

Countries' Policy Space to Implement Tobacco Packaging Measures in the Light of Their International Investment Obligations: Revisiting the Philip Morris v. Uruguay Case

By Alebe Linhares Mesquita* and Vivian Daniele Rocha Gabriel **

Abstract

This Policy Brief aims to provide a concise analysis of the international investment dispute involving Philip Morris subsidiaries and the Republic of Uruguay. It depicts the main legal and political background that preceded the case, analyzes the decision reached by the arbitral tribunal, and assesses the award's major regulatory and policy implications. It intends to contribute to the discussions on how and to what extent States can adopt tobacco control measures without violating their international obligations to protect the investment and intellectual property of tobacco companies. The main lesson that can be learned from the analysis of the *Philip Morris v. Uruguay* case is that investors rights are not absolute and can be relativized when there is a clash between private and public interests, such as in the case of public health. As a result, claims such as indirect expropriation and fair and equitable treatment can be dismissed. Finally, one of the main consequences is the progressive change in the design of international investment treaties, containing more provisions related to the right to regulate.

Ce rapport sur les politiques vise à fournir une analyse concise du différend international en matière d'investissement opposant les filiales de Philip Morris et la République d'Uruguay. Il décrit les principaux événements juridiques et politiques qui ont précédé l'affaire, analyse la sentence rendue par le tribunal arbitral et examine ses principales répercussions du point de vue réglementaire et politique. Il entend contribuer aux discussions concernant la possibilité pour les États d'adopter des mesures de lutte antitabac qui ne seraient pas contraires aux obligations internationales en matière de protection des investissements et au droit de propriété intellectuelle des sociétés de tabac. La principale leçon que l'on peut tirer de l'analyse de cette affaire est que les droits des investisseurs ne sont pas absolus et peuvent être remis en cause en cas de conflit entre les intérêts privés et l'intérêt général lié notamment à des impératifs de santé publique. En conséquence, toute demande fondée sur une expropriation indirecte et l'absence de traitement juste et équitable peut être rejetée. Il en résulte une évolution progressive dans la conception des traités internationaux en matière d'investissement, qui contiennent davantage de dispositions relatives au droit de légiférer.

Este informe de políticas pretende facilitar un análisis conciso de las diferencias internacionales sobre inversiones que afectan a las filiales de Philip Morris y a la República del Uruguay. Describe los principales antecedentes jurídicos y políticos que precedieron al caso, analiza la decisión tomada por el tribunal arbitral y evalúa las repercusiones reglamentarias y de políticas más importantes de la sentencia. Tiene la intención de contribuir a los debates sobre cómo y en qué medida pueden los Estados adoptar medidas de control del tabaco sin incumplir sus obligaciones internacionales de proteger la inversión y la propiedad intelectual de las empresas tabacaleras. La principal enseñanza que se puede extraer del análisis del caso Philip Morris c. el Uruguay es que los derechos de los inversores no son absolutos y se pueden relativizar cuando existe un enfrentamiento entre los intereses privados y públicos, como en el ámbito de la salud pública. Como consecuencia, se pueden desestimar reclamaciones como las de expropiación indirecta y trato justo y equitativo. Por último, cabe señalar que una de las principales consecuencias es el cambio progresivo en el diseño de los tratados internacionales de inversión, que contienen más disposiciones relativas al derecho a regular.

Disclaimer: This paper constitutes a derivative work from an article firstly presented by the authors at the 6th Conference of the Postgraduate and Early Professionals/Academics Network of the Society of International Law (PEPA/SIEL) and subsequently published in the Georgetown Journal of International Law. For a more detailed analysis see Vivian Daniele Rocha Gabriel & Alebe Linhares Mesquita, "Repackaging Intellectual Property Protection in International Investment Law: Lessons from the Philip Morris v. Uruguay case" (2018) 49 *Georgetown Journal of International Law* 1117. We thank Prof. Carlos Correa for the opportunity to reassess our initial thoughts on the case, and the team of South Centre for carefully peer-reviewing our paper.

* Attorney at Microsoft Germany. He holds a Masters Degree in International and Comparative Law from the University of São Paulo (USP) and a LL.M. in Intellectual Property and Competition Law from the Max Planck Institute for Innovation and Competition. E-mail: alebe_linhares@hotmail.com.

** Attorney at MPA Trade Law (São Paulo, Brazil). She holds a Ph.D. and Masters Degree in International and Comparative Law from the University of São Paulo (USP), and she was a Michigan Grotius Research Scholar (2018-2019) at the University of Michigan, USA. E-mail: vivian.d.rocha@gmail.com.

1. Introduction

There is a growing debate over how international investment agreements might need to be redesigned to reflect the rights and obligations of host states and foreign investors in a more balanced manner. The critics to the traditional international investment obligations allege that they often disregard important civil society's interests, are mainly "foreign investor centric", and disproportionality limit the countries' policy space to implement key measures on the benefit of society as a whole. The demands to recalibrate such imbalances have been gaining support not only among low- and middle-income countries, but also among high-income countries, such as Australia.

In light thereof, this paper intends to provide a concise analysis of the *Philip Morris v. Uruguay* case through the assessment of the main legal and policy issues that guided the arbitral tribunal in reaching its decision. This international investment dispute is particularly important because it sheds light on one of the most recently debated legal question among academics, policy-makers, and the private sector: how and to what extent States can adopt tobacco control measures without violating their international obligations to protect investment and intellectual property (IP) of foreign investors, such as those embodied in the trademarks of tobacco companies. This work aims to contribute to these discussions on how to balance the conflict between foreign investment, IP, and public health precepts.

This work proceeds in three main parts. The first section presents the main legal and policy considerations and important background information that preceded and influenced the settlement of the *Philip Morris v. Uruguay* case. It provides the big picture on the increasingly intertwined relation between the international law regimes for the protection of investment, intellectual property, and public health. The second section examines the *Philip Morris v. Uruguay* investment dispute. It describes the challenged tobacco packaging measures adopted by Uruguay, the main arguments raised by the parties, and the final decision reached by the arbitral tribunal. The third section considers the regulatory and policy implications of the arbitral award.

2. Preliminary Considerations and Important Background Information

The *Philip Morris v. Uruguay* case constitutes a good example of the conflicts, intersections, and complementarities that might exist between the international regimes for the protection of intellectual property (IP), foreign investment, and public health. It portrays the challenges that countries face when trying to implement their international obligations from different international law regimes. Before going into the specifics of the case, this section aims to highlight the main legal issues and previous events that led to the challenging of

the Uruguayan tobacco packaging measures before an international investment arbitral tribunal.

At the outset, it is important to stress that the international regimes of intellectual property and foreign investment depart from different logics of protection, which, as a result of the expanding complexity of the international law regime, have become more and more intertwined.¹ Their rules, principles, dispute settlement, and enforcement mechanisms were established and developed throughout time according to their own practice and specific demands.²

The creation of the multilateral regime for the protection of intellectual property rights (IPRs) is marked by the adoption of the 1883 Paris Convention for the Protection of Industrial Property and the 1886 Berne Convention for the Protection of Literary and Artistic Works.³ The World Intellectual Property Organization (WIPO) is currently responsible for administering them and another twenty-four IP treaties, constituting the main international forum for IP services, policy information and cooperation.⁴ The adoption of the 1994 Agreement on Trade-Related Aspects of Intellectual Property (TRIPS Agreement) under the auspices of the newly created World Trade Organization (WTO) expanded considerably the scope of IP's global governance.⁵ It established new minimum standards of IP protection,⁶ incorporated previous provisions of multilateral IP agreements,⁷ and subjected trade-related IP commitments to the WTO's effective dispute settlement system.⁸

The international regime for the protection of foreign investment is formed by numerous international investment agreements (IIAs). According to the 2020 World Investment Report, the number of IIAs reached 3,284 by the end of 2019.⁹ Of those, 2,895 are bilateral investment treaties (BITs) and 389 are treaties with investment provisions (TIIPs).¹⁰ Despite previous attempts, there is currently no central international organization to "coordinate, regulate, or provide a framework for the structure or content of these thousands of agreements."¹¹ Nevertheless, the content of those agreements have become increasingly standardized throughout time.¹² One common feature is the provision of an international investor-State dispute settlement system, which allows foreign investors to directly challenge host States' measures before an international arbitral tribunal.¹³

The main objectives of the two protective regimes are distinct. As explained by Correa and Viñuales, "while IPRs protect an asset against acts (infringements) by third parties, the protection under BITs is conferred against actions/omissions by States, such as direct or indirect expropriation or other impairments."¹⁴ Moreover, Ruse-Khan reminds that, while international IP treaties require states to harmonize their domestic IP laws to offer foreign right holders adequate protection abroad for trading goods and services with IP content, BITs provide for standards of treatment that an individual foreign investor can enforce against a State's measures that threaten his investments abroad.¹⁵

Despite their different logics of protection, the international intellectual property and foreign investment regimes intersect. The overlapping point between these two systems is materialized through the inclusion of intellectual property in the BIT's definition of investment.¹⁶ This is an artful approach, since it equips intellectual property right holders "with legal protection necessary to support entry into a foreign market for investment (or trade) and to maintain a competitive position in that market."¹⁷

In their research, Correa and Viñuales identified that there are primarily four approaches through which IPRs are included in the definition of the term investment. These comprise: (i) the simple reference to "property" or "assets" of different types without express mention to IPRs; (ii) the general reference to IPRs or to "intangible property"; (iii) the enumeration of the protected intangible assets in a list, which can be explicitly characterized as exhaustive or not; and (iv) the clear reference to international or national law.¹⁸ The adoption of each of these approaches may have different legal consequences.¹⁹

The intersections between different international law regimes do not only cover the systems for the protection of foreign investment and intellectual property rights, but also include international rules on the protection of public health. In May 2003, the World Health Assembly (WHA) of the World Health Organization (WHO) concluded the Framework Convention on Tobacco Control (FCTC). It entered into force in February 2005, after it was acceded to by 40 States.²⁰ This was the first ever treaty negotiated under the WHO's auspices. Its main objective is to "protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke [...]".²¹ The FCTC currently has 182 Parties, which together cover more than 90% of the world's population.²² Uruguay belongs to the first group of countries that acceded to the convention.²³

There are two provisions of the FCTC that are particularly important to understand the background of the *Philip Morris v. Uruguay* case. Article 11 requires the parties to "ensure that tobacco product packages carry large health warnings and messages describing the harmful effects of tobacco use."²⁴ These "should be 50% or more of the principal display areas but shall be no less than 30% of the principal display areas."²⁵ Article 13 demands parties to engage in a "comprehensive ban of all tobacco advertising, promotion, and sponsorship."²⁶ As a party to the FCTC, Uruguay claimed that its tobacco packaging measures reflected its concrete actions to implement its commitments under the convention.

It is also worth noting that it was not the first time that Philip Morris was challenging national tobacco packaging measures based on bilateral investment agreements. In 2001, Philip Morris Asia Limited

brought a claim against Australia's tobacco plain packaging measures based on the 1993 *Australia - Hong Kong BIT*.²⁷ The Australian measures²⁸ prohibit, in brief, "the use of trademarks and other marks on tobacco packaging and tobacco products, with the exception of a brand, business, or variant which may appear in a prescribed location in a specific size, font and color."²⁹ Additionally, they require graphic health warnings (GHW) to cover seventy-five percent of the front surface and ninety percent of the back of the package,³⁰ and the remaining space to be colored in drab dark brown.³¹

In the *Philip Morris Asia Limited v. Australia* investment dispute, the arbitral tribunal did not really assess the merits of the case. Australia won the dispute based on procedural aspects, not actually due to the recognition of the legality of its measures in light of its international obligations to protect foreign investment. The arbitral tribunal understood that it had no jurisdiction to decide the case, since the arbitration itself constituted an abuse of rights.³² It reasoned that, by the time that the Philip Morris group acquired the Australian subsidiaries, there already was a reasonable prospect that the dispute would materialize. The acquisitions happened in February 2011, "around ten months after the Australian government announced its intention to introduce plain packaging" regulation.³³ For this reason, the arbitral tribunal concluded that the restructuring of Philip Morris was undertaken for the main, if not the only, purpose of obtaining treaty protection.³⁴ In this regard, the analysis of the *Philip Morris v. Uruguay* case provides us better insights in how and to what extent tobacco packaging measures might constitute a violation of a country's obligations under a BIT. After all, in the *Philip Morris v. Uruguay* case, the arbitral tribunal did not only analyze the procedural aspects, but also proceeded to the merits (substance) of the claims.

The central point that have pervaded the debates around the previous international agreements and former disputes involves the clash between countries' policy space for pursuing domestic public interests and their obligations and commitments derived from investment agreements. When investors opt to invest abroad, they typically advocate for high levels of protection from their home country and from the host States. From the States' point of view, this might have some negative aspects, such as policy or regulatory chill and the discouragement to implement public measures in favor of the protection of fundamental and human rights. The current challenge faced by countries resides precisely in drafting international legal instruments that reflect the interests of foreign investors, civil society, and host States in a fairer manner.

In the last few years, countries have started to adopt modern BIT models that include new elements aimed at rebalancing the rights and obligations of the parties concerned. The equitable design of foreign investors' rights and the host States' exceptions (flexibilities) to these rights can be perceived as two sides of the same coin. On the one hand, mainly capital-importing countries have supported the inclusion of provisions that guarantee their policy space to adopt measures in sensitive areas. On the other

hand, mostly capital-exporting countries have made pressure to include provisions that limit the host State's domestic regulatory space and diminish the risk faced by their nationals when investing abroad. One of such provisions is the indirect expropriation clause, which may be actionable in situations in which a governmental measure results in a significant reduction of the value of the investment, causing severe economic losses for the investor.³⁵ In more severe cases, such a governmental measure might even doom the investor to close its door, sell its business, and leave the host country.

Currently, circumscribing the limits between an indirect expropriation and a legit State's action is one of the most important issues in international investment law. Some alternatives have been developed to try to clear this blurry line, for example, (i) the use of a more precise language and the delimitation of what constitutes indirect expropriation;³⁶ and (ii) the inclusion of flexibilities (exceptions) in the design of international investment treaties, such as those related to environmental protection, public health, security, and the right to regulate.³⁷ These types of clauses shed light into some aspects that are regulated by the State and shall not be raised as a treaty violation.

In the *Philip Morris v. Uruguay* case, the greatest doubt was if the Uruguayan tobacco control policies, based on the FCTC, regarding graphic health warnings and the single presentation of tobacco trademarks violated international investment commitments and triggered compensation and other damages to the harmed investor. The next section describes challenged tobacco packaging measures adopted by Uruguay, the main arguments raised by the parties, and the most important points of the final decision reached by the arbitral tribunal.

3. The Philip Morris v. Uruguay Case

In March 2010, three affiliate companies of Philip Morris brought an investment claim against Uruguay, based on the 1988 Switzerland-Uruguay BIT. The case was heard by an arbitral tribunal established under the rules of the International Centre for Settlement of Investment Disputes (ICSID).³⁸ The Philip Morris' affiliates claimed that, "through several tobacco-control measures regulating the tobacco industry, [Uruguay] violated the BIT in its treatment of trademarks associated with cigarettes brands in which [they] had invested."³⁹ In particular, they challenged the Ordinance 514 of the Uruguayan Ministry of Public Health (18 August 2008) and the Presidential Decree No. 287/009 (15 June 2009).

The Ordinance 514 enacts the single presentation requirement (SPR),⁴⁰ which demands each cigarette brand to "have a 'single presentation' and prohibits different packaging or 'variants' for cigarettes sold under a given brand."⁴¹ This precludes tobacco companies from selling "more than one variant of cigarette per brand family."⁴² Abal Hermanos S.A., for example, had "to sell only one product variant per brand, e.g.,

'Marlboro Red', rather than multiple variants, e.g., 'Marlboro Red', 'Marlboro Gold', 'Marlboro Blue'."⁴³ The ordinance also bans the use of terms – such as "light", "ultra-light", and "mild" – that might give the false impression that a certain tobacco product is less harmful than another.⁴⁴ The Presidential Decree No. 187/009 puts into effect the 80/80 Regulation, which "imposes an increase in the size of prescribed health warning of the surface of the front and back of the cigarette packages from 50% to 80%."⁴⁵ Such a measure leaves "only 20% of the cigarette packages for trademarks, logos and other information."⁴⁶

The Philip Morris affiliates claimed that Uruguay's tobacco packaging measures restricted their right to use their trademarks in an appropriate manner.⁴⁷ They alleged that the measures characterized violations of Uruguay's commitments under the 1988 Switzerland-Uruguay BIT with respect to (i) protection against impairment and enjoyment of investments,⁴⁸ (ii) fair and equitable treatment and denial of justice,⁴⁹ (iii) expropriation,⁵⁰ and (iv) observance of commitments.^{51,52} The 1988 Switzerland-Uruguay BIT explicitly includes trade- and service marks in its definition of investment.⁵³ On this basis, the Philip Morris affiliates asked for the arbitral tribunal to order Uruguay to revoke the challenged measures and award them damages of at least US\$ 22.267 million, plus compound interest from the date of breach to the date of effective payment.⁵⁴

In its decision, the arbitral tribunal firstly stated that flexibilities available in international investment law serve to accommodate public health and other domestic public policies' purposes. The real debate centered around the absolute or relative right to use trademarks. The tribunal analyzed that most countries (including Uruguay) have been placing restrictions on the use of trademarks, particularly, in the tobacco industry. As a result, there must be a reasonable expectation that there is no absolute right for using trademarks. In this sense, the arbitral tribunal asserted that since regulations target and modify or ban the use of trademarks, there are products "whose presentation to the market needs to be stringently controlled without being prohibited entirely, and whether this is so must be a matter for governmental decision in each case."⁵⁵ This decision is based on the State's intention to – through legislative measures – influence change of preferences in society in favor of its own health.

In the present case, the tribunal considered that the Uruguayan measures are in accordance with national and international obligations, including the WHO FCTC, and that the investor does not enjoy an absolute right of use, but only an exclusive right to exclude third parties from using his trademark. Subject to the State's measures, trademark holders can commercially indicate the origin and distinguish his products and services from other competitors in the market.⁵⁶

As to the fair and equitable treatment claim, the Philip Morris affiliates argued that the Uruguayan measures were arbitrary and violated the investors' legitimate ex-

pectations. As to the claim regarding protection against impairment and enjoyment of investments, they alleged that the Uruguayan measures were unreasonable and significantly impaired the “use”, “enjoyment”, and “extension” of their investment, thereby, causing their loss. To dismiss these claims, the arbitral tribunal brought to light the definition of arbitrariness enshrined in the jurisprudence of the International Court of Justice in the *ELSI* case.⁵⁷ According to this decision, arbitrariness is a “willful disregard of due process of law, an act which shocks, or at least surprises, a sense of juridical propriety.”⁵⁸ Based on this definition, the arbitral tribunal understood that the measures were not “arbitrary”, because they have been implemented by the State for the purpose of protecting public health. There was thus a connection between the objective pursued by the State and the goal of the measures.⁵⁹

Moreover, Uruguay has implemented the tobacco packaging measures based on scientific evidence. Since 2000, the country has carried out several initiatives, such as the creation of agencies and experts' groups for the study and prevention of tobacco effects on human health. It established an Advisory Commission to guide the government in implementing its obligations under the FCTC and enacted its tobacco packaging measures based on the evidence available during its active participation in the FCTC negotiations and in the drafting of the implementing guidelines. As observed by the WHO, the working groups that developed the implementing guidelines relied on available scientific studies to draft these norms. Therefore, they can be perceived as an evidence-based legal instrument.⁶⁰ In addition, there is currently strong scientific evidence and consensus as to the lethal effects of tobacco consumption to human health.⁶¹ The arbitral tribunal also considered that there was no evidence presented by the claimants showing that the measures have caused an increase in the sales of fake cigarettes. Finally, the tribunal agreed that the investors “had no legitimate expectations that such or similar measures would not be adopted and further considering that their effect had not been such as to modify the stability of the Uruguayan legal framework.”⁶²

As to the denial of justice claim, the Philip Morris affiliates argued that the unfavorable decisions of two Uruguayan courts, the Supreme Court of Justice (SCJ) and the *Tribunal de lo Contencioso Administrativo* (TCA), concerning the 80/80 Regulation consisted a denial of justice. The tribunal found that there was no denial of access to courts and, in this context, no breach of fair and equitable treatment. According to the tribunal, “for a denial of justice to exist under international law there must be ‘clear evidence of ... an outrageous failure of the judicial system’ or a demonstration of ‘systemic injustice’ or that ‘the impugned decision was clearly improper and discreditable.’”⁶³ A mere unfavorable ruling was thus not considered serious enough to constitute a denial of justice.⁶⁴ The Philip Morris affiliates also alleged that rejection of their plea by the TCA to

partially invalidate the SPR characterized a denial of justice. In this regard, the arbitral tribunal considered that the claimant's argument was based on the British American Tobacco's argument, addressed in a different proceeding, despite both challenging the same regulation in a very similar way.⁶⁵ The arbitral tribunal understood that “the subsequent failure of the TCA to amend or clarify its decision did not create a denial of justice.”⁶⁶

The indirect expropriation claim was also dismissed by the tribunal. The arbitrators considered that the SPR and the 80/80 Regulation and the partial loss of profits arising from it did not characterize a substantial deprivation of the value, use, and enjoyment of the investment,⁶⁷ since the claimants still yielded significant returns on their investment in Uruguay. The arbitral tribunal determined that the challenged measures “were a valid exercise by Uruguay of its police powers for the protection of public health,”⁶⁸ and, accordingly, could not “constitute an expropriation of the claimant's investment.”⁶⁹ In the tribunal's understanding, a State's measure does not characterize an indirect expropriation if it is adopted in “*bona fide* [good faith] for the purpose of protecting public welfare, [and it is] non-discriminatory and proportionate.”⁷⁰

As to the observance of commitments claim, the arbitral tribunal considered that Article 11 of the BIT operated as an umbrella clause, since it encompassed a State's obligations assumed with regard to specific investments. It assessed the scope of these “commitments” entered into by the State, and if trademarks constituted a commitment within Article 11's meaning. The arbitral tribunal understood that a trademark is not a unique commitment to encourage or permit a specific investment, and that Uruguay did not enter any commitment “with respect to the investment” by granting a trademark, and neither was bound by any obligation or course of conduct. The arbitral tribunal understood that, at the end of the day, Uruguay “simply allowed the investor to access the same domestic IP system available to anyone eligible to register a trademark”,⁷¹ and that a trademark “is not a promise by the host State to perform an obligation,”⁷² but “a part of its general intellectual property law framework.”⁷³ The laws that form such framework are subject to changes and, therefore, may not be perceived as included in the specific reach of an umbrella clause. The arbitral tribunal thus concluded that trademarks are not “commitments” falling within the intended scope of Article 11 of the BIT.

4. Regulatory and Policy Implications of the Arbitral Tribunal's Decision

The ICSID's decision on the *Philip Morris v. Uruguay* case not only had important regulatory and political implications for Uruguay but also affected other countries' trade, investment, and health policies across the globe. Even though there is no doctrine of precedent applied in investment treaty arbitration,⁷⁴ international investment tribunals frequently refer to each other's rulings to support their own decisions.⁷⁵ The award also represents an important win for a South American State in an investment arbitration. Historically, the countries of the region, such

as Argentina, Bolivia, Ecuador and Venezuela have been condemned in the previous investment disputes brought against them.⁷⁶

The arbitral tribunal's decision recognized public health concerns that support tobacco packaging measures as legitimate. Although such policies might impact foreign investors' rights or diminish the value of their products or trademarks, they do not entail an investor's right to be adequately compensated for the losses they might incur.⁷⁷ The enactment of public health measures aimed at reducing tobacco consumption should not be considered an indirect expropriation if they are: (i) adopted in good faith for the purposes of protecting public welfare, (ii) implemented in a non-discriminatory and proportionate manner, and (iii) do not substantially deprive the investor from the value, use or enjoyment of its investment. The use of a trademark is not an absolute investor's right, but only confers the trademark owner the exclusive right to prevent the use by third parties.

The dispute has also influenced the design of subsequent investment agreements. Several BITs and investment chapters of preferential trade agreements (PTAs) have adopted provisions for balancing investors' protection and the State's right to regulate issues of public interest. The accuracy of language is another point that has been dealt carefully, since clearer and less vague provisions might avoid future concerns and disputes. The new BIT model of the Netherlands, for example, published by its Ministry of Foreign Affairs in 22 March 2019, adopts clear language to safeguard the host state's right to adopt measures to protect legitimate public interests. According to its Article 12.8, measures that are enacted in a non-discriminatory manner and applied in good faith to protect public interests, "such as the protection of public health, safety, environment or public morals, social or consumer protection or promotion and protection of cultural diversity, do not constitute indirect expropriation."⁷⁸ This example shows that even traditional capital-exporting countries are recalibrating their international investment frameworks to ensure the State's right to regulate.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as the TPP-11,⁷⁹ also included a similar framework. According to its Article 3 of Annex 9-B, indirect expropriation consists in an action or series of actions with an equivalent effect to direct expropriation, without formal transfer of title or outright seizure. This language reflects the parties' attempt to establish a clearer, a less vague definition of indirect expropriation. Additionally, letter (b) to Article 3 of Annex 9-B specifies that some types of regulations applied in a non-discriminatory manner to protect legitimate public welfare objectives, such as public health and the environment, cannot be considered indirect expropriation (except in rare circumstances). Accordingly, public interest can exempt States from fully complying with the general obligations and preclude the incidence of indirect expropriation clause. The

CPTPP also innovated excluding tobacco control measures from the investor-State dispute settlement.⁸⁰ All these provisions can be perceived as a result of parties' willingness to prevent their national health and other public policies from being questioned in international forums.

The recent national and international decisions recognizing the legality of tobacco packaging measures have also impacted the way that the tobacco industry conducts the cigarette business. It is possible to perceive an ongoing change in the manner that they sell, advertize, and market their products. The main tobacco companies are now focusing on developing products such as e-cigarettes, nicotine-containing vapor, and other oral products, that "arguably" are a better alternative than smoking traditional tobacco cigarettes. They advertize these new technological improvements and devices as helpful means for those smokers that want to quit. It is a new form of "rebranding" the whole industry.

5. Conclusion

The *Philip Morris v. Uruguay* case constitutes a benchmark for future investment disputes. It reassures that investment protection cannot exclude the host State's right to regulate public health matters. Moreover, it marks a new trend in the design of international investment provisions, less vague and with more flexibilities. This framework brings about a combination between protection of investors and the right to regulate.

For the international intellectual property regime, the case is particularly important because it clarifies important points regarding the discussions on the clash between trademark rights and public health precepts. The decision reiterates that IPRs, including trademark rights, are negative rights. They entitle IP owners to exclude others from using their intangible assets (exclusionary power). They do not constitute positive rights, securing IP owners an absolute right to use their intangible assets.

In the trademark context, this means that the mere grant or recognition of a trademark right by a State's authority does not entail a right to use the trademark in commerce in whatever manner it pleases its owner. Its display might also be subject to certain restrictions to diminish adverse effects that its unlimited use might have. Scientific studies have shown that certain tobacco packaging measures have been successful in reducing the appealing effects of tobacco products. The countries' main challenge today resides in finding the right balance between the encumbrances of those measures to the trademark owner and the achievement of their public health goals.

The decision also has some impacts for investment arbitration. It enlightens matters that cannot be argued in international dispute settlement mechanisms and demonstrates that indirect expropriation and fair and equitable treatment are very complex issues to plead and prove before investment arbitration. The difficulties in delimitating the borders of each concept and to fit them in the case analysis bring even more importance to the *Philip Morris*

v. Uruguay case. The dispute reminds us of the importance of designing investment agreements in a way that it does not constrain a State's regulatory power, but rather constitutes an important tool for securing countries' policy space to adopt measures on behalf of public interests.

Endnotes:

¹ Alberto do Amaral Júnior, "O Diálogo das Fontes: Fragmentação e Coerência no Direito Internacional Contemporâneo" (2008) 2 *Anuário Brasileiro de Direito Internacional* 11.

² Carlos Correa and Jorge E. Viñuales, "Intellectual Property Rights as Protected Investments: How Open are the Gates?" (2016) 19 *Journal of International Economic Law* 91.

³ Peter Drahos, "The Universality of Intellectual Property Rights: Origins and Developments", in *Intellectual Property and Human Rights* (WIPO, 1999), p. 7.

⁴ World Intellectual Property Organization, "WIPO-Administered Treaties". Available from <https://www.wipo.int/treaties/en/> (accessed 28 June 2020).

⁵ Christopher May, *A Global Political Economy of Intellectual Property Rights: the New Enclosures?* 3rd edn (Routledge, 2000), p. 68.

⁶ Alberto do Amaral Júnior, *Curso de Direito Internacional Público* 4th edn (Atlas, 2013) p. 660.

⁷ The TRIPS Agreement incorporated provisions of the 1883 Paris Convention, 1886 Berne Convention, 1961 Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome Convention), and the 1989 Treaty on Intellectual Property in Respect to Integrated Circuits (Washington Treaty). It is worth noting that the Washington Treaty was signed in 1989 but has not yet entered into force.

⁸ Julien Chaisse and Puneeth Nagaraj, "Changing Lanes: Intellectual Property Rights, Trade and Investment" (2014) 37 *Hastings International and Comparative Law Review* 223, 225.

⁹ United Nations Conference on Trade and Development, 2020 *World Investment Report* (UNCTAD, 2020), p. 106.

¹⁰ Ibid.

¹¹ Christopher Gibson, "A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation" (2010) 25 *American University International Law Review* 357, 376.

¹² Dominique Carreau and Patrick Juillard, *Droit International Économique* 5th edn (Daloz, 2013), p. 463.

¹³ Marilda Rosado de Sá Ribeiro and Ely Caetano Xavier Júnior, "Introdução", in *Direito Internacional dos Investimentos*, Marilda Rosado de Sá Ribeiro, ed. (Renovar, 2014), p. 7.

¹⁴ Correa and Viñuales, "Intellectual Property Rights as Protected Investments", pp. 91-92.

¹⁵ Henning Grosse Ruse-Khan, "Investment Law and Intellectual Property Rights", in *International Investment Law: a Handbook*, M. Bungenberg, J. Griebel, S. Hobe and A. Reinisch, eds. (Nomos/Hart, 2015), p. 1708.

¹⁶ Correa and Viñuales, "Intellectual Property Rights as Protected Investments", pp. 91-92.

¹⁷ Gibson, "A Look at the Compulsory License in Investment Arbitration", p. 367.

¹⁸ Correa and Viñuales, "Intellectual Property Rights as Protected Investments", p. 93.

¹⁹ Ibid.

²⁰ World Health Organization, "WHO Framework Convention on Tobacco Control". Available from www.who.int/fctc/text_download/en/ (accessed 17 June 2020).

²¹ Article 3 of the FCTC.

²² World Health Organization, "Parties to the WHO Framework Convention on Tobacco Control". Available from www.who.int/fctc/cop/en/ (accessed 20 June 2020).

²³ Uruguay signed the FCTC on June 19, 2003 and ratified it on September 9, 2004.

²⁴ World Health Organization, "The WHO Framework Convention on Tobacco Control: an Overview". Available from www.who.int/fctc/about/WHO_FCTC_summary_January2015.pdf?ua=1 (accessed 20 June 2020).

²⁵ Article 11.1(b)(iv) of the WHO FCTC.

²⁶ WHO, "The WHO Framework Convention on Tobacco Control: an Overview".

²⁷ Tania Voon and Andrew Mitchell, "Philip Morris vs. Tobacco Control: Two Wins for Public Health, but Uncertainty Remains" (2016) 182 *Columbia FDI Perspectives* 1, 1.

²⁸ The challenged Australian measures were the 2011 Tobacco Plain Packaging Act and the implementing regulations known as the 2011 Tobacco Plain Packaging Regulations (Permanent Court of Arbitration, *Philip Morris Asia Ltd. v. the Commonwealth of Australia – Award on Jurisdiction and Admissibility*, 17 December 2015, Case No. 2012-2 (Philip Morris Asia v. Australia), 1).

²⁹ World Trade Organization, *Australia – Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging – Report of the Panels*, 28 June 2018, WT/DS435/R; WT/DS441/R, WT/DS458/R, WT/DS467/R (WTO Australia – Plain Packaging), p. 654.

³⁰ Ibid., pp.104-105.

³¹ Tania Voon, "Philip Morris v. Uruguay: Implications for Public Health" (2017) 18 *Journal of World Investment and Trade* 320.

³² Philip Morris Asia v. Australia

³³ Voon and Mitchell, "Philip Morris vs. Tobacco Control", p. 1.

³⁴ Philip Morris Asia v. Australia, p. 185.

³⁵ Muthucumaraswamy Sornarajah, *The International Law on Foreign Investment* (2010), pp. 368-370.

³⁶ For instance, the definition of indirect expropriation provided by the India-Kuwait BIT is one of the most detailed in the Indian BITs. Article 7.4 provides that: "The term 'expropriation' shall also apply to interventions or regulatory measures by a Contracting State such as the freezing or blocking of the investment, levying or arbitrary or excessive tax on the investment, compulsory sale of all or part of the investment, or other comparable measures, that have a de facto confiscatory or expropriatory effect in that their effect results in depriving the investor in fact from his ownership, control or substantial benefits over his in-

vestment or which may result in loss or damage to the economic value of his investment." For more details see: "Agreement between the State of Kuwait and the Republic of India for the Encouragement and Reciprocal Protection of Investment". Available from <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/1569/download> (accessed on 13 August 2020).

³⁷ In this sense Annex B, article 4.b of the US Model BIT 2012 provides that: "(b) Except in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations." For more detail see: United States Trade Representative, "2012 U.S. Model Bilateral Investment Treaty". Available from <https://ustr.gov/sites/default/files/BIT%20text%20for%20A-CIEP%20Meeting.pdf> (accessed on 13 August 2020).

³⁸ International Centre for Settlement of Investment, *Philip Morris Brands Sàrl, Philip Morris Prods. S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay – Award on Merits*, 8 July 2016, ICSID Case No. ARB/10/7 (Philip Morris v. Uruguay).

³⁹ *Ibid.*, p. 2.

⁴⁰ Article 3 of the Ordinance 514.

⁴¹ Philip Morris v. Uruguay, p. 2.

⁴² *Ibid.*, p. 2

⁴³ Voon, "Philip Morris v. Uruguay: Implications for Public Health", pp. 321-322.

⁴⁴ Article 3 of the Ordinance 514.

⁴⁵ Philip Morris v. Uruguay, p. 2.

⁴⁶ *Ibid.*, p. 2.

⁴⁷ *Ibid.*, p. 45.

⁴⁸ Article 3(1) of the 1988 Switzerland-Uruguay BIT.

⁴⁹ Article 3(2) of the 1988 Switzerland-Uruguay BIT.

⁵⁰ Article 5 of the 1988 Switzerland-Uruguay BIT.

⁵¹ Article 11 of the 1988 Switzerland-Uruguay BIT.

⁵² Philip Morris v. Uruguay, p. 3.

⁵³ Article 1(2)(d) of the 1988 Switzerland-Uruguay BIT.

⁵⁴ Philip Morris v. Uruguay, p. 3.

⁵⁵ *Ibid.*, p. 76.

⁵⁶ *Ibid.*, p. 76.

⁵⁷ International Court of Justice, *United States of America v. Italy – Case Concerning Elettronica Sicula S.p.A. (ELSI)*, 20 July 1989, ICJ Case No. CLA-088.

⁵⁸ Philip Morris v. Uruguay, p. 112.

⁵⁹ On this point, however, the arbitrator Gary Born dissented from the tribunal's conclusion. He understood that the single presentation requirement constituted an arbitrary and unreasonable measure, since it was totally unnecessary for protecting consumers against deceptive use of trademarks (International Centre for Settlement of Investment, *Philip Morris Brands Sàrl, Philip Morris Prods. S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay – Concurring and Dissenting*

Opinion of the Arbitrator Gary Born, 8 July 2016, ICSD Case No. ARB/10/7 (Philip Morris v. Uruguay Dissent Opinion) 45).

⁶⁰ Philip Morris v. Uruguay, p. 142.

⁶¹ *Ibid.*, p. 122.

⁶² *Ibid.*, p. 126.

⁶³ *Ibid.*, p. 143.

⁶⁴ On this point, the arbitrator Gary Born also dissented by understanding that Uruguay had to provide claimant's access to a proper judicial forum to address the contradiction and, this absence, consisted a denial of justice (Philip Morris v. Uruguay Dissent Opinion, p. 11).

⁶⁵ Philip Morris v. Uruguay, p. 166.

⁶⁶ *Ibid.*, p. 166.

⁶⁷ *Ibid.*, p. 52.

⁶⁸ Philip Morris v. Uruguay, p. 88.

⁶⁹ *Ibid.*, p. 88.

⁷⁰ *Ibid.*, p. 87.

⁷¹ *Ibid.*, p. 138.

⁷² *Ibid.*, p. 138.

⁷³ *Ibid.*, p. 138.

⁷⁴ Benn McGrady, "Implications of Ongoing Trade and Investment Disputes Concerning Tobacco: Philip Morris v Uruguay", in *Public Health and Plain Packaging of Cigarettes*, Tania Voon et al., eds. (Elgar, 2012), p. 178.

⁷⁵ Sornarajah, *The International Law on Foreign Investment*, p. 87.

⁷⁶ Vivian Daniele Rocha Gabriel and José Augusto Fontoura Costa, "O Brasil e a proteção jurídica dos investimentos estrangeiros: da negociação de novos acordos à reflexão sobre o seu cumprimento a partir da arbitragem de investimentos" (2016) 2 *Revista de Derecho Y Economía* 57, 48.

⁷⁷ Voon, "Philip Morris v. Uruguay: Implications for Public Health".

⁷⁸ Dutch Ministry of Foreign Affairs, "New Model Text of Investment Agreements". Available from <https://www.rijksoverheid.nl/ministeries/ministerie-van-buitenlandse-zaken/documenten/publicaties/2019/03/22/nieuwe-modeltekst-investeringsakkoorden> (accessed on 13 August 2020).

⁷⁹ The CPTTP is composed of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. It incorporates, by reference, the provisions from the Trans-Pacific Partnership (TPP), with some exceptions.

⁸⁰ Article 29.5 of the CPTTP.

This brief is part of the South Centre's policy brief series focusing on international investment agreements and experiences of developing countries.

While the reform process of international investment protection treaties is evolving, it is still at a nascent stage. Systemic reforms that would safeguard the sovereign right to regulate and balance the rights and responsibilities of investors would require more concerted efforts on behalf of home and host states of investment in terms of reforming treaties and rethinking the system of dispute settlement.

Experiences of developing countries reveal that without such systemic reforms, developing countries' ability to use foreign direct investment for industrialization and development will be impaired.

The policy brief series is intended as a tool to assist in further dialogue on needed reforms.

*** The views contained in this brief are attributable to the author/s and do not represent the institutional views of the South Centre or its Member States.

Previous South Centre Investment Policy Briefs

No. 1, July 2015 – Indonesia's Perspective on Review of International Investment Agreements by Abdulkadir Jailani

No. 2, July 2015 – Crisis, Emergency Measures and the Failure of the ISDS System: The Case of Argentina by Federico Lavopa

No. 3, July 2015 – India's Experience with BITs: Highlights from Recent ISDS Cases by Biswajit Dhar

No. 4, August 2015 – International Investment Agreements and Africa's Structural Transformation: A Perspective from South Africa by Xavier Carim

No. 5, August 2015 – Ecuador's Experience with International Investment Arbitration by Andres Arauz G.

No. 6, November 2016 – Peruvian State's Strategy for Addressing Investor State Disputes by Magrit F. Cordero Hijar

No. 7, December 2016 – The Experience of Sri Lanka with International Investment Treaties by C P Malalgoda and P N Samaraweera

No. 8, March 2017 – Reflections on the Discussion of Investment Facilitation by Kinda Mohamadieh

No. 9, July 2017 – The Legal Nature of the Draft Pan-African Investment Code and its Relationship with International Investment Agreements by Dr. Amr Hedar

No. 10, February 2018 – How international investment agreements have made debt restructuring even more difficult and costly by Yuefen Li

No. 11, May 2018 – The Cooperation and Facilitation Investment Agreement (CFIA) in the context of the discussions on the reform of the ISDS system by Felipe Hees, Pedro Mendonça Cavalcante and Pedro Paranhos

No. 12, December 2018 – Investor-State Dispute Settlement: An Anachronism Whose Time Has Gone by Johannes Schwarzer

No. 13, December 2018 – IP Licence, Trademarks and ISDS: Bridgestone v. Panama by Pratyush Nath Upreti

No. 14, March 2019 – Building a Mirage: The Effectiveness of Tax Carve-out Provisions in International Investment Agreements by Daniel Uribe and Manuel F. Montes

No. 15, March 2019 – UNCITRAL Working Group III: Can Reforming Procedures Rebalance Investor Rights and Obligations? by Lorenzo Cotula and Terrence Neal

No. 16, March 2019 – The Future of Investor-State Dispute Settlement Deliberated at UNCITRAL: Unveiling a Dichotomy between Reforming and Consolidating the Current Regime by Kinda Mohamadieh

No. 17, April 2019 – Challenges of Investment Treaties on Policy Areas of Concern to Developing Countries by Kinda Mohamadieh

No. 18, June 2019 – Legitimacy Concerns of the Proposed Multilateral Investment Court: Is Democracy Possible? by José Manuel Alvarez Zárata

No. 19, March 2020 – The ISDS Reform Process: The missing development agenda by Nicolás M. Perrone



The South Centre is the intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote their common interests in the international arena. The South Centre was established by an Intergovernmental Agreement which came into force on 31 July 1995. Its headquarters is in Geneva, Switzerland.

Readers may reproduce the contents of this policy brief for their own use, but are requested to grant due acknowledgement to the South Centre. The views contained in this brief are attributable to the author/s and do not represent the institutional views of the South Centre or its Member States. Any mistake or omission in this study is the sole responsibility of the author/s. For comments on this publication, please contact:

The South Centre
International Environment House 2
Chemin de Balexert 7-9
PO Box 228, 1211 Geneva 19
Switzerland
Telephone: (4122) 791 8050
E-mail: south@southcentre.int
<https://www.southcentre.int>

Follow the South Centre's Twitter: South_Centre

