

**IN THE MATTER OF AN ARBITRATION UNDER CHAPTER ELEVEN OF
THE NORTH AMERICAN FREE TRADE AGREEMENT
AND THE UNCITRAL ARBITRATION RULES (1976)**

BETWEEN:

ELI LILLY AND COMPANY

Claimant/Investor

AND:

GOVERNMENT OF CANADA

Respondent/Party

(Case No. UNCT/14/2)

GOVERNMENT OF CANADA

**OBSERVATIONS ON ISSUES RAISED IN 1128 SUBMISSIONS
OF THE UNITED STATES AND MEXICO**

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I. INTRODUCTION

1. The NAFTA Article 1128 submissions filed by the Governments of the United States of America and the United Mexican States in this arbitration confirm the long standing and consistent interpretation advanced by the NAFTA Parties with respect to the interpretation of key provisions of the NAFTA.¹ The submissions also confirm that the interpretation advanced by the

¹ The following exhibits were cited in the 1128 submissions filed by the United States and Mexico and will be included as part of the exhibits and authorities list of the Respondent, for ease of reference: *Methanex Corp. v. United States of America*, NAFTA/UNCITRAL, Memorial on Jurisdiction and Admissibility of Respondent United States of America (Nov. 13, 2000), [RL-120](#); *ADF Group Inc. v. United States of America*, NAFTA/ICSID Case No. ARB(AF)/00/1, Post-Hearing Submission of Respondent United States of America on Article 1105(1) and *Pope & Talbot* (June 27, 2002), [RL-121](#); Edwin Borchard, *The "Minimum Standard" of the Treatment of Aliens*, 33 AM. SOC'Y OF INT'L L. PROC. 51, 58 (1939), [RL-122](#); *Jurisdictional Immunities of the State (Germany v. Italy: Greece intervening)*, 2012 I.C.J. 99, 122 (Feb. 3), [RL-123](#); UNCTAD, Fair and Equitable Treatment – UNCTAD Series on Issues in International Agreements II at 57 (2012), [RL-124](#); *Mesa Power Group, LLC v. Government of Canada*, NAFTA/UNCITRAL, Government of Canada Response to 1128 Submissions, para. 12 (June 26, 2015), [RL-125](#); Robert Jennings & Arthur Watts, *Oppenheim's International Law: Peace* 932 (9th ed. 1992), [RL-126](#); Andreas Roth, *Minimum Standard of International Law Applied to Aliens* 83 (1949), [RL-127](#); C.F. Amerasinghe, *State Responsibility for Injuries to Aliens* 243 (1967), [RL-128](#); Report of the Guerrero Sub-Committee of the Committee of the League of Nations on Progressive Codification 1, Publications of the League C.196, M. 70, at 100 (1927), [RL-129](#); *Ambatielos (Greece v. United Kingdom)*, 12 R. INT'L ARB. AWARDS 83, 111 (Mar. 6, 1956), [RL-130](#); *Libyan American Oil Co. (LIAMCO) v. Libya*, Award, 62 I.L.R. 140, 194 (1977), [RL-131](#); *Kuwait v. American Independent Oil Co. (AMINOIL)*, 66 I.L.R. 518, 585, para. 87 (1982), [RL-132](#); *Bases of Discussion: Responsibility of States for Damage Caused in their Territory to the Person or Property of Foreigners*, League of Nations Doc. C.75.M.69.1929.V, at 107 (1929), reprinted in Shabtai Rosenne, *League of Nations Conference for the Codification of International Law [1930]*, [RL-133](#); *Power Group LLC v. Government of Canada*, NAFTA/UNCITRAL, Government of Canada Rejoinder on the Merits (July 2, 2014), [RL-134](#); *Asylum (Colombia v. Peru)*, 1950 I.C.J. 266, 276 (Nov. 20), [RL-135](#); S.S. "Lotus" (*France v. Turkey*), 1927 P.C.I.J. (ser. A) No. 10, at 25-26 (Sept. 27), [RL-136](#); Edwin M. Borchard, *The Diplomatic Protection of Citizens Abroad or the Law of International Claims* 330 (1925), [RL-137](#); *Chattin Case (United States v. Mexico)*, 4 R. INT'L ARB. AWARDS 282, 286-87 (1927), reprinted in 22 AM. J. INT'L L. 667, 672 (1928), [RL-138](#); Harvard Research Draft, *The Law of Responsibility of States for Damage Done in Their Territory to the Person or Property of Foreigners*, art. 9, 23 AM. J. INT'L L. SP. SUPP. 131, 134 (1929), [RL-139](#); *Loewen Group, Inc. and Raymond Loewen v. United States of America*, NAFTA/ICSID Case No. ARB(AF)/98/3, Response of the United States of America to the Submissions of Claimants Concerning Matters of Jurisdiction and Competence, at 8 (July 7, 2000), [RL-140](#); Alwyn V. Freeman, *International Responsibility of States for Denial of Justice* 33 (1938), [RL-141](#); Jill E. Fisch, *Retroactivity and Legal Change: An Equilibrium Approach*, 110 HARV. L. REV. 1055, 1075 n.121 (1997) [RL-142](#); Barton H. Thompson, Jr., *Judicial Takings*, 76 VA. L. REV. 1449, 1453 (1990), [RL-143](#); *Shinnecock Indian Nation v. United States*, 112 Fed. Cl. 369, 385 (2013) [RL-144](#); *Mohammad Ammar Al Bahloul v. Republic of Tajikistan*, SCC Case No. V(064/2008), Partial Award on Jurisdiction and Liability, para. 237 (Sept. 2, 2009), [RL-145](#); Rosalyn Higgins, *The Taking of Property by the State: Recent Developments in International Law*, 176 Collected Courses of the The Hague Academy of International Law 263, 270 (1982), [RL-146](#); *Canadian Cattlemen for Fair Trade v. United States of America*, NAFTA/UNCITRAL, Award on Jurisdiction, January 28, 2008 ("Cattlemen Award"), para. 126, [RL-147](#); Parvan P. Parvanov & Mark Kantor, *Comparing U.S. Law and Recent U.S. Investment Agreements: Much more similar than you might expect*, in *Yearbook on International Investment Law and Policy 2010-2011* 801 (Sauvant, ed. 2012), [RL-148](#); Letter from Secretary of State Rogers to President Nixon, Transmitting the Vienna Convention on the Law of

Claimant regarding the applicable legal standards and the role of the Tribunal find no basis in the text of the NAFTA as concluded and interpreted by the NAFTA Parties.

2. In summary, and contrary to the position advanced by the Claimant, the NAFTA Parties agree on the following points:

- With respect to NAFTA Article 1116(2) (Claim by an Investor of a Party on Its Own Behalf) and Article 1117(2) (Claim by an Investor of a Party on Behalf of an Enterprise):
- NAFTA establishes a strict three year limitation period to bring claims which does not renew or restart with recurring or continuing breaches.
- With respect to NAFTA Article 1105 (Minimum Standard of Treatment):
- Denial of justice is the sole basis on which judicial measures can breach the minimum standard of treatment;
- Claimant bears the burden of proving evolution in the minimum standard of treatment, through evidence of State practice and *opinio juris*;
- International arbitral awards are not in themselves evidence of State practice or *opinio juris*;
- Bilateral investment treaties containing autonomous fair and equitable treatment standards are not relevant to establishing the content of the minimum standard of treatment;
- The minimum standard of treatment does not protect an investor's legitimate expectations; and
- The minimum standard of treatment does not prohibit all forms of discrimination.
- With respect to NAFTA Article 1110 (Expropriation):
- The first step in the expropriation analysis is to determine whether the investor held a property right under domestic law capable of expropriation;
- Rulings of neutral and independent domestic courts on the validity of asserted property rights under domestic law do not constitute expropriations; and
- Article 1110(7) does not allow an investor to challenge consistency with Chapter Seventeen. Rather, it provides a "safe haven," "complete defence," or "exception"

Treaties, Oct. 18, 1971, reprinted in 65 DEP'T of St. Bull. 684, 685 (1971), [RL-149](#); *Kasikili/Sedudu Island (Botswana v. Namibia)*, 1999 I.C.J. 1045, 1059 (Dec. 13), [RL-150](#); U.S. Constitution, Article I, Section 8, Clause 8, [RL-151](#).

that prevents certain conduct in relation to intellectual property rights from being found to breach Article 1110.

3. Further, even though the NAFTA Parties agree that this Tribunal should not generally analyze the State-to-State obligations in Chapter Seventeen, Canada and the United States agree² that:

- Article 1709(1) leaves the NAFTA Parties flexibility to define and implement the utility requirement as they see fit;
- Article 1709(7) is not violated by the mere fact that a measure has differential effects on a particular field of technology. There must also be a discriminatory objective; and
- Article 1709(8) does not prohibit change and evolution in the patent law of the NAFTA Parties, including in the law applicable to a patent from the time of grant to the time of subsequent court review.

II. THE AGREEMENT OF THE NAFTA PARTIES ON THE INTERPRETATION OF THE NAFTA SHOULD BE GIVEN CONSIDERABLE WEIGHT

4. The common, concordant and consistent views of the NAFTA Parties on the interpretation of NAFTA Chapter Eleven must be given considerable weight by this Tribunal.³ Article 31(3) of the VCLT provides that:

3. There shall be taken into account, together with the context: (a) any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions; (b) any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation [...].⁴

5. The submissions of the NAFTA Parties before this Tribunal, together with the consistent submissions made by the NAFTA Parties before other NAFTA Tribunals, establish an agreement of the NAFTA Parties on numerous issues regarding the proper interpretation of Articles 1105,

² In its Article 1128 Submission, Mexico did not make any comments on the content of Chapter Seventeen, noting that NAFTA Chapter Eleven tribunals are not vested with authority to consider and apply provisions of NAFTA Chapter Seventeen. Mexico 1128 Submission, paras. 22-25, 31.

³ *Vienna Convention on the Law of Treaties* (1969), 1155 UNTS 331(entered into force January 27, 1980), Article 31(3) (“*Vienna Convention on the Law of Treaties*”), **CL-66**; *Cattlemen Award*, paras. 181-189, [RL-147](#); *Bayview Irrigation District et al. v. United Mexican States* (ICSID Case No. ARB (AF)/05/1) Award, 19 June 2007, paras. 106-108 (“*Bayview*”), **RL-012**.

⁴ *Vienna Convention on the Law of Treaties*, Article 31(3), **CL-66**.

1110, 1116, and 1117. This agreement constitutes an authentic interpretation which, pursuant to Article 31(3) of the VCLT, “shall be taken into account” in interpreting these provisions.⁵

III. THE NAFTA PARTIES AGREE ON THE INTERPRETATION OF NAFTA ARTICLES 1116 AND 1117

6. The NAFTA Parties all agree on a number of important points concerning the time-bar contained in NAFTA Articles 1116(2) and 1117(2). The NAFTA Parties’ agreement on all of these issues is longstanding.

7. First, the NAFTA Parties all agree that NAFTA Articles 1116(2) and 1117(2) impose a “clear and rigid” limitation defense that is not subject to any suspension, prolongation, or other qualification.⁶

8. Second, the NAFTA Parties all agree that the limitations period starts running when the claimant *first* acquires knowledge of a breach and loss.⁷ As Canada explained in its Rejoinder, and as Mexico concurs, “once the investor first acquires knowledge of the alleged breach and that it has suffered damage, the limitations period for filing a claim commences and will end at

⁵ *Cattlemen Award*, paras. 185-186, 188-189, [RL-147](#); See also the views of non-disputing Parties in *Bayview*, paras. 100, 106-107, **RL-012**. The *Commerce Group* tribunal reached a similar conclusion in the context of the CAFTA-DR, see, *Commerce Group Corp. and San Sebastian Gold Mines, Inc. v. Republic of El Salvador* (ICSID Case No. ARB/09/17) Award, 14 March 2011, paras. 81-82, [RL-152](#). See also, Roberts, Anthea, “Power and Persuasion in Investment Treaty Interpretation: the Dual Role of States,” *The American Journal of International Law*, 104:179, 2010, [RL-153](#).

⁶ Respondent’s Rejoinder (“Resp. Rejoinder”), para. 77 (“The *Feldman v. Mexico* tribunal described NAFTA Chapter Eleven’s “clear-cut” three-year limitations period as “a clear and rigid limitation defense, which, as such, is not subject to any suspension . . . , prolongation or other qualification.”(emphasis removed)); Mexico 1128 Submission, para. 6 (observing that observes that NAFTA tribunals “have recognized that there is a “clear and rigid limitation defense – not subject to any suspension, prolongation or other qualification”); US 1128 Submission, para. 2 (explaining that “The claims litigation period has been described as “clear and rigid” and not subject to any “suspension,” “prolongation,” or “other qualification.”); see also *Detroit International Bridge Company v. Canada* (UNCITRAL) Submission of the United States of America, February 14, 2014 (“*DIBC*, US 1128 Submission”), para. 3, **RL-095**; *Detroit International Bridge Company v. Canada* (UNCITRAL) Reply of the Government of Canada to the NAFTA Article 1128 Submission of the Governments of the United States of America and the United Mexican States, March 3, 2014, (“*DIBC*, Canada’s Response to the 1128 Submissions”), para. 28 [RL-154](#); *Merrill & Ring Forestry, L.P. v. Canada* (UNCITRAL) 1128 Submission of the United States, July 14, 2008, para. 6 (“*Merrill & Ring*, 1128 Submission of the US”), **RL-091**; *Merrill & Ring Forestry, L.P. v. Canada* (UNCITRAL) 1128 Submission of Mexico, April 2, 2009 (“*Merrill & Ring*, 1128 Submission of Mexico”), **RL-092**.

⁷ This agreement is longstanding. *DIBC*, US 1128 Submission, para. 3, **RL-095**; *DIBC*, Canada’s Response to 1128 Submissions, para. 29, [RL-154](#); *Merrill & Ring* 1128 Submission of the US, para. 10, **RL-091**. See also *Merrill & Ring*, 1128 Submission of Mexico, **RL-092**.

the three-year mark regardless of whether the impugned measure continues thereafter.”⁸ The United States also agrees, explaining that “An investor or enterprise *first* acquires knowledge of an alleged breach and loss at a particular moment in time ... Such knowledge cannot *first* be acquired at multiple points in time or on a recurring basis.”⁹

9. Third, the NAFTA Parties agree that a continuing course of conduct by a NAFTA Party does not restart the limitations period.¹⁰ As Canada explained in its Rejoinder, “an allegation that an alleged breach of NAFTA Chapter Eleven is continuing does not stop the time-bar clock.”¹¹ Similarly, the United States notes that “As the *Grand River* tribunal recognized, a continuing course of conduct does not renew the limitations period under Article 1116(2) and 1117(2) ... subsequent transgressions by the State Party arising from a continuing course of conduct do not renew the limitations period ...”¹² Mexico also concurs.¹³

10. The implication of these shared understandings in this case is highly significant: Claimant’s recast challenge to the “promise utility doctrine” *per se* is time-barred. Once the so-called “promise utility doctrine” was applied to Claimant’s *raloxifene* patent, the clock was ticking on its ability to challenge this doctrine under NAFTA Chapter Eleven. The “clear and rigid” time-bar rule is that the limitations period begins when an investor *first* acquires knowledge of an alleged breach and loss. As Canada explained in its Rejoinder,¹⁴ these elements were certainly all in place no later than the *raloxifene* decision. The limitations period does not renew each and every time that the Canadian courts continue to apply settled doctrine. As

⁸ Resp. Rejoinder, para. 72; Mexico 1128 Submission, para. 4.

⁹ US 1128 Submission, para. 4.

¹⁰ This agreement is longstanding. See *DIBC*, US 1128 Submission, para. 3, **RL-095**; *Detroit International Bridge Company v. Canada* (UNCITRAL) Submission of Mexico Pursuant to Article 1128 of NAFTA, 14 February 2014, para. 21, **RL-096**; *DIBC*, Canada’s Response to 1128 Submissions, para. 27, [RL-154](#).

¹¹ Resp. Rejoinder, para. 74.

¹² US 1128 Submission, para. 4.

¹³ Mexico 1128, para. 7 (stating that “neither a continuing course of conduct nor the occurrence of subsequent acts or omissions can renew or interrupt the three-year limitation period once it has commenced to run.”).

¹⁴ Resp. Rejoinder, paras. 92-112.

explained in Canada's Rejoinder, the result is that Claimant's challenge of the promise utility doctrine is time-barred.¹⁵

IV. THE NAFTA PARTIES AGREE ON THE PROPER ROLE OF A NAFTA CHAPTER ELEVEN TRIBUNAL

11. The common view of the NAFTA Parties regarding the proper role of NAFTA Chapter Eleven tribunals is at odds with what the Claimant is asking this Tribunal to do. Claimant attempts to impermissibly expand the jurisdiction of this Tribunal in two directions. On the one hand, it asks this Tribunal to transform itself into a supranational court of appeal over matters of domestic Canadian law. On the other hand, it asks the Tribunal to assert plenary jurisdiction to determine breaches of international obligations extending far beyond NAFTA Chapter Eleven.

A. Chapter Eleven Tribunals are Not Supranational Courts of Appeal

12. Claimant asks this Tribunal to serve as a supranational court of appeal second-guessing the interpretation that the Canadian courts have given to Canada's *Patent Act* and their reasoned judgment that Claimants patents for atomoxetine and olanzapine did not meet the requirements of that statute. The submissions of all three NAFTA Parties make clear that this is an impermissible abuse of NAFTA Chapter Eleven. As the United States explains, "it is well-established that international tribunals such as NAFTA Chapter Eleven tribunals are not empowered to be supranational courts of appeal on a court's application of domestic law."¹⁶ Mexico and Canada agree.¹⁷

13. On Claimant's view, there is nothing special about judicial measures. Indeed, Claimant's position is that a NAFTA Chapter Eleven tribunal's approach to judicial measures requires no

¹⁵ Resp. Rejoinder, paras. 63-112.

¹⁶ US 1128 Submission, para. 23.

¹⁷ Mexico 1128 Submission, para. 20 (affirmatively citing the proposition in *Azinian v. Mexico* that "The possibility of holding a State internationally liable for judicial decisions does not, however, entitle a claimant to seek international review of the national court decisions as though the international jurisdiction seised has plenary appellate jurisdiction."); *The Loewen Group Inc. and Raymond Loewen v. United States of America*, ICSID ARB(AF)/98/3, Second Submission of the United Mexican States, 9 November 2001 ("*Loewen Group*, Second Submission of Mexico"), p. 6, **RL-023** ("the Tribunal does not sit as a court of appeal but rather as an international tribunal with a different governing law and jurisdiction.") Respondent's Counter Memorial ("Resp. CM"), para. 15; Resp. Rejoinder, para. 1 ("Ultimately, however, there is only one fallacy that matters – the one offered by Claimant to suggest that a NAFTA Chapter Eleven tribunal is some sort of *über*-tribunal empowered to sit in judgment of the Supreme Court of Canada's interpretation of Canadian law ...").

more deference than any other act of State.¹⁸ The NAFTA Parties have long agreed that this is not the case.¹⁹ As Mexico explains, there are:

“fundamental distinctions that international law has made and continues to make between acts of the judiciary and the acts of other organs of the State. International tribunals defer to the acts of municipal courts not only because the courts are recognized as being expert in matters of a State’s domestic law, but also because of the judiciary’s role in the organization of the State.”²⁰

Similarly, the United States submits:

“The high threshold required for judicial measures to rise to the level of a denial of justice in customary international law gives due regard to the principle of judicial independence, the particular nature of judicial action, and the unique status of the judiciary in both international and municipal legal systems. As a result, the actions of domestic courts are accorded a greater presumption of regularity under international law than are legislative or administrative acts. Indeed, as a matter of customary international law, international tribunals will defer to domestic courts interpreting matters of domestic law unless there is a denial of justice.”²¹

14. Canada shares the understanding of Mexico and the United States on the deference due to the determinations of domestic courts.²² Claimant’s attempt to transform this Tribunal into a supranational court of appeal must fail.

¹⁸ Claimant’s Memorial (“Cl. Mem.”), para. 179 (“In other words, no special rules attach to claims of expropriation based on judicial measures.”).

¹⁹ US 1128 Submission, para. 22, fn. 49 (“All three NAFTA Parties agree on the deference to be accorded to domestic courts on matters of domestic law.”); *Loewen Group*, Second Submission of Mexico, p. 5-6, **RL-023**; *Loewen Group, Inc. and Raymond Loewen v. United States of America*, NAFTA/ICSID Case No. ARB(AF)/98/3, Response of the United States of America to the November 9, 2001 Submissions of the Governments of Canada and Mexico Pursuant to NAFTA Article 1128, December 7, 2001, p. 6, **RL-024**.

²⁰ Mexico 1128 Submission, para. 13 (emphasis removed); *The Loewen Group*, Second Submission of Mexico, p. 5, **RL-023**.

²¹ US 1128 Submission, para. 22.

²² Resp. CM, para. 318 (“... customary international law requires deference to domestic court rulings on issues of domestic law.”); Resp. Rejoinder, para. 236 (“... the adjudicative function of State organs is owed significant deference, provided the participants were not denied justice.”), Resp. Rejoinder, para. 267 (“a tribunal must be mindful both of the general deference afforded to domestic authorities in the conduct of their affairs, and of the particular deference afforded to domestic adjudication.”).

B. Chapter Eleven Tribunals do not have Jurisdiction to Determine Breaches of NAFTA Chapter Seventeen or other International Treaties

15. Claimant also asks this Tribunal to assume the role of a world court with plenary jurisdiction over international obligations extending far beyond NAFTA Chapter Eleven.²³ Claimant is attempting to leverage NAFTA Chapter Eleven to convert international obligations owed *among States*, and subject to State-to-State dispute settlement procedures and remedies, into a cause of action for which individual investors can seek monetary damages.

16. All three NAFTA Parties warn against an attempt to transform NAFTA Chapter Eleven into a tool for the enforcement of inter-State obligations. Mexico observes that “if the NAFTA Parties had intended that a Party should be liable to compensate an investor or another Party for an alleged non-compliance with an obligation under Chapter Seventeen, they would have so provided expressly.”²⁴ Similarly, the United States explains in the context of Article 1105:

“Moreover, an investor bringing an Article 1105(1) claim may not invoke an alleged host State violation of an international obligation owed to another State or its home State, for example an obligation contained in another treaty or another Chapter of NAFTA such as Chapter Seventeen. A violation of that Chapter, which is subject to the State-to-State dispute resolution provisions of NAFTA Chapter Twenty, may be the basis of a claim by one NAFTA Party against another, but that violation does not provide a separate cause of action for an investor, who may only bring claims against a host Party for breaches of Chapter Eleven, Section A.”²⁵

17. Canada agrees with the United States and Mexico that the obligations in NAFTA Chapter Eleven cannot give investors a cause of action for breaches of obligations in other treaties or

²³ In its Article 1110 argument, Claimant argues that judicial determinations that a right is invalid at domestic law can be transformed into expropriations if they are inconsistent with *any* other rule of international law: Claimant Reply (“Cl. Reply”), para. 316. In its Article 1105 argument, Claimant argues that its “legitimate expectations” were violated because Canada allegedly acted inconsistently with obligations contained in NAFTA Chapter Seventeen and the PCT: Cl. Mem., paras. 279-280.

²⁴ Mexico 1128 Submission, para. 30; see also Mexico 1128 Submission, para. 21 (“Article 1110(7) does not invite an arbitral tribunal constituted under Section B of Chapter Eleven to determine whether the host Party has complied with Chapter Seventeen when revoking or limiting intellectual property rights owned by an investor of another Party.”).

²⁵ United States 1128 Submission, para. 23, citing Zachary Douglas at 33 (“The obligations to accord various minimum standards of treatment to foreign nationals in general international law and investment treaties do not operationalize [a general right to reparation for damage caused when States do not comply with their international obligations to other States]”).

other parts of NAFTA.²⁶ Claimant’s attempt to base its claims on alleged breaches of obligations outside of NAFTA Chapter Eleven departs from the shared understanding of the NAFTA Parties on the scope of NAFTA Chapter Eleven and the jurisdiction of NAFTA Chapter Eleven tribunals.

V. THE NAFTA PARTIES AGREE ON THE INTERPRETATION OF NAFTA ARTICLE 1105

18. The Claimant has conceded that the concept of “fair and equitable treatment” in NAFTA Article 1105 does not require treatment beyond the customary international law minimum standard of treatment of aliens.²⁷ Claimant goes on to assert that Canada has breached the minimum standard of treatment because the invalidation of Claimant’s patents was arbitrary, discriminatory, and contrary to Claimant’s “legitimate expectations”.²⁸

19. The submissions of all three NAFTA Parties make clear that Claimant’s Article 1105 claim cannot succeed. All of the NAFTA Parties agree that the only established norm of customary international law under the minimum standard of treatment that applies to judicial decisions is denial of justice. Claimant does not, and could not, allege a denial of justice in this case. All of the NAFTA Parties also agree that Claimant bears the burden of proving, through evidence of State practice and *opinio juris*, any additional content of the minimum standard of treatment.

A. Denial of Justice is the Only Basis for a Domestic Court Decision to Breach the Minimum Standard of Treatment

20. All three NAFTA Parties unambiguously reject Claimant’s position that “denial of justice is *just one part* of the protection afforded by the Minimum Standard of Treatment in respect of judicial measures, and that national courts (just like other national authorities) may violate the

²⁶ Resp. CM, para. 331 (“Claimant’s proposal would confer on international investment tribunals an at-large jurisdiction to ... rule on alleged inconsistencies with any international treaty that could plausibly be linked with the substance of a domestic court ruling (regardless of whether that external treaty contemplates its own, State-to-State dispute settlement mechanism.”); Resp. Rejoinder, para. 1 (Stating that Claimant’s position that NAFTA Chapter Eleven Tribunals are empowered to rule on Canada’s obligations under all of the international treaties that it has signed “fundamentally misconceive[] both the obligations under Chapter Eleven and the limited jurisdiction that the NAFTA Parties agreed to bestow on NAFTA Chapter Eleven tribunals.”).

²⁷ Cl. Reply, para. 350, fn. 707.

²⁸ Cl. Reply, para. 324.

Minimum Standard in other ways as well.”²⁹ Rather, the NAFTA Parties all agree that denial of justice is the sole basis on which judicial measures can breach the minimum standard of treatment:

- **Canada:** “... customary international law only protects against judicial conduct that amounts to a denial of justice”.³⁰
- **Mexico:** “... Mexico agrees with Canada that, with respect to judicial acts, denial of justice is the only rule of customary international law clearly identified and established so far as part of the minimum standard of treatment of aliens ...”.³¹
- **United States:** “judicial measures may form the basis of a claim under the customary international law minimum standard of treatment under Article 1105(1) only if they are final and if it is proved that a denial of justice has occurred.”³²

21. The implication of the NAFTA Parties’ shared understanding is that denial of justice is the only basis for a claim under the minimum standard of treatment in this case. Claimant has made no such claim.³³ Therefore, its claim under Article 1105 must fail.

B. The Burden of Proving a Customary Norm under NAFTA Article 1105 Rests Solely with the Claimant and Requires Proof of Both State Practice and *Opinio Juris*

22. Claimant asserts that the minimum standard of treatment has evolved to guard against all forms of discrimination, protect against conduct that is arbitrary, and protect investors’ “legitimate expectations”, and that all of these norms are applicable in the context of judicial decisions.³⁴

²⁹ Cl. Reply, para. 326.

³⁰ Resp. CM, para. 14.

³¹ Mexico 1128 Submission, para. 14.

³² US 1128 Submission, para. 24, *See also* US 1128 Submission, para. 23 (“Thus, an investor’s claim challenging judicial measures under Article 1105(1) is limited to a claim for denial of justice under the customary international law minimum standard of treatment. *A fortiori*, domestic courts performing their ordinary function in the application of domestic law as neutral arbiters of the legal rights of litigants before them are not subject to review by international tribunals absent a denial of justice under customary international law.”).

³³ Cl. Reply, para. 17 (stating that denial of justice “is not the case that Lilly has brought.”).

³⁴ Cl. Memorial, paras. 255-260; Cl. Reply, para. 353.

23. The NAFTA Parties all agree that a claimant bears the burden of establishing the existence at customary international law of the norms that it alleges form part of the minimum standard of treatment.³⁵ A claimant must adduce the requisite evidence of State practice and *opinio juris* to discharge its burden and establish the content of the minimum standard of treatment.³⁶

C. The Decisions and Awards of International Courts and Tribunals Do Not Qualify as State Practice for the Purposes of Proving the Existence of a Customary Norm

24. Claimant attempts to support its assertions about evolution in the minimum standard of treatment with reference to international arbitral awards.³⁷ However, the NAFTA Parties have repeatedly asserted their agreement that the decisions of international investment tribunals are not a source of State practice or *opinio juris* for the purpose of establishing a new customary

³⁵ Resp. Rejoinder, para. 256 (“... [Claimant] bears the burden of establishing that the relevant rules exist.”); US 1128 Submission, para. 16 (“A claimant must demonstrate that alleged standards that are not specified in the treaty have crystallized into an obligation under customary international law.”), US 1128 Submission, para. 17 (“...the burden is on the claimant to establish the existence and applicability of a relevant obligation under customary international law that meets the requirements of State practice and *opinio juris*. ... Tribunals applying Article 1105 have confirmed that the party seeking to rely on a rule of customary international law must establish its existence.”); Mexico 1128 Submission, para. 14 (“Thus, if a claimant asserts a breach of Article 1105(1) based on a different concept, that party has the burden of identifying the relevant obligation under the customary international law based on State practice and *opinio juris*.”); *see also Windstream Energy LLC v. Canada*, NAFTA/UNCITRAL, Submission of the United States of America, January 12, 2016 (“*Windstream*, 1128 Submission of the United States”), paras. 19-20, [RL-155](#); *Windstream Energy LLC v. Canada*, NAFTA/UNCITRAL, Submission of Mexico Pursuant to NAFTA Article 1128, January 12, 2016, January 12, 2016 (“*Windstream*, 1128 Submission of Mexico”), para. 6, [RL-156](#); *Windstream Energy LLC v. Canada*, NAFTA/UNCITRAL, Canada’s Reply to the 1128 Submission of the United States and Mexico, January 29, 2016 (“*Windstream*, Canada’s Response to the 1128 Submissions”), para. 12 [RL-157](#); *Mercer International Inc. v. Government of Canada*, ICSID Case No. ARB(AF)/12/(3), Submission of the United States of America, 8 May 2015 (“*Mercer*, 1128 Submission of the United States”), para. 27, [RL-097](#); *Mercer International Inc. v. Government of Canada*, ICSID Case No. ARB(AF)/12/(3), Submission of Mexico Pursuant [to] Article 1128 of NAFTA, 8 May 2015 (“*Mercer*, 1128 Submission of Mexico”), para. 18, [RL-089](#); *Mercer International Inc. v. Government of Canada*, ICSID Case No. ARB(AF)/12/(3), Canada’s Reply to 1128 Submissions, (“*Mercer*, Canada’s Reply to 1128 Submissions”), para. 36, [RL-158](#).

³⁶ US 1128 Submission, para. 11 (“The twin requirements of State practice and *opinio juris* “must both be identified ... to support a finding that a relevant rule of customary international law has emerged.” A perfunctory reference to these requirements is not sufficient.”); Mexico 1128 Submission, para. 11 (“Thus, two requirements must be met to establish the existence of an obligation under the customary international law: State practice and *opinio juris*.”); Resp. CM, para. 267 (“A rule of customary international law is formed by widespread state practice, accompanied by an understanding that such practice is undertaken out of a sense of legal obligation.”); *see also, Windstream*, 1128 Submission of the United States, para. 14, [RL-155](#); *Windstream*, 1128 Submission of Mexico, para. 6, [RL-156](#); *Windstream*, Canada’s Response to the 1128 Submissions, para. 8, [RL-157](#); *Mercer*, 1128 Submission of the United States, para. 27, [RL-097](#); *Mercer*, 1128 Submission of Mexico, para. 18, [RL-089](#); *Mercer*, Canada’s Reply to 1128 Submissions, para. 36, [RL-158](#).

³⁷ *See, e.g.*, Cl. Mem., para. 261.

norm.³⁸ Claimant cannot prop-up its tenuous assertions about evolution in the minimum standard of treatment with reference to these sources, which themselves contain no analysis of State practice or *opinio juris*.³⁹

D. Treaties Extending Protections Beyond that Required by Customary International Law Are Not Relevant to Ascertaining the Content of the Customary International Law Minimum Standard of Treatment

25. Claimant also errs in pointing to bilateral investment treaties containing autonomous fair and equitable treatment standards as evidence of evolution in the minimum standard of treatment.⁴⁰ The NAFTA Parties agree that the autonomous fair and equitable treatment standard in other treaties is not relevant to the content of the minimum standard of treatment under Article 1105(1).⁴¹ Similarly, the NAFTA Parties agree that arbitral awards interpreting autonomous fair and equitable treatment clauses cannot establish the content of the minimum standard of treatment at customary international law.⁴² Not only are arbitral awards not evidence of State

³⁸ Mexico 1128 Submission, para. 14 (“... decisions of international tribunals do not constitute State practice that can assist to identify a rule of customary international law ...”); US 1128 Submission, para. 15 (“Likewise, decisions of international courts and arbitral tribunals interpreting “fair and equitable treatment” as a concept of customary international law are not themselves instances of “State practice” for purposes of evidencing customary international law, although such decisions can be relevant for determining State practice when they include an examination of such practice.”); Resp. CM, para. 271, Resp. Rejoinder, paras. 248, 259. See, also, *Windstream*, 1128 Submission of the United States, para. 18, [RL-155](#); *Windstream*, 1128 Submission of Mexico, para. 6, [RL-156](#); *Windstream*, Canada’s Response to the 1128 Submissions, para. 15, [RL-157](#); *Mercer*, 1128 Submission of the United States, para. 25, [RL-097](#); *Mercer*, 1128 Submission of Mexico, para. 18, [RL-089](#); *Mercer*, Canada’s Reply to 1128 Submissions, para. 41, [RL-158](#).

³⁹ Resp. Counter Memorial, para. 273; Resp. Rejoinder, para. 260.

⁴⁰ Cl. Mem., para. 254.

⁴¹ US 1128 Submission, para. 15, (“The practice of adopting such autonomous standards is not relevant to ascertaining the content of Article 1105 in which ‘fair and equitable treatment’ and ‘full protection and security’ are expressly tied to the customary international law minimum standard of treatment.”); Mexico 1128 Submission, para. 14 (“However, it should be noted that decisions of international tribunals do not constitute State practice that can assist to identify a rule of customary international law, particularly arbitral decisions that interpret autonomous stand-alone fair and equitable treatment.”); Resp. Rejoinder, para. 258 (“Canada, along with the other NAFTA Parties, have consistently taken the position that autonomous fair and equitable treatment provisions in other treaties do not form a rule of customary international law.”); see also *Windstream*, 1128 Submission of the United States, para. 18, [RL-155](#); *Windstream*, 1128 Submission of Mexico, para. 6, [RL-156](#); *Windstream*, Canada’s Response to the 1128 Submissions, para. 21, [RL-157](#); *Mesa Power Group, LLC v. Canada*, NAFTA/UNCITRAL (PCA Case No. 2012-17), Award, March 24, 2016, para. 503, [RL-159](#).

⁴² US 1128 Submission, para. 15 (“arbitral decisions interpreting “autonomous” fair and equitable treatment and full protection and security provisions in other treaties, outside the context of customary international law, cannot constitute evidence of the content of the customary international law standard required by Article 1105(1).”); Mexico 1128 Submission, para. 14 (“However, it should be noted that decisions of international tribunals do not constitute State practice that can assist to identify a rule of customary international law, particularly arbitral decisions that interpret autonomous stand-alone fair and equitable treatment.”); Resp. CM., para. 270 (“Instead,

practice, awards interpreting autonomous standards are not even directed toward ascertaining the content of the minimum standard of treatment at customary international law. Accordingly, these sources cannot support Claimant's arguments regarding the evolution of the minimum standard of treatment.

E. NAFTA Article 1105 Does Not Contain an Obligation Not to Interfere with Investors' Expectations

26. Claimant argues that Article 1105(1) protects against the violation of an investor's legitimate expectations.⁴³ This is incorrect. All three NAFTA Parties have long agreed that the doctrine of legitimate expectations does not form part of the minimum standard of treatment at customary international law.⁴⁴ Claimant has not adduced evidence of State practice and *opinio juris* to prove otherwise. Furthermore, as the United States explains, "the concept of "legitimate expectations" is particularly inapt in the context of judicial measures."⁴⁵ Canada agrees.⁴⁶ Otherwise, the minimum standard of treatment "would give every disappointed litigant an automatic remedy in international law against any adverse domestic ruling that it "expected" to win."⁴⁷ Claimant has not proved that the minimum standard of treatment provides any such protection.

Claimant relies almost exclusively on non-NAFTA arbitration awards interpreting autonomous 'fair and equitable treatment' provisions in investment treaties and which do not require, as does NAFTA Article 1105(1), the application of the customary international law minimum standard of treatment of aliens.").

⁴³ Cl. Reply, para. 322.

⁴⁴ US 1128 Submission, para. 13 ("The concept of "legitimate expectations" is not a component element of "fair and equitable treatment" under customary international law that gives rise to an independent host State obligation ... The United States is aware of no general and consistent State practice and *opinio juris* establishing an obligation under the minimum standard of treatment not to frustrate investors' expectations; instead, something more is required than the interference with those expectations."); Mexico 1128 Submission, para. 15 ("With respect to "legitimate expectations" of investors, Mexico concurs with Canada's submissions ... [that] "...[t]he mere failure to meet an investor's legitimate expectations does not constitute a breach of Article 1105(1) ... the theory of legitimate expectations has not been proven to be a rule of customary international law ..."); Resp. CM., para. 217 ("Mere failure to meet an investor's legitimate expectations does not violate the minimum standard of treatment in customary international law."); See also *Windstream Energy LLC v. Government of Canada* (UNCITRAL), Counter-Memorial, 20 January 2015, para. 405, [RL-114](#); *Windstream*, 1128 Submission of the United States, paras. 16-17, [RL-155](#); *Windstream*, 1128 Submission of Mexico, para. 6, [RL-156](#).

⁴⁵ US 1128 Submission, para. 13.

⁴⁶ Resp. CM., para. 218 (stating that the doctrine of legitimate expectations is "fundamentally inapplicable with respect to judgments rendered by domestic courts acting in their *bona fide* adjudicative function of domestic statutory interpretation.").

⁴⁷ Resp. CM., para. 266.

F. NAFTA Article 1105 Does Not Contain a General Prohibition Against Discrimination

27. In another baseless assertion regarding the content of the minimum standard of treatment, Claimant argues that it protects against discrimination on any grounds. It alleges that the invalidation of its patents breached Article 1105 by discriminating on the basis of field of technology, business type (brand name or generic producer), and nationality.⁴⁸ Contrary to Claimant's position, all three NAFTA Parties agree that no established rule of customary international law has emerged that generally prohibits discrimination against foreign investors.⁴⁹ Claimant has not demonstrated that any of the grounds of discrimination that it alleges are protected by the minimum standard of treatment.

VI. THE NAFTA PARTIES AGREE ON THE INTERPRETATION OF NAFTA ARTICLE 1110

A. Domestic Law Defines the Rights Protected by Article 1110

28. As Canada has explained, a threshold problem with Claimant's expropriation argument is that it did not hold a valid property right under Canadian law that was capable of expropriation. All of the NAFTA Parties agree that determining whether there is a valid property right capable of being expropriated is the essential first step in the expropriation analysis.⁵⁰ The NAFTA Parties further agree that the question of whether there is a right capable of expropriation must be

⁴⁸ Cl. Mem., paras. 290-291; Cl. Reply, para. 366-368.

⁴⁹ US 1128 Submission, para. 14 ("Similarly, the customary international law minimum standard of treatment set forth in Article 1105(1) does not incorporate a prohibition on economic discrimination against aliens or a general obligation of non-discrimination. As a general proposition, a State may treat foreigners and nationals differently, and it may also treat foreigners from different States differently."); Mexico 1128 Submission, para. 2, affirming prior submission by Mexico in *Windstream* at para. 6 (Agreeing "that Article 1105(1) does not provide a blanket prohibition on discrimination against foreign investors or their investments."); Resp. Rejoinder, para. 261 ("Claimant has failed to establish that customary international law protects against discrimination between fields of technology or between brand and generic pharmaceutical companies."), Resp. Rejoinder, para. 263 ("...customary international law does not generally prohibit discrimination against foreign investments on the basis of their nationality.").

⁵⁰ Resp. CM., para. 301 ("The first step in the expropriation analysis is to determine whether there was a property interest capable of expropriation."); US 1128 Submission, para. 26 ("Thus, the first step in any expropriation analysis must begin with an examination of whether there is an investment capable of being expropriated."); Mexico 1128 Submission, para. 18 ("A claim of expropriation under Article 1110(1), first requires the claimant (in its capacity as an investor of a Party) to establish that it has an "investment" ... An investment can only be based on vested legal rights under the legal system of the host Party ... there must be valid and subsisting property rights that fall within one or more of the categories listed in Article 1139.").

answered with reference to the domestic law of the NAFTA Party in question.⁵¹ As Canada explained in its Counter Memorial, “when faced with a claim of expropriation, an international tribunal must first undertake a necessary *renvoi* to domestic law to determine the existence, nature, and scope of the property interests that the clamant alleges were taken.”⁵² In the specific context of patents, the United States observes that patents are intellectual property rights protected by Article 1110 only if they conform to the substantive conditions of patentability under domestic law.⁵³ In short, the asserted property rights must be valid under domestic patent law for there to be a possibility of an expropriation claim.

29. When looking to questions of domestic law, the NAFTA Parties also agree that international tribunals must defer to the interpretation of domestic courts.⁵⁴ As the United States explains, “indeed, as a matter of customary international law, international tribunals will defer to domestic courts interpreting matters of domestic law unless there is a denial of justice.”⁵⁵

B. Determinations of Rights by Neutral and Independent Courts Cannot Amount to Expropriations

30. All three NAFTA Parties agree that where a neutral and independent domestic court determines legal rights, there can be no expropriation under Article 1110. Courts are the arbiters of competing rights claims under domestic law. In determining the legal rights of litigants, they cannot be regarded as taking rights away in breach of Article 1110. The NAFTA Parties are in full agreement on this point:

⁵¹ Mexico 1128 Submission, para. 19 (“When legal rights are declared a nullity, or void *ab initio*, by a court of competent jurisdiction, there cannot be a claim of expropriation. Mexico agrees with Canada that in such a case, as a matter of domestic law, the alleged investment never existed for the purposes of Article 1110.”); US 1128 Submission, para. 26 (“it is appropriate to look to the law of the host State for a determination of the definition and scope of the “property right” at issue.”); *see also* US 1128 Submission, para. 22 (observing with reference to Article 1105 that “as a matter of customary international law, international tribunals will defer to domestic courts interpreting matters of domestic law unless there is a denial of justice.”).

⁵² Resp. CM., para. 311; *see also* Resp. CM., para. 301 (“Nothing in NAFTA determines whether an asserted property right actually exists at domestic law, or the nature and scope of such rights.”).

⁵³ US 1128 Submission, para. 27 (“Patents properly granted *in accordance with domestic law* are intellectual property rights that qualify as investments under Article 1139(g) ... Patents are properly granted in cases in which an invention is adequately disclosed that is new, involve an inventive step (is non-obvious), and is capable of industrial application (is useful)” (emphasis added)).

⁵⁴ *See supra*, paras. 13-14.

⁵⁵ US 1128 Submission, para. 22. This statement was made in the context of Article 1105, but articulates a general principle equally applicable to questions of domestic law that arise within the expropriation analysis.

United States: "... decisions of domestic courts acting in the role of neutral and independent arbiters of the legal rights of litigants do not give rise to a claim for expropriation under Article 1110(1)."⁵⁶

Mexico: "When legal rights are declared a nullity, or void *ab initio*, by a court of competent jurisdiction, there cannot be a claim of expropriation ... In such circumstances a disputing investor would have to establish a claim of "denial of justice" under Article 1105 in order to succeed."⁵⁷

Canada: "... domestic court determinations of rights only attract liability at international law when there is a denial of justice."⁵⁸

31. This concordant view of the NAFTA Parties on the interpretation of Article 1110 is irreconcilable with Claimant's theory of judicial expropriation, which is grounded in the mistaken view that "no special rules attach to claims of expropriation based on judicial measures."⁵⁹ When it comes to expropriation, judicial determinations of rights simply *are* different from executive or legislative measures. As the United States observes, it has not even "recognized the concept of "judicial takings" as a matter of domestic law."⁶⁰ On the international plane, it further notes the "dearth" of international precedents on judicial expropriation.⁶¹

32. Similarly, nothing in the submissions of any NAFTA Party supports Claimant's invented theory that the judicial invalidation of a right is expropriatory if it violates some other rule of international law beyond Article 1110, such those contained in Chapter Seventeen, TRIPS, or the PCT.⁶² In fact, all three NAFTA Parties agree that a NAFTA Chapter Eleven tribunal does not have plenary jurisdiction to determine breaches of international law at large, but only breaches of Section A of NAFTA Chapter Eleven.⁶³ Claimant's approach is fundamentally inconsistent with this limited jurisdiction, and would open the floodgates to judicial expropriation claims.

⁵⁶ US 1128 Submission, Article 29.

⁵⁷ Mexico 1128 Submission, para. 19.

⁵⁸ Resp. Rejoinder, para. 115; *See also* Resp. CM., para. 316 ("Absent a denial of justice, international tribunals must accept domestic court determinations that a property right does not exist under domestic law.").

⁵⁹ Cl. Mem., para. 179.

⁶⁰ US 1128 Submission, para. 29.

⁶¹ US 1128 Submission, para. 29.

⁶² Cl. Mem., paras. 180, 242.

⁶³ *Supra*, para. 11.

33. The common interpretation of Article 1110 by all three NAFTA Parties in this case means that Claimant’s Article 1110 claim cannot succeed. There is no question that the Canadian courts that found Claimant’s patents invalid were neutral and independent arbiters of the dispute before them.

C. Article 1110(7) is a Shield, Not a Sword

34. All three NAFTA Parties agree that Article 1110(7) is a shield for the NAFTA Parties in the sensitive area of intellectual property, not a sword for investors. Whether described as a “safe harbor,”⁶⁴ “complete defence,”⁶⁵ or “exception,”⁶⁶ the defensive rather than offensive nature of Article 1110(7) is agreed by all three NAFTA Parties.⁶⁷

35. Claimant’s position on Article 1110(7) is entirely inconsistent with this shared understanding. Claimant attempts to turn Article 1110(7) on its head in this arbitration, using it as a hook to convert any breach of the State-to-State obligations contained in Chapter Seventeen into compensable expropriations for which damages must be paid to individual investors.⁶⁸ The submissions of the NAFTA Parties make clear that this would be an abuse of Article 1110(7).⁶⁹ As the United States explains, Article 1110(7) “should not be read ... as a jurisdictional hook

⁶⁴ US 1128 Submission, para. 32.

⁶⁵ Resp. Rejoinder, para. 132.

⁶⁶ Mexico 1128 Submission, para. 31.

⁶⁷ US 1128 Submission, para. 32 (“The ordinary meaning of Article 1110(7) is that it excludes the listed measures from the scope of Article 1110, establishing a “safe harbor,” to the extent those measures are consistent with Chapter Seventeen.”); Resp. Rejoinder, para. 132 (“... Article 1110(7) imposes an additional barrier to finding an expropriation. In short, consistency with Chapter Seventeen of NAFTA is a complete defence to any assertion of a violation of Article 1110.”); Mexico 1128 Submission, para. 31 (“... in the absence of a finding of nonconformity by a Chapter Twenty dispute settlement panel, the exception stipulated by Article 1110(7) would apply.”).

⁶⁸ Cl. Reply, para. 18 (Arguing that even if judicial measures could not generally be expropriations “Article 1110(7) of NAFTA provides a fully sufficient and treaty-specific basis for concluding that judicial revocations of patents in substantive violation of NAFTA Chapter 17 are expropriatory...”).

⁶⁹ Resp. Rejoinder, para. 221 (Claimant’s interpretation perverts the logic of Article 1110(7) by transforming what was intended to be a shield for the NAFTA Parties in a sensitive area into a sword for disappointed patent litigants to wield.”); Mexico 1128 Submission, para. 30 (Observing that “if the NAFTA Parties had intended that a Party should be liable to compensate an investor of another Party for an alleged non-compliance with an obligation under Chapter Seventeen, they would have so provided expressly.”).

that allows a Chapter Eleven tribunal to examine whether alleged breaches of Chapter Seventeen by a NAFTA Party constitute an expropriation of intellectual property rights.”⁷⁰

36. The NAFTA Parties all agree that Article 1110(7) is not an invitation for NAFTA Chapter Eleven Tribunals to become the arbiters of compliance with the intellectual property obligations in NAFTA Chapter Seventeen. Such determinations can only be reached by a NAFTA Chapter Twenty panel in the context of State-to-State dispute settlement.⁷¹ As the United States explains, Article 1110(7) should not “be read as an invitation to review a NAFTA Party’s measures, each time they arise, for consistency with Chapter Seventeen.”⁷² Canada and Mexico agree.⁷³

37. Claimant’s attempt to transform Article 1110(7) from a shield into a sword is at odds with the common view of the NAFTA Parties. The provision was always intended to protect the ability of the NAFTA Parties to administer and evolve their intellectual property systems without every measure which impacts on intellectual property rights being cast by investors as an expropriation.

VII. CHAPTER SEVENTEEN GIVES THE NAFTA PARTIES FLEXIBILITY TO SET AND EVOLVE THEIR PATENT LAWS

38. While as noted above all three NAFTA Parties agree that it is beyond the role of this Tribunal to consider alleged breached of Chapter Seventeen here, Canada and the United States have also submitted their views on some of the provisions of Chapter Seventeen. In all important respects, Canada and the United States are in complete agreement. In particular, both Canada and

⁷⁰ US 1128 Submission, para. 34.

⁷¹ Resp. CM., para. 210, fn. 399 (“Final word on whether Canada has committed a violation of Chapter Seventeen rests with a tribunal formed under the dispute resolution provisions set out in NAFTA Chapter Twenty, which can only be initiated by the NAFTA Parties.”); US 1128 Submission, para. 23 (“A violation of that Chapter, which is subject to the State-to-State dispute resolution provisions of NAFTA Chapter Twenty, may be the basis of a claim by one NAFTA Party against another, but that violation does not provide a separate cause of action for an investor ...”); Mexico 1128 Submission, paras. 23-25 (“Chapter Twenty would apply to a dispute between two or more NAFTA Parties concerning a Party’s alleged nonconformity with a requirement of Chapter Seventeen.”).

⁷² US 1128 Submission, para. 33.

⁷³ Mexico 1128 Submission, para. 22 (“Article 1110(7) does not invite an arbitral tribunal constituted under Section B of Chapter Eleven to determine whether the host Party has complied with Chapter Seventeen when revoking or limiting intellectual property rights owned by an investor of another Party.”); Resp. Rejoinder, para. 238 “As noted above, Claimant’s theory of judicial expropriation presumes that this Tribunal is entitled to decide whether Canada has acted consistently with its obligations under other chapters of NAFTA (i.e. Chapter Seventeen) and other international treaties (i.e. the PCT). This Tribunal has no authority to make such a determination nor does Claimant even have standing *rationae personae* to make such arguments.”).

the United States affirm the flexibility of the NAFTA Parties to evolve and develop their patent law over time.⁷⁴

A. Article 1709(1) Allows Flexibility for the NAFTA Parties to Define and Implement the Utility Requirement

39. Claimant argues that Article 1709(1) constrains the NAFTA Parties to apply a specific utility standard in their domestic patent systems (and in every individual patent trial).⁷⁵ While Claimant casts this standard as a mere “baseline”, the reality of Claimant’s “baseline” is that it restricts the NAFTA Parties to apply an exceptionally low utility standard and prohibits them from increasing the stringency of that standard.⁷⁶ It is not a baseline at all, but a maximally constraining limit on the utility requirement.

40. Claimant’s highly restrictive view of both the meaning of “useful” in Article 1709(1) and the manner in which the Parties may implement the utility requirement is at odds with the views of both the United States and Canada. The United States agrees with Canada that Article 1709(1) does not impose a singular, specific meaning on the term “useful” in Article 1709(1) that removes the discretion of the NAFTA Parties.⁷⁷ As the United States explains, “The NAFTA does not prescribe any particular definition of the terms, “capable of industrial application,” or “useful,” ... The Parties retain discretion to change or refine their domestic law, but that discretion is not without limits. Were it otherwise, the obligation stated in 1709(1) would be without meaning or effect.”⁷⁸ Canada agrees with the United States that Article 1709(1) cannot be devoid of meaning, but also agrees that it confers discretion on the NAFTA Parties. As the United States expressly contemplates, Article 1709(1) does not prevent change or refinements in the patent laws of the NAFTA Parties. The NAFTA Parties never intended to lock-in specific meanings for any of the conditions of patentability in Article 1709(1), as change in the meaning

⁷⁴ Mexico did not make any comments on the content of Chapter Seventeen, noting that NAFTA Chapter Eleven tribunals are not vested with authority to consider and apply provisions of NAFTA Chapter Seventeen. Mexico 1128 Submission, paras. 22-25, 31.

⁷⁵ Cl. Mem., para. 190.

⁷⁶ Cl. Reply, para. 19.

⁷⁷ Resp. Rejoinder, para. 139 (“...the term “useful” in Article 1709(1) does not have the specific, and extremely restrictive meaning that Claimant contends. Rather, it is a broader concept that allows the parties considerable flexibility to determine the specific standard of utility to be applied.”).

⁷⁸ US 1128 Submission, paras. 40-41.

of these concepts is an inevitable feature of domestic patent systems. Claimant's highly restrictive view of Article 1709(1) cannot be reconciled with the views of either Canada or the United States.

41. Claimant also attempts to read into Article 1709(1) a host of other restrictions on how the NAFTA Parties choose to implement their respective utility requirements, including restrictions on when utility must be established, what is admissible to prove it, and what must be disclosed and when.⁷⁹ The United States and Canada agree that this is not the purpose of Article 1709(1). Article 1709(1) does not restrict the ability of the NAFTA Parties to implement the utility requirement in the manner that they see fit.⁸⁰ The United States explains that "Article 1709(1) provides each NAFTA Party with the flexibility to determine the appropriate method of implementing the requirements of Chapter Seventeen, including the utility requirement in Article 1709(1), within its own legal system and practice."⁸¹

42. The flexibility that the NAFTA Parties retain to implement the utility requirement as they see fit is of high significance in this case. Most of the elements of the "promise utility doctrine" that Claimant challenges concern the implementation of the utility requirement, rather than the actual threshold of utility required under Canadian law. Notably, the date at which utility must be proved, what evidence is admissible to prove utility, and how utility must be disclosed are, at most, questions of implementation of Article 1709(1) over which the NAFTA Parties retain flexibility.⁸²

B. Article 1709(7) Cannot be Breached in the Absence of Discriminatory Objectives

43. Claimant argues that pharmaceutical patents are subject to *de facto* discrimination in Canada.⁸³ It argues that the alleged effects of Canada's utility requirement are sufficient to

⁷⁹ Cl. Mem., para. 209; Cl. Reply, paras. 260, 267.

⁸⁰ Resp. Rejoinder, para. 159 ("Implementation issues, such as what evidence can be admitted to establish utility or how utility must be disclosed, are not governed by NAFTA Article 1709(1) at all.").

⁸¹ US 1128 Submission, para. 40.

⁸² Resp. Rejoinder, para. 146-147.

⁸³ Cl. Mem., para. 223; Cl. Reply, para. 292.

ground its discrimination claim.⁸⁴ As evidence of such effects, it puts forward data on patent invalidation rates. Apart from the serious methodological flaws in Claimant’s statistical analysis,⁸⁵ Canada agrees with the United States that the mere existence of differential effects of a measure on a particular sector does not establish discrimination under Article 1709(7). As the United States observes with respect to a WTO Panel Report concerning the identically worded Article 27.1 of TRIPS, “*de facto discrimination* in most legal systems involves both the presence of differentially disadvantageous effects of a measure and the existence of discriminatory objectives.”⁸⁶ The same analysis is applicable to NAFTA Article 1709(7).

C. Article 1709(8) Does Not Prevent Substantial Evolution in Patent Law

44. Claimant puts forward an interpretation of Article 1709(8) that would drastically interfere with the normal functioning of the patent systems of all three NAFTA Parties. Claimant argues that Article 1709(8) will be breached when judicial interpretations of patentability standards evolve more than a small amount (which Claimant describes as “marginal evolution”, “subtle changes”, and “slight tightening”), and those new interpretations are applied to invalidate a previously issued patent.⁸⁷

45. The United States and Canada agree that Article 1709(8) does not constrain the patent systems of the NAFTA Parties in this way. As the United States explains, Article 1709(8) cannot “mean that NAFTA Parties are required to freeze their intellectual property laws indefinitely from the date of review of a given patent. Article 1709(8) allows for evolution of patent law.”⁸⁸ Canada agrees.⁸⁹ The distinction that Claimant attempts to draw between “subtle changes” and more substantial changes is untenable in the context of common law adjudication, and finds no basis in the text of Article 1709(8).

⁸⁴ Cl. Mem., para. 223.

⁸⁵ Resp. Rejoinder, paras. 188-192.

⁸⁶ US 1128 Submission, para. 43 (italics in original, underlining added).

⁸⁷ Cl. Reply, paras. 303, 305.

⁸⁸ US 1128 Submission, para. 44 (“Article 1709(8) does not mean that courts are limited to reviewing the specific grounds of refusal before the patent examiner; the use of the present tense “exist” in Article 1709(8) confirms this interpretation.”); Resp. Rejoinder, para. 210 (Changes in patentability requirements “show that the NAFTA Parties do not believe that Article 1709(8) prevents the invalidation of patents based on law as it stands when the challenge was made, as opposed to when the patent was granted.”).

⁸⁹ Resp. CM, para. 397; Resp. Rejoinder, para. 205.

46. Canada further agrees with the United States that revocation of a patent even on grounds that were not before the patent examiner when the patent was initially granted does not breach Article 1709(8).⁹⁰ As the United States points out, this interpretation is confirmed by the use of the present tense “exist” in Article 1709(8).⁹¹ If there exists, *at the time that a patent is reviewed by the court*, a ground that would have provided the patent examiner authority to refuse to grant the patent, then the patent may be revoked without breaching Article 1709(8).

47. Claimant’s reading of Article 1709(8) is at odds with this agreed view of Canada and the United States. Claimant’s interpretation would stymie the evolution of patent law, and force a dramatic reappraisal of the role of the courts that would be fundamentally inconsistent with the approach of the common law system.

VIII. CONCLUSION

48. As set out above, the NAFTA Parties agree on the interpretation of the NAFTA provisions that are at issue in this case. Those shared interpretations should be accorded significant weight by the Tribunal, pursuant to Article 31(3) of the VCLT. The agreement of all three NAFTA Parties makes clear that Claimant’s claim is beyond the Tribunal’s jurisdiction *ratione temporis* and lacks any merit under either Article 1105 or 1110. Claimant’s attempt to transform this Tribunal into both a court of appeal on matters of domestic law, and also into a world court with plenary jurisdiction over all State-to-State international obligations, exceeds the consent of the NAFTA Parties to arbitration and the scope of the obligations in NAFTA Chapter Eleven.

April 22, 2016

Respectfully submitted,

[signed]

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⁹⁰ US 1128 Submission, para. 44 (“Thus, if a court, in determining whether to revoke a patent, finds that “grounds exist” that would have provided the Party’s patent examining authority to refuse to grant the patent, then revocation of that patent would not be inconsistent with Article 1709(8). Article 1709(8) does not mean that courts are limited to reviewing the specific grounds of refusal before the patent examiner; the use of the present tense “exist” in Article 1709(8) confirms this interpretation.”).

⁹¹ US 1128 Submission, para. 44.

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