

INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES

MEDBERG CO.

Claimant

v.

THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

Respondent

MEMORANDUM FOR RESPONDENT

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EXECUTIVE SUMMARY OF ARGUMENT

RATIONE PERSONAE: First, jurisdiction is improper due to the lack of diversity in the nationality of the parties. MedBerg is a national of the host Contracting State, therefore, allowing jurisdiction would be contrary to the object and purpose of the ICSID Convention. Second, the Most Favored Nation Clause (“MFN Clause”) does not constitute Bergonian consent to ICSID arbitration.

RATIONE MATERIAE: This tribunal does not have jurisdiction over this case because MedBerg did not establish an investment in Bergonia.

The BIT only protects patents to the extent that the patent has any value as an asset that can be measured. The fair market value of MedBerg’s assets, related to the patent, were insignificant at the time Bergonia issued the compulsory license. MedBerg’s only intended benefit from the patent was to protect other MedX subsidiaries from competition. MedBerg chose not generate returns from its patent in Bergonia. The patent’s investment value in Bergonia was tied to the ability of the patent to generate returns by selling licenses to manufacture and sell the drug. When MedBerg chose not to issue licenses to manufacture and sell the drug within Bergonia, MedBerg voluntarily subjected its patent to a foreseeable risk. That risk was having the patent’s value decrease due to the reasonable removal of exclusivity by Bergonia by issuing a compulsory license. Because MedBerg’s failure to act was deliberate, the actual value of its patent decreased the moment it canceled its BioLife contract without replacing that contract. At that moment, the risk that Bergonia might issue a compulsory license was foreseeable.

The patent is not an investment under ICSID case law for several reasons. First, before Bergonia issued a compulsory license, the benefit of the asset to Bergonia failed to exist. Second, at the time Bergonia issued a compulsory license, MedBerg’s was only making a small fraction of its previous revenue in Bergonia under its BioLife contract. MedBerg did make a commitment of the patent to exist in Bergonia. Rather, the patent itself, simply by the nature that it can only be a Bergonian property, created that commitment. Third, MedBerg did not expose itself to risk in Bergonia because it did not enter into any long-term contracts that required a return on upfront

expenditures. Forth, any expenses endured by MedBerg prior to the time it was granted a patent did not arise directly out of an investment. The research and development costs preceded the investment. Therefore, they do not qualify as the correct type of risk endured by an investor contemplated under ICSID.

SUBSTANTIVE MERITS: There was clearly no takings that would come close to the threshold of being an expropriation. MedBerg had little to no investment value in its patent when Bergonia issued a compulsory license. Therefore, Bergonia's actions did not expropriate any significant amount of assets. The original value of the patent when it was first granted to MedBerg still remains. In fact, Bergonia's actions created potential for long-term returns to the patent holder that did not exist prior to the compulsory license.

The public health risks tied to this drug gave Bergonia the reasonable right to issue a compulsory license. MedBerg operates in a field of business where it is likely and foreseeable that its patents come with the natural risk of public regulation. Bergonia has the right to make public welfare policy decisions pertaining to this patent without having to worry about the impact of its policies on a single patent holder. In fact, Bergonia went beyond its obligations by offering to transfer all of the licensing fees from the compulsory license to MedBerg

STATEMENT OF FACTS

1. The Democratic Commonwealth of Bergonia (“Bergonia”) and the Government of Tertia concluded a Treaty Concerning the Reciprocal Encouragement and Protection of Investment on January 20, 2003. Four months later, Bergonia and the Sultanate of Conveniencia (“Conveniencia”) concluded a Treaty Concerning the Encouragement and Reciprocal Protection of Investments on May 30, 2003.
2. MedBerg was incorporated in Bergonia on on January 30, 2004 by MedX Holdings Limited (“MedX”), a corporation of Conveniencia.¹ MedBerg’s Board of Directors consistently meets in the territory of Bergonia.² MedBerg does not maintain regular or substantial business operations or offices in Conveniencia.³
3. Under the employment of MedScience Co. (“MedScience”), a Laputan corporation, Dr. Frankensid produced a scientific breakthrough leading to several patents useful in the health industry.⁴
4. Dr. Frankensid and MedScience assigned their intellectual property rights to the breakthrough to MedX, for which Dr. Frankensid and MedScience each received 50 per cent shares of all shares in MedX, making them joint, sole shareholders of MedX.⁵ Thus, Dr. Frankensid and MedScience possess sole voting power and control over MedX. MedX in turn owns 100 percent of MedBerg’s shares.⁶
5. MedX was incorporated in Conveniencia on January 1, 2003 and was transferred to MedScience and Dr. Frankensid on December 2, 2003.⁷

¹ Annex 3, *Uncontested Facts*, para 1.

² Response to Request No. 43.

³ Response to Request No.

⁴ Annex 3, paras 2, 4.

⁵ Response to Request No. 23.

⁶ Annex 3, para 2.

⁷ Response to Request No. 45.

6. On February 5, 2005, MedBerg applied to the Bergonia Intellectual Property (“IP”) Office for a twenty year patent covering the property rights it owns related to Dr. Frankensid’s invention.⁸ The Bergonian IP Office granted Patent AZ2005 on March 15, 2005.⁹ Patent AZ2005 is valuable for producing certain health-related products, including products useful for treating obesity,¹⁰ which affects 34 percent of males and 38 per cent of females in Bergonia.¹¹
7. MedBerg and BioLife, a Bergonian company, entered into an exclusive license agreement allowing BioLife to utilize Patent AZ2005 within Bergonia.¹² The product’s market price was 9,950 Bergonian ECU, or U.S. \$300.¹³ Yet Bergonia’s GDP was only US \$7,535 when MedBerg issued a compulsory license with respect to Patent AZ2005.¹⁴
8. MedBerg canceled its previous licensing contract with BioLife on March 31, 2005 and was not generating any licensing revenue when the compulsory license was issued.¹⁵ Other than owning a MedBerg, MedX’s only other economic relationship with Bergonia is renting a small office and employing two individuals.¹⁶
9. Currently, MedBerg sells directly only very limited quantities of its obesity treatment and products in Bergonia. The units sold by the six firms invoking the compulsory license is 155 % of that sold previously by BioLife alone. Total sales revenue for the six firms (including BioLife) is higher than it was for BioLife under the License Agreement.¹⁷ Yet the licensing rate is only moderately lower than the rate in MedBerg’s previous licensing contract.¹⁸
10. MedBerg has no current licensing agreements and it has no plans to license its patent.¹⁹

⁸ Response to Request No. 58; Annex 3 para. 5.

⁹ Annex 3, para 5

¹⁰ Response to Request No. 40.

¹¹ Response to Request No. 65.

¹² Response to Request No. 32;

¹³ Response to Request No. 109.

¹⁴ Response to Requests 44, Annex 3 para 8

¹⁵ Annex 3 para 6, and

¹⁶ Response to Request 76

¹⁷ Response to Request 19

¹⁸ Response to Request 88

¹⁹ Response to Requests 31 and 42

11. MedX and or its subsidiaries own the patent rights to this intellectual property in every country that has ever imported the covered medical products from Bergonia.²⁰

12. Bergonia's laws that cover its compulsory license mechanism do not impose export restrictions on products covered by any of its compulsory licenses.²¹ Bergonia's willingness to issue compulsory licenses is evident through its issuing of past licenses on patents owned by its own nationals.²²

13. The Secretary of the International Centre for Settlement of Investment Disputes registered these proceedings for arbitration on November 1, 2008.²³

²⁰ Response to Requests No. 101 and 103.

²¹ Response to Request No, 30

²² Response to Request No, 83

²³ Annex 3, para. 10.

PART ONE: RATIONE PERSONAE MERITS OF THE CLAIM

I. MEDBERG'S BERGONIAN NATIONALITY BARS JURISDICTION UNDER THE FIRST CLAUSE OF ARTICLE 25(2)(B).

14. To qualify for ICSID jurisdiction, Article 25(1) of the ICSID Convention requires a dispute be “between a national of a Contracting State ... and a national of another Contracting State.”²⁴ This rule of diversity is clarified by Article 25(2)(b) which defines “national of another Contracting State” as:

15. Any juridical person which had the nationality of a Contracting State other than the State party to the dispute on the date on which the parties consented to submit such dispute to conciliation or arbitration²⁵

16. This provision prohibits a legal entity incorporated in the host Contracting State from gaining access to arbitration under the ICSID Convention. MedBerg does not qualify for jurisdiction under this Article because (A) MedBerg is incorporated in Bergonia, (B) MedBerg's corporate seat in Bergonia, and (C) MedBerg is controlled by nationals of non-Contracting States.

(A) MEDBERG'S INCORPORATION IN BERGONIA BARS JURISDICTION.

17. Conventions to arbitrate should be construed consistently with the intent of the parties. Article 31 of The Vienna Convention on the Law of Treaties states: “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.”²⁶ Proper interpretation under Article 31 involves “a process of progressive encirclement where the interpreter starts under the general

²⁴ ICSID Convention, Article 25(1).

²⁵ Convention, Article 25(2)(b).

²⁶ 1969 Vienna Convention on the Law of Treaties, Section 3, Article 31(1).

rule with (1) the ordinary meaning of the terms of the treaty, (2) in their context and (3) in light of the treaty's object and purpose.”²⁷

18. The Tribunal in *Amco Asia Corp. v. Republic of Indonesia* stated that “a convention to arbitrate is not to be construed restrictively, nor, as a matter of fact, broadly or liberally. It is to be construed in a way which leads to find out and to respect the common will of the parties.”²⁸

19. Application of the objective “state of incorporation test” makes MedBerg a national of Bergonia. MedBerg has not possessed any nationality other than Bergonia because it was incorporated in Bergonia. Therefore, no inquiry is required into whether MedBerg “had the nationality of a Contracting State other than” Bergonia. The state of incorporation test is appropriate in this case because it advances the will of the parties as demonstrated in the BIT.

20. The *Amco* Tribunal stated that the test for corporate nationality is a “classical one, based on the law under which the juridical person has been incorporated, the place of incorporation and the place of the social seat.”²⁹ Therefore, the standard for determining corporate nationality is objectively based on the state of incorporation and the state of the corporation's seat.

21. Furthermore, to the extent that the *Amco* Tribunal found jurisdiction, they did so based on facts not present in this case. In *Amco*, an explicit contractual provision existed outside the BIT, which stated that the claimant had established a “foreign business.” The Tribunal concluded that “the nationality of the controller of ... the Indonesian juridical person to be established, was repeatedly and expressly stated in the Application to which the Indonesian Government agreed.”³⁰ Therefore, proper notice to the Contracting State party to the dispute was at issue. The *Amco* Tribunal found jurisdiction because the express contractual provision gave the host State ample notice it was dealing with a “foreign business.”

²⁷ *Aguas del Tunari S.A. v. Republic of Bolivia*, (ICSID Case No. ARB/02/3), Decision on Jurisdiction, October 21, 2005.

para 91.

²⁸ *Amco Asia Corp. v. Republic of Indonesia*, (ICSID Case No. ARB/81/1) Decision on Jurisdiction, September 25, 1983, para 14(i).

²⁹ *Amco* at para 20.

³⁰ *Amco* at para 14(ii).

22. No similar contractual provision exists in this case. The only agreement between MedBerg and Bergonia outside the BIT was the grant of Patent AZ2005 which cannot be a contract because it contains no reciprocal provisions. Even if it were a contract, there is no evidence that Bergonia would have notice of foreign control over MedBerg. Therefore because Bergonia's knowledge of MedBerg's relationship with a Conveniencian company is not relevant, dismissing this case for lack of jurisdiction because MedBerg is a national of Bergonia will be consistent with the decision in *Amco*.

23. The Tribunal in *Tokios Tokeles v. Ukraine*³¹ applied the state of incorporation test where it was contemplated by the parties in the BIT. The *Tokios* Tribunal stated that giving effect to the BIT's definition of corporate nationality "fulfills the parties' expectations, increases the predictability of dispute settlement procedures, and enables investors to structure their investments to enjoy the legal protections afforded under their Treaty."³² It is one thing to argue for a control test where piercing of the corporate veil will advance the expectations of the parties, but it is inappropriate to suggest that a control test may be applied inconsistently with those expectations.

24. In this case, looking beyond MedBerg's place of incorporation does not fulfill the parties expectations because both Bergonia and Conveniencia contemplated use of the state of incorporation test would apply. Furthermore, looking beyond the place of incorporation will erode predictability in dispute settlement procedures because calling MedBerg a national of any State but Bergonia would blur the lines of the requirements for nationality. This would result in great uncertainty in Bergonia regarding their responsibilities to domestic companies, as well as uncertainty among actual foreign investors in Bergonia.

25. Analysis of corporate nationality stops with the state of incorporation, even for "shell" companies. The tribunal in *Rumeli v. Kazakhstan*³³ held that where "the BIT adopts the State of incorporation and the State of the seat as criteria for determining the nationality of a claimant,"

³¹ *Tokios Tokeles v. Ukraine*, (ICSID Case No. ARB/02/18), Decision on Jurisdiction, April 29, 2004.

³² *Tokios* at para 40.

³³ *Rumeli Telekom A.S., Telsim Mobil Telekomikasyon Hizmetleri A.S. v. Republic of Kazakhstan*, (ICSID Case No. ARB/05/16), Award, July 29, 2008.

the scope of application of the BIT includes shell companies.³⁴ The Rumeli Tribunal found that “a search beyond the designated claimant whenever it is a shell company” is not required.³⁵ Therefore, the *Rumeli* case places a high priority to the definition of “investor” contained in the basic treaty or BIT. Thus, the state of incorporation test controls whether or not MedBerg is a subsidiary or ‘shell’ company because that is the test clearly stated in the Bergonia-Conveniencia BIT.

26. Like the claimant in *Rumeli*, MedBerg contends it is a subsidiary or shell for MedX, a legal entity of Conveniencia. However, the BIT defines the term “investor” in respect to Bergonia as, “any juridical person as well as any commercial or other company or association with or without legal personality having its seat in the territory of the Democratic Commonwealth of Bergonia.”³⁶ The language is clear; the parties in this case agreed to determine corporate jurisdiction according to the state of incorporation. The BIT’s definition of “investor” accurately describes MedBerg because MedBerg is a “juridical person having its seat in” Bergonia. Therefore, MedBerg is a national of Bergonia under the terms of the BIT.

27. The ICSID Convention left determinations of corporate nationality to be defined by the Contracting States in their relevant BIT. Because the clear language of the BIT shows the intent of Bergonia and Conveniencia to have agreed to application of a state of incorporation test, such is the appropriate standard in this case. Application of the state of incorporation test is consistent with the object and purpose of the ICSID Convention and is consistent with the common will of the Contracting States both require a denial of jurisdiction.

28. The object and purpose of ICSID is to protect foreign investment, not investment by domestic persons or legal entities. Because MedBerg was established in Bergonia, it is objectively a national of Bergonia under the classic formulation stated in *Amco* and reaffirmed in *Tokios*.

³⁴ *Rumeli* at para 189.

³⁵ *Id.* at para 189.

³⁶ BIT at Article 1(3)(a).

29. Moreover, international law significantly limits the use of a control test. In the *Nottebohm Case*, the International Court of Justice (ICJ) held that “nationality is a legal bond having as its basis a social fact of attachment, a genuine connection of existence, interests and sentiments.”³⁷ While admitting “an element of fluidity” between different tests in international law, the ICJ in *Barcelona Traction* concluded that “the better view is that ... the correct test is that of the state of incorporation.”³⁸ Therefore, in this case, even if the Tribunal finds a control test appropriate, a determination of nationality must still be grounded in objective, clear and valid connections with the controlling country.

(B) MEDBERG’S CORPORATE SEAT IS IN BERGONIA.

30. Brief mention of the corporate seat is relevant because of the attention given it in international law and because it is referenced in the Bergonia-Conveniencia BIT. The tribunal in *Aguas* acknowledged: “States in examining the status of a foreign corporation generally defer either to the law of the seat of the company or the law at the place of incorporation.”³⁹ This reiterates the practice of objective determination for corporate nationality in international law.

31. Article 1(3)(a) of the BIT defines an “investor” of Bergonia as a company “having its seat in the territory of the Democratic Commonwealth of Bergonia.”⁴⁰ This definition ensures that nationality based on corporate formalities—its place of incorporation—will not mask the realities of corporate day-to-day operations.

32. In this case, the place of MedBerg’s corporate seat confirms its nationality is based on more than mere corporate formality. MedBerg’s board meets in Bergonia, therefore its oversight of Patent AZ2005 takes place in Bergonia. In contrast, there is little evidence of MedBerg’s activities in any other State. Therefore MedBerg is a national of Bergonia under this test. Moreover, to the extent that the place of MedBerg’s corporate seat demonstrates its locus of control, it shows that MedBerg is a national of Bergonia in such a case.

³⁷ *Nottebohm Case (Liechtenstein v. Guatemala)*, April 6, 1955, 1955 I.C.J. 4, page 23.

³⁸ *Barcelona Traction Light and Power Company, Limited, (Belgium v. Spain)* 1970 I.C.J. 3, February 5, 1970, para 33

³⁹ *Aguas* at para 176.

⁴⁰ BIT at Article 1(3)(a).

(C) MEDBERG IS CONTROLLED BY NATIONALS OF NON-CONTRACTING STATES.

33. Even if the terms of the BIT were unclear and necessitated looking beyond the state of incorporation and corporate seat, a review of the circumstances and MedBerg's relationships with other companies reveals that control rests in the territory of Bergonia. Alternatively, the exercise of control over MedBerg by nationals of non-Contracting States bars jurisdiction.

34. Under Article 25(1), ICSID jurisdiction extends only to disputes between a Contracting state and nationals of another Contracting State.⁴¹ Thus the ICSID Convention protects investments made by investors of Contracting States other than the host Contracting State. In this case, a control analysis would not be appropriate because it would over-extend the jurisdictional reach of ICSID to non-Contracting States.

35. In *Aguas*, the contentions centered on the location of the foreign control.⁴² The BIT in *Aguas* contained a provision referencing legal entities "controlled directly or indirectly" by nationals of another Contracting State.⁴³ By contrast, the BIT in this case does not contain a clear provision similar to that in the *Aguas* BIT. Thus, the boundaries of applying a control test are unclear, making a control test undesirable.

36. As in *Aguas*, this case involves disagreement over the term "control" in the sense of mere legal potential to control, versus the practical standard of actual or effective control. However, the facts upon which that tribunal found jurisdiction are not present here. Unlike *Aguas*, there is not "an uncertain level of actual control" because share ownership is the only thing demonstrating control by MedX.⁴⁴ Furthermore, the controlling nationals of the non-Contracting States are but one step beyond MedX.

⁴¹ ICSID Convention Article 25(1).

⁴² *Aguas* at para 219.

⁴³ *Id.* at para 217.

⁴⁴ *Id.* at para 247.

37. Dr. Frankensid and MedScience retain a great deal of potential and actual control over MedBerg. The potential control over MedBerg is found in their ownership of MedX shares, while their divestment of the intellectual property rights related to Patent AZ2005 for those shares demonstrates actual control—not merely control over the patent, but control over MedBerg in its entirety. Because MedX can exercise no control over MedBerg which might contradict the desires of Dr. Frankensid and MedScience, any control analysis must not stop with MedX.

38. Ultimately, the state of incorporation test is appropriate in this case because it is consistent with the object and purpose of the ICSID Convention and with the common expectations of the parties expressed in the BIT. Moreover, even if a control test were appropriate, MedBerg is controlled by nationals of non-Contracting States. Under either analysis, jurisdiction should be denied.

II. THE SECOND CLAUSE OF ARTICLE 25(2)(B) IS NOT SATISFIED BECAUSE THE MFN CLAUSE DOES NOT CREATE JURISDICTION.

39. The second clause of Article 25(2)(b) defines “National of another Contracting State” as:

40. Any juridical person which had the nationality of the Contracting State party to the dispute on that date and which, because of foreign control, the parties have agreed should be treated as a national of another Contracting State for the purposes of this Convention.⁴⁵

41. This clause allows parties to agree to a nationality provided two objective requirements are met; the juridical person must have the nationality the host state, and that the agreement was made because of foreign control.

42. The parties in this case have not made such an agreement, and no such agreement can be inferred from the MFN Clause. First, the MFN Clause does not cover jurisdictional matters. Therefore, the MFN Clause does not serve as an agreement to arbitrate under ICSID. Second,

⁴⁵ Convention at Article 25(2)(b).

Bergonia may invoke the Denial of Benefits Clause of Article I.2 of the Bergonia-Tertia BIT to deny MedBerg the advantages of that BIT.

(A) THE MFN CLAUSE DOES NOT SUPPLY BERGONIAN CONSENT TO TREAT BERGONIA AS A FOREIGN NATIONAL.

43. Due to the absence of an express agreement in the Bergonia-Conveniencia BIT to treat companies like MedBerg as foreign entities, MedBerg seeks to incorporate a jurisdictional provision from another Bergonian BIT. However, nothing in the MFN Clause covers jurisdictional matters. Because the parties failed to express a clear intention that the MFN Clause apply to jurisdictional matters, the scope of the MFN Clause is limited and cannot be used to invoke Article VI.8 of the Bergonia-Tertia BIT.

44. Article 3 of the Bergonia-Conveniencia BIT contains an MFN Clause which precludes the Contracting States from subjecting investments or investors of the other Contracting State to “treatment less favorable” than it accords to its own investments or investors.⁴⁶ Subsection (3) of that article defines “treatment less favorable” as:

45. unequal treatment in the case of restrictions on the purchase of raw or auxiliary materials, of energy or fuel or of means of production or operation of any kind, unequal treatment in the case of impeding the marketing of products inside or outside the country.⁴⁷

46. The BIT definition covers substantive rights in the treaty; for example, unequal regulatory restriction by a host Contracting State would qualify as “treatment less favorable.” No provision in Article 3 contemplates application to jurisdictional issues. Subsection (3) of the Article 3 MFN Clause does not clearly demonstrate the attitude the parties had toward its coverage of jurisdictional matters. This ambiguity casts doubt on whether the parties intended to provide for the incorporation of jurisdictional matters by reference.

⁴⁶ BIT, Article 3(1)-(2).

⁴⁷ BIT at Article 3(3).

47. The tribunal in *Plama Consortium Limited v. Republic of Bulgaria*⁴⁸ found the MFN provision left doubt as to the parties' intent to incorporate jurisdictional provisions.⁴⁹ The tribunal stated: "an MFN provision in a basic treaty does not incorporate by reference dispute settlement provisions in whole or in part set forth in another treaty, unless the MFN provision in the basic treaty leaves no doubt that the Contracting Parties intended to incorporate them."⁵⁰ Therefore, the general rule is that incorporation by reference is not presumed and the only exception occurs when the parties leave "no doubt" as to what they intended to incorporate from other treaties.

48. It is ambiguous whether the parties intended the MFN Clause in Article 3 of the Bergonia-Conveniencia BIT to serve as an agreement to arbitrate. MedBerg seeks to establish jurisdiction by referencing another BIT. However, the *Plama* tribunal stated: "the reference must be such that the parties' intention to import the arbitration provision of the other agreement is clear and unambiguous."⁵¹

49. The United Kingdom Model BIT provides an example of a simple, clear and unambiguous expression of intent to include jurisdictional matters: "For avoidance of doubt it is confirmed that the treatment provided for in paragraphs (1) and (2) above shall apply to the provisions of Articles 1 to 11 of this Agreement."⁵² This provision eliminates ambiguity by pointing to the specific jurisdictional provisions in the BIT which the MFN Clause is meant to apply to.

50. The MFN Clause of the Bergonia-Conveniencia BIT is convoluted in comparison. The Contracting Parties to the Bergonia-Conveniencia BIT could have chosen to eliminate ambiguity by expressing clear intent that the MFN Clause should apply to jurisdictional matters. However, they failed to do so. Therefore, in the absence of a clear statement such as the one provided in the United Kingdom Model BIT, the scope of the MFN Clause applies only to substantive

⁴⁸ *Plama Consortium Limited v. Republic of Bulgaria*, (ICSID Case No. ARB/03/24), February 8, 2005.

⁴⁹ *Plama* at para 227.

⁵⁰ *Plama* at para 223.

⁵¹ *Plama*, para 200.

⁵² UK Model BIT, Article 3(3).

matters as described in subsection (3) of Article 3. Moreover, there is no evidence of subsequent practice of the parties which would bring clarity to this issue.⁵³

51. Furthermore, reliance on the line of cases advanced by *Emilo Agustin Maffezini v. The Kingdom of Spain*⁵⁴ and *Siemens A.G. v. Argentine Republic*⁵⁵ is misguided on this matter. Although scholars suggest that the *Maffezini* decision can be interpreted consistently with the more recent decision in *Plama*,⁵⁶ the *Plama* Tribunal characterized the *Maffezini* holding as a reaction to “exceptional circumstances” which “should not be treated as a statement of general principle guiding future tribunals in other cases where exceptional circumstances are not present.”⁵⁷ Therefore, even in light of *Maffezini*, the standard for incorporation by reference through an MFN Clause is a showing of “exceptional circumstances.”

52. Moreover, in *Salini v. Jordan*,⁵⁸ the Tribunal found that the most favored nation clause did not cover jurisdictional matters where the BIT lacked “any provision extending its scope of application to dispute settlement.”⁵⁹ This decision reinforces the general refusal of tribunals to assume that Contracting Parties intend for an MFN Clause to apply to jurisdictional matters where the parties fail to demonstrate that intent in the BIT.

53. The MFN issue in this case is exactly like the situation in *Salini v. Jordan*. *Bergonia* and *Conveniencia* failed to make an explicit reference in Article 3 of the BIT which would reasonably reflect an expectation that the MFN Clause covered jurisdictional matters. Significantly, the existence of provisions related to solely to substantive matters suggests more

⁵³ See Vienna Convention, Article 32

⁵⁴ *Emilo Agustin Maffezini v. The Kingdom of Spain*, (ICSID Case No. ARB/97/7), Decision on Jurisdiction, January 25, 2000.

⁵⁵ *Siemens A.G. v. Argentine Republic*, (ICSID Case No. ARB/02/8), Decision on Jurisdiction, August 3, 2004.

⁵⁶ August Reinisch, *Introductory Note to International Centre for the Settlement of Investment Disputes (ICSID): Plama Consortium Limited v. Republic of Bulgaria*, American Society of International Law, 44 I.L.M. 717 (2005), page 5 (“The different outcome in *Maffezini* and *Siemens*, on the one hand, and in *Salini v. Jordan* and *Plama*, on the other hand, need not necessarily be regarded as inconsistent case-law”).

⁵⁷ *Plama* at para 224.

⁵⁸ *Salini Construttori SpA and Italstrade SpA v. The Hashemite Kingdom of Jordan*, ICSID Case No. ARB/02/13, Decision on Jurisdiction, November 15, 2004 (hereinafter, *Salini v. Jordan*).

⁵⁹ *Salini v. Jordan* at para 118. See also para 119 (“Article 3 of the BIT does not apply insofar as dispute settlement clauses are concerned”).

than miscalculated absence of jurisdictional matters; it suggests the affirmative exclusion of jurisdictional matters from coverage under the MFN Clause.⁶⁰

54. Finally, MedBerg seeks to “replace a procedure specifically negotiated by the parties with an entirely different mechanism.”⁶¹ It is clear that MedBerg seeks arbitration through ICSID as provided for in both BITs. However, the ‘mechanism’ is not ICSID arbitration itself but the method of determining nationality of MedBerg for purposes of ICSID jurisdiction. Importing an express jurisdictional agreement from another BIT qualifies as “an entirely different mechanism” because it would create ICSID jurisdiction where it would otherwise not be found.

55. Bergonia specifically negotiated consent to ICSID jurisdiction with nationals of Conveniencia without exceptions for special circumstances. Therefore, MedBerg seeks more than to supplement its treatment under the BIT. Rather, MedBerg seeks to replace the method of determining jurisdiction.

(B) ALTERNATIVELY, BERGONIA MAY INVOKE THE DENIAL OF BENEFITS CLAUSE CONTAINED IN THE BERGONIA-TERTIA BIT.

56. Bergonia may properly deny MedBerg any advantages of the Bergonia-Tertia BIT for three reasons. First, the Denial of Benefits Clause of Article I.2 applies to the whole BIT and therefore must be read in conjunction with Article VI.8. Second, MedBerg has no substantial business activities in Conveniencia. Third, MedBerg is controlled by nationals of third countries not parties to the ICSID Convention.

(1) The Denial Of Benefits Clause Applies To The Whole BIT.

57. The Denial of Benefits Clause must be read in conjunction with other provisions of the Bergonia-Tertia BIT. It is inextricably related to the clause MedBerg seeks to bring in because it acts as a qualifier to that clause.

⁶⁰ BIT at Article 3(3).

⁶¹ *Plama* at para 209.

58. Article I.2 applies to all provisions of the Bergonia-Tertia BIT because it states that “Each Party reserves the right to deny any company the advantages of this Treaty...”⁶² Therefore, a good faith reading of Article I.2 allows Bergonia to apply Article I.2 to deny advantages related to investor nationality found in Article VI.8.

59. Moreover, the relationship of clauses contained in the Bergonia-Tertia BIT should not be altered by a separate, subsequent agreement. Because the Bergonia-Tertia BIT predates the Bergonia-Conveniencia BIT, invoking Article VI.8 in the absence of Article I.2 would be similar to creating an entirely different set of responsibilities which Bergonia never agreed to be bound by. Therefore, Bergonia may deny MedBerg the advantages of Article VI.8 if either of the following criteria are met.

(2) No Substantial Business Activities.

60. Bergonia may deny MedBerg the advantages of Article VI.8 if MedBerg has no substantial business activities in Conveniencia. MedBerg has not asserted and has not shown it has offices or agents of its own in Conveniencia, or that it holds board meetings or makes any decisions from within Conveniencia.

61. In contrast, MedBerg’s business activities in Bergonia consist of holding board meetings, negotiating and completing licensing contracts and receiving returns arising from the management of Patent AZ2005. Therefore, the Denial of Benefits Clause may be invoked under these facts alone.

(3) MedBerg Is Controlled By Nationals Of Non-Contracting States.

62. Bergonia may deny MedBerg the advantages of Article VI.8 if it is controlled by a Bergonian national or by nationals of non-Contracting States. Article I.2 precludes incorporation of Article VI.8 because MedBerg is controlled by nationals of third states. Bergonia would not have agreed to provisions in Article VI.8 in the absence of the Article I.2 limitation. The

⁶² Bergonia-Tertia BIT, Article I.2.

limitation prevents companies controlled by nationals of third states from improperly taking advantage of ICSID jurisdiction.

63. MedScience is a legal entity of Laputa, a State not party to the ICSID Convention. MedScience owns 50 per cent of MedX's shares which makes MedScience the objective controller of 50 per cent of MedBerg. Dr. Frankensid holds an equal 50 per cent of MedX, giving him equal control over MedBerg with MedScience. Frankensid's dual nationality of Bergonia and Amnesia makes him a national of the host state or a third party state, either of which would allow Bergonia to limit the terms of the Article VI.8 agreement in accordance with Article I.2.

64. In conclusion, if the Tribunal finds incorporation of Article VI.8 appropriate, the Denial of Benefits Clause of Article I.2 must be incorporated in tandem in order to give effect to the reasonable expectations of the parties. Incorporating Article VI.8 without the Article I.2 limitation will not lead to equal treatment of MedBerg and Tertian entities. Instead, it will cause MedBerg to receive even more favorable treatment than Bergonia accords to any investor of Tertia or any other Contracting State. Such a result would be inconsistent with basic treaty interpretation under the Vienna Convention and contrary to the ICSID Convention. Therefore Article I.2 must be considered in conjunction with Article VI.8.

III. CONCLUSION ON RATIONE PERSONAE

65. Because MedBerg is a national of Bergonia under both a state of incorporation test and, alternatively, under a control test, this dispute is not within the jurisdiction of ICSID. Moreover, because the MFN Clause cannot provide Bergonian consent to arbitrate with a legal entity of Bergonia, jurisdiction is not proper in this case.

66.

PART TWO: RATIONE MATERIAE MERITS OF THE CLAIM

67. The Bergonia-Conveniencia BIT was never intended to precisely define the parties' intended definition of investments. The BIT was always understood to operate in conjunction with ICSID and international law. ICSID and the BIT were intended to jointly limit the scope of allowable investments. Therefore, it was and continues to be unnecessary of for either treaty to duplicate the restrictive effects of the other. To the extent that the BIT identifies patents as investments, this alone does not reflect the full intent of the parties when they signed the BIT. As signatories to ICSID, it has always been the intent of both parties for definitions in the BIT to operate within the limits placed on them by ICSID.⁶³

68. The question of what constitutes an investment will be addressed in stages. In section (I) of Part Two it will be analyzed under the limitations placed on it by the BIT. Once we understand what is not restricted by the BIT, that which remains will analyzed through the lens of ICSID case law in section (II) of Part Two. In Part Three, we will analyze only the minimal scope of what remains from Part Two and determine how the laws of expropriation should be applied.

I. THE PATENT HAS A LIMITED SCOPE AS AN INVESTMENT UNDER THE BIT BECAUSE MEDBERG DISREGARDED THE INHERENT RISK ASSOCIATED WITH THE PROPERTY RIGHTS THAT BERGONIA CREATED AND GRANTED TO MEDBERG.

69. Bergonia understands that if we just looked at the BIT, it might seem that patents are covered without exception. However, before we can apply the ICSID case law in the next section, we must first define exactly what the case law should be applied to in regards to MedBerg's patent. In other words, we must define the assets that MedBerg actually owns in Bergonia. To this end, section (I) will define the intellectual property within the confines of Bergonian law. After all, the patent has no value and affords no rights outside of Bergonia. Not until Section (I) is applied can we take the concept that emerges from section (I) and apply ICSID case law in section (II).

⁶³ Schreuer, Christoph. *ICSID Convention: A Commentary*, 61 (CUP, Cambridge 2000).

(A) ALTHOUGH A PATENT IS AN ASSET, OWNERSHIP OF A PATENT DOES NOT IN AND OF ITSELF MEAN THE PATENT HOLDER OWNS AN INVESTMENT.

70. MedBerg's patent is property with value, and thus an asset. However, it is not an investment as intended under any agreement between the parties. It can be helpful in our analysis to begin by comparing intellectual property to real property. The description of physical objects such as rocks and rivers help to convey the multi-dimensional geographic concept of space; which in turn helps define the concept of property that being protected (land and buildings). In the same way, the description in the text of the patent helps to define the extent of the concept of intellectual property being protected.

71. Land has little value without the recognition of real property rights by the state. The state's laws establish reliable criteria for determining exactly what is being protected and what that protection entails. The states willingness to enforce those protections is what gives real property its value.

72. In the same way, the laws of the state as well, as the state's willingness and ability to enforce the criteria established in its patent laws, give the concept being defined in a patent its value. Without such faith in the states willingness and ability to enforce its legal grant of property rights to patent holder, the patent has no value in that country. The key concept to take from this is that an analysis of property must begin with an understanding that a full bundle of rights are not inherent in personal ownership, there must first be evidence in law justifying their existence at each step of the analysis.

73. It is possible in many instances to recognize a patent as an investment in ICSID case law and in the BIT because the potential for new wealth and social benefits, which did not exist before, is often created with the grant of a patent by the state. However, the intent of ICSID does not recognize that simply being a holder of a government grant as being an investor.

74. After all, the state creates the asset. This concept can be understood by comparing patents to radio licenses. The owner of such a license did not create the airspace or invent radio frequencies. Rather, the state defines the radio frequency and sells a license that carries ownership rights similar to any other piece of property.

75. In the same way, the state receives the description of the property from the patent seeker. The state then creates a legal property based on that description and then grants that property to the potential investor. It's important to recognize that this is a potential investor, because the analysis of investments only includes ideas and concepts that are built on top of (or comes after) this point of sale.⁶⁴ In other words, the work that went into developing the description in the text of the patent (the research and development of ideas) did not create patent property. Until the state decrees it to be patent property by granting a patent the described concepts have much less protection if any under trade secret laws. These trade secret protections are not at issue in the case at hand.

76. ICSID case law requires additional concepts to be present in order for the property that is owned at the point of sale of a patent to become an investment.

(B) BECAUSE MEDBERG MADE POOR BUSINESS DECISIONS THAT DISREGARDED THE FORESEEABLE RISKS OF COMPULSORY LICENSES, MEDBERG LIMITED THE INVESTMENT POTENTIAL OF ITS PATENT.

(1) The Patent Holder Can Affect The Investment Value Of A Patent By Creating Situations That Increases Or Decreases The Demand For The Patent On The Open Market.

77. The BIT can only protect patents to the extent that there is any value to patent as an asset that can be measured. The tradable market value of a patent can increase or decrease beyond or below the original government recording fee of the patent. It is possible for the value of a patent to be less than the price that the patent holder paid the government for that piece of property. A

⁶⁴ See discussion below under Section (II)(B): Arising Directly Out Of *referencing: Milhaly International Corporation v. Democratic Socialist Republic of Sri Lanka* and *SGS Societe Generale de Surveillance SA v Pakistan*.

patent holder cause increase in value through marketing or making it easier for the public to obtain the end product covered by the patent. If this work is done, by the patent holder, it may prevent a potential buyer from having to assuming that same risk and put forth the money to do that marketing work on their own. In the same way, the failure of a patent holder to ensure the product is being marketed properly can decrease the ultimate value of the patent. The value of the patent and, and thus potential value of the investment, is simply a matter of supply and demand on the open market. Any realistic expectation of returns, as reflected in fair market price with full disclosure of relevant information, is the investment that is tied to a patent.⁶⁵ This investment is what an investor can expect to be protected under a BIT such as the Bergonia Conveniencia BIT.

(2) The Demand For A License From A Patent Holder Can Increase Due To Outside Events.

78. A patent holder can see the value of a patent increase simply by the passing of time and the realization of events. Although these events may be expected, they are not certain. If they were certain, the value would have increased as soon as they became certain. As the amount of time leading up to the expected events decrease, the value of the patent will increase to reflect the decreased perceived risk on the market. The value that has not yet been obtained because of perceived risk can be understood as being the cost of insurance to cross that distance into the future and make that potentially higher future value a certainty today.

(3) Because Fair Market Value Is The Realistic Expected Value, Any Estimated Value Of The Patent In The Past, That Did Not Account For The Risk That MedBerg Would Fail To Take The Necessary Business Decisions To Prevented The Issuance Of A Compulsory License, Would Therefore Not Have Been An Accurate Estimate Of The Patent's Real Value.

79. The value of an asset that might have been expropriated is commonly calculated by the fair market value.⁶⁶ The World Bank Guidelines on the Treatment of Foreign Direct Investment

⁶⁵ Dolzer, Rudolf, and Christoph Schreier. *Principles of International Investment Law*. 274 (Oxford University Press, 2008).

⁶⁶ *Id.*

defines this as value “immediately before the time at which the taking occurred or the decision to take the asset became publicly known.”⁶⁷

80. The true fair market value of the patent can best be determined when all the information is available. MedBerg was in total control of its decisions to not issue license to manufacturers. Because MedBerg was in complete control of the choice to not issue manufacturing and sales licenses in Bergonia, any effects of that choice must be figured into the fair market value of the patent at the time the compulsory license was issued. This is because a fair market price based on accurate information would include the fact that a scenario would certainly exist where compulsory license would be permissible under Bergonian law.⁶⁸ Therefore, any loss from this value due to MedBerg’s actions cannot be included in the real value of the investment as defined by the BIT.

81. In the present case, the patent has little economic value in Bergonia. This is because there is little net demand for any of the byproducts of the patent (the pharmaceutical drugs). The quantity for the demand may or may not be substantial. Regardless, it does not equate to significant economic value. This is because no matter what the quantity of demand is, that the Bergonian citizens that make up that demand are unable to pay much for the drugs as Bergonia’s GDP is only \$7535. This does not decrease the importance of the drug to Bergonia and its citizens. There is significant social value to Bergonia. This constraint on the shape of the demand curve simply means that the net economic value of the investment is limited. Therefore, so too is the only relevant legal standard for defining the scope of an investment in a case like this.

82. To the extent that a drug manufactured under a Bergonian patent can be sold outside of Bergonia, this does not add legitimate value to the patent. MedX and or its subsidiaries own patents in the other countries where it seeks protection. Those patents not only permit manufacture and license of the drug in those other countries; they also provide legal barriers to imports into those other countries. MedBerg is free file claims in those other countries to seek

⁶⁷ The World Bank Guidelines on the Treatment of Foreign Direct Investment Guideline IV(3), 31 ILM 1379, at p. 1382

⁶⁸ See discussion under Part Three section (I)(B) *referencing: TRIPS, Methanex v. USA, and LG&E v. Argentina.*

damages from a breach of any import restrictions tied to the patents in those countries. However, MedBerg is proscribed from seeking any damages to any exports from Bergonia that come from holders of the Compulsory License. This is because Bergonian law does not guarantee any such protections to the original patent holder.

83. The only damages available in Bergonia, in relation to exports of a patented product, are damages from the private entities themselves if a contract exists preventing exports. This would be the case if any MedBerg license included contractual language prohibiting exports. MedBerg had access to Bergonian courts to protect itself against any breaches of any licensing contracts it may had with BioLife. If such a contract did not have such a provision, either by intent or by mistake, MedBerg would not have a valid claim in Bergonian courts over the export of the end product.

84. Because access to damages based on exports of the drug can only come if MedBerg takes an assertive action to create a right in a contract, the right therefore does not exist in Bergonia without a clearly expressed reservation of that right by MedBerg. MedBerg did not express this intent when the patent was created and MedBerg cannot show any place where such an inherent right exists in Bergonian laws. Consequently, MedBerg assumed a risk when it obtained the patent. MedBerg had the responsibility to take steps to shield its self from those risks. In its licensing contracts, it could shield itself by issuing licenses with export restrictions. As far as the risks of damages from exports that originate under a compulsory license, MedBerg could have protected itself by taking the necessary steps to prevent a situation in which a compulsory license would be issued.

(4) Any Patent Value That Remains Under This Assessment Is The Only Value That Can Qualify As An Investment Under The BIT

85. To find and investment under the next section, we need to look for specific actions and behavior that MedBerg may have taken that reflect the intentions of an investment, and thus can qualify any investment asset under the BIT analysis as an investment under ICSID jurisdiction. It is important to note that up to this point and at no point in the future should the analysis equate any benefit to Bergonia as being part of any investment MedBerg may own. Rather, the benefit

to Bergonia is nothing more than an outcome from the investment. As noted in section (II) the intention of this outcome is a separate element in the analysis.

II. BECAUSE MEDBERG DID NOT CREATE ANY SIGNIFICANT ASSETS IN BERGONIA OR TAKE ANY SIGNIFICANT RISKS, AND BECAUSE NONE OF THE MINIMAL ASSETS THAT WERE CREATED HAD ANY MEANINGFUL BENEFIT TO BERGONIA, THE SCOPE OF BERGONIA'S OBLIGATIONS IS MINIMAL UNDER ICSID.

86. Christoph Schreuer has summarized the typical features of an investment in the following way:

1. the project should have certain duration
2. there should be a certain regularity of profit and return
3. there is typically an element of risk for both sides
4. the commitment involved would have to be substantial
5. the operation should be significant for the host State's development⁶⁹

87. Case law under ICSID arbitration has provided similar guidelines for defining investments. The panel in *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco* listed a four part guideline for identifying a legitimate investment.⁷⁰ It suggests asking whether there has been:

1. a contribution in money or other assets;
2. a commitment over certain duration;
3. participation in the risk;
4. a contribution to the host State's development.

88. In *Phoenix Action Ltd. v. The Czech Republic*, the arbitral panel essentially re-affirmed the same test.⁷¹ The *Phoenix* ruling clarified point three of the Salini test in a way that was

⁶⁹ OECD. *International Investment Law: Understanding Concepts and Tracking Innovations*. P. 61 (OECD, 2008).

⁷⁰ *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco* (ICSID Case No. ARB/00/4) para, 52.

⁷¹ See: *Phoenix Action, Ltd. v. The Czech Republic*, Award, (ICSID Case No. ARB/06/5), April 15, 2009.

consistent with the way countries have been interpreting the meaning of a contribution to the host State's development. It suggests asking whether there has been:

1. a contribution in money or other assets,
2. over certain duration;
3. an operation made in order to develop an economic activity in the host State;
4. assets invested in accordance with the law of the host State;
5. assets invested that are *bona fide*.

89. Points 4 and 5 of *Phoenix* re-iterated the recent arbitral rulings that are inherent under ICSID and international law. Many BITs already state that investments must be in accordance with the law of the host State. Several cases have interpreted this to mean that the investment must not be an illegal activity within the host state.⁷² *Phoenix* simply stated that this clause is applicable to all investments being contested under ICSID regardless of whether legality was mentioned in the BIT or not. The reference to *bona fide* assets is intended to ensure that ownership and control of a corporation is not transferred to another country after the event that gave rise to a claim has already occurred. In this way, point five simply is a measure to guard against jury shopping after jurisdiction to a claim is already legally established.

90. It is not disputed that MedBerg's activity was legal in Bergonia. Therefore, points four and of *Phoenix* are not at issue in the current case.

91. However, MedX was not a legitimately established corporation in Conveniencia prior to establishing MedBerg in Bergonia. To this extent, Bergonia contests any investment from MedX as not being *bona fide*. To the extent that MedBerg contains its investment dispute to issues and entities only within the territory of Bergonia, point five of *Phoenix* is also not in dispute.

92. Of the remaining investment traits listed by the above authorities, they each address the same concepts. First, is that an investment is a commitment of asset. Also that commitment

⁷² See: *Salini v. Morocco*, *LESI, S.p.A. and Astaldi, S.p.A. v. People's Democratic Republic of Algeria* (ICSID Case No. ARB/05/3) Decision on Jurisdiction, July 12, 2006, and *Tokios v. Ukraine*.

should be tied to certain duration. Risk is a function of the extent of the commitment and the duration. Therefore, this memorial will analyze risk both in the sections on commitment of assets and in duration. A third section will address benefit to the host country. Schreuer also lists a regularity of returns. However, this will also be addressed in sections 1 and 2. This is because regularity of returns is a necessary outcome from an action requiring a commitment over duration. If the returns were not necessarily regular, then either 1) the investor never would have made a commitment over duration because the profits would have been upfront; or 2) if the returns were not expected until the end of the duration, then the transaction would be covered under a sale and not an investment.

(A) INVESTMENT

(1) Commitment Of Money Or Assets.

93. MedBerg cannot claim that it committed its patent in Bergonia. The patent was already committed to Bergonia even before Bergonia granted that property right to MedBerg. That would be like saying that if an individual is given some land in a country, that the individual committed the value of that land to that country. The case would be different if an individual purchased land in a country, rather than being given the land. However, in that case the commitment would be the money to purchase the land, not the land itself as the asset.

94. Even if MedBerg could bring in MedX expenses as an investment, it could not legitimately claim that the wages that MedX pays for attorney or accountants are commitments in the context of investments. Schreuer states that “it would be atypical to qualify a contract with an individual consultant as an investment.”⁷³ A law firm that was not providing services to the country or bring in new investors did not qualify as an investment in *Mr. Patrick Mitchell v. The Democratic Republic of Congo*.⁷⁴

⁷³ Schreuer, ICSID Convention: A Commentary (CUP, Cambridge 2000) at 140

⁷⁴ *Mitchell v. The Democratic Republic of Congo*, Case No. ARB/99/7, Decision on the Application for Annulment of the Award, November 1, 2006

95. In any assessment of a commitment of money or assets, they are by no means significant. As Schreuer has gleaned from his analysis of ICSID case law the commitments in money or assets are usually of a significant amount.⁷⁵

(2) Over A Duration.

96. MedBerg thought that it received most everything it ever intended to receive from the patent the moment it was granted. MedBerg's sole purpose for obtaining the patent was to protect the other MedX subsidiaries from competition out of MedBerg. MedBerg's entire existence is to simply act as a placeholder for the patent rights in Bergonia. If MedBerg hadn't received the patent, any other entity could have legally and fairly obtained the patent for that drug. MedBerg knew that it was unrealistic to think that MedX could publicize its patents in other countries without there eventually being some patent holder in Bergonia with licensing authority for the drug to Bergonian manufactures. The production and sale of the drug was inevitable in Bergonia, whether it be from a MedBerg patent or from somebody else holding the patent.

97. However, what MedBerg failed to realize is that its protections would only be temporary without it fulfilling its obligations over the life of the patent. Those obligations are to take measures to ensure the drug is readily available to the citizens of Bergonia.

98. To the extent that MedBerg claims a loss from unrealized and potential future returns from licensing agreements, Bergonia simply responds that it is more than reimbursing MedBerg the total value of any realistic expectations it may have. Bergonia's compensation will be addressed more in Part III under the discussion on expropriations.

99. However, at this point, we will discuss the very limited extent that potential future returns can be claimed.

100. The investment expectations that can be considered an investment need to be grounded in concrete verifiable facts and numbers. In *William Nagel v. Czech Republic*, the arbitral panel

⁷⁵ OECD. *International Investment Law: Understanding Concepts and Tracking Innovations*. P. 61 (OECD, 2008).

held that investments must demonstrate real expectations of returns, not hopes of future returns.⁷⁶ That panel held that without actual contracts in place demonstrating a real future loss, the loss of investment claims was unsubstantiated. Likewise, MedBerg's lost investment opportunities don't extend beyond that which it can demonstrate would necessarily have materialized absent any actions taken by Bergonia. However, MedBerg had no contracts extending into the future. The only information that either party can reliably put forward is either the previous contract that MedBerg had with BioLife or the contracts that Bergonia was able to establish to replace MedBerg's canceled contract with BioLife. Without Bergonia's actions to generate new contracts, the legitimate future expectations of returns from the investment could only be calculated from MedBerg's original contact with BioLife; yet basis for expectations is less than the contractual basis that Bergonia, though its own efforts, has been able to establish. In other words, MedBerg's legitimate investment expectations have increased due to Bergonia's actions.

101. Another characteristic of investment that is tied to the concept of the duration of a commitment of assets is the realistic expectations of protection to be afforded to the asset over the duration of the commitment. MedBerg did not have realistic expectations that its patent would maintain exclusive protections over the duration of the patent. In *LG&E v. Argentina*, the tribunal held that in order for a claimant to qualify the expected returns for a specific period of time as being a protected investment expectation, it must be necessary for the claimant to have control over the investment during that specific period of time.⁷⁷ In other words, the claimant cannot rely on the potential returns from a specified period of time unless it was necessary for the investment returns to be permanent over the duration of the commitment. The *LG&E* tribunal held that during the temporary period of time in which Argentina took measures to protect the public, the claimant had to bear any opportunity costs may have occurred during the period of Argentina's temporary measures.

⁷⁶ *William Nagel v. Czech Republic* before the Arbitration Institute of the Stockholm Chamber of Commerce. (SCC case 49/2002), Award September 9, 2003.

⁷⁷ *LG&E v. Argentina*, ICSID Case No. (ARB/02/1) Decision on Liability, October 3, 2006, 46 ILM (2007) 36, at para 193

102. In the case at hand, MedBerg clearly had not permanent need for control over its investments. In fact, at the time Bergonia issued the compulsory license, MedBerg had no expectations for investment returns as it did not have licensing contract or evidence of potential contracts in the future. MedBerg's own actions demonstrate that its returns from licensing were not a permanent expectation over the entire patent period.

(3) Benefit To The Host Country.

103. MedBerg's patent by itself was of no benefit to Bergonia except for any benefits that are derived purely from the fact that the property increased in value. The medical and health benefits of the patent only exist in Bergonia if drugs that are derived from the information contained in the patent are being dispersed to the people in Bergonia. Therefore, MedBerg's patent fails to meet the "benefit to the host country" quality of an investment under ICSID unless the patent is being utilized.

104. MedBerg may claim that simply by having its own employees in Bergonia and by renting space, MedBerg is providing a benefit to Bergonia. However, this is not the type of benefit anticipated by either party when signing the BIT. The tribunal in *Malaysian Historical Salvors, SDN, BHD v. The Government of Malaysia* determined that the benefit from having local residents employed to pack and inventory the products was of an insufficient quantity and or quality.⁷⁸ Schreuer further qualifies this required benefit to the host country as needing to be a significant benefit to the host country. It would be unreasonable to claim that the staff employed by MedBerg, during periods when it is not exercising its right to issue licensing contracts, constituted any real benefit to Bergonia. The only real benefit those staff and rental activity created was a benefit to MedBerg.

(B) ARISING DIRECTLY OUT OF.

105. The scope of expectations that can qualify as a legitimate MedBerg investment under ICSID is further constrained by the language of Article 25(1). ICSID limits the jurisdiction to dispute

⁷⁸ *Malaysian Historical Salvors SDN, BHD v. The Government of Malaysia*, ICSID Case No. ARB/05/10, Award on Jurisdiction, May 17, 2007

arising directly out of an investment. It is fair to assert that the initial point of investment from which all issues in this case arise is the granting of a patent from Bergonia to MedBerg and the subsequent risks endured by MedBerg from the commitment of assets over a certain duration that are tied to this patent. One of the questions before this tribunal how far removed from this central investment.

106. The tribunal in *Milhaly International Corporation v. Democratic Socialist Republic of Sri Lanka* held that pre-investment expenses were not considered to be investments if, at the time of those expenditures, there was not an agreement with the host state.⁷⁹ In this case, Milhaly had even received exclusive negotiation rights from Sri Lanka, yet this had not established the certainty of a future investment needed for these pre-investment expenses to be protected. In the case at hand, MedBerg received intellectual property rights from MedX. MedX or MedBerg to may or may not effectively portray any pre-investment expenses associated with the patent as a liability that it endured and that it endured these expenses with hopes of being paid back from potential returns to be gained from activities associated with a patent. Regardless if this is a realistic portrayal of how or why any pre-investment expenses endured, they remain a separate expense from the type of contribution intended to be part of an investment under ICSID.

107. This understanding was shared by the tribunal in *SGS Societe Generale de Surveillance SA v. Pakistan*. This tribunal held that only contracts tied directly to the investment reflect an expense arising directly out of an investment.⁸⁰ Any contractual activity or expenses endured by MedBerg that are necessarily linked to the patent are activities that arise from the patent. This excludes any activities that came before the issuance of the patent because something that precedes the patent cannot arise from the patent. It can only lead to the patent. There was nothing certain about the patent until Bergonia granted it.

III. CONCLUSION OF RATIONE MATERIAE MERITS OF THE CLAIM

⁷⁹ *Milhaly International Corporation v. Democratic Socialist Republic of Sri Lanka*, ICSID Case No. ARB/00/2, Award and Concurrent Opinion of March 15, 2002, 17 ICSID Review – FILJ 142 (2002)

⁸⁰ *SGS Societe Generale de Surveillance SA v Pakistan*, ICSID Case No. Arb/01/13. August 6, 2003

108. This tribunal does not have jurisdiction over this case because MedBerg did not establish an investment in Bergonia.

109. The BIT only protects patents to the extent that the patent has any value as an asset that can be measured. The fair market value of MedBerg's assets, related to the patent, were insignificant at the time Bergonia issued the compulsory license. MedBerg's only intended benefit from the patent was to protect other MedX subsidiaries from competition. MedBerg chose not to generate returns from its patent in Bergonia. The patent's investment value in Bergonia was tied to the ability of the patent to generate returns by selling licenses to manufacture and sell the drug. When MedBerg chose not to issue licenses to manufacture and sell the drug within Bergonia, MedBerg voluntarily subjected its patent to a foreseeable risk. That risk was having the patent's value decrease due to the reasonable removal of exclusivity by Bergonia by issuing a compulsory license. Because MedBerg's failure to act was deliberate, the actual value of its patent decreased the moment it canceled its BioLife contract without replacing that contract. At that moment, the risk that Bergonia might issue a compulsory license was foreseeable.

110. The patent is not an investment under ICSID case law for several reasons. First, before Bergonia issued a compulsory license, the benefit of the asset to Bergonia failed to exist. Second, at the time Bergonia issued a compulsory license, MedBerg's was only making a small fraction of its previous revenue in Bergonia under its BioLife contract. MedBerg did not make a commitment of the patent to exist in Bergonia. Rather, the patent itself, simply by the nature that it can only be a Bergonian property, created that commitment. Third, MedBerg did not expose itself to risk in Bergonia because it did not enter into any long-term contracts that required a return on upfront expenditures. Fourth, any expenses endured by MedBerg prior to the time it was granted a patent did not arise directly out of an investment. The research and development costs preceded the investment. Therefore, they do not qualify as the correct type of risk endured by an investor contemplated under ICSID.

PART THREE: SUBSTANTIVE MERITS OF THE CLAIM

I. BERGONIA FULFILLED ITS OBLIGATIONS UNDER THE BIT AND ICSID AS THEY PERTAIN TO THE EXPROPRIATION OF INVESTMENT ASSETS.

111. Bergonia didn't cause MedBerg's loss. The issuance of the Compulsory license is a natural outcome of MedBerg's actions. Bergonia is making efforts to mitigate the loss of value to MedBerg's patent as best it can. Perhaps there are other arrangements that can be made in which MedBerg can quickly regain its exclusive patent rights. However, in order for this to happen, MedBerg needs to actively engage in negotiations with Bergonia. At this point, MedBerg has only engaged Bergonia by filing a complaint, not by offering mutual solutions. In the current case Bergonia can only respond to the jurisdictional and expropriation charges as they stand. This is not the venue to debate potential alternative solutions that could meet Bergonia's immediate need to have the drug available to its citizens.

112. As the case now currently exists, MedBerg has no legitimate claims that can be raised under the conflict resolution powers of ICSID. Put simply, there has been no violation of the BIT. First, there has been no expropriation of expected investment returns by Bergonia. Second, to the extent that the tribunal identifies a loss of assets or their expected returns, Bergonia has more than met its obligations, under Article 4 of the BIT, to fairly compensate MedBerg.

(A) BECAUSE THERE HAS BEEN MINIMAL IF ANY LOSS OF ASSETS OR LOSS OF EXPECTED RETURNS, NO EXPROPRIATION HAS TAKEN PLACE.

113. The tribunal in *RFCC v. Morocco* addressed the issue of expropriation by stating that a government's actions would be an expropriation if it renders the use of the property rights useless.⁸¹ The tribunal in *Azurix v. Argentina* took an approach more sympathetic to the investor when it held that a loss of 10% of the asset's value is not an expropriation.⁸²

⁸¹ *RFCC v Morocco* ICSID Case, No. ARB/00/6, Award December 22, 2003 20 ICSID Rev-FILJ 391 (2005).

⁸² *Azurix v. Argentina*, (ICSID Case No. ARB/01/12) Award, July 14, 2006, para 322.

114. The basis for these holdings reflects a fundamental understanding of sovereignty and property rights. Private entities only have property rights to the extent that the sovereign state chooses to allocate those rights. Even when a nation state does grant a property ownership to a private entity, the state withholds certain rights. The rights that it withholds are all of the rights that, if not withheld, would have the effect of restrict the ability of the state to carry out legitimate public policy measures.

115. One such policy objective is for a state to make regulatory decisions without having to review every minimal impact it may have on property values. It has never been the intention of Bergonia to be responsible for minimal property impacts from regulatory actions. Otherwise, the state would effectively have its hands tied behind its back when attempting to regulate by having to endlessly address every potential property impact, no matter how small. The tribunal in *Feldman v. Mexico* stated that reasonable government regulations “cannot be achieved if any business that is adversely affected may seek compensation, and it is safe to say that customary international law recognizes this.”⁸³ To this end, the full protection and security that is referenced in section 1 of Article 4 of the BIT is not an obligation to protect an investment in its entirety.

116. MedBerg damage claims are sufficiently small as to be of the type that Bergonia should not have to consider when making public health policy decisions. MedBerg continues to maintain significant control over its patent. It has retained the right to sell its patent. Also, as the patent holder, it can take action to prove to Bergonia that it is prepared to assume responsibility that comes with being a patent holder. MedBerg is in a position to engage Bergonia in discussion to prove that it capable of ensuring a constant and reliable source of drugs to the Bergonian people. Bergonia looks forward to the day when it no longer has to be the babysitter for licensing activities under MedBerg’s patent.

117. Not only has MedBerg maintained ownership of the patent MedBerg cannot prove that it has lost any potential returns. Bergonia only took over the patent because the patent was not being exercised. Therefore, it was also not generating any returns.

⁸³ *Feldman v. Mexico*, Award, December 16, 2002, ICSID Review-FILK (2003) 488.

(B) TO THE EXTENT THAT MEDBERG HAS EXPERIENCED A LOSS TO ITS ASSETS, BERGONIA HAS MORE THAN FULFILLED ITS OBLIGATIONS TO COMPENSATE MEDBERG.

118. Before MedBerg obtained its patent, it understood that the potential existed for the patent to be legitimately subjected to the effects of a compulsory license. Both Conveniencia and Bergonia are members of the World Trade Organization. As such, it should have been aware that public access to patented drugs may represent a legitimate policy for a state to enforce.⁸⁴

119. The possible actions that Bergonia could take if MedBerg stopped issuing licenses to manufacture and sell the drug were clearly foreseeable. If *Methanex* tribunal could find that regulation of a fuel additive is foreseeable, then this tribunal should also find that measures taken give the public access to a drug are also foreseeable.⁸⁵

120. In *LG&E v. Argentina*, the tribunal noted that state has the power to adopt measures having a social or general welfare purpose except where the states actions are “obviously disproportionate to the need being addressed.”⁸⁶ Issuing the compulsory license for health reasons and transferring every cent of the revenue from those licenses to MedBerg is in no way disproportionate to the effects on MedBerg’s investment. The panel in *Telenor Mobile Communications AS v. Hungry* stated that an expropriation must deprive the investor of the economic value of its investment.⁸⁷ If anything, Bergonia’s actions have increased the fair market value of the patent by demonstrating a solid and diversified base of revenue to the patent holder.

121. The only obligation the BIT places on Bergonia if there is an expropriation is that compensation shall be adequate and effective and shall be paid without delay. Bergonia is paying MedBerg the value of the license as determined by the fair market value. This value reflects the market value of the license in an open market. It is also comparable to the licensing

⁸⁴ See: *Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Agreement on Trade Related Aspects of Intellectual Property Rights*. Apr. 15, 1994, (33 I.L.M. 114)

⁸⁵ *Methanex V. USA*, Award, August 3 2005, 44 ILM (2005) 1345.

⁸⁶ *LG&E v. Argentina*, Decision on Liability, October 3, 2006, 46 ILM (2007) 36.

⁸⁷ *Telenor Mobile Communications AS v. Hungry* ICSID Case No. ARB/04/1, Award June 22, 2006, at 64

fees that MedBerg had received when it had a sole contract with BioLife. Although MedBerg has not accepted any compensation to this date, any delay of this compensation is completely the result of MedBerg's actions and should not be held against Bergonia in any way.

II. CONCLUSION OF SUBSTANTIVE MERITS OF THE CLAIM

122. There was clearly no takings that would come close to the threshold of being an expropriation. MedBerg had little to no investment value in its patent when Bergonia issued a compulsory license. Therefore, Bergonia's actions did not expropriate any significant amount of assets. The original value of the patent when it was first granted to MedBerg still remains. In fact, Bergonia's actions created potential for long-term returns to the patent holder that did not exist prior to the compulsory license.

123. The public health risks tied to this drug gave Bergonia the reasonable right to issue a compulsory license. MedBerg operates in a field of business where it is likely and foreseeable that its patents come with the natural risk of public regulation. Bergonia has the right to make public welfare policy decisions pertaining to this patent without having to worry about the impact of its policies on a single patent holder. In fact, Bergonia went beyond its obligations by offering to transfer all of the licensing fees from the compulsory license to MedBerg.

RELIEF REQUESTED

Bergonia requests that MedBerg's claim before this ICSID tribunal be dismissed for lack of personal and subject matter jurisdiction.

RESPECTFULLY SUBMITTED ON September 21, 2009 BY

Klaestad

On behalf of Respondent

THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

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