORLD TRADING SYSTEM] (noting the concern that “China's entry might weaken the dispute settlement system” by creating “non-compliance with Appellate Body rulings . . . [and an] overload of the dispute settlement system”). But see Sylvia Ostry, *WTO Membership for China: To Be and Not to Be—Is That the Answer?*, in CHINA AND THE WORLD TRADING SYSTEM, *supra*, at 31, 38 (contending that “the issue of the increasing litigiousness of the WTO dispute settlement mechanism is a broader issue that the Chinese accession will amplify but does not create”).

145. See Yu, *Comparative Economics*, *supra* note 142, at 299 (“Since its inception more than two decades ago, the WTO Dispute Settlement Body . . . has handed down three Appellate Body Reports and nine panel reports on intellectual property disputes.”); see also Pauwelyn, *The Dog That Barked*, *supra* note 143 (discussing the first fifteen years of the WTO dispute settlement process).

146. *Disputes by Member*, WORLD TRADE ORG., [https://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_by\\_country\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm) (last visited July 26, 2017).

and making it more appealing to investors and host states, this proposal will welcome investment disputes into the intellectual property area, thereby entrenching ISDS.

This line of criticism is particularly difficult to address, as I am not only sympathetic to, but also in agreement with, those who believe TRIPS-related issues should be addressed in the WTO system.<sup>147</sup> Article 23.1 of the Dispute Settlement Understanding specifically provides, “When Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements or an impediment to the attainment of any objective of the covered agreements, they *shall have recourse to, and abide by, the rules and procedures of this Understanding.*”<sup>148</sup>

Moreover, the criticism about potential entrenchment is not uncommon for proposals that advance middle-of-the-road solutions. One may recall similar criticisms directed at Creative Commons many years ago. By allowing “some rights reserved” under the copyright system—a compromise between “all rights reserved” and “no rights reserved”—that highly innovative proposal has threatened to entrench the copyright

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147. See Ho, *Sovereignty Under Siege*, *supra* note 26, at 247 (“If investor-state disputes could challenge TRIPS-consistent decisions, there is a risk of decisions inconsistent with the built-in dispute resolution process of TRIPS.”); Henning Grosse Ruse-Khan, *Challenging Compliance with International Intellectual Property Norms in Investor-State Dispute Settlement*, 19 J. INT’L ECON. L. 241, 242 (2016) (“Generally, private right holders have no standing in fora where states can adjudicate compliance with international IP norms (such as the WTO dispute settlement system).”). Article 23.1 of the Dispute Settlement Understanding provides strong support for this position. See Dispute Settlement Understanding, *supra* note 29, art. 23.1 (“When Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements or an impediment to the attainment of any objective of the covered agreements, they shall have recourse to, and abide by, the rules and procedures of this Understanding.”). As the WTO panel declared in *United States—Sections 301–310 of the Trade Act of 1974*:

Article 23.1 . . . prescribes a general duty of a dual nature. First, it imposes on all Members to “have recourse to” the multilateral process set out in the DSU [Dispute Settlement Understanding] when they seek the redress of a WTO inconsistency. In these circumstances, Members have to have recourse to the DSU dispute settlement system to the exclusion of any other system, in particular a system of unilateral enforcement of WTO rights and obligations. This, what one could call “exclusive dispute resolution clause”, is an important new element of Members’ rights and obligations under the DSU. Second, Article 23.1 also prescribes that Members, when they have recourse to the dispute settlement system in the DSU, have to “abide by” the rules and procedures set out in the DSU. This second obligation under Article 23.1 is of a confirmatory nature: when having recourse to the DSU Members must abide by all DSU rules and procedures.

Panel Report, *United States—Sections 301–310 of the Trade Act of 1974*, ¶ 7.43, WTO Doc. WT/DS152/R (adopted Dec. 22, 1999); see also Simon Klopschinski, *The WTOs DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPs*, 19 J. INT’L ECON. L. 211 (2016) (discussing how Article 23 may serve as a guiding principle for the interpretation of international investment agreements in the light of the TRIPS Agreement).

148. Dispute Settlement Understanding, *supra* note 29, art. 23.1 (emphasis added).

system whose problems it seeks to address. As Niva Elkin-Koren rightly cautioned:

When Creative Commons relies on property rights to advance its strategy, it reinforces the proprietary regime. Making copyright user-friendly is likely to bring more prevalence to property. This outcome, however, will not necessarily promote access to works. If the purpose of Creative Commons is to encourage sharing and collaboration in creative processes, it has to offer an alternative regime. Simply letting authors govern their own work may turn out to be self-defeating.<sup>149</sup>

In sum, the proposal advanced in this Article has a number of attractive features. It also has a number of limitations, not to mention its inability to fully address the many substantive and procedural problems that are inherent in the ISDS mechanism. Thus, it is important to recognize that this proposal is no panacea for the mechanism's multiple defects. Instead, the proposal is only one of many that aims to improve ISDS in the intellectual property area. Addressing the mechanism's other problems will likely require the introduction of complementary safeguards and adjustments.<sup>150</sup> Two measures I have explored in an earlier article, but am unable to cover here, are the establishment of an Advisory Center on Investor-State Disputes<sup>151</sup> and the development of a small-claims procedure within the ISDS mechanism.<sup>152</sup> Those two measures deserve greater scholarly and policy attention.

#### CONCLUSION

In the past few years, ISDS cases have begun to emerge in the intellectual property area. Such emergence is problematic considering that the current multilateral intellectual property system has been built upon the TRIPS Agreement and the WTO dispute settlement process. The

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149. Niva Elkin-Koren, *What Contracts Cannot Do: The Limits of Private Ordering in Facilitating a Creative Commons*, 74 *FORDHAM L. REV.* 375, 401–02 (2005).

150. See Yu, *Investment-Related Aspects*, *supra* note 1, at 865–903 (discussing the various substantive and procedural safeguards that the TPP Agreement has instituted to improve ISDS and advancing proposals to provide further improvements).

151. See *id.* at 895–97 (calling for the establishment of this center); see also *ADVISORY CENTRE ON WTO LAW, THE SERVICES OF THE ACWL 2* (n.d.), [http://www.acwl.ch/download/ql/Services\\_of\\_the\\_ACWL.pdf](http://www.acwl.ch/download/ql/Services_of_the_ACWL.pdf) (discussing the Advisory Centre on WTO Law, based on which this proposal was created).

152. See Yu, *Investment-Related Aspects*, *supra* note 1, at 897–98 (calling for the development of this procedure); see also Bernard M. Hoekman & Petros C. Mavroidis, *WTO Dispute Settlement, Transparency and Surveillance*, 23 *WORLD ECON.* 527, 536 (2000) (“Many cases that involve developing countries will generally pertain to relatively small trade volumes. Another way of recognising resource constraints is to consider adopting ‘light’ dispute settlement procedures for ‘small’ cases brought by developing countries (e.g., where the exports constitute less than one per cent of apparent consumption in the importing market).”); Nordström & Shaffer, *supra* note 132, at 191 (building the case for a small-claims procedure within the WTO).

emergence of ISDS cases and the arrival of investment discussions therefore have brought with them a clash of culture that is rarely seen in the TRIPS-based system. To minimize this clash, this Article advances a proposal that calls for greater crossfertilization between ISDS and the WTO system.

As I noted at the outset, there are still many policymakers, commentators, and civil society organizations that believe ISDS should not be used in the intellectual property area, especially in relation to issues falling squarely within the purview of the WTO dispute settlement process. For those who take this position, the logical course of action is not to push for this proposal, but to call for an exclusion of ISDS in the proposed agreement—or, at least, the inclusion of an intellectual property carve-out, similar to the carve-outs for financial services<sup>153</sup> and tobacco-control measures in the TPP Agreement.<sup>154</sup> However, for those who do not take this position, this proposal can be quite attractive. This proposal can also be of great interest to those eager to develop solutions to address the potential clash between ISDS and the TRIPS Agreement regardless of whether ISDS can be excluded from the intellectual property area.

Even though this proposal focuses on intellectual property—my primary area of expertise—it could be easily expanded to address other areas covered by WTO agreements, such as agriculture, textiles and clothing, and sanitary and phytosanitary measures. The immediate goal of this proposal is to address the many concerns and problems brought

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153. See TPP Agreement, *supra* note 2, art. 9.3.3 (stipulating that the TPP investment chapter “shall not apply to measures adopted or maintained by a Party to the extent that they are covered by Chapter 11 (Financial Services)”).

154. Article 29.5 of the TPP Agreement explicitly recognizes the health authorities’ ability to introduce tobacco control measures:

A Party may elect to deny the benefits of Section B of Chapter 9 (Investment) with respect to claims challenging a tobacco control measure of the Party. Such a claim shall not be submitted to arbitration under Section B of Chapter 9 (Investment) if a Party has made such an election. If a Party has not elected to deny benefits with respect to such claims by the time of the submission of such a claim to arbitration under Section B of Chapter 9 (Investment), a Party may elect to deny benefits during the proceedings. For greater certainty, if a Party elects to deny benefits with respect to such claims, any such claim shall be dismissed.

TPP Agreement, *supra* note 2, art. 29.5; see also Bryan Mercurio, *Safeguarding Public Welfare?—Intellectual Property Rights, Health and the Evolution of Treaty Drafting in International Investment Agreements*, 6 J. INT’L DISP. SETTLEMENT 252, 272–75 (2015) (discussing the difficulties in creating a carve-out for tobacco control measures at the TPP negotiations); Sean Flynn, *TPP Carve out for Tobacco Shows Core Flaws in Investor-State Dispute Settlement (ISDS)*, INFOJUSTICE.ORG (Oct. 1, 2015), <http://infojustice.org/archives/35107> (criticizing the inadequacy of the TPP carve-out for tobacco control measures). See generally Matthew Rimmer, *Plain Packaging for the Pacific Rim—Tobacco Control and the Trans-Pacific Partnership*, in TRADE LIBERALISATION AND INTERNATIONAL CO-OPERATION: A LEGAL ANALYSIS OF THE TRANS-PACIFIC PARTNERSHIP AGREEMENT 75 (Tania Voon ed., 2014) (discussing tobacco control measures in relation to the TPP negotiations).

about by the use of ISDS in the intellectual property area, but the proposal's ultimate goal is to use crossfertilization to preempt the potential clash between ISDS and the WTO system. It therefore does not matter whether the clash relates to the TRIPS Agreement or other WTO agreements. Going in that direction, this Article could easily have been titled *Crossfertilizing ISDS with the WTO*.