INDONESIAN PERSPECTIVE ON THE INVESTOR–STATE DISPUTE SETTLEMENT MECHANISM FOR FOREIGN INVESTMENT DISPUTE SETTLEMENT IN THE FIELD OF INTELLECTUAL PROPERTY RIGHTS

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Abstract

Investment includes tangible and intangible assets. Intangible assets are often connected with intellectual property which leads to intangible results. The lack of “visibility” in intangible assets makes them difficult to measure. Current international regulations have not also explicitly provided room for enforcement regarding intellectual property rights in terms of foreign investment. Therefore, an emergence of cases is observed in investment disputes within the field of intellectual property rights through the Investor–State Dispute Settlement (ISDS) mechanism. In this research, we discuss cases of foreign investment disputes in such a field. From these cases, we find the factors that determine the occurrence of foreign investment disputes in the field of intellectual property rights. The ISDS mechanism can be used to resolve foreign investment disputes in the field of intellectual property. Furthermore, this research discusses the perspective of Indonesian law regarding foreign investment disputes in the mentioned field by using the ISDS mechanism. Qualitative methods and secondary data analysis are also used. The research aims to discover and identify foreign investment disputes in the field of intellectual property rights.

Keywords: Foreign Investment, Intellectual Property, Investment State Dispute Settlement

Abstrak


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I. INTRODUCTION

The influence and interdependence of economic interest, political defense, or otherwise, are essential. International business transactions underline any agreements among parties (minimum of two different states). Transactions include sales, leases, licenses, and investments; international business agreements involve parties which include individuals, small and large multi-national companies, and states. Transnational law regulates all activities which transcend national boundaries. Here, transnational law refers to the unity of domestic and international laws which assume an increasingly important role in our lives.

According to the case of Salini et al. versus Morocco, money or asset contribution, project duration, risk element, and host state economic distribution should always be delivered in foreign investment activities. Foreign investment is defined differently in each country. According to Sornarajah, the definition of “foreign investment” has evolved over the years; investment activities in the current era also involve intangible assets. Therefore, investment is the transfer of tangible and/or intangible assets from a state to another with the aim of increasing the wealth of both parties.

“Intangible assets” in foreign investment refer to assets that give future benefits but lack visible entity. Intangible assets have three categories; one of them is intellectual property, which includes computer information and data; patents; licenses; general knowledge; and innovative contents, such as copyright, trademark, and design. Foreign investment and intellectual property are closely interrelated and inseparable. Intellectual property has an economic value inherent in company assets. In addition to contributing economic value, IPR presence provides motivation for artists to develop their creativity. IPR allows creators, or owners of patents, trademarks, or copyrighted works to gain profit from their own creation. Intellectual property rights appreciate creativity and human endeavor, both of which encourage human progress.

3 Salini et al v Marocco Case, 4 elements that should be deliver in an investment activity: 1. Contribution money or assets; 2. Certain duration over which the project was to be implemented; 3. An element of risk; 4. Contribution of host state’s economy.
7 Ibid., intangible assets are:
Historically, intellectual property protection in foreign direct investment activity started from the mid-1960s to the 1970s. Such protection is the result of the transfer of technology to develop the global economic order; multi-national companies progressively seek intellectual property protection to open and maintain their markets abroad, including the international trade agendas of GATT/WTO and UNCTAD.

Foreign investment disputes are issues that always receive attention in the national and international scope. Given that foreign investment activities are related to intellectual property rights, foreign investment dispute settlement with the Investor–State Dispute Settlement (ISDS) mechanism becomes appealing to resolve. In addition, no international IP regulations are globally governed, and the national IP regulations should intervene to protect IPs owned by foreign investors. Law concerning the transfer of intellectual property is rare because the law is designed to protect tangible assets; but the protection of the intangible assets of foreign investors has recently been discussed.

With the emergence of information technology and the rise of the growing dependence on intellectual property, great significance is given to intellectual property protection. Technology transfer to host countries is considered a benefit of foreign investment in such countries. The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention are international agreements that protect intellectual property. However, these agreements cannot protect the affected intellectual property of foreign investors. The problem that arises is that the home state encourages the local law (host state) to ensure that these rights are created and protected in accordance with the desired external standards. Therefore, foreign investors challenge the host state to resolve foreign investment disputes in the field of intellectual property by using the ISDS mechanism. Disputes between investors and states or investor–state disputes are those between foreign investors and related states or host states in contractual obligation breach or guarantee violations in international law.

The ISDS mechanism has been existing in IIA/Bilateral Investment Treaty (BIT) since the 1960s. ISDS provisions and mechanisms are regulated in the Convention

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11 Toward the mid-1960s and over the course of the 1970s, three of the afore-analyzed trends in international politics and international law began to conflict. First, technology and knowledge transfer became a priority for developing states as part of their demand for a restructuring of the global economic order, implicating the content, reach, and aims of the Berne and Paris Conventions. Second, global, knowledge-intensive firms increasingly sought protections for copyrights, patents, and trademarks as part of open and maintaining markets abroad. Third, GATT (the trading club for wealthier countries) and UNCTAD (the trade lobbying group for poorer ones) clashed over the role of developing country exports as part of the international trade agenda.


13 Somarajah, The International Law on Foreign Investment, p. 56.


16 Illias Bantekas, An Introduction to International Arbitration (Cambridge University Press, United Kingdom, 2015), p. 279. Investor state disputes settlement is a dispute between the foreign investor and the host state involves either a breach of the party contractual obligations or a violation of a guarantee affordable to investors under international law.

17 UNCTAD, “Investor-State Dispute Settlement and Impact on Investment Rulemaking”, United Na-
on the Settlement of Investment Disputes between States and National of other States (ICSID Convention). ICSID Convention is a form of legal protection of investor rights from unfavorable host state treatment. This convention allows the settlement of disputes between investors and host states through an arbitration forum\(^{18}\). ICSID Convention also clarifies that state approval is required for the implementation of arbitration through the provision of national investment law\(^{19}\).

To date, four cases regarding foreign investment disputes exist in the field of intellectual property rights using the ISDS mechanism. First, Philip Morris International (PMI) against Uruguay in 2010, Eli Lilly against Canada in 2012, Philip Morris Asia (PMA) against Australia in 2011, and AHS Niger and Eastern Menzies Central and South Africa against Nigeria in 2013. From these cases, we find the factors that determine the occurrence of foreign investment disputes in the field of intellectual property rights and how the ISDS mechanism resolved the cases. Although no such cases are recorded in Indonesia, the possibility cannot be ruled out. Indonesia recognizes intangible assets as investment assets and the ISDS mechanism as an investment dispute resolution.

Business management is currently based on intangible and intellectual assets. Therefore, companies must create or buy new intangible and intellectual assets to assure the success of their products. In general, products are made by inventors or business entities\(^{20}\). Intellectual property is a tool to increase profits for companies, as observed in Apple and Samsung whose profits are taken from intangible assets, particularly, intellectual property which is inherent in their products\(^{21}\). Here, investment activities and intellectual property rights are present. Intellectual property rights attached to products or services can create a lasting impression on customers. Specifically, intellectual property rights are attached to products in the forms of brands, packaging, and chip processors. From the investment perspective, brands attract customers and foreign investors. Therefore, companies spend time and money on trademark which can benefit them in the future\(^{22}\).

Trademark, as part of intellectual property, has a significant influence on foreign investment activities. Although trademark is not the main factor for investors to invest their assets, a strong relationship exists between brand and market performance, as seen from a retrospective view of stock prices. From 2007 to 2015, investment strategies, which are based on the most branded companies, led to almost two-fold returns\(^{23}\). Thus, the relationship among foreign investors with intellectual property can be observed. Intellectual property has a positive impact on foreign investment, where intellectual property provides profits for capital recipients and investors.


\(^{19}\) Ibid.


Hence, in every foreign investment activity, we can find the clause about the protection of intellectual property rights in foreign investment contracts.

Document studies that use various secondary data, such as legislation, arbitration court decisions, legal theories, and opinions from scholars, are reviewed. This normative writing uses qualitative analysis by explaining existing data with narrations. The study is conducted using several Blade analyses, that is, international treaties and national laws which include BIT; TRIPS; Paris Convention for the Protection of Industrial Property (Paris Convention); ASEAN Comprehensive Investment Agreement (ACIA); Act No. 25 of 2007 concerning investment; and other international or national laws.

II. ISDS MECHANISM IN FOREIGN INVESTMENT DISPUTES RELATED TO INTELLECTUAL PROPERTY RIGHTS

Trade activities, which are in the investment realm, are centered on intellectual property. In consequence, IPR-related provisions and coverages have been added in BIT24. Generally, clauses for IP protection include fair and equitable treatment, prohibition on performance requirements, and investor-state dispute settlement. Most BIT/IIA protect all investment assets, including intellectual property rights, as foreign investment assets25. Therefore, the protection of intellectual property rights in BIT/IIA has made intellectual property rights the object of foreign investment in recent years26. As evidence, BIT between Indonesia and Thailand in 1998 and BIT between Indonesia and Finland in 200627 stated that intellectual property is a foreign investment asset.

In ACIA, which is the main economic regulatory instrument in ASEAN, intellectual property is part of foreign investment. However, ACIA surrenders intellectual property protection to the national regulation of each member country28. In Indonesia, Law No. 25 of 2007 concerning investment is regulated; Indonesia recognizes that intellectual property is an object of foreign investment. The law is written in Article 1 Paragraph 7 of the Investment Act29. From the statements of scholars and regulations related to

25 Ibid.
27 Indonesia, The Model of BIT Indonesia-Finland, Article 1 letter d.
28 ASEAN, ASEAN Comprehensive Investment Agreement, Article 4 letter c number (i) and (iii).
29 Indonesia, Undang-Undang No. 25 Tahun 2007 tentang Penanaman Modal (Act Number. 25 Year
the foreign investment explained above, intellectual property is the object of foreign investment.

As previously explained, intellectual property is an intangible asset and an object of foreign investment. However, almost no regulation regarding intellectual property transfer across national borders (transnational) exists in investment law because generally, regulations are designed to protect tangible assets. International regulations for protecting intellectual property as an object of investment activities are lacking and thus has become a new problem for foreign investors.

Despite the international regulations in the Intellectual Property Law that regulate IP existence in various activities and forms (e.g., Agreement on TRIPS and the Paris Convention), the existence of international regulations regarding intellectual property rights fails to protect these rights at the global scope and ultimately depends on the national law of each country. Therefore, consequences related to foreign investment and intellectual property rights arise. Such consequences require owners of intellectual property rights (investors) to ensure adequate protection of these rights in relevant jurisdictions and in accordance with the host country regulations.

IIA/BIT generally protect investors and anything that investors invest in host states, including intellectual property. Therefore, the protection of intellectual property has been the object of BIT. In BIT/IIAT, ISDS is created by investors to resolve intellectual property matters. Moreover, several cases have recently appeared, where investors, as IPR holders, depend on international investment protection to challenge host state actions which violate their intellectual property rights and make investor profits decrease in investment activities. Other cases in which ISDS was raised by multinational companies against states/governments to protect their intellectual property are:

A. Philip Morris versus Uruguay (ICSID Case No. ARB/10/7)

Disputes between PMI versus Uruguay were resolved through ICSID in 2010. In this case, PMI sued Uruguay due to its violation of the Uruguay–Switzerland BIT. The Uruguayan government made a policy in Article 1 Ordinance 514 on August 18, 2008 that requires graphic warnings to be used on 80% of cigarette packs on the front and back. The policy is consistent with the World Health Organization’s Framework Convention on Tobacco Control, which aims to reduce tobacco consumption and protect public health.

2007 concerning Investment), Article 1 paragraph 7.

"Capital" means an asset that is owned by an investor in the form of money or another form which is non-money, bearing economic value.

30 Sornarajah, *The International Law on Foreign Investment,* p. 56.

31 WTO, Agreement on Trade Related Aspects of Intellectual Property Rights, Article 1 paragraph 1.

Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

32 WIPO, Paris Convention for the protection of industrial Property, Article 2 paragraph 1.

Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter; and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.


34 Sharma, "ISDS and IP Matters," p. 106.

back in accordance with the Uruguay Presidential Regulation No. 287/009; however, only 50% of graphic warnings were used at the beginning of the agreement. Article 3 also limits cigarette brands to use only one type of packaging to prevent the use of several terms (e.g., Marlboro Red, Marlboro Gold, Marlboro Blue, and Marlboro Green); each type must also be registered under a different trademark. PMI claimed that Uruguay performed expropriation because Uruguay does not protect trademarks and prohibits PMI from using its original packaging in trade in Uruguay. PMI suffered from profit loss.

The Uruguayan Regulation defected six brand variants, resulting in two consequences: (1) termination of the Galaxy and Premier product names in 2009 from the market and (2) removal of PMI brand rights and pricing power. As a result of PMI packaging, claimants had to decide between keeping the market share or the high price. PMI profits and revenues were affected because purchasers refused to buy PMI due to high price. Nevertheless, all trademark assets have their own rights. Thus, PMI stated that the dispute was the result of the expropriation by the Uruguayan government.

B. PMA versus Australia (PCA Case No. 2012-12)

This 2011 case involved the violations of the Hongkong–Australia BIT. The Australian government made a policy to require PMA to change its packaging into plain ones without logos, images, and colors. PMA argued that this requirement violated Article 6 of the Hong Kong–Australia BIT regarding expropriation and Article 2 Paragraph 2 of the Hong Kong–Australia BIT regarding fair and equitable treatment. PMA felt that the obligation to use plain packaging on its products is unwarranted, is a form of discrimination, and unprotects its intellectual property rights.

PMA said that the plain packaging on tobacco products and the changing of famous branded products to common products substantially decreased its investment profits in Australia. Thus, PMA requested to the Tribunal the award damages worth USD 4,160 million (minimum) and compound interest.

C. Eli Lilly versus Canada (Case No. UNCT/14/2)

The Eli Lilly case against Canada in 2012 concerned patents. Eli Lilly felt that Canada violated the North American Free Trade Agreement (NAFTA), TRIPS, and PCT. The case began when Eli Lilly issued two drug types. First is for schizophrenia recovery, which Eli Lilly guaranteed as a powerful drug; and the second is a drug for long- and short-term recovery from Attention Deficit Hyperactive Disorder. However, these drugs failed to meet Canadian patent standards because the clinical trial only involved 22 patients and was unmatched with Canadian health standards. Eli Lily...
sued Canada at the United Nations Commission on International Trade Law by using the ISDS mechanism. Eli Lilly stated that Canada has done indirect expropriation and violated fair and equitable treatment.

As a result of the damages for the full measures of direct losses and consequences of obligations and breach on NAFTA Chapter 11, Eli Lilly requested to the Tribunal that respondent or Canada must pay her the award damages amounting to CAD $500 million and any payments for the deprivation of Zyprexa and Strattera patents or for the inability to enforce Zyprexa and Strattera patents.

D. AHS Niger and Menzies Middle East and Africa S.A. versus the Republic of the Niger (ICSID Case No. ARB / 11/11)

In mid-2013, a dispute involving MMEA flight handling service providers, a company registered in Luxembourg, and AHS, a subsidiary based in Nigeria, jointly filed a claim against Nigeria in March 2011 at a local court. In their lawsuit, under the permit obtained by the claimants, they provided goods and land services at Niamey International Airport in Nigeria. However, the Nigerian government terminated the permit and the authorities stopped the concession and confiscated the plaintiff’s bank account and equipment. The termination of this permit is the action of the Nigerian government on the takeover and was given 4.6 million Euros as compensation.

In the ICSID arbitrate, AHS and MMEA objected to the violations of intellectual property rights. AHS and MMEA have trademarks and trade names registered on OAPI (the IP organization based on regions in Africa, and Nigeria is a member of this organization). The claimants affirmed that laborers were working on behalf of the Nigerian authorities, and after confiscating AHS equipment, they continued to operate airport services using uniforms with AHS trademark; the trade names were still protected until early 2011.

III. INDONESIAN LAW PERSPECTIVE ON INTELLECTUAL PROPERTY AS AN OBJECT OF FOREIGN INVESTMENT

To encourage and foster foreign investment in Indonesia, the government signed and participated as a contracting state in the ICSID Convention on February 16, 1968. On October 17, 1968, the International Convention was ratified by the Indonesian government through Law No. 5 of 1968 regarding dispute settlement between State and Foreign Investment about Investment (Law No. 5/1968). Moreover, Indonesia

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ICSID, “Case No. UNCT/14/2”, par. 95(i).


Ibid.


Ibid.

Indonesia, Undang-Undang No.5 Tahun 1968 tentang Penyelesaian Perselisihan Antara Negara Dan Warganegara Asing Mengenai Penanaman Modal (Law No. 5 Years 1968 concerning Dispute Settlement
recognizes the resolution of disputes through arbitration\textsuperscript{51} and the ISDS mechanism.

Moreover, the Indonesian law recognizes that intellectual property serves as capital in investment activities, as proven in Article 1 Paragraph 7 of the Investment Act\textsuperscript{52}. Indonesia has several principles on the Investment Act, such as openness, legal certainty, and equal treatment principles. These three principles reflect the application of the principle of investor protection and fair and equitable treatment\textsuperscript{53}.

In Indonesia, cases of foreign investment disputes in the field of intellectual property rights are currently not found. From the explanation above, the possibility cannot be ruled out because intellectual property rights are recognized as the object of investment in the Indonesian Investment Act. Indonesia also recognizes the ISDS mechanism in the Investment Act\textsuperscript{54} and the Act of Dispute Settlement between State and Foreign Investment about Investment\textsuperscript{55}.

Moreover, Indonesia still has several problems in terms of providing legal certainty and ease of bureaucracy and/or administration to foreign investors. These problems are illustrated by many overlaps between vertical and horizontal regulations and convoluted bureaucracy. When compared with other ASEAN countries, Indonesia’s ranking tends to weaken\textsuperscript{56}. From this opinion, foreign investors and the Indonesian government must be vigilant about investment disputes in the field of intellectual property rights that may happen any time.

IV. ISSUE OF THE ISDS MECHANISM IN FOREIGN INVESTMENT DISPUTES RELATED TO INTELLECTUAL PROPERTY RIGHTS

The ISDS mechanism in the intellectual property area has brought with it many problems which are inherent in the mechanism. First, the proliferation of ISDS cases and the participation of investment in intellectual property have fracted multi-lateral systems. The reason is because of the increasing use of investment laws to regulate intellectual property norms. As consequences, the intellectual property regime changed to an investment one, and the investment law pushed down the essence of intellectual property rights itself\textsuperscript{57}.

\textsuperscript{51} Indonesia, Investment Act, Article 32 par 4

\textsuperscript{52} Indonesia, Investment Act, Article 1 paragraph 7.


\textsuperscript{54} Indonesia, Investment Act, Article 1 par. 4.

\textsuperscript{55} Indonesia, Act of Dispute Settlement between of State and Foreign Investment About Investment, Article 1.

\textsuperscript{56} Putri, Chandrawulan, and Amalia, "Peringkat Arus," p. 295.

Generally, ISDS arbitrators are unfamiliar with intellectual property issues and that can take a simplistic view of intellectual property58. A wide investment definition may allow investors (intellectual property rights holders) to use ISDS to push the standards for intellectual property protection and enforcement. Thus, developed country governments and multi-national companies can rewrite international intellectual property regulations outside ordinary multi-lateral forums, such as WTO and WIPO59. ISDS can also eliminate many limitations, flexibilities, and safeguards that and a core of intellectual property and have been made carefully on TRIPS Agreement and or similar intellectual property agreements60. Subsequently, the awards of ISDS decisions can disrupt the TRIPS Agreement or similar intellectual property agreements.

Apart from the explanation above, differences are observed in disputes resolved through the ISDS mechanism and those through WTO. Inconsistency and unpredictability are evident in the ISDS mechanism61. Meanwhile, in WTO forums, the use of relevant previous cases and decisions can affect the future decisions of cases. Therefore, we can see the legal consistency more in WTO forums than in the ISDS mechanism which is similar to playing a bet.

V. CONCLUSION

The following are the elements of investment disputes in the field of intellectual property:

A. Foreign investment disputes must be related to intellectual property rights as object of foreign investment, which can be seen in the laws/regulations of relevant state parties and BITs between each country.

B. Defendants violate the principles of foreign investment that can be seen in the laws/regulations of relevant state parties and BITs between countries.

C. Intellectual property rights affect foreign investment. Therefore, foreign investors may encounter profit loss due to the actions of their country of origin. Such actions are related to intellectual property rights which are unprotected by host states.

Although Indonesia has not been involved in cases of foreign investment in the field of intellectual property rights, the possibility cannot be ruled out. The Indonesian Investment Act recognizes that intellectual property rights are the object of investment. Moreover, Indonesia recognizes the ISDS mechanism in the Investment Act and in the Act of Dispute Settlement between State and Foreign Investment about Investment.

Some cases, the ISDS mechanism is only one way to resolve foreign investment disputes related to intellectual property rights. Subsequently, relevant policymakers and commentators should improvise the ISDS mechanism to match with the Intellectual Property Law regime.

58 Ibid, p. 333
59 Ibid, pp. 335-336
60 Ibid, pp. 336-338
61 Ibid, pp. 328-329
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