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International Investment Arbitration, the European Patent Office, and the Future Unified Patent Court

Simon Klopschinski (Rospatt Osten Pross) · Wednesday, August 1st, 2018

Since the Eli Lilly v. Canada award of 2017, the relevance of international investment law for patents has been known to a wider public. In response to the revocation of two Canadian patents concerning the compounds olanzapine and atomoxetine by Canadian courts, the US pharmaceutical company Eli Lilly initiated arbitral proceedings against Canada on the basis of the investment chapter of the North American Free Trade Agreement (NAFTA). Even though Eli Lilly lost the dispute, the award made clear that international investment agreements (IIAs) matter for patents because the arbitral tribunal found that, in principle, patent decisions by host state courts can be challenged before an international investment tribunal on the basis of an IIA.

IIAs are treaties under public international law that are not specific intellectual property (IP) agreements, such as TRIPs. Rather, they generally protect property rights against state interference. To date, arbitral tribunals have rendered decisions in four IP-related international investment disputes. Whereas the Eli Lilly v. Canada award pertained to a dispute involving decisions of state courts, arbitral proceedings based on an IIA may also be considered as a special appeal mechanism concerning IP-related decisions of international organizations, e.g. the European Patent Office (EPO) or the future Unified Patent Court (UPC). Thus, they could represent an alternative to other extraordinary remedies which have already been used for challenging EPO decisions, e.g. constitutional complaints before the German Federal Constitutional Court or applications submitted to the European Court of Human Rights (ECHR).

States conclude IIAs with each other in order to create favorable conditions for investments by investors of one contracting state in the territory of the other contracting state. To this end, IIAs provide for a number of standards of treatment according to which the host state must treat the foreign investor, e.g. expropriation only against compensation or fair and equitable treatment. Investments within the meaning of these agreements usually include IP rights. Therefore, the above treatment standards in IIAs also apply to patents. If the host state violates its obligations under an IIA, most modern IIAs provide for an investor state dispute settlement (ISDS) mechanism. This allows the foreign investor to sue the host state on the basis of the respective IIA before an international investment tribunal for compensation, without being dependent on the assistance of its home state.

Since the EPO itself is not a party to an IIA, it cannot be a defendant in such arbitration. However, should a Board of Appeal of the EPO commit for example an unfair and inequitable act, that would constitute a violation of the obligations of an EPC Member State under an IIA, the patent applicant

or proprietor concerned by the decision could initiate arbitration proceedings against that EPC Member State on the basis of the IIA in question. The investment tribunal seized with the matter could make the actions of the EPO the subject matter of the arbitral proceedings because – by analogy with ECHR case law – it is arguable that the EPC Member State cannot evade its obligations under the IIA by having delegated the grant of patents to the EPO.

Should proceedings before the future UPC not comply with the standards of treatment under an IIA, which was signed by a Contracting Member State to the Agreement on a Unified Patent Court (UPCA), the investor whose rights under the IIA would be infringed by acts of the UPC could initiate arbitral proceedings on the basis of the IIA against the Contracting Member State. In such proceedings, the arbitral tribunal would also have to take into account that under Article 23 UPCA, actions of the UPC are directly attributable to each Contracting Member State individually and to all Contracting Member States collectively. Even though the provision makes explicit reference to infringement proceedings under Articles 258, 259 and 260 TFEU, one could argue that its scope is not limited to EU law. Therefore, Article 23 UPCA could allow an international investment tribunal to find a Contracting Member State responsible for actions of the UPC with respect to the standards of treatment of an IIA.

Further reading:

Simon Klopschinski, Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsverträge – The Protection of Intellectual Property Rights under International Investment Agreements (1st ed., Carl Heymanns Verlag 2011)

Simon Klopschinski/Christopher Gibson/Henning Grosse Ruse-Khan, The Protection of Intellectual Property under International Investment Agreements (1st ed., Oxford University Press, forthcoming)

Simon Klopschinski, 'Völkerrechtliche Staatenverantwortlichkeit und Rechte des geistigen Eigentums – State Responsibility under Public International Law and Intellectual Property Rights', 59 GRUR Int. 930 (2010)

Simon Klopschinski, 'The WTO's DSU Article 23 as Guiding Principle for the Systemic Interpretation of International Investment Agreements in the Light of TRIPs', 19 Journal of International Economic Law 211-239 (2016)

Simon Klopschinski, 'Philip Morris loses investment arbitration against Uruguay's anti-tobacco legislation' (September 13, 2016)

Simon Klopschinski, 'Eli Lilly v. Canada – The First Final Award Ever on Patents and International Investment Law' (April 4, 2017)

Simon Klopschinski, 'Investment disputes, trademarks and licenses, and ICSID tribunals – Bridgestone v. Panama' (March 23, 2018)

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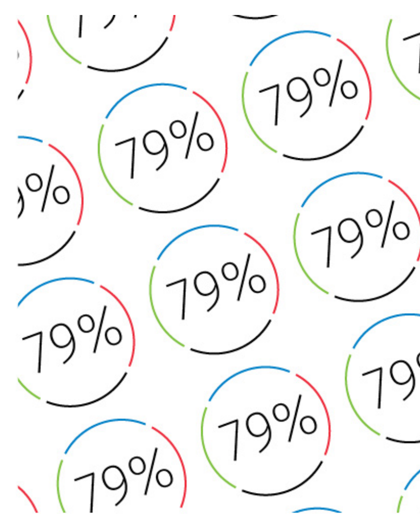

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