CHAPTER 12

Intellectual Property Rights in the Context of Investment Arbitration: A Brazilian Perspective

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§12.01 INTRODUCTION

The economic and political relationships interstates have been a complex and intense subject and concern *surtout* as of the Industrial Revolution and intensified after the two World Wars. The commerce and circulation of goods and services outside of the borders of the home state have been a strong reality in the international trade for years and, as a consequence, has built-up a globalized market and has increased the need to approaching and liaising different countries, whether from the perspective of the exporter of goods and services or from the importer of such items. On the one hand, developing countries tend to export raw materials and labour force to developed (industrialized) countries and, on the other, developed countries tend to export products and services to developing countries, creating a dependent and circular relation among the states – Government per se and nationals.

In such complex relationships, the arising of conflicts is as true as the existence of the human race per se. Where there are communications among two or more parties, the relationship therein established is subject to create or generate conflicts. When we are dealing with international relationships, the conflicts may arise out of discrimination of one state in respect to another state or nationals of such another state, in order to protect its own nationals and economy. Such sort of behaviour has proven to be very negative for the concerned state and, therefore, its own nationals, which, ultimately, represents a severe restriction in obtaining foreign investments and generating economic, social and political development.

As a result, the concerned states have long identified the need to regulate such international relationships, not only to trying to safeguard the position of each concerned state and the affected nationals, but also to establish rather safe and minimum protection patterns and guidance as the fundamental stone ruling such relationships and related conflicts, avoiding, as a consequence, regionalisms and decisions given by State courts that are attached, most of all, just to nationality reality, denying, in general, the economic aspects of such important and international exchange.

The many crises experienced within the past years – such as the Asian, European, Mexican, USA[1] – by the globalized world have proven the intense economic dependence that exists among the countries. For instance, Brazilian economy has suffered severe impacts with the Asian crises back in the 1990s; such distant territories in respect to geography, but so close when it comes to economic issues. These situations just reinforce the key role played by international law and the need to address important issues by means of treaties and rules.

One of the subjects that are of great concern of international law is the protection of foreign direct investment ('FDI'). FDI may be defined as the investment made in a determined country ('host country') by a company located in another country ('home country'). FDI usually materializes as an investment made by another states' national on local production or a local business, by acquiring, incorporating or expanding operations in the host country. Therefore, FDI may refer to different sort of assets, which must be properly covered and protected.

One of the biggest challenges when it comes to FDI is to protect both the investor efforts and position and also the state's ability to maintain its sovereignty and public policies.

The negative heritage mainly arising out of the Second World War (German experience) has urged countries to create mechanisms to properly protect foreign investment and implement 'a regime of truly independent dispute resolution'.[2]

It was in this scenario that the International Bank for Reconstruction and Development ('World Bank') sponsored and drafted the so-called Washington Convention, which established the International Centre for Settlement of Investment Disputes ('ICSID'). The Washington Convention came into force on 14 October 1966

1. See: *America's economy: Stumble or worse?* The Economist (30 Jan. 2013)http://www.economist.com/blogs/freeexchange/2013/01/americas-economy-1?zid=295&ah=0bca374e65f2354d553956ea65f756e0 (accessed 31 Jan. 2013); *Looking Better*, The Economist (26 Jan. 2013) http://www.economist.com/news/united-states/21570738-some-risks-less-fear-second-term-gets-under-way-looking-better?zid=295&ah=0bca374e65f2354d553956ea65f756e0 (accessed 31 Jan. 2013); *The Euro Crisis – The most important number*, The Economist (30 Dec. 2012) http://www.economist.com/blogs/freeexchange/2012/11/euro-crisis-1?zid=295&ah=0bca374e65f2354d553956ea65f756e0 (accessed 31 Jan. 2013); *The Euro Crisis – Discouraging news,* The Economist (8 Nov. 2012) http://www.economist.com/blogs/freeexchange/2012/11/euro-crisis-0?zid=295&ah=0bca374e65f2354d553956ea65f756e0 (accessed 31 Jan. 2013).
2. REED, Lucy, PAULSSON, Jan & BLACKABY, Nigel, *Guide to ICSID Arbitration* 3 (2d ed., Wolters Kluwer L. & Bus. 2011).

and its main purpose is to: (a) promote foreign investment and (b) establish extrajudicial means as an alternative to seek the resolution of the conflict in the state-investor relationship.[3]

To reach a balanced system between State-investor relations is not only a very difficult task, but also a challenging one in the sense that, when it comes to critical situations, each party (State or investor) tends to seeking actions that may grant the best outcome for its individual interests, without taking into regard all possible impacts and consequences that such action may create, including to third parties not directly involved, as the investment disputes, most of times, deals with topics of public interest, such as infrastructure, energy etc. Therefore, a neutral dispute resolution system for such sort of relation (State-investor), based on fair and equitable grounds, has proven to be an important tool to facilitate international cooperation and a regular flow of private investments.[4]

Currently there are 144 States members of the Washington Convention. Brazil is not a party to such Convention – although has participated in the discussions of the initial draft back in the 1960s – as we will see in Chapter 3.[5]

In order to be able to seek the dispute resolution of a State-investor conflict under the ICSID, three basic requirements must be fulfilled:

(i) The State must have signed and ratified the Washington Convention in its legal system.

3. 'In sum, the Executive Directors of the World Bank underscored the importance of the balance inherent in the Convention: the basic goal of the ICSID system is to promote much-needed international investment by offering a neutral dispute resolution forum both to investors that are (rightly or wrongly) wary of nationalistic decisions by local courts and to host States that are (rightly or wrongly) wary of self-interested actions by foreign investors.

The Preamble of the Convention itself underlines this economic goal, and the operational objective of establishing an effective regime for neutral resolution of investment disputes that is attractive to States and investors alike …' (*ibid.*, 4-5).

4. Recently there has been a critical report, named *Profiting from Injustice*, issued in the end of 2012, by Corporate Europe Observatory and the Transnational Institute, on the role of law firms, arbitrators and third-party funders in investment treaty arbitration. In it, some specialists had argued that the arbitration industry has fuelled an investor-state dispute boom over the past two decades, promoting new cases and investor-friendly rulings, and lobbying against reform. The referred authors also argued that the current investment arbitration regime is neither fair nor independent, but biased towards the interests of investors. As the document has been published, some arbitrators and investment lawyers have rejected these allegations, claiming that the investment arbitration system is not pro-investor biased. For further details on the topic and on the discussion that has been coming up in the field of investment arbitration, see: BERHARDT, Pia; OLIVET, Cecilia, *A Response to the Critics of 'Profiting from Injustice'*, Kluwer Arbitration Blog (2 Jan. 2013) http://kluwerarbitrationblog.com/blog/2013/01/02/a-response-to-the-critics-of-profiting-from-injustice/ (accessed 31 Jan. 2013).

5. As the Brazilian doctrine points out: '*Historically, the Latin-American countries, among them Brazil, always were against any dispute resolution mean that could transfer the resolution of matters concerning foreign investments from the State justice to the international scene. They used to believe that arbitration would result the submission of a certain State to an international system controlled by the developed countries, conducting to submission to foreign interests and, as consequence, to restriction to the sovereignty*' (CUNHA, Ricardo Thomazinho da. A Arbitragem como Método de Solução de Controvérsias sobre Investimentos Estrangeiros. *In* Arbitragem – a nova lei brasileira (9.307/96) e a praxe internacional. Coord. Paulo Borba Casella, São Paulo: LTr, 1996, 216 – translation by the authors, original in Portuguese).

(ii) The parties involved must have agreed to take the dispute to the ICSID, either under a contractual relationship (signed directly between the State and the investor) or under a BIT (Bilateral Investment Treaty), IIA (International Investment Agreement), FTA (Foreign Trade Act), or any other bilateral or multilateral treaty (collectively IIA or IIAs) ruling about foreign investment signed and ratified with the country against which an investor wish to seek conflict resolution through the ICSID.

(iii) The dispute must qualify as a legal dispute arising directly out of an investment – *v.g.* direct or indirect expropriation of a qualified investment.

It is possible to seek arbitration under the ICSID if one of the involved States is not a member of the Washington Convention, provided that the involved parties have contractually agreed to such dispute resolution mechanism or there is an IIA establishing arbitration as a dispute resolution mechanism.[6] In such cases, the arbitration will be ruled by the ICSID Additional Facility.[7]

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6. One of the goals to signing an IIA is precisely the ability to seek arbitration as a dispute resolution mechanism by the investor in case of a direct or indirect expropriation of a qualified investment. Therefore, it may be affirmed that, if an IIA is in place, then arbitration is a consequential right.

7. 'In the face of demand, the World Bank created the ICSID Additional Facility in 1978 to extend the availability of ICSID arbitration to certain types of proceedings between States and foreign nationals that fall outside the scope of the ICSID Convention. The Additional Facility is not a separate institution or even a physically separate part of ICSID. The same Secretariat serves both.

   Arbitrations conducted under the Additional Facility include proceedings where either the State party or the home State of the foreign investor is not a member of the ICSID. This possibility is particular important in the context of cases brought under Chapter 11 of the NAFTA, because the United States is an ICSID Contracting State but Canada and Mexico are not. Although ordinary ICSID arbitration under the ICSID Convention is thus not an option between NAFTA States, Additional Facility arbitration is available, on the one hand, between US investors and Canada or Mexico and, on the other hand, between Canadian or Mexican investors and the United States. (In disputes between Canadian investors and Mexico or between Mexican investors and Canada, only UNCITRAL arbitration is available).

   Under Article 4(3) of the Rules Governing the Additional Facility for the Administration of Proceedings by the Secretariat of the International Centre for Settlement of Investment Disputes (***Additional Facility Rules***) (Annex 4), the Secretary-General of ICSID may approve agreements to use the Additional Facility to resolve disputes even if they do not arise directly out of an investment, but only if he or she is satisfied that 'the underlying transaction has features which distinguish it from an ordinary commercial transaction'. This reflects the policy that ICSID is not to be used for commercial disputes of the type routinely handled by other international or national arbitration institutions.

   The provisions of the ICSID Convention do not apply to Additional Facility proceedings (although many of the guiding principles are similar). Instead, arbitrations administered under the Additional Facility are subject to: (a) the Additional Facility Rules; (b) the Administrative and Financial Rules (Additional Facility); and (c) the Arbitration (Additional Facility) Rules (***Additional Facility Arbitration Rules***) (Annex 4).

   Most important to potential users, these distinctions mean that the ICSID Convention's special self-contained provisions on recognition and enforcement of awards are not applicable to Additional Facility arbitrations, which have a seat of arbitration whose courts will exercise supervisory jurisdiction. Additional Facility awards thus may be equated with ordinary international commercial arbitration awards such as those rendered under the ICC, LCIA, ICDR (American Arbitration Association) and UNCITRAL arbitration rules. This explains why Article 19 of the Additional Facility may held only in countries that are parties to the New York

ICSID is not the only extrajudicial dispute resolution mechanism available when it comes to State-investor disputes. It is possible to establish other extrajudicial systems, such as using the UNCITRAL rules or any other that the parties have mutually agreed. ICSID is, however, the most established and important one when it comes to investment disputes.

As we have seen above – item iii – arbitration involving investment disputes may be started by an investor against a State if, among other, a qualified investment was directly or indirectly expropriated by such State. A qualified investment may be broadly defined, as it usually refers to, as any assets that has an economic value or is subject to create economic value to which the investor can benefit from.

The purpose of this essay is to specifically address the possibility to consider intellectual property rights ('IPR' or 'IPRs') as a qualified investment in the State-investor relationship and, as a consequence, the possibility of seeking arbitration under the ICSID rules – or any other available option – in case of a direct and indirect expropriation of an IPR.

We also analyse the international commitments undertaken by countries – here specifically directed to Brazil – within the framework of the main international treaties covering IPRs and to potentially use the TRIPS Agreement commitments to claim for direct or indirect expropriation of IPRs in investment disputes.[8]

We will more specifically address the Brazilian situation in respect to investment arbitration covering IPRs, since Brazil has not signed the Washington Convention and, additionally, has not ratified any of the IIAs that has signed so far.[9]

We will briefly discuss potential, and also theoretical, overlapping issues between some of the IIAs signed by Brazil[10] and the international commitments undertaken by the Brazilian Government under the TRIPS Agreement.

We will further address the positive side to using the ICSID – or other available extrajudicial option – for IPRs-related disputes between State-investor, given the sophistication of the matter and, also, the lacking of strong background in IPR-issues by the Brazilian Courts.

Convention; otherwise the awards would be unduly vulnerable at the enforcement stage.' (REED, PAULSSON and BLACKBY. Second edition. Wolters Kluwer Law & Business. 2011, 16-18).

See also: ICSID Additional Facility Rules at https://icsid.worldbank.org/ICSID/FrontServlet?requestType=CasesRH&actionVal=RightFrame&FromPage=Dispute Settlement Facilities&pageName=Disp_settl_facilities (accessed 31 Jan. 2013).

8. In respect to the international commitments on IPRs, we are mainly referring to the Paris Convention and the Berne Convention, but specifically for this essay to the more recently commitments carried out by members of the World Trade Organization (WTO) and, particularly, the minimum protection standards provided by the Annex 1C of the Marrakesh Agreement, namely, the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement or simply TRIPS).
9. Fourteen BITs in total with the following countries: Belgium-Luxembourg, Chile, Cuba, Denmark, Finland, France, Germany, Italy, Korea, The Netherlands, Portugal, Switzerland, United Kingdom, Venezuela.
10. We use the word 'theoretical', because, although there are IIAs signed by Brazil, they have not been ratified into the Brazilian legal system.

In the context of the TRIPS Agreement, we will comment on some expressive Brazilian cases involving compulsory licenses (the MERCK case – *efavirenz*), industrial design registrations vis-à-vis competition issues (the ANFAPE case), technology transfer (the Brazilian PTO[11] position), and, also, the decision ruled by the WTO authorizing Brazilian government to retaliate United States' IPRs obtained in Brazil (the cotton subside case), and we will discuss the possibility to consider such cases as direct or indirect expropriation by Brazil.

Our essay is divided into the following Chapters covering the issues abovementioned:

§*12.02*	*IPRs as a qualified investment*
§12.03	International commitments on IPRs – most relevant treaties – and the possibility to claim expropriation of IPRs under such scenario
[A] CUP	
[B] CUB	
[C] TRIPS	
[D] Brazilian context in such treaties	
[E] TRIPS commitments and investment arbitration	
§12.04	Brazil position in the Washington Convention and IIAs
[A] Washington Convention	
[B] IIAs signed by Brazil and IPR perspective	
§12.05	Potential (and theoretical) overlapping issues between TRIPS Agreement and BITs signed by Brazil
§12.06	Benefits from using extrajudicial dispute mechanisms in respect to IPRs
§12.07	Challenges when taking IPRs disputes to arbitration: *the arbitrability issue*
§12.08	Relevant cases involving Brazil *vis-à-vis* the TRIPS Agreement
[A] Compulsory licenses – *efavirenz* case (*Merck v. Brazil*)	
[B] *Industrial design registrations v. competition issues* – ANFAPE case	

11. The Brazilian Patent and Trademark Office (or INPI – Instituto Nacional da Propriedade Industrial), which is responsible, among other, to record license agreements involving IPRs and to register tech transfer agreements.

It is important to address that our essay covers international investment issues pertaining specifically to IPRs and directed to the Brazilian perspective, and not any other sort of asset deemed as a qualified investment. Given the complexity of the study proposed in this essay, it would be too bold exhausting all possible issues involving IPRs in the international investment scenario, and, as a consequence, some potential relevant issues have been left-aside.

§12.02 IPRS AS A QUALIFIED INVESTMENT

The Washington Convention does not provide a definition of 'investment'. Rather, the Convention has voluntarily refrained from giving any definition, precisely to avoid any potential restrictions, which could be the case, as we are dealing with a very broad and dynamic subject.[12]

Furthermore, given the nature of the dispute resolution system, it is practically a requirement leaving space for the parties to decide what can be considered an investment and, further, an investment dispute subject to be taken to the ICSID.

In this regard, 'the Report of the Executive Directors on the Convention' states the following:

> [n]o attempt was made to define the term 'investment' given the essential requirements of consent by the parties, and the mechanism through which Contracting States can make known in advance, if they so desire, the classes of disputes which they would or would not consider submitting to the Centre (Article 25(4)).[13]

In general terms – and without the intention to provide for a closed definition – an investment may be considered any *type of asset*, which was obtained as of the direct or indirect transfer of capital.

12. 'The ICSID Convention does not offer a specific definition of the term "investment". This was a deliberate decision by the drafters, who recognize that, given the pivotal role of consent, a definition of the term could prove unhelpfully restrictive.' (REED, PAULSSON & BLACKBY, 2d ed., Wolters Kluwer L. & Bus. 2011, 25).

    In the same sense, the Brazilian doctrine states: *The States on providing the incentive and the guarantees for investments call international investment for its territories which results employments and promote the country progress. In such Agreements, generally, the concept of investment is wide and comprehends real state, material and immaterial property, guarantees the equal treatment to state capital and, in case of expropriation by the public power will have the fair and equivalent corresponding indemnification.* (LEMES, Selma Maria Ferreira. Mercosul – Proposta de Regulamentação quanto à Solução de Controvérsias Privadas. Conciliação e Arbitragem. *In* MERCOSUL e NAFTA – Os Acordos de Proteção e Promoção de Investimentos. At: http://www.selmalemes.com.br/artigos/artigo_juri25.pdf, accessed on 1 Feb. 2013 – translation by the authors, original in Portuguese).
13. REED, PAULSSON & BLACKBY, *Guide to ICSID Arbitration* 25 (2d ed. Wolters Kluwer L. & Bus. 2011).

An asset may encompass a tangible and material object (*corpus mechanicum*) and also materialize in an intangible and immaterial way (*corpus mysticum*).

IPR are immaterial and intangible assets, and, as a consequence, definitely regarded as an investment.

Given the nature of IPRs, which is to constitute exclusive rights as an award for an innovation or original creation, that is, an investment, and which enables the free circulation of goods and services in a lawful way, they represent the key and differential competitive tool of one player in respect to its competitors. Economic and also social development in great part depends on the existence of IPRs, because of the virtuous circle resulting out of the constant innovation promoted therein.

Assuring proper protection of IPRs is an international concern for a longtime and many significant treaties were executed by relevant and interested States since the 1880s.[14]

Therefore, NOT considering an IPR as an investment would not only be regarded as unfair and discriminatory, but would also jeopardize proper protection of an investor's extremely relevant asset.

Fortunately, the IIAs have recognized the importance of IPRs and its inclusion in the definition of investments. The first IIA – actually a BIT – signed back in 1959 between Germany and Pakistan expressly recognized IPRs as an investment, defining investment as 'capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, *patents and technical knowledge*'.[15]

IPRs contemplate, however, many other assets additionally to 'patents and technical knowledge', as narrowly provided in the German-Pakistan BIT. Maybe absenting from including the many assets regarded as an IPR in the German-Pakistan BIT was more an issue in respect to the time when the BIT was signed or a matter of relevance.

As mentioned above, IPRs include any 'creations of the mind', such as patents, marks, know-how, any technical knowledge, industrial designs, copyrights, trade dress, trade name, domain name.

The more recent BITs (or IIAs) have included a broader, and much more correct, mention to IPRs. For instance, the 'out-of-the-oven' 2012 Model BIT from the United States defines investment as follows:

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14. Two of the most important international treaties dealing with IPRs were adopted in the 1880s: the Paris Convention for the Protection of Industrial Property was adopted on 20 Mar. 1883, and the Berne Convention for the Protection of Literary and Artistic Works was adopted on 9 Sep. 1886.
15. GIBSON, Christopher S. *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*. Legal Studies Research Paper Series. Research Paper 09-32. Boston, 1 Jul. 2009. Suffolk University Law School. Page 2. Electronic copy available at http://ssrn.com/abstract=1428419. 'The inclusion of IPRs in the definition of 'investment' reflects that intellectual property, even as an intangible asset, can be a valuable part of a foreign direct investment (FDI). Indeed, the first BIT, signed in 1959 between German and Pakistan, recognized that intellectual property may be a core element of a foreign investment between these two countries. The BIT defined investment to 'comprise capital brought into the territory of the other Party for investment in various forms in the shape of assets such as foreign exchange, goods, property rights, *patents and technical knowledge*.'

every asset that an investor owns or controls, directly or indirectly, that has the characteristics of an investment, including such characteristics as the commitment of capital or other resources, the expectation of gain or profit, or the assumption of risk. Forms that an investment may take include:

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

The modern 2008 German Model BIT has changed significantly the wording on investment vis-à-vis the one previously considered back in 1959, to provide as follows:

Within the meaning of this Treaty:

1. the term 'investments' comprises every kind of asset which is directly or indirectly invested by investors of one Contracting State in the territory of the other Contracting State. The investments include in particular:
   (a) movable and immovable property as well as any other rights in rem, such as mortgages, liens and pledges;
   (b) shares of companies and other kinds of interest in companies;
   (c) claims to money which has been used to create an economic value or claims to any performance having an economic value;
   (d) *intellectual property rights, in particular copyrights and related rights, patents, utility-model patents, industrial designs, trademarks, plant variety rights;*
   (e) *trade-names, trade and business secrets, technical processes, know-how, and goodwill;*
   (f) business concessions under public law, including concessions to search for, extract or exploit natural resources;

any alteration of the form in which assets are invested shall not affect their classification as investment. In the case of indirect investments, in principle only those indirect investments shall be covered which the investor realizes via a company situated in the other Contracting State; '(emphasis added)'

Additionally, the 2006 France Model BIT defines 'investment' in the following sense:

1. The term 'investment' means every kind of assets, such as goods, rights and interests of whatever nature, and in particular though not exclusively:
   a) movable and immovable property as well as any other right in rem such as mortgages, liens, usufructs, pledges and similar rights;
   b) shares, premium on share and other kinds of interest including minority or indirect forms, in companies constituted in the territory of one Contracting Party;

c) title to money or debentures, or title to any legitimate performance having an economic value;
d) *intellectual, commercial and industrial property rights such as copyrights, patents, licenses, trademarks, industrial models and mockups, technical processes, know-how, tradenames and goodwill;*
e) business concessions conferred by law or under contract, including concessions to search for, cultivate, extract or exploit natural resources, including those which are located in the maritime area of the Contracting Parties. '(emphasis added)'

Although these three examples present somehow different wording,[16] the central issue is in place, that is, the express inclusion of IPRs in the definition of 'investment' and, as a consequence, the possibility to base an IPR investment dispute under the auspices of the IIA and, of course, starting arbitration before the ICSID – or other available and agreed options – based on direct or indirect expropriation of an intellectual property right.

It is important to address that the IIAs usually also provide for adequate protection for the so-called 'returns' obtained from the investments. The term 'returns' almost invariably includes 'profit, dividends, interest, *royalties*, fees'. The term 'royalties' includes the benefits obtained from the investor in respect to the licensing of its IPRs within the States' territory or tech transfer into the States' territory. Therefore, it is arguably that expropriation of 'royalties' may also be used to start arbitration against the State.

In sum, IPRs and the respective returns (royalties) obtained from such rights shall be definitely considered as a qualified investment in the scope of a FDI, being, therefore, an actual ground to investment disputes in case of direct or indirect expropriation.

§12.03 INTERNATIONAL COMMITMENTS ON IPRS (MOST RELEVANT TREATIES) AND THE POSSIBILITY TO CLAIM EXPROPRIATION OF IPRS UNDER SUCH SCENARIO

As we had an opportunity to comment above, IPRs have long been a concern by the international community and, since the 1880s, countries have undertaken commitments in respect to minimum standards of protection to IPRs, granting a higher level of security and effectiveness for the international transactions, including FDIs.

There are several treaties ruling about the different species of IPRs, but, most importantly for this essay, we will briefly comment on the most relevant issues of three key ones, namely:

(i) The Paris Convention for the Protection of Industrial Property (CUP).
(ii) The Berne Convention for the Protection of Literary and Artistic Works (CUB); and, most recently.

16. IPRs are essentially the same in all countries – at least those that are members of the WTO – but, due to the various internal legal systems of each country, there may be different wording when defining them.

(iii) The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS).

[A] CUP

CUP, adopted in 1883,[17] is the first international treaty ruling about IPRs. CUP specifically addresses issues and minimum levels of protection for the industrial property rights – patents, industrial designs, trade and service marks, geographical indications, trade names – additionally to setting provisions in respect to unfair competition acts. CUP does not include copyrights.

CUP brings the following substantive provisions, among other:

(i) International law principle: national treatment in respect to IPRs.
   (1) Under the provisions on national treatment, the Convention provides that, as regards the protection of industrial property, each contracting State must grant the same protection to nationals of the other contracting States as it grants to its own nationals. Nationals of non-contracting States are also entitled to national treatment under the Convention if they are domiciled or have a real and effective industrial or commercial establishment in a contracting State.[18]

The nationals of each State must receive the same treatment granted to one States' nationals in respect to the protection of IPRs.

(ii) Right of priority: this was a huge innovation for IPRs and is constantly and daily enjoyed by the States' nationals.
   (2) The Convention provides for the right of priority in the case of patents (and utility models, where they exist), marks and industrial designs. This right means that, on the basis of a regular first application filed in one of the contracting States, the applicant may, within a certain period of time (twelve months for patents and utility models; six months for industrial designs and marks), apply for protection in any of the other contracting States; these later applications will then be regarded as if they had been filed on the same day as the first application. In other words, these later applications will have priority (hence the expression 'right of priority') over applications which may have been filed during the said period of time by other persons for the same invention, utility model, mark or industrial design. Moreover, these later applications, being based on the first application, will not be affected by any event that

17. The Paris Convention, concluded in 1883, was revised at Brussels in 1900, at Washington in 1911, at The Hague in 1925, at London in 1934, at Lisbon in 1958 and at Stockholm in 1967, and it was amended in 1979. Source: World Intellectual Property Organization's website – www-.wipo.int. (accessed 27 Jan. 2013).
18. WIPO – www.wipo.int (accessed 27 Jan. 2013).

may have taken place in the interval, such as any publication of the invention or sale of articles bearing the mark or incorporating the industrial design. One of the great practical advantages of this provision is that, when an applicant desires protection in several countries, he is not required to present all his applications at the same time but has six or twelve months at his disposal to decide in which countries he wishes protection and to organize with due care the steps he must take to secure protection.

Given the international presence of companies, it is a reality that a product (or service) bearing the same mark and/or having being made under a specific patent or industrial design, is launched or offered on a worldwide basis. This means that seeking IPR protection in all involved territories will be a possible (and necessary) strategy adopted. However, it is very difficult or costly to request the protection in all intended territories at the same time. The right of priority gives the applicant of such rights a period of time to extend the filing date of the first protection requested and a priority in obtaining the right in respect to any other protection requested by third parties after the first filing date.

(iii) Possibility to provide for compulsory licenses for patents. Such a sensitive issue was already addressed by CUP.

[B] CUB

CUB, adopted in 1886,[19] addresses copyrights and related-rights. CUB brings four key substantive provisions:

(i) National treatment – same level of protection granted to one States' nationals has to be granted to the other States' nationals.
(ii) Automatic protection in all contracting States of the CUB.
(iii) Scope of protection: 'every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression' (Article 2(1)).
(iv) Moral rights (additionally to the so-called economic rights).

[C] TRIPS

The TRIPS is the first international treaty that provides for minimum standards of protection for all IPRs. CUP and CUB, as we have seen above, have provided protection for different IPRs – industrial property rights versus copyrights and related-rights.

19. The Berne Convention, concluded in 1886, was revised at Paris in 1896 and at Berlin in 1908, completed at Berne in 1914, revised at Rome in 1928, at Brussels in 1948, at Stockholm in 1967 and at Paris in 1971, and was amended in 1979. Source: World Intellectual Property Organization's website – www.wipo.int. (accessed 27 Jan. 2013).

TRIPS is the Annex 1C of the Marrakesh Agreement that established the World Trade Organization (WTO). The Marrakesh Agreement was adopted on 15 April 1994.

TRIPS is also known as PARIS-plus and BERNE-plus, because it has confirmed many of the substantive provisions under CUP and CUB and has also provided for additional minimum standards of protection on the IPRs that the Member States shall recognize in their internal laws. TRIPS included software, integrated-circuits, and plant varieties in the context of IPRs.

Some key points in TRIPS, among many others:

(i) Most favoured nation principle (MFN): all members of the WTO committed to such important principle, to which the same level of protection granted by a member to a 'favored nation' shall be awarded to all other members of the WTO. The MFN intends to prevent discriminatory actions in favour to a specific country. Basically, as of the adoption of the Marrakesh Agreement, all economic relevant countries have to abide to such principle.
In the context of the TRIPS Agreement, MFN specifically addressed IPRs. So, no better protection on IPRs shall be granted to a 'favored nation'.
(ii) National treatment: already provided in CUP and CUB, but also confirmed in the TRIPS Agreement.
(iii) TRIPS aims to promote innovation and tech transfer while assuring social and economic well-fare and a balance among rights and obligations. Public health is also a concern of the TRIPS Agreement (WTO principles and context).
(iv) Minimum protection terms for the IPRs.
(v) Compulsory licenses are also an option recognized by the TRIPS Agreement.

[D] Brazilian Context in Such Treaties

Brazil has signed and ratified in its legal system all three treaties: CUP,[20] CUB[21] and TRIPS.[22]

The substantive provisions and minimum protection standards provided in such treaties have been incorporated into Brazilian national law on IPRs. More recently, the TRIPS Agreement provisions have been incorporated into the Brazilian legal system as follows: Industrial Property Law No. 9279 of 14 May 1996, the Copyright Law No. 9610 of 19 February 1998 and the Software Law No. 9609 of 19 February 1998.

It is interesting to note that Brazil has always been pioneer in signing and ratifying international treaties ruling about IPRs.

The international politics adopted by Brazil in the context of IPRs has long been very positive and influential from a market and investment perspective.

20. Decree No. 75572 of April 8, 1975, which ratified the 1967 Stockholm Revision and amended under Decree No. 635 of August 21, 1992 and Decree No. 1263 of October 10, 1994.
21. Decree No. 75699 of May 6, 1975, which ratified the 1971 Paris Revision.
22. Decree No. 1355 of December 30, 1994, which ratifies the GATT – Uruguay Round.

[E] TRIPS Commitments and Investment Arbitration

As we have seen above, the TRIPS Agreement – among other treaties – has established international law principles and IPRs protection commitments that shall be followed by the WTO members.

Brazil is a member of the WTO and has ratified in its legal system the GATT (Uruguay-Round), which includes the TRIPS Agreement, and the commitments therein provided must be followed by Brazilian Government in its national laws, which extends not only to nationals of Brazil, but also to nationals of other members of the WTO that hold IPRs in Brazil. The same treatment on such commitments must be observed by all other members of the WTO.

One question is of particular interest at this point of the essay: is it possible to start an investment dispute against a specific State based on direct or indirect expropriation of an IPR vis-à-vis the commitments undertaken under the TRIPS Agreement?

This is not a simple question to be answered.

An investment dispute may be started if the involved parties – State and investor – have contractually agreed to such alternative dispute resolution mechanism or if there is an IIA in place between the concerned States – home State and host State.

Is the TRIPS Agreement an IIA? The answer is no. The TRIPS Agreement addresses issues related to the protection of IPRs, and not the protection of investments per se. Does this mean that the answer to the question above is no? Not necessarily.

Investments disputes may arise independently on the existence or not of an IIA. Actually, the prerogative for the existence of an investment dispute is the existence of an investment per se, and not the existence of an IIA.

An investment by a national of a home State may be – and actually is – made independently on the existence or not of an IIA signed by both States. The existence of an IIA assures some level of protection of investments and, most importantly, the possibility to take the dispute to arbitration, instead of the national courts of the host State – unless the IIA expressly provides for such option instead of arbitration.

Now, the international commitments undertaken under the TRIPS Agreement although not made in the context of an IIA, they were made in the context of the strong and intense economic relations carried-out among the members – globalized world – which, ultimately, affects the investments made among such parties. Since IPRs are definitely considered as a qualified investment, it would be too premature or unfair to simple disregard these international commitments when facing an investment dispute.

So, the answer to the central question is that such commitments may be potentially used to base an investment dispute taken to arbitration.

It must be considered possible overlapping issues between IIAs and the TRIPS Agreement, mainly when the IIAs have been signed and ratified before the adoption of the TRIPS Agreement. Overlapping issues may also arise when an IIA has been signed and ratified after the adoption of the TRIPS Agreement, but, in many cases, the IIA is aligned with the WTO rules, reducing severely possible inconsistencies.

Absenting from complying with an international commitment undertaken under the TRIPS Agreement may also be subject to a dispute started by a member against the infringing member before the Dispute Settlement Body at the WTO. Such dispute does not involve the investor directly, but rather its home State. The central point of the dispute will be to ceasing the infringement, but not the compensation of the investment's direct or indirect expropriation.

The investment dispute is centralized in the direct or indirect expropriation and, as a consequence, the award of a compensation for investor's losses with such action.

If both measures are available – State-investor dispute and Member-Member dispute – it is possible to seek the double-path concomitantly, but separately.

§12.04 BRAZIL POSITION IN THE WASHINGTON CONVENTION AND IIAS

[A] Washington Convention

Brazil has not signed the Washington Convention and, so far, has not given any indication that will sign it.

Brazil has participated in the discussions prior to the adoption of the Washington Convention, but the Brazilian diplomat has at that time strongly recommended the non-adoption of such Convention.[23]

The maintenance of the Brazilian position in respect to the Washington Convention is nowadays in contradiction with the Brazilian position adopted in respect to arbitration per se.

Arbitration has become a strong dispute mechanism adopted in Brazil, mainly after the 1996 Arbitration Law and after its constitutionality has been confirmed before the Federal Supreme Court in 2001,[24] and is also used among disputes involving the public sector (PPP – public-private partnership).

Further, the political position adopted as of 1990, which culminated in the *overture* of the Brazilian economy for foreign trade, and which, as a consequence, attracted – and continues to attract – massive investment into Brazilian's operations and business, is not compatible with such obsolete position.

The growing and expressive expansion of Brazilian companies overseas, which results in Brazil being the home State of investments in other host States, again is in conflict with the position in respect to the Washington Convention.

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23. AUN, Daniel; BARALDI, Eliana; GIUSTI, Gilberto; AYMONE, Priscila Knowll. Arbitragem Como Meio de Solução de Controvérsias em Investimento: Aspectos Processuais. Revista Brasileira de Arbitragem. Edição Especial. Editora Síntese. São Paulo, 2010, 69. 'Brazil has not signed the Washington Convention. Brazil has participated in the debates prior to the approval of the Washington Convention, the then Legal Consultant from the Foreign Affairs Ministry, Dr Augusto Rezende Rocha, has issued an opinion against the adoption by Brazil.

    Notwithstanding the opinion has indicated the adoption of the Washington Convention would violate constitutional previsions, without having nominated which provisions exactly would be violated, ideological reasons have predominantly based the opinion, which defended national sovereignty on the Calvo Doctrine and rejected, by the Brazilian State, the submission of a conflict to an arbitral tribunal instead of the national courts – according to the opinion, the courts were invested in the power to exercise essential public functions to which they have been created for.'
24. Request for homologation of foreign sentence (SE 5206, 12 Dec. 2001).

Given this scenario, in respect to investment disputes involving IPRs (or any other qualified investment, actually), it is not possible to take it to arbitration under the ICSID rules. It would be possible to use the ICSID Additional Facility, or any other available option.

[B] IIAs Signed by Brazil and IPR Perspective

Brazil has so far signed fourteen BITs between 1994 and 1999. The BITs were signed with the following countries:

- Belgium-Luxembourg.
- Chile.
- Cuba.
- Denmark.
- Finland.
- France.
- Germany.
- Italy.
- Korea.
- The Netherlands.
- Portugal.
- Switzerland.
- United Kingdom.
- Venezuela.

None of these BITs have, till the moment, been ratified by Brazil, and, according to research done, some of them have not even entered into Congress' review and approval or rejection.

The main reasons explaining Brazil's position when these BITs were signed may be the: (a) open-economy position adopted at that time and, as a consequence, (b) the urge to attract foreign investment as a way to bring development and also be able to compete with other Latin-American countries.[25]

25. SCANDIUCCI FILHO, José Gilberto. *The Brazilian Experience with Bilateral Investment Agreements: A Note.* UNCTAD Expert Meeting on Development Implications of International Investment Rule Making. 28-29 June 2007. Page a. 'There are two reasons why the Brazilian Executive Branch's signed these BITs.

Firstly, liberal ideology virtually dominated the political agenda during the period and one of its priorities was the stability of the juridical field in which business operated. Alongside foreign trade liberalization, the creation of regulation agencies for public services, and privatization of state-owned companies, the negotiation of BITs was a component of a much larger strategy of liberal transformation. The main objection of this strategy was to reduce public sector interventionism in the economy.

Secondly, there was much concern at that time over the nature of foreign direct investment to Brazil. Between 1989 and 1994, FDI scarcely accounted for 0.5% of GDP (US$2bn per year). Other Latin American countries were performing much better and, since most of them had already signed BITs with developed countries, there was a perception that these instruments could help attract foreign capital.'

The texts of the BITs signed with France, Germany, Switzerland, Portugal, Chile and United Kingdom are available at the Brazilian House of Representatives website.[26] Basic info about legislative position of these BITs is set in the Table 12.1 below.

Table 12.1 Status of the BITs Signed by Brazil

Country	*Signature Date*	*Place*	*Addressing Date to the Executive Power*	*Bill No. (Legislative Decree Bill)*
France	21 March 1995	Paris	5 June 1997	395/2000
Germany	21 September 1995	Bonn	22 June 1998	396/2000
Switzerland	11 November 1994	Brasilia	5 January 1995	348/1996
Portugal	9 February 1994	Brasilia	12 December 1994	365/1996
Chile	22 March 1994	Brasilia	12 December 1996	366/1996
United Kingdom	19 July 1994	London	12 December 1996	367/1996

In respect to IPRs, all of these available BITs expressly recognize that such sort of rights, and related returns, such as royalties[27] are deemed as a qualified investment:

Table 12.2 BITs' Provisions on IPRs

Country	*Provision*	*Dispute Resolution*
France	'intellectual, commercial and industrial property rights such as copyrights, patents, licenses, trademarks, industrial models and mockups, technical processes, know-how, trade-names and goodwill'	Amicable; or Ad hoc arbitration (tribunal formed by three arbitrators)
Germany	'intellectual property rights, such as copyrights, patents, utility models, industrial designs and models, trademarks, trade-names, non-disclosed information, technology processes, know-how and goodwill'	Amicable; or Ad hoc arbitration (tribunal formed by three arbitrators) ICSID shall apply if both States become members of the Washington Convention (which is not the case for Brazil)

26. www.camara.gov.br.
27. Except for the BIT signed with Chile, which does not expressly include 'royalties' in the definition of 'returns'.

Country	*Provision*	*Dispute Resolution*
Switzerland	'copyrights, industrial property rights (such as patents, utility models, industrial designs or models, trade and service marks, trade-names, indications or origin), know-how and goodwill'	Amicable; National courts of host State; or Arbitration under ICSID (after approval by Brazil, or, in the absence of approval, and the Additional Facility) or an ad hoc tribunal under the UNICTRAL rules
Portugal	'rights in the scope of intellectual property, including industrial property and copyrights'	Amicable; National courts of host State; or Arbitration under ICSID (if both parties have adopted the Washington Convention) or an ad hoc tribunal under the UNICTRAL rules
Chile	'rights in the scope of intellectual property, expressly encompassing invention patents and trademarks, as well as manufacturing licenses and know-how'	Amicable; National courts of host State; or Arbitration under ICSID (after approval by Brazil, or, in the absence of approval, and the Additional Facility) or an ad hoc tribunal under the UNICTRAL rules
United Kingdom	'intellectual property rights, goodwill, technical processes and know-how'	Amicable; or Arbitration under ICSID (after approval by Brazil, or, in the absence of approval, and the Additional Facility), ICC or an ad hoc tribunal under the UNICTRAL rules

It is worth noting that some of the above BITs provides for the ICSID as a dispute resolution mechanism, as long as Brazil has approved the Washington Convention. There may have been a favourable scenario to the adoption of the Washington Convention by Brazil at that time, given the economic and free market *frenesi* in the 1990s, called the 'privatization era'.

There is also a regional investment treaty signed, but not ratified by Brazil in the scope of MERCOSUR available for consultation at the House of Representatives website.[28] This treaty was concluded in Buenos Aires (Argentina) and signed by Brazil on 5 August 1994. The treaty was submitted to the Brazilian President on 30 June 1995, and to the House of Representatives on 5 July 1995. This treaty expressly includes IPRs in the definition of investments[29] and also royalties in the definition of returns.[30] In case of a dispute not solved amicably, ad hoc arbitration is the mechanism to be used in such treaty.

§12.05 POTENTIAL (AND THEORETICAL) OVERLAPPING ISSUES BETWEEN TRIPS AGREEMENT AND BITS SIGNED BY BRAZIL

Most of the BITs commented in section §12.03[B] were signed by Brazil in 1994, that is, before the adoption of the TRIPS Agreement. This is the case for the BITs signed with Switzerland, Chile, Portugal and United Kingdom. The BITs with Germany and France were signed in 1995, after the adoption of the TRIPs Agreement.

In any case, as none of these BITs have been ratified by Brazil, in other words, none of them are in force; objectively speaking there is no overlapping issues between such BITs and the TRIPS Agreement. Any possible overlapping issues would be merely theoretical.

Further, the texts of such BITs do not contain any specific provision in respect to IPRs –other than including the IPRs in the definition of 'investment' – and exceptions or restrictions that expressly encompass IPRs.

All of these BITs contain the most-favoured nation provision, which is a key principle within the WTO scenario, and, additionally, many of these BITs expressly provide that if a subsequent international treaty provides for higher protection in respect to those included in the BIT, then such provisions shall prevail over the BIT.

These issues could create interpretation conflicts between the BITs signed by Brazil and the TRIPS Agreement. The situation would be more complicated for the BITs that were signed before the TRIPS Agreement.

In this regard, and dealing exclusively with the most-favoured nation principle, Article 4(d) of the TRIPS Agreement provides for the following:

> With regard to the protection of intellectual property, any advantage, favor, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. Exempted from this obligation are any advantage, favor, privilege or immunity accorded by a Member:
>
> […]
>
> (d) deriving from *international agreements* related to the *protection of intellectual property* which entered into force *prior to the entry into force of the WTO Agreement*, provided that such agreements are notified to the Council for

28. Legislative Decree Bill No. 301/1999. Protocol on the Promotion and Protection of Investments of Non-Member States of the Mercosul.
29. 'Intellectual or immaterial property rights, specially including copyrights, patents, industrial designs, trademarks, trade names, technical procedures, know-how and goodwill.'
30. 'The term "return" designates the amounts produced by an investment, such as profits, incomes, dividends, interests, royalties and other revenues.'

> TRIPS and *do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members* (emphasis added).

The purpose of a BIT is not to rule about IPRs, but rather the promotion and protection of investment, being IPRs included in such definition. The issue would be whether a BIT could be considered to fall into 4(d) of the TRIPS Agreement. Depending on the condition related to IPRs that is being established by the BITs, it could fairly be considered an international agreement under 4(d) of the TRIPS Agreement.

§12.06 BENEFITS FROM USING EXTRAJUDICIAL DISPUTE MECHANISMS IN RESPECT TO IPRS

Given that IPRs are very specific rights and their legal protection is unique, necessary to compensate investments in research and development (R&D), assure free and fair competition, follows international standards – even though the acquisition and publicity of relevant IPRs require the involvement of local/state authorities, as points out the doctrine[31] – and encompass a variety of sometimes rather complex rights,[32] taking any disputes involving such rights to arbitration – or any other extrajudicial resource – may assure a more sophisticated and better outcome.

We recognize that some challenges and obstacles might be faced, considering that IP rights require the involvement of local/state authorities, as mentioned, but the Courts are not always prepared to properly deal with complex issues such as IPRs disputes, mostly when we are dealing with countries like Brazil where the judge, which has a generic background, has to analyse and decide upon a variety nature of civil cases, from shareholder conflicts, rental agreements, health insurance issues, and also, in this context, IPRs.

It must be very hard – if not impossible – for a judge having to deal with such different issues and having to decide with a full understanding of all the legal aspects involving different matters. One day the judge is called to solve a dispute involving the

31. MANTAKOU, Anna P, *Arbitrability and Intellectual Property Disputes*, Arbitrability International & Comparative Perspectives 267 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., Wolters Kluwer L. & Bus. 2009).
32. *'Intellectual Property' (IP) is a relatively recent expression that has come compendiously to describe a variety of different legal rights ('intellectual Property Rights' or IPRs), of disparate origin, and of sometimes overlapping scope in practice, that enable their owners to protect in a variety of different ways various intangibles, such as ideas and inventions, creative expressions and data, and names and commercial reputations.* COOK, Trevor, and GARCIA, Alejandro I. *International Intellectual Property Arbitration. Arbitration in Context Series* 5 (Wolters Kluwer L. & Bus. 2010).

    In the same sense: *Intellectual property 'is the branch of the law which protects some of the finer manifestations of human achievement', such as technological inventions and designs rights, literary, artistic and musical creations and the related neighbouring rights, distinctive signs and trademarks employed in trade, computers' software, microchips, know-how and confidential information rights, even plant breeder'rights. The term intellectual property (IP) does not cover satisfactorily all of them, but the term has now acquired international acceptance. (…)* MANTAKOU, Anna P, *Arbitrability and Intellectual Property Disputes*, Arbitrability International & Comparative Perspectives, 264 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., Wolters Kluwer L. & Bus. 2009).

rental of a house and, on the other, a pharmaceutical patent infringement claim, which requires technical knowledge.[33] At the end, many court decisions on IPRs disputes tend to lack in strong background or proper knowledge of the subject matter.

In this context, many countries have developed specialized Courts in analysing and rendering decisions on IPRs conflicts. Europe has been very proactive in this matter and has established strong and specialized Courts in IPRs conflicts.

Brazil, for instance, has only few specialized Courts in IPRs disputes and such Courts not always covers only IPRs, but instead of that '*corporate*'/*commercial* issues. Further, they may be used only for very specific cases (i.e., not always a software complex dispute is addressed to such courts as it might be qualified as an issue concerning copyright – *droit d'auteur*). One of such Courts, located in the city of Rio de Janeiro, is particular responsible to solve conflicts involving invalidity of trademarks, patents and industrial designs. Other, located in the city of São Paulo, is actually on the superior level (Appeals) and is only called to solve industrial property disputes – copyrights are often left aside, as just mentioned. Further, not all cases may be directed to such Courts, as Brazil is a big country and regional competence applies to civil procedures.

Therefore, Brazilian Courts are still crawling when it comes to IPRs decisions *vis-à-vis* the international scenario.

Lengthiness of court actions also frustrates a good outcome and, in many occasions, the subject matter or relevance of the case is simply lost or disregarded because of the huge lack of time to get a final decision. This is the situation of the Brazilian Courts.

Having an alternative – or better – an adequate, dispute resolution mechanism to solve such sophisticated issues involving IPRs has proven to be the best path to be pursued.

Arbitration, for example, is not only faster, but also gives an opportunity for the parties to nominate arbitrators that have in-depth knowledge of IPRs, resulting in a more adequate and technical outcome, what may reflect even in the voluntary execution of the decision.

This conclusion is even truer when it comes to investor-State disputes, where different countries are involved. A dispute involving an expropriation of a FDI would involve one State and a private national of another State. Having to take the dispute to a Court of either State may bring problems with partiality and equal rights. It may be very difficult to avoid a decision oriented by nationalism and regionalisms, because expropriation of FDI is a very sensitive issue and each State will try to get the best outcome for its own interests.

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33. In a recent event promoted by the Brazilian PTO for the launch of its Mediation Centre, in cooperation with WIPO, federal judges state, during their exposition, that in recent times it has surprisingly increased the cases that challenge and question the existence or not of *inventive activity* of patented inventions, in opposition to more common and what used to be daily issues, such as aspects regarding the formal requirements to declare valid or not a patent and, for instance, the ratification or not of the so-called *pipeline patents* (Arts 230 and 231, Law No. 9279 of May 14, 1996). See: http://www.inpi.gov.br/portal/artigo/projeto_piloto_de_mediacao (accessed 15 May 2013).

The ICSID was precisely adopted to avoid partial decisions and nationalisms. IPRs disputes in the context of investor-State relations will certainly be better equalized and decided if taken to arbitration or any other extrajudicial solution.

§12.07 CHALLENGES WHEN TAKING IPRS DISPUTES TO ARBITRATION: THE ARBITRABILITY ISSUE

The most common issue rose when addressing IPRs disputes to arbitration is the possible restrictions that some matters may face with regard to 'disposability' and requirement of state involvement when we consider IP titles.

Specialized doctrine usually points out:

> 1. Some aspects of IP rights are held not to be freely disposable by the parties; 2. Some types of IP rights and/or disputes are held to be within the exclusive domain of the national administrative panels and bureaus and/or national courts.[34]

In fact, some of the IPRs disputes may have a moral content included and this is not considered as a freely disposable right. However, this does not disable the parties to cover other connected issues with the same IPR, economic and patrimonial, in an arbitration procedure.

In other cases and, according to the jurisdiction (this might be a clog to arbitration in some countries), the fact that some rights, especially with regard to patent rights, are acquired by means of a state authority's act, may be strictly used to justify the automatic classification in the sphere of public policy, which in some jurisdictions is considered per se a restriction to arbitrability.[35]

By opposition, disputes that are classified as absolutely *arbitrable* are evident: disputes deriving from contractual rights and obligations.[36]

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34. MANTAKOU, Anna P, *Arbitrability and Intellectual Property Disputes*, Arbitrability International & Comparative Perspectives 265 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., Wolters Kluwer L. & Bus. 2009).
35. To Anna P. Mantakou: '*One may say that, as a rule, the majority of IP disputes are capable of being referred to arbitration. On the other hand, the variety of IP rights together with the great diversity of national legal systems with regard to arbitrability of IP disputes are factors which require the parties' extreme caution in drafting arbitration clauses involving IP issues. This is especially so regarding IP titles, such as patents and trademarks, that require the involvement of the state. Depending on the extent of the State Authority's involvement, and control, the limits of arbitrability may be narrowed accordingly Procedural issues arising from arbitral and non-arbitral claims submitted before the same tribunal shall be most likely decided on a case-by-case basis'* (*Arbitrability and Intellectual Property Disputes*, Arbitrability International & Comparative Perspectives 271 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., Wolters Kluwer L. & Bus. 2009).
36. As the doctrine states: *Having examined the area of possible restrictions on the arbitrability of IP disputes, the restriction-free area becomes evident: disputes in the field of IP ownership, licenses, their scope and infringements thereof are as a rule arbitrable. In practice, IP arbitration addresses principally contractual rights and obligations, breaches and infringements under license agreements. Apart from some exceptional circumstances, all issues relating to the exploitation and management and economic handling of IP rights are arbitrable.* (MANTAKOU, Anna P, *Arbitrability and Intellectual Property Disputes*, Arbitrability International & Comparative Perspectives 270 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., Wolters Kluwer L. & Bus. 2009).

§12.08 RELEVANT CASES INVOLVING BRAZIL VIS-À-VIS THE TRIPS AGREEMENT

The minimum protection standards provided by the TRIPS Agreement have been adapted into Brazilian Law in a *fast-track* way. TRIPS Agreement has been ratified by Brazil on 30 December 1994. On 14 May 1996, less than two years after the adoption of the TRIPS Agreement, Brazil has enacted the new Industrial Property Law fully consistent with the provisions of TRIPS.

There are some important cases involving the protection and/or fruition of IPRs in Brazil, which deserve a detail attention for the purposes of this essay and also an evaluation on whether such cases potentially involves any breach by Brazilian Government in respect to the international commitments undertaken with the adoption of the TRIPS Agreement and, as a consequence, if such actions may be considered a direct or indirect expropriation of FDI that could base an investment dispute.[37]

We have selected two expressive and controversial cases/situations to make such analysis, namely:

- Compulsory licenses – *efavirenz* case (*Merck v. Brazil*).
- *Industrial design registrations v. competition issues* – *ANFAPE* case.

[A] Compulsory Licenses: *Efavirenz* Case (Merck versus Brazil)

Brazil has long adopted public health policies aiming to combat AIDS and to give all necessary medical assistance to the carriers of HIV. Such policies include the free distribution of antiretroviral medicines, adopted by the Brazilian Government as of 1996.[38]

With the enactment of the Industrial Property Law[39] pursuant to the TRIPS Agreement standards, Brazil has started to accept pharmaceutical patents. This – the protection of pharmaceutical patents – has represented a big and important step in respect to IPRs in Brazil, but, on the other hand, could put into jeopardy the public health policy directed to the free distribution of antiretroviral medicines.

When there is no patent protection for a medicine – or any other product or process – it is a lot easier, and cheaper, to implement public health assistance or even to improve the generic drug market, as there would not be the need to get consent from, and, as a consequence, to pay royalties for, the patent holders to exploit such pharmaceutical in the territory. In these situations, the technique associated to the pharmaceutical is considered public domain and, therefore, may be freely exploited by anyone.

37. Currently, an investment (State-investor) dispute involving Brazil could not be taken to arbitration, because Brazil has not signed any IIA. Such sort of dispute could be taken into arbitration if contractually agreed by Brazil and the investor.
38. Law No. 9313 enacted on November 13, 1996.
39. Law No. 9279 of May 14, 1996.

Any public health policy that provides for the free distribution of medicines has to respect patent rights existing on pharmaceuticals. For instance, if the pharmaceutical, which is covered by a patent, is not provided by the patent holder, it must either be: (a) provided by a third-party manufacturing the pharmaceutical with the consent from the holder or (b) obtained from a manufacturer of the generic drug, as long as the patent has already expired and, therefore, the technique has become public domain and freely accessible and available to anyone.

The balance between implementing a public health policy *vis-à-vis* patent rights may represent a battle between both the Government and the patent owner. On one hand, the Government is always pressuring the patent owner for the most reduced costs in the providing of the pharmaceuticals, in order to make sure that the programme will continue in force and, on the other, the patent owner is always seeking to get the best deal that will compensate its efforts and high expenditures in research and development of new and innovative pharmaceuticals. It may be a never ending struggle.

Efavirenz, which, chemically, is a non-nucleoside reverse transcriptase inhibitor (NNRTI), is one of the antiretroviral used to treat HIV. *Efavirenz* has been synthesized by the pharmaceutical company Merck Sharp Dohme ('Merck') and published in 1998. Patents for the *efavirenz* have been requested and obtained by Merck in many countries and, specifically in Brazil, Merck has obtained two main patents for the *efavirenz* under the so-called pipeline system:[40] Brazilian patents PI1100250-6[41] and PI9608839-7.[42]

Such drug, *efavirenz*, is one of the drugs used in the scope of the Brazilian health public programme on HIV. Although the drug was apparently implemented in the programme after the patent has been requested by Merck – and, therefore, the Brazilian Government was already aware of the existence of the patent when included the drug in the scope of the programme – having to deal with a patented pharmaceutical represents, as we have exposed above, higher costs and threats the programme.

Given the difficulties to continue with the public health programme – not only because of the *efavirenz* patent, but also due to other drugs' patents – *nelfinavir*, *lopinavir*, *tenofovir*, and *atazanavir* – the Brazilian Government started to consider, in the early 2000s, to grant compulsory licenses for some drugs, including the *efavirenz*.

Following that, long and possibly exhaustive negotiations between the Brazilian Government and Merck took place. In 2001, Brazil has successfully negotiated a reduction in the cost of the *efavirenz* provided by Merck and, at that occasion, withdrew from granting the compulsory license for such drug.

In 2003, Brazil published a Presidential Decree[43] authorizing the importation of generic drugs, without the local patent owner consent, in case of a national emergency or public interest. Such Decree was aimed at antiretroviral drugs. At that time, the

40. The pipeline system associated to patents was implemented in Brazil with the enactment of the Industrial Property Law No. 9279 of 1996. Such system provided for the automatic protection of chemical, food and pharmaceutical patents requested abroad and extended to Brazil within one year from the enactment of the Law – the revalidation patents.
41. This patent expired on 7 Aug. 2012.
42. This patent will expire on 21 May 2016.
43. Decree No. 4830 of September 4, 2003, which modified Decree No. 3201 of October 6, 1999.

Brazilian Government again refrained from granting any compulsory license to the *efavirenz*, because the costs were reduced by Merck.

The situation became critical again in 2006, and, after the frustration of negotiations with Merck, the Brazilian Government issued Decree No. 6.108 of 4 May 2007 granting the compulsory license of the two Merck's patents for the *efavirenz* drug. The granting of the compulsory license was based on public interest and had an initial term of five years. Such compulsory license has been recently renewed for an additional term of five years.[44,45]

The compulsory license granted to Merck provides for the payment of royalties calculated over the cost or price of the product delivered to the Brazilian Government.

Article 31 of the TRIPS Agreement expressly provides for the possibility to grant compulsory licenses:

> Article 31
> Other Use Without Authorization of the Right Holder
> Where the law of a Member allows for other use (7) of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:
>
> (a) authorization of such use shall be considered on its individual merits;
> (b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency *or other circumstances of extreme urgency or in cases of public non-commercial use*. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
> (c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;
> (d) such use shall be non-exclusive;
> (e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;
> (f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;
> (g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

44. Decree No. 7723 of May 4, 2012.
45. Currently, the compulsory license is in force just for patent number PI9608839-7, once patent number PI1100250-6 expired on 7 Aug. 2012.

(h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;
(i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
(j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
(k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;
(l) where such use is authorized to permit the exploitation of a patent ('the second patent') which cannot be exploited without infringing another patent ('the first patent'), the following additional conditions shall apply:
   (i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
   (ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and
   (iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent. (emphasis added).

Brazilian IP Law, following TRIPS, has implemented compulsory licenses in its system. Sections 68–74[46] deals extensively with compulsory licenses, being relevant for this essay Article 71:

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46. *Article 68 - A patentee will be subject to have his patent licensed compulsorily if he exercises the rights resulting therefrom in an abusive manner or by means of it practices abuse of economic power that is proven under the terms of the law by an administrative or court decision.*
   § *1 - The following may also result in a compulsory license:*

   I - the non-exploitation of the subject matter of the patent in the territory of Brazil, by lack of manufacture or incomplete manufacture of the product or, furthermore, by lack of complete use of a patented process, except in the case of non-exploitation due to economic inviability, when importation will be admitted; or

   II - commercialization that does not meet the needs of the market.

   § *2 - The license can only be requested by a party with legitimate interest and that has the technical and economic capacity to carry out the efficient exploitation of the subject matter of the patent, that should be destined predominantly for the internal market, suppressing, in this case, the exception provided for in item I of the previous paragraph.*

   § *3 - In the case that a compulsory license is granted due to abuse of economic power, a period of time, limited to that provided for in article 74, will be guaranteed to the licensee proposing to manufacture locally, to proceed with the importation of the subject matter of the license, provided it has been placed on the market directly by the patentee or with his consent.*

   § *4 - In the case of importation for exploitation of a patent and in the case of importation provided for in the previous paragraph, the importation by third parties of a product manufactured according to a process or product patent will equally be allowed, provided it has been placed on the market directly by the patentee or with his consent.*

Article 71 - In cases of national emergency or *public interest*, declared in an act of the Federal Executive Authorities, insofar as the patentee or his licensee does not meet such necessity, a temporary ex officio non-exclusive compulsory license for the exploitation of the patent may be granted, without prejudice to the rights of the respective patentee.

Sole Paragraph - The act of grant of the license will establish its term of validity and the possibility of extension.(emphasis added).

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§ 5 - A compulsory license, to which § 1 relates, may only be requested after 3 (three) years from grant of the patent.

Article 69 - A compulsory license will not be granted if, at the date of the request, the patentee:

I - justifies non-use for legitimate reasons;

II - proves that serious and effective preparations for exploitation have been carried out; or

III - justifies lack of manufacture or commercialization due to legal obstacles.

Article 70 - A compulsory license will also be granted when the following hypotheses are shown to exist cumulatively:

I - a situation of dependency of one patent on another is characterized;

II - the subject matter of the dependent patent constitutes a substantial technical advance in relation to the earlier patent; and

III - the patentee does not come to an agreement with the patentee of the dependent patent for the exploitation of the earlier patent.

§ 1 - For the purposes of this article, a dependent patent is considered to be one the exploitation of which depends obligatorily on the use of the subject matter of the earlier patent.

§ 2 - For the purposes of this article, a process patent may be considered as dependent on a patent for the respective product, as also a product patent may be dependent upon a process patent.

§ 3 - The proprietor of a patent licensed under the terms of this article will have the right to a compulsory cross license under the dependent patent.

Article 72 - Compulsory licenses will always be granted without exclusivity, sublicensing not being permitted.

Article 73 - An application for a compulsory license must be formulated by indicating the conditions offered to the patentee.

§ 1 - Once the application for a license has been filed, the patentee will be notified to respond within a period of 60 (sixty) days, at the end of which, in the absence of a response from the patentee, the proposal will be considered as accepted under the conditions offered.

§ 2 - An applicant for a license who alleges abuse of patent rights or abuse of economic power must file documentary proof.

§ 3 - If a compulsory license is requested on the basis of lack of exploitation, it will rest with the patentee to prove exploitation.

§ 4 - If there is a contestation, INPI may take the necessary steps, including the establishment of a committee that may include specialists that are not part of INPI, with a view to arbitrating the remuneration that will be paid to the patentee.

§ 5 - The organs and entities of the direct or indirect, federal, state and municipal public administration will provide INPI with such information as is requested with a view to assisting the arbitration of remuneration.

§ 6 - In arbitrating remuneration, the circumstances of each case will be considered, taking into account obligatorily the economic value of the license granted.

§ 7 - Once the process is duly filed, INPI will come to a decision regarding the grant and the conditions of the compulsory license within a period of 60 (sixty) days.

§ 8 - Appeals against decisions granting a compulsory license will not have suspensive effects.

Article 74 - In the absence of legitimate reasons, the licensee must initiate exploitation of the subject matter of the patent within a period of 1 (one) year from the grant of the license, interruption for an equal period being permitted.

§ 1 - The patentee may request revocation of the license if the provisions of this article are not met.

§ 2 - The licensee will be vested with all powers to act in defense of the patent.

§ 3 - After grant of a compulsory license, the assignment thereof will only be permitted when effected together with the assignment, transfer or leasing of that part of the undertaking that exploits it.

The compulsory license granted for the *efavirenz* drug was claimed to be of public interest.

The conditions to grant a compulsory license provided in the Brazilian IP Law are consistent with the ones established in the TRIPS Agreement. So, any compulsory license granted under such conditions is valid and enforceable.

The question relies on whether the Brazilian Decree that granted the compulsory license for the *efavirenz* is consistent with the Brazilian IP Law and the TRIPS Agreement.

Compulsory licenses are always a controversial matter, although having been used for a long time in other countries.[47] The grounds that lead the Brazilian Government to issue the compulsory license for the *efavirenz* have been questioned and much has been said that the ultimate motive was about getting cost reduction.

Public health issues such as the HIV programme are critical and it is important to assure country sovereignty in some situations to avoid a greater loss – public interest damages.

The records indicate that the Brazilian Government has engaged in negotiations for consequent years to avoid a compulsory license and, at one point, a critical situation seemed to have urged the granting of the compulsory license.

It is very hard to take position in this case, not only because of the complexity, but also because all the circumstances that lead to a compulsory license may never be actually known.

The Decree that granted the compulsory license seems to be in line both with the TRIPS Agreement and the Brazilian IP Law and, as a consequence, we do not foresee, in this case, a potential claim to consider such act an expropriation of a FDI that could base an investment dispute, because the commitments and standards of protection have been preserved. Of course, the patent holder may always seek to get a better compensation or any other relief it deems appropriate.

[B] Industrial Design Registrations versus Competition Issues: ANFAPE Case

Back in 2007, a local not-for-profit association named ANFAPE – Associação Nacional dos Fabricantes de Autopeças (National Association of Autoparts Manufacturers) filed a representation before the Brazilian Antitrust Authorities against the following automotive companies: Fiat, Volkswagen and Ford.[48]

ANFAPE represents independent autoparts manufacturers, which sell, without consent, in the so-called aftermarket, spare parts of vehicles that are protected by IPRs (industrial designs) owned by the automotive companies. As a consequence, the independent autoparts manufacturers are being sued by the automotive companies for the infringement of such rights. Most of such lawsuits are resulting in successful outcomes for the automotive companies, a fact which is not only very positive, but also

47. There are records that Canada and the US granted compulsory licenses for pharmaceuticals back in the 1960s.
48. Brazilian Antitrust Authority procedure number 08012.002673/2007-51.

highly expected, once such results confirm the Courts enforcement of the Brazilian IP Law and assure the proper protection of industrial designs.

ANFAPE then filed the representation before the Antitruts Authorities, which aims to remove the IPR owned by such automotive companies on industrial design registrations of spare parts of their vehicles, and, as a consequence, legitimate the infringement against the automotive companies' IPR. In sum, the representation claims that spare parts are not subject to independent protection, additionally to bring competition and consumers issues.

The spare parts involved in the representation are mainly the so-called crash parts, which are not only covered by IPR, but also represent sensitive issues on quality and safety, which, ultimately, affects the consumer. The Brazilian Patent and Trademark Office manifested in favour of the industrial designs rights. Different arguments have been presented by the involved parties and the representation is pending a final decision by the Antitrust Authorities.

Articles 25 and 26 of the TRIPS Agreement provides for protection of industrial designs:

> Article 25
>
> Requirements for Protection
>
> 1. Members shall provide for the protection of independently created industrial designs that are new or original. Members may provide that designs are not new or original if they do not significantly differ from known designs or combinations of known design features. Members may provide that such protection shall not extend to designs dictated essentially by technical or functional considerations.
> 2. Each Member shall ensure that requirements for securing protection for textile designs, in particular in regard to any cost, examination or publication, do not unreasonably impair the opportunity to seek and obtain such protection. Members shall be free to meet this obligation through industrial design law or through copyright law.
>
> Article 26
>
> Protection
>
> 1. The owner of a protected industrial design shall have the right to prevent third parties not having the owner's consent from making, selling or importing articles bearing or embodying a design which is a copy, or substantially a copy, of the protected design, when such acts are undertaken for commercial purposes.
> 2. Members may provide limited exceptions to the protection of industrial designs, provided that such exceptions do not unreasonably conflict with the normal exploitation of protected industrial designs and do not unreasonably prejudice the legitimate interests of the owner of the protected design, taking account of the legitimate interests of third parties.
> 3. The duration of protection available shall amount to at least 10 years.

In the same sense, the Brazilian IP Law establishes protection for industrial designs (Articles 95, 96 and 97 are relevant here):

> Article 95 - An industrial design is considered to be any ornamental plastic form of an object or any ornamental arrangement of lines and colors that may be applied

> to a product, that provides a new and original visual result in its external configuration, and that may serve as a type for industrial manufacture.
>
> Article 96 - An industrial design is considered to be new when not comprised by the state of the art.
>
> § 1 - The state of the art comprises everything made accessible to the public before the date of filing of the application, in Brazil or abroad, by use or any other means, without prejudice to the provisions of § 3 of this article and of article 99.
>
> § 2 - For the sole purpose of determining novelty, the whole contents of an application for a patent or a registration filed in Brazil, but not yet published, will be considered as included in the state of the art from the date of filing, or from the priority claimed, provided that it is published, even though subsequently.
>
> § 3 - An industrial design of which disclosure occurred within the 180 (one hundred and eighty) days preceding the date of filing the application or of the priority claimed will not be considered as included in the state of the art, provided such disclosure is made in accordance with the situations provided for in items I to III of article 12.
>
> Article 97 - An industrial design is considered original when it results in a distinctive visual configuration in relation to other prior objects.
>
> Sole Paragraph - The original visual result may be the result of the combination of known elements.

The IP Law is consistent with the standards provided by the TRIPS Agreement, and there is no provision in such Law that limits the rights on industrial designs, including rights on spare parts.

Depending on the outcome of the representation, if it is, for instance, favourable to ANFAPE and, therefore, determines the removal of the automotive companies' IPR and legitimates the infringement, this may represent a serious breach of the commitments taken by Brazil under the TRIPS Agreement and also the invalidity of an IP Law that is regularly in force.

In this case, there may be a potential claim to consider such act an expropriation of a FDI that could support an investment dispute, based on breach of the commitments taken in the scope of the WTO.

§12.09 FINAL REMARKS

IPRs are important assets qualified as a FDI and, as a consequence, any direct or indirect expropriation of such sort of asset (or returns therefrom) may be taken to dispute resolution outside of the Courts.

When dealing with FDI disputes, the ICSID Arbitration, created in the auspices of the Washington Convention, is the most common and accepted mechanism.

Brazil is not a party to the Washington Convention and has not ratified any of the IIAs it has signed in the 1990s. This means that the ICSID Arbitration is not available for FDI disputes involving Brazil. The ICSID Additionally Facility may be, on the other hand, used for FDI disputes involving Brazil, as long as Brazil has accepted such dispute resolution mechanism.

There are international commitments undertaken by countries – such as Brazil – in the WTO scenario that involves IPRs, namely the TRIPS Agreement. TRIPS Agreement is not an IIA and, therefore, is not exactly qualified to base FDI disputes.

Nevertheless, the breach of the TRIPS Agreement's international commitments may lead to cases where an IPR has been directly or indirectly expropriated and, as a consequence, such breaches could base an investor-State dispute – additionally to the State-State dispute taken to the WTO.

Therefore, although Brazil has not ratified any of the IIAs it has signed so far, potential breach of the commitments taken under the TRIPS Agreement may possibly be used to base a FDI-dispute.

Given the complex nature and diverse elements involving the many existing IPRs, having the possibility to use extrajudicial mechanisms, such as arbitration, to solve IPRs conflicts is a key element in assuring sophisticated and appropriate outcomes. This is even a better option when it comes to investor-State disputes.