

**INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES  
CHAMBER IN FRANKFURT**

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**MEDBREG CO.**

**[Claimant]**

**v.**

**THE GOVERNMENT OF THE REPUBLIC OF BERGONIA**

**[Respondent]**

**MEMORANDUM FOR RESPONDENT**

**September 21<sup>st</sup>, 2009**

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## **TABLE OF ABBREVIATIONS**

<i>Bergonia</i>	Democratic Commonwealth of Bergonia
<i>BIT</i>	Bilateral Investment Treaty
<i>CC</i>	Consent Clause – Article VI(8) of BIT2
<i>CL</i>	Compulsory License
<i>Claimant, Investor</i>	MedBerg
<i>Clarifications1</i>	2009 Clarifications – 5 June
<i>Clarifications2</i>	2009 Clarifications – 14 August
<i>Conveniencia</i>	Sultanate of Conveniencia
<i>DC</i>	Denial Clause – Article I(2) of BIT2
<i>FET</i>	Fair and equitable treatment
<i>FMV</i>	Fair Market Value
<i>GATT</i>	General Agreement on Tariffs and Trade, October 30, 1947, Geneva
<i>ICSID, Center</i>	<b>International Centre For Settlement Of Investment Disputes</b>
<i>MedBerg</i>	MedBerg Co.
<i>MedScience</i>	MedScience Co.
<i>MedX</i>	MedX Holdings Ltd
<i>MFN CLAUSE</i>	Most favoured nation clause – Article 3 of BIT1
<i>MFN clause</i>	Most favoured nation clause
¶	Paragraph
<i>Patent AZ2005</i>	Patent No. AZ2005
<i>IP Office</i>	Bergonian Intellectual Property Office
<i>WTO</i>	World Trade Organization

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## SUMMARY OF ARGUMENTS

- 1 Firstly, the Tribunal lacks jurisdiction over this dispute because Claimant cannot be seen as a foreign investor. Claimant does not meet nationality requirements provided in BIT1, neither it meets prerequisites from Article 25(2) of the ICSID Convention. Claimant cannot profit from the “foreign control” exception stipulated in Article 25(2)(b) , as the nationality of genuine control over Claimant excludes ICSID jurisdiction. Moreover Respondent has never consented to treat Claimant as a foreign investor, nor Claimant can invoke the MFN clause contained in BIT1 in this matter.
- 2 Secondly, the patent as such does not constitute an investment. It is a right which excludes others from making, using, marketing, selling or importing an invention for a specified period of time. Investment on the other hand is a complex operation consisting of various activities, transactions and property. Each element as a part of this enterprise cannot be qualified alone as an investment. Stated in Article 1(1)(d) of BIT1 the term “investment” comprises every kind of asset, including patents, but asset itself is not the same as investment. Sources of international investment law indicate that nature of intellectual property right alone is something else than investment described in ICSID Convention.
- 3 Finally, TRIPS is not applicable to the present dispute. It is submitted that all of the requirements from Article 31 TRIPS were met and therefore Claimant was treated fairly and equitably. However, even if a breach of TRIPS was established, Respondent is still not liable as none of the actions on his part were ever discriminatory. Moreover, CL issued by Bergonian authorities is not a measure of expropriation. It was a regulatory measure, issued within the powers of the State to protect health of society. However, even if the Tribunal decides, that it was a measure of expropriation, it fulfilled all conditions for being a measure of lawful expropriation, which is not prohibited by international law. Therefore Bergonia by no means violated BIT1.

## **STATEMENT OF FACTS**

- 4 Respondent, that is the Government of the Republic of Bergonia, with a view to promote and intensify economic co-operation by creating favourable conditions for foreign investment entered into a Treaty Concerning the Encouragement and Reciprocal Protection of Investments with the Sultanate of Conveniencia. The said agreement was conducted on 30<sup>th</sup> May 2003. Claimant, that is MedBerg Co., remains a Bergonian company yet influenced by foreign capital in the following way.
- 5 One hundred shares in MedBerg is owned by MedX Holding Ltd, a company which is registered in Conveniencia and which is co-owned by two entities: fifty percent ownership is assigned to MedScience Co. registered in Laputa and the remaining fifty percent is held by Dr. Frankensid, a dual national of Amnesia and Bergonia who remains an employee of MedScience.
- 6 While employed in MedScience and basing on the research and development conducted by that company, Dr. Frankensid has invented a breakthrough treatment which proves extremely useful in tackling obesity and other medical problems associated with it. Invention's impact on obesity has been confirmed by independent experts.
- 7 The worldwide interest in the invention has been assigned to MedBerg who consequently filed an application to Bergonian Intellectual Property Office and as a result was granted and became an owner of Bergonian Patent AZ2005 on 15<sup>th</sup> March 2005.
- 8 MedBerg explored its patent by way of licensing it to a Bergonian entity – BioLife. The Licence Agreement between MedBerg and BioLife was entered into on 31<sup>st</sup> March 2005. The licence was an exclusive one and no other entities explored the patent in the territory of Bergonia. Subsequently, on 31<sup>st</sup> March 2007, Claimant terminated the Licence Agreement, leaving the population of Bergonia with a substantially diminished access to the patented obesity treatment.
- 9 On 1<sup>st</sup> June 2007, Bergonian IP Office commenced proceedings aiming at issuance of compulsory licence with regard to Patent AZ2005 so as to address important domestic medical needs and react to the increasing obesity problem which achieved an alarming level of 34% Bergonian males and 38% females being overweight. The proceedings

were concluded on 1<sup>st</sup> November 2007, leading to the issuance of compulsory licence for the period of 48 months.

- 10 Until 1<sup>st</sup> January 2009 six companies, including BioLife, invoked the compulsory licence. Three of those exported unspecified amounts of the products covered by the licence. Importing countries were all members of a customs union with Bergonia.
- 11 Claimant appealed from IP Office's decision which was then subject to review by the Patent Review Board. The decision was found in conformity with Bergonian law. On 1<sup>st</sup> December 2007, relying on Article 10(2) of Bergonia – Conveniencia BIT, Claimant informed Bergonian Foreign, Economics and Justice Ministers of its position. On 10<sup>th</sup> December 2007, in response to Claimant's letter, Justice Ministry stated in a formal reply that compulsory licence was issued in conformity with Bergonia's international obligations.
- 12 Bergonian IP Office collected royalties from all of the companies invoking compulsory licence and offered them to Claimant who refused to accept them claiming they were inadequate. Claimant did not appeal to the Patent Review Board as to the level of remuneration offered.
- 13 On 1<sup>st</sup> November 2008 Claimant initiated this arbitration.

## **PART ONE: JURISDICTION**

### **I. THE TRIBUNAL DOES NOT HAVE JURISDICTION OVER THIS DISPUTE, BECAUSE CLAIMANT IS NOT A FOREIGN INVESTOR AND CLAIMANT'S ACTIVITY IN BERGONIA DOES NOT CONSTITUTE AN INVESTMENT.**

#### **A. General remarks.**

14 The Tribunal shall find that it lacks jurisdiction over present dispute as Claimant does not satisfy prerequisites provide under terms of BIT1, neither it fulfills standing requirements of Article 25 of the ICSID Convention since Claimant is a national of Bergonia (**II, III**) and its activities in Bergonia do not consist of an investment (**IV,V**). Therefore Claimant failed in choosing the appropriate arbitration institution for deciding over this dispute (**VI**).

#### **B. Claimant is not entitled to the investor's rights protection under BIT1.**

15 Article 1 of BIT1 defines equally the "investor" and the "investment", as basic requirements that must be fulfilled to grant an entity special right protection of the foreign direct investment regime. Claimant does not meet any of those requirements.

16 Claimant's seat is in Bergonia, which provides for Bergonian nationality within the meaning of Article 1(3)(a) of BIT1 (**II**). Thus, Claimant shall be seen as a domestic investor and it may not be granted special treatment for foreign investors. Moreover, as BIT1 protects only investments made by investors, Claimant's activities cannot be associated with "investment" defined in BIT1 (**IV**).

#### **C. Claimant does not meet the requirements of Article 25 of ICSID Convention**

17 Claimant is not admissible for the arbitration proceedings provided in ICSID Convention, because Claimant fails to fulfill standing requirements expressed in Article 25 of ICSID Convention.

18 Claimant is not a national of another Contracting State, because Claimant does not comply with conditions set out in Article 25(2)(b) providing a “foreign control” exception for locally incorporated companies (**III B**). Correspondingly, even if the Tribunal shall decide to pierce the corporate veil and look for foreign control, the Tribunal will find that its jurisdiction is expressly excluded by Article 25(2)(a), because Claimant is controlled by dr Frankensind having dual nationality (**III C**). Furthermore, Respondent never consented to treat Claimant as a foreign investor (**III B**) and Claimant may not invoke the MFN clause contained in BIT1 in this respect (**III D**).

19 Finally, Claimant’s activity in Bergonia does not meet investment prerequisites contained in ICSID Convention (**IV**). Although, ICSID Convention does not provide for any special definition describing investment, Tribunals have vaguely applied the so-called “*Salini test*” to verify whether certain actions have notion of investments. In a present case Claimant does not comply with any of conditions set out in the aforementioned test (**V**).

## **II. CLAIMANT IS A LOCAL INVESTOR AND THEREFORE MAY NOT COMPEL FOR PROTECTION UNDER BIT1.**

20 Article 1(3)(a) of BIT1 defines investor in a respect of Bergonia, as “*any juridical person (...) having its seat in the territory*” of Bergonia. According to Vienna Convention terms of every treaty shall be interpreted in accordance with their ordinary meaning<sup>1</sup>. Consequently, having in mind parties’ intent, it stays beyond any doubt, that *siège social* should be decisive when determining investor’s nationality.

21 As it was noted by the Tribunal in *Rompetrol*:

*“Given the latitude granted to States under ICSID Convention to settle the applicable nationality criteria, there is nothing illogical in looking first of all to whether the nationality criteria set forth in the BIT are satisfied (...)”<sup>2</sup>.*

22 Generally, consent in every type of arbitration is a crucial *element*, without which none arbitration proceedings are possible. It is then very important to look at the intent

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<sup>1</sup> Article 31 of *Vienna Convention*

<sup>2</sup> *Rompetrol*, para. 28

of the parties. Therefore, parties agreement on definition of nationality shall be given priority, if it is provided in BIT governing the dispute.

23 In a present dispute, not only Claimant is incorporated in Bergonia – and it cannot be forgotten, that place of incorporation is the most commonly used test for nationality in international law – but also, Claimant has its **seat in the territory of Bergonia**<sup>3</sup>. This makes evident, that squarely fits to the definition of a national of the host State contained in BIT1. Thus, finding that Claimant shall not be granted any protection under BIT1 is undeniable, as it is undisputed that bilateral investment treaties have been created to promote foreign investments, not local ones.

### **III. CLAIMANT IS A NATIONAL OF A HOST STATE AND FAILS TO FULFILL REQUIREMENTS OF ARTICLE 25 (2) OF THE ICSID CONVENTION.**

#### **A. General remarks.**

24 As it was already stated, the consent to arbitrate is a basic and primary prerequisite for every arbitration, including ICSID arbitration. No entity, neither a state nor an entity of the private law, shall be compelled to arbitrate if the above is missing. It is accepted in jurisprudence that consent to treat a locally incorporated company as a foreign investor on the basis of Article 25(2)(b) of the ICSID Convention, shall be perceived as a part of the consent to arbitrate<sup>4</sup>.

25 As stressed by the *Wintershall* tribunal, the jurisdiction requirements based on the applicable BIT provisions constitute:

*“an integral part of the “standing offer” (“consent”) of the Host State, which must be accepted on the same terms by every individual investor who seeks recourse (ultimately) to ICSID arbitration”*<sup>5</sup>.

26 Therefore, in the lack of the blank consent to treat a locally incorporated company “automatically” as a foreign investor for the purposes of Article 25(2)(b) upon fulfilment of certain conditions, ( as for example Consent Clause contained in BIT2),

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<sup>3</sup> Clarifications1 No. 35, 43

<sup>4</sup> Schreuer, para. 536

<sup>5</sup> *Wintershall*, para. 160.

it shall be observed that obtaining such consent is a condition precedent of establishing Bergonia's consent to arbitrate and ICSID jurisdiction based on the provisions of BIT1.

- 27 Considering the above, Claimant may not compel Respondent to arbitration as **(B.)** Claimant fails to prove that Respondent consented to treat Claimant as a foreign investor, alternatively **(C.)** the Tribunal shall look for nationality of genuine control. Moreover, **(D.)** Claimant shall not be allowed to invoke MFN clause contained in BIT1 to attract particular dispute resolution provision from BIT2 to prove the existence of such consent and **(E.)** Claimant would not be able to benefit from the relevant provisions of BIT2.

**B. Claimant fails to prove that Respondent consented to treat Claimant as a foreign investor for the purposes of Article 25(2)(b) of the ICSID Convention.**

**1. Article 25(2)(b) must be understood as an exception to general conditions for ICSID jurisdiction**

- 28 As a matter of principle ICSID arbitration may be invoked to resolve disputes between Contracting States and nationals of other Contracting States<sup>6</sup>. The requirement that a party to the dispute other than the host State should be a national of other Contracting State is of the utmost importance while determining the jurisdiction of the ICSID tribunal and as stressed by *Schreuer* “*was contained in all drafts leading to a Convention*”.<sup>7</sup> The fulfilment of all the prerequisites set out in Article 25 of the ICSID Convention, including the existence of two parties to the dispute, which are a Contracting State and a national of another Contracting state, is necessary in order to arbitrate under its provisions. If any of those prerequisites is not fulfilled, the “*mechanism of the Convention will not be available and its provisions inapplicable*”<sup>8</sup>.

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<sup>6</sup> Schreuer pp. 141-144, 162-164.

<sup>7</sup> Schreuer p. 164.

<sup>8</sup> Broches p. 244.

29 Exceptionally, the Convention allows the Contracting State to submit to ICSID arbitration disputes its own nationals, if the parties **have agreed**, because of foreign control, to treat the investor as a national of another Contracting State.<sup>9</sup> *Amco* tribunal clearly pointed out that

*“what is needed for the final provision of article 25(2)(b) to be applicable, is (...) that (...) the parties **agree to** treat it [locally incorporated company] as a foreign judicial person”<sup>10</sup>.*

30 As stressed by Broches such agreement shall be *“express and unambiguous”*<sup>11</sup> as

*“[t]he extension of the Centre’s jurisdiction to foreign-controlled companies, incorporated in the host countries is an exception to the general rule, which excludes disputes between a State and one of its nationals from the jurisdiction of the Centre”<sup>12</sup>.*

31 Moreover, it shall be noted that according to the general principle of international law that the international courts and tribunals may exercise jurisdiction over the state only upon its consent,<sup>13</sup> as by granting such consent state party waives a significant part of its sovereignty and independence.<sup>14</sup> Referring specifically to the consent to treat a company as a foreign investor within the meaning of article 25(2)(b) of the ICSID Convention, *Broches* draws the attention to its importance and suggests that the arbitral tribunals shall not *“assume the existence of an agreement between the parties to such exceptional treatment”*.

32 In the present case, the agreement of the parties to treat Claimant as a foreign investor for the purposes of Article 25(2)(b) of the ICSID Convention has never existed. Claimant, encumbered by the burden of proof to this extent, has entirely failed to prove the contrary and thus this arbitration shall be discontinued.

## **2. The Tribunal should apply “the because test” when considering Article 25(2)(b).**

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<sup>9</sup> Article 25(2)(b) of the ICSID Convention.

<sup>10</sup> *Amco* p.63

<sup>11</sup> Broches, p. 246, see also *Plama para.199*; *Wintershall para.167* and authorities invoked therein,

<sup>12</sup> Broches, p. 246

<sup>13</sup> *Wintershall para. 160*, *Ambatielos p. 13*

<sup>14</sup> *National Grid para. 82*

33 Article 25(2)(b) of the ICSID Convention decides that a national of another Contracting State is

*“any juridical person 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.”*

34 Cited Article provides for certain requirements that are to be fulfilled to find host State’s consent to pursue exception dealing with locally incorporated companies. A very well stated Schreuer’s commentary on LETCO shall be recited in this matter.

*“Read together with the Tribunal’s reasoning on an implicit agreement on nationality (...) all that is required for purposes of Art. 25(2)(b) is the objective fact of foreign control over the local company, the host State’s awareness of this objective fact and otherwise valid consent to ICSID’s jurisdiction. The host State’s agreement to treat the local company as a national of Contracting State and the casual nexus expressed in the word “because” may be then construed from these elements”<sup>15</sup>.*

35 None of those conditions were fulfilled in a present case. Thus, Claimant may not rely on the exception provided in Article 25(2)(b) of ICSID Convention, because it would dangerously extend this Centre’s jurisdiction over nationals and their own States, which would be certainly against the object and purpose of ICSID Convention.

**C. Alternatively, even if the Tribunal decides to pierce the corporate veil, it shall look beyond the first layer to find genuine control over Claimant.**

36 In *SA Argentina* the Tribunal explained use of “lifting the corporate veil” doctrine in accordance with investment disputes:

*“(...) the existence and materiality of (...) control have to be objectively proven in order to establish ICSID jurisdiction (...). It would not be consistent with the text, if the Tribunal, when establishing whether there is foreign control, would be directed to pierce the veil of the corporate entity national of the host State and to stop short at the second layer it meets, rather than pursuing its objective identification of foreign control up to its real source, using the same criterion with which it started”<sup>16</sup>.*

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<sup>15</sup> Schreuer, p. 310-11

<sup>16</sup> *SA Argentina*, para. 147

37 It is to be noted that in many cases, what was at issue, was not the objective existence of foreign control, but the **nationality of this foreign control**. In *S.O.A.B.I* and *S.A.R.L.* for this matter the Tribunals did not hesitate to pierce the successive corporate layers to look for genuine control. Most importantly the best approach would appear

*“to be a realistic look at the true controller thereby blocking access to the Centre for juridical persons that are controlled directly or indirectly by nationals of non-Contracting States or nationals of the host State”*<sup>17</sup>.

38 Once again, having in mind the object and purpose of ICSID Convention, it must be clearly stated that MedBerg is indirectly controlled by both – nationals of non-Contracting States and national of the host State. MedBerg is fully controlled by MedX. Nevertheless, it must be stressed, that MedX is controlled in 50% by MedScience – a Laputan company, and in other 50% by dr Frankensid, who has dual nationality – he was born in Bergonia and later on was naturalized in Amnesia. It is also worth to mention, tha Laputa is not a party to ICSID Convention. Besides, Article 25(2)(a) *expresis verbis* indicates, that irrespective of which several nationalities is the effective one, *“national of another Contracting State (...) does not include any person who (...) also had the nationality of the Contracting State party to the dispute (...)”*.

39 Therefore, having the entire picture, the Tribunal shall not have any doubts, that MedX is simply a shell company, which would provide for ICSID jurisdiction and rights protection under BIT, for entities not admissible in any way for those privileges. Furthermore, as it was rightly stated by Respondent in *Rompetrol*:

*“To allow claims by own nationals through the device of a foreign shell company would be a radical change from established international law and have a wide impact on the network of BITs”*<sup>18</sup>.

40 In conclusion, the Tribunal should find, that it lacks jurisdiction on the grounds, that Claimant is not eligible for BIT and ICSID protection, as it is a local company, controlled in fact partly by a non-signatory to neither of treaties and a national of a Contracting State.

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<sup>17</sup> Schreuer, para. 563

<sup>18</sup> *Rompetrol*, para. 52

**D. Claimant may not invoke the MFN clause contained in BIT1 to attract dispute resolution provisions from BIT2.**

41 Even if the Tribunal finds that the explicit Respondent's consent to treat Claimant as a foreign investor for the purposes of Article 25(2)(b) is not required, Claimant may not rely on the MFN CLAUSE to attract dispute resolution provisions contained in BIT2 as (1.) persuasive precedents prove that the MFN CLAUSE may not be invoked to attract Consent Clause; (2.) literal interpretation of the MFN CLAUSE leads to the conclusion that it does not encompass dispute settlement provisions (3.) Claimants interpretation of the MFN CLAUSE broadens the scope of Respondent's consent to arbitrate and should not be permitted and (4.) it would override the public policy underlying BIT1.

**1. Persuasive precedents prove that the MFN CLAUSE may not be invoked to attract the Consent Clause.**

42 Although Respondent acknowledges that in few cases international tribunals allowed for application of the MFN clauses to attract certain procedural provisions relating to dispute settlement<sup>19</sup>, Respondent submits that these cases shall be distinguished and that the recent trend of narrow interpretation of the MFN clauses, clearly visible in the international jurisprudence of the last few years, shall be followed.

43 The prevailing line of jurisprudence relating to the application of the MFN clauses to dispute resolution provisions, departing from the *Maffezini* ruling, is clearly visible in the recent rulings of e.g. *Siemens*, *Plama*, *Wintershall* or *Telenor* tribunals. The latter, provide for strong grounds, for marginalization of the *Mafezzini* and alike rulings, which permit a wide interpretation of the MFN clause.

44 Firstly, as pointed out by *Telenor* tribunal relying on the reasoning of *Plama*, adoption of the wide interpretation of the MFN clause contained in a basic treaty would:

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<sup>19</sup> *Maffezini case*, *AWG Group case*,

45 “*expose the host State to treaty-shopping by the investor among an indeterminate number of treaties to find a dispute resolution clause wide enough to cover a dispute that would fall outside the dispute resolution clause in the base treaty*”<sup>20</sup>

46 Secondly, such a wide interpretation shall inevitably lead to the uncertainty and instability of the international investment relations.<sup>21</sup> Thirdly, a wide interpretation of the MFN clause may “*displace (...) dispute resolution mechanism specifically negotiated by the parties*”<sup>22</sup>

## **2. Literal interpretation proves that the MFN Clause does not encompass dispute settlement provisions.**

47 Even if the Tribunal accepts application of the MFN clauses to the dispute settlement provisions and follows the reasoning of *Maffezini*, it shall be found that the particular factual and legal background of the present dispute prohibits an interpretation of the MFN CLAUSE contained in BIT1, as encompassing dispute resolution and permitting to invoke the Consent Clause.

48 There shall be no doubts that the MFN CLAUSE, as a bilateral investment treaty, shall be interpreted according to the rules of interpretation set out in Article 31 of the Vienna Convention, according to which treaty provisions 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.

49 Pursuant to one of the most general and widely accepted rules of application of the MFN clauses – the *ejusdem generis* rule, the MFN clause may be used to invoke other international treaties provisions, when the host state is a party, only to the extent that it *falls within the limits of the subject-matter of the clause*.<sup>23</sup> In line with the above *Plama* tribunal pointed out that

50 “*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*

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<sup>20</sup> *Telenor* para. 93.

<sup>21</sup> *Telenor* para.94, *Plama* para.223.

<sup>22</sup> *Telenor* para.95.

<sup>23</sup> *Draft Articles on MFN*, Article 9 and Article 10; *Commentaries to Draft Articles* p. 27.

*the basic treaty leaves no doubt that the Contracting Parties intended to incorporate them*”<sup>24</sup>.

51 MFN CLAUSE does not contain any reference to the dispute resolution provisions and merely refers to the *treatment not less favourable*, it may not provide for good grounds to conclude that the parties to BIT2 intended to include jurisdictional issues within the scope of operation of the MFN CLAUSE.

52 As stated by the *Wintershall* tribunal, even the words like

*“all matters relating to ...” in the MFN clause may not be sufficient to extend such clause to the dispute resolution provisions of the BIT*”<sup>25</sup>

as they may not constitute an evidence of the clear and unambiguous intent of the parties signatory to the BIT to include dispute settlement matters within the scope of the MFN clause. The above view was shared in the most recent jurisprudence and legal writings<sup>26</sup>.

53 Moreover, as pointed out in *Wintershall*, if the parties to the BIT intend to cover jurisdictional issues with the operation of the MFN clause, they may agree that the above contains an explicit reference to the dispute resolution provisions. Such reference, as provided in several BITs entered into by the United Kingdom, clearly reflects parties’ intention.

### **3. Claimants interpretation of the MFN CLAUSE broadens the scope of Respondent’s consent to arbitrate and should not be permitted.**

54 As stressed by *Wintershall* tribunal *“invocation of MFN treatment to dispute settlement does relate to and has a bearing on “consent” (of the Host State)”*. It is particularly true in the present dispute, as one may not deny the fact that the consent to treat a certain person as a foreign investor, which bears a consequence of unconditional offer to arbitrate, constitutes a matter of the consent.

55 Respondent acknowledges that the arbitral tribunals in certain circumstances permitted to invoke the MFN clause to attract provisions relating to the dispute settlement. Nevertheless, in the cases where Claimant purported to override the express

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<sup>24</sup> *Plama* para.223.

<sup>25</sup> *Wintershall* para. 186.

<sup>26</sup> *McLachlan* p. 256.

stipulations of the BITs creating the jurisdictional obstacles for ICSID arbitration, contrary to the consent given by the state in the investment treaty, the tribunals clearly denied claimants' rights to do so.<sup>27</sup> Arbitral tribunals allowed to invoke MFN clause only in cases related to the procedural obstacles such as waiting period<sup>28</sup> and, as already noted above, in the lack of consent to treat a company as a foreign investor for the purposes of Article 25(2)(b) of the ICSID Convention it should not be permitted.

#### **4. Claimants interpretation of BIT2 provisions violates public policy considerations underlying BIT1.**

56 Even if the Tribunal accepts the view that the MFN clauses may be applied to attract dispute resolution provisions, it shall be noted that even the arbitral tribunals which shared the above view, such as *Maffezini* tribunal, stressed that “[t]his operation of the most favoured nation clause does, however, have some important limits arising from *public policy considerations*”<sup>29</sup>.

57 It shall be noted that the discrepancies in the wording and the scope of the protection accorded to investors by Bergonia in both BIT1 and BIT2 are not accidental and arise out of its justifiable public policy reasons. Firstly, one may not ignore the fact that both BIT1 and BIT2 were concluded in the same year.<sup>30</sup> Therefore, it would be difficult to accept the view that the different wording of relevant provisions contained therein was not considered carefully by the contracting parties. Secondly, it shall be taken into consideration that the relations between Bergonia and each of the contracting states to BIT1 - Conveniencia and BIT2 – Tertia, differs substantially, as e.g. contrary to Conveniencia, Tertia is not a Member of the WTO. Moreover, it shall be noted that BIT1 substituted a previous bilateral investment treaty, by which Conveniencia and Bergonia were bound by since 1979,<sup>31</sup> and the wording of BIT2

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<sup>27</sup> *Plama* para.210

<sup>28</sup> See e.g. *Mafezzini, Siemens*.

<sup>29</sup> *Maffezini* para.56.

<sup>30</sup> Record at p. 12 and p. 20.

<sup>31</sup> Article 12(4) of BIT1.

suggests that the latter constitutes the first treaty between Bergonia and Tertia of that kind<sup>32</sup>.

58 The above clearly indicates, that the relevant provisions of BIT1 and BIT2 vary for valid public policy reasons reflecting different relations of Bergonia with both the Conveniencia and Tertia, and therefore BIT2 provisions may not be transposed on the grounds of BIT1 protection.

**E. Claimant would not be able to benefit from the relevant provisions of BIT2.**

59 A contextual analysis of the relevant provisions of BIT2 clearly shows that even if the Tribunal finds that Claimant shall be permitted to invoke the MFN clause to attract dispute resolution regulations contained in BIT2, and in particular the Consent Clause, it shall be found that Claimant may not compel Respondent to arbitration as (1.) Claimant shall not be allowed to invoke only the Consent Clause and shall fulfill all standing requirements set out in BIT2 (2.) Claimant fails to fulfill standing requirements of the dispute resolution provisions of BIT2 (3.) Denial Clause additionally limits the possibility of invoking relevant provisions of BIT2 and (4.) the relevant provisions that Claimant intends to rely on are not more favourable to Claimant.

**1. Claimant shall not be allowed to invoke only the Consent Clause**

60 As already pointed out above, even if the Tribunal allows Claimant to rely on the MFN CLAUSE to attract the dispute settlement provisions of BIT2, Claimant shall not be permitted to invoke only the Consent Clause from the dispute settlement provisions contained in Article VI of BIT2 as they provide for requirements of an offer to arbitrate made by Respondent and shall be considered in their entirety.

61 Therefore, even if the attraction of the dispute settlement provisions of BIT2 by operation of BIT1 MFN CLAUSE shall be allowed to Claimant, it shall fulfil all

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<sup>32</sup> See Article XIII of BIT2 and the ultimate recital thereof.

standing requirements prescribed therein, not only the conditions of the Consent Clause, which Claimant otherwise fails to prove.

**2. Claimant does not fulfil standing requirements of the dispute resolution provisions of BIT2.**

62 First, pursuant to *ejusdem generis* rule referred to above, the MFN clauses may be used only if the basic treaty covers the same subject matter as the treaty which includes provisions Claimant purports to attract. Applying the above to the dispute settlement issues, the scope of disputes, which may be resolved pursuant to relevant provisions of both treaties shall be the same, otherwise MFN clause shall not cover them. Especially, if the secondary treaty provision limits in some extent the jurisdiction of ICSID tribunal, e.g. sets out a requirement that in order to be arbitrable it should arise out of the secondary treaty and not any other – such provisions may not be attracted by MFN clause<sup>33</sup>. under relevant provisions such provision should not be attracted by MFN clause. Article VI of BIT2, clearly states that the dispute settlement provisions apply to the disputes arising out of “*alleged breach of any right conferred or created by this Treaty [BIT2]*”.<sup>34</sup> The above prerequisite is not and could never have been met in the present dispute, as the alleged investment of Claimant is not protected by provisions of BIT2 and therefore they could not have been ever breached by any actions undertaken by Respondent towards Claimant. Consequently, MFN CLAUSE may not attract dispute settlement provisions of BIT2.

63 Second, BIT2 contains so called “fork-in-the-road clause”, which permits the investor to compel the state signatory to BIT2 only “*provided that the national or company concerned **has not submitted** dispute for resolution under paragraph 2 (a) or (b)*”,<sup>35</sup> i.e. did not submit the dispute for resolution to the courts or administrative tribunals of the host state being a party to the dispute. In the present case, Claimant, having

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<sup>33</sup> *Plama* para. 206

<sup>34</sup> Article VI(1) of BIT2.

<sup>35</sup> Article VI(3) of BIT2.

initiated the proceedings before the Patent Review Board<sup>36</sup> fails to fulfill the above test.

64 Finally, Claimant does not even fulfil the requirements of the Consent Clause. Pursuant to the Consent Clause (Article VI.(8) of BIT2), a company legally incorporated under the applicable laws and regulations of Bergonia, shall be treated as a foreign investor for the purposes of Article 25(2) (b) of the Convention only if (i) immediately before the occurrence of the event or events giving rise to the dispute (ii) it was an investment of nationals or companies of the other contracting party. Thus, it shall be concluded that the wording of the CC clearly indicates that the above prerequisites must be fulfilled jointly. It shall be recalled that Claimant is controlled by the national of Bergonia - Mr. Frankensind, therefore the second prerequisite of the Consent Clause is not met.

### **3. Denial Clause additionally limits the possibility of invoking relevant provisions of BIT2.**

65 Denial Clause contained in Article I.2 of BIT2 sets out circumstances in which the advantages of BIT2 may be denied to an investor by the host state.

66 Right of denial may be executed towards an entity, which (i) has no substantial business in the other Party or alternatively (ii) is controlled by the nationals of a third country, with which the denying Party does not maintain normal economic relations. In the view of the facts of the present case, Claimant is co-controlled by the company incorporated in Laputa, which due to the tensions on certain trade issues and imposition of economic sanctions resulting from the above<sup>37</sup> has no economic relations with Respondent.

67 In the view of the above, if the Respondent could have ever legitimately suspect that Claimant would seek protection under BIT2 would have executed its right referred to above.

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<sup>36</sup> Clarifications1 No.37

<sup>37</sup> Clarifications1 No.36

**4.The relevant provisions that Claimant intends to rely on are not more favourable and therefore may not be attracted by the MFN CLAUSE.**

- 68 According to a well established principle, the MFN clauses permit investors to invoke only provisions of other bilateral investment treaties that are more favourable to the investments or/and investors of the third party state accorded by the host state<sup>38</sup>. In order to conclude that the treatment of the third party treaty is more favourable, the treatment of the investor provided under basic treaty shall be found discriminatory and the comparison shall be drawn between like persons or things<sup>39</sup>.
- 69 The above shall be considered in the view of the fact that the MFN CLAUSE contained in BIT1 provides that none of the contracting states to BIT1 shall subject the investors of the other Contracting State or their investments to treatment less favourable than it accords to investors or investments of any other third state.
- 70 Presumably, Claimant will claim that as the recourse of arbitration constitutes a substantive part of the international investment protection, the existence of the Consent Clause, which enables a company incorporated in the host state to be treated as a foreign investor upon fulfilment of strictly indicated circumstances without a need to obtain an individual consent of the host state for such treatment is more favourable.
- 71 Nevertheless, any such allegations are ungrounded, because although BIT2 contains a blank consent to treat a national of its own state as a foreign investor for the purposes of Article 25(2)(b) of ICSID Convention, which as such could be considered as more favourable in comparison to the lack of such consent on BIT1, as already noted above the dispute resolution provisions provide for a complete mechanism, which ought to be considered in its entirety. Consequently, Claimant shall not be allowed to invoke solely its part, namely the Consent Clause. The dispute resolution provision contained in Article VI of BIT2, provide for the additional limitations of jurisdiction more restrictive than those of BIT1, e.g. fork-in-the-road clause which significantly narrows the scope of disputes that may be submitted on its basis to ICSID arbitration.

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<sup>38</sup> *Commentaries to Draft Articles on MFN* p. 22.

<sup>39</sup> *Commentaries to Draft Articles on MFN* p. 31; *Horn* p. 164.

Therefore, in the present case it shall be concluded that the treatment provided under the provisions of BIT2 is not more favourable to Claimant.

#### **IV. CLAIMANT’S ACTIVITY DOES NOT CONSTITUTE AN INVESTMENT.**

##### **A. General remarks.**

72 Summing up briefly, Respondent’s standpoint is that the Tribunal lacks jurisdiction in the case. BIT1 protects only investments made by investors and Claimant cannot be acknowledged as an investor respectfully to the previous paragraph. And even if tribunal examines requirements for investment itself, there is no possibility whatsoever to recognize a patent as lawful and legitimate investment on the ground of the ICSID Convention requirements.

##### **B. BIT1 protects only investments made by investors.**

73 In order to ascertain, whether Claimant’s activity in Bergonia constitutes an investment, plain meaning of the BIT1 as well as its context must be considered. Such approach is fully consistent with General Rules of Interpretation stated in Article 31(1) (2) of the Vienna Convention on the Law of Treaties.

74 Therefore Article 1 “Definitions” is not the only part of the Treaty which must be reviewed respectfully. Claimant cannot disregard the fact, that starting from the Preamble of the BIT1, notion of investment is always connected with a notion of the investor - i.e. “[States] *desiring to intensify economic co-operation between both countries and create favorable conditions to increase investments by investors (...)*”. Further articles quote the whole phrase “*investments by investors*” in every kind of protection granted by the Treaty.

75 Indeed, Contracting States in any way do not express will to protect investments alone, but only to protect investments made by investors. It is quite logical regarding the fact, that Bergonia and Conveniencia defined “investor” differently - Article 1.3(a)(b).

76 Even more striking, however, is the comparison with BIT2, in which Bergonia agreed to separate terms “investor” and “investment”. There is no coincidence in using certain phrases. While Bergonia-Conveniecia BIT states in Article 4.2 that “*Investments by investors of either Contracting State shall not directly or indirectly be expropriated, nationalized (...)*”, BIT2 states in Article III.1 that “*Investments shall not be expropriated or nationalized either directly or indirectly(...)*”.

77 Therefore one must arrive at the conclusion, that in the light of BIT1, the notion of investment must be inseparably tied with the notion of investor. This means that only if MedBerg was to be recognized as an investor, would it be rational to direct later analysis on the nature of its activities.

78 Since it has already been proven above that Claimant cannot be acknowledged as investor according to the definition provided by BIT1, further deliberations should be discontinued and Medberg’s claim should be dismissed.

## **V. CLAIMANT’S ACTIVITY IN BERGONIA DOES NOT FULFILL THE PREREQUISITES OF INVESTMENT CONTAINED IN ICSID CONVENTION.**

### **A. Claimant’s actions do not meet investment definition of Article 25 of ICSID Convention.**

79 Even if Claimant were to be considered as the Investor, his commercial activity in Bergonia could not be qualified as investment due to the fact that Claimant’s activity is not protected under the ICSID Convention.

80 The fulfillment of the definition of investment in a relevant treaty is nothing more than a condition *sine qua non* i.e. one without which certain activity cannot be perceived as an investment at all. It is true that the ICSID Convention gives no distinct definition of “investment”. The aim of shaping Article 25 of the ICSID Convention, which refers to that notion in such a way was not to arbitrarily limit scope of the Convention<sup>40</sup>. Of course it doesn’t mean that almost everything might be considered as the investment. Common sense shall prevent interpreters from too broad abstractions with respect

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<sup>40</sup> Delaume,, p. 64, 70.

hereto. Widely cited and recognized are suggestions made by Professor Schreuer<sup>41</sup>, who described common characteristics helpful in qualifying certain activity as investment. This is why ICSID tribunals tend to adopt those characteristics mostly by empirical not by doctrinaire analysis.

81 Existence of an objective boundary to the notion of investment was agreed in series of ICSID decisions<sup>42</sup> and by some commentators<sup>43</sup>. The necessity of creating such a restriction is essential since subjective approach might turn Article 25 of ICSID into meaningless provision, which would be applied in a contradictory and arbitrary way. In *Middle East Cement*<sup>44</sup> ship was acknowledged as investment only because Greece-Egypt BIT included leased property in its definition. But in *Gruslin*<sup>45</sup>, parties' consent qualified assets as investment only if it was made within territory of host state, while ICSID Convention does not contain such territorial limitation. Objective cut-off point beyond which claims would not be permissible as too remotely connected to the "investment" constitutes equal protection - for investors as well as for states.

82 That is why States-Parties to BITs must be aware that by extending the notion of investment they face a serious risk of being deprived of the ICSID jurisdiction. In this respect it was already mentioned in the case law that

*"[t]he parties to a dispute cannot by contract or treaty define as investment, for the purpose of ICSID jurisdiction, something which does not satisfy the objective requirements of Article 25 of the Convention"*<sup>46</sup>.

It must be observed that the existence of such objective criteria does not mean that the meaning of the notion of investment should be petrified. On the contrary, it is uncontested that objective criteria for the term "investment" shall be interpreted liberally and reasonably, but by no means any frivolous consent expressed in the relevant Treaty shall lead to an automatic recognition of this activity as investment

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<sup>41</sup> Schreuer, p. 140.

<sup>42</sup> *Salini Costruttori* para. 44; *Fedax, Joy Mining Machinery*; *LESI-DIPENTA Jan de Nul*; *Patrick Mitchell*; *Helnan*; *Saipem*; *Malaysian Historical Salvors*,.

<sup>43</sup> Broches, p. 360.

<sup>44</sup> *Middle East Shipping*

<sup>45</sup> *Philippe Gruslin*

<sup>46</sup> *Joy Mining*, para. 50.

under ICSID. Accepting other viewpoint would be simply irrational and dangerous for it could lead to a situation, in which ordinary sales contracts or similar arrangements which *prima facie* lack the characteristics of an investment would be treated as belonging to that category.

83 This is why in the case at hand, involving ICSID arbitration, an additional factor should be taken into account when ascertaining whether certain activity is an investment, namely the fulfilment of the requirements enclosed in the ICSID Convention. This in turn means that the Tribunal should apply the so called ‘two-fold test’ or the ‘duble-barreled test’ invoked in the case law in order to ascertain whether Claimant’s activity in Bergonia constituted an investment. Applying such a test will ensure that the award passed will be consonant with the consent of the parties to BIT1 expressed in the definition of investment contained therein, as well as with the intention and consent of the States-Parties to the ICSID Convention<sup>47</sup>. As the ICSID Tribunal ruled in one of the recent ICSID arbitration cases,

“[u]nder the double-barrelled test, a finding that the Contract satisfied the definition of “investment” under the BIT would not be sufficient for this Tribunal to assume jurisdiction, if the Contract failed to satisfy the objective criterion of an “investment” within the meaning of Article 25<sup>48</sup>”.

84 This means that the definition of investment contained in the relevant BIT cannot expand the definition of investment present in the ICSID Convention. To rule otherwise would be to allow a bilateral agreement to override a multilateral one of utmost importance in the ICSID arbitration system – the ICSID Convention, for “[State-Parties] can confirm the ICSID **notion** or restrict it, but they cannot expand it in order to have access to ICSID<sup>49</sup>”.

85 However in order to apply such “two-fold test” the characteristics of investment under art. 25(1) of ICSID Convention must first be identified. It is true that Article 25(1) of ICSID Convention contains the notion of investment without an explicit, stated definition of this phenomenon. It is also true that it was a conscious and deliberate omission on the Convention Drafters’ part. Nonetheless in lack of the explicit definition of such a crucial concept of the Convention that definition should be

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<sup>47</sup> *Ceskoslovenska Obchodni Banka*, para. 68.

<sup>48</sup> *Malaysian Historical Salvors*, para. 55.

<sup>49</sup> *Phoenix Action*, para. 96.

inferred according to the general rules of interpretation set by the public international law, such as the Vienna Convention.

86 Article 31 of the Vienna Convention draws attention to several important factors in the interpretation of the terms of a given treaty: the ordinary meaning, context of the act and the object and the purpose of the treaty. The object and the purpose is often found in the preamble of the given act, and the ICSID Convention is no exception to this rule. And the preamble to the ICSID Convention highlights “(...) *need for international cooperation for economic development and the role of private international investment therein*”. The preamble to the ICSID Convention explicitly mentions the notion of the private international investment in the context of the role it plays in the international economic development. In other words ICSID tribunals shall consider private international investment in connection with economic development it contributes and international cooperation which allows such contribution. Further the Preamble states:

*“Bearing in mind the possibility that from time to time disputes may arise in connection with such investment between Contracting States and nationals of other Contracting States; (...)”.*

Additionally when the Convention mentions the disputes that may arise in connection with the investments it uses the expression “*such investment*”. That suggests, that the disputes mentioned have to arise out of an investment that fulfills its role in an economic development.

87 Therefore the only logical inference is that the investments not fulfilling this factor should be excluded from the scope of jurisdiction of the Convention. Discretion left to parties in Article 25 of ICSID Convention is large but not unlimited. Exercising it to the point which is inconsistent with the purposes of ICSID precludes ICSID jurisdiction, since, as one ICSID Tribunal ruled,

*“[t]here is nothing like a total discretion, even if the definition developed by ICSID case law is quite broad and encompassing. There are indeed some basic criteria and parties are not free to decide in BITs that anything — like a sale of goods or a dowry for example — is an **investment**<sup>50</sup>”.*

88 Thus one arrives at the conclusion that at least one factor that has to be fulfilled in order to enable the jurisdiction of the ICSID is found in the very preamble of the convention. As to the other prerequisites they must be inferred by a reference to the

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<sup>50</sup> *Phoenix Action*, para. 82.

linguistic and economical meaning of the investment as it is understood in the spoken and written language.

89 It is no wonder that over the years, arbitral tribunals and commentators have identified and named those other prerequisites that an activity should fulfill in order to be perceived as an investment in the meaning of the ICSID Convention. In 1976 *Amerasinghe*<sup>51</sup> distinguished duration of the agreement and the regularity of profit and return as hallmarks useful to recognize whether tribunal deals with investment within the meaning of Article 25 of ICSID Convention. Then *Amerasinghe* noted that other surrounding circumstances of the agreement might be relevant to decide upon jurisdiction but at the same time *Amerasinghe* stressed, that "[a]n ordinary sales contract, therefore, would not normally be an investment".

90 As it has already been mentioned above, Professor Schreuer developed this concept with more detailed characteristics. First, activity in question, in order to be qualified as investment, should last over some period of time, which is longer than that required for one-time sales or purchase. Second, certain regularity of profit and return might be expected as the result of such activity. Third, there must be an element of risk that is borne by both parties. Fourth, commitment of resources should be substantial. Finally, there should be a significant contribution to the host State development offered by the investor.

**B. Claimant does not meet any of the requirements of the “Salini test”, which is to be applied when determining notion of investment under ICSID Convention.**

91 The aforementioned hallmarks are confirmed and accepted in the most important case in the respect of investment - *Salini v. Morocco*<sup>52</sup>. Over the years the so called ‘double-barreled test’ or ‘the Salini test’ found strong support with the arbitral tribunals and has been included in grounds for issuing numerous subsequent awards<sup>53</sup>.

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<sup>51</sup> *Amerasinghe*, p.804.

<sup>52</sup> *Salini*;

<sup>53</sup> see also *Bayindir, Jan de Nul, Joy Mining, Malaysian Historical Salvors, Phoenix Action*

92 *Salini* is widely recognized as the landmark case and majority seems to adhere to the test before qualifying certain activity as investment. Some tribunals, however, do not want to limit themselves by strict check up list and emphasized that even if any or all *Salini* criteria are not satisfied, this would not necessarily be sufficient to deny jurisdiction<sup>54</sup>. It is a common sense solution which does not contradict existence of some criteria at all. In *Bayindir*<sup>55</sup> tribunal, after enumerating all *Salini* test elements, made quite clear that:

*“(...) being understood that these elements may be closely interrelated, should be examined in their totality, and will normally depend on the circumstances of each case”*.

93 As a consequence, it is perfectly logical that the aforementioned circumstances must be taken into account in every case. *Salini* does not impose any “horse blinders” on international understanding of investment in respect of ICSID Convention. Application of five elements described above, by no way shall become automatic or routine procedure. If, as a consequence of logical and reasonable approach of the tribunal, the concept of investment is somewhat broadened, this does not alter the fundamental nature of *Salini* characteristics.

94 Thus there are five prerequisites helpful to consider specified activity as an investment in ICSID: significant commitment, certain duration over which the project is performed, regularity of profit and return, sharing of the operational risks and contribution to the host State’s development. Failing to meet those criteria indicates first suspicion whether activity constitutes the investment at all. In the present case, Claimant failed to fulfil four of those prerequisites while only scarcely fulfilling the requirement of certain duration of his activity in Bergonia.

95 As of now it still is unknown whether any expenditures or significant efforts were made by Claimant in Bergonia. Shall these expenses turn out to be borne in any country other than Bergonia or shall these expenses prove to be small, it will therefore require further inquiries. We may assume that expenditures and efforts of Claimant were not significant, if he did not highlight this fact during pre-hearing Conference.

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<sup>54</sup> *Biwater* para. 310, 312-318.

<sup>55</sup> *Bayindir*, para 130.

**1. Claimant's activity in Bergonia did guaranteed no regularity of profit and return whatsoever.**

96 Patent as such does not secure any regular return. If it is utilized in a smart manner by using proper equipment, transactions and facilities, patent might or might not occur profitable. Obviously, there is a market value connected with a patent. But every product which is subjected to sales transaction can be commercially estimated. As the right, patent simply lasts and only a holder decides on its potential use. If the holder has a wish not to use a patent, no calculations can be made on its profitability. Therefore no regularity of any return can be ever comprised in patent. In comparison, investment as such, its purpose and basic structure, from the very beginning rely on regular profits and return.

**2. Claimant's activity in Bergonia involved no operational risk.**

97 This factor is interrelated with the requirement of "commitment". Having noted that there are some more arguments stating without any doubt, that Claimant's activity in Bergonia involves no risk at all. In order to ascertain that a reference to the very structure and basic rules governing the patent law shall be made. In general, patent protects certain intellectual property rights. If one State rejects protection, it does not preclude other States to grant it. Additionally, it must be stressed, that entity, which is in possession of the knowledge connected with a patent, has already incurred all necessary expenses, and consequently, there is no risk involved. The only activity a patent owner must conduct is selling this knowledge profitably and regaining invested money. In this respect it must be emphasised that negotiating and entering into a license agreement with a foreign company is nothing but a sale contract. The only difference is that in common sales contracts certain goods or tangible property are subjected to transactions and in a contract of selling a patent, intangible property, as knowledge or technology, is put up for sale. Those transactions bear no other risk than

belonging to the category of normal contractual risk. Such risk however does not meet the aforementioned requirement of the Salini test.

**3. Claimant's activity in Bergonia did not contribute to the development of the host State.**

98 Just as the preceding characteristic of the 'Salini test' this hallmark is sometimes connected with "commitments" factor, which even leads the tribunals to consider contribution to the development of the host state and commitments prerequisites as one requirement. In order to indicate that this characteristic has been fulfilled it may be argued by Claimant that an obesity treatment of a breakthrough nature plays an important role in the development of Bergonia. A smaller number of persons suffering from obesity, Claimant would persuade, means less money spent on treating people and, as a consequence, on the medical system as a whole. What is more it could be raised that healthier people work more and are more effective which helps in developing the economy of the host state. However, such arguments are nothing else but speculation. Most of the products available on the market influence economy of the host State in such a manner. Connection between the obesity treatment and the development of Bergonia is simply too indirect and, as a consequence, such arguments would be too far fetched.

**C. Conclusion**

99 **In summation it must be highlighted that patent as such does not constitute an investment.** Patent as such is "(...) *the governmental grant of a right, privilege or authority*<sup>56</sup>". This right excludes others from making, using, marketing, selling or importing an invention for a specified period of time. Compulsory license on the other hand is nothing more than government decision to waive the exclusive right and force its holder to grant use to the State or others. This is why a patent being a right as such cannot be acknowledged as investment.

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<sup>56</sup> Garner, Bryan A., Editor, *Black's Law Dictionary*, Thomson West 2001, p. 526.

100 Investment is a complex operation consisting of various activities, transactions and property. Each element as a part of this enterprise cannot be qualified alone as an investment<sup>57</sup>. Misunderstanding or misinterpreting of Article 1(1)(d) in BIT1 may lead to completely erroneous conclusions. Article 1(1)(d) contains quite clear explanation of the term “investment”. “Investment” comprises every kind of asset, including patents, but asset itself is not the same as investment. *Salini* test and other features of the patent indicate that nature of intellectual property right alone is something else than investment described in ICSID Convention.

## **VI. CLAIMANT ERRED IN CHOOSING THE APPROPRIATE ARBITRATION INSTITUTION TO JUDGE HIS CLAIM.**

101 It has to be stressed that not all commercial contracts constitute an investment. If it were to be so, every international trade transaction could be subjected to ICSID arbitration, and such an effect was obviously not intended by Contracting States of the ICSID Convention. Ordinary sales contracts, even if complex and meaningful to international sale, must be kept separate from investment category to protect stable legal order. *“Otherwise, what difference would there be with the many State contracts that are submitted every day to international arbitration in connection with contractual performance, at such bodies as the International Chamber of Commerce and the London Court of International Arbitration?”*<sup>58</sup>.

102 Claimant erred in choosing the appropriate arbitration institution to judge his claim. It is of utmost importance that the ICSID arbitration system is designed to protect investors; it should not however be abused by them. Filing a claim that concerns a dispute that does not directly arise out of an investment within the meaning of the Convention is an overt and express abuse on Claimant’s part.

103 The ICSID arbitration system in comparison to other arbitration institutions is reserved for the disputes involving investments fulfilling the definition of investment contained not only within the relevant BITs, but also within the meaning of the ICSID

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<sup>57</sup> *Fedax*, para. 24

<sup>58</sup> *Joy Mining*, para. 58

Convention. In this case patent cannot be qualified as investment, and definitely it doesn't fall within the scope of investment for ICSID arbitration. This does not mean that the exploitation of patents is inarbitrable even if expressly provided for in the relevant BIT. On the contrary, there are many arbitration institutions (such as the ICC and LCIA to name just two examples) such petitions of claim should be filed with. Unlike these institutions ICSID arbitration system is reserved for arbitration proceedings concerning investments and it has already been raised in the doctrine that in order for the ICSID to grant its jurisdiction two tests have to be conducted. Claimant not only has to establish that his or its activity fulfills the definition contained within the relevant BIT, but also under the ICSID Convention, and

*“[i]f the economic activity in question meets the first test, but not the second, then arbitration is possible, but only under UNCITRAL, ICC, or other dispute resolution systems mandated in the respondent State's consent to arbitration”<sup>59</sup>.*

104 In the case at hand Claimant was not limited to ICSID arbitration system since there were other arbitration institutions which Claimant could file his request for arbitration with. Article 10 of BIT<sup>1</sup> left no doubt that any dispute, which cannot be resolve amicably on the settlement ground, shall be submitted to the competent court of the Contracting State or

*“(2)(b) international arbitration under either:(...) [ICSID], or – the rules of arbitration of the United Nations Commission on International Trade Law (UNCITRAL), or – the rules of arbitration of the International Chamber of Commerce (ICC), or – any other form of dispute settlement agreed upon by the parties to the dispute. Each Contracting State herewith declares its acceptance of such international arbitral procedures.*

105 Claimant however either unknowingly chose the wrong institution to review his claim or deliberately chose to submit this dispute to the jurisdiction of the ICSID. If the latter possibility is true then by doing so Claimant was consciously trying to “have it both ways” that is to avail himself of the preferential ICSID system without fulfilling the prerequisites of the ICSID Convention.

106 In both cases however the facts clearly show that the denial of jurisdiction in this case does not amount to the *de facto* denial of justice, because Claimant may file his request for arbitration with other arbitration institutions if they recognize a patent as a

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<sup>59</sup> Rubins, p. 289.

lawful investment. Therefore the Tribunal should reject the claim since it is incompetent and lacks jurisdiction *ratione materiae*.

107 All the aforementioned grounds indicate that the Tribunal should dismiss MedBerg's claim as ungrounded due to the fact that his activity in Bergonia did not constitute an investment. Claimant's exploitation of the Bergonian Patent neither met the prerequisites of BIT1, nor the requirements stipulated by the ICSID Convention. As a consequence Claimant erred in choosing the right institution to review its claim, which should be filed with an arbitration organisation recognising disputes arising out of ordinary sales agreements, such as the ICC or LCIA.

## PART TWO: MERITS

### I. COMPULSORY LICENCE ISSUED BY BERGONIAN IP OFFICE DOES NOT VIOLATE GENERAL INTERNATIONAL LAW OR APPLICABLE TREATIES.

#### A. Applicable law – TRIPS is not applicable to the present dispute.

108 First of all, it must be emphasized with all force that Article 64 TRIPS requires application of WTO dispute resolution mechanisms contained in GATT and elaborated in DSU. It is well documented that DSU is State-centric and does not offer any financial relief for private companies even when they suffer damages for WTO-inconsistent measures. The main requirement that is envisaged by DSU is bringing the measure into conformity with WTO law<sup>60</sup>. Yet, it only allows for limited State-to-State enforcement tools based on voluntarily agreed compensation<sup>61</sup>. No reparation of damages suffered by parties is required, irrespective of their status, be it intellectual property holder or foreign investor<sup>62</sup>.

109 In the view of clear and very specific provisions of DSU (which itself additionally confirms that it applies to disputes under TRIPS<sup>63</sup>) it is evident that any dispute arising out of TRIPS violation is outside the scope of this Tribunal's cognition. Claimant as a private investor – assuming that admitted such status by the Tribunal – has no legal standing to launch proceedings based on TRIPS violation.

110 Second of all, due to these exclusive and distinct character of WTO law,

*„(...) providing investors with the opportunity to challenge governments on the violation of the TRIPS or any other WTO agreement would be a **radical departure from the self-contained system of negotiation, implementation and dispute settlement of the WTO**”<sup>64</sup>.*

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<sup>60</sup> Article 3(7) DSU

<sup>61</sup> Articles 3(7), 22(1), 22(2) DSU

<sup>62</sup> Verhoosel, p.1 (Introduction)

<sup>63</sup> Article 1 and Appendix 1 DSU

<sup>64</sup> Biadgleng, Ch. V.1.1, p.26

Consequently, standards accorded to investment protection should not be applied to other domains of international law since it would lead to protection higher than that agreed under TRIPS.<sup>65</sup>

- 111 Thirdly, DSU provides for specific remedies in case of a breach of WTO agreement. The provisions of TRIPS are linked with DSU, they have been given a particular shape with a view that potential disputes will be resolved in a secured, prescribed way. If only substantive provisions of TRIPS are to be ‘borrowed’ with the procedural dispute settlement aspect rejected, that must inevitably be seen as treaty shopping and a deliberate attempt at overriding and surpassing existing law by creating higher level of protection. Notably, Article 1(1) TRIPS states that the agreement is

*“(...) intended to provide international minimum standard for recognition, protection and enforcement of [IP] rights, while WTO Members may, if they choose, ‘implement in their law more extensive protection’ ”*<sup>66</sup>.

Respondent did not choose to implement a more extensive protection and surely the present Tribunal is asked not to force such implementation either.

- 112 Finally, applicability of TRIPS provisions, which are tied to a separate dispute resolution mechanism was never within Respondent’s consent to arbitration. As was stated in *Methanex*:

*“[t]he limited consent to arbitration (...) cannot reasonably be extended to international law obligations embodied in those [WTO Agreements]. Otherwise, the NAFTA Parties – and in the present case, Respondent – would potentially be subject to a vast number of claims for monetary damages based on obligations that were not assumed with the understanding that their breach could give rise to such claims”*<sup>67</sup>.

**B. Even if applied, TRIPS only serves supplementary purpose for interpretation of FET standard content.**

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<sup>65</sup> Ibid, p.27

<sup>66</sup> Gibson, fn. 193

<sup>67</sup> Reply Memorial of United States on Jurisdiction, Admissibility and the Proposed Amendment, 12 April 2001, paras 31-32.

113 Even if the Tribunal finds that TRIPS is to be applied to the present case, Respondent submits that it should only serve as interpretative context of BIT1<sup>68</sup>.

114 Article 31(3)(c) of Vienna Convention states in interpreting treaties *any relevant rules of international law applicable in the relations between the parties* should be taken into account. For that matter, TRIPS could be applied as to give interpretative background to FET standard in particular circumstances of the present case<sup>69</sup>. Consequently, once it is ascertained that Respondent's actions are TRIPS compliant a definite conclusion that was FET standard was not violated will have to be drawn.

### **C. Respondent's actions were TRIPS compliant.**

115 Respondent will now turn to analyze the provisions of Article 31 TRIPS. It will be shown that all actions undertaken by Respondent were in conformity with its regulations. The foregoing analysis will focus on aspects potentially disputable on the facts of the case at hand. Firstly, Article 31(b) stipulates:

*"[S]uch use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. **This requirement may be waived by a member in the case of a national emergency or other circumstances of extreme urgency.**"*

Respondent wishes to rely on the second sentence of Article 31(b) and simultaneously invoke Doha Declaration on TRIPS<sup>70</sup>:

*"Each member has the right to grant compulsory licences and the **freedom to determine the grounds upon which such licences are granted.** Each member has the **right to determine what constitutes a national emergency or other circumstances of extreme urgency**, it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency or other circumstances of extreme urgency".*

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<sup>68</sup> Verhoosel, p.6

<sup>69</sup> Verhoosel, p. 7, Gibson, p.46 and 49

<sup>70</sup> Doha Declaration on TRIPS, para 5(a) and (b)

116 Respondent stresses that it was up to him to determine whether, given the genetic make-up, obesity and associated medical problems constituted national emergency or other extreme urgency. Respondent decided that considering all the circumstances and official statistics – it did. Therefore, Article 31(b) second sentence provided grounds for the Respondent to waive the requirement of conducting the negotiations.

117 Secondly, Article 31(d) states that *such use shall be non-exclusive*. Claimant could effectively continue with exploitation of his invention and could

*“(…) compete as aggressively as it wishe[d], with the compulsory licensee, with the advantages conferred by the prestige of brand names and generally abundant resources for marketing”<sup>71</sup>.*

118 It needs to be noted that

*“(…) the market share that compulsory licensees may obtain may be small and even insignificant, on account of the reputation and dominant presence of the patent owner in the marke”<sup>72</sup>.*

Claimant did continue to operate on Bergonian market<sup>73</sup>. Therefore, Article 31(d) was not breached.

119 Thirdly, Article 31(h) states:

*“[T]he right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization”.*

Notably,

*„(…)[t]he **economic value relates to the authorization and not to the IP right**. The compulsory license granting authority determines the royalty payment commensurate with the expected economic value that the implementation of the specific compulsory license could bring and the objective of the license (e.g. affordability and accessibility of essential medicine) **but not to the market value of the patent**, which could be higher, especially under restrictive-licensing practice that triggered the compulsory license”<sup>74</sup>.*

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<sup>71</sup> Correa, p. 16

<sup>72</sup> Ibid.

<sup>73</sup> Clarifications2 No. 114

<sup>74</sup> Biadgleng, p. 28

120 Moreover, Article 1 TRIPS states that Respondent is *free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.*

121 Clearly, Respondent was entitled to implement provisions on CL, including guidelines on royalties, as he considered appropriate and taking into account the value of authorization rather than free market value of the patent as such. Therefore, Article 31(h) has not been breached. What is more, Bergonian legislation envisages (in accordance with Article 31(j) TRIPS) an independent review by the Patent Review Board of any decisions relating to remuneration provided. Claimant did not explore this legal possibility. Instead, he simply refused to accept the royalties offered.

122 Fourthly, Article 31(i) provides:

*“(...) [T]he legal validity of any such decision relating to authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member(...).”*

123 Claimant did file an appeal with the Patent Review Board which means that an independent review by a distinct higher authority consisting of Bergonian judges was available to him.

*“The TRIPS also allows countries to make virtually all of its decisions on these issues, including those regarding compensation or appeals, through administrative processes”<sup>75</sup>.*

Even though the Patent Review Board is a quasi-judicial body, IP Office’s decision was given a review in accordance with Article 31(i).

124 Fourthly, Article 31(f) states: *“[A]ny such use shall be authorized predominantly for the supply of the domestic market of the member authorizing such use(...).”*;

125 Respondent submits that although three out of six entities invoking CL exported their products, the overall balance of products sold was still predominantly for Bergonian market.

126 In any case, countries to which imports occurred form a customs union with Bergonia. Article XXIV:8(i) of GATT explains that Bergonia could not have controlled or

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<sup>75</sup> Love, para 3

imposed a ban on exports since customs union requires the respondent to eliminate restrictions on *substantially all the trade* between Bergonia and other countries in the customs union. According to the qualitative approach, Respondent could not have maintained restrictions to protect important sectors from competition within the union<sup>76</sup>.

*“The requirement of elimination applies only to regulations that have ‘restrictive’ effect on commerce, irrespective of whether the regulation imposes duties or takes some other form. (...) Virtually all regulations affecting goods have some kind of ‘chilling’ effect that restricts trade in those goods”<sup>77</sup>.*

For that matter, it was not within Respondent’s reach to issue any regulations concerning export of licensed product.

127 Additionally, the Tribunal is asked to take into consideration Doha Ministerial Declaration in the following part:

*“We stress the importance we attach to implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) in a **manner supportive of public health**, by **promoting both access to existing medicines and research and development into new medicines** and, in this connection, are adopting a separate declaration”<sup>78</sup>.*

128 Moreover, Doha Declaration on TRIPS further emphasizes:

*„We agree that the TRIPS Agreement **does not and should not prevent members from taking measures to protect public health**. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be **interpreted and implemented in a manner supportive of WTO members’ right to protect public health** and, in particular, to **promote access to medicines for all**”<sup>79</sup>.*

129 It was solely Respondent’s concern for the health condition of Bergonian people that forced the issuance of CL over Claimant’s products. Nevertheless, forever in Respondent’s concern were also all the requirements included in national law<sup>80</sup> as well as in TRIPS which condition lawfulness of undertaken steps.

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<sup>76</sup> Lockhart, Mitchell, p. 12

<sup>77</sup> Ibid, p. 14

<sup>78</sup> Doha Ministerial Declaration, para 17

<sup>79</sup> Doha Declaration on TRIPS, para 4

<sup>80</sup> Clarifications2 No. 80 (national law implements all relevant TRIPS obligations).

#### **D. Mere breach of TRIPS does not constitute BIT1 violation.**

130 As has been shown, Respondent's behaviour was TRIPS compliant. In case, however, the Tribunal found a breach of TRIPS provisions, Respondent submits that

*“mere breach of the TRIPS (...) does not constitute a breach of the fair and equitable standard of treatment involving the concept of denial of justice under investment norms”*<sup>81</sup>.

131 Due to the fact that TRIPS is to be considered relevant as interpretative background, a line needs to be drawn between interpreting FET in the context of WTO law and actually applying it<sup>82</sup>. As has been stated in *Methanex*, a breach of WTO agreement may not be sufficient to establish a violation of FET although it may provide relevant evidence as to whether investor received fair and equitable treatment<sup>83</sup>.

132 Respondent submits that Claimant was never denied justice and was always capable of enter into proceedings in accordance with the principle of due process. The means used to protect public health were never arbitrary. Moreover, at no time were the measures taken discriminatory as *“there will be no discrimination if a patent (...) [is] singled out for the granting of a compulsory licence since, by its very essence, a patent covers a unique process or product”*<sup>84</sup>. The obesity treatment covered by Claimant's patent was a breakthrough and innovative one<sup>85</sup> and did in fact cover unique processes and products, influence of which was thought by experts to be substantially more effective than of any other obesity treatment available on the market<sup>86</sup>.

133 In the light of Respondent's submission, it must be acknowledged that even assuming a potential breach of TRIPS occurred, the essential substantive requirements encompassed in FET were not violated and neither was Claimant treated in a

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<sup>81</sup> Biadgleng, Ch. V.1.1, p. 26

<sup>82</sup> Verhoosel, p. 7

<sup>83</sup> *Methanex*, Second Opinion by Sir Robert Jennings, para 6.

<sup>84</sup> Correa, p. 15

<sup>85</sup> Clarifications1 No. 40

<sup>86</sup> Clarifications1 No. 26

discriminatory manner. Respondent's actions did not therefore breach the provisions of BIT1.

### **E. Conclusion**

134 TRIPS is not applicable to the present dispute. The Tribunal may, however, use it as an interpretative context for establishing whether Claimant was accorded fair and equitable treatment. It is submitted that all of the requirements from Article 31 TRIPS were met and therefore Claimant was treated fairly and equitably. However, even if a breach of TRIPS was established, Respondent is still not liable as none of the actions on his part were ever discriminatory.

## **II. COMPULSORY LICENSE ISSUED BY BERGONIAN AUTHORITIES IS LAWFUL**

### **A. General remarks.**

135 Begonian authorities by issuing CL did not expropriate Claimant's rights. It was a measure by which Begonia exercised its sovereign rights on its territory within the area of economics that is usually subjected to regulatory acts of a state. It did not deprive Claimant from its property. CL was a regulatory measure consistent with international investment law and by no means it violated Article 4 of BIT1.

### **B. CL is not a measure of expropriation.**

136 CL may not be claimed to be a measure of expropriation, since it does not fulfill the necessary prerequisites for being one. First and foremost, direct expropriation did not take place. It covers a case when direct taking or in other words outright seizure of the property is in question and consequently the owner is deprived of the legal title to property<sup>87</sup>. Due to the fact that Claimant has not been deprived of the patent right and

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<sup>87</sup> UNCTAD, para. 56

he is still the legal owner of it and is in its possession, CL is not a measure of direct expropriation.

137 Furthermore, also indirect expropriation did not occur. This type of expropriation covers a situation when a *de facto* seizure of property resulting in direct transfer of property or benefits to the state takes place<sup>88</sup>. Under the facts of the case, Bergonia had no benefits from issuing CL but only regulated its internal policy, therefore it did not expropriate Claimant's right<sup>89</sup>. Claimant still had the "control of the corporate vehicle for the investment remained in the hands of Claimant, with the "apparent right" to pursue its activities in conformity with [host state] regulations"<sup>90</sup>. Claimant still could provide his business and earn, since the measure concerned not the great amount of assets or total deprivation of the most important ones, but other, much slighter interference. Even though the state's act deprived Claimant from some benefits or expectations, it is not enough for expropriation<sup>91</sup>. To claim this, the subject shall be deprived the totality or substantial part of the investment<sup>92</sup>. Although the patent could be very important for Claimant, justified and limited in time and scope interference into use of rights flowing from it, is not deprivation of whole or substantial part of assets of a company. Moreover, the measure was limited in time, since it was issued only for 48 months, whereas according to TRIPS, Claimant would still be the owner without any state interference for at least next 16 years<sup>93</sup>. Therefore the interference was only for time and cannot be deemed to be an expropriatory measure<sup>94</sup>. This view has been confirmed by the doctrine, which stated that:

138 *"if as a result of a measure the economic impact on the investor or the investment is massive and there is greater control over the investment or the investor for a longer period, it will qualify as an indirect expropriation"*<sup>95</sup>.

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<sup>88</sup> *SD Myers*, para. 287

<sup>89</sup> *SD Myers*, para. 287

<sup>90</sup> *Feldman*, para. 111

<sup>91</sup> *Waste Management*, para. 159; *Pope & Talbot*, para. 87

<sup>92</sup> *Iurii Bogdanov*, para. 54; *Metalclad*, para. 230

<sup>93</sup> *TRIPS* Article 33

<sup>94</sup> *SD Myers*, para. 287

<sup>95</sup> *Schreuer*, p. 101

- 139 Under presented facts of the case these prerequisites are not fulfilled. Therefore CL cannot amount to indirect expropriation.
- 140 Finally, CL cannot be deemed to be a measure tantamount to expropriation. Even though it may seem that it is a separate standard than indirect expropriation, it is not. As it has been recognized by judiciary, a word “tantamount” means “equivalent”, therefore it still shall concern deprivation of property<sup>96</sup>. It does not cover any broader definition and does not encompass more than expropriation itself. It can cover such acts as so called “creeping expropriation” being a number of acts that consequently deprive the owner of his property. However it cannot be treated as covering measures which do not take whole or substantial part of property<sup>97</sup>.
- 141 Moreover, while speaking about measures tantamount to expropriation, apart from deliberate governmental interference depriving of property, namely the effect, the intention of the state has to be shown<sup>98</sup>. The measure which shall amount to expropriation should not only concern mere act of administration which deprives the company from some benefits, but has to be an “intentional course of conduct directed against [Claimant]<sup>99</sup>. Under the facts of the case CL was issued in order to secure the availability of the medicine product in the market. It has not been issued when Claimant allowed for production on the basis of license agreement with previous manufacturer. It took place after its termination. Bergonia’s intention was not to expropriate Claimant but to protect health of its society. And certainly it may not be stated that provisions arising from the investment obligations are higher in the hierarchy than public health<sup>100</sup>. Therefore CL also due to lack of intentional conduct is not a measure tantamount to expropriation, but a mere regulatory measure.
- 142 To sum up, as it has been defined by international tribunal, “expropriations tend to involve the deprivation of ownership rights; regulations a lesser interference”<sup>101</sup>. Due

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<sup>96</sup> *Pope & Talbot*, para. 85-87; *SD Myers*, para. 59

<sup>97</sup> *SD Myers*, para. 59

<sup>98</sup> *Sea Land Service*, p. 149, 166; *SD Myers*, para. 285; *Oscar Chinn*, p. 65

<sup>99</sup> *Sea Land Service*, p. 149

<sup>100</sup> *Sands*, p. 204

<sup>101</sup> *SD Myers*, para. 282

to above presented facts, no taking of property and hence no expropriation took place. CL issued by Bergonian authorities is lawful, since it is a regulatory measure.

### **C. CL is a regulatory measure.**

- 143 Regulatory measure is an act of a state taken in order to affect a particular area of economy due to public purpose<sup>102</sup>. It is a principle of international law that the state may exercise its sovereign power within the limits of its policy even though it may cause an economic damage to some subjects<sup>103</sup>. Consequently in other words, providing more favourable business conditions to other companies in order to regulate business area for public purpose is not expropriation<sup>104</sup>. And such a reasonable regulatory act of a state, which is issued for public purpose, does not intent to expropriate, is not permanent and is proportionate is not subjected to compensation<sup>105</sup>.
- 144 While speaking about public purpose, it shall be noticed that regulatory measures are used in such areas of economy, which usually are subjected to state's interference as telecommunication, transport or medical products. Obesity, which in relatively short period became a civilization disease, concerned more than one third of all Bergonian society<sup>106</sup>. The state had to act to protect health of its nation. Additionally, Claimant was aware of the great importance of health issues and fight with state authorities against obesity for a long time by various means<sup>107</sup>. Nevertheless, it entered into this market. Therefore any act taken by state authorities was not surprising or directed against Claimant, but was an element of state policy – a regulatory measure. Hence, it is clear that issuing CL in order to protect public health is issued for public purpose and is a classical example of lawful regulatory measure<sup>108</sup>.

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<sup>102</sup> *Feldman*, para. 103

<sup>103</sup> *Tecmed*, para. 119

<sup>104</sup> *Oscar Chinn*, p. 65

<sup>105</sup> *Feldman*, para. 103; *Ranjan*, p. 91

<sup>106</sup> *Clarifications2* No. 65

<sup>107</sup> *Methanex*, p. 107, para. 9-10

<sup>108</sup> *Ranjan*, p. 89

- 145 Moreover, economic activity of Claimant was also a basis for issuing CL. The fact that the product was pretty expensive within the society in which more than one third needed the medicine in question, termination of the contract with the producing company and uncertain future as to non-use of the patent and its benefits to the society caused that Claimant was not acting with clean hands and the state had to regulate this aspect protecting health of its nation<sup>109</sup>.
- 146 Furthermore, as it has been presented before, CL was not intended to expropriate Claimant. The Company could still operate, gain benefits and develop. The only reason for issuing CL was cessation of agreement with the manufacturer and fear of Bergonian government for lack of the only effective medicine. If Claimant had not terminated that agreement, no CL would have been issued. Therefore Bergonia had no intention to expropriate Claimant.
- 147 Moreover, as it has been stated, CL is not a permanent measure. It lasts only for 48 months, whereas for the next 16 years Claimant would not be affected by it. And without “a permanent, severe deprivation of the investor's rights there cannot be expropriation”<sup>110</sup> but the measure taken is just a lawful regulatory measure.
- 148 Finally, the measure is proportionate. CL did not deprive Claimant from his fundamental rights. He can still issue licenses, produce on his own, export, etc. His only right, namely to choose a contractor, has been limited for certain period in order to guarantee the society medical products. However he kept the rest of rights, including gaining money for using the patent. Therefore, CL is proportionate for serving public purpose and is a lawful regulatory measure that would be issued by any other state being in similar situation.

**D. Even if the Tribunal decides that CL is a measure of expropriation, it is lawful.**

- 149 If the Tribunal decides that notwithstanding above presented arguments CL is a measure of expropriation, it is still lawful. Expropriation as such is not forbidden by international law. According to Article 4 of BIT1, the measure is lawful if it is:

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<sup>109</sup> *Tecmed*, para. 148; *Sease*, p. 242

<sup>110</sup> *LG&E*, para. 193

- 150 “ *in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation*”  
as well as with regard to due process of law. And under the facts of the case, there requirements are fulfilled.
- 151 First and foremost, as it has been presented above, Bergonia issued CL for public purpose, namely for public health. There is no doubt that public health is one of the most important matters that each state is obliged to protect<sup>111</sup>. It concerns not only such tragic diseases as AIDS or cancer, but also other ones which develop and become more dangerous, which are generic and are the beginning for other civilization diseases, just as obesity. Each state must find a proper, effective and fast solution, since nothing is more important than human health. Therefore Bergonia underlines that the CL has been issued for appropriate public purpose.
- 152 Secondly, the measure shall be issued on non-discriminatory basis. Although the only subject which was negatively affected by CL was Claimant, there could be no other affected, since only Claimant was the owner of the patent. There is no other subject that could be in comparable situation to Claimant and which by that would be treated in more favourable way, hence the measure cannot be deemed to be discriminatory. Finally, Claimant as well as all manufacturing companies is Bergonian subject and all of them are treated by Bergonia as Bergonian subjects. Therefore there is no basis for discrimination. And for all these reasons CL is not discriminatory.
- 153 Moreover, the measure should be issued in accordance with due process of law, what also has been fulfilled. First of all, CL has been issued by competent body, namely Bergonian IP Office. Secondly, Claimant’s objections have been submitted before the second instance of administrative procedure in Bergonia - Bergonian IP Office’s Patent Review Board. However afterwards Claimant did not provide the claim before any independent court, hence violation of due process of law cannot be raised. On the other hand, although under BIT1 it is not necessary to exhaust local remedies before bringing the case before the international tribunal, it is widely recognized that any administrative decision shall be firstly revised by independent courts of the State.

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<sup>111</sup> *Tecmed*, para. 88, 124; *Metalclad*, para. A5; *City of Milwaukee*, para. 47; *Vitamin Technologists*, para. 23

Therefore in the absence of any *per se* violation of BIT1 by IP Office, the only possibility to claim its violation would be denying Claimant from justice before Bergonian courts<sup>112</sup>. Claimant was not acting in good faith in order to solve these administrative problems. Bergonia cannot be claimed responsible for any action that in the view of its administration was legal and what was not challenged before independent court. Only if judicial organ by its decision refused the justice to any subject, it may claim breach of standard of due process<sup>113</sup>. Under the facts of the case nothing like that occurred.

154 Finally, prompt, effective and adequate compensation should be paid. Bergonia in good faith collected the royalties from the manufacturing companies in order to give them to Claimant. Even though they were paid after some time, as to these economic relations, the payment was prompt. It is pretty usual, that the fees for using a license are not paid daily since they depend on many circumstances, as for example quantity of sold product, which in present case was much higher than before. Hence it would be unprofitable for Claimant to get the royalties immediately. Furthermore, the effectiveness of the compensation is fulfilled, since it is still available for Claimant, in proper currency and safely kept by Bergonian authorities waiting for Claimant to receive them.

155 Moreover, Claimant's argument stating that these monies were inadequate is irrational. Previously, he got fees only from one company, whereas now from six of them. Hence, it is not possible for these monies to be lower than these collected from just one manufacturer.

156 Taking into account all above presented arguments, CL issued by Bergonian authorities is not an unlawful measure. It was issued for public purpose, in accordance with due process of law, on non-discriminatory basis and for compensation. However it was Claimant who not only did not take into account the seriousness of social problem in Bergonia, but also stopped the production of the medicine, did not even try to solve its problems before Bergonian courts and afterwards refused to accept high

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<sup>112</sup> *Generation Ukraine*, para. 20.33; *Feldman*, para. 114; *Tecmed*, para. 119

<sup>113</sup> *Generation Ukraine*, para. 20.33

royalties by accusing Bergonia of violation international law. Bergonia being a state, which for its own economy and society wants to encourage foreign investments, did not violate BIT1. CL was a lawful measure, issued in accordance with all laws in order to protect the most important value of all – human health.

### **E. Conclusion**

157 CL issued by Bergonian authorities is not a measure of expropriation, since not only *de jure* it does not fulfill necessary prerequisites for being one, but also *de facto* it was not intended to expropriate. It was a regulatory measure, issued within the powers of the State to protect health of society. However, even if the Tribunal decides, that it was a measure of expropriation, it fulfilled all conditions for being a measure of lawful expropriation, which is not prohibited by international law. Therefore by no means Bergonia violated BIT1.

**RELIEF REQUESTED**

158 For all of the aforementioned reasons, Respondent requests that the Tribunal denies jurisdiction to hear Medberg's claims, or if the Tribunal shall decide otherwise, Respondent requests to find for Respondent on the merits.

Respectfully submitted,

Shihata e Associati