

JENNINGS

**SECOND ANNUAL  
FOREIGN DIRECT INVESTMENT MOOT  
22-24 OCTOBER 2009**

---

**INTERNATIONAL CENTRE FOR SETTLEMENT OF  
INVESTMENT DISPUTES**

**In the Proceeding Between**

**MedBerg Co.**  
*(Claimant)*

**vs**

**Government of the Republic of Bergonia**  
*(Respondent)*

**MEMORIAL FOR RESPONDENT**

Table of Contents

<b>TABLE OF CONTENTS</b>	<b>I</b>
<b>INDEX OF AUTHORITIES</b>	<b>III</b>
<b>INDEX OF CASES</b>	<b>VI</b>
<b>INDEX OF ARBITRAL AWARDS</b>	<b>VII</b>
<b>LIST OF STATUTES AND TREATIES</b>	<b>XIII</b>
<b>LIST OF ABBREVIATIONS</b>	<b>XIV</b>
<b>STATEMENT OF FACTS</b>	<b>1</b>
<b>SUMMARY OF ARGUMENTS</b>	<b>4</b>
<b>ARGUMENTS</b>	<b>5</b>
<b>PART ONE: JURISDICTION</b>	<b>5</b>
<b>I. CLAIMANT DOES NOT FULFIL THE NATIONALITY REQUIREMENT FOR ICSID JURISDICTION.</b>	<b>6</b>
<b>A. Claimant is not controlled by a national of Conveniencia (MedX).</b>	<b>6</b>
1. Claimant is under the real control of MedScience and Dr Frankensid.	7
2. MedX is not a national of Conveniencia.	9
<b>B. Respondent has not agreed to treat Claimant as a national of Conveniencia for the purposes of ICSID Jurisdiction.</b>	<b>10</b>
1. Respondent never directly agreed to treat Claimant as a foreign national.	10
2. The MFN provision of the Bergonia-Conveniencia BIT does not grant Claimant “foreign national treatment” under the Bergonia-Tertia BIT.	11
a. The law on treaty interpretation emphasizes the text agreed upon by the contracting states to the treaty.	11
b. Article 3(1) Bergonia-Conveniencia BIT does not clearly and unambiguously provide that it applies to jurisdictional issues.	12
c. In any event the wording of Article 3(1) Bergonia-Conveniencia BIT is not broad enough to encompass the jurisdictional issues of the Treaty.	14
3. Respondent has the right to deny the benefits of Article VI.8 Bergonia-Tertia BIT to Claimant.	16
a. Respondent has the right to invoke the denial of benefits provision of Article I.2 Bergonia-Tertia BIT against Claimant.	16
b. Claimant is controlled by nationals of third countries.	17
<b>I. BERGONIAN PATENT AZ2005 IS NOT A PROTECTED INVESTMENT.</b>	<b>20</b>

## **Team Jennings, Memorial for Respondent**

A. Bergonian Patent AZ2005 is not an investment under Article 25(1) of the ICSID Convention.	21
1. Bergonian Patent AZ2005, as a whole, does not constitute an investment for ICSID purposes.	22
2. Bergonian Patent AZ2005 does not involve a contribution in money or other assets.	23
3. Bergonian Patent AZ2005 does not involve an element of risk.	25
B. Bergonian Patent AZ2005 is not a protected investment under the Bergonia-Conveniencia BIT.	26
<b>CONCLUSION ON JURISDICTION</b>	<b>27</b>
<b>PART TWO: MERITS</b>	<b>28</b>
I. CLAIMANT’S PROPERTY HAS NOT BEEN EXPROPRIATED.	28
A. There has been no direct expropriation of Claimant’s property.	29
B. The issuance of the compulsory licence does not amount to indirect expropriation.	32
1. The compulsory license does not have a disproportionate effect on Claimant and is not tantamount to expropriation.	33
2. The issuance of the compulsory license does not interfere with Claimant’s legitimate expectations and was reasonably foreseeable by Claimant.	34
C. The expropriation of Claimant’s property is lawful.	36
1. The compulsory licence is issued in accordance with Bergonian law.	36
2. The issuance of the compulsory licence is for the public benefit.	37
3. The compulsory licence is non-discriminatory.	39
4. The compensation offered by Respondent is adequate.	40
II. RESPONDENT HAS COMPLIED WITH ITS OBLIGATION TO PROVIDE FAIR AND EQUITABLE TREATMENT AND FULL PROTECTION AND SECURITY TO CLAIMANT.	41
1. Respondent acted reasonably, with good faith and in a non-discriminatory manner.	43
2. Respondent has taken all measures necessary to insure FET and full protection of Claimant’s investment.	45
3. Respondent has provided due process and access to justice for Claimant.	46
<b>CONCLUSION ON THE MERITS</b>	<b>47</b>
<b>REQUEST FOR RELIEF</b>	<b>48</b>

## INDEX OF AUTHORITIES

### TREATISES AND BOOKS

**Brownlie, Ian**                      *Principles of Public International Law*, 6<sup>th</sup> ed.  
(Oxford: OUP, 2003)  
*cited as: Brownlie*

**Correa, Carlos M.**                *Intellectual Property and International Trade:  
The TRIPS Agreement*  
(Netherlands: Kluwer, 2008)  
*cited as: Correa*

**Cook, Trevor**                      *A User's Guide to Patents*, 2<sup>nd</sup> ed.  
(London: Tottel, 2007)  
*cited as: Cook*

**Fatouros, A A**                      *Government Guarantees to Foreign Investors*,  
(Columbia University Press, 1962)  
*cited as: Fatouros*

**Gardiner, Richard**                *Treaty Interpretation*  
(Oxford, OUP, 2008)  
*cited as: Gardiner*

**Schreuer, Christoph**              *The ICSID Convention: A Commentary*  
(Cambridge: Cambridge UP, 2001)  
*cited as: Schreuer*

### ARTICLES

## Team Jennings, Memorial for Respondent

- Arishima, Toshiharu et al.** “Screening of Resistant Triacylglycerols to the Pancreatic Lipase and their Potentialities as a Digestive Retardant”  
*Journal of Food Lipids* 16 (2009), 72-88  
*cited as: Arishima et al.*
- Dolzer, Rudolph** “Indirect Expropriations: New Developments?”  
11 NYU Envtl. L. J. 64 (2002)  
*cited as: Dolzer*
- Gibson, Chris** “A Look at the Compulsory License in Investment Arbitration: The Case of Indirect Expropriation”  
Research Paper 09-32. Suffolk University Law School (2009)  
*cited as Gibson*
- Paulsson, Jan  
Douglas, Zachary** “Indirect Expropriation in Investment Treaty Arbitration”, in Norbert Horn and Stefan Kroll, *Arbitrating Foreign Investment Disputes: Procedural and Substantive Legal Aspects*  
(The Hague: Wolters Kluwer Law, 2004), 145-158  
*cited as: Paulsson and Douglas*
- Sinclair, Anthony** “Jurisdiction of ICSID Tribunal to hear claim brought by foreign owned company”, 11 February 2009, Allen & Overy Litigation Review  
[online]  
(<http://www.allenoverly.com/AOWEB/AreasOfExpertise/Editorial.aspx?contentTypeID=1&contentSubTypeID=7944&itemID=50192&aofeID=302&practiceID=50290&prefLangID=410>) (last accessed: 1 September 2009)  
*cited as: Sinclair*
- Weininger, Matthew** “Jurisdiction Challenges in BIT Arbitrations – Do

## Team Jennings, Memorial for Respondent

You Read a BIT by Reading a BIT or by Reading into a BIT?”, in L A Mistelis; J Lew (eds.), *Pervasive Problems in International Arbitration* (Kluwer International, 2006), pp 235 *et seq.*

*cited as: Weininger*

**Tsai, Wen-Ling,**  
**Yang, Chun-Yuh**

“Impact of Obesity on Medical Problems and Quality of Life in Taiwan”

*American Journal of Epidemiology*, 2004, 160(6), 557-565

*cited as: Tsai and Yang*

## INDEX OF CASES

**INTERNATIONAL COURT OF  
JUSTICE**

*Ambatielos Case* (Greece v UK), Award of 6  
March 1956, 12 UN Reports of Int'l Arb.  
Awards 83-108

*cited as: Ambatielos Case (Arbitration)*

*Ambatielos Case* (Greece v UK), Merits:  
obligation to arbitrate, Dissenting Opinion by Sir  
Arnold McNair, President, and Judges  
Basedvant, Klaestad and Read, 1953 ICJ Reports  
25

*cited as: Ambatielos Case (ICJ), Joint  
Dissenting Opinion*

*Anglo-Iranian Oil Co* (UK v Iran), Jurisdiction  
1952 IC J Reports 93

*cited as: Anglo-Iranian Oil Case*

*Barcelona Traction, Light and Power Company,  
Ltd* (Belgium v Spain), Second Phase, 1970 ICJ  
Reports 3

*cited as: Barcelona Traction Case*

*Nottebohm Case* (Lichtenstein v Guatemala),  
Second Phase, 1955 ICJ Reports 4

*cited as: Nottebohm Case*

*Judgment in the Asylum Case*(Colombia v Peru),  
1950 ICJ Reports 4

*cited as: Asylum Judgment*

**PERMANENT COURT OF  
INTERNATIONAL JUSTICE**

*Phosphates in Morocco* (Italy v France),  
Preliminary Objections, Judgement of 14 June  
1938, 1938 PCIJ Ser. A/B-74 1

*cited as: Phosphates in Morocco Case*

## INDEX OF ARBITRAL AWARDS

### AD HOC ARBITRATION (UNCITRAL)

*CME v Czech Republic*, UNCITRAL  
Arbitration, Partial Award, 13 September 2001,  
9 ICSID Rep. 121

*cited as: CME v Czech Republic*

### ICSID

*African Holding Company of America, Inc. and  
Societe Africaine de Construction au Congo  
SARL v Democratic Republic of the Congo*,  
ICSID Case No. ARB/05/21, Award, 29 July  
2008

*cited as: Societe Africaine de Construction v  
Congo*

*Aguas del Tunari v Republic of Bolivia*, ICSID  
Case No. ARB/02/3, Decision on Respondent's  
Objections to Jurisdiction, 21 October 2005

*cited as: Aguas del Tunari v Bolivia*

*Alex Genin, Eastern Credit Limited, Inc. and  
A.S. Baltoil Genin v. Republic of Estonia*,  
ICSID Case no ARB/99/2 (Award) ( 2001).

*cited as: Alex Genin v Estonia*

*Amco Asia Corp. et al. v Indonesia*, ICSID Case  
No. ARB/81/1, Decision on Jurisdiction, 25  
September 1983, 1 ICSID Reports 392-397

*cited as: Amco v Indonesia*

*American Manufacturing & Trading, Inc.  
(AMT) (US) v. Republic of Zaire*, ICSID case  
No. ARB/93/1, Award, 21 February, 1997,  
reprinted in *36 International Legal Materials*  
1531

*cited as: AMT v. Zaire*

*Asian Agricultural Products Ltd (AAPL) v  
Republic of Sri Lanka*, ICSID Case No.  
ARB/87/3, Final Award, June 27, 1990,  
*International legal materials* 30 (Washington,  
DC, 1990), 577.

*cited as: AAPL v. Sri Lanka*

## Team Jennings, Memorial for Respondent

*Azurix Corp. v Argentine Republic*, ICSID Case No. ARB/01/12, Award, 14 July 2006

*cited as: Azurix v Argentina*

*Azurix Corp. v Argentine Republic*, ICSID Case No. ARB/01/12, Decision on Application for Annulment, 1 September 2009

*cited as: Azurix v Argentina, Annulment*

*Biwater Gauff v Tanzania*, ICSID Case No. ARB/05/22, Award, 24 July 2008

*cited as: Biwater v Tanzania*

*Ceskoslovenska Obchodni A.S. v The Slovak Republic*, ICSID Case No. ARB/97/4, Decision on Objections to Jurisdiction, 24 May 1999, 14 ICSID Rep. Foreign Inv. L. J. 251 (1999)

*cited as: CSOB v Slovakia*

*Consortium RFCC v Morocco*, ICSID Case No. ARB/00/6, Award, 22 December 2003, IIC 76 (2003)

*cited as: RFCC v Morocco*

*Fedax N.V. v Republic of Venezuela*, ICSID Case No. ARB/96/3, Decision on Objections to Jurisdiction, 11 July 1997, 5 ICSID Rep. 186 (2002)

*cited as: Fedax v Venezuela*

*Hrvatska Elektroprivreda d.d. v. Republic of Slovenia*, ICSID Case No. ARB/05/24, Individual Opinion (on Treaty Interpretation Issues), 12 June 2009

*cited as: HEP v Slovenia, Individual Opinion*

*Gas Natural SDG, SA v Argentine Republic*, ICSID Case No. ARB/03/10, Decision of the Tribunal on Preliminary Questions on Jurisdiction, 17 June 2005

*cited as: Gas Natural v Argentina*

## Team Jennings, Memorial for Respondent

*Joy Mining Machinery Limited v. Arab Republic of Egypt*, ICSID Case No. ARB/03/11, Award, 6 August 2004

*cited as: Joy Mining v Egypt*

*Klöckner Industrie-Anlagen GmbH and others v United Republic of Cameroon and Societe Camerounaise des Engrais*, ICSID Case No ARB/81/2, Award, 21 October 1983, 2 ICSID Rep. 9 (1994) (excerpts)

*cited as: Klöckner v Cameroon*

*Emilio Augustín Mafferzini v Kingdom of Spain*, ICSID Case No. ARB/97/7, Decision on Jurisdiction, 25 January 2000

*cited as: Mafferzini v Spain*

*Malaysian Historical Salvors v The Government of Malaysia*, ICSID Case No. ARB/05/10, Decision on the Application for Annulment, 16 April 2009

*cited as: MHS v Malaysia, Annulment*

*MTD Equity Sdn. Bhd. and MTD Chile S.A. v. Republic of Chile*, ICSID Case No. ARB/01/7 (2004)

*cited as: MTD v Chile*

*Patrick Mitchell v. Democratic Republic of the Congo*, ICSID Case No. ARB/99/7, Decision on the Application for Annulment, 1 November 2006

*cited as: Mitchell v Congo, Annulment*

*Phoenix Action Ltd v The Czech Republic*, ICSID Case No. ARB/06/5, Award, 15 April 2009

*cited as: Phoenix Action*

*Plama Consortium Ltd v Bulgaria*, ICSID No. ARB/03/24, Decision on Jurisdiction, 8 February 2005

*cited as: Plama v Bulgaria*

## Team Jennings, Memorial for Respondent

*Salini Costruttori S.P.A. and Italstrade S.P.A. v Hashemite Kingdom of Jordan*, ICSID Case No. ARB/02/13, Decision of the Tribunal on Jurisdiction, 29 November 2004

*cited as: Salini v Jordan*

*Salini Costruttori S.P.A. and Italstrade S.P.A. v Kingdom of Morocco*, ICSID Case No. ARB/00/4, Decision on Jurisdiction, 23 July 2001

*cited as: Salini v Morocco*

*Siemens A.G. v Argentina*, ICSID Case No. ARB/02/8, Decision on Jurisdiction, 3 August 2004

*cited as: Siemens v Argentina*

*Société Ouest Africaine des Bétons Industriels v Senegal*, ICSID Case No. ARB/82/1, Decision on Jurisdiction, 1 August 1984

*cited as: SOABI v Senegal*

*Suez, Sociedad General de Aguas de Barcelona S.A. and Interagua Servicios Integrales de Agua S.A. v. Argentine Republic*, ICSID Case No. ARB/03/17, Decision on Jurisdiction, 16 May 2006

*cited as: Suez-InterAguas v Argentina*

*Suez, Sociedad General de Aguas de Barcelona S.A. and Vivendi Universal S.A v. Argentine Republic*, ICSID Case No. ARB/03/19, Decision on Jurisdiction, 3 August 2006

*cited as: Suez-Vivendi v Argentina*

*Telenor Mobile Communications A.S. v Republic of Hungary*, ICSID Case No. ARB/04/15, Award, 13 September 2006

*Cited as: Telenor v Hungary*

*Tokios Tokeles v Ukraine*, ICSID No. ARB/02/18, Dissenting Opinion, 29 April 2004

*cited as Tokios Tokeles v Ukraine, Dissenting*

## Team Jennings, Memorial for Respondent

### *Opinion*

*TSA Spectrum de Argentina S.A. v Argentina*,  
ICSID Case No. ARB 05/5, Award, 19  
December 2008

*Cited as: TSA v Argentina*

*The Loewen Group, Inc. and Raymond L.  
Loewen v. United States of America*, ICSID case  
no. ARB(AF)/98/3 (2002).

*cited as The Loewen Group v United States*

*Wena Hotels v Egypt*, Award, 8 December  
2002, 41 ILM 896 (2002)

*Cited as: Wena Hotels v Egypt*

*Wintershall Aktiengesellschaft v Argentina*,  
ICSID Case No. ARB 04/14, Award, 8  
December 2008

*Cited as: Wintershall v Argentina*

**IRAN-US CLAIMS TRIBUNAL** *Starrett Housing Corp. v Iran*, 4 Iran-U.S. Cl.  
Trib. Rep. 122, 154 (1983)

*Cited as: Starrett Housing v Iran*

**NAFTA** *Lauder (US) v. Czech Republic*, UNCITRAL,  
Final Award (September 3, 2002), available at:  
[http://ita.law.uvic.ca/documents/LauderAward.p  
df](http://ita.law.uvic.ca/documents/LauderAward.pdf)

*cited as: Lauder v Czech Republic*

*International Thunderbird Gaming Corporation  
v United Mexican States*, Ad hoc UNCITRAL  
Arbitration, Award, IIC 136 (2006)

*cited as: Thunderbird v Mexico*

*Metalclad v Mexico*, ICSID Case No.  
ARB(AF)/97/1, Award (Ad hoc), 25 August  
2000, IIC 161 (2000)

*cited as: Metalclad v Mexico*

**Team Jennings, Memorial for Respondent**

*Pope & Talbot, Inc. v. Canada*, UNCITRAL  
(NAFTA) Damages Award 31 May 2002

*cited as: Pope & Talbot, Damages Award*

*S.D. Myers v Canada*, First Partial Award, 40  
ILM (2001) 1408, 13<sup>th</sup> November 2000

*cited as: S.D. Myers v Canada*

**STOCKHOLM CHAMBER OF  
COMMERCE (SCC)**

*Vladimir Berschader and Moïse Berschader v.  
Russian Federation*, SCC Case No. 080/2004,  
Award, 21 April 2006

*cited as: Berschader v Russia*

*Renta 4 S.V.S.A et al. v Russian Federation*,  
SCC 24/2007 Award on Preliminary  
Objections, 20 March 2009

*cited as: Renta 4 v Russia*

**US-MEXICO CLAIMS  
COMMISSION**

*L. F. H. Neer and Pauline Neer (U.S.A.) v.  
United Mexican States* (1926) United Nations,  
*Reports of International Arbitral Awards*, 1926,  
IV, pp. 60ff

*cited as: Neer v Mexico*

## LIST OF STATUTES AND TREATIES

1. Agreement on Trade Related Aspects of Intellectual Property Rights  
*cited as: TRIPS Agreement or TRIPS*
2. Doha Declaration on the TRIPS Agreement and Public Health, 14 November 2001, WT/MIN(01)/DEC/W/2  
*cited as: Doha Declaration on TRIPS and Public Health*
3. *Draft Agreement Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of [...] for the Promotion and Protection of Investments* (2005)  
*cited as: UK Model BIT*
4. *Draft Articles on Most-Favoured Nation Clauses with Commentaries*, International Law Commission, 2 Y.B. Int'l L.C. (1978), UN Doc.A/CN.4/SER.A/1978/Add.1 (pt.2)  
*cited as: ILC Articles on MFN Clauses*
5. ICSID Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, 18 March 1965, 17 U.S.T. 1270, 575 U.N.T.S. 160 (1966)  
*cited as: ICSID Convention*
6. ICSID Arbitration Rules  
*cited as: ICSID Arbitration Rules*
7. Vienna Convention on the Law of Treaties, 23 May 1969, 1155 U.N.T.S. 331, 8 I.L.M. 679 (1969)  
*cited as: VCLT*

## LIST OF ABBREVIATIONS

[ ]	Paragraph
Art. / Arts.	Article / Articles
BIT	Bilateral Investment Treaty
Co.	Company
Convention	ICSID Convention
DSU	Dispute Settlement Understanding
e.g.	Exempli gratia
ed.	Edition
eds.	Editors
et al.	<i>Et alia</i> (and others)
et seq.	Et sequens (and the following ones)
FET	Fair and equitable treatment
i.e.	<i>Id est</i> (that is)
ibid.	Ibidem
ICJ	International Court of Justice
ICSID	International Centre for Settlement of Investment Disputes
ICSID Convention	Convention on the Settlement of Investment Disputes between states and Nationals of other States
ILC	International Law Commission
IP	Intellectual Property
MedBerg	MedBerg Co.
MedX	MedX Holdings Ltd
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
No.	Number
p./pp.	Page/ pages
SCC	Stockholm Chamber of Commerce
Sec.	Section
TRIPS	Agreement on Trade Related Aspects of Intellectual Property Rights
USD	US dollars

## **Team Jennings, Memorial for Respondent**

<b>v.</b>	Versus
<b>VCLT</b>	Vienna Convention of the Law of Treaties
<b>Vol.</b>	Volume
<b>WTO</b>	World Trade Organization

## STATEMENT OF FACTS

1. **On 1 January 2003** the Republic of Bergonia (Respondent) and the State of Tertia entered into a Bilateral Investment Treaty (BIT). Subsequently, on **30 May 2003**, Respondent and the Sultanate of Conveniencia entered into a BIT.
2. A part of Respondent's population is genetically predisposed to obesity.<sup>1</sup> This led to more than a third of the population being obese.<sup>2</sup> Thus obesity is a longstanding issue in the state, which has led to many other associated health problems in the population.<sup>3</sup> Competent Bergonian authorities have adopted, in the past, several measures aimed at remedying the problem.<sup>4</sup>
3. MedScience Co. (MedScience) is a publicly-traded company incorporated under the laws of Laputa.<sup>5</sup> Dr Frankensid is employed by MedScience; during his employment there, he has invented several anti-obesity products and treatments leading to several patents, including Patent AZ2005.<sup>6</sup> He is a national of Bergonia and a naturalised Amnesian national since 1991.<sup>7</sup>
4. Studies have shown that Patent AZ2005 is particularly efficient in treating the type of obesity from which Respondent's population suffers.<sup>8</sup> Currently, there is no other more effective substitute for the drug covered by Patent AZ2005 on Respondent's territory.<sup>9</sup>
5. **On 1 December 2003** MedScience and Dr Frankensid acquired MedX Holding Ltd ("MedX"),<sup>10</sup> a limited liability company incorporated in Conveniencia,<sup>11</sup> and assigned to MedX the worldwide interests in the IP rights related to Dr Frankensid's breakthrough

---

<sup>1</sup> Clarification 26.

<sup>2</sup> Clarification 65.

<sup>3</sup> Clarification 40.

<sup>4</sup> Clarification 88.

<sup>5</sup> *Ibid*, 37.

<sup>6</sup> Record, Annex 3, [4].

<sup>7</sup> Clarification 22.

<sup>8</sup> *Ibid.*, 26.

<sup>9</sup> Clarification 68.

<sup>10</sup> Clarification 45.

<sup>11</sup> Record, Annex 3, [2].

anti-obesity product.<sup>12</sup> The two MedX shareholders hold equal ownership (50% of the shares each) and voting rights in the company.<sup>13</sup>

6. Two months later, on **30 January 2004**, Claimant was established in Bergonia. It is a 100% owned subsidiary of MedX. The intellectual property rights leading to the issuance of Patent AZ2005 were assigned to Claimant by Dr Frankensid and MedScience in exchange for shares in MedX.<sup>14</sup>
7. On **5 February 2004**, Claimant applied for a patent in relation to Dr Frankensid's invention. On **15 March 2005**, Claimant was granted Bergonian Patent No. AZ2005, of which Claimant is the owner.<sup>15</sup>
8. On **31 March 2005**, Claimant licensed Bergonian company BioLife Co. to utilise Patent AZ2005 to develop the anti-obesity products under a Licence Agreement.<sup>16</sup>
9. On **31 March 2007**, Claimant terminated the Licence Agreement, refusing to enter into any renegotiations. Such cancellation was, allegedly, due to Claimant's concerns surrounding BioLife's parallel exports of the patented products into third countries other than Bergonia.<sup>17</sup>
10. On **1 June 2007**, the Bergonian Intellectual Property Office (IP Office) commenced proceedings for the issuance of a compulsory licence with respect to Patent AZ2005, since the patent technology was needed to address the existing health emergency in Bergonia.<sup>18</sup>
11. On **1 November 2007** the Bergonian IP Office issued a compulsory licence regarding Patent AZ2005<sup>19</sup> for a period of 48 months<sup>20</sup> in order to determine the efficacy of the product in treating obesity among the population and the impact of the licence on the

---

<sup>12</sup> Clarification 74.

<sup>13</sup> Clarifications 9 and 36.

<sup>14</sup> *Ibid*, 23.

<sup>15</sup> Record, Annex 3, [5].

<sup>16</sup> Record, Annex 3, [6].

<sup>17</sup> Clarification 15.

<sup>18</sup> Record, Annex 3, [7]; Clarification 14.

<sup>19</sup> Record, Annex 3, [8].

<sup>20</sup> Clarification 24.

access to the treatment by the population.<sup>21</sup> The payment of royalties in this respect was offered to Claimant.<sup>22</sup> Claimant refused the royalties,<sup>23</sup> even though the value of the royalties was only moderately lower than those received under the Licence Agreement with BioLife.<sup>24</sup>

12. Claimant communicated its objections to the IP Office during 2007.<sup>25</sup> However, the outcome of the appeal proceedings that Claimant commenced in front of the IP Office's Patent Review Board resulted in a ruling that the licence was in conformity with Bergonian law.<sup>26</sup>
13. On **1 November 2008**, the ICSID Secretary-General registered the dispute for arbitration.<sup>27</sup>
14. As of **1 January 2009**, BioLife and five other Bergonian companies had invoked the compulsory licence to produce the anti-obesity products.<sup>28</sup> Allegedly, some exports of the products overseas occurred during the period of the compulsory licence.<sup>29</sup> Claimant refused the royalty payments that the Bergonian IP Office collected from the six Bergonian companies.<sup>30</sup>
15. On **16 February 2009**, the First Session of the Arbitral Tribunal was held.<sup>31</sup>

---

<sup>21</sup> Clarification 66.

<sup>22</sup> Record, Annex 3, [8].

<sup>23</sup> *Ibid.*

<sup>24</sup> Clarification 88.

<sup>25</sup> *Ibid.*, 72.

<sup>26</sup> Clarification 37.

<sup>27</sup> Record, Annex 3, [10].

<sup>28</sup> Clarification 20.

<sup>29</sup> Record, Annex 3, [8].

<sup>30</sup> *Ibid.*

<sup>31</sup> Record, p. 2.

## SUMMARY OF ARGUMENTS

16. **JURISDICTION.** The present dispute does not satisfy the requirements for jurisdiction under Article 25 of the ICSID Convention. The requirements for ICSID jurisdiction are cumulative. The Tribunal only needs to accept one of Respondent's arguments in order to decide that it does not have jurisdiction over the present dispute. First, Claimant fails to satisfy any of the nationality requirements necessary to make a domestic company in the host State of the investment subject to ICSID jurisdiction. On the one hand, Claimant is not controlled by a national of another Contracting State to the ICSID Convention. On the other hand, Respondent never agreed to treat Claimant as a foreign national for jurisdictional purposes. Second, Patent AZ2005 does not constitute a protected investment for the purposes of ICSID jurisdiction. Patent AZ2005 is not capable of qualifying as an investment under Article 25(1) ICSID Convention. Moreover, the assignment of patents was never classified as an investment under the Bergonia-Conveniencia BIT by the Contracting Parties to the treaty. The present Tribunal, therefore, lacks jurisdiction over the dispute.

17. **MERITS.** First, the compulsory license issued by the IP Office in respect of Patent AZ2005 does not amount to either direct or indirect expropriation. Moreover, Respondent's actions are not tantamount to expropriation. Second, if the Tribunal is not satisfied with the above, Respondent submits that the alleged expropriation was perfectly lawful and compliant with the requirements of the Bergonia-Conveniencia BIT. Third, Respondent has acted in good faith and in accordance with the standards prescribed by the Bergonia-Conveniencia BIT and international law. Respondent afforded fair and equitable treatment and full protection and security to Claimant's rights arising from Patent AZ2005.

## ARGUMENTS

### PART ONE: JURISDICTION

18. Respondent respectfully challenges the jurisdiction of the present Tribunal in accordance with Rules 41(1) and 41(6) ICSID Arbitration Rules and requests it to find it lacks jurisdiction over the present dispute. Claimant has instituted the proceedings in front of the present Tribunal against Respondent on 1 November 2008,<sup>32</sup> on the basis of Respondent's offer to arbitrate under Article 10 of the Bergonia-Conveniencia BIT.<sup>33</sup> Respondent however will demonstrate that the case at hand falls outside both of ICSID jurisdiction and of the competence of the present Tribunal.
19. The Tribunal's may rule on its own competence, under Article 41 ICSID Convention, in accordance with the universally accepted principle of *Kompetenz-Kompetenz*. The ICSID Secretary-General's registration of the dispute does not affect such competence of the Tribunal and does not preclude the possibility of submitting jurisdictional objections by any party.
20. According to paragraph 22 of the Executive Directors' Report on the ICSID Convention and as confirmed by case law,<sup>34</sup> the applicable law to the jurisdiction of ICSID is Chapter II of the ICSID Convention. The scope of the jurisdiction of the Center is more specifically defined in Article 25. The requirements for the establishment of such jurisdiction can be divided into three fundamental categories: first, the parties' consent to submit their dispute to ICSID arbitration; second, the Tribunal's competence *ratione personae* over the parties to the dispute and third, the Tribunal's competence *ratione materiae*, i.e. over the subject matter of the dispute. All of these requirements are cumulative, thus the lack of one of them is sufficient for the Tribunal to find it has no jurisdiction over the present dispute.
21. Respondent invokes the lack of jurisdiction of the Tribunal with regard to two of the requirements of Article 25. Respondent argues that Claimant does not satisfy the nationality requirement for ICSID jurisdiction (I). In the alternative, Respondent sustains

---

<sup>32</sup> Record, Annex 3, [10].

<sup>33</sup> Record, Annex 1, p. 10..

<sup>34</sup> *Amco v Indonesia* (1983); *Tokios Tokeles v Ukraine* (2004); *TSA v Argentina* (2008).

that Patent AZ2005 does not constitute an investment for the purposes of Article 25 ICSID Convention **(II)**.

**I. CLAIMANT DOES NOT FULFIL THE NATIONALITY REQUIREMENT FOR ICSID JURISDICTION.**

22. Claimant, a domestic company of Bergonia, the Respondent,<sup>35</sup> has its seat and its activity in that country. ICSID is intended to resolve disputes between “States and nationals of other States”. Article 25 encompasses “national[s] of another Contracting State”,<sup>36</sup> not domestic companies. Thus, a domestic company may come under the scope of ICSID jurisdiction in exceptional circumstances, subject to two cumulative conditions required by Article 25(2)(b) ICSID Convention. Firstly, the domestic company should be under the “foreign control” of a national of another Contracting State to the Convention – the objective criterion. Secondly, there should be an agreement between the parties to the dispute that such an entity be treated as “a national of another Contracting State for the purposes of [the] Convention” – the intention criterion.

23. Respondent will demonstrate that neither of the two conditions is satisfied in the present case. Claimant is not controlled by a national of another Contracting State to the ICSID Convention, **Conveniencia (A)**. Moreover, Respondent never agreed to treat Claimant as a foreign national for the purposes of ICSID jurisdiction **(B)**. The arguments are made in the alternative. The present Tribunal only needs to accept one of them in order to find it does not have competence over the present dispute.

**A. Claimant is not controlled by a national of Conveniencia (MedX).**

24. Claimant is incorporated in Bergonia and has its administrative seat in that state.<sup>37</sup> It also has its activity in Bergonia,<sup>38</sup> where its management board usually meets.<sup>39</sup> Claimant is a

---

<sup>35</sup> Record, Annex 3, [1].

<sup>36</sup> ICSID Convention, Article 25(1).

<sup>37</sup> Clarification 35.

<sup>38</sup> Record, Annex 3, [5], [6].

<sup>39</sup> Clarification 43.

wholly owned subsidiary of MedX, a company incorporated in Conveniencia.<sup>40</sup> However, MedX is only an empty shell controlled jointly by MedScience (a Laputan company) and Dr Frankensid (a MedScience employee with dual Bergonian and Amnesian nationality).<sup>41</sup> Thus, MedScience and Dr Frankensid are the real controllers of Claimant (1). In the alternative, even if the present Tribunal finds that MedX controls Claimant, Respondent submits that MedX is, in any event, not a national of Conveniencia (2). Claimant cannot, thus, be regarded as a national of Conveniencia for the purposes of Article 25(2)(b).

**1. Claimant is under the real control of MedScience and Dr Frankensid.**

25. Under Article 25(2)(b), in order for a domestic company to be able to refer its dispute to ICSID, it should be controlled by a national of another Contracting State to the ICSID Convention. Claimant does not satisfy this condition. Claimant is not under the control of MedX, its direct owner, but under the control of MedScience and Dr Frankensid, neither of whom are nationals of other Contracting States.<sup>42</sup>

26. The ICSID Convention does not define “control”. Nevertheless, authors and tribunals have consistently held that control is an objective criterion for the determination of the nationality of a locally incorporated company for jurisdictional purposes. The majority of commentators on ICSID favour the piercing of the corporate veil and determining “the real control and nationality of controllers” of a locally incorporated company.<sup>43</sup> Schreuer adheres to this position and condemns the possibility for nationals of non-Contracting States or of the respondent State to acquire access to the Center’s jurisdiction only by creating a “company of convenience” in another Contracting State.<sup>44</sup>

27. This view has been adopted by several ICSID tribunals where the arbitrators did not hesitate to go beyond the first layer of control to determine the source of the control exercised over a locally incorporated company.<sup>45</sup> In *SOABI v Senegal* (1984) for instance

---

<sup>40</sup> Clarification 35.

<sup>41</sup> Record, Annex 3, [2].

<sup>42</sup> *Ibid.*

<sup>43</sup> *TSA v Argentina* (2008), [152].

<sup>44</sup> Schreuer, [563].

<sup>45</sup> *SOABI v Senegal* (1984); *Aguas del Tunari v Bolivia* (2005); *Societe Africaine de Construction v Congo* (2008).

the tribunal found that examining indirect control is necessary to respect the purpose of Article 25(2)(b). The SOABI tribunal stated that foreign investors can use an intermediary company “while retaining the same degree of control over the national company”.<sup>46</sup>

28. The origin of a company’s capital has been considered crucial for the to determination its nationality for ICSID purposes.<sup>47</sup> Most notably in *TSA v Argentina* (2008), the tribunal found that TSA, an Argentinian company, did not satisfy the requirement of foreign control under Article 25(2)(b), since its direct owner, TSI (a Dutch company), was controlled in turn by an Argentinian national.<sup>48</sup>
29. The circumstances in *TSA v Argentina* are similar to those in the present case. Claimant is a hundred percent subsidiary of MedX,<sup>49</sup> as TSA was regarding TSI. Like TSI, MedX constitutes only an empty shell hiding Claimant’s real controllers, MedScience and Dr Frankensid, who each own fifty percent of the shares.<sup>50</sup> MedX’s only apparent activity is the development on the global market of Dr Frankensid’s invention,<sup>51</sup> which was assigned to MedX by its shareholders.<sup>52</sup> Nor does MedX have any real activity in Conveniencia: it has only two employees, a lawyer and a tax worker.<sup>53</sup> It is Respondent’s submission, therefore, that MedScience and Dr Frankensid are the real controllers of Claimant.
30. Claimant’s real controllers are neither nationals of Conveniencia nor of any other ICSID Contracting State. MedScience is a Laputan company,<sup>54</sup> while Laputa is not a Contracting State<sup>55</sup> and is in bad economic relations with Bergonia.<sup>56</sup> Dr Frankensid, on the other hand, is a dual national of Bergonia and Amnesia.<sup>57</sup> Under Article 25(2)(b), in order to meet the nationality requirements for ICSID jurisdiction, a natural person must satisfy the negative condition of not possessing the nationality of the host State of the investment.

---

<sup>46</sup> *SOABI v Senegal* (1984), [37].

<sup>47</sup> *Tokios Tokeles v Ukraine* (2004), *Dissenting Opinion*, pp. 3-10.

<sup>48</sup> *TSA v Argentina* (2008), [162].

<sup>49</sup> Record, Annex 3, [2].

<sup>50</sup> *Ibid.*

<sup>51</sup> Clarification 74.

<sup>52</sup> *Ibid.*

<sup>53</sup> Clarification 76.

<sup>54</sup> Record, Annex 3, [2].

<sup>55</sup> Record, Annex 3, [3].

<sup>56</sup> Clarification 36.

<sup>57</sup> Record, Annex 3, [2].

Such requirement must be fulfilled even if the host State's nationality is not the effective one.<sup>58</sup>

31. Thus, Claimant is controlled by a company of a non-Contracting State, Laputa, and a national of Bergonia, the Respondent. ICSID's purpose is to resolve disputes between States and investors from *other State parties to the ICSID Convention*. Schreuer condemns giving access to the ICSID mechanism to nationals of non-Contracting States and of nationals of the Respondent State equally as contrary to the ICSID Convention's core purpose. There is no reason, therefore, to distinguish between *TSA v Argentina* (2008) and the present case.
32. Moreover, the fact that Claimant is controlled jointly by two nationals from different countries is not a reason to distinguish the present case from *TSA v Argentin* . In *SOABI v Senegal* foreign status was accorded to SOABI in view of the nationality of its indirect controllers, even though they were nationals of different ICSID Contracting States.<sup>59</sup> On the same basis, foreign status must be refused due to the separate nationalities of the controllers, which are *not* from "other Contracting States". The Tribunal is therefore respectfully requested to find that Claimant is under the real control of MedScience and Dr Frankensid and does not meet the nationality requirement under Article 25(2)(b) ICSID Convention.

## **2. MedX is not a national of Conveniencia.**

33. Even if the Tribunal finds that MedX does control Claimant, Claimant is still not controlled by a national of another Contracting State, since MedX is not a national of Conveniencia. The Tribunal is requested to lift the corporate veil according to principles endorsed by the *Barcelona Traction Case*. The ICJ endorsed the lifting of the corporate veil "to prevent the misuse of the privileges of legal personality" or "the evasion of legal requirements".<sup>60</sup>
34. In the present case, MedX is an empty shell used by MedScience and Dr Frankensid in order to gain access to the protection of several international instruments, including the

---

<sup>58</sup> Schreuer, [440-444].

<sup>59</sup> *SOABI v Senegal* (1984), [38].

<sup>60</sup> *Barcelona Traction Case* (1970), [56]; [58].

ICSID Convention.<sup>61</sup> Allowing such use of corporate personality constitutes a “misuse” of its privileges<sup>62</sup> and is a way of evading the jurisdictional requirements under Article 25(2)(b). Thus the case at hand presents special circumstances, under which the lifting of the corporate veil is justified. MedX is, therefore, not a company with Conveniencian nationality.

**B. Respondent has not agreed to treat Claimant as a national of Conveniencia for the purposes of ICSID Jurisdiction.**

35. Respondent never agreed to treat Claimant as a foreign national, either directly (1) or indirectly, through the operation of the MFN provision of Article 3(1) of the Bergonia-Conveniencia BIT (2). Even if the Tribunal finds, to the contrary, that the MFN provision is applicable, Respondent submits that the benefits of the “foreign national treatment” so accorded to Claimant can be denied to Claimant by virtue of the “denial of benefits” clause contained in the Bergonia-Tertia BIT, the treaty that Claimant is invoking (3).

**1. Respondent never directly agreed to treat Claimant as a foreign national.**

36. Respondent stresses that there was never any direct contract between Claimant and itself.<sup>63</sup> No contract was signed between Claimant and the State of Bergonia, nor were negotiations conducted between the two.<sup>64</sup> Moreover, there are no provisions in Bergonian legislation or in the Bergonia-Conveniencia BIT to this effect. Therefore, there is no express consent by Respondent to treat Claimant as a foreign national.

37. There is, furthermore, no implied agreement by Respondent to treat Claimant as a foreign national. Even though ICSID tribunals have, found implied agreements by State parties to a dispute to treat a locally incorporated investor as a foreign national for the purposes of ICSID jurisdiction,<sup>65</sup> the present case does not meet such exceptional circumstances. Implied agreement can only be found where there is an agreement concluded directly

---

<sup>61</sup> See Part I.A.1.

<sup>62</sup> *Barcelona Traction Case* (1970), [56].

<sup>63</sup> Clarification 12.

<sup>64</sup> Clarification 11.

<sup>65</sup> *Amco v Indonesia* (1983), pp. 392-7; *Klöckner v Cameroon* (1983), pp. 14-8.

with the host State, such as a concession contract. It cannot be inferred from a general offer to arbitrate under ICSID contained in a BIT or in the host State's legislation.

38. In the present case there is, as stated above, no direct contract from which an implied agreement to treat Claimant as a foreign national can be ascertained. Claimant was never treated as a foreign national by Bergonian authorities either.<sup>66</sup> Thus, it is evident from the facts that Respondent never consented, either expressly or impliedly to treat Claimant as a foreign national. By basing its argument on the extension of the "foreign national treatment" clause of the Bergonia-Tertia BIT by the operation of the MFN provision in the Bergonia-Conveniencia BIT, Claimant, therefore, is grasping at straws in its attempt to gain ICSID jurisdiction.

**2. The MFN provision of the Bergonia-Conveniencia BIT does not grant Claimant "foreign national treatment" under the Bergonia-Tertia BIT.**

39. The applicable law on the interpretation of the two BITs involved and of any other relevant treaty in the present case is the VCLT, which stipulates the examination of the intention of the Contracting States as expressed in the relevant treaty text **(a)**. Applying the Vienna Rules on Treaty Interpretation, the MFN provision contained in Article 3 Bergonia-Conveniencia BIT<sup>67</sup> is not capable of applying to jurisdictional issues under international law **(b)**. Even if the present Tribunal finds that a more liberal approach should be adopted, Article 3 Bergonia-Conveniencia BIT is not worded broadly enough to encompass jurisdictional issues **(c)**. Therefore, the "foreign national treatment" provided for in Article VI.8 Bergonia-Tertia BIT cannot be extended to Claimant in the manner Claimant alleges it..

*a. The law on treaty interpretation emphasizes the text agreed upon by the contracting states to the treaty.*

40. Both Bergonia and Conveniencia are parties to the VCLT.<sup>68</sup> Thus, the Vienna Rules on Interpretation of Treaties contained in Articles 31 to 33 of the VCLT are the applicable law to the interpretation of all relevant treaties in the case at hand. According to the general rule of interpretation contained in Article 31 VCLT:

---

<sup>66</sup> Clarification 14.

<sup>67</sup> Record, Annex 1, p.8.

<sup>68</sup> Clarification 108.

[a] treaty shall 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.

41. This provision is based on the idea that the interpretation of a treaty must be based above all on its text, rather than the “intention of the parties” to it, as the text is presumed in international law to be the most faithful expression of the common intention of the parties.<sup>69</sup> The VCLT aims to establish the true meaning of the treaty text. An interpreter of an international treaty, and of a BIT in particular, is supposed to read the relevant BIT, instead of reading *into* it.<sup>70</sup> In this respect the VCLT leaves no room for “presumed intention” of the parties to the particular BIT, since such approach would open the doors to an alteration of the treaty text, in order to fit more closely with the interpreter’s view of the treaty’s “true purpose”.<sup>71</sup>

42. Such interpretation is in conformity with earlier practice of courts in international law. It was established in the PCIJ’s *Phosphates in Morocco Case* (1938) that in case of doubt it is preferable to give a restrictive interpretation of a clause in a treaty because such a clause.

must on no account be interpreted in such a way as to exceed the intention of the States that subscribed to it.<sup>72</sup>

43. This principle of treaty interpretation was later reaffirmed in the ICJ *Ambatielos Case (ICJ)*, *Joint Dissenting Opinion* (1953) regarding the possible application of an MFN provision to jurisdictional issues.<sup>73</sup> Thus, when interpreting the provisions of the relevant treaties, the present Tribunal is requested to pay particular attention to the text of the treaties as being an expression of the parties’ intent. In the text of Article 3 Bergonia-Conveniencia BIT, the MFN provision’s scope cannot be extended to include jurisdictional issues.

*b. Article 3(1) Bergonia-Conveniencia BIT does not clearly and unambiguously provide that it applies to jurisdictional issues.*

44. It is a generally accepted principle that an MFN provision of the basic treaty cannot

---

<sup>69</sup> Gardiner, p. 6.

<sup>70</sup> Weininger, pp. 235 *et seq.*

<sup>71</sup> *Wintershall v Argentina* (2008), [88].

<sup>72</sup> *Phosphates in Morocco Case* (1938), p. 14.

<sup>73</sup> *Ambatielos Case (ICJ)*, *Joint Dissenting Opinion* (1953), p. 33.

attract a provision of a comparator treaty, unless such provision has the same subject matter as the one to which the MFN provision was intended to apply to.<sup>74</sup> Arbitral tribunals have limited jurisdiction over States; thus, their jurisdiction is subject to the strict limits of the State's consent to it.<sup>75</sup> In view of the principles of treaty interpretation applied by the ICJ,<sup>76</sup> an incorporation by reference of a State's acceptance to arbitrate is not possible – unless an intention of the Contracting States to the treaty in this sense can be established beyond any doubt.

45. In the *Anglo-Iranian Oil Case* the ICJ refused to rely on an MFN provision in order to establish the jurisdiction of the Court, stating that the relevant MFN provision had “no relation whatever to jurisdictional matters”.<sup>77</sup> This interpretation of MFN provisions is supported by the *Ambatielos Case (ICJ), Joint Dissenting Opinion*, where faced with two possible interpretations of an MFN provision, the judges found it difficult to espouse the one which would lead to “an interpretative extension of an obligation of a State to have recourse to arbitration”.<sup>78</sup>

46. This view has been endorsed by various ICSID tribunals.<sup>79</sup> *Plama v Bulgaria* (2004) stated that

an MFN provision in a basic treaty does not incorporate by reference dispute settlement provisions... unless the MFN provision in the basic treaty leaves no doubt that the Contracting Parties intended to incorporate them.<sup>80</sup>

47. An example of the parties' clear and unambiguous agreement that the MFN provision will apply to jurisdictional issues is provided by the UK Model BIT, which provides explicitly that its MFN provision applies to Articles 1 to 11 (Article 8 being the arbitration agreement).<sup>81</sup> On the contrary, the *Berschader v Russia* (2006) award found that a broadly worded MFN clause referring to “all matters covered by the present Treaty” is not sufficiently “clear and unambiguous”<sup>82</sup> as to include the arbitration clause contained

---

<sup>74</sup> ILC Articles on MFN Clauses, Article 9(1); *Anglo-Iranian Oil Case* (1952).

<sup>75</sup> *Wintershall v Argentina* (2008), [69].

<sup>76</sup> Part on the VCLT.

<sup>77</sup> *Anglo-Iranian Oil Case* (1952), pp. 109-10.

<sup>78</sup> *Ambatielos Case (ICJ), Joint Dissenting Opinion* (1952), p. 33.

<sup>79</sup> *Salini v Jordan* (2004); *Plama v Bulgaria* (2004); *Telenor v Hungary* (2006); *Berschader v Russia* (2006).

<sup>80</sup> *Plama v Bulgaria* (2004), [223].

<sup>81</sup> UK Model BIT, Article 3(3).

<sup>82</sup> *Plama v Bulgaria* (2004).

therein.<sup>83</sup>

48. In view of the above, Article 3 Bergonia-Conveniencia BIT cannot be interpreted as being “clearly and unambiguously” applicable to the arbitration clause under Article 10 of the same treaty. Unlike the UK Model BIT, Article 3 Bergonia-Conveniencia BIT does not define its scope of application, nor does it contain a generic reference that it applies to “all matters” under the BIT – in itself insufficient to imply the intent of the Contracting States to render an MFN provision applicable to jurisdictional issues. Extending the scope of Article 3 to include jurisdictional issues in the present case would, therefore, “subvert the common intention”<sup>84</sup> of Bergonia and Conveniencia when entering into the BIT.
49. Thus, the present Tribunal is requested to respect Bergonia and Conveniencia’s agreement as expressed in the Bergonia-Conveniencia BIT and to find that Article 3 does not apply to the arbitration clause. Any contrary interpretation would be equal to forcing Respondent to be a party to an arbitration to which it never consented.

*c. In any event the wording of Article 3(1) Bergonia-Conveniencia BIT is not broad enough to encompass the jurisdictional issues of the Treaty.*

50. Even if the present Tribunal decides to endorse a more liberal approach regarding the possibility of applying an MFN provision to jurisdictional issues, Article 3 would still not be capable of extending the effect of Article VI.8 Bergonia-Tertia BIT to Claimant. Article 3(1) of the Bergonia-Conveniencia BIT is not worded broadly enough to encompass jurisdictional issues. In the *Ambatielos Case (Arbitration)*, the commission decided that the MFN provision did not necessarily exclude “administration of justice” from its scope. It did so only because in the case in question such was the “intention of the Contracting Parties as deduced from a reasonable interpretation of the Treaty”. The MFN provision in question referred to “all matters relating to commerce and navigation”<sup>85</sup>.
51. Most ICSID and other international arbitral tribunals have extended the application of an MFN provision to jurisdictional issues only when such MFN provision is broadly worded,

---

<sup>83</sup> *Berschader v Russia* (2006).

<sup>84</sup> *Telenor v Hungary* (2006), [100].

<sup>85</sup> *Ambatielos Case (Arbitration)* (1956), p. 107.

generally referring to “all matters” of the relevant BIT.<sup>86</sup> In *Renta 4 v Russia* (2009) the tribunal refused to extend the application of the MFN provision in the relevant BIT, stating that the “crux of the matter” lay in the absence of “generic terms [like] in all matters covered” in the MFN provision.<sup>87</sup>

52. However, there is no such formulation in the Bergonia-Conveniencia BIT. Article 3(1) simply states, in relevant part, that “Neither Contracting State shall subject investments ... to treatment less favourable” than the one accorded to investments of any third state. Tribunals have refused to apply an MFN provision to jurisdictional issues where similar wording was present.<sup>88</sup> Moreover, *Siemens v Argentina* (2004) is the only case in which an MFN clause similar to the one of Article 3 was considered applicable to jurisdictional issues.<sup>89</sup> It is an exception in investor-state arbitral practice and has been criticised as a decision in which the tribunal tended to “create meaning rather than to discover it”<sup>90</sup> when interpreting the relevant BIT. Thus, Respondent stresses that the *Siemens v Argentina* interpretation of the MFN provision is not consistent with the VCLT and should not be applied to Article 3 Bergonia-Conveniencia BIT.<sup>91</sup>

53. In addition, Article 3(3)<sup>92</sup> Bergonia-Conveniencia BIT provides a definition of “treatment less favourable”. It defines less favourable treatment as “unequal treatment” in case of “restrictions on the purchase of raw or auxiliary materials, of energy or fuel or of means of production or operation” or of “impeding the marketing of products”.<sup>93</sup> All illustrations of treatment less favourable are related to material protections provided for in the BIT. Although the list is not exhaustive, it is established according to the *ejusdem generis* principle that when interpreting such non-exhaustive definitions, the matters that an interpreter can include in them must be from the same order of matters, as the ones expressly provided for in the definition.<sup>94</sup> The offer to arbitrate, however, does not fall

---

<sup>86</sup> *Maffezini v Spain* (2000); *Gas Natural v Argentina* (2005); *Suez-InterAguas v Argentina* (2006); *Suez-Vivendi v Argentina* (2006).

<sup>87</sup> *Renta 4 v Russia* (2009), [105]; [119].

<sup>88</sup> *Salini v Jordan* (2004); *Plama v Bulgaria* (2004); *Telenor v Hungary* (2006); *Berschader v Russia* (2006); *Wintershall v Argentina* (2008).

<sup>89</sup> *Siemens v Argentina* (2006).

<sup>90</sup> *Wintershall v Argentina* (2008), [185].

<sup>91</sup> See *HEP v Slovenia* (2009) *Individual Opinion*.

<sup>92</sup> Record, Annex 1, p. 8.

<sup>93</sup> *Ibid.*.

<sup>94</sup> ILC Article on MFN Clauses, [10-11].

within the same classification as the means of supply and operation of an investment. The definition of less favourable treatment in Article 3(3) Bergonia-Conveniencia BIT is a further indication that the Contracting States to the BIT did not intend the MFN provision in Article 3 to apply to their offer to arbitrate.

54. Jurisdictional issues may be absent from the list of subjects excluded from the scope of application of Article 3 Bergonia-Conveniencia BIT,<sup>95</sup> but this does not mean that such issues are subject to the MFN provision. These “exception clauses” have been considered by investor-state tribunals as insufficient to express the Contracting State’s intent to include jurisdictional issues in the scope of an MFN provision.<sup>96</sup> Therefore, the Tribunal is respectfully requested to recognise that Article 3 Bergonia-Conveniencia BIT is not worded broadly enough to encompass jurisdictional issues. Furthermore, the BIT cannot extend the application of the “foreign national treatment” clause of Article VI.8 Bergonia-Tertia BIT to Claimant.

**3. Respondent has the right to deny the benefits of Article VI.8 Bergonia-Tertia BIT to Claimant.**

55. Even if the Tribunal finds that Article 3(1) Bergonia-Conveniencia BIT extends the effects of the “foreign national treatment” clause of the Bergonia-Tertia BIT to Claimant, Respondent still has the right to deny to Claimant the benefits of this provision by virtue of the application of the denial of benefits clause under Article I.2 Bergonia-Tertia BIT.<sup>97</sup> Respondent may invoke the denial of benefits provision (a). Moreover, Claimant satisfies the conditions of the application of this provision, as Claimant is a local company controlled by nationals of third countries (b).

*a. Respondent has the right to invoke the denial of benefits provision of Article I.2 Bergonia-Tertia BIT against Claimant.*

56. Even though Article I.2 of the Bergonia-Tertia BIT is a provision of a third treaty not directly applicable to the relations between Claimant and Respondent, it is applicable in the present case. This is a direct consequence of the operation of the MFN provision of

---

<sup>95</sup> Record, Annex 1, p. 9.

<sup>96</sup> *Plama v Bulgaria* (2004); *Wintershall v Argentina* (2008).

<sup>97</sup> Record, Annex 2, p. 14.

Article 3(1) Bergonia-Conveniencia BIT, which applies the “foreign national treatment” clause of the Bergonia-Tertia BIT to Claimant. MFN provisions exist to provide for non-discriminatory treatment between nationals of different states in their relations with a particular country. Nevertheless, the objective on a MFN provision is not to grant *better* treatment to its beneficiary.<sup>98</sup> In order to grant the *same* treatment to Claimant as the one granted to a Tertian national, the limitations of the “foreign national treatment” clause of Article VI.8 Bergonia-Tertia BIT must be applied to the MFN provision. Article I.2 Bergonia-Tertia BIT is thus applicable to Claimant by virtue of the operation of the MFN provision of Article 3(1) Bergonia-Conveniencia BIT.<sup>99</sup>

*b. Claimant is controlled by nationals of third countries.*

57. Under Article I.2 Bergonia-Tertia BIT the Contracting States have the right to deny benefits of a provision of the BIT to “any company...if nationals of any third country control such company”.<sup>100</sup> Article I.2 further poses additional conditions for its operation regarding companies of the other Contracting State to the BIT. Those additional conditions are, nevertheless, not applicable to Claimant, since Claimant is not a company of Conveniencia, the other Contracting State. Under Article I.1(b) Bergonia-Tertia BIT, a company of the other Contracting State is one incorporated under its laws.<sup>101</sup> Claimant, however, is not incorporated under the laws of Conveniencia.<sup>102</sup> Claimant is not an investor under the Bergonia-Conveniencia BIT either, since it does not have its seat in Conveniencia.<sup>103</sup> Thus being controlled by nationals of any third country is sufficient to render it possible for Respondent to deny to it the benefits of Article VI.8 Bergonia-Tertia BIT.

58. As argued above, Claimant is controlled by MedScience and Dr Frankensid.<sup>104</sup> Moreover, even if the present Tribunal does not accept Respondent’s argument regarding the control exercised over Claimant for the purposes of the application of Article 25(2)(b) ICSID Convention, Respondent submits that the meaning of “control” in the context of the

---

<sup>98</sup> ILC Articles on MFN Clauses, Article 5.

<sup>99</sup> *Ibid.*

<sup>100</sup> Record, Annex 2, p. 14.

<sup>101</sup> Record, Annex 3, [1].

<sup>102</sup> Record, Annex 2, p.13.

<sup>103</sup> Bergonia-Conveniencia BIT, Article 1(3)(b), Record, Annex 1, p. 8.

<sup>104</sup> Part I.A.1.

Bergonia-Tertia BIT is different from the one under the ICSID Convention and includes necessarily indirect control. Under Article I.1(a) Bergonia-Tertia BIT, investment is defined as including a company on the territory of the host State “controlled directly or indirectly” by investors from the other Contracting State.<sup>105</sup> The application of Article VI.8 Bergonia-Tertia BIT is conditioned by the qualification of the company benefiting from the “foreign national treatment” clause as an “investment” of an investor of the other Contracting State.<sup>106</sup> Thus it is reasonable to believe that the Contracting States intended for the denial of benefits provision of Article I.2 Bergonia-Tertia BIT, to also take into consideration indirect control, as any other interpretation would render it ineffective with regards to beneficiaries of Article VI.8. Such interpretation would be contrary therefore to the *effect utile* doctrine, as endorsed by the VCLT.<sup>107</sup>

59. When considering indirect control, it is evident from the facts, as presented above,<sup>108</sup> that Claimant is jointly controlled by MedScience and Dr Frankensid. Dr Frankensid, on the one hand, is a dual national of Bergonia and Amnesia.<sup>109</sup> His Bergonian nationality is, nevertheless, not effective under international law<sup>110</sup> as he has his permanent residence in Laputa and has a greater affiliation with Amnesia than with Bergonia, as he keeps a house there.<sup>111</sup> Thus he is a “national” of a third country for the purposes of Article I.2 Bergonia-Tertia BIT. MedScience, on the other hand, is a Laputan company, with Laputan nationals comprising the majority of the shareholders.<sup>112</sup>
60. Even if “national” is interpreted to include only natural persons and excludes legal entities<sup>113</sup> under the Bergonia-Tertia BIT, MedScience’s shareholders also constitute “nationals” of a third country, Laputa. Claimant is controlled by nationals of third countries (Amnesia and Laputa) for the purposes of Article I.2 Bergonia-Tertia BIT and fulfils the conditions for the possibility of the denial of benefits to it under this provision.
61. Therefore, Claimant cannot rely on the “foreign national treatment” clause of Article VI.8

---

<sup>105</sup> Record, Annex 2, p. 13.

<sup>106</sup> *Ibid.*, p. 18.

<sup>107</sup> Gardiner, pp. 159 *et seq.*

<sup>108</sup> Part I.A.1.

<sup>109</sup> Record, Annex 3, [2].

<sup>110</sup> *Nottebohm Case* (1955).

<sup>111</sup> Clarification 54.

<sup>112</sup> Record, Annex 3, [2]; Clarification 17.

<sup>113</sup> Bergonia-Tertia BIT, Article I.1(c), Record, Annex 2, p. 13.

Bergonia-Tertia BIT, since Respondent can deny to Claimant the benefit of such provision. The Tribunal is also requested to find that Respondent never agreed to treat Claimant as a foreign national for the purposes of Article 25(2)(b) ICSID Convention. The Tribunal should find it has no jurisdiction over the present dispute, since Claimant does not satisfy the nationality requirements for ICSID jurisdiction.

**I. BERGONIAN PATENT AZ2005 IS NOT A PROTECTED INVESTMENT.**

62. Respondent is not in breach of its obligations under the Bergonia-Conveniencia BIT toward the patent in MedBerg, a corporation incorporated in Bergonia. Bergonian Patent AZ2005 is owned by Claimant.<sup>114</sup> The patent protects the invention by Dr Frankensid, an employee of MedScience, of a range of anti-obesity products and treatments characterised by lipid absorption retardant combined with glycogen/lipid metabolism optimisation.<sup>115</sup>

63. A patent is a right granted by the state to prevent third parties from undertaking within that territory certain activities specified by the “claims” of the patent, which define the scope of the patent’s monopoly.<sup>116</sup> In the present dispute, the process of research and development (R&D) on the obesity treatments eventually led to the application for and granting of Patent AZ2005 to Claimant. The IP rights which were the basis for the patent were assigned to Claimant by Dr Frankensid and MedScience.<sup>117</sup> Respondent submits that patent rights in general must be distinguished from Bergonian Patent AZ2005. This particular patent is a domestic patent that is merely the Bergonian manifestation of an investment that came from MedScience, a third country national, not Claimant.

64. Furthermore, the *assignment* of the IP rights that led to Patent AZ2005 is not included in the definition of “investment” in the Bergonia-Conveniencia BIT. Although patents are expressly included as “investments” in the BIT,<sup>118</sup> the assignment of patents is not.

65. Consent to ICSID arbitration as given in the BIT is also not enough: the requirements *ratione materiae* under Article 25 of the Convention must also be satisfied. Article 25(1) of the ICSID convention specifies that the jurisdiction of the Centre extends only to “any legal dispute arising directly out of an investment”.<sup>119</sup> This “double-keyhole” approach, in which a dual examination of the notion of investment is undertaken, has been endorsed by

---

<sup>114</sup> Record, Annex 3, [3].

<sup>115</sup> Clarification 73.

<sup>116</sup> Cook, [1.10].

<sup>117</sup> Clarification 23.

<sup>118</sup> Bergonia-Conveniencia BIT, Article 1(1)(d), Record, Annex 2, p. 7.

<sup>119</sup> ICSID Convention, Article 25(1).

ICSID tribunals, most notably *Salini v Morocco* (2001)<sup>120</sup> and *CSOB v Slovakia* (1999).<sup>121</sup>

66. The term “investment”, however, is not defined in the ICSID Convention. The Tribunal will be familiar with the ongoing debate as to whether an investment with respect to Article 25(1) of the Convention needs to meet certain specified criteria, or whether such criteria are merely indicative. In assessing the existence of an investment, Respondent emphasizes that the criteria for an investment as defined in *Salini v Morocco* (2001) – a financial contribution, a certain duration, an element of risk, and economic development in the host State – and expanded in *Phoenix Action* (2009) are criteria that should be followed. Respondent submits that the stricter *Salini* approach should be applied in the case at hand.

67. Even if the “typical characteristics” approach in the *MHS v Malaysia Annulment* (2009)<sup>122</sup> is followed in the present case, Bergonian Patent AZ2005, when taken as a whole, nevertheless does not constitute an “investment” for the purposes of ICSID, as it was MedScience, not Claimant, who made the investment. Claimant was merely the assignee of the patent. Therefore, Respondent submits that Bergonian Patent AZ2005 is not a protected investment under Article 25(1) of the ICSID Convention **(A)** and the Bergonia-Conveniencia BIT **(B)**.

**A. Bergonian Patent AZ2005 is not an investment under Article 25(1) of the ICSID Convention.**

68. Bergonian Patent AZ2005 is not a protected “investment” for the purposes of the ICSID Convention. The ICSID Convention was created in order to resolve investment disputes between states and foreign investors due to the risk involved on the part of the investor.<sup>123</sup> When a foreign investor invests funds – often a considerable amount – in a country and becomes subject to the legislation of that country, the investor naturally wishes to minimise the risks associated with that investment.

---

<sup>120</sup> *Salini v Morocco* (2001), [44], [52].

<sup>121</sup> *CSOB v Slovakia* (1999), [68].

<sup>122</sup> *MHS v Malaysia* (2009) *Annulment*, [77].

<sup>123</sup> Schreuer, pp. 3-5.

69. It is therefore important to distinguish between an investment operation and a mere transaction for the purpose of the sale of goods or services. The *Salini* criteria provide a useful way of defining investment for the purposes of ICSID. The parties to a BIT cannot merely leave it up to themselves to decide what is or is not an investment, as that would open up the risk of the ICSID Convention being utilised for purposes for which it was never intended. The *Salini* criteria are sensible, reflecting the reality of what an investment is and distinguishing it from a transaction. For instance, the latter either do not have an element of management or a continuous flow of income.<sup>124</sup> Moreover, the *Salini* approach has been consistently applied by ICSID tribunals. Thus, *Salini* is the best option for having the objectives of the Convention respected in such a way that renders clarity and consistency to the parties to a BIT or to a dispute.

70. Even if the Tribunal applies the “broad” view of investment in the *MHS v Malaysia* Annulment Decision (2009)<sup>125</sup> and *Biwater v Tanzania* (2008),<sup>126</sup> Bergonian Patent AZ2005 nevertheless does not fulfil the requirements for an investment under ICSID (1). Respondent submits that the features described in *Salini v Morocco* (2001) are not present in Patent AZ2005. These include: a contribution in money or other assets (2); a certain duration (which is undisputed by Respondent); an element of risk (3); and an operation made to develop an economic activity in the host State (4).<sup>127</sup>

**1. Bergonian Patent AZ2005, as a whole, does not constitute an investment for ICSID purposes.**

71. Respondent submits that the *Salini* approach should be followed in the present case, in the spirit of honouring an investment as a risky operation that should be protected. An ordinary commercial transaction, however, does not merit protection under ICSID.<sup>128</sup> In *Joy Mining v Egypt* (2004) the tribunal stated that to what extent the *Salini* elements are

---

<sup>124</sup> Charnowitz, p. 263.

<sup>125</sup> *MHS v Malaysia* (2009) *Annulment*, [77].

<sup>126</sup> *Biwater v Tanzania* (2008), [313].

<sup>127</sup> *Phoenix Action* (2009), [114].

<sup>128</sup> *Fedax v Venezuela* (2002), [42].

met would “depend on the circumstances of the case”.<sup>129</sup> In such a case-by-case analysis, Respondent submits that there is no investment.

72. Bergonian Patent AZ2005 was registered by Claimant, which was in turn incorporated in Bergonia for the sole purpose of registering the patent and exploiting the rights in that state. Thus, Patent AZ2005 is simply a way of exploiting the patent rights domestically. The invention is the same in every country; there is no physical distinction between the anti-obesity product in Bergonia and the same product in any other state.
73. The present case is not one involving bad faith by any of the parties; rather, it revolves around which transactions may be characterised investments. The two new characteristics added by the *Phoenix Action* case to the *Salini* elements - assets invested in accordance with the laws of the host State, and assets invested *bona fide* – will not be considered here, as these elements are not in dispute. Respondent emphasizes that when *all* the elements are taken together as a whole, an investment does not exist in the present case.
74. Even if the Tribunal should find that the features of an investment identified in *Salini* and refined in *Phoenix Action* (2009) are hallmarks rather than strict characteristics, the typical characteristics approach will show that an investment does not exist in the present case, and so the relevant requirements *ratione materiae* are not fulfilled.

**2. Bergonian Patent AZ2005 does not involve a contribution in money or other assets.**

75. One of the features of an investment is that of a contribution in money or other assets. Although previous ICSID tribunals have been known to characterise intangible property as an investment, they have always done so on a specific set of facts. In *CSOB v Slovakia* (1999) a loan was found to be an investment because it was closely part of an overall Consolidation Agreement designed to facilitate the privatisation of CSOB, and that could not be dissociated from the other interrelated transactions that were investments.<sup>130</sup> The tribunal in *CSOB*, however, was careful to emphasize that it did not necessarily follow

---

<sup>129</sup> *Joy Mining v Egypt* (2004), [52].

<sup>130</sup> *CSOB v Slovakia* (1999), [76].

that *any* loan would be deemed to meet the requirements of an investment under Article 25(1) of the ICSID Convention.<sup>131</sup>

76. In the present case, the facts are different from those in *CSOB v Slovakia*. Here the patent is a standalone right that does not relate to any financial contribution of Claimant in Bergonia. Specifically, it was MedScience, and not Claimant, who invested funds in the obesity products and treatments. Claimant acquired the right to apply for patent issuance when Dr Frankensid and MedScience assigned the intellectual property rights to the anti-obesity products to Claimant.<sup>132</sup> Claimant was only the assignee of the IP rights and was set up in order to register the patent.

77. The patent protects the invention by Dr Frankensid of a breakthrough range of products to treat obesity.<sup>133</sup> MedScience, Dr Frankensid's employer, invested money in R&D, which encompassed the technological equipment, premises, and other related expenses. Regardless of whether R&D or regulatory costs were involved,<sup>134</sup> Respondent stresses that the identity and business presence of the party making the investment are of paramount importance.<sup>135</sup>

78. Claimant never made a financial outlay; instead, it was its parent company, MedScience – an entity from Laputa, which is not an ICSID contracting state – which invested its resources in the process leading toward the registration of the patent.

79. Patent AZ2005 can only be an investment if it is connected to a foreign investor from an ICSID contracting state. Claimant is a mere intermediary that registered the patent and has virtually no activity in Bergonia. Even when ICSID tribunals have ruled in favour of allowing locally incorporated companies to be considered under ICSID, these companies had some business activity in the host state. Claimant, however, was selling only very limited quantities of the anti-obesity treatment in Bergonia, even before the compulsory licence took effect.<sup>136</sup> Furthermore, the fact that Claimant is *selling* products and

---

<sup>131</sup> *Ibid.*, [77].

<sup>132</sup> Clarification 23.

<sup>133</sup> Record, Annex 3, [4-5].

<sup>134</sup> Clarification 10.

<sup>135</sup> Mortenson, p.9.

<sup>136</sup> Clarification 19.

treatments at all means that it is effectively acting as a seller of goods and services, which do not come under the protection of ICSID. In *Patrick Mitchell v The Congo Annulment* (2006),<sup>137</sup> the provision of legal services was held not to constitute an investment. Moreover, there is no evidence to suggest that any of the sales transactions are in any way connected with a larger, more comprehensive investment in Bergonia.

### 3. Bergonian Patent AZ2005 does not involve an element of risk.

80. The tribunal in *Phoenix Action* (2009) considered a number of factors in assessing the element of risk.<sup>138</sup> It defined risk as involving “the investor los[ing] the amount he has paid”.<sup>139</sup> The tribunal concluded that in the case of an investor buying a bankrupt company, the investor assumes the risk of not being able to revitalise the corporation.

81. Patent AZ2005 is a territorial patent that covers an invention developed by MedScience. The products covered by Patent AZ2005 are the most effective drugs currently available in the market for combating obesity,<sup>140</sup> as was confirmed by two scientific studies published in support of this assertion.<sup>141</sup> The drugs use a lipid absorption retardant, which by definition controls the rate of lipid absorption, or fat accumulation, in the digestive system.<sup>142</sup> Recent scientific studies have shown that the retardant process has anti-obesity effects in humans.<sup>143</sup>

82. Claimant, however, has nothing to lose. It is a shell company with no assets in Bergonia, and sells only very limited quantities of its obesity treatments and products in that country.<sup>144</sup> The entire risk of the operation was borne by MedScience, who invested in the R&D and other elements of the anti-obesity drug production process. Therefore, Claimant faced no risks with respect to the patent.

---

<sup>137</sup> *Patrick Mitchell v The Congo (2006) Annulment*, [38].

<sup>138</sup> *Phoenix Action* (2009), [126-128].

<sup>139</sup> *Ibid.*, [127].

<sup>140</sup> Clarification 68.

<sup>141</sup> Clarification 19.

<sup>142</sup> Arishima et al, [72].

<sup>143</sup> *Ibid.*

<sup>144</sup> Clarification 19.

**B. Bergonian Patent AZ2005 is not a protected investment under the Bergonia-Conveniencia BIT.**

83. Respondent acknowledges that both parties expressly agreed to classify patents as an investment in the BIT. Article 1(1) of the Bergonia-Conveniencia BIT expressly includes patents<sup>145</sup> within the meaning of “investment”, which is defined as “every kind of asset invested in accordance with the laws and regulations of a Contracting State”.<sup>146</sup>

84. However, it is patents – not the *assignment* of the IP rights leading to Bergonian Patent AZ2005 – that are classified as an investment in Article 1(1). Nowhere is assignment provided for in the BIT. Patent AZ2005 is only the end product of the investment made by MedScience and Dr Frankensid; it is not the investment itself. Specifically, the definition of “patent” under the BIT is designed for foreign investments made by foreign investors who are nationals of an ICSID contracting state, and is not meant to encompass either domestic patents or patents from a third country. The patents covered in the Bergonia-Conveniencia BIT are patents of *Conveniencian* companies. Bergonian Patent AZ2005, however, is a domestic patent which originated from the investment of a third country company. As discussed in **Part I**, Claimant is an entity controlled jointly by nationals from Amnesia and Laputa.

85. The preamble of the BIT states that Bergonia and Conveniencia wish to

create favourable conditions to increase investments *by investors of one of the Contracting States* in the territory of the other Contracting State (emphasis added).<sup>147</sup>

86. As discussed in **Part I(A)**, Claimant is neither controlled by, nor a national of, Conveniencia. Rather, it was MedScience, a company of Laputa, which is not a contracting state, which invested in the technology leading to the grant of Patent AZ 2005. Thus, Claimant should not be allowed to avail of the benefits of the BIT and does not fulfil the requirements for jurisdiction under the Bergonia-Conveniencia BIT.

---

<sup>145</sup> Bergonia-Conveniencia BIT, Article 1(1)(d).

<sup>146</sup> *Ibid*, Article 1(1).

<sup>147</sup> Record, Annex 1, p. 7.

87. Even if the Tribunal should find that the assignment of the IP rights to Bergonian Patent AZ2005 constitutes an investment under Article 1(1) of the BIT, Respondent submits that jurisdiction should nevertheless be denied. In *Joy Mining v Egypt* (2004) the tribunal stated that there was a limit to the freedom of the parties in defining an investment if they wished to engage the jurisdiction of ICSID tribunals.<sup>148</sup> Therefore, *both* requirements – the BIT and Article 25 of the ICSID Convention – must be fulfilled, as they are cumulative, not alternative. If the Tribunal finds that the BIT requirement has been met, Patent AZ2005, nevertheless, is not an investment for the purposes of ICSID. Therefore, the Tribunal has no jurisdiction in the present case.

## **CONCLUSION ON JURISDICTION**

88. The Tribunal is requested to find that it has no jurisdiction over the present dispute. Firstly, Claimant is not controlled by a national of another Contracting State of the ICSID Convention. Secondly, Respondent never agreed to treat Claimant as a foreign national for the purposes of Article 25(2)(b) ICSID Convention. Thus, Claimant does not satisfy the nationality requirement necessary for ICSID jurisdiction. Thirdly, Bergonian Patent AZ2005 is not an investment for the purposes of Article 25(1) ICSID Convention. The features of an investment as described in *Salini v Morocco* are not fulfilled. Finally, the assignment of a patent, represented by Patent AZ2005, is not a protected investment under the BIT. .

---

<sup>148</sup> *Joy Mining v Egypt* (2004), [49].

## PART TWO: MERITS

### I. CLAIMANT'S PROPERTY HAS NOT BEEN EXPROPRIATED.

89. It is Respondent's case that the compulsory licence issued by the IP Office in respect of Patent AZ2005<sup>149</sup> does not amount to expropriation. In Section **I** Respondent will address the third issue of the written and oral procedures found in paragraph 14(c)<sup>150</sup> of the Minutes of the First Session of the Arbitral Tribunal. In Section **II**, the issue of fair and equitable treatment of foreign investments will be considered.
90. There has been an urgent domestic medical need in Bergonia<sup>151</sup> which necessitated the IP Office to issue a compulsory licence with regard to Patent AZ2005. This medical emergency is very real and present. Two recent studies have demonstrated that obesity is a pressing problem in Bergonia and that Patent AZ2005 is an effective treatment of obesity.<sup>152</sup> The compulsory licence afforded the Claimant full due process, and two appeal decisions by the Patent Review Board<sup>153</sup> and the Justice Ministry<sup>154</sup> agreed that the issuance of the compulsory licence was lawful.
91. The argument to demonstrate that Claimant's property has not been expropriated will be made in three parts. Firstly, Respondent argues that Claimant's property has not been directly expropriated (**A**). Secondly, Respondent will demonstrate that there has been no indirect expropriation of Claimant's property (**B**). Thirdly, Respondent submits that even if the Tribunal finds that Claimant's property was expropriated, the expropriation was lawful.(**C**).
92. The Bergonia-Conveniencia BIT provides in Article 4(2)<sup>155</sup> that expropriation is only lawful where it is in accordance with applicable law, for the public benefit, non-

---

<sup>149</sup> Record, Annex 3, [8].

<sup>150</sup> Record, Minutes of the First Session of the Arbitral Tribunal, [14].

<sup>151</sup> Record, Annex 3, [7].

<sup>152</sup> Clarification 26.

<sup>153</sup> Clarification 82.

<sup>154</sup> Clarification 111.

<sup>155</sup> Record, Annex 1, p. 9.

discriminatory and against prompt and adequate treatment. Respondent argues that all of these criteria have been met. Respondent respectfully petitions the Tribunal to find that the compulsory licence is lawful. Furthermore, Respondent has not expropriated Claimant's property and is not in breach of any of its international legal obligations under the BIT.

**A. There has been no direct expropriation of Claimant's property.**

93. Intellectual property and patents afford the holder a legal monopoly with respect to their technology. The investor is offered a legal monopoly with the exclusive rights to develop and profit from the invention. However, this monopoly is conferred subject to government intervention. Article 1(1)(d)<sup>156</sup> of the Bergonia-Conveniencia BIT provides that the definition of investment is to include "intellectual property", including "patents". Article 4(2)<sup>157</sup> of the BIT allows for the expropriation of investments if certain criteria are met, as discussed above.
94. Under international law, direct expropriation involves the forceful taking of an individual's property by the state by means of arbitral or legislative action.<sup>158</sup> Compulsory licences are a recognised set of measures undertaken by the government which compels the owner of intellectual property, normally a patent, to permit the state or other third parties use of that patent for a limited duration of time.<sup>159</sup> According to Article 4(2)<sup>160</sup> of the Bergonia-Conveniencia BIT, the exceptional circumstances in which a compulsory licence may be issued are very limited. Though the BIT does not make express reference to compulsory licenses, it discusses measures which have the effect of expropriation of investments. A compulsory licence may be tantamount to expropriation because it is a measure which permits either the state or third parties to use and develop the patented technology.

---

<sup>156</sup> Record, Annex 1, p. 7.

<sup>157</sup> *Ibid.*, p. 9.

<sup>158</sup> Brownlie, [508-509].

<sup>159</sup> Correa, [346].

<sup>160</sup> Record, Annex 1, p. 9.

95. Paulsson and Douglas<sup>161</sup> have put forward two criteria that must be considered in order for expropriation to exist. Firstly, the “nature or magnitude” of the interference with the investor’s property interests caused by the state measures must be determined. Secondly, this interference must rise to the level of expropriation by reference to the appropriate treaty standard. Respondent argues that this is the correct approach to determine whether direct expropriation has taken place.
96. A compulsory licence targets use; it does not deprive the owner of ownership rights over the protected intellectual property.<sup>162</sup> Claimant still retains the ownership of Patent AZ2005,<sup>163</sup> and still continues to produce quantities of the obesity treatment.<sup>164</sup> There has been no change in the management of Claimant; the original shareholders continue to control and run the company. The only change is that instead of Claimant being the sole Bergonian entity producing the obesity treatments, there are now a total of six Bergonian entities producing the obesity treatments.<sup>165</sup>
97. The facts of the present case are analogous to those in *Azurix v Argentina* (2006), where the tribunal considered the degree of ownership as the standard for whether expropriation had taken place. The tribunal found that expropriation had not taken place.<sup>166</sup> The tribunal’s decision focused on Azurix not losing the attributes of ownership and at all times continued to control ABA, a holding company and that its ownership of 90 percent of the shares in ABA were unaffected. The tribunal did not deem the actions suffered by Azurix to be sufficient for a finding that the investment had been expropriated. Annulment proceedings were recently bought by the Argentina government *Azurix v Argentina Annulment* (2009); however, the annulment application was unsuccessful. The grounds upon which Argentina bought the proceedings was a conflict of interest between one of the arbitrators and Azurix, not the merits of the case.

---

<sup>161</sup> Paulsson and Douglas, [148].

<sup>162</sup> Gibson, [8].

<sup>163</sup> Clarification 19.

<sup>164</sup> *Ibid.*

<sup>165</sup> Record, Annex 3, [8].

<sup>166</sup> *Azurix v Argentina* (2006), [281].

98. The tribunal in *Lauder v Czech Republic* (2001) found that the “detrimental effect on the economic value of property”<sup>167</sup> is not a sufficient standard to determine whether expropriation had taken place. Parties to a BIT are not liable for any economic injury that is the consequence of *bona fide* actions within the accepted powers of a state. Claimant’s sales of the obesity treatment may have fallen since the compulsory licence was issued by the IP Office,<sup>168</sup> Respondent, however, stresses that the issuance of the compulsory licence was in accordance with Bergonian law,<sup>169</sup> and in response to urgent medical needs in Bergonia.<sup>170</sup>
99. Article 4(2)<sup>171</sup> of the Bergonia-Conveniencia BIT states that investments shall not be subject to measures “the effects” of which are “tantamount to expropriation”. The tribunal in *S.D. Myers v Canada* (2000) found that the worlds “tantamount” and “expropriation” require a tribunal to examine the substance of what had occurred and not merely the form. The focus of the tribunal’s decision should be on the real interests involved and the effect of the government measure.<sup>172</sup> The tribunal in *S.D. Myers* also found that a temporary measure should not be held to be expropriation,<sup>173</sup> and that a reasonable period of time needs to pass before examining whether or not the measures actually have been expropriated.
100. Claimant has not suffered any real loss as a result of the issuance of the compulsory licence. Claimant is still able to produce and sell quantities of the obesity treatment.<sup>174</sup> Also, the compulsory licence is not permanent. It only lasts for a period of 48 months<sup>175</sup> and is merely a temporary measure intended to address the urgent medical needs in Bergonia.<sup>176</sup> Therefore, the present measures do not satisfy the standard of direct

---

<sup>167</sup> *Lauder v Czech Republic* (2001), [950].

<sup>168</sup> Clarification 19.

<sup>169</sup> Clarification 21.

<sup>170</sup> Record, Annex 3, [7].

<sup>171</sup> Record, Annex 1, p.9.

<sup>172</sup> *S.D. Myers v Canada* (2000), [220].

<sup>173</sup> *Ibid*, [967].

<sup>174</sup> Clarification 19.

<sup>175</sup> Clarification 24.

<sup>176</sup> Clarification 40.

expropriation, as Claimant still has the ownership of Patent AZ2005 and continues to produce quantities of the obesity treatment and sell them in Bergonia.<sup>177</sup>

**B. The issuance of the compulsory licence does not amount to indirect expropriation.**

101. Respondent submits that a possible decline in value or loss in returns because of lawful actions by Respondent cannot be viewed as indirect expropriation. The issue of compulsory licenses neither disproportionately affected Claimant (1) nor interfered with Claimant's legitimate expectations (2). The compulsory licensing regime is a non-discriminatory, temporary and emergency measure taken for public benefit in accordance with the applicable laws of Bergonia and in return for proper compensation. Thus, the issuance of compulsory licenses is not in breach of Article 4(2) of the Bergonia-Conveniencia BIT.

102. Article 4(2)<sup>178</sup> of the Bergonia-Conveniencia BIT addresses indirect expropriation in language similar to Article 1110 of NAFTA. In *Thunderbird v Mexico* (2006), dealing with indirect expropriation under Article 1110 of NAFTA, the tribunal provided that states can create reasonable and justifiable expectations on the part of an investor to act on reliance of such expectations.<sup>179</sup> The tribunal added that in establishing interference with legitimate expectations, regard should be given to the good faith principle of customary international law<sup>180</sup> and the provision for FET and full protection and security under Article 1105(1) of NAFTA.<sup>181</sup> However, the tribunal concluded that the standard against which the provision of protection by the host state of the investor's legitimate expectations was to be gauged is dependent on the circumstances of each case<sup>182</sup> and the minimum standards of treatment under international customary law.<sup>183</sup> Respondent argues that it afforded Claimant the standard of treatment required and, analogous to *Thunderbird*, Claimant's expectations insofar as they were legitimate and reasonable.

---

<sup>177</sup> Clarification 19.

<sup>178</sup> Record, Annex 1, p. 8.

<sup>179</sup> *Thunderbird v Mexico* (2006), [147].

<sup>180</sup> *Ibid*

<sup>181</sup> *Ibid.*, [184]

<sup>182</sup> *Ibid.*, [148].

<sup>183</sup> *Ibid.*, [192].

**1. The compulsory license does not have a disproportionate effect on Claimant and is not tantamount to expropriation.**

103. The legal principle used to establish whether indirect expropriation has occurred is the “sole effect” doctrine, which asserts that it is the effect of the governmental action rather than its purpose or intent which is the sole determining factor.<sup>184</sup> Respondent submits that its actions were in compliance with Article 4(2) of the Bergonia-Conveniencia BIT when interpreted in light of the “sole effect” doctrine.

104. Respondent argues that the exclusive exploitation of an IP right such as Patent AZ2005 is not realised only through direct measures such as the exclusive production and distribution of relevant products. The economic value of a patent can also materialise for the owner through the collection of proceeds from licensing agreements. By issuing a license to BioLife and only producing a limited amount of products on its own, Claimant demonstrated that it never intended to exploit the patent solely through the exclusive production of relevant products.<sup>185</sup> The issue of licenses to interested Bergonian parties is part of Claimant’s overall business strategy. Thus, the compulsory licenses issued by Respondent would not have had a significant effect on Claimant if the latter had accepted the royalties collected by Respondent for Claimant’s benefit.<sup>186</sup>

105. Therefore, Respondent’s issuance of such licenses has not in fact infringed Claimant’s exclusive rights of maximum exploitation of Patent AZ2005 so as to constitute indirect expropriation. Claimant is still the owner of the patent; there is no indication that Claimant’s property rights have been devalued as a result of the issuance of the compulsory licenses “to an extent which would render it useless”.<sup>187</sup>

106. Moreover, the compulsory licensing regime is a temporary and emergency measure which does not negate the ownership rights of Claimant. Thus, the effect of the compulsory licence on the economic returns from Claimant’s property is not of such intensity that it would render the property worthless<sup>188</sup> or substantially deprive Claimant

---

<sup>184</sup> Dolzer, p. 87.

<sup>185</sup> Record, Annex 3, [6].

<sup>186</sup> Clarifications 19, 71.

<sup>187</sup> *Starrett Housing v Iran* (1983).

<sup>188</sup> *RFCC v Morocco* (2003).

of the economic value, use or enjoyment<sup>189</sup> of it. In any case, Respondent, by setting the royalty payment only moderately lower,<sup>190</sup> has in effect safeguarded the market value of the patent.

**2. The issuance of the compulsory license does not interfere with Claimant's legitimate expectations and was reasonably foreseeable by Claimant.**

107. Patent AZ2005 is governed by laws of Bergonia and the Bergonia-Conveniencia BIT. Article 4(2) of the BIT<sup>191</sup> has outlined the possibility of lawful expropriation under express conditions. The grant of a patent by the Bergonian authorities by definition includes a representation that such a patent is subject to Bergonian law. Respondent has not acted contrary to Bergonian law and thus has complied fully with its representations to Claimant.

108. Claimant knew it was dealing with a unique health product<sup>192</sup> designed to alleviate the unprecedented obesity problem<sup>193</sup> in Bergonia, and should reasonably have anticipated state interference in light of the active role<sup>194</sup> that the Bergonian government took to address the problem. The compulsory licenses are nothing but a manifestation of reasonable legal and political risks associated with any IP investment in a foreign country. In particular, Claimant is a company solely established to exploit Patent AZ2005 by a parent company with specific expertise in obesity related products, and is presumed to have undertaken a risk analysis before embarking on this venture in Bergonia.

109. Respondent submits that the jurisdiction of this Tribunal does not extend to deciding whether the compulsory licence issued by the Bergonian IP office is in compliance with the TRIPS Agreement. The Dispute Settlement Understanding (DSU)—the rules governing WTO dispute settlement—in Appendix 1 states that the DSU applies to all TRIPS disputes. Furthermore, the DSU rules and procedures should be applied to the settlement of disputes by members concerning their rights and obligations under the

---

<sup>189</sup> *Telenor v Hungary* (2006).

<sup>190</sup> Clarification 88.

<sup>191</sup> Record, Annex 1, p. 9.

<sup>192</sup> Clarification 68.

<sup>193</sup> Clarifications 26, 40.

<sup>194</sup> Clarification 85.

WTO. The WTO is concerned with inter-state disputes; however this is an *investor-state* dispute. Therefore, the proper forum to dispute whether Bergonia is in breach of its TRIPS obligations is the WTO Dispute Settlement Body. Respondent merely wishes to utilise the TRIPS Agreement as an interpretative tool for Bergonian law.

110. Respondent is a member of the WTO,<sup>195</sup> and submits that the laws relating to compulsory licences are compliant with its obligations under the TRIPS Agreement.<sup>196</sup> Article 31 of the TRIPS Agreement allows for member states to issue compulsory licences if they are in a state of national emergency. Respondent contends that there is an urgent medical need in Bergonia, and it is in response to this medical need that the compulsory licence was issued.<sup>197</sup> One-third of the population of Bergonia is obese,<sup>198</sup> which represents a significant part of the total population.

111. When Claimant was granted Patent AZ2005 in March 2005,<sup>199</sup> it was known that that Bergonia was a member of the WTO<sup>200</sup> and that the WTO allows for compulsory licences. Therefore, Respondent is not in breach of Claimant's legitimate expectations by issuing a compulsory licence because Claimant was aware when it registered the patent that compulsory licences are legal under Bergonian law.<sup>201</sup>

112. Exclusive rights under the patent were granted to Claimant for twenty years<sup>202</sup> and compulsory licenses are issued for an initial 48 months<sup>203</sup> in return for royalties collected on behalf of Claimant by Respondent. The relatively short time scope of the compulsory licenses in return for royalties, more or less on par with the negotiated agreement by Claimant, does not constitute a significant interference with Claimant's reasonable and legitimate expectations. Moreover, Respondent chose to issue compulsory licenses for the

---

<sup>195</sup> Record, Annex 3, [3].

<sup>196</sup> Clarification 80.

<sup>197</sup> Record, Annex 3, [7].

<sup>198</sup> Clarification 65.

<sup>199</sup> Record, Annex 3, [5].

<sup>200</sup> Record, Annex 3, [3].

<sup>201</sup> Clarification 104.

<sup>202</sup> TRIPS, Article 33.

<sup>203</sup> Clarification 24.

absolute minimum duration possible in order to acquire scientific evidence as to the efficacy of the relevant products.<sup>204</sup>

**C. The expropriation of Claimant's property is lawful.**

113. Even if the Tribunal finds that the issuance of the compulsory licence by the Bergonian IP Office is deemed to amount to expropriation, Respondent submits that the criteria for lawful expropriation have been satisfied. Article 4(2)<sup>205</sup> of the Bergonia-Conveniencia BIT provides that investments shall not be subject to measures tantamount to expropriation subject to four conditions: in accordance with applicable law **(1)**, for the public benefit **(2)**, on a non-discriminatory basis **(3)** and against prompt and adequate compensation **(4)**. Furthermore, Article 4(3)<sup>206</sup> of the Bergonia-Conveniencia BIT states that the legality of any expropriation and the amount of compensation shall be subject to review by due process of law according to the applicable legal system.

**1. The compulsory licence is issued in accordance with Bergonian law.**

114. Since Claimant is a Bergonian registered company, the applicable law is Bergonian law, and Patent AZ2005 is registered in Bergonia. The issuance of a compulsory licence is legal under Bergonian law<sup>207</sup> and compulsory licences have previously been issued in relation to patents.<sup>208</sup> Also, judicial proceedings were undertaken to determine whether the issuance of the compulsory licence by the IP office was valid.<sup>209</sup> The IP Office's Patent Review board held that the issuance of the compulsory licence was in conformity with Bergonian law.<sup>210</sup>

115. Bergonian law provides for Claimant to appeal the IP Office's decision. Claimant filed an appeal with the Patent Review Board within the IP Office,<sup>211</sup> a quasi-judicial body consisting of Bergonian judges who sit on particular intellectual property cases. Claimant

---

<sup>204</sup> Clarification 66.

<sup>205</sup> Record, Annex 1, p. 9.

<sup>206</sup> *Ibid.*

<sup>207</sup> Clarification 21.

<sup>208</sup> Clarification 83.

<sup>209</sup> Clarification 37.

<sup>210</sup> *Ibid.*

<sup>211</sup> Clarification 29.

was also able to communicate its objections with regards to the issuance of the compulsory licence to the IP office between 1 June and 1 November 2007,<sup>212</sup> all dates prior to the invoking of the compulsory licence by BioLife and the five other Bergonian entities.

116. Claimant also filed an attempt at settlement according to Article 10(2)<sup>213</sup> of the Bergonia-Conveniencia BIT on 1 December 2007.<sup>214</sup> The Justice Ministry, however, agreed with the IP Office and Patent Review Board pronouncements and stated that the issuance of the compulsory licence was fully in accordance with Bergonia's international law obligations. In both instances of appeal, the Patent Review Board and the Justice Ministry agreed that the compulsory licence issued by the IP Office was lawful and in full compliance with Bergonia's international law obligations.

## **2. The issuance of the compulsory licence is for the public benefit.**

117. There is a national health emergency in Bergonia. Currently, 34 percent of males and 38 percent of females in Bergonia are obese;<sup>215</sup> this means that one in three people in Bergonia are obese. The health emergency is due to not only the large number of obese people in Bergonia but also the medical problems associated with obesity, namely hypertension, high cholesterol, hypertriglyceridemia (increased levels of fatty acids in the blood), type II diabetes, pulmonary function impairment, fatty liver disease and osteoarthritis.<sup>216</sup> These illnesses affect not only people's health and life span but also their quality of life.

118. The genetic make-up and traditional diet of the people in Bergonia has meant that obesity is a significant and long-standing concern causing significant long-term medical problems.<sup>217</sup> The government has taken other measures to combat obesity, the health ministry has funded several information campaigns on nutrition and exercise, and the Exchequer has prepared a green paper on imposing an 18 percent tax on sugared

---

<sup>212</sup> Clarification 72.

<sup>213</sup> Record, Annex 1, p.11.

<sup>214</sup> Clarification 111.

<sup>215</sup> Clarification 65.

<sup>216</sup> Tsai/Yang, [557].

<sup>217</sup> Clarification 39.

beverages and beverages containing corn syrup.<sup>218</sup> However, to date none of these measures have been effective in solving the problem of obesity in Bergonia.

119. The fact that the problem became acute after the licence agreement between Claimant and BioLife was terminated is not coincidence<sup>219</sup>; rather, it is evidence of the urgent medical needs in Bergonia. Before the termination of the licence agreement between BioLife and Claimant in March 2007,<sup>220</sup> the obesity treatment was produced and available from two entities. After the licence agreement was terminated, the treatment was produced solely by Claimant. As a result, there was a fall in the availability of the obesity treatment, as evidenced by the fact that of the six companies invoking the compulsory licence, the units sold by all the firms combined is only 155 percent of what was sold by BioLife alone.<sup>221</sup> The breakthrough obesity treatment provided by Patent AZ2005 is essential to the health and well-being of Bergonian citizens.<sup>222</sup> Furthermore, two studies have been published supporting the efficacy of the patented products in treating obesity.<sup>223</sup>

120. When considering the measures a state may take in response to a health emergency, the text of the Doha Declaration on the TRIPS Agreement and Public Health<sup>224</sup> provides some clarification of the circumstances in which a state may issue compulsory licences. Paragraph 5(b) of the Doha Declaration states that members have the right to grant compulsory licences and to determine on what grounds they should be issued. Meanwhile, paragraph 5(c) of the Doha Declaration states that member states have the right to determine for themselves what constitutes a national emergency or a circumstance of extreme urgency. Paragraph 5(c) lists “HIV/AIDS, tuberculosis and malaria and other epidemics”, but this is merely for illustrative purposes, and paragraph 1 makes reference to “other epidemics”.

---

<sup>218</sup> Clarification 85.

<sup>219</sup> Clarification 26.

<sup>220</sup> Record, Annex 3, [6].

<sup>221</sup> Clarification 19.

<sup>222</sup> Clarification 40.

<sup>223</sup> Clarification 26.

<sup>224</sup> Doha Declaration on TRIPS and Public Health.

121. Obesity is a pressing issue in Bergonia and it is Respondent's contention that there is a pressing national health emergency in the state. Thus, the issuance of a compulsory licence with regard to Patent AZ2005 is for the public benefit. The national health emergency arose soon after the licence agreement between BioLife and Claimant was terminated.<sup>225</sup> In order to prevent the health and the quality of life of its citizens from deteriorating further, Respondent decided to issue a compulsory licence on Patent AZ2005. Therefore, the issuance of the compulsory licence was in direct response to this urgent medical emergency which has impacted on a third of Bergonian citizens.

**3. The compulsory licence is non-discriminatory.**

122. Bergonian law provides for the issuance of compulsory licenses.<sup>226</sup> This law, which came into effect in 1997,<sup>227</sup> is in full compliance with Bergonia's customary international law obligations, including the TRIPS Agreement.<sup>228</sup> The issuance of the compulsory licence by the IP Office is not discriminatory because the IP Office has previously issued compulsory licences in relation to patented products by other companies.<sup>229</sup>

123. Article III(1)<sup>230</sup> of the Bergonia-Tertia BIT provides that investments are not to be expropriated either direct or indirectly except for the public benefit, in accordance with due process, in a non-discriminatory manner and upon adequate payment of compensation. This provision provides the same criteria as the Bergonia-Conveniencia BIT for the circumstances where expropriation is lawful. Respondent has not provided other states with better terms; on the contrary, the criteria for lawful expropriation is uniform for all states.

---

<sup>225</sup> Clarification 26.

<sup>226</sup> Clarification 21.

<sup>227</sup> Clarification 24.

<sup>228</sup> Clarification 80.

<sup>229</sup> Clarification 83.

<sup>230</sup> Record, Annex 2, p. 16.

124. Article 3<sup>231</sup> of the Bergonia-Conveniencia BIT provides that states shall not subject investments by either state to less favourable treatment. Respondent submits that the Bergonia-Tertia BIT shows that the treatment afforded to Claimant is no less favourable than that afforded to investments of other states. Article III(4)<sup>232</sup> of the Bergonia-Tertia BIT also states that Article III does not apply to the issuance of compulsory licences in relation to intellectual property rights in accordance with the TRIPS Agreement. Indeed, Article III(4) of the Bergonia-Tertia BIT is evidence that provisions related to the issuance of compulsory licences is not restricted to the Bergonia-Conveniencia BIT but is a common feature in other BITs.

125. The Bergonia-Conveniencia BIT entered into force on 30 May 2003, while the Bergonia-Tertia BIT entered into force only a few months before, on 1 January 2003. The Bergonia-Conveniencia BIT unlike the Bergonia-Tertia BIT does not state that compulsory licenses issued in accordance with the TRIPS Agreement are not to be considered part of the definition of expropriation. Instead, compulsory licences form part of the definition of expropriation under the Bergonia-Conveniencia BIT. Respondent has offered better protection to patent investments under the Bergonia-Conveniencia BIT, since the criteria of lawful expropriation has to be reached before a compulsory licence can be issued. There has not been discriminatory treatment of Claimant's property since the protection offered is equal to the treatment afforded to investments under other BITs.

#### **4. The compensation offered by Respondent is adequate.**

126. Respondent has offered to Claimant compensation in the form of royalties collected yearly<sup>233</sup> from BioLife and the five other entities which have invoked the compulsory licence.<sup>234</sup> Article 4(2)<sup>235</sup> of the Bergonia-Conveniencia BIT requires that the compensation amount is to be equivalent to the value of the expropriated investment. The royalties offered by the IP Office are only moderately lower than the fees which Claimant was collecting from BioLife under its previous licence agreement.<sup>236</sup>

---

<sup>231</sup> Record, Annex 1, p. 8.

<sup>232</sup> Record, Annex 2, p. 16.

<sup>233</sup> Clarification 87.

<sup>234</sup> Record, Annex 3, [8].

<sup>235</sup> Record, Annex 1, p. 9.

<sup>236</sup> Clarification 88.

127. Furthermore, in accordance with Article 4(3) of the Bergonia-Conveniencia BIT, the royalties were made in percentage of sales and payments made in ECU, the Bergonian national currency which is fully convertible.<sup>237</sup> Thus, compensation that is fully compliant with the Bergonia-Conveniencia BIT was offered to Claimant, who has chosen not to accept such remuneration.

128. Article 4(3) of the Bergonia-Conveniencia BIT provides that interest shall be paid in addition to the compensation, and that such interest should be calculated from the date of the expropriation until the time of payment. Since Claimant has refused to accept the compensation offered by Respondent, it is not possible to calculate the amount of interest which needs to be paid to Claimant. Thus, the requirement in Article 4(3) cannot be fulfilled unless it is determined whether expropriation has taken place, and on what date Claimant accepts the compensation offered.

129. In summary, Respondent submits that the compulsory licence issued by the Bergonian IP Office has not deprived Claimant of its property, namely Patent AZ2005. There is no evidence that the compulsory licence either directly or indirectly expropriated Claimant's investment. Even if the Tribunal finds that Claimant's property was expropriated, Respondent emphasizes that the expropriation is lawful and the compulsory licence satisfies the four criterion of lawful expropriation, namely that it was in accordance with applicable law, for the public benefit, issued on a non-discriminatory basis and against prompt and adequate compensation.

**II. RESPONDENT HAS COMPLIED WITH ITS OBLIGATION TO PROVIDE FAIR AND EQUITABLE TREATMENT AND FULL PROTECTION AND SECURITY TO CLAIMANT.**

130. Respondent submits that it has acted in accordance to the requirements of fair and equitable treatment (FET) and full protection under the Article 2(2) of the Bergonia-Conveniencia BIT. In principle, if the Tribunal is satisfied that the Patent constitutes an investment, there should be no difference between the FET and full protection and

---

<sup>237</sup> Clarification 86.

security provided by Respondent for the patent with that provided for a tangible investment of Claimant. Respondent submits that it had provided full protection and security for Claimant's intangible investment by taking suitable measures to characteristics of such investment. Thus, the Tribunal needs only to establish compliance with the requirements of FET by Respondent to be satisfied of the matter.

131. ICSID tribunals, on various occasions, have been of the opinion that FET and full protection and security are interlocking concepts which should be considered together. In *Loewen* (2002),<sup>238</sup> the tribunal concluded that fair and equitable treatment and full protection and security are not free-standing obligations. The *Loewen* tribunal stated that the tribunals in *Metalclad*, *S.D. Myers* and *Pope and Talbot* were wrong by suggesting otherwise.

132. In both *Wena Hotels v Egypt* (2002)<sup>239</sup> and *AMT v Republic of Zaire* (1997)<sup>240</sup> the ICSID tribunal did not look at FET and full protection and security obligations separately. More recently, in *Azurix v Argentina* (2006) the tribunal was persuaded of the interrelationship of FET and the obligation to afford the investor full protection and security<sup>241</sup>, The Ad Hoc Committee in the *Azurix* Annulment Proceedings (2009) clarified that the tribunal did not necessarily consider the two standards identical, but that it did consider full protection and security to be a sub-category of fair and equitable treatment, in that a "breach of the latter standard would necessarily entail a breach of the former".<sup>242</sup> Respondent suggests that the approach of the Ad Hoc Committee in the *Azurix* Annulment Proceedings should be taken by the Tribunal. Thus, although unlike in the above cases, the question of security and full protection in the present case does not involve damages to tangible assets as a result of war, civil strife and/or violence, it can nevertheless be addressed as a sub-category of FET.

133. The standard of FET against which the acts of Respondent are to be measured is an absolute, non-contingent standard whose meaning is determined by reference to the

---

<sup>238</sup> *The Loewen Group v United States* (2002).

<sup>239</sup> *Wena Hotels v Egypt* (2002).

<sup>240</sup> *AMT v Zaire* (1997).

<sup>241</sup> *Azurix v Argentina* (2006), [408].

<sup>242</sup> *Azurix v Argentina* (2009) Annulment, [138].

circumstances of the case and customary international law.<sup>243</sup> In interpreting the FET provision encapsulated in Article 2(2) of the Bergonia-Conveniencia BIT, the Tribunal should in accordance with Articles 31 and 32 of the Vienna Convention on the Law of Treaties consider the plain meaning of Article 2(2) in the context of the object and purpose of the Treaty. The stated aim of the Bergonia-Conveniencia BIT, outlined in the preambles and Article 2(1), is the creation of favourable conditions for and encouragement of investment. Respondent argues that it has complied with all the requirements of FET, even if a broad view of the standard similar to that taken by the Tribunal in *MTD v Chile* (2004)<sup>244</sup> were to be utilized by the Tribunal.

134. Respondent argues that on the basis of such interpretation, its acts with regards to the issue of compulsory licenses and the events that followed are in compliance with the principles of FET as required by the Article 2 of the Bergonia-Conveniencia BIT. Respondent submits that it had acted on all levels reasonably and in a non-discriminatory manner with good faith (1), had shown due diligence and vigilant protection of Claimant's investment (2), and had afforded due process to Claimant (3).

**1. Respondent acted reasonably, with good faith and in a non-discriminatory manner.**

135. In the *Neer*<sup>245</sup> decision the US-Mexico General Claims Commission concluded that an act by a sovereign to infringe the minimum standard of treatment afforded to aliens should amount to an "international delinquency". Respondent submits that given the seriousness of the hazard posed by obesity to Bergonian citizens, due to their special dietary and genetic characteristics, and the gravity of the problem – illustrated by the fact that almost one out of every three Bergonians is obese – it had acted reasonably in issuing a number of compulsory licenses to increase the availability of the products and further test their efficiency.<sup>246</sup> The issue of compulsory licenses is manifestly neither an "outrage" nor "willful neglect of duty" and does not amount to an "international delinquency".<sup>247</sup>

---

<sup>243</sup> Fatouros, pp. 135-141, 214-215.

<sup>244</sup> *MTD v Chile* (2004).

<sup>245</sup> *Neer v Mexico* (1926).

<sup>246</sup> Clarification 66.

<sup>247</sup> *Neer v Mexico* (1926).

136. However, customary international law is not a static concept: this is evident in the rejection of the tribunal in *Pope and Talbot* (2002)<sup>248</sup> of the application of the *Neer* standard to modern FET provisions.<sup>249</sup> Respondent argues that even if the Tribunal were to regard the *Neer* standard as too restrictive, the issue of compulsory licenses would nevertheless be reasonable and satisfy the requirements of FET and good faith. In *CME v Czech Republic* (2001)<sup>250</sup> the UNCITRAL tribunal found that the acts of the Media Council on behalf of the Czech government were unreasonable, on the grounds that the clear intention behind such acts was to collude with the domestic partner of the foreign investor to deprive it from its investment.<sup>251</sup> Moreover, the tribunal concluded that the acts were discriminatory.<sup>252</sup> Respondent submits that it did not discriminate against Claimant; this is evidenced by the previous compulsory licenses invoked against domestic companies<sup>253</sup> and the exclusion of compulsory licenses from the ambit of Article III.4 of the Tertia-Bergonia BIT. Furthermore, there is no suggestion of collusion or bad faith on part of Respondent.

137. In *Metalclad* federal officials made false presentations to the claimant, leading the claimant to believe that it did not require a permit from municipal authorities. The tribunal concluded that the claimant relied upon the advice it received from federal officials to its detriment and the officials failed to address this detrimental reliance.<sup>254</sup> Respondent submits that at no point were any representations made to Claimant assuring it against possible issuance of compulsory licenses. The patent was granted under Bergonian law, and as such Claimant should have understood that there was a possibility of issuance of compulsory licenses under Bergonian law.

138. Respondent submits to the Tribunal that it acted with good faith on all fronts and did not implement unreasonable or discriminatory measures against Claimant. Respondent had balanced the interests of Claimant against the purpose of compulsory licenses, namely the goal of universal availability and affordable price of the related products in

---

<sup>248</sup> *Pope & Talbot* (2002), *Damages Award*.

<sup>249</sup> *Ibid* [53].

<sup>250</sup> *CME v Czech Republic* (2001).

<sup>251</sup> *Ibid* [612].

<sup>252</sup> *Ibid*.

<sup>253</sup> Clarification 83.

<sup>254</sup> *Metalclad v Mexico* (2000), [88-89].

Bergonia. That the result was only moderately lower than the previous license agreement negotiated by Claimant<sup>255</sup> is another manifestation of good faith on the part of Respondent.

**2. Respondent has taken all measures necessary to insure FET and full protection of Claimant's investment.**

139. The standard against which any alleged shortcoming should be measured is not based on strict liability but only due diligence and vigilance based on the specific circumstances of the case. In *AAPL v Sri Lanka* (1990), where the corresponding BIT provision was analogous to Article 2 of the Bergonia-Conveniencia BIT, both the majority judgment and the dissent denied the strict liability approach.<sup>256</sup> Respondent submits that its actions comply with the requirement of due diligence and vigilance in providing FET and full protection and security. A patent is a territorial right by definition. It follows that any license issued assigning the right to exploit a patent is also of a territorial nature. Respondent submits to the Tribunal that it undertook all measures necessary to protect the investment of Claimant in the territory of Bergonia. Although the problem of parallel export<sup>257</sup> may put the interests of Claimant or its parent company in peril in other jurisdictions, such practice does not infringe a Bergonian patent *per se*.

140. Respondent has with due diligence calculated the amount of royalties and collected them for the benefit of Claimant in return for the compulsory licenses issued.<sup>258</sup> The profits accumulated by the licensees as a result of the 155 percent<sup>259</sup> rise in the sale of the products would have trickled down to Claimant, if not for Claimant's refusal to accept the collected royalties.<sup>260</sup> Moreover, although the royalties are moderately lower, Respondent is nevertheless vigilantly collecting royalties from six licensees, thus providing six moderately smaller portions of a larger cake to Claimant.

---

<sup>255</sup> Clarification 88.

<sup>256</sup> *AAPL v Sri Lanka* (1990).

<sup>257</sup> Clarification 61.

<sup>258</sup> Record, Annex 3, [8].

<sup>259</sup> Clarification 19.

<sup>260</sup> Record, Annex 3, [8].

**3. Respondent has provided due process and access to justice for Claimant.**

141. Article 2(3) of the Bergonia-Conveniencia BIT accords fair and equitable treatment as a substantive requirement encompassing due process of law and avoidance of arbitrary measures. Thus, the minimum international standards of due process should be followed in the process of issuing a compulsory license, requiring Respondent to make available acceptable procedures for reasonable notice and a reasonable opportunity for interested persons to present facts and arguments in support of their positions. The Bergonian IP Office issued six compulsory licenses for the exploitation of the patent for 48 months each, under its lawful authority. Respondent, in the Patent Review Board, has provided a forum for appeal to the decisions of the IP office. The forum makes use of independent judges<sup>261</sup> and has ruled against Claimant<sup>262</sup> in accordance with the requirements of Article 10(2) of the Bergonia-Conveniencia BIT.

142. Respondent submits that mere existence of minor procedural deficiencies in the process under which the Bergonian IP office functions does not amount to arbitrariness of the whole system. To the contrary, Claimant has misinterpreted the notion of arbitrariness. In *ELSI* (1989) the ICJ, citing the *Asylum* case, defined arbitrariness as “a willful disregard of due process of law, an act which shocks, or at least surprises, a sense of judicial property”<sup>263</sup> which cannot be identified as mere unlawfulness.<sup>264</sup> Similarly, the concept of denial of justice includes both improper procedures and unjust decisions. However, the standard of establishing either of the above is stricter than mere irregularity. In *Alex Genin v Estonia* (2001),<sup>265</sup> the ICSID tribunal concluded that for an irregularity to be indicative of denial of justice, it should amount to “bad faith, a willful disregard of due process of law or an extreme insufficiency of action”.<sup>266</sup>

143. Respondent submits that it has acted with good faith and in accordance to its obligations under the BIT and customary international law. The actions of Respondent are actions of a prudent and responsible supervisor affording a non-discriminatory and non-

---

<sup>261</sup> Clarification 29.

<sup>262</sup> Clarification 37.

<sup>263</sup> *Asylum Judgment* (1950), p. 284.

<sup>264</sup> *ELSI Case* (1989) [29].

<sup>265</sup> *Alex Genin v Estonia* (2001).

<sup>266</sup> *Ibid*, [367].

arbitrary treatment and adequate means of redress to Claimant, while maintaining a proper balance between its obligations towards Claimant and its duties as sovereign.

144. Therefore, Respondent has neither acted arbitrarily nor denied Claimant access to justice. Respondent agreed to bring the case to arbitration. Even if the Tribunal were to conclude that there are irregularities in the process afforded to Claimant, these irregularities do not amount to arbitrariness or denial of justice.

### **CONCLUSION ON THE MERITS**

145. The Tribunal is requested to find that Claimant is not entitled to compensation or other remedies in the present dispute. Firstly, there has been no expropriation, direct or indirect, of Claimant's property, nor is the issuance of the compulsory licence tantamount to expropriation. Secondly, even if the Tribunal were to regard the issuance of the compulsory license as expropriation, such action was lawful under the Bergonia-Conveniencia BIT. Finally, Respondent is in full compliance with its obligations toward Claimant under both the Bergonia-Conveniencia BIT and international law. Respondent has acted in good faith and provided fair and equitable treatment and full protection and security to Claimant's property.

**REQUEST FOR RELIEF**

146. Respondent respectfully requests the Tribunal to find that it does not have jurisdiction over the present dispute, since the requirements under ICSID Convention are not met.

In the alternative, the Tribunal is requested to find that:

- (1) The compulsory license does not constitute an expropriation under the Bergonia-Conveniencia BIT;
- (2) Respondent did not breach its obligations under international law; and
- (3) Respondent provided fair and equitable treatment to Claimant.

**Respectfully submitted on 21 September 2009 by**

**JENNINGS**

**On behalf of Respondent**

**GOVERNMENT OF THE REPUBLIC OF BERGONIA**