School of International Arbitration, Queen Mary, University of London
International Arbitration Case Law
*Academic Directors: Ignacio Torterola, Loukas Mistelis**

Award Name and Date:

Philip Morris Brands SÀRL, Philip Morris Products S.A. and Abal Hermanos S.A. v. Oriental Republic of Uruguay (ICSID Case No. ARB/10/7) - Award + Concurring and Dissenting Opinion Arbitrator Gary Born - July 8, 2016

Case Report by:

Natalia Szlarb**, editor Ignacio Torterola***

Summary:

The dispute arose as a result of the adoption by Uruguay of tobacco-control measures prohibiting different packaging or presentations for cigarettes sold under a given brand and mandating graphic images that purport to illustrate the adverse health effects of smoking. Philip Morris alleged that the Challenged Measures left insufficient room on the packs for it to use its trademarks and branding as they were intended, and consequently, it could not market some of its brands. The Claimants argued that that Uruguay had breached the terms of the BIT because the Challenged Measures amounted to an expropriation of the property rights without compensation, the Challenged Measures were arbitrary violating the FET standard, the Challenged Measures violated the Claimants' legitimate expectations of a stable regulatory environment and that the Uruguayan courts had not dealt properly or fairly with the Claimants' legal challenges. The Tribunal, relying primarily on the wide 'margin of appreciation' and deference provided to sovereign States in adopting measures or decisions concerning public health, decided to dismiss Philip Morris claims in its Award rendered on July 8, 2016.

Main Issues:

Fair and Equitable Treatment – Denial of Justice – Expropriation – Legitimate Expectations – Legal Stability – Impairment to Use and Enjoyment of Investments – Trademarks as Investments

Tribunal: Prof. Piero Bernardini (President) – Mr. Gary Born – Judge James Crawford

Claimants' Counsel: Mr. Stanimir Alexandrov, Ms. Marinn Carlson, Ms. Jennifer Haworth McCandless, Mr. James Mendenhall (Sidley Austin LLP), Dr. Veijo Heiskanen, Ms. Noradèle Radjai, Mr. Samuel Moss (LALIVE), Mr. Ken Reilly, Ms. Madeleine McDonough, Mr. Bill Crampton (Shook, Hardy & Bacon LLP)

Respondent's Counsel: Mr. Rodolfo Nin Novoa (Minister of Foreign Affairs), Dr. Jorge Basso Garrido (Minister of Public Health), Dr. Miguel Ángel Toma (Secretario de la Presidencia / Secretary of the Presidency), Dr. Carlos Gianelli (Embassy of Uruguay), Mr. Paul Reichler, Mr. Lawrence Martin, Ms. Clara Brillembourg, Mr. Andrew B. Loewenstein, (Foley Hoag LLP), Prof. Harold Hongju Koh

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Digest:

1. Facts of the Case

The Claimants are Philip Morris Brand Sàrl (Switzerland) ("PMB"), Philip Morris Products S.A. (Switzerland) ("PMP") and Abal Hermanos S.A. ("Abal"), jointly referred to as "Philip Morris" or the "Claimants" (¶ 2). The Respondent is the Oriental Republic of Uruguay hereinafter referred to as "Uruguay" or the "Respondent" (¶ 7).

1.1 The Claimants' Operations and Investments in Uruguay

Abal was acquired by Philip Morris in 1979 (¶ 64). Abal concluded license agreements to manufacture and sell cigarettes under various Philip Morris brands and also used a number of Uruguayan trademarks registered in its own name to sell tobacco products (¶ 65). The Claimants submitted that their investments in this arbitration are composed of three main elements: (i) Abal itself, (ii) "brand assets," including the associated intellectual property rights owned by or licensed to the Claimants, and (iii) the goodwill associated with the Claimants' brands (¶ 71).

1.2 Uruguay's Tobacco Control Policy and the Applicable Regulatory Framework

The Parties agreed that smoking cigarettes and other tobacco products represents a serious health risk (¶ 74). Uruguay has one of Latin America's highest rate of smokers, being in third place in the region after Chile and Bolivia (¶ 75). Smoking also has an economic impact. Uruguayan smokers spent an average of 20% of the national minimum wage to sustain their habit and the health costs linked to smoking in Uruguay are estimated to amount to US$150 million per year (¶ 76).

Since 2000 Uruguay has taken a range of increasingly stringent regulatory measures of tobacco control (¶¶ 77-80), which were strongly supported by its current President, Tabaré Ramón Vázquez Rosas, who in his earlier career was an oncologist (¶ 77). Uruguay has also been a strong supporter of anti-smoking policies at the international level, signing the WHO's Framework Convention on Tobacco Control ("FCTC") (¶¶ 84-85).

1.3 The Domestic Regulatory Framework

Uruguay first adopted an important number of decrees concerning tobacco-control measures that the Claimants did not challenge (¶¶ 97-107). However, the Claimants argued that Uruguay violated the BIT as a result of the implementation of the following measures:

> 1. The "Single Presentation Requirement" or "SPR", implemented through Ordinance 514 dated 18 August 2008 ("Ordinance 514") of the Uruguayan Ministry of Public Health (the "MPH"). Article 3 of aforementioned Ordinance requires each cigarette brand to have a "single presentation" and prohibits different packaging or "variants" for cigarettes sold under a given brand (¶¶ 108-120).
> 2. The 80/80 Regulation, implemented through the enactment of Presidential Decree No. 287/009 dated 15 June 2009 ("Decree 287"). This decree imposed an increase in the size of prescribed health warnings of the surface of the front and back of the cigarette packages from 50% to 80%, leaving only 20% of the cigarette pack for trademarks, logos and other information (¶¶ 121-132).

1.4 The alleged effects of the Challenged Measures

The Parties agreed that any correlation between one individual tobacco control measure and overall consumer behavior is difficult to establish and that the impact of tobacco control policies takes time before they are clearly visible (¶ 135). The Parties disagreed on the proper way of determining the effect of the Challenged Measures (¶ 139). It is however undisputed that after the entry into force of the SPR, Abal eliminated seven of its thirteen variants (¶ 144). The other alleged effect was the growth of illicit tobacco trade (¶ 151).

1.5 The Challenges to the Regulations before the Uruguayan Courts

On 18 September 2008, Abal presented an administrative challenge to the SPR before the MPH and on 13 April 2009 the challenge was rejected by operation of law as the Ministry had not ruled upon it within 120 days (¶ 154). On 9 June 2009, Abal filed an annulment application challenging the legality of Article 3 of Ordinance 514, which established the SPR. British American Tobacco ("BAT"), one of Abal's competitors, also filed a challenge before the TCA (¶ 155). Before rendering its decision on BAT's case, the TCA rejected Abal's challenge. Abal alleged that the TCA's Decision had been made on the basis of evidence and arguments submitted by BAT, and not Abal (¶¶ 158-160). On 29 September 2011, the TCA rejected Abal's motion for clarification and expansion in a one-page document (¶ 161).

On 11 September 2009, Abal filed a constitutional challenge to Articles 9 and 24 of Law 18256 before the Supreme Court of Justice ("SCJ") (¶ 162) which was unanimously dismissed on the grounds that the aforementioned Law did not grant the Executive Power "the unlimited power to restrict individual rights" (¶ 166).

2. Procedural Background

On 22 February 2010, the ICSID received the request for arbitration (¶ 15). The Parties agreed to constitute the Tribunal consisting of three arbitrators. The Claimants appointed Mr. Gary Born and the Respondent appointed Prof. James R. Crawford (¶ 18). In the absence of an agreement between the two Party-appointed arbitrators, the Secretary-General appointed Prof. Piero Bernardini as President of the Tribunal (¶ 18).

Pursuant to the agreed upon schedule of pleadings on jurisdiction, the Respondent filed the Memorial on 24 September 2011, the Claimants filed the Counter-memorial on 23 January 2012, the Respondent filed the Reply on 20 April 2012, and the Claimants filed the Rejoinder on 20 July 2012 (¶ 22). The hearing on jurisdiction was held on 5 and 6 February 2013, at the International Chamber of Commerce in Paris (¶ 22). On 2 July 2013, the Tribunal issued a Decision on Jurisdiction affirming its jurisdiction over the claims presented by the Claimants (¶ 24).

Pursuant to the agreed upon schedule of pleadings, the Claimants filed a Memorial on the Merits on 3 March 2014 (¶ 27) and on 13 October 2014, the Respondent filed a Counter-Memorial on the Merits (¶ 29). On 12 February 2015, the WHO and the WHO Framework Convention on Tobacco Control Secretariat (the "FCTC Secretariat") filed an amicus curiae brief dated On 18 March 2015 the Pan American Health Organization filed an amicus curiae (¶ 40). On 7 August 2015 the Tribunal issued a decision denying the petition by Avaaz to file a written submission as a non-disputing party (¶ 52). On 24 September 2015, the Tribunal issued a decision denying the petition by ASIPI to file a written submission (¶ 55).

The hearing on the merits was held from 19 to 29 October 2015, at the Centre's seat in Washington, D.C. (¶ 56). The Parties filed their submissions on costs on 19 January 2016 (¶ 57) and the proceeding was closed on 27 May 2016 (¶ 59).

3. Expropriation under Article 5 of the Treaty

3.1 Legal Standard

The Claimants argued that to assess their expropriation claim under Article 5, the Tribunal must examine whether the investor was deprived, wholly or partially, of the use, enjoyment, or benefit of the investment, with the threshold being whether the Challenged Measures have "substantially deprived" the investments of their value (¶ 183). This standard according to the Claimants, is applicable to both direct and indirect and *de facto* expropriations and serves to protect intangible assets, including intellectual property, from uncompensated expropriation (¶ 186).

The Respondent argued that the Tribunal must determine first whether the Challenged Measures were expropriatory in character because if an act is not an "expropriation," as a matter of law Article 5 does not apply (¶ 187). Even if the Challenged Measures would fall under Article 5, the Respondent argued that they have had such a severe economic impact on the Claimants' business that they have rendered the latter virtually without value (¶ 189). Relying on *Archer Daniels, LG&E, CMS,* and *Encana* tribunals, the Respondent submitted that if "sufficiently positive" value remains, there is no expropriation (¶ 190).

The Tribunal concluded that in order to be considered an indirect expropriation, the government's measures interference with the investor's rights must have a major adverse impact on the Claimants' investments. As pointed out by other investment treaty decisions, State's measures should amount to a "substantial deprivation" of its value, use or enjoyment with the "determinative factors" to that effect being "the intensity and duration of the economic deprivation suffered by the investor as a result of such measures." (¶ 192).

3.2 The Claim

3.2.1 The Claimants' Position

According to the Claimants, the Respondent by implementing the Challenged Measures expropriated seven of Abal's thirteen variants, including the goodwill and the legal rights deriving from the associated intellectual property and destroyed the brand equity of the six remaining variants, with two alleged effects, the discontinuance of two other brands from the market and the erosion of the Claimants' brand equity and pricing power (¶¶ 193-194). The Claimants also argued that each brand asset is an individual investment in its own right and therefore the discontinuance each of them constitutes an expropriation (¶ 195). With regard to the Respondent's defenses, the Claimants stated that:

(i) Uruguay's Police Powers :the Challenged Measures were expropriatory, even if enacted in pursuit of public health, because first, they were unreasonable and were not "designed and applied to achieve" reduced tobacco consumption, second, an implied expropriation exception for regulatory actions is inapplicable where the government's actions conflict with specific commitments to investors and third, the Respondent has not conducted serious assessment of whether the Challenged Measures are justified (¶198-199).

(ii) The Claimants' IP Rights are Capable of Being Expropriated: Claimants argued that their trademarks were validly registered and maintained "the distinctive characteristic" (¶ 201).

(iii) Uruguay's Trademark Law Confers a Right to Use and a Right to Protect: The Claimants cited the BIT, which recognizes trademarks and trade names as industrial property rights for the purposes of defining the investment (¶ 204). The Claimants also argued that Uruguayan trademark law, incorporating international law, protects the right to use trademarks and Uruguayan property law applying to intellectual property assets protects the right to use intellectual property (¶ 205).

3.2.2 The Respondent's Position

The effect of the SPR and the 80/80 Regulation are not tantamount to an expropriation because the "value of the business has not been so reduced as to effectively deprive it of its character of an investment." (¶ 210). The Respondent asserted the Claimants' business retains significant commercial value (¶ 211) as demonstrated by the evidence – Abal's net operating income actually increased between 2005 and 2012 and in 2012, three years after the implementation of the SPR and the 80/80 Regulation, Abal's net operating income was higher than at any point since 2004 (¶¶ 211-214). As to treating the Claimants' brands individually, the Respondent submitted that the analysis must focus on the investment as a whole, globally, not on its discrete parts (¶ 215).

(i) Uruguay's Police Powers: The Respondent submitted that the non-discriminatory exercise of its inherent sovereign power to protect public health does not give rise to international responsibility nor does it constitute an expropriation as a matter of law; the Respondent made these statements relying on the *Chemtura* case and Art. 2(1) of the BIT allows States to refuse to admit investments "for reasons of public security and order, public health or morality" (¶¶ 216-218).

(ii) <u>The Claimants' IP Rights are Capable of Being Expropriated:</u> The Respondent claimed the trademarks at issue are not owned by the Claimants (¶ 218) and all the seven variants allegedly affected were not the same as any of the trademarks originally registered (¶ 222). The Claimants failed to register the modifications made in the descriptive characteristics of those variants the use of which was affected by the Challenged Measures (¶ 226).

(iii) <u>Uruguayan Trademark Law Confers only a Right to Protect against use by others</u>: The Respondent maintained that Claimants had, as an investor, no trademarks rights capable of being expropriated, since under Uruguayan law, trademark registrants are conferred only a negative right, that is, the right to exclude others from their use, rather than an affirmative right to use their trademark in commerce (¶¶ 227-234).

3.2.3 The Tribunal's Analysis

The Tribunal analyzed first the issue of ownership of the trademarks under Uruguayan law governing intellectual property (¶ 243). The Claimants' expert has opined that product variants fall within the scope of protection because they maintain the essential distinctive features and only differ slightly with respect to non-essential elements. (¶ 244) Therefore, the Marlboro Gold is substantially identical to the registered Marlboro Lights trademark (¶ 244).

The Respondent's expert stated that "[u]nlike other legal systems, the Uruguayan system does not provide protection for derivative trademarks (or trademark variants) or for trademark families" (¶ 245) and that Marlboro Gold is an alteration of the distinctive character of Marlboro Light (¶ 250).

The Tribunal assumed, without deciding, that the trademarks continued to be protected under the Uruguay Trademark Law (¶ 254). The Tribunal has taken note that the Law did not deny protection to alterations based on the first registration, but decided it is not necessary to reach a definitive conclusion on this issue (¶ 254). The main issue over the trademarks was what rights a registered trademark accords its owner (¶ 255). The Claimants argued that they had a right to use those trademarks unconstrained by such regulations. The Respondent asserted that a trademark confers on the holder an exclusive right to challenge a third party attempting to register or use the same trademark (¶ 257).

First, the Tribunal noted that nothing in the Paris Convention states that a trademark grants a positive right to use and agreed that a better interpretation is that the exclusive right to use is simply the other side of the coin of the "right to prevent any person from performing" (¶ 264).

Second, the Tribunal, considering whether a trademark is a property right under Uruguayan law conferring on its holder the right to use the trademark concerned, found that nothing supports the conclusion that a trademark amounts to an absolute, inalienable right to use that is somehow protected or guaranteed against any regulation that might limit or restrict its use (¶¶266-270). The Tribunal concluded that ownership of trademark confers an exclusive right to exclude third parties from the market so that only the trademark holder has the possibility to use the trademark in commerce, subject to the State's regulatory power (¶ 271).

As for the question of whether the Challenged Measures have expropriated the Claimants' investment, the Tribunal disagreed with the Respondent's assertion that the Claimants had no rights capable of being expropriated; indeed, according to the Tribunal absence of a right to use does not mean that trademark rights are not property rights under Uruguayan law (¶ 272). Furthermore, the Tribunal concluded that it must be assumed that trademarks have been registered to be put to use, even if sometimes they only serve the purpose of excluding third parties from their use. Consequently, trademarks are property, whose use by the registered owner is protected. (¶273).

As for the expropriatory character of the Challenged Measures the Tribunal concluded that there was not even a *prima facie* case of indirect expropriation (¶ 276). A limitation to 20% of the space available to such purpose could not have a substantial effect on the Claimants' business since it consisted only of a limitation imposed by the law on the modalities of use of the relevant trademarks. The Tribunal concluded that the 80/80 Regulation did not breach Article 5 of the BIT (¶ 276).

With regard to the claim that the SPR effectively banned seven out of the thirteen variants manufactured rendering them "valueless", the Tribunal pointed out that the question whether indirect expropriation may relate to identifiable distinct assets comprising the investment or, rather, is to be determined considering the investment as a whole is disputed, with a number of investment treaty cases supporting one or the other position (¶ 279- 280). The Tribunal decided that Abal's business is to be considered as a whole since the measure affected its activities in their entirety and in order to mitigate its effects, Abal resorted to countermeasures involving its business as a whole (¶¶ 281- 283).

The Tribunal found that the effects of the SPR were far from depriving Abal of the value of its business causing a "substantial deprivation" (¶¶ 284-286) and found that as long as sufficient value remains after the Challenged Measures are implemented, there is no expropriation (¶ 286). Furthermore, the Tribunal viewed the adoption of the Challenged Measures by Uruguay as a valid exercise of the State's police powers in pursuit of the objective of protecting public health; the Tribunal consequently dismissed the claim for expropriation brought before it under Article 5(1) of the BIT (¶¶ 287-291).

4. Denial of Fair and Equitable Treatment under Article 3(2) of the Treaty

4.1 Legal Standard

The Claimants rejected Respondent's standard whereby Article 3(2) of the BIT refers to the minimum standard of treatment owed to aliens under customary international law (¶ 310). The Claimants argued that the Respondent's interpretation has neither basis in the Treaty, nor in the relevant case law and that it would be contrary to Article 31 of the Vienna Convention on the Law of Treaties, 1969 (hereinafter the "VCLT"), , that the statement of the Swiss Foreign Office confirms that the FET standard under the BIT is broader than the minimum standard of treatment and that the *Neer* standard has been consistently rejected. The Claimants alleged that the Tribunal must assess "in light of all circumstances" whether Uruguay "ensure[d] that foreign investors are treated reasonably and objectively and are permitted to realize a reasonable return on their investments, free from unfair or unjust interference by the State" (¶ 313). The Respondent, relying on the *Neer* standard, argued that the FET is a "legal term of art" referring to the minimum standard of treatment accorded to aliens under customary international law and it is not an autonomous standard (¶¶ 314-315).

The Tribunal stated that Article 3(2) and the content of FET were to be interpreted according to the normal canons of treaty interpretation (¶ 317) and determined by reference to the rules of international law, with customary international law being part of the latter (¶ 317). When making such a determination the Tribunal cannot overlook the fact that customary international law has evolved since the *Neer* case (¶ 319); therefore, the Tribunal rejected the argument that the FET is only a minimum standard (¶ 316). The Tribunal stated that whether a particular treatment is fair and equitable depends on the circumstances of the particular case (¶ 320 and looked into the "legitimate expectations" and the "stability of the Uruguay legal system" as components of the FET standard. (¶ 324).

4.2 The Claim

4.2.1 The Claimants' Position

According to the Claimants, the Challenged Measures were arbitrary (¶ 325). In regard to the SPR, the Claimants argued that, there was no connection between the Respondent's purported rationale for adopting the measure (avoid misleading the consumers) and the actual regulatory measure (a prohibition against the marketing of multiple variants within a single brand family) (¶ 327). The Claimants challenged the SPR on three main bases (i) the Respondent adopted the SPR without any scientific evidence that the existence of various variants and different packaging were *per se* misleading to consumers (¶ 329); (ii) the SPR was adopted without due consideration by public officials (¶ 330); (iii) the SPR did not further its stated objective as the tobacco consumption did not decrease in Uruguay (¶ 328).

In regard to the 80/80 Regulation, according to the Claimants it was arbitrary because it was not adopted for public safety or public health reasons, but rather to punish one of its competitors (Mailhos) (¶ 336). Further, the Claimants also asserted that the 80/80 Regulation sought to address a non-existent problem because Uruguayans are already aware of risks associated with smoking (¶ 338).

The Claimants also argued that they had legitimate expectations that the Uruguayan Government (a) allow the Claimants to continue to deploy and capitalize on their brand assets; (b) refrain from imposing restrictive regulations without a well-reasoned, legitimate purpose; (c) respect the Claimants' intellectual property rights; and (d) ensure that the Claimants had access to a just, unbiased, and effective domestic court system. All these expectations, the Claimants continue, were "eviscerated." (¶ 341).

The Claimants denied that the doctrine of unclean hands is applicable, as it has never been convicted of fraud or of any illegal activity in Uruguay and the doctrine applies only in limited circumstances not present in this case (¶¶348- 350).

4.2.2 The Respondent' Position

The Respondent denied the Challenged Measures were arbitrary and argued that the Tribunal cannot substitute its own or the Claimants' policy judgments for those of the State (¶¶ 350-354). The Respondent also argued that States are not liable to pay compensation to foreign investors when, in the normal exercise of their powers, they adopt *bona fide* regulations in a non-discriminatory manner (¶ 355). Lastly, the Respondent argued that the burden of proving that the Challenged Measures were arbitrary is borne on the Claimants, and that the question at issue does not relate to whether Uruguay has to show that the Challenged Measures were necessary (¶ 356).

In regard to the SPR, the Respondent argued it was a responsible, reasonable and targeted regulatory measure adopted to prevent the tobacco industry from installing the belief that some cigarettes are less harmful than others and there was an obvious "logical connection" between the SPR and the objective of preventing consumers from being misled (¶¶ 357-59). The Respondent relied on the written submission to the Tribunal by the WHO and the FCTC Secretariat (¶ 362). Further, the Respondent argued that the implementation followed an extensive deliberative process that involved input from both external advisors and government regulators (¶ 363). As the assertion that the SPR was futile, even if consumers were aware of the fact that cigarettes are harmful, smokers might have switched to brands that they had been led to believe to be a healthier option (¶ 366).

The Respondent denied any basis for challenging the 80/80 Regulation, as there is a logical connection between more effectively warning people against the harm caused by smoking and the protection of public health (¶ 368). The Respondent denied that the 80/80 Regulation was introduced to punish Mailhos, arguing that the Regulation followed the WHO's recommendation that warning labels should cover "at least half of the pack's main display areas" and the States Parties to the FCTC adopted similar Article 11 Implementation Guidelines (¶ 370). The Respondent also alleged that the Claimants contradict the international consensus that larger warning labels are more effective than smaller ones (¶ 371). The Respondent also noted that the enlarged warnings allowed smokers to learn about the risks other than cancer and heart diseases and understand their severity (¶ 374).

As for Claimants' legitimate expectations, the Respondent argued that the sources of these expectations are unavailing because (a) they arise from general municipal legislation; (b) they either have no connection with the expectations that the Claimants claim to have; or (c) they postdate the Claimants' investment (¶ 377). The Respondent pointed out that tobacco is one of the most highly regulated businesses in the world and that there is no language in the Uruguay-Switzerland BIT providing for affirmative legal stability, so the Claimants could have not expected that Uruguay's regulatory scheme would never change(¶¶ 380- 381).

The Respondent also argued for the application of the unclean hands doctrine, based upon Claimants' history of misconduct and consumer deceit as found by foreign courts (¶¶ 384-386). While the Uruguayan courts have not reached such a conclusion, the Respondent argued that that was irrelevant, as the Claimants defrauded Uruguayans about the harmfulness of smoking in general (¶ 387).

4.2.3 The Tribunal's Analysis

In regard with the question of whether the Challenged Measures were arbitrary, applying the "arbitrariness" standard from the ICJ Chamber in the *ELSI* case, the Tribunal concluded that the Challenged Measures are not "arbitrary" (¶ 390). The Tribunal accepted the connection between the objective pursued by the State and the utility of the two measures as argued for in the WHO and the PAHO Amicus Briefs. The Tribunal recognized that Uruguay's measures were adopted based on the substantial body of evidence that had been made available in the course of its active participation in the FCTC negotiations and in the drafting of implementing guidelines through the newly created Advisory Commission (¶¶ 391-394). Accordingly, there was no requirement for Uruguay to perform additional studies or to gather further evidence in support of the Challenged Measures (¶ 396).

As to the Claimants' argument that the Challenged Measures were adopted without due consideration by public officials, the Tribunal agreed that the "margin of appreciation" is not limited to the context of the ECHR but also investment tribunals should pay great deference to governmental judgments of national needs in matters such as the protection of public health (¶¶ 397-399).

Regarding the SPR, the Tribunal concluded that the measure was intended to implement Article 11(1)(a) of the FCTC and it was not discriminatory since it applied to foreign and domestic investors alike (¶ 402). While no other State has introduced similar measure, the Tribunal accepted that the rationale of the SPR was to address the false perception, and observed that possible over- or under-inclusiveness of the SPR was unsurprising given the relative novelty of this regulation (¶¶ 404-406). The Tribunal also concluded that it would be hard to subject the SPR to any detailed prior research concerning its actual effects since it involved a hypothetical situation. The Tribunal agreed that the Tobacco Control Program considered the proposal in consultation with the Advisory Commission, although the paper trail of these meetings was exiguous (¶ 407). The Tribunal concluded that it was not necessary to decide whether the SPR actually had the intended effects, but only whether it was a "reasonable" measure when adopted. The Tribunal ultimately held that the SPR was reasonable, rather than an arbitrary, grossly unfair, unjust, discriminatory or disproportionate measure and its adoption was not in breach of Article 3(2) of the BIT (¶¶ 409-10).

Regarding the 80/80 Regulation, the Tribunal is of the view that the evidence does not sustain the assertion that the measure was of a punitive nature even though the MPH had concerns as to the alibi brands (¶ 414). The Tribunal did not uphold either that the 80/80 Regulation encouraged illicit sales as there was no link between any increase of the cigarette smuggling and the Challenged Measures (¶ 415). Accepting the evidence that the 80/80 Regulation also had a deterrent effect on smokers, the Tribunal considered the regulations and the way in which they were communicated as a legitimate legislative policy decision, which requires substantial deference (¶¶ 418-419). The Tribunal concluded that the adoption of 80/80 Regulation was not in breach of Article 3(2) of the BIT.

As to the Claimants' legitimate expectations and Uruguay's legal stability, the Tribunal noted that legitimate expectations depend on specific undertakings and representations made by the host State to induce investors to make an investment and changes to general legislation are not prevented by FET standard if they do not exceed the exercise of the host State's normal regulatory power (¶ 426). The Tribunal noted that there was no evidence of specific undertakings or representations made to the Claimants by Uruguay at the time of their investment and in light of the widely accepted articulations of international concern for the harmful effect of tobacco, the Claimants could have only expected more stringent regulations (¶¶ 426-427). Article 3(2) of the BIT does not preclude Sates from enacting novel rules. The Tribunal concluded that the Challenged Measures neither "eviscerate[d]" Claimants' "expectations" nor modified the legal framework beyond an "acceptable margin of change", and hence were not in violation of Article 3(2) of the BIT (¶ 433-434).

5. Impairment of Use and Enjoyment of the Claimants' Investments under Article 3(1) of the Treaty

Relying on the same facts that demonstrate the Respondent's violation of the FET standard (¶ 439), the Claimants alleged that as a result of the Challenged Measures, they have clearly lost the 'use,' 'enjoyment,' and 'extension' of their investments in PMI's portfolio of brands and intellectual property (¶ 438). In particular, they consider that establishing a BIT violation requires "no more than" showing that "the measures are, in a general sense, not reasonable." (¶ 438). The Respondent argued that Article 3(1) only prohibits impairment of use and enjoyment of an investment if the measure is "unreasonable or discriminatory" and the Challenged Measures were applied equally and without discrimination to all tobacco brands. (¶ 438) The Tribunal noted that the facts at the basis of the alleged "unreasonable" impairment of the Claimants' investments have already been examined by the Tribunal and concluded that, based on the same reasons that have been given for dismissing the claim for breach of Article 3(2), there was no breach of Article 3(1) (¶ 445).

6. Failure to Observe Commitments as to the Use of Trademarks under Article 11

6.1 The Claimants' Position

The Claimants argued that by enacting the Challenged Measures, the Respondent breached its commitments to protect the Claimants' right to use their trademarks and failed to honor these commitments, what constitutes a violation of Uruguay's obligations under Article 11's umbrella clause (¶ 450). According to the Claimants Article 11 is an umbrella clause since it includes "the core components" of such a clause: (1) a State obligation to observe (2) commitments entered into with respect to investments, which the State has failed to comply with (¶ 459).

The Claimants also argued that the effect of the SPR regulation was that the Claimants could only use one variant from each of its cigarette brands, and the effect of the 80/80 Regulation was that their ability to use those trademarks was significantly undermined (¶ 451). The Claimants also denied the allegations that the Claimants did not own the trademarks that were allegedly affected by the Challenged Measures and that Uruguay's trademark law only confers upon trademark registrants the rights to exclude others from using the trademark (¶ 453).

6.2 The Respondent' Position

The Respondent argued that (1) Article 11 does not operate as an umbrella clause; (2) registration of a trademark does not constitute a "commitment" for purposes of Article 11; (3) the Claimants' trademarks were not registered with Uruguay's National Directorate of Industrial Property (DNPI) to benefit from legal protection so that the Respondent has no "commitments" in relation to the trademarks at issue in these proceedings because they are not owned by the Claimants; and (4) Uruguayan trademark law does not grant registrants a positive right to use the trademarks in commerce, but only a right to exclude others from doing so (¶ 454). The Respondent argued that Article 11 cannot be equated to umbrella clauses in other BITs involving different parties and even if it did operate as an umbrella clause, Article 11 should not be interpreted as covering commitments made under generally applicable municipal law (¶ 463).

6.3 The Tribunal's Analysis

The Tribunal examined the expropriation claim and assumed, without ruling upon it, that the aforementioned trademarks continued to be protected under the Uruguayan trademark law; however, the Tribunal excluded that the right to use is among the rights conferred by a trademark (¶¶ 457-458). Relying on the *SGS v. Paraguay* (¶ 468) case, the Tribunal concluded that Article 11 operates as an umbrella clause (¶ 472).

As for the issue of whether a trademark is a "commitment" within Article 11, the Claimants argued trademarks do constitute a commitment because by granting the trademarks over Abal's different cigarette brands, the Respondent "committed to ensuring Claimants the full range of rights that trademark holders enjoy in Uruguay. Consequently, the Respondent failed to observe the obligations it had assumed by adopting the Challenged Measures (¶ 474).

The Respondent denied that Article 11 can be used "to elevate nominal violations of generally applicable IP law into a treaty breach and relied on a letter from the Swiss government to ICSID following the *SGS v. Pakistan*, where Switzerland explained that Article 11 of the Switzerland-Pakistan BIT (which is identical to Article 11 of the Switzerland-Uruguay BIT) was intended to cover specific commitments related to the investment, but it does not extend to "municipal, legislative or administrative or other unilateral measures." (¶ 474).

The Tribunal observed the Respondent made no legal argument as to what interpretive weight should be given to the letter and that the letter does not deal with trademarks (¶¶ 477- 475). However, regardless of these observations, the letter reflected the view that commitments entered into by the State with respect to the investment of the investor do not cover general obligations imposed by the law of the host State (¶ 479). As for the question of whether a trademark can be deemed to be a commitment under general legislation or by reason of the individual consideration involved in the initial grant as a specific commitment to a specific investment or investor, the Tribunal concluded that Uruguay entered into no commitment "with respect to the investment" by granting a trademark and that it simply allowed the investor to access the same domestic IP system (¶480). Furthermore, the scope of any such commitment remains uncertain (¶481). The Tribunal ultimately concluded that trademarks are not "commitments" falling within the intended scope of Article 11 and consequently the Claimants' claim of breach was rejected (¶ 482).

7. Denial of Justice

7.1 Legal Standard

The Claimants argued that a denial of justice may result from a "refusal to judge", a breach of due process, arbitrariness, gross incompetence, or a pretense of form. Neither bad faith nor malicious intent are required. (¶ 488). The Respondent broadly agreed, but emphasized that there is a high threshold to prove a denial of justice requiring clear and convincing evidence of an egregious conduct of judicial proceedings, resulting in an outrageous failure of the judicial system and the exhaustion of all reasonably available and potentially effective local remedies, including constitutional and extraordinary remedies (¶¶ 493-495).

The Tribunal observed that 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" and that "grave procedural errors" may result in a denial of justice depending on the circumstances of each case (¶¶ 500-501).

7.2 The Claim

a. The Apparently Contradictory TCA and SCJ Decisions on the 80/80 Regulation

7.2.1 The Claimants' Position

In regard to the first claim about the denial of justice, the Claimants argued that the final decision of Uruguay's Supreme Court of Justice ("SCJ") on the constitutionality of Law 18256 (Article 9), and the Decision of the Tribunal de lo Contencioso Administrativo (TCA) on the legality and validity of the 80/80 Regulation were exactly on the same matter and yet directly contradictory (¶ 506). Such conflicting rulings without the possibility of any appeal deprived Abal of its right to a decision on the legality of the 80/80 Regulation and inflicted a denial of justice (¶ 506). Failure of the TCA to consider the SCJ decisions was "failure of State authorities to give effect to a judicial decision favorable to the alien's cause" (¶ 507).

7.2.2 The Respondent's Position

The Respondent argued that the divergent decisions from the SCJ and the TCA which are co-equal institutions acting "within its sphere of competence" with regard to the interpretation of Law 18256 are not sufficient to amount to a denial of justice (¶ 510). Second, the Respondent also argued that the TCA was not bound to agree with the SCJ's interpretation an that was free to decide on the legality of the Decree, based on its own interpretation (¶ 511). The Respondent also argued that the Claimants were aware of the parallel administrative and constitutional systems prior to making an investment in Uruguay (¶ 513).

7.2.3 The Tribunal's Analysis

The Tribunal accepted the Respondent's characterization of two judicial organs as co-equal, both having original and exclusive jurisdiction: the SCJ to determine the constitutionality of a law and TCA to declare the validity or illegality of an administrative act being bound by a decision of the SCJ holding a law unconstitutional, which did not occur here (¶(¶ 522-523). The Tribunal found that the very ground upon which the SCJ upheld the constitutionality of the 80/80 Regulation was not decisive for the TCA (¶ 526). While, the Tribunal found that such separation of the review under the Uruguayan judicial system was unusual or even surprising (¶ 529), the Tribunal concluded it is not shocking and it is not serious enough to find a denial of justice because of this discrepancy (¶ 527).

As far as the *res judicata* argument is concerned, the Tribunal found that the triple identity test had not been satisfied because the parties sought different reliefs (a declaration of unconstitutionality of a law before the SCJ versus the annulment of a complementing regulation before the TCA) based upon different causes of action (¶ 534).

b. The TCA's Decision on the SPR

7.2.4 The Claimants' Position

The Claimants argued that when the TCA rejected Abal's challenge to Ordinance 514, based on the record brought by a different Claimant in a different case and then refused to correct the error, Uruguay committed a denial of justice (¶ 537). First, the Claimants contend that the TCA rejected the claim as presented and litigated by BAT, not Abal, because the decision: (i) refers to Abal only in the title of the decision and throughout the rest of the decision it refers to BAT; (ii) does not discuss Abal's trademarks and only lists BAT's trademarks; and (iii) does not discuss Abal's expert evidence (¶ 539).

Second, the Claimants considered that the TCA failed to adjudicate Abal's claims that (i) the SPR exceeded and was inconsistent with Law 18256, and (ii) the MPH did not have the authority to establish the SPR (¶ 540) and third, the Claimants argue that the TCA deprived Abal of its right to seek a remedy against a manifestly erroneous decision since it did not provide any explanation as to why or how the references to BAT, and the mistakes with regard to essential points of the case, did not deserve full reconsideration (¶ 541).

7.2.4 The Respondent' Position

The Respondent rejected the Claimants' allegations arguing the TCA considered and dismissed Claimants' *reserva de la ley* claim, as well as other claims in regard to the SPR as presented and litigated by BAT, not Abal (¶ 545). Moreover, the TCA considered the legality of the administrative act generally, thus its determination does not vary depending on the tobacco company challenging the measure. Finally, the Claimants failed to exhaust all available and effective local remedies against the TCA's decision (¶ 545).

7.2.5 The Tribunal's Analysis

The Tribunal observed that the refusal of courts to address a claim can clearly amount to a denial of justice. However, it is not incumbent on courts to deal with every argument presented in order to reach a conclusion. The question is whether, in substance, the TCA failed to decide material aspects of Abal's claim, such that they can be said not to have decided the claim at all (¶ 557). The Tribunal then proceeded to describe how the TCA dealt with Abal's claim noting that the TCA's decision addressed Abal's three arguments for challenging Article 3 of Ordinance 514 both in the Findings of Fact and Conclusions of Law (¶ 558) and addressed separately each of Abal's arguments in a reasoned manner (¶ 559). As to the argument that Abal's judgment referred to BAT's trademarks not Abal's, the Tribunal agreed with the Respondent's remarks that this reference "was of no consequence to the outcome of Abal's case" (¶¶ 566-567).

The Tribunal admitted that the failure to deliver a separate judgment for Abal raised questions of procedural propriety but found that, eventually, the question was whether, taken together, this is enough to raise sufficiently serious questions about the propriety of the process (¶ 568). However, relying on *International Thunderbird Gaming Corp v. Mexico, Tokios Tokelés v. Ukraine* and *Loewen,* the Tribunal found that there is a high threshold for denial of justice when considering procedural improprieties (¶ 569-571).

Although the evaluation of the procedural improprieties showed that there were mistakes in that decision, the Tribunal concluded that despite the copying and pasting of large chunks of the BAT decision directly into the Abal decision or the incorrect references to BAT and to BAT's trademarks, the decision was entered under Abal's name and correctly identified the arguments outlined in the introductory summary (¶ 572). Consequently, the Tribunal found that Abal's claim was nonetheless fairly determined, having regard in particular to Abal's unsuccessful motion to the TCA for reconsideration of its decision on grounds of confusion with BAT's claim (¶ 576). The Tribunal concluded that the TCA dealt with the substance of Abal's closely related claim, and therefore the case may hardly be characterized as a denial of justice (¶ 578). The Tribunal also noted that the subsequent failure of the TCA to amend or clarify its decision did not create a denial of justice as Abal did not bring to the TCA's attention the arguments it now alleges were not dealt with in the judgment (¶ 579).

8. Costs of the Proceedings

The Tribunal found the application of the "loser pays" principle does also apply in investment arbitration and considering that on balance, the outcome of the case has favored the Respondent to a large extent (¶ 586), the Tribunal deemed it fair and reasonable that each Party shall bear its own costs but the Claimants would reimburse the Respondent for part of the latter's costs in the amount of US$ 7,000,000.00 and pay all fees and expenses of the Tribunal and ICSID's administrative fees and expenses (¶ 588).

9. Concurring and Dissenting Opinion of Gary Born

Gary Born agreed with almost all of the conclusions in the Tribunal's Award, but fundamentally disagreed with the Tribunal on two issues that concern the interpretation of Article 3(2) of Switzerland-Uruguay BIT (¶ 2). First, Born was of the view that Uruguay's failure to provide the Claimants any means of judicial recourse following contradictory decisions by the Uruguayan Supreme Court and the TCA constituted a denial of justice. Second, Born concluded that the fact that the SPR regulation has been neither adopted nor contemplated by the comprehensive international regulatory regime for tobacco products, and that the unprecedented requirement in conjunction with the factual background was manifestly arbitrary and disproportionate and, consequently, constituted a denial of fair and equitable treatment under Article 3(2) of the BIT and international law (¶ 5).

I. The Failure of Uruguay to Provide Any Means Of Recourse Following Contradictory Decisions By The Supreme Court And Tribunal De Lo Contencioso Administrativo Constituted a Denial of Justice

As a preliminary matter, Born stated that the Claimants' claim did not require the Tribunal to decide whether the existence of parallel and co-equal judicial organs or the rendering of contradictory decisions concerning the same issue of law constitutes a denial of justice (¶¶ 10-11). What constituted the denial of justice in Born' view is the fact that the SCJ and the TCA reached contradictory decisions interpreting the same statutory provision in closely related proceedings involving the same party, in each case applying those contradictory interpretations to deny that party relief on claims against the government. Moreover, following those contradictory decisions, the same party was also denied any opportunity of presenting a concededly serious constitutional challenge to Uruguayan legislation (¶¶ 9-12).

Born discussed first the origins and differences between two judicial organs, the SCJ which is empowered to interpret Uruguayan legislation, determine the constitutionality of such legislation and has the authority to review decisions of lower courts (¶ 14). The TCA is empowered to adjudicate disputes regarding the validity of administrative acts, including the interpretation of Uruguayan legislation to authorize or annul such administrative acts (¶ 15). The Uruguayan Constitution provides that the TCA must abide by the SCJ determination that a statute is unconstitutional (¶ 16).

The first issue concerned a conflict between the SCJ and the TCA in regard with the interpretation of Article 9 of Law 18256. The SCJ held, directly and explicitly, that Article 9 only authorized the Executive Power to require graphic warnings covering 50% of the surface of tobacco packages, while the TCA held, equally directly and explicitly, that Article 9 authorized the Executive to require graphic warnings covering 80% of the surface of tobacco packages. These two interpretations were applied to Abal, in each case in order to reject claims that it had brought against the implementation of Law 18256 by the Uruguayan government to its activities (¶¶ 31-35).

Born found that the operation of the Uruguayan judicial system in this case constituted a denial of justice because where different courts within a single legal system adopted contradictory interpretations for the same law, the rule of law is undermined, exposing individuals to inconsistent, unpredictable, and arbitrary treatment (¶¶ 40-42). While the Tribunal noted that the TCA's refusal to follow the interpretations of the Supreme Court was "unusual, even surprising", it found that the TCA's decision was the result of a "quirk," which is not sufficiently "serious" or "shocking" to violate Article 3(2) of the BIT (¶¶ 41-43).

Born rejected the Tribunal's reliance on the ECtHR in *Nejdet Şahin and Perihan Şahin v. Turkey* case because that decision already contained powerful dissent on the issue of inconsistency of judgments and also involved a vitally different factual setting than this case and if these differences would have been taken into account then the ECtHR's decision would be in contradiction with the Tribunal's decision (¶¶ 44-50). Further, Born disagreed with the application of the ECtHR decisions interpreting the protection of the right to a fair trial in Article 6 of the ECHR to construe the meaning of the fair and equitable treatment guarantee provided for in Article 3(2) of the BIT (¶ 45).

Born also discussed the importance of the fact that the SCJ and the TCA have rendered contradictory decisions about the meaning of a statutory provision and ultimately rejected the Tribunals' characterization of this situation as only a quirk (¶¶ 59-62).

In Born's view it was neither fair nor equitable for a State to reject a party's claims against it by applying diametrically contradictory interpretations of the same law to the same party, in the same dispute, in each case as a basis for rejecting that party's claims against the State. Given that the Uruguay's judicial system provided Abal with no means to assert claims based on the constitutional guarantees against legislation like Article 9 of Law 18256, as it had been interpreted authoritatively by the TCA and applied to Abal, Uruguay violated Article 3(2) of the BIT (¶¶ 66-72).

II. The Single Presentation Requirement Violates Uruguay's Obligation To Provide Fair And Equitable Treatment

Born did not share the ruling of the Tribunal upholding the Respondent's argument that the SPR was a non-discriminatory measure, imposed on all tobacco companies and designed to prevent such companies from misleading consumers (¶ 86). Rather, based on the evidentiary record in this proceeding, Born was of the view that the SPR was an arbitrary and irrational measure (¶ 88).

Born pointed out that the SPR is not required set forth by or referred to in the Convention, nor ever contemplated therein(¶ 99-100). Moreover, the SPR has never been imposed by any other State (¶ 101). While the Tribunal accepted that the measures were subject to at least some degree of consideration by the Advisory Commission of the MPH, Born was not satisfied with that finding (¶ 107). Based on the lack of any substantial documentation that should have been generated in scheduling, organizing meetings to evaluate the SPR (¶ 109) or the lack of reliable evidence that any meeting was ever held to discuss the requirement in any meaningful way, Born concluded that that there was no serious internal discussion or deliberation at the Ministry of Public Health or within the Uruguayan government in general terms about the requirement concerned (¶¶ 123-125). When an unprecedented regulatory measure is adopted without any meaningful prior study, discussion or consultation, claims that a governmental action is arbitrary, disproportionate, or not rationally related to any stated government objective become more plausible (¶ 126).

Born concluded that the SPR constitutes a violation of the fair and equitable treatment standard in Article 3(2) (¶ 129). Given that one of the central elements of the FET is the protection against arbitrary treatment (¶ 133), the guarantee of FET requires that the State's conduct bears a reasonable relationship to some rational policy (¶ 135). Born disagreed with Tribunal's application of the "margin of appreciation" as developed in ECHR jurisprudence to the BIT (¶ 138), and instead reasoned that the proper degree of deference must be derived from the terms and context of the BIT itself (¶ 139). In the present case, the BIT does not contain language reserving any particular sphere of discretion or immunity for State actions (¶ 143). In Born's view, the guarantee of fair and equitable treatment, and the related requirements of reasonableness and proportionality set forth in Article 3(2), require an objective consideration of the extent to which a governmental measure is rationally related to, or fairly advances, the State's articulated objectives (¶ 144). Applying such standard in the context of the Uruguayan regulatory regime, Born concluded that the SPR was arbitrary and disproportionate hence violating the guarantee of fair and equitable treatment provided for in the BIT (¶ 146).

Born further pointed out that Uruguayan law already contained prohibitions against the misleading packaging or labelling of tobacco products (¶ 151), and given these provisions, it is questionable what additional purpose the SPR would serve in achieving the measure's only stated purpose (¶ 155). Additionally, the SPR contains nothing that focuses on or refers to misleading, false or deceptive use of trademarks (¶ 158). Born also argued that there is no reason in either logic or empirical evidence to conclude that all of the myriad of different uses of trademarks that could be employed on tobacco products, apart from in a single presentation, are misleading and deceptive and therefore it is insufficient to justify Ordinance 466's blanket prohibition against all but a single presentation of any tobacco trademark (¶¶ 159-163).

Born finally argued that the SPR is over-inclusive because it did nothing to address the misleading presentation of different trademarks and the use of the so-called "alibi brands" that used slightly different combinations of colors and designs (¶ 168). Consequently, the SPR is inherently and inescapably unrelated to its only articulated objective – protecting consumers against deceptive uses of trademarks (¶ 172). In conjunction with the fact that the SPR was adopted without any meaningful consideration (¶ 167), Born concluded that the SPR did not satisfy the requirements of rationality and proportionality and ultimately constituted a denial of fair and equitable treatment (¶ 179).