

**Second Annual  
Foreign Direct Investment International Moot Competition  
22 October to 24 October 2008**

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**MEDBERG Co.**

*(Claimant)*

**v.**

**THE GOVERNMENT OF THE REPUBLIC OF BERGONIA**

*(Respondent)*

**MEMORANDUM FOR CLAIMANT**

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Respectfully Submitted,

Team Ago

*Counsel*

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## STATEMENT OF FACTS

1. MedBerg (“Claimant”) is a company incorporated in The Republic of Bergonia (Respondent). Claimant had acquired a patent (Bergonian Patent No. AZ2005 from Dr. Frank who is employed by MedScience Co.
2. MedBerg is a locally incorporated company that is under the full control of MedX which is a company in Conveniencia, which is 50%- 50% owned by MedScience and Dr. Frank. Bergonia was always aware of this fact as MedBerg’s ownership details were available in the Bergonian corporate registry at all times<sup>1</sup>
3. Claimant had licensed this patent to BioLife a Bergonian company to manufacture drugs to treat obesity on 31 March 2005, which is a serious problem in Bergonia<sup>2</sup>, with 34% males and 38% females affected by this problem<sup>3</sup>
4. Claimant terminated the License Agreement in accordance with the License Agreement’s notice and termination provisions on 31 March 2007. The termination was because of concern of parallel exports of BioLife into third countries where the Claimant has sister companies using the same products<sup>4</sup> which is was against the terms of the license agreement as their intention was for sale in the Bergonian domestic market<sup>5</sup>
5. On June 2007, the Bergonian IP office commenced proceedings for the issuance of a “*Compulsory License*” for the patent, stating it needed to address important domestic medical needs.
6. The IP office issued the compulsory license on 1<sup>st</sup> November 2007, for a period of 48 months<sup>6</sup>, which is a period that is too long to meet the immediate needs of Bergonia<sup>7</sup>, BioLife and five other companies had invoked the Compulsory license and started

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<sup>1</sup>“Clarification to Question.59”

<sup>2</sup>“Clarification to Question 40”

<sup>3</sup>“Clarification to Question 65”

<sup>4</sup>“Clarification to Question 39”

<sup>5</sup>“Clarification to Question 27”

<sup>6</sup>“Clarification to Question 24”

<sup>7</sup>“Clarification to Question 66”

producing certain health related products. Three of these companies also started exporting some of these products to third countries. Thus these companies used this compulsory licensed product for commercial purposes<sup>8</sup>

7. The Bergonian IP Office has collected royalties from the six Bergonian companies and has offered these royalty payments to Claimant, but as of the date on which these ICSID proceedings were initiated Claimant had refused to accept them.
8. On 1 December 2007, MedBerg wrote to the Bergonian IP office with copies to the Foreign, Economics and Justice Departments regarding their objections<sup>9</sup>, but only the Justice ministry replied back but these objections were not resolved to the Claimant's satisfaction and there was no independent review of the IP office decision on compulsory licensing.
9. On 1 November 2008, the ICSID Secretary General registered the dispute for arbitration

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<sup>8</sup>“Clarification to Question 34”

<sup>9</sup>“Clarification to Question 111”

## **SUMMARY OF ARGUMENTS**

**JURISDICTION.** This dispute satisfies Article 25(1) of the Convention. The respondent's objections to the jurisdiction are meritless. First, a national of Conveniencia (Medx) does have control of the Claimant within the meaning of ICSID Convention Article 25(2) (b), as Medx owns 100% shares of Medberg and is thus under direct foreign control. Second, Medx is not a paper company (shelf company) but a control centre so that neither Medscience nor Dr. Frank has exclusive control over the different subsidiaries that are present all over the world and to look into the proper functioning of all these subsidiaries. Third, the express consent required under article 25(2)b to be treated as a foreign national, is being waived off as the MFNC applicable under article 3 of the Bergonia-Convinienicia BIT ca be used to invoke article VI.8 of the BIT of Bergonia- Tertia, where such a status of foreign nationality Is being automatically granted.

## **II. WHETHER CLAIMANT'S EXPLOITATION OF ITS INTELLECTUAL PROPERTY IN BERGONIA CONSTITUTED AN INVESTMENT UNDER APPLICABLE INTERNATIONAL LAW?**

In the present case Article 1(d) of the Bergonia- Convenencia BIT clearly specifies that patent falls within the definition of investment. *Once the IP is included as investment, the provisions of the investment agreements apply for the protection of IP, in as much they apply to the protection of investment.*

### **A. IPRs are Protected Investments under the Parent BIT**

BITs can be understood as *lex specialis* –specialised laws between parties designed to create a mutual regime of investment protection as opposed to general principles of international law or customary rules. The presence of a provision dealing with 'return' in the parent BIT strengthens the fact that the patent is a protected investment under the given BIT. The objective of the Parent BIT seeks to achieve 'transfer of technology' between the two countries, thus requiring the recognition of IP as 'Protected Investment'

**B. Non -Recognition of IPRs As Part Of Protected Investment Amounts To Violation Of FET.**

FET is a part of state practice as well as customary international law which requires that a host country's treatment of foreign investors adhere to an international minimum standard. The Bergonia-Convenencia BIT under **Art 2(2)** incorporates the said FET standard. This article stands violated by the respondent's arbitrary denial of protection to IPRs. Such an arbitrary treatment violating the legitimate expectation of the foreign investor is sufficient for a finding of a violation of fair and equitable treatment.

**III. WHETHER THE COMPULSORY LICENSE AMOUNTS TO EXPROPRIATION OR DISCRIMINATION, OR OTHERWISE VIOLATES GENERAL INTERNATIONAL LAW OR APPLICABLE TREATIES.**

The arbitrary issue of Compulsory License in the present case by the Bergonian IP office stating that the technology covered by the patent was required to address important domestic needs can be seen as a means to cloak expropriatory conduct with a veneer of legitimacy.

**A. No Public Emergency Necessitating The Issuance Of A Compulsory License Existed In Bergonia**

The issuance of CL in the present case is in effect a mode of creeping and indirect expropriation. Foreign investor's property and investment is guaranteed protection against expropriation under Art 4.2 of the Parent BIT. The exception of 'public purpose' that lends legitimacy to such expropriation was invoked by Respondents on the pretext of 'urgent medical needs'. However, the said purpose stands invalidated owing to its questionable nature. Due to Respondent's failure to impose restrictions on exportation of the drugs; along with grossly insufficient production of 155% by a total of six companies availing CL, the validity of the 'public purpose' is undermined. Since public purpose forms the basis of the issuance of CL, its invalidation divests the CL of its legitimacy.

**B. The Issuance Of Compulsory License Violates Fair And Equitable Treatment**

The arbitrary and discriminatory conduct of the Respondent is compounded by its gross negligence of certain mandatory procedural safeguards under Art 31 of TRIPS. In addition the lethargic attitude of its IP office towards the repeated complaints of Claimant has resulted in breach of FET standards (incorporated under Art 2.2 of the parent BIT) and Doctrine of legitimate expectation. Also the indirect expropriation of Claimant's contractual rights under the pretext of a urgent public purpose amounts to non-compliance with the FET standard.

## ARGUMENTS ADVANCED

### PART ONE: JURISDICTION

#### I. THE TRIBUNAL HAS JURISDICTION TO HEAR THIS DISPUTE

2. Article 25(1) of the ICSID (Convention) provides for jurisdiction over any legal dispute arising directly out of an investment, between a Contracting State and a national of another Contracting State, which the parties to the dispute consent to submit to the Centre.
3. It is submitted that Article 25 anticipates two categories of ‘nationals of another Contracting State’. Any natural person having actual foreign nationality in accordance with Art. 25(2) (a) and other being a juridical person which has deemed foreign nationality under 25(2) (b). The latter subsection reads as follows: <sup>1</sup>

Any juridical person which had the nationality of a Contracting State other than the State party to the dispute on the date on which the parties consented to submit such dispute to conciliation or arbitration and any juridical person which had the nationality of the Contracting State party to the dispute on that date and which, *because of foreign control, the parties have agreed should be treated as a national of another Contracting State for the purposes of this Convention.*  
[Emphasis added]

4. Respondent contends that this Tribunal lacks jurisdiction because
  - A national of Convenencia does not have control of the Claimant within the meaning of ICSID Convention Article 25(2) (b),
  - Nor has Respondent consented to treat Claimant as a national of Convenencia.
5. These contentions are without merit as:
  - MedX being the parent company of the Claimant and a national of Convenencia enjoy *Foreign Control* in reference to the Respondent,
  - Express consent of the Respondent is waived in view of the Most Favoured Nation Clause (*MFNC*) incorporated in both the Bergonia – Tertia and the

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<sup>1</sup>Convention on the Settlement of Investment Disputes between States and Nationals of Other States, Washington, 1965., hereinafter: ICSID Convention

Bergonia – Conveniencia BIT. These are elaborated below.

**II. MEDX A NATIONAL OF CONVIENIENCIA HAS FULL CONTROL (FOREIGN CONTROL)**

6. A particularly important aspect of the legal protection of foreign investments is the settlement of disputes between Host states and foreign investors. Impartial and effective dispute settlement is an essential element in the protection of investments.<sup>2</sup>
7. ICSID's facilities are provided to only disputes between a Contracting State and a national of a contracting state other than the state party in dispute, *i.e.* a national of another contracting state. The side of Contracting State includes Contracting State, or its constituent sub divisions or agencies.<sup>3</sup> The side of national of another Contracting State includes natural person, juridical person of Contracting State other than Host state and juridical person of the Host State but under foreign control. The investor must not be a national of the Host state.<sup>4</sup>

**A. Medx is not a mere Shelf Company**

8. It is submitted that the Claimant's parent company is a functional corporate entity which is not merely a shelf company incorporated for the purpose of treaty or forum shopping.
9. The BLAH Business Dictionary defines a shelf company in the following words:

[R]eady made "paper company" that has fulfilled all requirements for legal registration, and may be bought by anyone to bypass the lengthy registration or incorporation process. Shelf companies are formed and sold usually by accounting or law firms. Also called **Blank Check Company**.<sup>5</sup>

10. It is submitted that the abovementioned criteria are not applicable to the present case.

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<sup>2</sup> CHRISTOPHER SCHREUER, "The Dynamic Evolution of the ICSID system", 2006

<sup>3</sup> See also CHRISTOPHER SCHREUER, *The Interpretation of ICSID Arbitration Agreements*, in: *International Law: Theory and Practice*, Essays in Honour of Eric Suy (1998).

<sup>4</sup> Convention on the Settlement of Investment Disputes between States and Nationals of Other States, 18 March 1965, in force: 14 October 1966; 1 ICSID Reports 3 (1993)

<sup>5</sup> Business dictionary, <http://www.businessdictionary.com/> Last accessed on 15<sup>th</sup> June 2009

As per the undisputed facts a “CC123 Holding Ltd” was incorporated by Convenient Companies SARL on January 1, 2003. On December 1, 2003, it was renamed as “MedX Holding Ltd”<sup>6</sup>. Dr. Frankensid is the scientist employed by MedScience Co. and was credited with a breakthrough leading to several patents including Bergonian Patent No. AZ2005. In lieu of this the ownership of MedX and was transferred to MedScience and Dr. Frankensid. Thus now Dr Frank and MedScience have 50-50% ownership of MedX.

**11.** Claimant applied for a patent in relation to Dr. Frankensid’s invention on February 5, 2004, and was granted Bergonian Patent No. AZ2005 on 15 March 2005. Claimant is the owner of Bergonian Patent No. AZ2005.

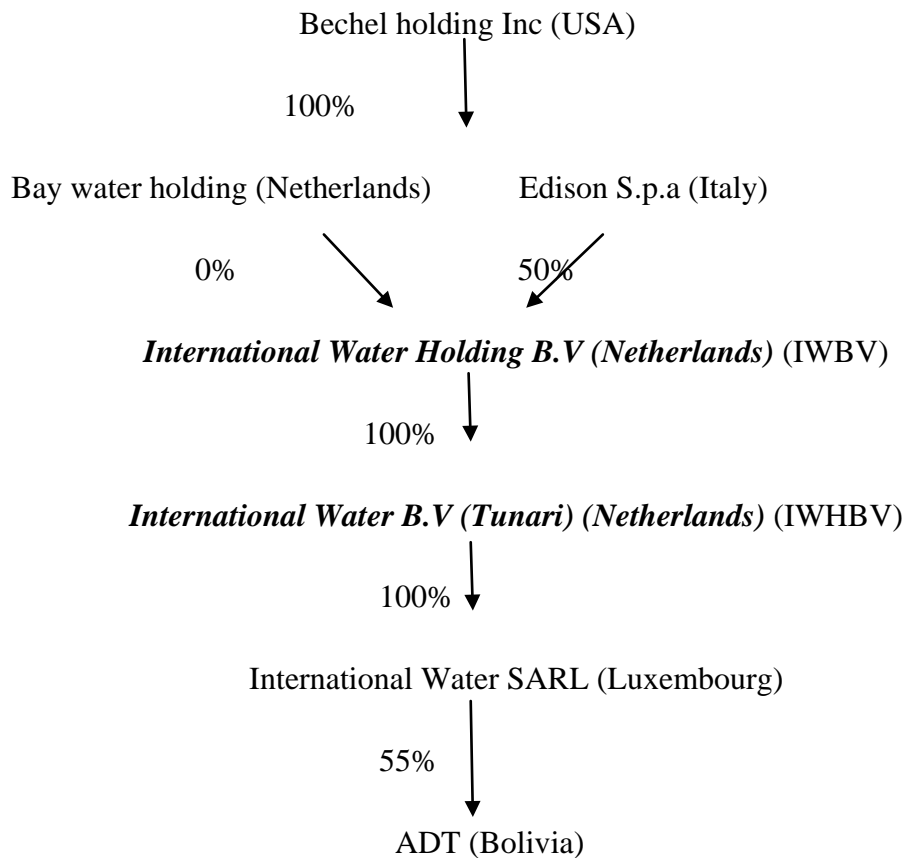
**12.** MedX has many subsidiaries around the world and these companies are also producing and selling the products covered under this license and these products are not generic copies of the patented product<sup>7</sup>. Thus this clearly shows MedX is a control centre through which this patented product is distributed all over the world. When they acquired MedX Holdings Ltd., Dr. Frankensid and MedScience had assigned their worldwide interests in the invention they were developing to MedX Holdings, and MedX had assigned those interests with respect to Bergonia to MedBerg. Thus with regard to Bergonia, MedBerg holds the license to produce or assign it to other domestic companies to produce this product.

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<sup>6</sup>“Clarification to Question 45”

<sup>7</sup> “Clarification to Question 103”

13. In the case of *Aguas Del Tuna v Rep of Bolivia*<sup>8</sup> here there were a group of companies.

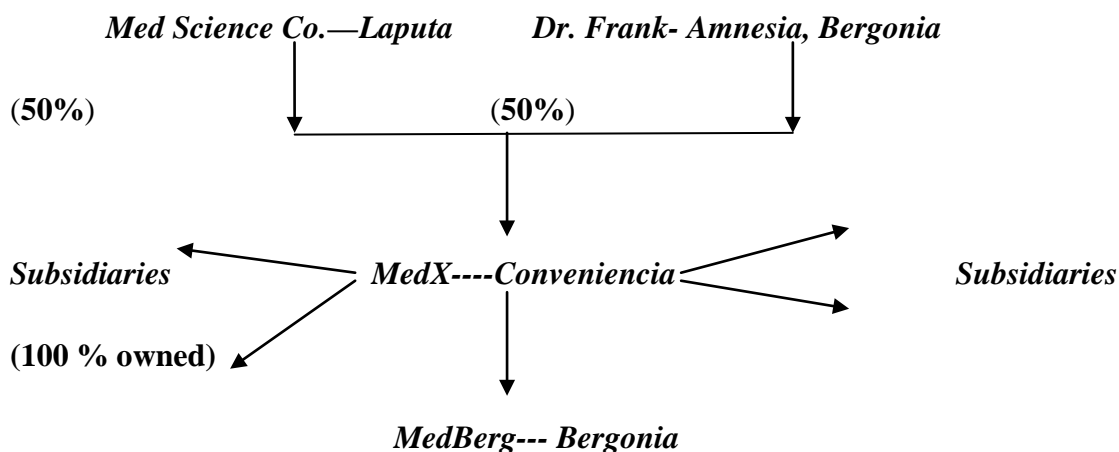


14. Here, Respondents contended that IWBV and IWBHV are mere shelf companies with no other purpose other than to invoke ICSID jurisdiction and that they are mere paper companies. The tribunal, however, found that on the basis of the evidence available, IWH B.V. is not simply a corporate shell set up to obtain ICSID jurisdiction over the present dispute. Rather, IWHB.V. *is a 50% joint venture owned by Baywater and by Edison S.p.A., an Italian Corporation* respectively. IWH B.V. is structured so that *neither Baywater nor Edison exclusively control IWH B.V.*, to the exclusion of the other, but rather the two entities must work together in order to direct IWH B.V.

15. Similarly in the present case, MedX is under the control of *MedScience (Laputa)* and *Dr. Frank (Amnesia, Bergonia)*. They both have a **50% ownership** in MedX which has been set up in Conveniencia. Thus the purpose of setting up MedX was never to be a shelf company but its role is of a control centre so that neither MedLife nor Frank

<sup>8</sup> *Aguas Del Tuna v. Rep of Bolivia* ICSID Case no.ARB/02/3

has exclusive control over it. It can be regarded as a parent company to supervise and control the functioning of all subsidiaries world over.



16. Thus it is humbly submitted that MedX was setup for the sole purpose as a paper company is without merit.

**B. The Claimant is under Foreign Control of MedX**

17. In order to encourage investors to invest in developing countries, ICSID Convention has provided for a special provision such as Art 25 (2) (b). Under the ICSID Convention, control test is used to give *locus standi* at the centre to corporations having Host State's nationality but under foreign control.<sup>9</sup> Under the Convention the investors can bring a dispute with Host State directly to the Centre, therefore the proceedings at the Centre are quicker and they save time for disputing parties. Foreign control is an objective requirement.<sup>10</sup> The Convention does not define the term “foreign control”, but the drafting history indicates that control must be exercised by

<sup>9</sup> NGUYEN THI MINH NGUYET, “Control Test in ICSID's Personal Jurisdiction”, <http://www.igss.ynu.ac.jp/library/collection/thesis/2001/48.pdf> Last accessed on 13<sup>th</sup> July 2009

nationals of other Contracting States.<sup>11</sup>

- 18.** In giving *locus standi* at the Centre to Host state's corporation against its own national state, under Article 25 (2) (b) of the Convention, it has departed from the general rules of international law whereby a national cannot bring an international claim against its own state. The reason for that departure are that in practice many Host states require foreign investors to do their business through a company organized under the law of that state. If the Convention followed the above mentioned rule of international law, it would leave large amount of investment out of the protection. This special purpose of Article 25(2) (b) of the Convention was explained by one of the formulators of the Convention, Dr. Broches.<sup>12</sup>
- 19.** One of the main purposes of ICSID is to '*facilitate the settlement of disputes between States and foreign investors*' with a view to '*stimulate a larger flow of private international capital into those countries which wish to attract it*'.<sup>13</sup>
- 20.** Thus the abovementioned subsection creates a legal fiction to include those companies incorporated under a party's local laws but under the control of an investor from another country for the purpose of invoking the jurisdiction of ICSID. A statutory fiction, such as this is used to put beyond doubt a meaning which may otherwise be uncertain or to give the statutory language a comprehensive description that it includes what is obvious, what is uncertain and what is in ordinary sense impossible.<sup>14</sup>In interpreting a provision creating a legal fiction, the Court is to ascertain for what purpose the fiction is created<sup>15</sup> and after ascertaining this, the Court

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<sup>11</sup> CHRISTOPHER SCHREUER, *THE ICSID Convention: A Commentary*, Art. 25, para. 551. See also SHIHATA, "Towards a greater depoliticisation of investment disputes: the role of ICSID and MIGA", 1 ICSID Rev-FILJ 1(1986) 5.

<sup>12</sup> ARON BROCHES, "The Convention on the Settlement of Investment Disputes between States and Nationals of Other States", 136 Recueil Des Cours, 331, 360 (1972-II). See also ARON BROCHES, "Bilateral Investment Protection Treaties and Arbitration of Investment Disputes in The Art of Arbitration: Essays on International Arbitration", Liber Amicorum Pieter Sanders (Deventer: Kluwer Law & Taxation, 19R2)

<sup>13</sup> Report of the Executive Directors of ICSID

<sup>14</sup> *St. Aubyn (LM) v. A.G.* (No. 2) 2 All ER 473 para 498.

<sup>15</sup> See Lord Asquith *Ex Parte, Walton, In re, Levy* (1881) 17 Ch D 746 p. 756

is to assume all those facts and consequences which are incidental or inevitable corollaries to the giving effect to the fiction.<sup>16</sup>

21. An agreement on an investor's nationality under Article 25(2) (b) "because of foreign control" implies that such control is an objective requirement that has to be determined by Tribunal. ICSID tribunals have invariably examined the actual existence of foreign control over the local company. In situations where the element of control is lacking, the Tribunal will find that it has no jurisdiction.<sup>17</sup>
22. With respect to the meaning of foreign control, shareholding seems to be the very first element that the Tribunals will look for at verifying whether the local corporation is under foreign control.<sup>18</sup> Factors such as voting right and management may also be considered to make control become clearer. A foreign investor may exercise control through the holding of equity shares in the company, through managerial control or by having the necessary voting power to affect the decision-making process in the investment.<sup>19</sup> The concept of foreign control is relevant in situations where a company is locally incorporated under the Host State's law.
23. The use of the word 'foreign' in qualifying foreign control indicates that the controllers may not be nationals of the Host state. SCHREUER concludes that a proper interpretation of the Convention and Article 25(2) (b) can only result in a finding that the nationals in control must also be nationals of other contracting states.<sup>20</sup>
24. In the present case, MedBerg, incorporated in Bergonia is a wholly owned subsidiary of MedX which is setup in Conveniencia. A wholly owned subsidiary is a company whose stock is entirely owned by another company.<sup>21</sup> The owner of a wholly-owned

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<sup>16</sup> *East End Dwelling Co. Ltd. v. Finsbury Borough Council* (1951) 2 All ER 587 p. 599: 1952 AC 109 (HL)

<sup>17</sup> *Amco v. Indonesia*, Decision on Jurisdiction, 25 September 1983, 1 ICSID Reports 396/7; *Klöckner v. Cameroon*, Award, 21 October 1983, 2 ICSID Reports 15/16; *SOABI v. Senegal*, Decision on Jurisdiction, 1 August 1984, 2 ICSID Reports 182/3; *LETCO v. Liberia*, Decision on Jurisdiction, 24 October 1984, 2 ICSID Reports 352.

<sup>18</sup> *Supra* Note 18

<sup>19</sup> ANDREA VINCZE, "Jurisdiction Ratione Personae in ICSID Arbitration", *European Integration Studies, Miskolc*, Vol 3, No 1. (2004) pp. 111-122

<sup>20</sup> See *SOABI v. Senegal*, 1 August 1984, 2 ICSID Reports 182 12; *Aguas del Tunori v. The Republic of Bolivia* ICSID case no. ARB/02/3

<sup>21</sup> OECD, *OECD Principles of Corporate Governance* (2004), See also "Requirements of Ratione Personae", United Nations Conference on Trade and Development,

subsidiary is known as the parent company or holding company. Since MedBerg is a 100% subsidiary of Med, it has the power to appoint or remove the whole of the Board of Directors. The Company which controls the composition of the Board of Directors of the other company is called the holding company and the other company is called the subsidiary company. Control can thus be said to exist as the holding company, i.e., Med X has an independent power by the exercise of which it can appoint or remove the whole of the Board of Directors of the subsidiary company, MedBerg.

**25.** It becomes evident from the above, that the control exercised by MedX over MedBerg is actual and effective. Thus, all of the activities of the wholly-owned subsidiary are part and parcel of the parent company. A wholly owned subsidiary is a separate entity for legal purposes. It is pertinent to note that 100% ownership by MedX itself necessarily equals control and majority shareholding is sufficiently determinative of control. The parent company which is MedX in this case is authorised to control all the activities of MedBerg as MedBerg although incorporated in Bergonia is controlled by MedX, which is in Conveniencia, thus making it abundantly clear that MedBerg is under foreign control. Where there is 100% ownership, then there necessarily exists control.<sup>22</sup> Bergonia was also well aware of this fact as this information was always present in the company registry. Thus MedBerg has never tried to hide its real control centre from Bergonian authorities.<sup>23</sup>

**26.** The term “control” was introduced into the ICSID Convention and international investment law generally not to take away from those situations where there is majority shareholder ownership but rather to extend investment protection to situations where there is legal control.

**27.** In particular, the Tribunal found that:

[a]n Arbitral Tribunal may not adopt a more restrictive definition of foreign control, unless the parties have exercised their discretion in a way inconsistent with the purposes of the Convention.

**28.** Concerning extent of the control exercised by foreigners neither Article 25(2) (b) of

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UNCTAD/EDM/Misc.232/Add.3, <http://www.oecd.org/dataoecd/3/7/40471468.pdf> Last accessed on 13<sup>th</sup> July 2009

<sup>22</sup> *Supra* Note 18.

<sup>23</sup> Response to “Clarification to Question.59”

the Convention nor the Tribunals of the Centre specifies any particular percentage of share ownership. However, if 100% of the shares are owned by foreign nationals, the corporation is clearly under a foreign control, as there exists an overwhelming majority and foreign control cannot be disputed in such a scenario.<sup>24</sup> The “control” test is advocated because it is “designed to focus on the reality behind the corporate personality and is often used ‘to avoid inequitable results’ ”.

- 29.** An entity that owns 100% of the shares of another entity necessarily possesses the power to control the second entity. Moreover, the first entity may be held responsible under various *Corporate Law Doctrines* for the actions of its subsidiary, whether or not it actually exercised control over the subsidiary's actions.<sup>25</sup> Responsibilities and rights are complementary in nature. Therefore *de facto* foreign control is relevant in the present scenario wherein the controlling entity (the Claimant) has sought recognition of such control for the purpose of approaching the ICSID as a foreign investor. MedBerg is a 100% subsidiary of MedX and is thus controlled by MedX which is a Conveniencian national, which leads us to a valid conclusion that since 100% of the shares of MedBerg are owned by foreign nationals. Thus the Claimant is undoubtedly under foreign control.
- 30.** The drafting history of Article 25 as well as arbitral awards and scholarly commentary indicate, however, that the drafters intended a flexible definition of control in Article 25 not because they regarded “control” as requiring a wide ranging inquiry, but rather – recognizing the keyhole function that would be played by Article 25 – to accommodate a wide range of agreements between parties as to the meaning of “foreign control”.<sup>26</sup>
- 31.** Drafters of the Convention specifically declined to include a definition of “foreign control” in order “to give the greatest possible latitude to the parties to decide under what circumstances a company could be treated as a ‘national of another Contracting

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<sup>24</sup> *Supra* Note 12

<sup>25</sup> *Supra* Note 11

<sup>26</sup> *See also*, CATHERINE YANNACA-SMALL, “*Definition of Investor and Investment in International Investment Agreements*”, Investment Division, OECD Directorate for Financial and Enterprise Affairs, <http://www.oecd.org/dataoecd/3/7/40471468.pdf> Last accessed on 14<sup>th</sup> August 2009 17:55

State.”<sup>27</sup> The correct approach would be to allow a Tribunal to search for control by a national of a Contracting State until jurisdiction can be established.<sup>28</sup>

32. In *Amco v. Indonesia*<sup>29</sup> the true controller of the locally incorporated PT Amco Company was not the party to the original investment agreement (Amco Asia) but the latter itself was under the control of Mr. Tan, a Dutch citizen residing in Hong Kong who controlled it through his fully privately owned Hong Kong Company. Yet, the Tribunal found that only direct, first-grade control can be taken into account.

33. In a relevant case decided by the Tribunal of *Vacuum Salt Products Ltd. v. Ghana*,<sup>30</sup> there was an agreement between the Ghanaian Government and Vacuum Salt containing an ICSID clause.

34. When Vacuum Salt, which was organized under the laws of Ghana, initiated arbitration proceedings before ICSID, the Ghanaian Government objected to the Centre’s jurisdiction arguing that Vacuum Salt was its own national and was not controlled by foreign nationals. In addition, the government stated that no agreement had been concluded with the investor to treat Vacuum Salt as a national of another Contracting State.<sup>31</sup> The Tribunal noted the practice of previous tribunals to infer an agreement on nationality from the existence of consent to ICSID’s jurisdiction. But it insisted that it had to determine whether foreign control did, in fact, exist

*[t]he parties’ agreement to treat Claimant as a foreign national “because of foreign control” does not ipso jure confer jurisdiction. The reference in Article 25(2)(b) to “foreign control” necessarily sets an objective Convention limit beyond which ICSID jurisdiction cannot exist and parties therefore lack power to invoke same no matter how devoutly they may have desired to do so.*<sup>32</sup>

35. The Tribunal examined whether Vacuum Salt was effectively controlled by foreign

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<sup>27</sup> ALEXANDRE DE GRAMONT, MARIA GRITSENKO, “ *Key Issues and Recent Developments in International Investment Treaty Arbitration*”, 2007 ABA Section of International Law Spring Meeting Washington, D.C. <http://www.crowell.com/documents/Key-Issues-and-Recent-Developments-in-International-Investment-Treaty-Arbitration.pdf> Last accessed on 15th June 2009

<sup>28</sup> C.F. AMERASINGHE, *Interpretation of Article 25(2) (b) of the ICSID Convention*, in: *International Arbitration in the 21st Century: Towards Judicialization and Uniformity?* (Lillich, R. B. Brower, Ch. N. eds.) 223, 240 (1994).

<sup>29</sup> *Amco v. Indonesia*, Decision on Jurisdiction, 25 September 1983, 1 ICSID Reports 396

<sup>30</sup> *Vacuum Salt v. Ghana*, Award, 16 February 1994, 4 ICSID Reports 329.

<sup>31</sup> *Id.* at p. 331

<sup>32</sup> *Id.* at pp. 342, 343.

nationals and found that the foreign investor held only 20 per cent of shares, whereas 80 per cent were in Ghanaian hands. Under these circumstances, the local company did not objectively meet the requirement of foreign control under the Convention. The Tribunal also looked at other elements of control besides shareholding, such as the foreign investor's management role, but was not, in the end, satisfied of the existence of foreign control.<sup>33</sup>

36. The consideration of elements other than shareholding demonstrates a differentiated approach to the concept of foreign control. In addition to shareholding, indirect control, voting powers or managerial control were taken into account by ICSID Tribunals.<sup>34</sup>

37. The Convention's methodology on this issue has been summarized as follows:

*On the basis of the Convention's preparatory works as well as the published cases, it can be said that the existence of foreign control is a complex question requiring the examination of several factors such as equity participation, voting rights and management. In order to obtain a reliable picture, all these aspects must be looked at in conjunction. There is no simple mathematical formula based on shareholding or votes alone.*<sup>35</sup>

38. Given the present factual matrix, it is well understood that since MedBerg is a wholly owned subsidiary of MedX; voting rights and management consequently are in the ambit of MedX through which foreign control can be objectively established. Despite the Claimant having Bergonia as its State of incorporation, the Claimant's nationality should be determined on the basis of the nationality of its **predominant ownership and management**. MedBerg was incorporated in Bergonia but it was a 100% subsidiary of MedX, which was situated in Conveniencia and hence it can be established that MedBerg is purely under foreign control.

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<sup>33</sup> Id at pp. 342-351.

<sup>34</sup> See also *Vacuum Salt v. Ghana*, Award, 16 February 1994, 4 ICSID Reports 342-351; *Cable TV v. St. Kitts and Nevis*, Award, 13 January 1997, 13 ICSID Review— F.I.J.L.366-370 (1998).

<sup>35</sup> CHRISTOPHER SCHREUER, *The ICSID Convention: A Commentary*, Article 25, para. 573.

39. The ICSID Tribunal in the *Vacuum Salt* award, while finding that the 20% Greek shareholder could not be considered as exercising control over a local company so as to be able to confer Greek nationality on the company, stated that acting or being “materially influential in a truly managerial rather than technical or supervisory vein” or being “in a position to steer, through either positive or negative action, the fortunes” of the company would suffice to demonstrate control.<sup>36</sup>

40. In the *Barcelona Traction* case, Judge Jessup, in his Separate Opinion,<sup>37</sup> stated the following:

*[T]he International Court of Justice in the instant case is ‘not bound by formal conceptions of corporation law’. ‘We must look at the economic reality of the relevant transactions’ and identify ‘the overwhelmingly dominant feature’.*<sup>38</sup> *The overwhelmingly dominant feature in the affairs of Barcelona Traction was not the fact of incorporation in Canada, but the controlling influence of far flung international financial interests manifested in the Sofina grouping.*<sup>39</sup>

41. At a later stage, he says (albeit in the context of extending diplomatic protection to the corporation) ‘control may constitute the essential link’. This reasoning by the ICJ is consonance with what we are presently dealing with. The *Tokios*<sup>40</sup> case has clearly indicated that the strict application of the state of incorporation or seat tests does not reflect the economic realities nor the aim and purpose of investment treaties and thus that the time is ripe to introduce the ‘control test’ for the determination of the nationality of a corporation for purposes of the international law on foreign investment. In the case of *Tokios*, by not piercing the corporate veil, this undesirable result was indeed achieved and it does not fall within the scope and objective of the

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<sup>36</sup> *Supra* Note 39

<sup>37</sup> *Barcelona Traction Light and Power Company Limited (Belgium v. Spain)* (1970) ICJ Reports 3.

<sup>38</sup> *Mr Justice Marshall* delivering the opinion of the Court in *United States v. The Concentrated Phosphate Export Assn Inc et al* 89 S Ct, p 361 at pp 366–7, 1968. Note the statement of a leading member of the New York Bar: ‘To give any degree of reality to the treatment, in legal terms, of the means for the settlement of international economic disputes, one must examine the international community, its emerging organizations, its dynamics, and relationships among its greatly expanded membership.’ (Spofford, ‘Third Party Judgment and International Economic Transactions’ 113 Hague Recueil 1964, III, pp. 121–3.)’

<sup>39</sup> PETER MUCHLINSKI, FEDERICO ORTINO, CHRISTOPH SCHREUER, *The Oxford Handbook of International Investment Law* (Oxford University Press, USA), 9<sup>th</sup> September (2008).

<sup>40</sup> *Tokios Tokelès v. Ukraine*, Decision on Jurisdiction, 29 April 2004, ICSID Case No. ARB/02/18.

Convention.<sup>41</sup>

42. The Tribunal in *Vacuum Salt*<sup>42</sup> pointed out that the “control” standard, at best, provides clear guidance only as to its outer parameters: “[F]oreign control” within the meaning of the second clause of Art. 25(2) (b) does not require, or imply, any particular percentage of share ownership. Each case arising under that clause must be viewed in its own particular context, on the basis of all of the facts and circumstances. There is no ‘formula.’ It stands to reason, of course, that 100 percent foreign ownership almost certainly would result in foreign control, by whatever standard, and that a total absence of foreign shareholding would virtually preclude the existence of such control. How much is ‘enough,’ however, cannot be determined abstractly.<sup>43</sup>

43. Considering the above, we can distinctly conclude that, MedBerg which is a wholly owned subsidiary of MedX is effectively controlled by MedX and the existence of actual foreign control is undisputable as MedX has the power to decide the composition of the Board of Directors of Claimant.

44. Thus, it is most respectfully submitted that, for the purpose of Article 25(2)(b), MedX which is a foreign company in reference to Bergonia clearly exerts control over Claimant by virtue of it being a wholly owned subsidiary incorporate under the local laws of Bergonia (Host state) .

### **III. EXPRESS CONSENT IS NOT REQUIRED BY THE INVOCATION OF THE MFN CLAUSE**

45. Art. 25(2) (b) mentions that it becomes applicable when the two parties involved, **agree** to treat a company incorporated under the local laws of one country as a foreign national owing to foreign control. It has already been established that the Claimant

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<sup>41</sup> In the *SD Myers* case, decided under NAFTA, the element of control played an important role in the Tribunal’s decision. This Tribunal clearly showed a willingness to look beyond the ‘technicalities’ of the real facts. This is also needed within the framework of the ICSID, especially in the determination of the nationality of corporations.

<sup>42</sup> *Supra* Note 28

<sup>43</sup> *id*

satisfies the control test as it's wholly owned by a foreign national. However, the Host State has not expressed its concurrence in treating it as a foreign national. It is submitted that such consent cannot be considered as a mandatory prerequisite to invoke Art 25(2) (b), amounts to breach of MFN clause in the parent BIT- as a parallel reading of the dispute resolution clauses in the Bergonia- Conveniencia and Bergonia – Tertia BIT reveals more favourable terms provided for the investor in the latter.

46. An MFN clause, entitles investors to treatment no less favourable than that accorded by the Host state to investors of any third nation.<sup>44</sup> Thus, if States A and B enter into a treaty containing an MFN clause (the basic treaty), and State B enters into a treaty with State C (the third party treaty) which favours nationals of State C over those of State A, then the MFN clause in the basic treaty entitles investors from State A to claim the additional benefits contained in the third party treaty, thus placing them on an equal footing with investors from State C.<sup>45</sup>
47. The Most Favoured Nation Clause (“MFNC”), addresses an issue that has traditionally been a pivotal tool in trade agreements and is in fact the cornerstone of the WTO system.<sup>46</sup> The purpose of the MFN standard is to prevent discrimination against the nationals of different countries and ascertain **equality of treatment regardless of nationality**. In the context of international investments, MFN clauses

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<sup>44</sup> Dana H. Freyer and David Herlihy, “Most-Favored-Nation Treatment and Dispute Settlement in Investment Arbitration: Just How “Favored” is “Most-Favored”? [http://www.skadden.com/content/Publications/Publications1098\\_0.pdf](http://www.skadden.com/content/Publications/Publications1098_0.pdf). Last accessed on 12th August 2009

<sup>45</sup> MFN treatment has been a cornerstone of trade policy for centuries. Scholars have traced its use to the thirteenth century, beginning with a 1226 treaty in which Frederick II conceded to the city of Marseilles the privileges previously afforded to Pisa and Genoa.

See also, STANLEY KUHLMAN, “The Most-Favored-Nation Clause in Commercial Treaties: Its Function in Theory and Practice and Its Relation to Tariff Policies”, Bulletin of the University of Wisconsin, No. 343, Economics and Political Science Series, Vol. 6, No. 2 (1910).

<sup>46</sup> General Agreement on Tariff and Trade (GATT), Art. I; and General Agreement on Trade in Services (GATS), Art. II. Most Favoured-Nation-Treatment, UNCTAD Series on Issues in International Investment Agreements, Section II A, UNCTAD/ITE/IIT/10 Vol. III (1999)

thus contribute to the harmonization of the level of protection accorded to foreign investors and their investments.<sup>47</sup>

**48.** A report established by the United Nations Conference on Trade and Development (UNCTAD) has defined the MFN standard as “a core element of international investment agreements.” The MFN standard gives investors a guarantee against certain forms of discrimination by Host countries, and it is crucial for the establishment of equality of competitive opportunities between investors from different foreign countries,<sup>48</sup> implying that a Host country must extend to investors from one foreign country the same treatment it accords to investors from any other foreign country in like cases.<sup>49</sup> This step prohibits the country from mistreatment or favouring any investor over the other in a similar set of circumstances.

**49.** BITs usually define their purpose in their title and/or preamble, typically stating they are being entered into in order to promote and protect investments made in the territories of one contracting party by nationals of the other contracting party. Applying this “object and purpose” principle, it can be argued that, in cases of ambiguity, MFN clauses and the treaties that contain them should be construed in a way that promotes investment protection by allowing more favourable dispute settlement procedures to be imported into the basic treaty through the MFN clause in a non-discriminatory way.<sup>50</sup> This is an essential step in fulfilling the objective of the BIT which categorically aims at achieving economic co operation and providing conducive atmosphere for strengthening international investment. As with any treaty provision, an MFN clause should 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.<sup>51</sup>

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<sup>47</sup> EMMANUEL GAILLARD, “*Establishing Jurisdiction Through a Most-Favored Nation Clause*”, New York Law Journal, Volume 233 – No.105, International Arbitration Law, June 2, 2005 <http://www.nylj.com> Last accessed on 12<sup>th</sup> August 2009

<sup>48</sup> UNCTAD, Most-Favoured- Nation Treatment, 1999, at 1.

<sup>49</sup> UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, UNCTAD Series on issues in International Investment Agreements, Most-Favoured-Nation Treatment, UNCTAD/ITE/IIT/10 (Vol. III), UNITED NATIONS New York and Geneva, p 5 (1999)

<sup>50</sup> *Supra* Note 53

<sup>51</sup> See Vienna Convention on the Law of Treaties, May 22, 1969, art. 31, 1115 U.N.T.S. 331

**A. Article 3 of Bergonia- Conviencia Treaty (MFN) can be used to obtain Express Consent**

**50.** In the present case Article 3(1) of the Bergonia- Conveniencian BIT, titled National Treatment and Most-Favoured-Nation Treatment of Investments reads as follows:

*[N]either Contracting State shall subject investments in its territory owned or controlled by investors of the other Contracting State to treatment less favourable than it accords to investments of its own investors or to investments of investors of any third State.*

**51.** In *Anglo-Iranian Oil Company case*<sup>52</sup>, the International Court of Justice determined that the “basic treaty” was that containing the most-favoured nation clause. The treaty where the more favourable treatment is found is the “third-party treaty”. This discussion has practical consequences in that the subject matter to which the clause applies is established by the basic treaty and if these matters are more favourably treated in a third-party treaty, then by the operation of the clause, that treatment should be extended under the basic treaty.<sup>53</sup>

**52.** For an investor to use MFN to attract more favourable treatment, the treatment sought must, in fact, be more favourable.<sup>54</sup> To determine whether a third-party treaty provides for more favourable treatment the difference in treatment must be discriminatory.<sup>55</sup> The test for discriminatory treatment is whether “the practical effect of the measure is to create a disproportionate benefit” for a third party over the protected investor.<sup>56</sup>

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<sup>52</sup> 1 WLR 246; [1952] ICJ Reports

<sup>53</sup> Most Favoured Nation Treatment In International Investment Law; OECD Directorate For Financial and Enterprise Affairs; Working Papers On International Investment, Number 2004/2, page 9. *See also*

STEPHEN FIETTA, “*Most Favoured Nation Treatment And Dispute Resolution Under Bilateral Investment Treaties: A Turning Point*”?, [http://www.lw.com/resource/publications/\\_pdf/pub1395\\_1.pdf](http://www.lw.com/resource/publications/_pdf/pub1395_1.pdf) Last accessed on 23<sup>rd</sup> July 2009

<sup>54</sup> *See also* CAMPBELL MCLACHLAN, LAURENCE SHORE AND MATTHEW WEINIGER, *International Investment Arbitration: Substantive Principles*, Oxford University Press p7,193,293, (2007)

<sup>55</sup> *Id*

<sup>56</sup> *S.D. Myers, Inc. v. Canada*, NAFTA Arbitration under UNCITRAL Rules, Partial Award, Nov.13,(2000)

**B. BIT of Bergonia- Tertia Provides Automatic Express Consent to its investors**

53. A parallel reading of the dispute resolution clauses in the Bergonia- Conveniencia and Bergonia – Tertia BIT reveals more favourable terms provided for the investor in the latter. The relevant Article VI.8 reads as follows:

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

54. A perusal of the above Section reveals that there is no requirement of express consent from the Host state to treat foreign controlled entities as foreign nationals. Moreover, the use of the word ‘shall’ creates a positive legal fiction in favour of treating corporations such as the Claimant as nationals of latter contracting state.

55. The Claimant also seeks to counter the invocation of Article 1.2 of the Bergonia – Tertia BIT by the Respondent to deny the benefits enjoyed by foreign investors of Tertia by virtue of Article VI. 8 cited above.

56. Reference can be made to the observations of the ICSID Panel in *Siemens, A.G. v. The Argentine Republic*<sup>57</sup>. In this case Siemens, a German firm, initiated ICSID arbitration against Argentina, based on alleged violation of the Germany-Argentina BIT (after a contract to establish a migration control and personal identification system was suspended and then terminated). Argentina objected to ICSID jurisdiction based on eight arguments each of which was ultimately rejected by the Tribunal.

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<sup>57</sup> *Siemens, A.G. v. The Argentine Republic*, Decision on Jurisdiction, Case No. ARB 02/8 (August 3, 2004), para 120. See also, OMAR E. GARCÍA-BOLÍVAR, “*International Law of Foreign Investment at a crossroads: the need to reform*”, Mr. García-Bolívar is an arbitrator before the International Center for Settlement of Investment Disputes (ICSID) and the World Intellectual Property Organization (WIPO)

57. The Claimant argued that by virtue of the MFN clause of the Germany-Argentina BIT it was entitled to certain procedural benefits of the Argentina-Chile BIT. Argentina BIT to find that the agreement was meant to promote investment and create conditions favourable to investors. **The Tribunal ruled** that interpretation of the BIT should account for such context, stating:

[T]he Tribunal shall be guided by the purpose of the Treaty as expressed in its title and preamble. It is a treaty ‘to protect’ and ‘to promote’ investments. The intention of the parties is clear. It is to create favourable conditions for investments and to stimulate private initiative.

a) **Persuasive Precedents Suggest that Unfavourable Portion of this BIT cannot be taken into consideration.**

58. During the case, Argentina argued that if the Argentina-Chile BIT was applicable by virtue of the MFN clause, unfavourable provisions contained therein should also apply. *The Tribunal responded that under the MFN clause only favourable provisions were applicable.*

59. In view of the inapplicability of unfavourable provisions and the purpose of the BIT, the Tribunal rejected Argentina’s objection to jurisdiction stating:

*[A]n MFN clause...as its own name indicates...relates only to more favourable treatment. There is also no correlation between the generality of the application of a particular clause and the generality of benefits and disadvantages that the treaty concerned may include. Even if the MFN clause is of a general nature, its application will be related only to the benefits that the treaty of reference may grant and to the extent that benefits are perceived to be such.*

60. Thus, when an MFN clause is incorporated in an agreement it obliges a contracting party to extend to its treaty partners any benefits that it grants to any other country in a future investment agreement. It ensures that an investor from a country which is a party to an agreement, or its investment, would be treated by the other party “no less favourably” with respect to a given subject-matter than an investor from any third country, or its investment.<sup>58</sup> This approach of extending the MFN treatment to the pre-establishment stage of foreign investment has also been adopted in some regional

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<sup>58</sup> “*Most-Favoured Nation Treatment*”, UNCTAD Series on *Issues in International Investment Agreement*, United Nations, New York and Geneva, p. 9, (1999)

agreements such as NAFTA, the Southern Common Market Colonia Protocol (MERCOSUR), the Canada-Chile Free Trade Agreement and the Asia- Pacific Economic Cooperation (APEC) Non-Binding Investment Principles<sup>59</sup>.

**61.** In the Bergonia-Conveniencia BIT, Article 3 invokes MFN Clause and it prohibits either contracting parties from subjecting investments in its territory owned or controlled by investors of the other Contracting State to treatment less favourable than it accords to investments of its own investors or to investments of investors of any third State. This clause supports internationally accepted principle of non-discrimination. The principle of non - discrimination aims to ensure that when governments apply policies to manage their international and commercial transactions, **the policies is applied without regard to the origin of any particular transaction.** This point is of relevance in the present case since the objective of the Parent BIT and the said Tertian BIT are similar to each other. Both have been negotiated for the purpose of encouraging foreign investment and thus cannot discriminate between the two especially in reference to a remedy under the treaty.

**62.** On perusal of a BIT, as with any treaty provision, an MFN clause should 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.<sup>60</sup> *The Vienna Convention on Law of Treaties*, in its Interpretation Clause, not only directs the interpretation of the treaty to be literal<sup>61</sup> but also implies that the BIT should be *interpreted* in so far as possible **in the interest of the investor.** This, it is argued, is the “ordinary meaning” the MFN clause.

**63.** On the other hand, Article 31 of the Vienna Convention on the Law of Treaties states that any treaty provision, including an MFN clause, has to be read “in its context” and “in the light of its object and purpose.” The context for an MFN clause - are the remaining provisions of the basic treaty that contains it. Dispute settlement

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<sup>59</sup> “*Most-Favoured Nation Treatment*”, UNCTAD Series on Issues In International Investment Agreement, United Nations, New York and Geneva, p.19 (1999). *See also* “*Most Favoured Nation Treatment in International Investment Law*”; OECD Directorate for Financial and Enterprise Affairs; *Working Papers on International Investment*, No. 2004/2, p. 9.

<sup>60</sup> *See* Article 31 Vienna Convention on the Law of Treaties, May 22, 1969, 1115 U.N.T.S. 331.

<sup>61</sup> *Id*

procedures however, cannot be considered in this case as these procedures were specifically negotiated between the governments of the investor's nation and the Host state.

- 64.** The MFN clause in various ICSID pronouncements has been used as a tool by the foreign investor to resort to arbitration as a dispute redressal system. The Tribunal has been lenient over these issues and has permitted this line of approaching jurisdiction in various cases.<sup>62</sup> MFN clause in an instrument seeks to consider all corporations as one in the eyes of any country; which are of the same kind, class, or nature.<sup>63</sup> Claimant belongs to a broader category of “international investor” which includes Tertian investor in Bergonia, which puts the Claimant on the same pedestal as a Tertian investor.
- 65.** It is very pertinent to note that in this contemporary era of globalization, a redressal mechanism such as arbitration is indispensable in resolving conflicts arising out of international investments. The State of Bergonia, by discriminating between two investors has not only violated the objectives of the parent BIT but has failed to meet its international obligations. This discriminatory treatment of granting “foreign status” automatically to a Tertian investor, under the Bergonia-Tertia BIT disproportionately benefits the Tertian investor. This is a significant issue as access to the jurisdiction of the tribunal is at stake, if this condition is not met in the given set of circumstances. The additional burden of obtaining consent from the Host state has left the Claimant remedies less.
- 66.** It is humbly submitted that to protect Claimant's rights and interests in the said international investments, the Claimant hereby requests the Tribunal to allow it to invoke MFN clause as provided in the parent treaty to fulfil the legal requirements of Article 25(2) (b), so that the Claimant can approach this Tribunal for arbitration. This forum is tailored to address such disputes through its binding and cost effective

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<sup>62</sup>See also “*Most Favoured Nation Treatment In International Investment Law*”; OECD Directorate For Financial and Enterprise Affairs; *Working Papers On International Investment*, Number 2004/2 <http://www.oecd.org/dataoecd/21/37/33773085.pdf> Last accessed on 28th August 2009.

<sup>63</sup> *U.S. v. La Breacque*, DCNJ, 419 F., Supp. 430, 432.

process. Moreover it is vested with the necessary powers to render justice in an equitable manner in the present case. It is emphasized that a denial of access to this competent authority on the technical grounds relied upon by the Respondents would dilute the Claimant's right to seek remedy and compensation for the damage it has sustained due to the discriminatory and capricious acts of the Respondent.

#### **IV. CONCLUSION ON JURISDICTION**

67. This tribunal has jurisdiction to hear this dispute. It is proved beyond doubt that MedBerg ("claimant") is a foreign controlled entity, by MedX in Conveniencia. And also that MedX is not a Shelf company is now an unquestionable fact. The claimant can rely on the Bergonia- Tertia BIT to invoke the *express consent* required to be treated as a foreign national, by the use of MFN from the Bergonia- Conveniencia BIT.

**PART TWO: MERITS OF THE CLAIM**

***2. Whether Claimant's exploitation of its intellectual property in Bergonia constituted an investment under applicable international law***

**A. Intellectual Property is a “protected” investment under applicable International Laws.**

**68.** Since time immemorial, the meaning of investment in international law has been understood to be Foreign Direct Investment (FDI). Foreign investment involves the transfer of assets from one country to another for the purpose of their use in that country to generate wealth under the total or partial control of the owner of the assets.<sup>64</sup> The genesis of the international law on foreign investment was in the obligation created by the law to protect the alien and his property in the Host state. The notion was that the responsibility of the state would arise if it did not treat the alien in accordance with ‘minimum standard of treatment’. Conventionally this protection was afforded only to the alien’s physical property.<sup>65</sup>

**69.** However, the concept of an economic asset limited to physical property alone, proved to be narrow and progressively the term investment was extended to intangible assets<sup>66</sup>. The next phase was the inclusion of intellectual property rights (IPR)s within the meaning of foreign investments. When a new technology was to be manufactured in a developing country or when new technology was to be transferred by a foreign investor to a local partner within a joint venture, it would be necessary to provide for protection of such an investment which included the intellectual property rights associated with it. When such a need for recognition of intellectual property arose, the meaning of foreign investment was extended to include intangible rights associated with intellectual property.

**70.** It was in 1959 when Pakistan and Germany entered into a BIT by which the international interpretation of property was widened to include patents and technical

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<sup>64</sup> Definition in accordance with *Encyclopedia of Public International Law* (Vol, 8,p.246)

<sup>65</sup> M. SORNARAJAH, *The International Law on foreign investments*, Cambridge University Press, p.10 (1994)

<sup>66</sup> See also CHRISTPHER SCHREUER AND URSULA KRIEBAUM, “*The Concept of Property in Human Rights Law and International Investment Law*”

knowledge.<sup>67</sup> This was followed with an expanded definition under the first BIT of the U.S. signed with Panama in 1982.<sup>68</sup> With the increase in both application and knowledge of intellectual property in the world, more and more BITs involving IP investments came to be negotiated between various countries.

**71.** Investment agreements are used to protect and enforce IP by including IP rights, licenses and intangible property in the definition of ‘investment’, and ‘royalty’ payments related to the use of IP in the definition of ‘return’. ‘Covered investment’ refers widely to investment made and the investor covered under the agreements. Such agreements promote stringent IP protection and enforcement to sustain the expansion of the scope of coverage of IP. Once the IP is included as investment, the provisions of the investment agreements apply for the protection of IP, in as much they apply to the protection of investment.

**72.** The types of intellectual property that are protected normally include *inter alia*, patents, copyrights and trademarks. The policy justification for the protection of the rights through such investment treaties is that by providing for protection of IPRs, such agreements facilitate the process of technology transfer from developed to developing nations.

**73.** Sometimes, confusions may arise out of the generic use of the term IP. In recent BITs and investment chapters of FTAs as well as the current models BIT of the U.S., it has been observed that if the types of protected IPRs are not specified in the BIT, conflicts of enforcement may arise<sup>69</sup> However, the same is not applicable in the present case as Article 1(d) of the Bergonia- Conveniencia BIT makes an explicit reference to a patent as an investment.

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<sup>67</sup> See: UNCTAD, Investment Instruments online, Pakistan and Germany, Treaty for the Promotion and Protection Investments (with protocol and exchange of notes), Bonn, 1959, Article 8 (1) (a). All the Bilateral Investment Treaties sited here are available at <http://www.unctadxi.org/templates/DocSearch.aspx?id=779> . (References to BITs hereinafter are abbreviated as ‘Name of a country-Name of a country, BIT (year)’).”

<sup>68</sup> US-Panama BIT (1982), Article I (d) (iv).

<sup>69</sup> USTR, the 2004 Model U.S. BIT, *op cite* note 20, Article 1 and DFA, International Trade of Canada (2003), Model BIT of Canada, *op cite* note at 25, Article 1.

74. Article 1 of the BIT provides the definition of “*investments*” according to which, the term “investments”

75. [c]omprises every kind of asset invested in accordance with the laws and regulations of a Contracting State and shall include in particular, though not exclusively.

76. [1] (d) *intellectual property rights*, in particular copyrights, *patents*, utility-model patents, industrial designs, trademarks, trade-names, trade and business secrets, technical processes, know-how, and good will;

77. Similarly **Article 2 of the BIT defines the term “return”**

Most of the BITs signed these days have specifically indicated in a more consistent manner that investment includes IP, and ‘returns’ include payment in connection with IP.<sup>70</sup> Similarly, in the present context, Article 2(2) of the BIT reads:

[t]he term “returns” means the amounts yielded by an investment or reinvestment for a definite period, such as profits, dividends, interest, royalties or other fees;

78. The presence of such a provision further strengthens the fact that the patent is a protected investment under the given BIT. The Objective of the Parent BIT seeks to enhance the transfer of both capital and technology between Bergonia and Conveniencia.

79. **The Tribunal ruled** that interpretation of the BIT should account for such context, stating:

[T]he Tribunal shall be guided by the purpose of the Treaty as expressed in its title and preamble. It is a treaty ‘to protect’ and ‘to promote’ investments. The intention of the parties is clear.<sup>71</sup>

80. Further, it is humbly submitted that countries that do not wish to extend the status of protected investment to intellectual property rights (in this case, *patents*) are required to undertake certain measures such as:

- Where countries decide to enter into BITs, protection and enforcement of IP should be excluded from application of these agreements and the definition of

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<sup>70</sup> See, for example, UNCTAD, Australia-Pakistan BIT, 1998, Article 1.

<sup>71</sup> *Supra* Note 66

investment should be subject to national laws and regulations, thereby limiting the IP of investors to the extent recognised under the domestic laws;

- Such investment agreements should clearly stipulate that the protection and enforcement of IP shall not exceed what is required under the TRIPS Agreement and/or other multilateral agreements to which the parties are signatories except where there is clear evidence that the overall economic and social benefit to the developing country of any new rules would exceed the costs.

- An explicit clause should be included in the BIT to prevent resort to the investor-to-state dispute settlement mechanism on disputes arising from the protection and enforcement of IP of covered investment.<sup>72</sup>

**81.** In the present case Bergonia has not undertaken any of the above mentioned measures. In fact in the relevant BIT as mentioned above, patents have been specifically included in the definition clause. In view of these facts, it is submitted that Bergonia had no intention whatsoever to prevent patents from being regarded as a protected investment.

**82.** There have been instances, where tribunals in investment arbitrations have held that legal terms in BITs should be considered to have an autonomous meaning appropriate to the contents of the specific treaty, not necessarily being the same as similar terms in the domestic law of the contracting parties.<sup>73</sup> It is the humble submission of the Claimant that at no point of time, can Respondent fall back on an argument that utilises such ‘definition clauses’ or provisions of domestic laws that would facilitate ousting of patents from the category of protected investment.

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<sup>72</sup> South Centre Analytical Note, “*Intellectual Property in Investment Agreements: The TRIPS-plus Implications for Developing Countries*”, May 2005.

<sup>73</sup> *Mr. X. (U.K. businessman) v. Respondent Republic (in Central Europe)*, SCC case 49/2002, Final arbitration Award Rendered in 2003, Stockholm Arbitration Report p.141 2004:1, [http://www.sccinstitute.com/upload/poncet\\_mouawad\\_2004\\_1.pdf](http://www.sccinstitute.com/upload/poncet_mouawad_2004_1.pdf) Last accessed at 13th August 2009.

**83.** As a general trend in the global investment arena, IP have been included as a part of investment. This can be illustrated by the following cases- The Canadian model BIT of 2003 provides the traditional reference to IP as part of investment.<sup>74</sup>The BITs between Japan and Vietnam and Republic of Korea included IP and the amount yielded by investment which include royalty and intangible property as investment and required TRIPS consistent measures on the transfer of IP. It is worth noting that in investment matters, the governing document is the BIT and its significance and application cannot be undermined. It is the paramount parchment and its bearing surpasses the importance of other relevant international instruments like WTO, FTA and EPA. It is the specific law between the two countries and it portrays the intentions and objectives of the parties with utmost precision. As a result, BITs can be understood as *lex specialis* –specialised laws between parties designed to create a mutual regime of investment protection<sup>75</sup> as opposed to general principles of international law or customary rules.

**84.** Therefore, even though, the investment provisions of the EU Economic Association Agreements (EAAs), FTAs and Economic Partnership Agreements (EPAs), TRIPS, WTO are not as detailed as those found in BITs, the arguments based on such international treaties cannot be entertained in the presence of a specific BIT.<sup>76</sup>

**85.** While incorporating IP as an investment under Article 1 and specifically mentioning patent as a category of such investment under sub-clause (d) of the same; the Respondent was well aware of the fact that this act would attract certain binding international obligations. Therefore Respondent’s act of refuting recognition to IP as ‘protected investment’ is inadmissible and cannot be entertained. When contextualizing the abovementioned fact in view of the internationally accepted

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<sup>74</sup>DFA, International Trade of Canada (2003), Model Bilateral Investment Agreement of Canada , Agreement Canada and \_\_\_\_\_ For the Promotion and Protection of Investment, Article 1, 9(4), 10 (1) and 13(5). <http://www.naftaclaims.com/Papers/Canada%20Model%20BIT.pdf>, visited on 23<sup>rd</sup> July 2009.

<sup>75</sup> *Op. cite.*, p. 329.

<sup>76</sup>S. SZEPESI “Comparing EU Free Trade Agreements: Investment,” ECDPM In Brief 6D., Maastricht ECDPM, [http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Navigation.nsf/index.htm](http://www.ecdpm.org/Web_ECDPM/Web/Content/Navigation.nsf/index.htm), Last accessed on 10<sup>th</sup> July 2009.

understanding of investments under BITs as elaborated earlier, the position taken by Bergonia in denying the status of protected investment to IP is unjustified.

**B. Non recognition of IPRs as part of Protected Investments amounts to violation of Fair and Equitable Treatment.**

86. 'Fair and equitable treatment' is currently the most important standard in investments disputes. The new generation of investment treaties have become more explicit in promoting the standard of fair and equitable treatment as an international minimum standard required by customary international law as opposed to a standard applicable 'depending on the circumstances of each instance of treatment.' The fair and equitable treatment standard is also understood by several countries under NAFTA as part of the evolving international minimum standard that develops through time.<sup>77</sup>
87. The recent investment chapters of FTA<sup>78</sup>s and the 2004 model BIT of the U.S. provide for fair and equitable treatment with greater specificity. Canada's model also provides a link with International Minimum Standard. Such a requirement that a party's treatment of investors be no less than that required by international law arguably represents an effort to establish a universal minimum standard against which all standards of treatment are to be measured and below which none are permitted to fall.<sup>79</sup>
88. As a general proposition if a Host country provides an assurance of fair and equitable treatment, it presumably wishes to indicate to the international community that investments within its jurisdiction will be subjected to treatment compatible with some of the main expectations of the foreign investors.<sup>80</sup>

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<sup>77</sup> See also "Fair and Equitable Treatment Standard in International Investment Law," Working Papers on International Investment, OECD, No. 2004/3, pp.11-12.

<sup>78</sup> KRISTEN BONDIETTI, "Inconsistencies in treatment of Foreign Investments in trade agreements", Australian APEC Study Centre, December (2008)

<sup>79</sup> BERGMAN, MARK S, "Bilateral Investment Protection: An Examination of the Evolution and Significance of the U.S. Prototype Treaty," N.Y University Journal of International Law and Politics, Vol. 16:1, Fall 1983, p.20. (1983),

<sup>80</sup> STEPHEN VASCIANNE, "The Fair and Equitable Investment Standard in International Investment Law and Practice", 70 British YB Intl L99.

89. The Bergonia-Convenencia BIT under **Art 2(2)** incorporates the said FET standard as follows.

**90. Article 2: Encouragement and Protection of Investments**

(2) Each Contracting State shall in its territory in any case accord investments by investors of the other Contracting State *fair and equitable treatment* as well as *full protection* under the Treaty. Returns from the investment and, in the event of their re-investment, the returns there from shall enjoy the same treatment and protection as the investment under the Treaty.

(3) Neither Contracting State shall in any way impair *by arbitrary or discriminatory measures* the management, maintenance, use, enjoyment or disposal of investments in its territory of investors of the other Contracting State. [Emphasis added]

91. The concepts of *arbitrary treatment* and *fair and equitable treatment* are interrelated because arbitrariness is closely connected with the idea of the rule of law, which is foundational to the fair and equitable treatment standard.<sup>81</sup> The impact of this standard is that the legal systems of Host States would have to adopt a fair standard for the treatment of foreign investors.”<sup>82</sup> Thus, arbitrary treatment is sufficient for a finding of a violation of fair and equitable treatment.<sup>83</sup>

92. It is submitted that despite an explicit incorporation of FET in the Parent BIT the Bergonian Government has unilaterally and arbitrarily denied acknowledgement of the definition of investment to include IPRs. As a result, the Bergonian Government has not only failed to honour the ‘*International Minimum Standard*’ mentioned above but also failed to mete out Fair and Equitable Treatment to the Claimant thereby violating Article 2 of the BIT.

93. It is possible to identify certain forms of behaviour that appear to be contrary to fairness and equity in most legal systems and to extrapolate from this the type of State action that may be inconsistent with fair and equitable treatment, using the plain meaning approach. Thus, for instance, if a State acts fraudulently or in bad faith, or capriciously and willfully discriminates against a foreign investor, or deprives an

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<sup>81</sup> STEPHAN SCHILL, “*Fair and Equitable Treatment as an Embodiment of the Rule of Law*”, in Hoffman and Tams, 31 (2007)

<sup>82</sup> Id

<sup>83</sup> Id

investor of acquired rights in a manner that leads to the unjust enrichment of the State, then there is at least a *prima facie* case for arguing that the fair and equitable standard has been violated.”<sup>84</sup>

**94.** The above mentioned scenario is a clear indication of the facts that the Claimant has been deprived of his rights to protect his intellectual property under the BIT. Moreover, the denial of protection of the said investment is an act of bad faith by the Bergonian government. Thus it becomes abundantly clear that a *prima facie* case for violation of FET undoubtedly exists.

**95.** A breach of legitimate expectation can also tantamount to a violation of Fair and Equitable treatment. In *Tecmed*<sup>85</sup>, the tribunal established that actions that are contrary to an investor’s expectations can be a violation of fair and equitable treatment. The *Metalclad* tribunal identified the requirement to provide a predictable, legal, and stable business framework as an element of fair and equitable treatment.<sup>86</sup> The tribunal ultimately found that a violation of Article 1105(1) NAFTA’s provision on fair and equitable treatment based upon Mexico’s failure to “ensure a predictable framework for *Metalclad*’s business planning and investment.”

**96. Thomas Walde** in *Thunderbird v. Mexico*<sup>87</sup> stressed on the role of legitimate expectations as an important part of the fair and equitable treatment standard under Article 1105 NAFTA. He opined:

[a] contracting party’s conduct creates reasonable and justifiable expectations on the part of an investor (or investment) to act in reliance on said conduct, such a failure by the NAFTA party to honour these expectations could cause the investor (or investment) to suffer damages.<sup>88</sup>

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<sup>84</sup> United Nations Conference on Trade and Development (UNCTAD), “*Fair and Equitable Treatment*”, Series on Issues in International Investment Agreements, 1999, pp. 3-4,7-9,25-28 and 31-32;

<sup>85</sup> *Tecnicas Medioambientales S.A. v. The United Mexican States*, Award, 43 I.L.M. 133 (2004), May 29, 2003

<sup>86</sup> *Metalclad Corp. v. United Mexican States*, Award, 30 August 2000, 5 ICSID Reports (2002)

<sup>87</sup> *International Thunderbird Gaming Corporation v. The United Mexican States*, Award, 26 January (2006)

<sup>88</sup> *Id*

97. In the present case, the clear and unambiguous inclusion of IPRs in the definition clause of the parent BIT created a legitimate expectation of the Claimant and other similar companies, as they acted on the belief that their investment was protected and that its tangible and intangible assets were to be safe guarded during the operation of the BIT. The refusal to accept IPRs as being part of protected investment would constitute a breach of such legitimate expectation and thereby the principles of FET.

98. Although there is no reference to the fair and equitable standard of treatment for IP under TRIPS, it relies expressly on national treatment and MFN.<sup>89</sup> It should be noted that BIT being the primary document, the incorporation of the FET standard in Article 2, makes its application mandatory.

99. In the interpretation of fair and equitable standard of treatment as part or equivalent to international minimum standard, the investment agreements will require that:<sup>90</sup>

- IP of covered investment receive fair and equitable treatment recognised as arising from the international minimum standard of treatment under customary international law that is evolving and developing through consistent practice of States;

- Where the investment agreements refers to the “highest international standard” or “*international law*” in general, IP of covered investment to receive fair and equitable treatment arising from the international minimum standard that are developing through harmonisation processes, such as the harmonisation process at WIPO;<sup>91</sup> and,

- More importantly, in addition to state-to-state dispute Settlement, disputes on the grounds of fair and equitable standard of treatment or the expanded

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<sup>89</sup> UNCTAD (1999), *op. cite.* 48, p.23.

<sup>90</sup> South Centre Analytical Note,” *Intellectual Property in Investment Agreements: The TRIPS-plus Implications for Developing Countries*”, May 2005.

<sup>91</sup> VIVAS-EUGUI, DAVID , “*Regional and Bilateral agreement and a TRIPS plus world: The Free Trade Area of the Americas (FTAA)*,” TRIPS Issues Paper 1, Quakers United Nations Office (QUINO), Geneva. p.8 (2003)

interpretation as arising from international minimum standard and as applied to IP of covered investment could be subjects of investor-to-state dispute settlement. In this regard, it is important to note that the fair and equitable treatment standard is among the most commonly used grounds for claims in investment disputes.<sup>92</sup>

**100.** Thus the argument that the state can control the property that it has helped create, no longer holds true under such treaties. This process of internationalisation of the property that was created under the local laws is the basis of the protection of the intellectual property which is adopted in the field of foreign investment and international trade. It is clear that in the area of international trade, the TRIPS and WTO operates on the same technique.<sup>93</sup> For instance TRIPS require that national procedures concerning the enforcement of IP shall be fair and equitable, not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.<sup>94</sup>

**101.** Thus in the contemporary era of internationalisation, any interference with intellectual property becomes a breach of treaty which amounts to expropriation and has to be compensated. As a result compulsory licensing of patents and parallel imports can be taken into account as breach of treaty which amounts to expropriation and has to be compensated as shall be proved by the Claimant in the forthcoming arguments.

**102.** It is humbly submitted on behalf of the Claimant, that a cumulative analysis of the circumstances of the case demonstrates that there exist compelling grounds beyond merely a *prima facie* case for the application of FET standards. The inclusion of the FET standards in the terms of the BIT and the gross arbitrariness of the Respondent necessitate the prompt invocation of this provision to protect IP rights and render justice to the Claimant.

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<sup>92</sup> *Supra* Note 99

<sup>93</sup> *See also*, MARC L. BUSCH AND ERIC REINHARDT, “*The WTO Dispute Settlement Mechanism and Developing Countries*”, Department for Infrastructure and Economic Cooperation, April (2004)

<sup>94</sup> TRIPS Article 1:1 and 41:2.

**3. Whether The Compulsory License Amounts To Expropriation Or  
Discrimination, Or Otherwise Violates General International Law  
Or Applicable Treaties.**

**A. No Public Emergency Necessity the Issuance of a Compulsory Licence Existed  
in Bergonia**

**103.** Intellectual property rights at their core are investment-inducing mechanisms.<sup>95</sup> The idea is to trade limited market exclusivity for the increased production and disclosure of useful goods, research or services.<sup>96</sup> Not surprisingly, strict innovation investment may be accompanied by substantial parallel investment in business facilities and personnel, amplifying the effect of the rights on economic development.<sup>97</sup> In developing countries, a significant amount of such investment may come from outside the country, stimulating the growth of local industry beyond that which would be possible through endogenous investment alone.<sup>98</sup> It is this broad impact on a country's economic wealth that purportedly justifies the global establishment of strong intellectual property regimes.<sup>99</sup> Strong rights should lead to greater investment, all things being equal.<sup>100</sup> A major threat to intellectual property rights is the concept of compulsory licensing.

**104.** Compulsory licensing is an extraordinary legal instrument where an administrative or a judicial body authorises a licensee to exploit the patent without the consent of

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<sup>95</sup> See, SUZANNE SCOTCHMER, "*Innovation and Incentives*", 43-39 (2004) (explaining the rationale for intellectual property rights in terms of providing a mechanism for recouping investment that would otherwise be lost to free riders).

<sup>96</sup> Id

<sup>97</sup> BRONWYN H. HALL, "*The Private and Social Returns to Research and Development, in Technology, R &D and the Economy*", 140, 140-41 (Bruce L.R. Smith & Claude E. Barfield eds., 1996) (summarizing positive spill over effects from innovative activity); ROBERTO MAZZOLENI & RICHARD R. NELSON, "*Economic Theories About the Benefits and Costs of Patents*", 32 J. Econ Issues 1031,1033 (1998).

<sup>98</sup> MARGARET CHON, "*Intellectual Property and the Development Divide*", 27 *Cardozo L. Rev.* 2821, 2863 (2006) (Foreign direct investment is thought to be an optimal way for developing countries to increase their knowledge capacity, technical innovation and ultimately their economic growth.).

<sup>99</sup> Convincing countries of this benefit has taken some effort on the part of developed countries. See PETER YU, "*TRIPS: And It's Discontents*", 10 *Marq Intell Prop L Rev.* 369, 375-76 (2006)

<sup>100</sup> See KEITH MASKUS, "*Intellectual Property Challenges for Developing Countries: An Economic Perspective*", *Uill L Rev.* 457, 464-66 (2001).

the patent holder.<sup>101</sup> The purpose of the Compulsory License (CL) is to provide a safeguard against lack of use of a patent or misuse of the patent holder's monopoly rights in order to protect the public interest. It can thus alter the balance between the competing interests in the patent system.<sup>102</sup> The CL does not revoke the patent as such but it revokes the exclusive right of the patent holder that allows him to control how the patent may be used. The imposition of a compulsory license — explicitly endorsed in international law<sup>103</sup> — is one of the most significant reductions in rights, and it has great potential to impact both local and foreign investment practices.

**105.** The most prominent and specific modern treaty to address compulsory licensing is the Trade-Related Aspects of Intellectual Property (“TRIPS”) agreement,<sup>104</sup> which came into effect in 1995 as part of the Uruguay Round of trade discussions.<sup>105</sup> It sets minimum standards for intellectual property protection for all Members, including on patents. The provisions for CLs were among the most contested in the TRIPS negotiations.<sup>106</sup> The resulting Article 31 of the TRIPS, does not define a CL, nor does it specify when CLs may be granted.<sup>107</sup> Instead, it sets out the procedures that must be followed and some terms that must be fulfilled. The CL shall be considered on its

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<sup>101</sup> See generally, ROBERT BIRD, DANIEL R. CAHOY, “*The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective Bargaining Approach*”, *American Business Law Journal* Vol. 45, Issue 2, Summer 2008

<sup>102</sup> EDMUND W. KITCH, “*The Nature and Function of the Patent System*”, 20 *J.L. & ECON.* 265, 266 (1977) (restating the basic notion historically agreed upon by economists: The patent is a reward that enables the inventor to capture the returns from his investment in the invention, returns that would otherwise (absent secrecy) be subject to appropriation by others).

<sup>103</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Article 31, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 *I.L.M.* 81 (1994)

<sup>104</sup> *Supra* Note 109

<sup>105</sup> CHRISTOPHER MAY & SUSAN K. SELL, “*Intellectual Property Rights; A Critical History*”, at 161-62 (2006). The Uruguay Round was also significant for creating the World Trade Organization (“WTO”), which as the co overseer of TRIPS with the World Intellectual Property Organization (“WIPO”) provided significant enforcement powers.

<sup>106</sup> See also REICHMAN & HASENZHAL 2003 for a negotiation history

<sup>107</sup> The WTO Decision on Compulsory Licensing, Kommersekollegium, [http://www.kommers.se/upload/Analysarkiv/Arbetsomr%C3%A5den/WTO/Handel%20och%20skydd%20f%C3%B6r%20immateriella%20r%C3%A4ttigheter%20-%20TRIPS/Rapport%20The\\_WTO\\_decision\\_on\\_compulsory\\_licensing.pdf](http://www.kommers.se/upload/Analysarkiv/Arbetsomr%C3%A5den/WTO/Handel%20och%20skydd%20f%C3%B6r%20immateriella%20r%C3%A4ttigheter%20-%20TRIPS/Rapport%20The_WTO_decision_on_compulsory_licensing.pdf) last accessed on 15th August 2009

individual merits, be subject to independent legal review and the scope and duration shall be limited to the purpose for which it was granted.

**106.** The provision does not lay down the grounds on which a compulsory licence can be issued. It merely lays down the procedural safeguards to be complied with by Members while issuing compulsory licenses. These safeguards are: (i) consideration of compulsory license applications on individual merit;<sup>108</sup> (ii) prior undertaking and failure of negotiations to obtain voluntary license “on reasonable commercial terms and conditions” except in certain specified cases of extreme urgency;<sup>109</sup> (iii) Scope and duration of use under compulsory license being limited by the purpose for which it has been issued;<sup>110</sup> (iv) non-exclusivity of the rights conferred through compulsory licensing;<sup>111</sup> (v) non-assignability of the right under compulsory license;<sup>112</sup> (vi) requirement that compulsory license should be issue ‘predominantly’ to cater to the domestic market;<sup>113</sup> (vii) scope for review and termination of the license upon the expiry of circumstances warranting its grant;<sup>114</sup> (viii) adequate remuneration to the right holder, taking into account the economic value of the authorization;<sup>115</sup> (ix) access to judicial review<sup>116</sup>.

**107.** In addition to these general requirements, certain special and additional requirements have been laid down for compulsory licensing in certain specific circumstances.<sup>117</sup> It is explicitly states in the TRIPS, the government is authorised to issue a compulsory license in cases of public purpose, national or extreme urgency.

**108.** To appreciate the present circumstances, it is important to understand that since intellectual property is seen to encourage and in turn spur the growth of investments, most countries, include forms of intellectual property in the definition of investments in their Bilateral Investment treaties.

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<sup>108</sup> Article 31 (a), *id.*

<sup>109</sup> Article 31 (b), *id.*

<sup>110</sup> Article 31 (c), *id.*

<sup>111</sup> Article 31 (d), *id.*

<sup>112</sup> Article 31 (e), *id.*

<sup>113</sup> Article 31 (f), *id.*

<sup>114</sup> Article 31 (g), *id.*

<sup>115</sup> Article 31 (h), *id.*

<sup>116</sup> Article 31 (i) (j), *id.*

<sup>117</sup> Article 31 (l), *id.*

- 109.** Bilateral Investment Treaties (*hereinafter* BITs) entered into by several nations recognize intellectual property as a form of investment and provide it protection against expropriation. Expropriation is the taking of private property for public use or public interest by a public authority.<sup>118</sup> Expropriation as apparent from the definition by and large is a strong negative step taken by a government against the interest of a person(s) especially and particularly when such a person in question is a foreign investor and the concerned property (in the present case, IP) is an investment situated in a Host country.<sup>119</sup>
- 110.** Owing to the detrimental effect of expropriation therefore-most of the BITs between nations have strict policy, specification and provision to ensure that the ‘interest of the investor’ (which is the cardinal concern in the international investment law) is protected from such actions like expropriation, nationalization that border on usurpation. Especially when the interest of the investor gains a ‘paramount importance’ in the modern international economic scenario where investment is a giant economic gesture , that has significant effect not only on trade relation and economic policies of the concerned countries but also on the strength of trust and mutual good will relation between the countries.
- 111.** A close look at the BITs entered into by several nations demonstrates that they have both before the entry into force of the TRIPS Agreement and thereafter, granted higher protection to intellectual property through these BITs than they were willing to give under TRIPS. Therefore now there exists, two parallel systems of protection for the patent holder against interference with intellectual property: one of TRIPS and the other under the specific BIT.<sup>120</sup> Thus, expropriation is one of the major concerns sought to be addressed by a BIT.<sup>121</sup> To shield investors from unfair

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<sup>118</sup> *Supra* Note 112

<sup>119</sup> See generally, CHRISTOPHER SCHREUER, *Concept of Expropriation under ETC and other investment protection treaties*, May 20, 2005

<sup>120</sup> PRABHASH RANJAN, “*Medical Patents and Expropriation in International Investment Law –With special reference to India*”, 5 (3) *Manchester Journal Of International Economic Law*, 72- 104 (2008)

<sup>121</sup> See also TOBIN, JENNIFER AND ROSE-ACKERMAN, SUSAN, *Foreign Direct Investment And The Business Environment In Developing Countries: The Impact Of Bilateral Investment Treaties*, May 2, 2005, Yale Law & Economics Research Paper No. 293, available at

expropriation and other arbitrary or discriminatory governmental conduct that threatens to discourage foreign investment remains a vital purpose of BITs. Bergonian patent no. AZ2005 was awarded to the Claimant and it licensed BioLife Co., a Bergonian company, to utilise it.

- 112.** The contract was entered into on 31 March 2005. BioLife produced drugs and against the wishes of MedBerg and terms of the contract, they exported drug. This was not only a contractual violation but this export hampered the market of MedBerg's sister companies in different countries and thereby falls under the category of "Parallel Exports".<sup>122</sup>
- 113.** Now, when this prohibited event of exports was considered, the Claimant terminated the licence agreement on 31 March 2007, in accordance with the License Agreement's notice and termination provisions.
- 114.** Having a reasonable apprehension that if any domestic companies were granted the licence agreement, such an act of non consensual export might be repeated; the Claimant never allotted the licence agreement to any Bergonian company and manufactured drugs for a period of six months before compulsory licence was granted.
- 115.** It is pertinent to note, that in the said period of six months, the Claimant noticeably deviated from its normal practice and intention of functioning through license agreements and commenced production. It can be reasonably deduced that the same was not a profit-oriented initiative as there were profits flowing in from other sister concerns mentioned earlier. Thus this could solely be a measure that originated out of concern and good will towards the citizens of Bergonia. In the said period, the production of the Claimant is measured to 15% of what BioLife used to produce under the agreement. As apparent from the facts, BioLife produced drugs at the rate of 100% for two years when the licence agreement was in force. The state realising there was an important domestic medical need to address; initiated the proceedings on June 1 2007, subsequently the Bergonian IP office issued a compulsory licence

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[http://www.law.yale.edu/outside/html/faculty/sroseack/FDI\\_BITs\\_may02.pdf](http://www.law.yale.edu/outside/html/faculty/sroseack/FDI_BITs_may02.pdf) Last accessed on July 4th 2009

<sup>122</sup> "Clarification to Question 74"

on Nov. 1 2007.

**116.** The issuance of a compulsory license by the Bergonian IP office stating that the technology covered by the patent was required to address important domestic needs can be seen as a means to cloak expropriatory conduct with a veneer of legitimacy. Compulsory licence cannot amount to expropriation except in accordance with the applicable laws of the latter Contracting State for the **public benefit**, on a non-discriminatory basis and against prompt, adequate and effective compensation. Thus keeping in conformity with the said practice, the BIT between Bergonia and Convenencia also incorporates Art 4-referring to issues of nationalization and expropriation. Clause (1) of the Art 4 states that-“Investments by investors of either Contracting State shall enjoy full protection and security in the territory of the other Contracting State.” This statement is to be construed as ‘protection and security’ from acts like that of nationalization or expropriation by the Host state. Initial part of Clause (2) of Art 4 further reads that

[I]nvestments by investors of either Contracting State shall not directly or indirectly be expropriated, nationalized or subjected to any other measure the effects of which would be tantamount to expropriation or nationalization (hereinafter referred to as “expropriation”) in the territory of the other Contracting State

**117.** The public benefit in this present case is “important medical need” to cater. This construes the legitimate expectation that if any country needs more drugs to effectively counter a disease, such drugs if manufactured in the country should be produced in adequate amounts and the priority should be utilization for domestic consumption. However, in the present case it is to be noted that BioLife and 5 other domestic companies, which as on January 1, 2009 had already invoked this Compulsory Licence, were producing 155% of drugs which was produced by BioLife during the existence licence agreement. To illustrate this further, If BioLife produced 100 pills for one day; this group of six companies were producing only 155 pills.<sup>123</sup> So in total 5 companies were producing only 55 pills per day, not considering the size of the companies. Furthermore, 3 out of 6 companies exported the drugs to the international market, which again resulted in parallel exports, confirming the above mentioned apprehension. The fact that this compulsory licence

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<sup>123</sup> For a simple calculation as 155 % of 100 pills would amount to 155 pills

was awarded for 4 years just strengthens this apprehension of the Claimant.

- 118.** Applying Wednesbury principle of reasonable test, it would be highly unreasonable to believe that when BioLife, a company-that wilfully exported the drugs against the licence agreement, (violating specific terms and conditions of a contract prohibiting such exports), would cease to export the drug. In fact in the absence of any ban on export and lack of an apparent provision for the same, under the present CL regime,<sup>124</sup> the probability of such export increases.
- 119.** Hence, BioLife would export the drugs, continuing its previous trend. Continuation of such exportation and the indifferent attitude of the Bergonian Government towards it are both unreasonable and unwarranted. If Bergonia had given the compulsory licence solely to cater to important domestic medical needs, the export should have been stopped. This could have been simply achieved by framing some definite provisions dealing with prohibition on exportation, under the domestic procedural rules governing the functioning of the companies availing the CL (the companies being subject of mandatory Government supervision, owing to rules for CL).
- 120.** However, the fact that three of the five companies are undoubtedly practising exportation clearly implies that no such safeguard or restriction exists. Even assuming without admitting that BioLife is not exporting the drug presently, the fact remains that some percentage of the drug is still being exported by three out of newly appointed 5 companies. In either of the circumstances, the conclusion which can be drawn is that, not only the production is meagre but there exportation too is taking place This lack of restriction and grossly insufficient production of meagre 155% on exports, casts great doubts upon the intention of the Bergonian government behind the CL and its dedication towards meeting the allegedly 'urgent medical need'.
- 121.** The presumption that the state of Bergonia was not aware of this exports can be ruled out by the argument that the IP office was directly supervising this agreement as the royalties was collected by the office and was transferred to the Claimant, which Claimant denied. If obesity was given the status of an serious problem in the

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<sup>124</sup> (the non existence of such prohibition being clearly inferable from the unrestricted and undaunted export activity being carried out by the said three Bergonian companies)

country of Bergonia, then adequate measures should have been to address the domestic needs first. On the contrary the exports continued and so did the meagre production. This is very hard to justify that on the one hand the country is worried about the manufacturing of the drugs and uses public purpose to waive international requirement like TRIPS and specific provisions of the BIT while, on the other hand, the country fails to act on the complain of the Claimant and fails to stop this exports. This clearly signifies that the public purpose so adopted by the state is not fulfilled. The measures taken by the State interfere significantly with the use or enjoyment of the patent and hence amount to indirect expropriation.

**122.** A distinction is often made between direct and indirect expropriation. Direct expropriation refers to those acts of the Host State which actually take away the property of the investor. Indirect expropriation, on the other hand, interferes with the property, its economic value or enjoyment by the holder without taking it away actually. In customary international law, both direct and indirect expropriations are recognised as expropriatory measures.<sup>125</sup> Most BITs are drafted in such a manner as to cover both direct and indirect expropriation and guarantee protection to investor against both. BITs often mandate that no expropriatory measure may be undertaken except for public purpose, in accordance with due process of law, against payment of compensation and in a non-discriminatory manner.<sup>126</sup>

**123.** In the present case Claimant who is a Convenencian investor in Bergonia is (as mentioned earlier) the patent holder of Bergonian Patent AZ2005; the fact to be appreciated is that though the Claimant is the patent holder the power to enter into a Licensing Agreement in order to commercially exploit this IP was duly taken away by the IP Office through Compulsory Licensing. Thereby the right to enter in to a legal contract which is guaranteed by PNJ, WTO, (owing to the concepts of Free trade, Right to occupation etc.) after being taken away from the Claimant now vests in the IP office.

**124.** Thus IP office has the authority to enter into contract for public purpose through compulsory licensing. This act would have amounted to expropriation (violating the

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<sup>125</sup> *Factory at Chorzow (Germany v. Poland)*, Judgment, 15 May 1926, PCIJ Ser. A, No. 7 (1927)

<sup>126</sup> W.M. REISMAN AND RD SLOANE, “*Indirect Expropriation and its Valuation in the BIT Generation*” 74 *British Year Book of International Law* 115, 123–125, (2003).

obligation under the BIT to protect foreign investment in the Host country) in the very first place if the definition of expropriation and the policy of protection of the investor as discussed above (initial part of Art 4 of the said BIT) and guidelines of TRIPS were the sole determinant factor. But the exception of 'public purpose' that was lending legitimacy to this otherwise unlawful act so far, now stands diluted and deficient owing to the questionable nature of the CL, its imposition, functioning and related conduct of the Bergonian companies and the government. It is not disputed that providing healthcare to the masses is a goal of any civilized nation, but reference to the concept of justice as defined in a landmark case, states that-the actions taken by the country should not only be done but seems to be done, thus it is evident that in the present scenario the CL has acted as a means of indirect expropriation.<sup>127</sup>

**125.** The forms of indirect expropriation are numerous and cannot readily be differentiated. When measures are taken by a State the effect of which is to deprive the investor of the use and benefit of his investment, the measures are often referred to as a 'creeping' or 'indirect' expropriation or, as in the BIT, as measures 'the effect of which is tantamount to expropriation'.<sup>128</sup> The essence of any claim of expropriation is that there has been a taking of property without prompt and adequate compensation. However, many investment protection treaties and the Treaty which is the basis for the present arbitration extend the notion of a taking to include what has often been referred to as 'creeping'<sup>129</sup> or 'indirect' expropriation by the State through measures which so substantially interfere with the investor's business activities that they are considered to be 'tantamount' to and expropriation.<sup>130</sup> In the **NAFTA** context, in the *S.D. Myers* case<sup>131</sup>, the Tribunal found that the

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<sup>127</sup> See also, MARTIN KHOR, *Patents, Compulsory License and Access to Medicines: Some Recent Experiences*, Third World Network, Feb 2007.

<sup>128</sup> *Link Trading v. The Republic of Moldova* (Award) Ad hoc Arbitration (UNCITRAL, 2002, Herzfeld P, Buruiana and Zykl).

<sup>129</sup> See also B.H. WESTON, "“Constructive Takings” under International Law: A modest Foray into the problem of “Creeping Expropriation”", 16 Virginia Journal Of International Law 103-175 (1975).

<sup>130</sup> *Metalclad Corp v. United Mexican States* (Award) 5 ICSID Rep 209, 230. See also R. HIGGINS, "The taking of property by the state: Recent developments in international law", 176 Recueil des cours 263,351 (1982-III).

<sup>131</sup> *S.D. Myers, Inc. v. Canada*, NAFTA Arbitration under UNCITRAL Rules, Partial Award, Nov. 13, 2000

expression “tantamount to expropriation” in NAFTA’s Article 1110(1), was understood as “equivalent to expropriation” and added: “Both words require a tribunal to look at the substance of what has occurred and not only at form. A tribunal should not be deterred by technical or facial considerations from reaching a conclusion that an expropriation or conduct tantamount to an expropriation has occurred. It must look at the real interests involved and the purpose and effect of the government measure”.

- 126.** For some tribunals, 'the form of the measures of control or interference is less important than the reality of their impact' on the owner of the investment.<sup>132</sup> Discussion of the concept of significant interference can also be found, for example in *Marvin Feldman v. Mexico*: 'indirect expropriation and measures 'tantamount' to expropriation...potentially encompass a variety of government regulatory activity that may significantly interfere with an investor's property rights'.<sup>133</sup> It is pertinent to note that in the given case, the government sought to issue the compulsory license on the pretext that obesity had been declared an epidemic in the country and the technology used by the patent was important for domestic medical needs. The measure of control in this case was seen to be an issuance of a compulsory license, which even after being issued, was not used for domestic purposes as stipulated. This was a clear violation of Article 4 of the BIT and the provisions of TRIPS.
- 127.** It is the effect of the alleged expropriatory acts upon the investor's use or enjoyment of its property that is a key consideration; therefore it is not necessary that the investor has been divested of legal title to his property. It is recognised in international law that measures taken by a State can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated.<sup>134</sup> Issuance of compulsory license interferes with the free enjoyment of intellectual property rights by their holders and causes a reduction in economic value that a patentee can extract out of his rights. Therefore, compulsory

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<sup>132</sup> The Tribunal in *Tippetts, Abbott, McCarthy, Stratton v TAMS-AFFA Consulting Engineers of Iran, the Government of the Islamic Republic of Iran* (1984) 6 Iran-USCTR 219, 225.

<sup>133</sup> *Marvin Feldman v. Mexico*, ICSID Case No. ARB(AF)/99/1, NAFTA Award of 16 December 2002.

<sup>134</sup> *Starrett Housing Corp et al v. Islamic Republic of Iran* 4 Iran-USCTR 122, 154 (1983).

licensing in respect of intellectual property held by an investor certainly amounts to an act of expropriation. The Government in the present case divested MedBerg of its legal right to enter into license agreements for the use of the patent and instead transferred it to the IP office of Bergonia, which in turn effectively rendered the position of MedBerg who is the patent holder, meaningless.

- 128.** The *Tecmed* tribunal<sup>135</sup> conducted a proportionality test in order to determine whether the measure taken by the State constituted expropriation under the BIT. The tribunal explained that there; must be a reasonable relationship of proportionality between the charge or weight imposed to the foreign investor and the aim sought to be realised by any expropriatory measure'. The aim sought to be realised in the present case, by issuing a compulsory license was to use the technology covered by the patent to address important 'domestic' medical needs as obesity had been declared an epidemic in the country. If three out of the five companies that were granted the license were exporting the products, it is clear that the government had violated the purpose for which the license had been issued.
- 129.** On one hand, the government has clearly failed to justify the urgency and validity of the public purpose and on the other hand MedBerg is being forced to bear the burden and the deteriorating effect that arose out of the expropriatory act intended for the fulfilment of the insignificant public purpose. This makes it abundantly clear that since the Claimant's right to enter into license agreements has been usurped by the State, the charge on the Claimant outweighs the aim of the expropriatory measure, tilting the balance of proportionality in the favour of the Government of Bergonia.
- 130.** It has been asserted by several arbitral tribunals that, when identifying expropriation, the State's intention is less important than the effects of the measure. By stating this, it is not implied that the intention of the State is not taken into account, it is in fact indicated that these tribunals do not necessarily adhere to the 'sole effect doctrine'<sup>136</sup> It has been asserted that the effect of governmental action, rather than its purpose is 'a major factor, or even the sole factor, in determining whether or not a taking has

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<sup>135</sup> *Tecnicas Medioambientales S.A. v. The United Mexican States*, Award, 43 I.L.M. 133 (2004), May 29 2003.

<sup>136</sup> *Iran-US Claims Tribunal*, 29 June 1989, 21 Iran-US CTR 79

occurred<sup>137</sup>. It may be that the effect on the investment weighs more heavily in the balance than the motivation of the State, but the motivation can nonetheless assist in assessing whether there has been an indirect expropriation. Akin to the present situation, where the frailty of the intention behind the public purpose helps in determining that the CL ended up functioning as a tool of indirect expropriation.

**131.** Consequential expropriations involve deprivations of the economic value of a foreign investment, which, within the legal regime established by a BIT, must be deemed expropriatory because of their causal links to failures of the Host state to fulfil its paramount obligations to establish and maintain an appropriate legal, administrative and regulatory framework for a foreign investment which is an indispensable feature of the 'favorable conditions' for investment.<sup>138</sup> Bergonia, failed to fulfil its predominant obligations which were imperative to satisfy the condition for favorable investment.

**132.** The domestic medical needs were not given priority and exports continued. The purpose for which the compulsory license was granted was not fulfilled and public purpose was a mere pretext to cloak the expropriatory measure of the State. Violations such as these, both under TRIPS and the specific BIT clearly show that the State failed to achieve the intention behind issuing the license. It is finally submitted that not only the condition for compulsory licensing does not exist anymore but the state of Bergonia has failed to fulfil its obligation after such declaration. From the above discussion, it becomes necessary to analyse the conduct of the Respondent, by applying the principle of fair and equitable treatment and how it has been violated on several occasions.

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<sup>137</sup> R DOLZER, “*Indirect Expropriations: New developments?*”,11 NYU Env. IJ 64 (2002) at

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<sup>138</sup> *Supra* Note 135

## **B The issuance of Compulsory Licence violates Fair and Equitable Treatment**

**133.** Fair and equitable treatment is currently the most important standard in investment disputes. FET is recognized in modern times as the most powerful right of the investor. It plays a central role in virtually any investment treaty arbitration and has been applied by investment tribunals to a wide range of conduct of every branch of government.<sup>139</sup> Most treaties dealing with the protection of investments contain this standard. Article 2(2) of the Bergonia-Convenencia BIT which refers to *Encouragement and Protection of Investments*

(2) Each Contracting State shall in its territory in any case accord investments by investors of the other Contracting State fair and equitable treatment as well as full protection under the Treaty. Returns from the investment and, in the event of their re-investment, the returns there from shall enjoy the same treatment and protection as the investment under the Treaty.

(3) Neither Contracting State shall in any way impair by arbitrary or discriminatory measures the management, maintenance, use, enjoyment or disposal of investments in its territory of investors of the other Contracting State. The meaning and application of the FET standard will often depend on the specific circumstances of the case at issue.<sup>140</sup> The tribunal in *Waste Management* said that "the standard is to some extent a flexible one which must be adapted to the circumstances of each case".<sup>141</sup> Muchlinski has summarized the situation in the following terms: "The concept of fair and equitable treatment is not precisely defined. It facilitates the argument that the foreign investor has not been well treated by reason of discriminatory or other unfair measures being taken against its interests. It is therefore, a concept that depends on the interpretation of specific facts for its content."<sup>142</sup>

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<sup>139</sup> See generally P. DUMBERRY, "The Quest to Define "Fair and Equitable Treatment" for Investors under International Law-The Case of the: NAFTA Chapter" 11 *Pope & Talbot Awards*, 3 J.W.I. 4, August 2002, p. 657.

<sup>140</sup> G. SACERDOTI, *Bilateral Treaties and Multilateral Instruments on Investment Protection*, 269 *Recueil des Coun* 251, 1997, at 346.

<sup>141</sup> *Waste Management, Inc. v. United Mexican States (Waste Management)*, Award, paras. 90-91, 30 April 2004.

<sup>142</sup> See also P.T. MUCHLINSKI, *Multinational Enterprises and the Law*, Blackwell, Oxford, UK, 1999, p. 626.

It is possible to identify typical fact situations in which tribunals have employed the principle of fair and equitable treatment. UNCTAD, in its publication on the topic, has formulated this method of giving a more concrete meaning to this meaning: "It is possible to identify certain forms of behaviour that appear to be contrary to fairness and equity in most legal systems and to extrapolate from this the type of State action that may be inconsistent with fair and equitable treatment, using the plain meaning approach.

Thus, when a State acts fraudulently or in bad faith, or capriciously and wilfully discriminates against a foreign investor, or deprives an investor of acquired rights in a manner that leads to the unjust enrichment of the State, then there is at least a *prima facie* case for arguing that the fair and equitable standard has been violated."<sup>143</sup>

**134.** For instance, in our case, the indirect expropriation of our contractual rights under the pretext of so-called urgent public purpose is a distinct example of the non-compliance with the FET standard.

**135.** The genesis of the international law on foreign investment was in the obligation created by the law to protect the alien and his physical property.<sup>144</sup> Thus, customary international law has from time immemorial extended due protection to foreign investments.<sup>145</sup> The BIT between Bergonia and Convenencia which is significant in the present discussion expressly recognise intellectual property rights held by the investor as a form of investment and therefore extend protection against expropriation to intellectual property rights.

**136.** Article 1 of the Bergonia- Convenencia BIT states:

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<sup>143</sup> For a more detailed description of the origin and history of the concept of Fair and equitable treatment, see especially the United Nations Conference on Trade and Development (UNCTAD), *Fair and Equitable Treatment*, Series on Issues in International Investment Agreements, 1999, pp. 3-4, 7-9, 25-28 and 31-32.

<sup>144</sup> M. SORNARAJAH, *The International Law on foreign investments*, Cambridge University Press, 1994, p.10.

<sup>145</sup> See also, CHRISTOPHER SCHREUER, "Fair and Equitable treatment in Arbitral Practice", 6 J.W.I.T 3 (2005).

- The term “investments” comprises every kind of asset invested in accordance with the laws and regulations of a Contracting State and shall include in particular, though not exclusively
- (d) **INTELLECTUAL PROPERTY RIGHTS**, in particular copyrights, **PATENTS**, utility-model **patents**, industrial designs, trademarks, trade-names, trade and business secrets, technical processes, know-how, and good will;

**137.** Thus, the Bergonian government's stand on denying recognition to intellectual property rights as a protected investment ought to be considered as a grievous violation of the cardinal principles of FET. The phrase full protection referred to in Article 2(2) of the BIT not only includes protection from measures like expropriation but also the security of being an over-all protected investment, the safety of which is the paramount obligation of the state.

**138.** The procedural safeguards, laid down under TRIPS with regard to compulsory licensing ought to be complied with. These safeguards, although mandatory were by-passed by the Bergonian Government in the following ways:

**Prior undertaking and failure of negotiations to obtain voluntary license “on reasonable commercial terms and conditions” except in certain specified cases of extreme urgency<sup>146</sup>**

**139.** This provision was dishonoured by the Bergonian Government when they permitted the exploitation of the compulsory license by five companies who as proposed users had never approached MedBerg for the voluntary license, in clear violation of Article 31 of TRIPS. Failure of negotiations between MedBerg and BioLife is irrelevant and cannot be regarded as compliance with the said safeguard. The reason for the failure of negotiation between MedBerg and BioLife was the unprincipled conduct of BioLife in the past, which obliterated the good-will between the parties. Therefore the lack of *consensus ad idem* between the parties was the reason of the failure. Hence, compliance with the said safeguard cannot be based on failure of

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<sup>146</sup> Article 31 (b), TRIPS

negotiation between MedBerg and BioLife. Moreover, the five companies would not be eligible to yield the benefit of Biolife's attempt to renegotiate with MedBerg.

**C. Scope and duration of use under compulsory license being limited by the purpose for which it has been issued.**<sup>147</sup>

**140.** It is pertinent to note, that Bergonian Government had failed to comply with the above safeguard as well as the duration of use under the present compulsory license is not in accordance with the intended purpose. This conclusion can be validly drawn from the following submission. It has already been established that during the epidemic, the production was meagre and simultaneously exportation was taking place too. Yet, the situation was stabilized promptly. After considering the range of estimation and its reasonable extension, it is humbly submitted that the declared duration of four years was much greater than what was necessary, under the given scenario. Thus, implying that the duration of the compulsory license was not limited by the purpose.

**141.** Article 4 of the Bergonia-Convenencia BIT refers to compensation in case of expropriation or nationalisation. The sub-clauses read as follows:

(2) Investments by investors of either Contracting State shall not directly or indirectly be expropriated, nationalized or subjected to any other measure the effects of which would be tantamount to expropriation or nationalization (hereinafter referred to as “expropriation”) in the territory of the other Contracting State except, in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective **compensation**. Such compensation shall be equivalent to the value of the expropriated investment immediately before the date on which the actual or threatened expropriation has become publicly known.

**142.** The **compensation** shall be paid without delay. It shall carry interest from the date of expropriation until the time of payment at a commercially reasonable interest rate,

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<sup>147</sup> Article 31 (c), TRIPS

which is based on the relevant Euribor; it shall be effectively realizable and freely transferable. Provision shall have been made in an appropriate manner at or prior to the time of expropriation for the determination and payment of such compensation.

143. The failure to offer compensation to the Claimant, in lieu of the loss suffered by them is yet another breach on behalf of the Respondent; arising due to the dishonour of the above mentioned provision of the BIT.

**D. Violation of “Legitimate Expectation” and FET Standard through Arbitrary and Discriminatory Conduct.**

144. Claimant was aggrieved by the arbitrary decision of the IP office and registered various objections to the office but nothing was resorted as per Claimant’s satisfaction. On 1st December 2007, MedBerg wrote to the Bergonian IP Office with copies to the Foreign, Economics and Justice Ministries referring to Art. 10(2) of the BIT. Only the Justice Ministry replied to MedBerg’s 1 December 2007 letter, stating that the compulsory license was issued in conformity with Begonia’s international obligations. The authority (IP office) that was responsible for seizure of the Claimant’s contractual rights had conducted itself in an arbitrary and negligent manner by turning a blind eye to all the objections and requests put forward by the Claimant.

145. The swift response to Biolife's complaint and the lethargic attitude towards the Claimant’s objections depict the stark contrast in the functioning of the IP office resulting in a clear discrimination. The least the IP office could have done was to uphold its position of responsibility as a branch of the Bergonian Government and respond to the repeated objections raised by the Claimant, in affirmative or not. This is a denial of the fundamental right of representation which is a vital principle of the principles of natural justice. The concepts of arbitrary treatment and fair and equitable treatment are interrelated because arbitrariness is closely connected with the idea of the rule of law, foundational to the fair and equitable treatment

standard.<sup>148</sup> The fair and equitable treatment standard can be understood as “a rule of law standard that the legal systems of Host states have to embrace as a standard for the treatment of foreign investors.”<sup>149</sup> Thus, arbitrary treatment is sufficient for a finding of a violation of fair and equitable treatment.<sup>150</sup>

**146.** In addition, the above actions of the Bergonian government have severely hampered the legitimate expectations of the Claimant; as providing an official response to all the objections raised during a procedural matter is a basic necessity that ought to have been met. The foreign investor's degree of expectation is an important issue in indirect expropriation claims, particularly in the present case where a State entity has undertaken regulatory measures that, allegedly, are part of lawful administrative programmes. The notion that expectations deserve more protection as they are increasingly backed by investment is a valid one.<sup>151</sup> A breach of legitimate expectations can also amount to a violation of fair and equitable treatment.<sup>152</sup>

**147.** This clearly substantiates the point that not only did the state of Bergonia use public purpose as a cloak for compulsory licence but had also denied the effective redressal mechanism to the contentment of the Claimant.

### **E. CONCLUSION ON MERITS OF THE CLAIM**

**148.** It is humbly submitted that the Respondent failed to fulfil its obligation under parent BIT, causing breach of provisions of International instruments, International laws and standards, thereby causing unwarranted damage to the Claimant.

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<sup>148</sup> STEPHAN SCHILL, *Fair and Equitable Treatment as an Embodiment of the Rule of Law*, in Hoffman and Tams, 31 (2007).

<sup>149</sup> *Id.*

<sup>150</sup> *Id.*

<sup>151</sup> *See also* LUIS PARADELL, *The BIT Experience of Fair and Equitable Treatment Standard in Ortino et al.*, (2007).

<sup>152</sup> *See also*, CHRISTOPHER SCHREUER AND URSULA KRIEBAUM, “At what time must legitimate expectation exist?” Generally on the significance of legitimate expectations see; E.SNODGRASS, “Protecting Investors’ Legitimate Expectations- Recognizing and Delimiting a General Principle”, 21 ICSID Review- FILJ1 (2006).

**PART III – RELIEF REQUESTED**

In light of the submission made above, Claimant respectfully asks this tribunal to find:

- i. That this tribunal has jurisdiction over this dispute.
- ii. That the Respondent violated its obligation under Article 2 (2), 3(2) and 4(2) of the Bergonia – Conveniencia BIT and relevant international laws and standards.
- iii. That the compulsory licence as issued by the Bergonian IP Office should be revoked.
- iv. This arbitration should proceed to the quantification of damages phase.

RESPECTFULLY SUBMITTED ON SEPTEMBER 7, 2009 BY

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Team Ago