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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

IN THE MATTER OF AN ARBITRATION

AND

IN THE PROCEEDING BETWEEN

MEDBERG CO.

(CLAIMANT)

AND

THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

(RESPONDENT)

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**MEMORIAL FOR RESPONDENT**

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(ICSID Case No. ARB/X/X)

Frankfurt International Arbitration Centre

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**STATEMENT OF FACTS**

1. MedBerg Co. (“Claimant”) is a domestic company constituted in Bergonia, the territory within the sovereignty of Respondent. It was established on 30 January 2004.<sup>1</sup> It has its seats in Bergonia.<sup>2</sup> Directorial meetings are held in Bergonia.<sup>3</sup> MedX Holdings Ltd. (“MedX”) wholly owns Claimant. Although MedX is a Conveniencian national, it is owned by two non-Conveniencian nationals equally, namely Dr. Frankensid and MedScience Co. (“MedScience”).<sup>4</sup>
2. The Republic of Bergonia has a GDP per capita USD of \$7,535 in 2006.<sup>5</sup> Bergonia’s GDP per capita is between that of Thailand and Suriname. The two aforesaid countries are developing countries under the World Bank’s definition. Therefore, Bergonia should be considered as a developing country.
3. Bergonia and Conveniencia are Contracting States to the Bergonia-Conveniencian BIT (“the B-C BIT”). They are both members of the World Trade Organisation (“WTO”) and parties to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (“ICSID Convention”), the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”), and the Vienna Convention on the Law of Treaties.<sup>6</sup>
4. Claimant has owned Patent No. AZ2005 (“the Patent”) since 15 March 2005. The medical technology covered by the Patent is used to produce products and treatments for

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1 Uncontested Facts, para.1.

2 1st Clarifications, Request 35.

3 1st Clarifications, Request 4.

4 Uncontested Facts, para.2.

5 1st Clarifications, Request 44.

6 Uncontested Facts, para.3; 2nd Clarifications, Request 108.

obesity.<sup>7</sup> The patented products can slow down lipid absorption and optimize lipid metabolism.<sup>8</sup>

5. Obesity is a significant and long-standing health issue in Bergonia.<sup>9</sup> Among the Bergonian population, 34% of males and 38% of females suffer from obesity.<sup>10</sup> This is because the genetic make-up and traditional diet of the Bergonian people are major causes of obesity in Bergonia.<sup>11</sup>
6. There are at least two published studies which support the efficacy of the products and treatments of the Patent in treating this particular type of obesity.<sup>12</sup> The health of Bergonians is jeopardized by obesity and its associated medical problems<sup>13</sup> such as Diabetes Mellitus and fatal coronary heart diseases<sup>14</sup>.
7. Claimant had entered into a licence agreement with BioLife Co. (“BioLife”) on 31 March 2005 (“the Licence Agreement”). After only two years, Claimant terminated the Licence Agreement. Upon receiving notice of termination, BioLife attempted to renegotiate the terms of the Licence Agreement. However, Claimant ended these negotiations after only three days.<sup>15</sup>

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7 1st Clarifications, Request 40.

8 2nd Clarifications, Request 73.

9 1st Clarifications, Request 40.

10 2nd Clarifications, Request 65.

11 1st Clarifications, Request 40.

12 1st Clarifications, Request 26.

13 1st Clarifications, Request 40.

14 WHO Technical Report, pp.46-53.

15 Uncontested Facts, para.6.

8. After the termination of the Licence Agreement, the medical needs in Bergonia have become more acute.<sup>16</sup> However, Claimant had not displayed any immediate plans to licence its intellectual property to a third-party in Bergonia.<sup>17</sup>
9. Respondent decided it must move to address its important domestic medical needs. The Bergonian Intellectual Property Office (“IP Office”) commenced a proceeding of the issuance of a compulsory license on 1 June 2007.<sup>18</sup> As the Patent holder, Claimant was notified of the proceedings when they were initiated by the IP Office.<sup>19</sup>
10. On 1 November 2007, the IP Office issued a compulsory licence for the Patent (“the Compulsory Licence”).<sup>20</sup> Upon the issuance of the Compulsory Licence, Claimant filed an appeal with a Patent Review Board.<sup>21</sup> The Patent Review Board found the issuance of the compulsory licence in conformity with Bergonian Law.<sup>22</sup>
11. As of 1 January 2009, BioLife and five other Bergonian entities have invoked the Compulsory Licence.<sup>23</sup> These entities have produced the patented products. Some of them exported the patented products to other developing countries.<sup>24</sup>
12. The units sold by the six entities are 155% of that sold previously by BioLife alone.<sup>25</sup> Total sales revenue for the six entities is higher than it was for BioLife under the Licence

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16 1st Clarifications, Request 26.

17 1st Clarifications, Request 42.

18 Uncontested Facts, paras.7-8.

19 1st Clarifications, Request 46.

20 Uncontested Facts, paras.7-8.

21 1st Clarifications, Request 29.

22 1st Clarifications, Request 27.

23 Uncontested Facts, para.8.

24 2nd Clarifications, Request 62.

25 1st Clarifications, Request 19.

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Agreement.<sup>26</sup> The IP Office has collected royalties from the six entities based on sales<sup>27</sup>. It has offered these royalty payments to Claimant. However, Claimant has refused to accept them.<sup>28</sup>

13. On 1 November 2008, the Secretary General of the International Centre for Settlement of Investment Disputes (“ICSID”) registered the dispute for arbitration.

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26 1st Clarifications, Request 19.

27 1st Clarifications, Request 13.

28 Uncontested Facts, para.8.

**SUMMARY OF ARGUMENTS**

14. **JURISDICTION.** Respondent submits that ICSID has no jurisdiction and the Tribunal is without competence. ICSID should only act within Article 25(1) ICSID Convention which limits the jurisdiction of the Centre. However, Claimant cannot satisfy Article 25(1) ICSID Convention because it is not a national of another Contracting State. Therefore, the Tribunal is acting without competence.
15. Article 25(2)(b) ICSID Convention states that an investor can be deemed as an investor of another Contracting State if the parties have agreed so because of foreign control. Although Claimant claims that it is under the foreign control of a national of another Contracting State, it failed to prove so. Moreover, Respondent has never agreed that Claimant will be deemed as such. Accordingly, Article 25(2)(b) ICSID Convention is inapplicable. In addition, the Patent is not a protected investment for the purposes of the ICSID Convention.
16. **MERITS.** Regarding the issuance of the compulsory licence, Respondent submits that it is not an expropriation. Even if it is an expropriation, it is lawful. Respondent has completely complied with the B-C BIT and has provided sufficient protection for Claimant's investment. First, Respondent has not breached Article 4(2) of the B-C BIT by issuing the compulsory licence. Second, Respondent has complied with TRIPS, thus, has not breached Article 8(1) of the B-C BIT. Third, Respondent has complied with its obligation under Articles 2(2) and 4(2) of the B-C BIT to provide fair and equitable treatment ("FET") and full protection and security. Therefore, Claimant's case has no merit.

## **THE ARGUMENTS**

### **PART ONE: PRELIMINARY ISSUES**

#### **1.1 Applicable Law**

17. Article 42(1) of the ICSID Convention, to which both Bergonia and Conveniencia are parties, provides:

The Tribunal shall decide a dispute in accordance with such rules of law as may be agreed by the parties. In the absence of such agreement, the Tribunal shall apply the law of the Contracting State party to the dispute (including its rules on the conflict of laws) and such rules of international law as may be applicable.<sup>29</sup>

18. In relation to international arbitral awards, it should be noted that no doctrine of precedent exists in international arbitration.<sup>30</sup> However, to maintain stability and consistency of international investment law, earlier arbitral awards need to be taken into account when a Tribunal makes a decision.<sup>31</sup> The Tribunal in *Saipem v Bangladesh*<sup>32</sup>, for example, stated that although there is no binding precedent rule in international

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<sup>29</sup> Convention on the Settlement of Investment Disputes between States and Nationals of Other States, March 18 1965, 575 U.N.T.S (“ICSID Convention”).

<sup>30</sup> *SGS v Philippines*, ICSID Case No ARB/02/6, Decision on Jurisdiction, 29 January 2004, at para 97.

<sup>31</sup> *Saipem v Bangladesh*, ICSID Case No ARB /05/7, Decision on Jurisdiction, 21 March 2007, at para 67; Thomas W. Wälde, “Investment Arbitration under the Energy Charter Treaty: An overview of Key Issues”, 1 TRANSNATIONAL DISPUTE MANAGEMENT 1 (2004).

<sup>32</sup> *Saipem v Bangladesh*, ICSID Case No ARB /05/7, Decision on Jurisdiction, 21 March 2007.

arbitration, a Tribunal has a duty “to adopt solutions established in a series of consistent cases”.<sup>33</sup> Additionally, that Tribunal stated that arbitral Tribunals also have a duty to ensure that they “contribute to the harmonious development of investment law”.<sup>34</sup>

## 1.2 Treaty Interpretation

19. Articles 31 and 32 of the Vienna Convention on the Law of Treaties (“VCLT”)<sup>35</sup> will be applied where any treaty provision is required to be interpreted in this submission. Articles 31 and 32 of the VCLT are considered to express rules of customary international law.<sup>36</sup>

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<sup>33</sup> *SGS v Philippines*, ICSID Case No ARB/02/6, Decision on Jurisdiction, 29 January 2004, at para 97.

<sup>34</sup> *supra* n22

<sup>35</sup> Vienna Convention on the Law of Treaties, May 23, 1969, 1155 U.N.T.S 331, 8 I.L.M. 679 (“VCLT”).

<sup>36</sup> *The Iron Rhine (IJzeren Rijn) Arbitration (Belgium v Netherlands)*, Award of the Arbitral Tribunal, 24 May 2005, at para 45; *Land, Island and Maritime Frontier Dispute (El Salvador v. Honduras: Nicaragua intervening)*, ICJ Reports (1992) 582-583, at para.373, and 586, at para 380; *Territorial Dispute (Libyan Arab Jamhiriya v. Chad)*, ICJ Reports (1994) 21-22, at para 41; *Maritime Delimitation and Territorial Questions between Qatar and Bahrain (Qatar v. Bahrain)*, Jurisdiction and Admissibility, ICJ Report (1995) 18, at para 33.

## **PART TWO: JURISDICTION OF THE ICSID**

### **2. Article 25(1) ICSID Convention Jurisdictional Prerequisites**

20. Respondent submits that ICSID Centre has no jurisdiction and the Tribunal is without competence.

21. ICSID is a forum of direct investor-state dispute resolution system created by the ICSID Convention.<sup>37</sup> Therefore, ICSID should only act within Article 25(1) of the ICSID Convention which limits its outer boundary of the jurisdiction of the Centre.<sup>38</sup> Article 25(1) provides:

The jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a Contracting State... and a national of another Contracting State, which the parties to the dispute consent in writing to submit to the Centre...

22. The Tribunal is acting within its competence only when the dispute can satisfy all requirements for the jurisdiction of the Centre in Article 25(1):

The dispute must be between a Contracting State and a national of another Contracting State;

Both parties (the Contracting State and the National) must give written consent to submit the dispute to the Centre;

The dispute must be a legal one, and it must arise out of an investment.

23. Respondent submits that the present dispute fails to satisfy ANY one of the aforementioned requirements. Therefore, the ICSID Centre has no jurisdiction to hear this dispute.

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<sup>37</sup> RUBINS, p.290.

<sup>38</sup> Broches, pp.351-361.

24. The requirements in Article 25(1) are discussed in the following headings:

1.1. Nationality Requirement – The need of an agreement by Respondent to treat Claimant as a Conveniencian investor because of its foreign control;

1.2. Written Consent Requirement – The need of a written consent between the parties to submit the dispute before an ICSID Tribunal;

1.3. Investment Requirement – The need for an investment within the meaning of Article 25(1) of the ICSID Convention.

### **2.1.Nationality Requirement**

25. Respondent submits that Claimant is not “a national of another Contracting State” for the purposes of the ICSID Convention.

26. According to Article 25(1) of ICSID Convention, ICSID only has jurisdiction when Claimant is “a national of another Contracting State”. That is, Claimant must be an investor of Conveniencia in order to claim against the State of Bergonia.

27. The nationality requirement in Article 25(1) of the ICSID Convention is further defined in Article 25(2)(b). Article 25(2)(b) defines “National of another Contracting State” for a company:

... any juridical person which had the nationality of the Contracting State party to the dispute on that date and which, because of foreign control, the parties have agreed should be treated as a national of another Contracting State for the purposes of this Convention.

28. Article 25(2)(b) requires that there must be an agreement to treat an investor and the Contracting State as a national of another Contracting State. Such investor must be under

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foreign control.

29. In the present case, Respondent submits that: firstly, Claimant is not under the control of a Conveniencian entity; and secondly, Respondent has never agreed to treat Claimant as a national of Conveniencia because of the foreign control. These will be discussed under the following headings:

**2.1.1. OBJECTIVE REQUIREMENT OF FOREIGN CONTROL** – Claimant has been constituted in Bergonia, and it has its business activities such as board meetings in Bergonia.

**2.1.2. PIERCING THE CORPORATE VEIL IS NECESSARY IN THE PRESENT DISPUTE-** Respondent submits that Claimant is not under any foreign control. Respondent also submits that piercing the corporate veil is necessary in the present dispute.

**2.1.3. AGREEMENT** - Respondent has never agreed that Claimant can be treated as a national

**2.1.4. MOST-FAVOURED-NATION (“MFN”) STANDARD IN NATIONALITY-** Respondent submits that MFN standard is irrelevant in relation to nationality issues.

### ***2.1.1. Objective Requirement of Foreign Control***

30. Claimant is a Bergonian incorporated entity. It has its seat in Bergonia and has business activities in Bergonia. Respondent has domestic laws governing nationality which it applies as appropriate.<sup>39</sup> Even though Respondent was aware of Claimant's ownership at all times,<sup>40</sup> at no point has Respondent treated Claimant as a foreign business.<sup>41</sup>
31. Respondent has the right to determine Claimant's nationality because of its sovereignty and by virtue of Claimant's Bergonian incorporation.<sup>42</sup> In the present case, Respondent submits that Claimant is a domestic company.
32. In order for Claimant to bring this dispute before the ICSID mechanism, it must establish that it possesses the requisite nationality of a Contracting State to the ICSID Convention. Therefore, Claimant must rely on Article 25(2)(b) of the ICSID Convention to convince this Tribunal that it possesses the requisite nationality to bring an ICSID claim by way of foreign control.
33. Claimant must prove that a national of a Contracting State exerts control over it if it is afforded protection under ICSID Convention Article 25(2)(b). Respondent further submits that Claimant has failed to satisfy this burden.
34. Respondent submits that mere ownership is not enough to establish the requirement of "foreign control" under ICSID Convention Article 25(2)(b). This requirement of "foreign

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39 1st Clarifications, Request 41.

40 2nd Clarifications, Request 59.

41 1st Clarifications, Request 14.

42 SORNARAJAH, p.266.

control” can only be satisfied through an objective finding of control.<sup>43</sup> This position is supported by Professor Schreuer:

These cases, especially *Vacuum Salt*, make it abundantly clear that foreign control at the time of consent is an objective requirement which must be examined by the Tribunal in order to establish jurisdiction.<sup>44</sup>

35. In addition to Professor Schreuer’s comments, the case of *Vacuum Salt* provides for a standard of objective control. It was stated in *Vacuum Salt*:

... [Controller] was in a position to steer, through either positive or negative action, the fortunes of *Vacuum Salt*.<sup>45</sup>

36. In order for Claimant to establish itself as a national of a Contracting State because of “foreign control”, it must satisfy this Tribunal that MedX has objective control over it.

37. Respondent submits that Claimant has not satisfied the requirement of “foreign control” under the ICSID Convention Article 25(2)(b) because Claimant has failed to show that MedX has objective control over it during its operation in Bergonia.

38. Claimant must satisfy the objective test for the foreign control in accordance with the standard in *Vacuum Salt*. Claimant must also demonstrate that MedX has exerted such control over it whilst it operates in Bergonia. Accordingly, satisfaction of the objective test for foreign control requires Claimant to prove to this Tribunal that MedX has actively influenced Claimant’s decisions and actions.

39. MedX did not have objective control over Claimant because MedX only comprises of a Conveniencian lawyer and a Conveniencian tax auditor.<sup>46</sup> Given that MedX holds the

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43 *TSA Spectrum*, para.140.

44 ICSID COMMENTARY, p.312.

45 *Vacuum Salt*, para.53.

46 2nd Clarifications, Request 76.

worldwide interests for the invention behind the Patent<sup>47</sup>, it is unlikely that two people can effectively manage such a complex operation. Therefore, Respondent submits that MedX is a shell company and does not have objective control over Claimant.

40. The logical conclusion that follows must be that an entity other than MedX objectively controls Claimant.

***2.1.2. Piercing the corporate veil is necessary in the present case***

41. The doctrine of ‘piercing the corporate veil’ is commonly used in investment arbitration. It can be traced back to the *Barcelona Traction* decision of the International Court of Justice.
42. From an investor’s perspective, a request for ‘piercing the corporate veil’ from a tribunal allows for a disregard of the difference between the legal personalities of companies in which an investor invested in and held shares. That is, a tribunal should take into account that the party which truly suffered from an act by a State that is allegedly in breach of an International Investment Agreement.
43. From a State’s perspective, this doctrine asks a tribunal to search for the true parties involved with an investment and to not allow investors to hide behind the legal personalities of corporate structures.<sup>48</sup>
44. Claimant contends that it is a Conveniencia national by virtue of ownership, and it is based upon the doctrine of piercing the corporate veil. Claimant is asking this Tribunal to look past commercial identities and corporate structures to establish the requisite

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47 2nd Clarifications, Request 74.

48 PERKAMS, p.93.

nationality so that this Tribunal has jurisdiction to proceed to examine the substantive issues of this dispute.

45. In order to establish the requisite nationality, Claimant must contend that it is MedX which truly suffered from Respondent's actions.
46. Respondent also seeks this Tribunal's indulgence to pierce the corporate veil. Respondent submits that this Tribunal must search for the true parties involved with the Bergonian investment. Respondent further submits that such parties must be the ultimate controlling entities of Claimant.
47. Piercing of the corporate veil is necessary in the current dispute to ensure that Claimant is not merely "treaty shopping"<sup>49</sup> so as to afford itself protection under the B-C BIT and records to bring ICSID proceedings. Moreover, in accordance with the purpose and spirit of the ICSID Convention, this Tribunal must also determine the nationality of the ultimate controlling entities of Claimant to establish whether or not the investment in dispute is of an international nature.<sup>50</sup>
48. Therefore, Respondent submits that this Tribunal has two tasks when determining the issue of foreign control in the present dispute:
- (a). whether foreign control over Claimant objectively exists;
  - (b). what is the nationality of such ultimate controller if one exists.
49. Respondent notes that ICSID tribunals have not been consistent in dealing with the issue of whether or not to pierce the second corporate layer in identifying foreign control. In each of *AMCO v. Indonesia*, *Autopista v. Venezuela*, and *Agua v. Bolivia*, the Tribunal refused to lift the veil beyond the first layer of the corporate structure. Respondent seeks

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49 *Maffezini*.

50 *Tokios Tokelès*.

to distinguish these cases from the present dispute because the issue of all those cases was the nationality of the foreign controlling entity and not the objective existence of foreign control.

50. Whereas the tribunals in *SOABI v. Senegal* and *African Holding Company of America v. Congo* proceeded to pierce through successive corporate layers to identify foreign control and that nationality of the controlling entities.

51. The case that raises the question of the objective existence of foreign control was *Vacuum Salt*. Again, Respondent seeks to distinguish *Vacuum Salt* from the present dispute because this Tribunal is faced with the aforementioned two tasks when dealing with the issue of foreign control; *Vacuum Salt* only deals with the former of the two tasks.

52. Having distinguished all the aforementioned cases, Respondent submits that this Tribunal must approach the foreign control issue with the method suggested in *TSA Spectrum*, which is:

[A] majority appear to favour piercing the veil and going for the real control and nationality of controllers.<sup>51</sup>

53. To reiterate, Respondent submits that the proper approach to the issue of foreign control is two-fold: firstly, determine whether or not foreign control existed objectively; and secondly, the nationality of such a foreign controlling entity if one exists.

54. Claimant may contend that since MedScience and Dr. Frankensid both own equal shares of MedX, a search for a single ultimate controller of Claimant will be indeterminate. As both parties equally control Claimant, neither party can be described as the ultimate controlling entity.

55. Consequently, Claimant may contend that MedX, the subsequent layer within the corporate structure, must be the ultimate controlling entity of Claimant. This possible

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<sup>51</sup> *TSA Spectrum*, para.152.

contention of Claimant's is supported by the case of *Aguas v. Bolivia*. However, Respondent submits that the case of *Aguas v. Bolivia* must be distinguished from this present dispute. In *Aguas v. Bolivia*, two companies with different nationalities set up a joint venture to carry out certain investments. The tribunal in that case held that since neither of the two companies exclusively controlled the subsidiary, it follows that control over the local vehicle under examination resulted to the subsidiary.

56. The facts in this present dispute are very different from that in *Aguas v. Bolivia*. In the present dispute, MedScience and Dr. Frankensid both own equal shares, and the associated voting rights, of MedX. However, Dr. Frankensid is employed by MedScience and "would like to continue in the employment of MedScience"<sup>52</sup>.

57. Such fundamental differences within the facts of this present case are the reasons why *Aguas v. Bolivia* must be distinguished. Although Dr. Frankensid owns 50% of MedX and the associated voting rights, Dr. Frankensid is still an employee of MedScience and wants to retain his employment with the company. Therefore, Respondent submits that MedScience is the ultimate controller of Claimant.

58. MedScience is a national of Laputa. Laputa is neither a Contracting State to the ICSID Convention nor a party to the B-C BIT. Since MedScience is the ultimate controller, Claimant does not possess the requisite nationality to confer jurisdiction to this Tribunal. Respondent further submits that the investment in question involves a Contracting State and a national of a Non-Contracting State. In order for this Tribunal to have jurisdiction, the nationality requirement under both the ICSID Convention and the B-C BIT must be met – Claimant has failed to meet such requirements.

59. Respondent submits that this Tribunal must decline jurisdiction for the lack of an appropriate nationality in relation to the present dispute.

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52 1st Clarifications, Request 18.

### ***2.1.3. Agreement Between Claimant and Respondent in Nationality Issues***

60. Respondent has never agreed to treat Claimant as a national of another Contracting State.

61. Although Article 25(2)(b) of the ICSID Convention does not require that the agreement of nationality to be in writing, Respondent submits that an express and contrary intention of Respondent has been manifested in Article 1 (“Definition”) of the B-C BIT.

62. Article 1(3)(b) of the B-C BIT provides:

the term “investor” means... (b) in respect of the Sultanate of Conveniencia... any juridical person having its seat in the territory of the Sultanate of Conveniencia in accordance with its laws...

63. Respondent is unequivocally expressing its intention in the B-C BIT: an investor can be a national of Conveniencia only if it has its seat in Conveniencia. In the present case, Claimant has been legally constituted in Bergonia. It has its seat in Bergonia and its director meetings have been held in Bergonia. Accordingly, Claimant is a Conveniencia investor at the time of the ratification of the B-C BIT, at the time of the dispute or at present.

64. Claimant has failed to provide any evidence of contrary intention of Respondent or the existence of any agreement of nationality between Claimant and Respondent outside the B-C BIT.

65. Therefore, Respondent submits that Article 1 of the B-C BIT rebuts the possibility that Respondent has agreed to deem Claimant as a national of Conveniencia.

### ***2.1.4. MFN Standard Concerning Nationality***

66. In relation to nationality issues, it is submitted that Claimant cannot allege Respondent failed to provide MFN treatment.

67. Article 3(2) of the B-C BIT (the MFN clause) provides:

Neither Contracting State shall subject investors of the other Contracting State, as regards their activity, in particular, though not exclusively, concerning management, maintenance, operation, enjoyment or disposal of their investments, to treatment less favourable than it accords to its own investors or to investors of any third State, whichever is more favourable to the investors.

68. As stated by Professor Schreuer, MFN clauses in treaties should ensure that the relevant parties treat each other in a manner at least as favourable as they treat third parties.<sup>53</sup>

69. Respondent agrees that it must treat a Conveniencian investor no less favourably than a Bergonian investor or an investor of other third States. Nonetheless, Claimant is not a national of Conveniencia at all material times.

70. In the present case, Claimant fails to satisfy the seat requirement in Article 1(3)(b) of the B-C BIT. The B-C BIT requires a Conveniencian company to have its seats in the territory of Conveniencia, but Claimant has its seats in Bergonia. Therefore, it cannot stand for a claim as a “Conveniencian investor” because it has its seat in Bergonia. In other words, Claimant has no *jus standi* to stand as a foreign investor for a claim against Respondent.

71. Claimant contends that MFN clause in the B-C BIT will relieve an investor from such seat requirement.

72. Respondent submits that an investor cannot institute the procedure of an arbitration process under the treaty without the proper seat. However, MFN standard applies to procedural issues in very limited circumstances only. Respondent submits three points to object the application of MFN standard in the present case with regard to nationality issues.

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53 SCHREUER, p.186.

73. First, *Maffezini* and *RosInvest* enabled investors from the procedural issues because of the MFN clauses. However, the investors in these two cases had *jus standi* to hear the dispute despite the procedural burdens. Therefore, they are distinguished from the present case.
74. In the aforesaid ICSID cases, MFN treatment merely facilitated the investors of shorter time requirements (that is, a more favourable condition of admissibility) before the dispute can be admitted to the ICSID tribunals. In all those cases, the investors had *jus standi* to submit the dispute as a foreign investor under the BIT. However, Claimant did not have *jus standi* to be protected by the B-C BIT at all, unlike all investors in *Maffezini* and *RosInvest*.
75. Second, most ICSID tribunals accepted their jurisdiction in procedural matters by way of MFN clauses only when the phrase “in all matters” were found in the BITs. This phrase indicates that the parties intend to cover jurisdictional matters in the MFN standard. This can be seen in cases such *Maffezini*, *Siemens*, *Gas Natural SDG*, and *Suez v Argentina*.
76. Respondent submits that a clause of arbitration must be unambiguous. In the MFN clause of the B-C BIT, the phrase “in all matters” is absent. In the recent *Wintershall* decision, the ICSID tribunal held:
- ... States could provide expressly that they intended the MFN Clause to apply to dispute settlement, but the mere fact that the MFN Clause was expressed to apply “with respect to all matters” dealt with by the basic treaty was not sufficient to dispel the doubt as to whether the parties had really intended it to apply to the dispute settlement clause.<sup>54</sup>
77. In the present case, the deemed nationality of the investor is the essential element of the dispute settlement clause in Article 10(2)(b) of the B-C BIT as aforesaid. Therefore, the absence of the phrase “in all matters” puts significant doubt as to whether Bergonia and Conveniencia intend to apply MFN treatment to the dispute settlement clause.

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<sup>54</sup> *Wintershall*, para.167.

78. Respondent notices that the phrase “in all matters” is not found in the BIT in *RosInvest*. That decision extends the application of MFN standard to procedural issues. However, the decision in *RosInvest* is distinguished from the present case for the following reasons.

79. The Tribunal in *RosInvest* stated,

Can the term treatment include the protection by an arbitration clause? The Tribunal feels that, for the purposes of this Award, it does not have to answer that question in general...<sup>55</sup>

80. Therefore, the decision in *RosInvest* merely refers to the applicability of MFN clause in the arbitral agreement contained in the BIT in relation to expropriation only.<sup>56</sup> In this present case, the question is in general: can MFN clause apply to any sections of B-C BIT, including Article 10 which stipulates the dispute settlement mechanism?

81. Respondent submits that an arbitral agreement must be clear, obvious and unequivocal, and the contracting parties to the B-C BIT do not intend that the MFN treatment applies to the arbitral agreement in general. The Permanent Court of International Justice in *Phosphate in Morocco* stated that

a jurisdictional clause must on no account be interpreted in such a way as to exceed the intention of the States that subscribed to it.<sup>57</sup>

82. In this present case, Respondent has manifestly stated its intention in the B-C BIT - a Conveniencian investor must have its seat in Conveniencia.

83. Third, Respondent submits that Claimant cannot extensively construct Article 3 of the B-C BIT in a way that it covers procedural issues. Such a construction violates the *ejusdem generis* principle, which is a general rule of treaty interpretation.<sup>58</sup>

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<sup>55</sup> *RosInvest*, para.128.

<sup>56</sup> *RosInvest*.

<sup>57</sup> *Phosphate in Morocco*, p.18.

84. In Article 3(2), the B-C BIT lists some specific issues of substantive rights such as management, operation and enjoyment of investment. In other words, MFN treatment (that is, no less favourable treatment than any third States) relates to “activity” of the investors only. It expressly provides examples as to the scope of “activity”:

... as regards their activity, in particular, though not exclusively, concerning management, maintenance, operation, enjoyment or disposal of their investments...

85. In this provision, the drafters have carefully provided a list of activities that involves issues of substantive law only. The list of activities does not include any jurisdictional issues of particular concerns to the parties, such as dispute settlement and procedures.

86. Article 3(2) of the B-C BIT has shown the parties’ intention to limit the operation of MFN standard to substantive rights only. Accordingly, Respondent submits that the term “activity” is narrow and limited. At least, substantive issues are of particular concerns when the drafters negotiate the MFN standard between the Contracting States.

87. However, Article VI (8) of the Tertia-Bergonia BIT is purely procedural. It provides:

For purposes of an arbitration held under paragraph 3 of this Article, any company legally constituted under the applicable laws and regulations of a Party or a political subdivision thereof but that, immediately before the occurrence of the event or events giving rise to the dispute, was an investment of nationals or companies of the other Party, shall be treated as a national or company of such other Party in accordance with Article 25(2)(b) of the ICSID Convention.

88. The above decision is supported by the Oxford Handbook, in which Pia Acconci identifies the following essential features of MFN standard:

The *ejusdem generis* principle requires that the international treaty including a most-favoured-nation clause... deals with the same subject-matter as the international treaty providing for the most favourable

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<sup>58</sup> REINISCH, pp.75; *Maffezini*.

treatment... Otherwise, in conformity with general rules of international law, the ‘third-party treaty’ is *res inter alios acta* in respect of the state which, under the ‘basic treaty’, is the beneficiary of the most-favoured-nation treatment.<sup>59</sup>

89. Accordingly, the *ejusdem generis* principle requires that the construction of the MFN clauses in the B-C BIT must deal with the same subject-matter in the third-party BIT. However, the MFN clause in the B-C BIT and the Dispute Settlement Clause in the Bergonia-Tertia BIT does not deal with the same subject matter.

90. Therefore, Respondent submits that the application of MFN Clause in the B-C BIT. It is untenable.

91. However, Claimant is a Bergonian investor and all BITs are irrelevant to such domestic disputes within the sovereignty of Respondent.

92. In the present case, Respondent submits that consent is required to treat Claimant as a national of Conveniencia. In Claimant’s argument, Article 3 of the B-C BIT permits Claimant to invoke Article VI(8) of the Bergonia-Tertia BIT.

93. Article 3(1) of the B-C BIT provides:

Neither Contracting State shall subject investments in its territory owned or controlled by investors of the other Contracting State to *treatment less favourable* [emphasis added] than it accords to investments of its own investors or to investments of investors of any third State.

94. As aforementioned, Respondent is against the application of MFN Clauses in procedural rights. However, it is submitted that, even in the event that the clause concerned would apply, the MFN treatment would not be breached. This is because the construction of the

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<sup>59</sup> OXFORD HANDBOOK, p.365.

Bergonia-Tertia BIT permits a Contracting State to deny the advantage of brings an ICSID claim by an investor. The reason is discussed below.

95. Both BITs does not specify any applicable rule of interpretation. Therefore, it is submitted that Article VI must be interpreted according to Article 31 of the Vienna Convention on the Law of Treaties. It provides:

[A treaty is to be] interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.

96. In Article I of the Bergonia-Tertia BIT provides the purpose of the BIT. In Article I(2), it provides:

Each Party reserves the right to deny to any company the advantages of this Treaty if nationals of any third country control such company and, in the case of a company of the other Party, that company has no substantial business activities in the territory of the other Party or is controlled by nationals of a third country with which the denying Party does not maintain normal economic relations.

97. The construction of the Bergonia-Tertia BIT must therefore be interpreted in good faith, that is, the Contracting State is entitled to deny benefit of any investor claiming treaty benefits if such investor is under a foreign control. All provisions within the Bergonia-Tertia BIT must be interpreted accordingly. Article VI(8) prevents an investor under foreign control to enjoy any benefit provided by the Bergonia-Tertia BIT. If the Bergonia-Tertia BIT is imported by MFN standard, Respondent submits that Claimant is not entitled to bring an ICSID claim because Claimant is under foreign control.

## ***2.2 Written Consent Requirement***

98. Respondent has not consented to submit the dispute to ICSID proceedings.

99. Written consent requirement in Article 25(1) of the ICSID Convention is different from

the agreement between parties in nationality in Article 25(2)(b).

100. The written consent in Article 25(1) of the ICSID Convention refers to the consent between the State and the investor to submit their dispute to the ICSID Centre. Therefore, it must not be confused with the agreement in Article 25(2)(b) which concerns nationality of an investor.
101. Claimant must prove that Respondent has consented to ICSID proceedings in this dispute. Other than a written consent between an investor and the Contracting State, States can provide written consent to submit future investment disputes to arbitration through BITs.<sup>60</sup> In the present case, the only written consent from Respondent to submit the dispute to the ICSID Centre is found in Article 10(2)(b) of the B-C BIT.
102. In Article 10(2)(b) of the B-C BIT, an investor may request an international arbitration:
- (2) If such a dispute cannot be settled within a period of three months from the date of receipt of request for settlement, the dispute shall be submitted **at the request of the investor** [emphasis added] alternatively or consecutively to: (a) the competent court of the Contracting State in whose territory the investment has been made; (b) international arbitration under either: – the Convention of 18 March 1965 on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID)...
103. Therefore, a dispute can be submitted “at the request of the investor” only. Article 1(3)(b) of the B-C BIT provides the definition of the term “investor”:
- [T]he term “investor” means...(b) in respect of the Sultanate of Conveniencia... any juridical person having its seat in the territory of the Sultanate of Conveniencia in accordance with its laws.
104. Respondent submits that it has clearly, obviously and unequivocally defined “the investor” in Article 1 (“Definition”) of the B-C BIT. Such definition is unambiguous, and

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<sup>60</sup> DUGAN, p. 220.

no contrary written definition of the term “investor” can be found between Claimant and Respondent inside or outside the B-C BIT.

105. Claimant is constituted in Bergonia and its broad meetings are held in Bergonia. Broad meetings were held to manage the company so that the place of holding broad meetings indicated where the company was controlled. Therefore, Claimant fails to satisfy the seat requirement in Article 1(3)(b) of the B-C BIT. Claimant is not an investor for the purpose of the B-C BIT and it cannot benefit from the B-C BIT and request the dispute to be submitted to ICSID Centre.
106. In short, Respondent has not consented to submit the current dispute to the ICSID Centre.
107. Similarly in the aforementioned arguments in the agreement of nationality, Respondent submits that seat requirement in the B-C BIT also bars Claimant from acquiring any written consent from Respondent through the BIT.
108. Claimant contended that the seat requirement in Article 1(3)(b) of the B-C BIT can be avoided by MFN Clause. However, Respondent submits that such position is legally misconceived.
109. In *Plama*, an ICSID tribunal was asked to decide whether MFN treatment could extend to the consent between parties to submit a dispute to the ICSID Centre. The Tribunal also refused to extend the MFN clause:

The most favored nation provision of the Bulgaria–Cyprus BIT, read with other BITs to which Bulgaria is a Contracting Party (in particular the Bulgaria–Finland BIT), cannot be interpreted as providing Respondent's consent to submit the dispute with the Claimant under the Bulgaria–Cyprus BIT to ICSID arbitration or entitling the Claimant to rely in the present case on dispute settlement provisions contained in these other BITs.<sup>61</sup>

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<sup>61</sup> *Plama*, para.240.

110. In a recent ICSID case, *Wintershall*, the Tribunal also refused Claimant to rely on the MFN clause in Article 3 of the Argentine-Germany BIT in order to avoid compliance with the requirements set forth in Article 10(2) of that BIT.
111. As stated by the Tribunal in *Wintershall*,  
all international arbitration must be based upon an agreement of the parties, which must be clear and unambiguous, even where reached by incorporation or by reference; States could provide expressly that they intended the MFN Clause to apply to dispute settlement, but the mere fact that the MFN Clause was expressed to apply “with respect to all matters” dealt with by the basic treaty was not sufficient to dispel the doubt as to whether the parties had really intended it to apply to the dispute settlement clause.<sup>62</sup>
112. In short, any written consent between two parties must be clear and unambiguous, and a MFN Clause in the BIT alone cannot provide such effects.
113. In the present case, Respondent submits that no intention has been shown in the B-C BIT that Respondent agrees to submit a dispute for international arbitration an investor has its seat in Conveniencia.

### 2.3 Investment Requirement

114. This Tribunal does not have jurisdiction because the investment requirement has not been met.
115. The Patent does not satisfy the definition of investment under the ICSID Convention. Alternatively, (1.3.2.)the Patent has not been used up to this day. Even if the definition of investment under the ICSID Convention and the B-C BIT is satisfied, both the ICSID convention and the B-C BIT would not protect a patent that is not in use.

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<sup>62</sup> *Wintershall*, para.167.

### 2.3.1. ***Definition of Investment in the ICSID Convention***

116. From the drafting history of the ICSID Convention, the ICSID Drafting Committee specifically did not define an investment. The Committee found it difficult to find a satisfactory definition of investment.<sup>63</sup> As the Report of the Executive Directors says:

No attempt was made to define the term “investment” given the essential requirement of consent by the parties, and the mechanism through which Contracting States can make known in advance, if they so desire, the classes of disputes which they would or would not consider submitting to the Center (Article 25(4)).<sup>64</sup>

#### ***A. The ICSID Convention’s “Definition” of Investment is the Salini Test***

117. Even without the express definition, ICSID cases developed a definition of investment.

118. Adopting Professor Schreuer’s observation, the *Fedax* case observed four characteristics present in most of the investments. The *Salini* case has adopted the aforesaid four characteristics and included one extra characteristic. These characteristics are certain duration, regularity of profit and return, assumption of risk, substantial commitment and significance for host state’s economic development. The five characteristics are generally referred as the *Salini* test. The *Salini* test has been recognized as ICSID Convention’s “definition” of investment.

#### ***B. The Outer Limit Approach***

119. Respondent submits that the definition of “investment” in Article 25 of ICSID Convention i.e. the *Salini* Test acts as an outer limit to any BIT definition of “investment”. The term “outer limit” was first used by the Chairman of the Regional Consultative Meeting of Legal Settlement of Investment Disputes when he reported on 9 July 1964 that:

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63 ICSID COMMENTARY, p.124.

64 Report of the Executive Directors, para.27.

The purpose of Section 1 is not to define the circumstances in which recourse to the facilities to the Center would in fact occur, but rather to indicate the outer limits within which the Center would have jurisdiction provided the parties' consent had been attained. Beyond these outer limits no use could be made of the facilities of the Center even with such consent.

120. The definition of investment in the ICSID Convention i.e. the *Salini* Test will limit what the parties have agreed. If what the parties have agreed go beyond the definition of investment in the ICSID Convention, "no use could be made of the facilities of the Center". That is, one could not bring a claim to ICSID tribunals if the outer limit is not met.

121. The Tribunal in *CSOB* case adopted the outer limit. The Tribunal is also of the view that an investment must satisfy the definition under the BIT and the ICSID Convention that is the *Salini* test.

122. The Tribunal in the *Patrick Mitchell* case also adopted the outer limit approach. The Tribunal held:

Indeed, such concept of investment should prevail over any 'definition' of investment in the parties' agreement or in the BIT, as it is obvious that the special and privileged arrangements established by the Washington Convention can be applied only to the type of investment which the Contracting States to that Convention envisaged.<sup>65</sup>

123. Again, the Tribunal shared the same view that the *Salini* test should act as an outer limit. The Tribunal could only have jurisdiction if the *Salini* test is satisfied.

124. However, the Tribunal in *Biwater* held:

If very substantial numbers of BITS across the world express the definition of 'investment' more broadly than the *Salini* Test, and if this

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<sup>65</sup> *Patrick Mitchell*, para.25.

constitutes any type of international consensus, it is difficult to see why the ICSID Convention ought to be read more narrowly.<sup>66</sup>

125. The Tribunal is also of the opinion that any failure to satisfy the *Salini* test will not necessarily be sufficient to deny the Tribunal's jurisdiction.

126. The Tribunal in the more recent case of *RSM* held:

... subscribes to the concept that a private party and a state contracting with each other are not at liberty to create their own definition of an investment under the ICSID Convention with the effect of bringing a dispute under the jurisdiction of ICSID even where their operation is clearly not an investment.<sup>67</sup>

127. The Tribunal in *Pheonix Action* also adopted the Outer Limit Approach. The Tribunal stipulated that two State parties to a BIT can confirm the ICSID notion or restrict it. However, they cannot gain access to ICSID by expanding the notion.

128. The Tribunal in the most recent case of *Malaysian Historical Salvors Annulmetn* has reaffirmed *Biwater's* view of not recognizing the *Salini* test as the outer limit. However, Michael Hwang S.C., sole arbitrator of *Malaysian Historical Salvors Jurisdiction* proceeding, disagreed with *Biwater's* view that "Salini test is not the outer limit" at the Second Biennial General Conference of the Asian Society of International Law.<sup>68</sup>

129. Michael Hwang S.C. proposed that many BITs will include the wording "every kind of assets" in their definition of investment. He submits that wording such as "every kind of asset" are too broad to be construed as the parties' consent to ICSID jurisdiction in a situation where the investment is inconsistent with the purposes of the Convention. The Contracting States could not have intended "every kind of assets" to be protected. Therefore, the view in *Biwater* can only be applied when the BIT has very clear and

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<sup>66</sup> *Biwater*, para.314.

<sup>67</sup> *RSM Production*, para.235.

<sup>68</sup> Hwang.

express wordings of defining what an investment is. In our present case, Respondent submits that in Article 1 of the B-C BIT, the wording of “every kind of assets” is present. Therefore, Respondent submits that the definition of investment under the B-C BIT is not clear enough. As a result, Claimant cannot relieve itself from the outer limit of the *Salini* test.

130. Even Professor Gaillard, Counsel for Claimant in *Malaysian Historical Salvors Annulment* opined that even though the *Salini* test is rigid, he still supports the outer limit approach. In relation to the rigidity of the *Salini* test, he proposed that only the three criteria of contribution, risk and duration should be considered.
131. Respondent submits that the *Biwater* approach could not be used due to the wording of the B-C BIT. Therefore, this Tribunal should consider the *Salini* test. If this outer limit is not satisfied, then this Tribunal cannot have jurisdiction.

### ***C. The Salini Test has not been Satisfied***

132. Respondent submits that the *Salini* test has not been satisfied, thus this Tribunal does not have jurisdiction. Firstly, Respondent submits that Claimant did not assume risk. Claimant brought the Patent into Bergonia. However, Claimant would not suffer loss when the Patent is not utilised. This is because the setup costs for MedBerg and registering the Patent is minimal. The Research and Development costs have been borne by MedScience. Therefore, if Claimant does not utilize the Patent, the loss could only be minimal.
133. Moreover, it is submitted that there has not been any significant contribution. Claimant operates a small business. It licenced with BioLife only. The Patented Products are available worldwide. Therefore, Claimant has not made a significant contribution to the host State.
134. Respondent submits that the two characteristics in the *Salini* test have not been satisfied.

Therefore, the outer limit has not been satisfied. As such, even though the B-C BIT includes patent as one of the protected investment, the Patent could not be protected by the ICSID Convention because the outer limit has not been satisfied.

### **2.3.2. The Patent has not been in Use**

135. Alternatively, even if this Tribunal finds that the outer limit has been satisfied and a patent could be an investment, the Patent has not been protected.
136. Respondent contends that the B-C BIT has included patent as a type of investment. However, not all patents are necessarily protected by the B-C BIT.
137. Respondent submits that after the termination of the Licence Agreement, Claimant did not appear to have any plans to licence the Patent to other companies<sup>69</sup>. The investment was not in use immediately before this claim was brought. Therefore, Respondent submits that even if patent could be an investment, the Patent has not been protected. This is because the Patent was not in use immediately prior to bringing this claim. Essentially, both the B-C BIT and the ICSID Convention do not protect investments that are not in use.
138. In summary, this Tribunal should not have jurisdiction because *Salini* Test has not been satisfied. Even if the *Salini* Test had been satisfied, the Patent was not in use, thus would not be a protected investment under both the B-C BIT and the ICSID Convention. Hence, Article 25(1) of the ICSID Convention could not be satisfied because there is no protected investment.

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<sup>69</sup> 1st Clarifications, Request 42.

### 3. CONCLUSION ON JURISDICTION

139. ICSID has no jurisdiction over the present dispute and this Tribunal is without competence to hear this case. ICSID can only act within the jurisdictional limits of the Centre prescribed through Article 25(1). Respondent submits Claimant cannot satisfy Article 25(1) because it is not a national of another Contracting State. This lack of requisite nationality under Article 25(1) denies ICSID of its jurisdiction and this Tribunal of its competence.
140. Article 25(2)(b) of the ICSID Convention states that an investor can be deemed as an investor of another Contracting State if the parties have agreed so because of foreign control. Although Claimant may contend that it is under foreign control of a national of a Contracting State, it fails to objectively prove so. Moreover, Respondent has never agreed that Claimant will be deemed as a foreign national. Accordingly, ICSID Convention Article 25(2)(b) is inapplicable to the present dispute.
141. Respondent further submits that the Patent is not a protected investment for the purposes of the ICSID Convention. Alternatively, Respondent submits that the Patent was not in use up to the present and thus should not be considered an investment.

### **PART THREE: MERITS**

#### **3. EXPROPRIATION**

142. Article 4(2) of the B-C BIT provides:

Investments by investors of either Contracting State shall not directly or indirectly be expropriated...in the territory of the other Contracting State except, in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation...

143. The IP Office issued the compulsory licence with respect to the Patent. Such issuance of compulsory license is a general regulatory measure that Bergonia can exercise. Such compulsory license was issued for public health purpose. Therefore, RESPONDENT submits that the act of issuing the compulsory licence has not constituted an expropriation.

144. Alternatively, if the issuance of compulsory licence has been an expropriation, the act has been done in a non-discriminatory manner, for public benefit and with adequate compensation.

#### **3.1 Direct Expropriation**

145. Formal or direct expropriation is a compulsory transfer of property rights.<sup>70</sup> RESPONDENT submits that property rights of the Patent still remains with Claimant. Therefore, there is no direct expropriation.

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<sup>70</sup> *Amoco v. Indonesia*, para.108.

## 4.2 Indirect Expropriation

146. Besides physical takings, investment by a foreign investor is could be indirectly expropriated. The Iran-US Claims Tribunal award in *Starrett Housing* illustrates the general standard of indirect expropriation as:

...It is recognized in international law that measures taken by a state can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the state does not purport to have expropriated them and the legal title to the property formally remains with the original owner.<sup>71</sup>

147. While the *Starrett Housing* case provides a general concept of indirect expropriation, it has not addressed specific circumstances such as the issuance of compulsory licences. A compulsory licence on one hand could be a legitimate and non-compensable regulation. On the other hand, it could be a compensable indirect expropriation.<sup>72</sup> Newcombe has observed an “orthodox approach” under international law.<sup>73</sup> He has contended that under the “orthodox approach”, an expropriation occurs when a foreign investor is deprived of the use, benefit, management or enjoyment of all or substantially all of its investment, except where deprivation results from a bona fide and legitimate use of state police powers.<sup>74</sup>
148. Newcombe criticized that this approach disregards appropriation by the government. He proposed that in most instances, expropriation is when the investor has suffered a deprivation and there has been a corresponding acquisition of use or control of the investments by the State.<sup>75</sup>

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<sup>71</sup> *Starrett Housing*.

<sup>72</sup> Gibson, p.5.

<sup>73</sup> Newcombe, p.5.

<sup>74</sup> *Starrett Housing*.

<sup>75</sup> Newcombe, p.7.

149. This definition was supported by different parties such as Paulsson and Douglas<sup>76</sup>, the OECD working papers<sup>77</sup> and Gibson<sup>78</sup>.
150. Professor Gibson adopted the two criteria proposed by Newcombe to determine whether there is an expropriation. The two criteria is (i) the degree of interference of the compulsory licence should be examined and (ii) whether there are specific undertakings or representations on the part of the state and whether there are legitimate or reasonable expectations and reliance on the part of the investor. Professor Gibson also added the third criterion to (iii) what is the character and regulatory purpose behind the government action to determine whether there is an expropriation. There will be no expropriation if the answer to (i) and (ii) is no. Also, the answer to (iii) must be for public benefit, for example the permitting the exploitation of an important dependency patent.<sup>79</sup>
151. Even if an act is considered an expropriation according to the three criteria proposed by Gibson, the effect of such act must be permanent in order to be considered a compensable-expropriation.

***(i) Degree of Interference***

152. The first criteria to determine whether there is an expropriation is the degree of interference.
153. In the case of *Pope & Talbot Inc. v. Canada*, the tribunal held that,

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76 Paulsson.

77 OECD Working Papers.

78 Gibson, p.5.

79 Christopher S. Gibson, *A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation*, 5 American University International Law Review, (July 2009).

...mere interference is not expropriation; rather, a significant degree of deprivation of fundamental rights of ownership is required.<sup>80</sup>

154. The Tribunal in *S.D. Myers* also held the view that the difference between an interference and expropriation is the degree of interference. In the case of *CEMSA v. Mexico*, it was held that the regulatory action is not an expropriation when the investor can control his company. In that case, the regulatory action had not interfered directly in the internal operations of the company or displaced Claimant as the controlling shareholder.<sup>81</sup>
155. The case of *Azinian v. Mexico* also supports the idea *CEMSA v. Mexico* that government measures affecting business plans or making it difficult to carry out particular business is not expropriation. Similarly, the tribunal in *Pope & Talbot*<sup>82</sup> also decided that governmental measures diminishing investor's profit is not expropriation.
156. In the present case, RESPONDENT submits that the interference by the compulsory licence is not substantial enough to constitute an expropriation. CLAIMANT is still in control of the Patent. RESPONDENT has not interfered with CLAIMANT's internal operation of the Patent. RESPONDENT had not displaced CLAIMANT's right as patent owner. CLAIMANT still enjoys the right to enter into licensing agreement with Bergonian entities. CLAIMANT's right to enjoy its investment is not substantially interfered.
157. RESPONDENT admits that the issuance of the compulsory licence may affect CLAIMANT's business plan or raises difficulty for CLAIMANT in carry out a particular aspect of its business. However, these do not amount to an expropriation. Even if CLAIMANT's profit is diminished, such interference is not substantial enough to constitute expropriation.

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<sup>80</sup> *Pope v Talbot*, para.88.

<sup>81</sup> *CEMSA v. Mexico*.

<sup>82</sup> *Pope & Talbot*.

158. RESPONDENT submits that the interference has not been substantial enough. CLAIMANT has not lost the control over the Patent. Therefore, Gibson's first criterion has not been satisfied.

***(ii) Government Representation and Legitimate Expectation of the Investor***

159. Secondly, Gibson's second criterion is in relation to government representation and legitimate expectation of the investor as suggested by Gibson.

160. In the case of *Metalclad*, the federal officials made specific representation to the investor that the federal officials have the full authority to authorize the construction of the Hazardous Waste Landfill. The municipal officials subsequently revoked the license to construction. The tribunal in the *Metalclad* case held that there is an expropriation because of the specific representation made by the federal official that they have the full authority. The investor had the legitimate expectation of approval by the municipal authorities due to the specific representation made to the investor.

161. In the case of *Methanex*, it is stated that, a non-discriminatory measure is not deemed expropriatory and compensable unless specific commitments had been given by the regulating government to the then putative foreign investor contemplating investment that the government would refrain from such regulation.<sup>83</sup>

162. In that case, it was held that the investor should have known the gasoline additive industry would be subject to environmental regulation. The investor could not have the legitimate expectation that the industry would not be regulated.

163. The tribunal in the case of *Starett Housing* held that investors have to assume risks such as changes of economic and political system. Materialization of risks leading to

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<sup>83</sup> *Methanex*, para.1456.

interference of property rights cannot be deemed to be taken. And in the case of *CEMSA*<sup>84</sup>, it is held that:

Governments, in their exercise of regulatory power, frequently change their laws and regulations in response to changing economic circumstances or changing political, economic or social considerations. Those changes may well make certain activities less profitable or even uneconomic to continue...<sup>85</sup>

164. Investors should expect that regulations may interfere with their property rights unless the State has made special commitment not to do so.
165. In the present case, CLAIMANT registered the Patent with the IP Office. Such registration guarantees the protection of CLAIMANT's intellectual property rights. Different from the *Metalclad* case, there has not been any specific commitment made on RESPONDENT's part that it will not issue any compulsory licence. There is no specific representation made by Respondent for Claimant to rely on.
166. Moreover, the Patent concerns medicaments. CLAIMANT should have an expectation that as a patent for medical drugs, the State could utilize the drugs for public health concerns as the obesity problem had long existed. Furthermore, RESPONDENT has issued compulsory licences to Bergonian nationals' investments as well. Therefore, CLAIMANT should have expected that RESPONDENT has the right to conduct regulatory acts. CLAIMANT should have foreseen that RESPONDENT has the power to issue compulsory licences for public health purpose. Since CLAIMANT has the legitimate expectation that there could be issuance of compulsory licence, the actual issuance of compulsory license did not breach CLAIMANT's legitimate expectation.
167. The second criterion as suggested by Gibbon has not been satisfied.

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84 *CEMSA v. Mexico*.

85 *CEMSA v. Mexico*.

***(iii) The Character and Regulatory Purpose Behind the Government Action***

168. The third criterion is whether the regulatory purpose behind the act is not for public purpose.

169. There is no expropriation if the alleged expropriating governmental act is a general regulatory measure which is “commonly accepted as within the police power of States”.<sup>86</sup> In *Saluka*, it is stated that a deprivation can be justified if it is an exercise of regulatory actions aimed at the maintenance of public order.<sup>87</sup> The Tribunal in *Saluka* also states,

It is now established in international law that States are not liable to pay compensation to a foreign investor when, in the normal exercise of their regulatory powers, they adopt in a non-discriminatory manner bona fide regulations that are aimed at the general welfare.<sup>88</sup>

170. There are no international law cases providing clear guidance on when measures protecting human health is non-compensatory<sup>89</sup>. In the recent case of *Methanex*, the ban on gasoline additive MTBE was for environmental purpose. Also, the Tribunal in that case held the ban does not constitute expropriation.

171. In our present case, the compulsory license was issued to public health. It is a kind of police power of States. In order to relieve Bergonians from obesity problem, it is submitted that RESPONDENT has used its power in a *bona fide* manner aimed at the general welfare of Bergonians.

172. Therefore, RESPONDENT submits that the compulsory licence has been issued within the State’s regulatory power for public health purposes. It is submitted that the third

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86 *Too*.

87 *Saluka*.

88 *Saluka*.

89 Newcombe, p. 32.

criterion has also been looked at. And the compulsory license should be non-compensable because of its purpose.

### 4.3 Duration

173. Even if this tribunal consider that the Gibson criteria are satisfied, the effect of an act must be permanent in order to be considered to be an expropriation. The effect of the regulation must not be temporary.<sup>90</sup> The consequential deprivation must not be 'merely ephemeral'.<sup>91</sup> In the case of *S.D. Myers*, the measure lasting for 18 months was held to have a limited effect. The alleged expropriation caused a delayed opportunity, not a lost opportunity. So the measure did not amount to an expropriation.<sup>92</sup>
174. Even if the three criteria suggested by Professor Gibson have been satisfied, the compulsory licence has only been issued on a temporary basis. The compulsory licence lasts for 4 year, and the effect is limited. This compulsory licence at its worst causes a delayed opportunity but not a loss opportunity. The effect of the compulsory licence is not permanent. Therefore, it does not amount to an expropriation.
175. It is submitted that the 3 criteria proposed by Gibson has not been satisfied. Thus, there is no expropriation. Even if the 3 criteria have been satisfied, it is submitted that the effect is temporary. As a result, the issuance of compulsory license does not constitute an expropriation.

### 4.4 The Issuance of the Compulsory Licence is a Lawful Indirect Expropriation

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<sup>90</sup> *LG&E*.

<sup>91</sup> *TAMS v. TAMS-AFFA*.

<sup>92</sup> *S.D. Myers*.

176. Alternatively, if the issuance of the compulsory licence is considered an indirect expropriation, such expropriation is lawful. This is because it has been done in accordance with the local law,

4.4.1 for public benefit;

4.4.2.in a non-discriminatory manner;

4.4.3.with prompt, adequate and effective compensation.

#### ***4.4.1 The Compulsory Licence has Been Issued for Public Benefit***

177. RESPONDENT submits that the compulsory licence has been issued for public benefit. In Bergonia, 34% of males and 38% of females are suffering from obesity.<sup>93</sup> The needs for the Patented Products have been more acute after the termination of the Licence Agreement.<sup>94</sup>Therefore, the compulsory licence was issued for public benefit.

#### ***4.4.2. The Issuance of the Compulsory Licence is Non-Discriminatory***

178. RESPONDENT had issued compulsory licences in relation to other Bergonian nationals' investments as well.<sup>95</sup> CLAIMANT has been treated like all investors by RESPONDENT. Therefore, RESPONDENT submits the issuance of compulsory licence is non-discriminatory.

#### ***4.4.3. RESPONDENT has Provided Prompt, Adequate and Effective Compensation***

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93 Second Clarification, Q.65.

94 First Clarification, Q.26.

95 Second Clarification, Q.65.

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179. Article 4(2) of the B-C BIT requires RESPONDENT to pay prompt, adequate and effective compensation after expropriating CLAIMANT's investment. RESPONDENT has observed this provision.

180. To provide prompt, adequate and effective compensation, RESPONDENT is obliged to pay the fair market value to CLAIMANT. The Tribunal in *Sempra Energy International*<sup>96</sup> held that:

In the absence of restitution or agreed renegotiation of contracts or other measures of redress, the appropriate standard of reparation under international law is compensation for the losses suffered by the affected party... Fair market value is thus a commonly accepted standard of valuation and compensation.

181. Also, the fundamental concept of "damages" is... reparation for a loss suffered: The remedy should be equal to the investor's loss, so that injured party may be made whole. In short, the remedy should be the "full" value of the assets taken.<sup>97</sup>

182. RESPONDENT submits that the compensation offered to CLAIMANT has been adequate. The royalty rate currently offered to CLAIMANT is moderately lower than the rate previously agreed in the Licence Agreement. This does not equate to inadequate compensation. However, RESPONDENT submits that the IP Office's calculation in relation to the royalty rate has been in conformity with the "fair market value".

183. In summary, if there is an indirect expropriation, such expropriation is lawful. This is because the expropriation is done for public benefit, in a non-discriminatory manner and adequate, prompt and effective compensation has been offered.

#### 4.5 Conclusion on Expropriation

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<sup>96</sup> *Sempra Energy International*, para.401,404.

<sup>97</sup> *Middle East Cement Shipping; Factory at Chorzów*, para.139.

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184. The issuance of compulsory license by RESPONDENT does not constitute an expropriation. Alternatively, the expropriation was a lawful indirect expropriation. Moreover, the compulsory license should not be considered as an expropriation if Claimant invoke the Bergonia-Tertia BIT.

#### 4.6 Most-Favoured-Nation Treatment Issues in Expropriation

185. RESPONDENT submits that if CLAIMANT invokes any Article in the Tertia-Bergonia BIT, then Article III(4) must also be read. Article III(4) of the Tertia-Bergonia BIT provides:

This Article does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement.

186. Neither BIT specifies any applicable rule of interpretation. Therefore, it is submitted that Article III must be interpreted according to Article 31 of the Vienna Convention on the Law of Treaties. It provides:

[A treaty is to be] interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.

187. Article III of the Tertia-Bergonia BIT covers expropriation. The construction of Article III(4) of the Tertia-Bergonia must therefore be interpreted in good faith, that is, it does not apply to compulsory licenses if they are issued according to TRIPS. It is submitted that the issuance of the compulsory license of the Patent has complied with the regulations in TRIPS. The compliance with TRIPS will be discussed in the following section.

188. If CLAIMANT invokes any provision in the Tertia-Bergonia BIT by way of MFN

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treatment, RESPONDENT submits that the compulsory licence must be excluded from being treated as an expropriation.

189. Therefore, when CLAIMANT invokes Article VI(8) by the of MFN treatment, then CLAIMANT cannot bring a claim to this Tribunal alleging that compulsory licence is an expropriation.

### 5.1 Respondent has Complied With Article 8(1) of the B-C BIT by Complying With TRIPS

190. Article 8(1) of the B-C BIT provides that
- if the legislation of either Contracting State or obligations under international law existing at present ... between the Contracting States in addition to this Treaty contain a regulation ... entitling investments by investors of the other Contracting State to a treatment more favourable than is provided for by this Treaty, such regulation shall to the extent that is more favourable prevail over this Treaty
191. The incorporation of the words “treatment more favourable” in the B-C BIT allows WTO has to applicable to the current dispute.<sup>98</sup>
192. Respondent submits that it has complied with Article 8(1) of the B-C BIT.
193. Respondent has provided Claimant’s investment with the required more favourable treatment by means of its compliance with the TRIPS’s standard.
194. Respondent as a member of both WTO and TRIPS should also observe significance of the DOHA Declaration. The DOHA Declaration clarified and implemented TRIPS and was rectified by members of the WTO. TRIPS is the most comprehensive multilateral agreement on intellectual property protection.<sup>99</sup> TRIPS includes the details of procedures regarding the issuance of compulsory licence in Article 31.
195. The DOHA Declaration recognizes “the gravity of the public health problems afflicting many developing and least-developed countries”.<sup>100</sup> It affirmed that TRIPS does not and should not prevent measures to protect public health. It also reaffirmed that TRIPS should

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98 (Gaetan Verhoosel, *The Use of Investor-State Arbitration Under Bilateral Investment Treaties To Seek Relief For Breaches Of WTO Law*, *Journal of International Economic Law* 6 (2), 493-506 , Oxford University Press 2003. P.496)

99 PAUL, p.528.

100 Matthews, p.81.

be interpreted and implemented in a manner supportive of WTO members' rights to protect public health and, in particular, to promote access to medicines for all.<sup>101</sup> "WHO has also encouraged developing countries in the use of TRIPS safe-guards to promote access to medicine".<sup>102</sup> This view has been supported by scholars such as Vandoren<sup>103</sup> and Bartelt.<sup>104</sup> Furthermore, issuance of compulsory licences is a means of solving public health crisis. Such means has been adopted by Ghana<sup>105</sup>, Thailand and Brazil<sup>106</sup>.

196. In support of this view, Article 8(1) of TRIPS states that

TRIPS members may adopt measures necessary to protect public health and nutrition and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided such measures are consistent with the provisions of the Agreement.<sup>107</sup>

197. Therefore, TRIPS should be interpreted and implemented in a manner supportive of Respondent's rights to protect public health. And that includes Respondent's particular right to promote access to medicines, produced under the Patent, for all.

### ***5.1. Respondent has Complied With TRIPS***

198. Article 31 of TRIPS specifically regulates the issuance of compulsory licences. Respondent submits that the issuance of the compulsory licence has complied with Article 31 of TRIPS. Claimant may contend that Respondent has breached certain provisions of Article 31 of TRIPS. Respondent submits that it has complied with the provisions that may be in dispute.

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101 Matthews, p.82.

102 Globalization, p.5.

103 Vandoren, p.8.

104 Bartelt, p.302.

105 Cohen.

106 CORIAT, p.38.

107 TRIPS, Article 8(1).

### ***5.1.1. Compliance with Article 31(b) of TRIPS***

199. Respondent submits that the Bergonian IP Office has issued the compulsory licence in accordance with Article 31(b) of TRIPS. The First part of Article 31(b) concerns the requirement for obtaining authorization from the Patent owner on reasonable commercial terms and conditions and that such effort have not been successful within a reasonable period of time.
200. The Second part of Article 31(b) concerns exemptions from the requirements laid down in the first part. These exemptions include issuance under national emergency or other circumstances of extreme urgency.
201. Respondent submits that the compulsory licence in question has been issued under a national emergency. Therefore, Respondent should be exempted from the requirement of attempting to obtain voluntary licence.
202. Article 31(b) of TRIPS specifically mentions issuing compulsory licences under national emergency situations. And Paragraph 5(c) of the Doha Declaration has confirmed the status of public health crises as national emergencies. It specifies that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent national emergencies or other circumstances of extreme urgency.<sup>108</sup>
203. Respondent submits that Bergonia is undergoing a public health crisis relation to obesity.
204. Ghana, a developing country has issued a compulsory licence for the public health of its citizens. Because 3.6% of its citizens were infected with HIV/AIDS.<sup>109</sup>

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108 Matthews, p.77.

109 Cohen, p.2.

205. In fact, obesity may lead to the Ischaemic heart disease which is the highest death rate disease in low- and medium-income countries in 2001<sup>110</sup> and 2020<sup>111</sup> in estimation.
206. In the present case, 34% of Bergonian males and 38% of Bergonian females are suffering from obesity.<sup>112</sup> The Genetic makeup and traditional diet of the Bergonian population are the major causes of obesity in Bergonia. Prior to the issuance of the compulsory licence, Respondent conducted measures to address the obesity problem. These measures included funding several information campaigns on nutrition and exercise, preparing a “Green Paper” on imposing an 18% tax on sugared beverages and beverages containing corn syrup.<sup>113</sup> Despite all the aforementioned measures, Respondent failed to solve the problem of obesity.
207. The disease of obesity has been a significant and long standing issue in Bergonia.<sup>114</sup> More importantly, obesity has also caused numerous fatal medical problems.<sup>115</sup> Hence, there has been a surging need in Bergonia for drugs which can treat the disease.
208. Medical experts have proved the treatment under the Patent as effective in addressing the problem of obesity.<sup>116</sup> Respondent submits that on one hand, there is an urgency to address the persisting problem. On the other hand, Claimant has refused to grant a licence to the public. In order to provide the public with access to the drugs, the issuance of a compulsory licence was imperative.

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110 Lopez, p.164.

111 Ebrahim, p.962.

112 2nd Clarifications, Request 65.

113 2nd Clarifications, Request 85.

114 1st Clarifications, Request 40.

115 1st Clarifications, Request 40.

116 1st Clarifications, Request 26.

209. Respondent submits that it has issued the compulsory licence under a national emergency situation. Therefore, according to Article 31(b) of TRIPS, Respondent has been legitimately exempted from attempting to obtain a voluntary licence. Furthermore, Respondent has not breached the B-C BIT.

### ***5.1.2. Compliance with Article 31(c) of TRIPS***

210. Article 31(c) stipulates that the duration of a compulsory licence is “limited to the purpose for which it was authorized”.<sup>117</sup> In addition, a compulsory licence should be granted for at least a period long enough to provide adequate incentive for production. Otherwise, the purpose would be frustrated.<sup>118</sup>
211. The compulsory licence in question has a duration of 48 months. Respondent submits that 48 months was a minimum period sufficient to determine the efficiency of the Patent in reducing obesity among Bergonians.<sup>119</sup> This period is also necessary for determining whether a sufficient number of Bergonians are able to purchase the product.<sup>120</sup>
212. Respondent submits that the duration of 48 months is appropriate. Thus, the issuance of the compulsory licence is in accordance with the duration requirement stipulated by Article 31(c).

### ***5.1.3. Compliance with Article 31(h) of TRIPS***

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117 TRIPS, Article 31(c).

118 STOLL, p.571.

119 2nd Clarifications, Request 66.

120 2nd Clarifications, Request 66.

213. Article 31(h) stipulates that adequate compensation shall be paid to the patent right holder in the circumstances of each case. The calculation of the compensation should take into account the economic value of the authorization.<sup>121</sup>
214. Respondent submits that the moderately lower royalty has complied with TRIPS Article 31(h).
215. Article 31(h) of TRIPS stipulates that the requirement to take into account the economic value of the authorization. In calculating the royalty rate offered to Claimant under the compulsory licence, Respondent has taken into account the economic value of the Patent. Economic value is not necessarily equal to the previous contractual value. Alternatively, the royalty rate offered to Claimant is adequate. In determining the adequacy of compensation, a host State can take into account factors such as events of humanitarian and public sector uses.<sup>122</sup> Respondent has taken such factor into account when calculating the royalty rate.
216. Respondent submits a moderately lower royalty is an adequate compensation and has it complied with TRIPS Article 31(h).

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121 TRIPS Article 31(h); STOLL, p.576.

122 Taubman, p.957.

217. Respondent, a developing country, is facing a public health crisis. The fact that the royalty rate is merely moderately lower<sup>123</sup> than the previous contractual rate is justifiable. This is because a ‘social’ discount has been taken into account when calculating the royalty rate. Therefore, compensation offered to Claimant has been adequate and is in compliance with TRIPS Article 31(h).

#### ***5.1.4. Compliance with Article 31(i) of TRIPS***

218. Article 31(i) of TRIPS states that

[The] legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member<sup>124</sup>

219. Respondent has provided Claimant with means for appeal. There is a Patent Review Board which handled the appeal filed by Claimant.<sup>125</sup> Respondent submits that it has complied with Article 31(i) of TRIPS. Respondent has provided a judicial review for the administrative decision by the IP Office.

220. In summary, Respondent submits that it has complied with Article 8(1) of the B-C BIT. Respondent has offered the required more-favourable treatment to Claimant by its

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123 2nd Clarifications, Request 88.

124 TRIPS, Article 31(j).

125 1st Clarifications, Request 29.

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compliance with TRIPS. Particularly, Respondent has complied with the requirements stipulated in Article 31 regarding the issuance of compulsory licences.

## 6. FET

### 6.1. Alleged Breach of Article 2(2) – RESPONDENT has Provided FET in the Issuance of the Compulsory Licence

221. Article 2(2) of the B-C BIT provides:

Each Contracting State shall in its territory in any case accord investments by investors of the other Contracting State fair and equitable treatment...

222. As stated by Professor Schreuer, the standard of FET can be specifically applied under four principles:

- transparency and the protection of the investor's legitimate expectations;
- freedom from coercion and harassment;
- procedural propriety and due process;
- good faith.<sup>126</sup>

223. RESPONDENT has provided FET to the Patent owned by CLAIMANT in the issuance of the compulsory licence. In particular, RESPONDENT submits that the acts of the IP Office have been in compliance with the following principles:

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<sup>126</sup> Fair and Equitable in Arbitral Practice, p.373.

- 5.1.2. Protection of CLAIMANT's legitimate expectations;
- 5.1.3. Freedom from State's Coercion;
- 5.1.4. Procedural propriety and due process.
- 5.1.5. Good faith.

### **6.1.1. Standard of FET Treatment in International Law**

224. FET should be reviewed independently from other international standards. As stated by Professor Schreuer, the FET standard contained in BITs is an autonomous concept, although it may sometimes overlap with the minimum standard required by international law.<sup>127</sup> An independent standard of FET provides protection to allow a more objective view of the FET to be taken by the Contracting States.<sup>128</sup> Therefore, a tribunal should review FET independently from other standards.
225. Since the B-C BIT does not stipulate a standard of FET, it is submitted that such standard should refer to the circumstances in the present dispute. Such approach is consistent with the ICSID tribunal decisions in *Mondev*<sup>129</sup> and *Waste Management*<sup>130</sup>. In these cases, the

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127 Fair and Equitable in Arbitral Practice, p.364.

128 Mann, p.244; *Occidental Exploration*, paras.189-190.

129 *Mondev*.

130 *Waste Management*.

tribunals considered the circumstances of the cases when they determined the standard of FET.

226. When the Tribunal determines the standard of FET for this case, it can take into account that the compulsory licence has been issued for meeting the major and serious public health needs in Bergonia. Such needs have become more acute after the Licence Agreement with CLAIMANT had been terminated.<sup>131</sup>

#### **6.1.2. RESPONDENT has not Breached CLAIMANT's Legitimate Expectations**

227. RESPONDENT has not breached any legitimate expectations of CLAIMANT.
228. The definition of legitimate expectations given by the ICSID Tribunal in *Thunderbird v Mexico* has been considered the most complete.<sup>132</sup> It is stated that:
- ...the concept of 'legitimate expectations' relates... to a situation where a Contracting Party's conduct creates reasonable and justifiable expectations on the part of an investor (or investment) to act in reliance on said conduct... to honor those expectations could cause the investor (or investment) to suffer damages.<sup>133</sup>

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131 First Clarification, Q.26.

132 TUDOR, p.165.

133 *Thunderbird*, para.147.

229. The legitimate expectations of CLAIMANT are decisive elements in the FET standard. The principle of legitimate expectations has evolved ‘from an earlier function as a subsidiary interpretative principle’.<sup>134</sup> Under FET, it has become a self-standing subcategory and independent basis for a claim.<sup>135</sup> The *Saluka* tribunal also decided that:

[t]he standard of “fair and equitable treatment” is therefore closely tied to the notion of legitimate expectations which is the dominant element of the standard.<sup>136</sup>

230. With regard to CLAIMANT’s legitimate expectations, RESPONDENT has two submissions: first, an absolute protection of the Patent is not one of the reasonable and justifiable expectations of CLAIMANT. Second, RESPONDENT has been protecting all legitimate expectations of CLAIMANT.

***a. Protection of an Investment is not Absolute but Conditional***

231. First, CLAIMANT cannot reasonably and justifiably to expect an absolute protection of the Patent. An investor’s expectations can only be legitimate when three criteria are all established. Firstly, the expectations have to be based on government conduct.<sup>137</sup> Secondly, the expectations have to be reasonable and justifiable, both objectively and subjectively.<sup>138</sup> Thirdly, there has to be a causal link between the failure to respect these expectations and the damage suffered by the investor.<sup>139</sup> RESPONDENT submits that an

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134 REINISCH, p.162.

135 REINISCH, p.162.

136 *Saluka*, paras.483-484; *Ceskoslovenska Obchodni Banka*, para.302.

137 Snodgrass, p.32.

138 Snodgrass, p.41.

139 TUDOR, p.166.

absolute protection of a Patent cannot be a legitimate expectation because it fails to satisfy the second criterion.

232. The expectations of CLAIMANT are dependent on RESPONDENT's promise and guaranty. As stated by an ICSID Tribunal in *Parkerings-Compagniet AS v Lithuania*<sup>140</sup>:

... the expectation is legitimate if the investor received an explicit promise or guaranty from the host-State, or if implicitly, the host-State made assurances or representation that the investor took into account in making the investment. Finally, in the situation where the host-State made no assurance or representation, the circumstances surrounding the conclusion of the agreement are decisive to determine if the expectation of the investor was legitimate.<sup>141</sup>

233. In the present case, RESPONDENT submits that the only promise or guaranty from RESPONDENT is the express undertakings for the Conveniencian investors in the B-C BIT. No implicit or circumstantial official representation is found by CLAIMANT.

234. In Article 2(2) of the B-C BIT, RESPONDENT has undertaken that an investment including intellectual property will be given FET standard as well as full protection.

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<sup>140</sup> *Parkerings-Compagniet AS v Lithuania*.

<sup>141</sup> *Parkerings-Compagniet AS v Lithuania*, para.331.

235. In Article 4(2) of the B-C BIT, RESPONDENT has represented to foreign investors that investment including intellectual property will not be taken directly or indirectly. However, the same Article also provides:
- ... Investments by investors of either Contracting State shall not directly or indirectly be expropriated, nationalized... except, in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation [emphasis added].
236. Accordingly, RESPONDENT submits that these undertakings in the B-C BIT constituted the only government representation to CLAIMANT. Given that there are express conditions to limit the protection for an investment, an absolute protection of investments owned by CLAIMANT is not a legitimate expectation.
237. To the contrary, CLAIMANT is only entitled to expect that its Patent will be protected from arbitrary or discriminatory taking by the State. That is, it is only legitimate to expect that an investment will not be expropriated unless for public benefit and that there would be a prompt, adequate and effective compensation if it is taken by the State for such purpose.
238. RESPONDENT has been offering prompt, adequate and effective compensation by providing royalties collected in the compulsory licence. On the other hand, there is no evidence of any discriminatory treatment to CLAIMANT's investment in the issuance of the compulsory licence because of its nationality. In the past, compulsory licences had also been issued by RESPONDENT in relation to the patents of undisputedly domestic

companies.<sup>142</sup> Therefore, RESPONDENT submits that it has not breached CLAIMANT's legitimate expectations.

***b. RESPONDENT has Been Protecting CLAIMANT's  
Legitimate Expectations by Due Diligence***

239. Second, RESPONDENT submits that it has been protecting CLAIMANT's legitimate expectations by due diligence, and the compulsory licence has been issued with vigilance.
240. CLAIMANT's legitimate expectation is to prompt, adequate and effective compensation when its investment has been taken by the State. Although CLAIMANT contended that the compensation was inadequate, RESPONDENT submits that CLAIMANT was simply not satisfied subjectively. As previously stated, the standard of FET should be an objective standard. The objective facts are: the units sold by the six firms invoking the compulsory licence is 155 % of that sold previously by BioLife alone, and the total sales revenue for the six firms (including BioLife) is higher than it was for BioLife under the Licence Agreement.<sup>143</sup> That concludes the increase in the sale of Patented Products ever since RESPONDENT has issued the compulsory licence.
241. With the Patent, CLAIMANT has been gaining a much bigger Bergonian market share. RESPONDENT also submits that it has been exercising due diligence to protect the Patent so that CLAIMANT's legitimate expectation is protected.

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142 Second Clarification, Q.83.

143 First Clarification, Q.19.

242. In *AAPL v. Sri Lanka*, an ICSID tribunal decided that due diligence is an objective standard.<sup>144</sup> Further stated by Professor Moss, due diligence consists of reasonable measures of prevention which a well-administered government could be expected to exercise under similar circumstances.<sup>145</sup> Therefore, the Tribunal must consider the circumstances in which the compulsory licence was issued.
243. In the present circumstances, CLAIMANT terminated the Licence Agreement of the Patent with BioLife.<sup>146</sup> Although the Patented Products remain available in Bergonia after the termination of the Licence Agreement between CLAIMANT and BioLife<sup>147</sup>; however, Bergonian medical needs for an obesity solution has become more acute.<sup>148</sup>
244. As a well-administered government, RESPONDENT has been trying other administrative interventions. There were published research studies to support the efficacy of the Patented Products in treating Bergonian type of obesity.<sup>149</sup> RESPONDENT has no alternative other than issuing a compulsory licence of the Patent.
245. In the past, RESPONDENT had funded several information campaigns on nutrition and exercise, and together with the Bergonian Exchequer had prepared a “Green Paper” on imposing an 18% tax on sugared beverages and beverages containing corn

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144 *AAPL v. Sri Lanka*.

145 REINISCH,140.

146 Second Clarification, Q.111.

147 Second Clarification, Q.114.

148 First Clarification, Q.26.

149 First Clarificaiton, Q.40.

syrup. However, obesity has remained a significant and long-standing issue because of the genetic make-up and traditional diet of Bergonians, causing numerous other associated medical problems.<sup>150</sup>

246. The Patent covers a breakthrough treatment (and related products) that medical experts believe is useful for treatment of obesity.<sup>151</sup> However, there was no generic version of the drug or a substitute drug available that could have the efficiency as well as the Patent.<sup>152</sup> The public of Bergonia needs the drug to be widely available. Therefore, RESPONDENT submits that it has been duly protecting the Patent, and the issuance of compulsory licence has been the last resort as a public health intervention.

247. RESPONDENT submits that the issuance of the compulsory licence is proportional to the public health benefits of Bergonia. As stated by an ICSID Tribunal in *TECMED*<sup>153</sup>, there had to be

a reasonable relationship of proportionality between the charge or weight imposed to the foreign investor and the aim sought to be realized by any expropriatory measure.<sup>154</sup>

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150 First Clarification, Q.40.

151 First Clarification, Q.40.

152 First Clarification, Q.68 & Q.103.

153 *TECMED*.

154 *TECMED*, para.122.

248. In the present case, the products are rendered widely available to Bergonians with the compulsory licence of the Patent after RESPONDENT had attempted all other measures to control the obesity epidemic. Therefore, RESPONDENT submits that such measure is proportional to the public need of Bergonia.

249. In short, it is not reasonable or justifiable for CLAIMANT to expect an absolute protection of the Patent. RESPONDENT has been protecting CLAIMANT's legitimate expectation by due diligence. In addition, the issuance of the compulsory licence is proportional to the public health benefits of Bergonia.

### 6.1.3. Freedom From State's Coercion

199. Coercion refers to the use of unnecessary or disproportionate force or pressure by a host State against a foreign investor, such as physical harassment or tremendous economic pressure.<sup>155</sup>

200. No physical force was used in the State's taking of the Patent. With regard to pressure, RESPONDENT submits that the issuance of the compulsory licence did not amount unnecessary or disproportionate force or pressure.

201. In the present case, the time limit of the compulsory licence is merely 48 months.<sup>156</sup>  
RESPONDENT submits the forty-eight months was the minimum period sufficient to

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<sup>155</sup> REINISCH, 236.

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determine the efficacy of the Patent in reducing obesity among the Bergonians and whether the impact of the compulsory licence on the market for the product will enable sufficient numbers of Bergonians to use the product.<sup>157</sup> Therefore, a compulsory licence with a period of only 48 months could not amount to an unnecessary pressure to CLAIMANT.

#### 6.1.4. Review of Compulsory Licence Contains Procedural Impropriety

202. RESPONDENT submits that it has provided CLAIMANT with access to justice and fair procedure in the issuance of the compulsory licence.

203. The present case is an alleged taking of intellectual property by RESPONDENT. With regard to the procedural propriety in such circumstances, the ICSID tribunal in *Azinian v Mexico*<sup>158</sup> held:

A denial of justice could be pleaded if the relevant courts refuse to entertain a suit, if they subject it to undue delay, or if they administer justice in a seriously inadequate way...<sup>159</sup>

RESPONDENT submits that it has offered due process guarantees in the proceedings before the Patent Review Board.<sup>160</sup>

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156 First Clarification, Q.24.

157 Second Clarificaiton, Q.66.

158 *Azinian v. Mexico*.

159 *Azinian v. Mexico*, para.102.

160 Second Clarification, Q.82.

204. As the Patent holder, CLAIMANT was notified of the proceedings when they were initiated by the IP Office.<sup>161</sup> CLAIMANT has also given the opportunities to appeal before the Patent Review Board to object to the administrative decision of the IP Office.<sup>162</sup> The Patent Review Board is a quasi-judicial body, which draws upon existing Bergonian judges to sit in particular intellectual property cases.<sup>163</sup> Therefore, RESPONDENT submits that CLAIMANT has given access to justice.
205. ICSID Tribunals have found violations of FET standard only when a State has failed to provide a fair procedure where there were serious procedural shortcomings.<sup>164</sup> In *Loewen*<sup>165</sup>, the Tribunal decided that the proceedings of a domestic court were improper because it had permitted the jury to be influenced by persistent appeals to local favoritism against the foreign CLAIMANT.<sup>166</sup> In the present case, CLAIMANT failed to provide any evidence as to the potential bias of the judges sitting before the Patent Review Board. The Patent Review Board has been a quasi-judicial body, constituted with existing judges.<sup>167</sup>
206. In the present case, there has not been any evidence as to any procedural impropriety. Therefore, RESPONDENT submits that FET standard has not been violated and access to justice has been given to CLAIMANT.

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161 First Clarification, Q.46.

162 First Clarification , Q.29.

163 First Clarification , Q.29.

164 Fair and Equitable in Arbitral Practice, p.381.

165 *Loewen*.

166 *Loewen*, para.136.

167 First Clarification, Q.29.

207. In short, CLAIMANT's legitimate expectation is protected, there has not been any evidence of State's coercion of CLAIMANT's property and access to justice has been given to CLAIMANT.

#### 6.1.5. Good Faith

208. RESPONDENT submits that it has been acting in good faith in issuing the compulsory licence in view of Bergonians' public benefits. In *Saluka*<sup>168</sup>, the Tribunal described the requirement of good faith in FET standard:

A foreign investor protected by the Treaty may in any case properly expect that the Czech Republic implements its policies *bona fide* by conduct that is, as far as it affects the investor's investment, reasonably justifiable by public policies and that such conduct does not manifestly violate the requirements of consistency, transparency, even-handedness and non-discrimination.<sup>169</sup>

209. In the present case, CLAIMANT has failed to provide any evidence as to bad motive or discriminatory acts by RESPONDENT. As stated by the tribunal in *CMS Gas Transmission*:

The tribunal believes this is an objective requirement unrelated to whether Respondent has had any deliberate intention or bad faith in adopting the measures in question. Of course, such intention and bad faith can aggravate the situation but are not essential elements of the standard.<sup>170</sup>

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168 *Saluka*.

169 *Saluka*, para.307.

170 *CMS Gas Transmission*, para.280.

210. In the present case, CLAIMANT has failed to provide any objective evidence to show bad faith of RESPONDENT. Therefore, it is submitted that any allegation of bad faith by CLAIMANT should fail.

211. In summary, RESPONDENT has provided CLAIMANT with FET standard in accordance with Article 2(2) of the B-C BIT.

## 7. FULL PROTECTION

### *7.1 RESPONDENT has Provided CLAIMANT's Investment With Full Protection*

250. Article 2(2) of B-C BIT provides:

Each Contracting State shall in its territory in any case accord investments by investors of the other Contracting State ...full protection under the Treaty...

251. Some commentators suggest that the treaty obligation to ensure full protection and security of an investment involves two aspects:

- a. Physical safety of persons and installations connected with the protected investment;
- b. Beyond physical safety.<sup>171</sup>

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171 REINISCH, pp.138-144.

252. RESPONDENT submits that such a two pronged interpretation is misguided and that the scope of application should be restricted to physical safety only. In *Saluka*, ICSID tribunals had emphasized that the standard of full protection should refer only to the impairment against the physical integrity of an investment and against interference by the use of force.<sup>172</sup>
253. The ICSID decision in *TECMED* also stated that the revocation of administrative permits could not be a violation of the standard of full protection and security. The tribunal found that adverse movements against an investor's activity of that kind should be covered by the standard of FET instead.<sup>173</sup>
254. Therefore, it is submitted that the standard of full protection is irrelevant in the present case. As stated by Professor Reinisch, the undisputed scope of application in the standard of full protection refers to civil strife and physical violence only.<sup>174</sup> However, the Patent is an item of intangible property.
255. It is correct that, some tribunals have extended the standard of full protection to legal protection in some very limited circumstances. For example, an tribunal in *CME* held that:

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172 *Saluka*, paras.483, 484; *Ceskoslovenska Obchodni Banka*, para.484.

173 *TECMED*, paras.154-164.

174 REINISCH, p.143.

The host State is obligated to ensure that neither by amendment of its laws nor by actions of its administrative bodies is the agreed and approved security and protection of the foreign investor's investment withdrawn or devalued.<sup>175</sup>

256. In *Lauder*, the tribunal decided that the duty in the standard of full protection required a State to keep the judicial system available and to properly examine claims.<sup>176</sup> Furthermore, that the availability of the judicial system was an element of the full protection and security to be enjoyed by the investor.<sup>177</sup>
257. Similarly in *Saluka*, the obligation of full protection was that a State must make available appeal mechanisms against administrative decisions affecting the investment.<sup>178</sup>
258. Accordingly, the scope of application of full protection beyond physical safety is limited to the protection of legal security, such as the availability of a legal system. In the present case, RESPONDENT submits that a proper legal system with appeal mechanism was available to CLAIMANT.
259. When CLAIMANT was not satisfied by the administrative decisions of the IP Office, it was given the opportunity to appeal to a Patent Review Board and object and to the IP

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175 *CME*, para.613.

176 *Lauder*, para.314.

177 *TECMED*.

178 *Saluka*, paras.493-496.

Office decision.<sup>179</sup> The board has been constituted by professional Bergonian judges who are experienced in intellectual property disputes.<sup>180</sup>

260. RESPONDENT must emphasise that the issuance of a compulsory licence could not and did not interfere with the integrity of CLAIMANT's investment. RESPONDENT had not made CLAIMANT withdraw its rights in the Patent. Also. There was no evidence that the issuance had caused devaluation in CLAIMANT's investment.
261. CLAIMANT has indicated it is not satisfied that the royalty rate. The rate is moderately lower than the prior contractual royalty rate between CLAIMANT and BioLife, its former licensee. However, a lower royalty rate does not amount to a devaluation of CLAIMANT's investment because it was justifiable. As established previously in paragraph 167, the reduction in the royalty rate was a social discount for the event of humanitarian and public sector uses. CLAIMANT's rights to enjoy its investment in the Patent are still intact.
262. In summary, RESPONDENT has not breached its obligation to provide full protection, thus not in breach of Article 2(2) of the B-C BIT.

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179 First Clarification, Q29.

180 First Clarification ,Q29.

## 8. CONCLUSION ON MERITS

263. RESPONDENT has not violated any provisions in the B-C BIT. Firstly, upon the issuance of the compulsory licence, RESPONDENT had not expropriated CLAIMANT's investment. Even if there has been an expropriation, it is a lawful indirect expropriation. The issuance is lawful since RESPONDENT has complied with Article 4(2) of the B-C BIT. The expropriation was done for public purpose, on a non-discriminatory basis and with prompt, adequate and effective compensation in terms of royalties. Secondly, RESPONDENT has complied with Article 8(1) of the B-C BIT by means of its compliance with TRIPS. Thirdly, RESPONDENT has complied with Article 2(2) of the B-C BIT through its provision of FET and full protection for CLAIMANT's investment.

**PART FOUR: RELIEF REQUESTED**

**9. PRAYER FOR RELIEF**

264. For the foregoing reasons set out in this Memorial, RESPONDENT respectfully requests the Tribunal to find:

- a. That it has not discriminated against CLAIMANT;
- b. That is has not unlawfully interfered with CLAIMANT's investment;
- c. That it has not expropriated CLAIMANT investment;
- d. That it has offered compensation to CLAIMANT;
- e. That is has provided CLAIMANT and its investment FET;
- f. That it has provided CLAIMANT and its investment full protection;
- g. That it is not responsible to pay further compensation or provide any other remedy for any related damage incurred by CLAIMANT.