CLEARY GOTTLIEB

ALERT MEMORANDUM

Bridgestone Arbitral Tribunal Rules That Trademarks and Trademark Licenses May Constitute Protected Investments

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In a December 2017 decision, the Arbitral Tribunal in *Bridgestone Licensing Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama* ruled that trademarks and trademark licenses may constitute protected investments under the United States-Panama Trade Promotion Agreement and the ICSID Convention, provided that the owner or licensee of the trademarks can show that it is actively exploiting them.

The Tribunal explained that manufacturing products bearing a trademark, promoting a trademark through advertisements and sponsorships and other acts of trademark exploitation may give the mark or a license to the mark the necessary characteristics of an investment, such as the commitment of capital, the assumption of risk, the expectation of profit and a contribution to the host state. In the absence of such activities, by contrast, a bare trademark or trademark license would not qualify for protection.

At the same time, the Tribunal showed significant flexibility in considering activity by a claimant's subsidiaries, including activity conducted largely outside the host state, in assessing whether the trademarks at issue were being exploited.

The Tribunal's ruling has potential implications for owners and licensees of intellectual property rights, particularly with respect to the protections they can expect for their trademarks under investment treaties and the steps they can take to maximize the likelihood that those protections will be available.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

PARIS
12, rue de Tilsitt
75008 Paris, France
T: +33 1 40 74 68 00
F: +33 1 40 74 68 88

Claudia Annacker
+33 1 40 74 68 99
cannacker@cgsh.com

Laurie Achtouk-Spivak
+33 1 40 74 68 24
lachtoukspivak@cgsh.com

Ariella Rosenberg
+33 1 40 74 68 37
arosenberg@cgsh.com

LONDON
2 London Wall
London EC2Y 5AU, England
T: +44 20 7614 2200
F: +44 20 7600 1698

Christopher P. Moore
+44 20 7614 2227
cmoore@cgsh.com

Nathaniel E. Jedrey
+44 20 7614 2368
njedrey@cgsh.com

Rikki S. Stern
+44 20 7614 2383
rstern@cgsh.com

Factual Background

Bridgestone Corporation ("**Bridgestone Japan**") is a Japanese company that markets and sells tires under the FIRESTONE and BRIDGESTONE trademarks through subsidiaries located around the world.

The claimants in the *Bridgestone* arbitration, Bridgestone Licensing Services, Inc. ("**Bridgestone Licensing**") and Bridgestone Americas, Inc. ("**Bridgestone Americas**"), are U.S. subsidiaries of Bridgestone Japan. They acquired rights in certain of the FIRESTONE and BRIDGESTONE marks through a series of assignments and licenses.[1] In brief:

— Bridgestone Japan assigned the FIRESTONE trademarks to Bridgestone Licensing, which licensed them to Bridgestone Americas.

— Bridgestone Japan directly licensed the BRIDGESTONE trademarks to a subsidiary of Bridgestone Americas.

The claims asserted in the arbitration arose out of an attempt by Muresa Intertrade S.A. ("**Muresa**") to register the RIVERSTONE mark in Panama for use on tires, which Bridgestone Japan and Bridgestone Licensing opposed. Muresa ultimately prevailed and was allowed to register the RIVERSTONE mark in Panama.[2]

Muresa subsequently commenced proceedings in the Panamanian courts against Bridgestone Japan and Bridgestone Licensing, alleging that their opposition to the registration of the RIVERSTONE mark was wrongful and caused losses in excess of US$5 million. The court of first instance and the appeals court rejected these claims, but the Panamanian Supreme Court reversed and held Bridgestone Japan and Bridgestone Licensing jointly and severally liable for US$5 million, plus attorney's fees.[3]

Bridgestone Licensing and Bridgestone Americas commenced arbitration proceedings in October 2016 against the Republic of Panama ("**Panama**") under the United States-Panama Trade Promotion Agreement ("**TPA**") and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States ("**ICSID Convention**") claiming that the Panamanian Supreme Court's decision was unjust and arbitrary, and violated Panama's obligations to accord Claimants fair and equitable treatment, ensure treatment no less favorable than treatment accorded to domestic investors and investments and not expropriate investments without prompt, adequate and just compensation. Bridgestone Licensing and Bridgestone Americas also alleged that the Panamanian Supreme Court's decision weakened protections for registered trademarks in Panama and elsewhere in Latin America and thus devalued their investments.[4]

Panama raised five preliminary objections to Claimants' claims, including that Bridgestone Americas, as a mere licensee of the FIRESTONE and BRIDGESTONE trademarks, did not have an investment entitled to protection under either the TPA or the ICSID Convention. For the reasons discussed below, the Tribunal rejected Panama's objection.[5]

Does Bridgestone Americas Have a Qualifying Investment?

Panama argued that Bridgestone Americas lacked a qualifying "investment," as required under Article 25 of the ICSID Convention, and that the Tribunal therefore did not have jurisdiction over its claims. The parties focused their arguments (and the Tribunal focused its analysis) on the definition of "investment" in Article 10.29 of the TPA.[6]

Under the TPA, an asset must have 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" in order to qualify for protection.[7] The Tribunal also recognized that "an investment will normally evidence most of" the characteristics identified in *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco* (e.g., "a reasonable duration of the investment and a contribution made by the investment to the host State's development") but that "there is no inflexible requirement for the presence of *all* these characteristics."[8] The TPA also provides a non-exhaustive list of the "[f]orms that an investment may take," which expressly includes "intellectual property rights" and "licenses, authorizations, permits, and similar rights conferred pursuant to domestic law."[9]

Before turning to trademark licenses, the Tribunal first considered "how [and] in what circumstances a registered trademark qualifies as an investment."[10] As a starting point, the Tribunal concluded that the mere registration of a trademark "manifestly" lacks the characteristics of an investment.[11] While registration "prevents competitors from using that trademark on their products," "[i]t confers no benefit on the country where the registration takes place, nor, of itself, does it create any expectation of profit for the owner of the trademark."[12]

Of course, registration of a trademark is typically just the first step. As the Tribunal explained, the purpose of a trademark is to give consumers an indication of the qualities that they can expect from products bearing the mark. If consumers have a positive association with a particular trademark, the seller of goods carrying the mark can profit from this consumer "goodwill" by selling more units or selling individual units at a higher price.[13]

Registration alone, according to the Tribunal, does not generate goodwill from consumers. Instead, it must be earned by, for example: (i) designing, manufacturing and selling products that bear the mark and offer desirable features and/or (ii) promoting the mark through advertising, sponsorships, etc.[14]

In the Tribunal's view, exploiting a trademark through these sorts of activities may lead to the creation of a qualifying investment. That is because they involve:

- the "devotion of resources, both to the production of the articles sold bearing the trademark, and to the promotion and support of those sales";[15]
- benefits to the host state's development, including contributions to its economy and tax revenues;[16] and
- "the expectation of profit and the assumption of the risk that the particular features of the product may not prove sufficiently attractive to enable it to win or maintain market share in the face of competition."[17]

Accordingly, the Tribunal concluded that "a registered trademark will constitute a qualifying investment provided that it is exploited by its owner by activities that, together with the trademark itself, have the normal characteristics of an investment."[18]

The Tribunal next turned to whether trademark licenses could constitute protected investments. As a preliminary matter, the Tribunal noted that for a license to qualify as an investment under Article 10.29 of the TPA, it must "create[] rights protected under domestic law."[19] Thus, the first question was whether the FIRESTONE and BRIDGESTONE trademark licenses met this definition.

The Tribunal concluded that they did because both licenses granted Bridgestone Americas (directly or indirectly through its subsidiaries) the right to use a Panamanian registered mark in Panama.[20] Though each license restricted the exercise of the licensee's rights by, for example, requiring that the licensee obtain the licensor's approval for each prospective use of the mark on a product,[21] the Tribunal was not persuaded that these restrictions took the licenses outside the scope of the TPA.[22] The right to use the trademarks remained a right protected under the laws of Panama, despite the veto over specific applications of the marks retained by the licensors.

Moving on from this preliminary question, the Tribunal determined that a license to use a trademark may qualify as an investment under the same circumstances as the ownership of a trademark: "just as a registered trademark will not, without more, constitute an investment, so a license to use a registered trademark will not, without more, constitute an investment. In each case, exploitation of the trademark is necessary in order to turn the relevant right into an investment."[23]

Here, while Bridgestone Americas played only a "limited part"[24] in the exploitation of the FIRESTONE and BRIDGESTONE trademarks in Panama, the Tribunal found that Bridgestone Costa Rica – a subsidiary of Bridgestone Americas[25] – had exploited both trademarks under Bridgestone Americas' oversight.[26] Bridgestone Costa Rica had marketed the FIRESTONE and BRIDGESTONE brands in Panama, including through "advertisements in publications, on radio and television and on the web, seasonal promotions, marketing campaigns, and merchandising co-sponsorship."[27] In addition, "since about 2000 [Bridgestone Costa Rica] ha[d] manufactured tires in Costa Rica and sold these under the FIRESTONE and BRIDGESTONE marks in Panama."[28]

The Tribunal therefore concluded that the FIRESTONE and BRIDGESTONE trademark licenses, coupled with Bridgestone Costa Rica's activity in Panama, constituted protected investments owned or controlled by Bridgestone Americas.[29] On this basis, the Tribunal rejected Panama's objection.

Conclusion

The *Bridgestone* decision has a variety of potential implications for future claims based on intellectual property rights and licenses. To the extent other tribunals faced with similar treaty language are persuaded by the *Bridgestone* tribunal's approach,[30] claimants may find that their intellectual property rights, standing alone, do not constitute protected investments if they are not being actively exploited. Also worth highlighting is the *Bridgestone* tribunal's willingness to take into account activity conducted by Bridgestone Americas' subsidiaries in concluding that the company had a qualifying investment in Panama. As the Tribunal expressed its approach: "[W]hen considering whether an investment is owned or controlled by a claimant in a chain of companies the corporate veil is withdrawn when looking down the chain from the claimant, but the fact that all the benefits of the investment may ultimately pass up the chain to the parent is ignored."[31]

Within the general framework laid out by the *Bridgestone* tribunal, thorny questions remain. In *Bridgestone*, the extensive sales and marketing of tires bearing the BRIDGESTONE and FIRESTONE trademarks in Panama made it relatively clear that these marks were being actively exploited. A more difficult case would be a situation in which a trademark owner (or licensee) did just enough by way of sales and/or marketing to preserve its trademark (as the Tribunal observed, "the laws of most countries, including Panama, do not permit a trademark to remain on the register indefinitely if it is not being used")[32] and instead focused its energies on preventing others from registering or using similar marks.

There are also challenges outside the world of trademark. Consider, for example, a non-practicing entity ("**NPE**") that holds a portfolio of patents but does not sell or manufacture any products, making its money from patent infringement litigation and license agreements. The legal framework and rationale for trademarks and patents are different: while trademarks are protected and confer value only to the extent they are actually used, a patent involves a trade-off in which the inventor fully discloses her invention in exchange for the right to exclude others from practicing the invention for a limited number of years – with the effect that patents are usually considered to qualify as a form of property. That said, if a tribunal follows the *Bridgestone* approach of focusing on activities to exploit IP rights, would the NPE's ownership of the patents, coupled with its enforcement activity, qualify as investments? Or would a tribunal require something more, such as work by the inventor or the manufacture and sale of the patented product in the host state?

These and other questions remain to be settled by future tribunals.

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1 *Bridgestone License Services, Inc. and Bridgestone Americas, Inc. v. Republic of Panama*, ICSID Case No. ARB/16/34, Decision on Expedited Objections (Dec. 13, 2017) ("**Decision**"), ¶¶ 52-54.

2 Decision, ¶¶ 55-58.

3 Decision, ¶¶ 57-58.

4 Decision, ¶¶ 62-64.

5 Panama's four other preliminary objections were that (i) Bridgestone Americas does not have a dispute "arising directly out" of an investment, (ii) Bridgestone Licensing is not entitled to the benefits of Chapter 10 of the TPA, (iii) Bridgestone Licensing's claims amount to an abuse of process, and (iv) the Tribunal cannot entertain claims based on hypothetical actions of other states. The Tribunal accepted Panama's objection that Bridgestone Americas' claims for losses outside of Panama did not arise directly out of an investment and in principle agreed that it cannot entertain claims based on the hypothetical conduct of other state actors, but rejected the remainder of Panama's preliminary objections.

6 Decision, ¶¶ 157-158.

7 TPA, Art. 10.29; Decision, ¶ 164.

8 Decision, ¶ 165 (emphasis in original).

9 TPA, Art. 10.29.

10 Decision, ¶ 160.

[11] Decision, ¶ 171.

[12] Decision, ¶ 171. The Tribunal noted the absence of "any other decision that considers the circumstances in which a trademark can constitute an investment when it is unaccompanied by other forms of investment such as the acquisition of shares in a company incorporated under the law of the host State, the acquisition of real property, or the acquisition of other assets commonly associated with the establishment of an investment." *Id.* ¶ 166.

[13] Decision, ¶ 167.

[14] Decision, ¶¶ 167-68.

[15] Decision, ¶ 172.

[16] Decision, ¶ 172. The Tribunal also noted that in many cases consumers will benefit from having access to, and easily being able to identify, products with desirable features, though there were some exceptions, e.g., cigarettes. *Id.*

[17] Decision, ¶ 169.

[18] Decision, ¶ 177.

[19] Decision, ¶ 178; Footnote 9 to TPA, Art. 10.29(g).

[20] Decision, ¶ 195.

[21] Decision, ¶¶ 183, 214.

[22] Decision, ¶¶ 184, 214.

[23] Decision, ¶ 198.

[24] Decision, ¶¶ 200, 215.

[25] Decision, ¶ 53.

[26] Decision, ¶ 207.

[27] Decision, ¶ 204.

[28] Decision, ¶ 205. Bridgestone Americas was unable to produce sublicenses granting rights to the FIRESTONE and BRIDGESTONE trademarks to Bridgestone Costa Rica, but the Tribunal ultimately concluded that this lack of documentation was irrelevant. *Id.* ¶¶ 210, 216.

[29] Decision, ¶¶ 210, 216.

[30] As noted, the definition of "investment" in Article 10.29 of the TPA expressly requires certain objective characteristics such as the commitment of capital, the expectation of gain or profit, etc. The analysis may thus be different under purely asset-based definitions that do not contain such requirements.

[31] Decision, ¶ 161.

[32] Decision, ¶ 171.