

JENNINGS

**SECOND ANNUAL  
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22-24 OCTOBER 2009**

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**INTERNATIONAL CENTRE FOR SETTLEMENT OF  
INVESTMENT DISPUTES**

**In the Proceeding Between**

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

**vs**

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

**MEMORIAL FOR CLAIMANT**

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## LIST OF ABBREVIATIONS

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

**Team Jennings, Memorial for Claimant**

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

## STATEMENT OF FACTS

1. On **30 May 2003**, the Republic of Bergonia (“Respondent”) and the Sultanate of Conveniencia entered into a Bilateral Investment Treaty (BIT). Respondent and the State of Tertia entered into a BIT on **1 January 2003**.
2. On **30 January 2004**, Claimant was established in Bergonia. It is a 100% owned subsidiary of MedX Holding Ltd (MedX), a limited liability company established under the laws of Conveniencia.<sup>1</sup>
3. MedX was registered on **1 January 2003** in Conveniencia. On **1 December 2003** the company was transferred to MedScience Co. (MedScience) and Dr Frankensid and renamed as MedX Holding Ltd. The two MedX shareholders hold equal ownership (50% of the shares each) and voting rights in the company.<sup>2</sup>
4. MedScience is a publicly-traded company incorporated under the laws of Laputa and majority-owned by Laputan nationals.<sup>3</sup> Dr Frankensid is a national of Bergonia and a naturalised Amnesian national since 1991.<sup>4</sup> He is a scientist employed at MedScience, credited with anti-obesity products and treatments leading to several patents, including Bergonian Patent AZ2005.
5. The intellectual property rights leading to the issuance of Patent AZ2005 were assigned to Claimant by Dr. Frankensid and MedScience in exchange for shares in MedX.<sup>5</sup>
6. On **5 February 2004**, Claimant applied for a patent in relation to Dr Frankensid’s invention. On **15 March 2005**, Claimant was granted Bergonian Patent No. AZ2005, of which Claimant is the owner.<sup>6</sup>

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<sup>1</sup> Record, Annex 3, [2].

<sup>2</sup> First Clarification, Questions 9 and 36.

<sup>3</sup> *Ibid*, Question 37.

<sup>4</sup> *Ibid*, Question 32.

<sup>5</sup> *Ibid*, Question 31.

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

7. On **31 March 2005**, Claimant licensed Bergonian company BioLife Co. to utilise Patent AZ2005 to develop the anti-obesity products under a Licence Agreement.<sup>7</sup>
8. On **31 March 2007**, Claimant terminated the Licence Agreement in accordance with the proper notice and termination provisions. Such cancellation was due to Claimant's concerns surrounding BioLife's parallel exports of the patented products into third countries other than Bergonia in a manner inconsistent with the terms of the License Agreement.<sup>8</sup> Under the Agreement, the products were only intended for sale in the domestic market.<sup>9</sup>
9. On **1 June 2007**, the Bergonian Intellectual Property Office commenced proceedings for the issuance of a compulsory licence with respect to Patent AZ2005, claiming that the patent technology was needed to address "important domestic medical needs"<sup>10</sup>, namely obesity.<sup>11</sup> On **1 November 2007** the Bergonian IP Office issued the compulsory licence for a period of 48 months. Bergonian law allows for the possibility of extending the licence.<sup>12</sup>
10. Claimant vigorously communicated its objections to the Bergonian IP Office on numerous occasions in 2007, both before and during the compulsory licence proceedings.<sup>13</sup> Claimant lodged a complaint with the IP Office's Patent Review Board, on appeal from the administrative decision to raise the compulsory licence, but to no avail.
11. On **1 November 2008**, the ICSID Secretary-General registered the dispute for arbitration.
12. As of **1 January 2009**, BioLife and five other Bergonian companies had invoked the compulsory licence to commercially produce the anti-obesity products.<sup>14</sup> Three of the companies have exported a significant proportion of these products overseas.

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<sup>7</sup> Record, Annex 3, [6].

<sup>8</sup> First Clarification, Question 15.

<sup>9</sup> *Ibid*, Question 27.

<sup>10</sup> Record, Annex 3, [7].

<sup>11</sup> First Clarification, Question 14.

<sup>12</sup> *Ibid*, Question 66.

<sup>13</sup> Second Clarification, Question 72.

<sup>14</sup> First Clarification, Question 20.

13. Claimant has not accepted the royalty payments that the Bergonian IP Office collected from the six Bergonian companies, as the percentage royalty rate under the compulsory licence is inadequate, and at any rate lower than that under the Licence Agreement between Claimant and BioLife.<sup>15</sup>

14. On **16 February 2009**, the First Session of the Arbitral Tribunal was held.

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<sup>15</sup> *Ibid*, Questions 12, 29.

## SUMMARY OF ARGUMENTS

15. **JURISDICTION.** This dispute satisfies the requirements for jurisdiction under Article 25(1) of the ICSID Convention: the parties' consent to arbitration under ICSID, and the requirements *ratione personae* (jurisdiction over the parties to the dispute) and *ratione materiae* (over the subject matter of the dispute). First, through the Bergonia-Conveniencia BIT, Claimant and Respondent consented to arbitration under ICSID. Second, Claimant satisfies both requirements of nationality for locally incorporated companies for the purposes of ICSID jurisdiction. Claimant is controlled by a company of Conveniencia, and Respondent agreed to treat Claimant as a foreign national for the purposes of Article 25(2)(b). Third, both Claimant and Respondent consented to the definition of a patent as an investment under the Bergonia-Conveniencia BIT. Fourth, the patent is an investment for the purposes of Article 25(1) ICSID Convention. The features of an investment as described in the case law are merely "typical characteristics" that do not, in themselves, define the existence of an investment.

16. **MERITS OF THE CLAIM.** First, Respondent has expropriated Claimant's property through the issuance of the compulsory licence by the Bergonian IP office and must provide adequate compensation. Claimant has suffered a substantial deprivation of private property. This amounts to both indirect expropriation and a breach of Claimant's legitimate expectations. Second, Respondent has violated its other obligations under international law and the Bergonia-Conveniencia BIT. The Compulsory Licence issued by the Bergonia IP Office is not in conformity with of the TRIPS Agreement. Third, Respondent failed to provide both fair and equitable treatment and full protection and security to Claimant's investment.

## ARGUMENTS

### PART ONE: JURISDICTION

17. Claimant has instituted the proceedings in front of the present Tribunal against Respondent on 1 November 2008<sup>16</sup>, on the basis of Respondent's offer of arbitration under Article 10 of the Bergonia-Conveniencia BIT.<sup>17</sup> During the first session of the Tribunal, Respondent raised jurisdictional objections<sup>18</sup> in accordance with Rules 41(1) and 41(6) of the ICSID Arbitration Rules. Claimant, however, will demonstrate that such jurisdictional objections are ill-founded and that the present dispute falls within the both the jurisdiction of ICSID and the competence of the present Tribunal.
18. As a preliminary matter, according to paragraph 22 of the Executive Directors' Report on the ICSID Convention and as confirmed by case law<sup>19</sup>, the applicable law to the jurisdiction of ICSID is Chapter II of the ICSID Convention. The scope of the jurisdiction of the Center is more specifically defined in Article 25. The requirements for the establishment of such jurisdiction can be divided into three fundamental categories: firstly, the parties' consent to submit their dispute to ICSID arbitration; secondly, the Tribunal's competence *ratione personae* over the parties to the dispute and lastly, the Tribunal's competence *ratione materiae*, i.e. over the subject matter of the dispute.
19. Respondent expressly invoked the lack of competence of the Tribunal with regard two of them. Respondent objected to the Claimant's nationality requirement (*ratione personae*) (I) and to the characterization of Patent AZ2005 as an investment (*ratione materiae*) (II) for the purposes of ICSID. Claimant, however, will demonstrate that the present Tribunal has jurisdiction over the dispute.

#### I. CLAIMANT FULFILS THE NATIONALITY REQUIREMENT FOR ICSID JURISDICTION.

20. Art. 25(1) ICSID Convention states, in relevant part:

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<sup>16</sup> Record, Annex 3, [10].

<sup>17</sup> Bergonia-Conveniencia BIT, Article 10(2).

<sup>18</sup> Record, Minutes of the First Session of the Arbitral Tribunal, [14].

<sup>19</sup> *Amco v Indonesia* (1983); *Tokios Tokeles v Ukraine* (2004); *TSA v Argentina* (2008).

[t]he jurisdiction of the Center shall extend to [disputes]... between a Contracting State...and a national of another Contracting State.

21. Claimant is a juridical person incorporated under the laws of Bergonia, the Respondent.<sup>20</sup>

Thus the relevant provision for determining Claimant’s nationality for the purpose of establishing the competence of the present Tribunal is Article 25(2)(b) of the ICSID Convention. This provision imposes two conditions, one objective and one dependent on the intention of the parties involved, in order to recognise the possibility of subjecting a locally incorporated company to ICSID Arbitration. Firstly, the domestic company should be under the “foreign control” of a national of another Contracting State to the ICSID Convention – the objective criterion; secondly, there should be an agreement between the parties to the dispute that such an entity would be treated as “a national of another Contracting State for the purposes of [the] Convention” – the intention criterion.

22. Claimant submits that both conditions are satisfied. The Tribunal is therefore respectfully requested to dismiss Respondent’s jurisdictional objection *ratione personae* in accordance with Article 41(5) ICSID Convention and to declare that it has competence *ratione personae* over the dispute. It is undisputed between the parties that both Bergonia and Conveniencia have ratified the ICSID Convention and are Contracting States in accordance with Article 68(2) ICSID Convention.<sup>21</sup>

23. Thus, Claimant’s argument focuses only on establishing that Claimant is to be treated as a Conveniencian national for the purposes of the ICSID Convention. Claimant is, in effect, controlled by a Conveniencian company (A). Moreover, Respondent has agreed to treat Claimant as a foreign national due to the application of a “consent to foreign treatment” clause contained in the Bergonia-Tertia BIT, by virtue of the MFN provision of Bergonia-Conveniencia BIT containing Respondent’s offer to arbitrate (B).

**A. Claimant is controlled by a national of Conveniencia (MedX).**

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<sup>20</sup> Record, Annex 3, [1].

<sup>21</sup> *Ibid*, [3].

24. Claimant is a hundred percent owned subsidiary of MedX, a company incorporated in Conveniencia and having its seat in that country.<sup>22</sup> MedX is in turn controlled jointly by MedScience (a Laputan company) and Dr Frankensid (a dual national of Amnesia and Bergonia).<sup>23</sup> Claimant submits that it is controlled by MedX (1) and that MedX is a national of Conveniencia, another Contracting State (2). The requirement of control by a national of another Contracting State in Article 25(2)(b) ICSID Convention is therefore satisfied.

**1. Claimant is under the foreign control of MedX.**

25. Claimant is under the direct control of MedX, and any eventual indirect control exercised over it is to be disregarded by the Tribunal. The relevant date for analysing the nationality of a locally incorporated company for the purposes of ICSID jurisdiction is the date of the parties' consent to arbitration, in the present case the date of the institution of the present proceedings by Claimant.<sup>24</sup>

26. Foreign control has been interpreted by ICSID tribunals as an objective criterion for the determination of the nationality of a locally incorporated company for the purposes of Article 25(2)(b) ICSID Convention. Several factors are important when establishing the existence of foreign control of a locally incorporated company. Considerations of equity participation, voting rights and management are of particular importance<sup>25</sup> and thus must be examined in Claimant's case. These factors have been consistently taken into account by ICSID tribunals when establishing jurisdiction.<sup>26</sup>

27. In the case at hand Claimant has been a wholly-owned subsidiary of MedX since its incorporation in 2004.<sup>27</sup> In addition, two of the three members of its management board are employees of MedX in Conveniencia.<sup>28</sup> Even though the third member of the board is of Bergonian nationality,<sup>29</sup> his role is not decisive, given that the above mentioned MedX

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<sup>22</sup> *Ibid*, [2].

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

<sup>24</sup> *Ibid*, [10].

<sup>25</sup> *Amco v Indonesia*(1983); *SOABI v Senegal*(1984).

<sup>26</sup> Schreuer, Commentary, Article 25, para. 573.

<sup>27</sup> Record, Annex 3, [2].

<sup>28</sup> Second Clarification, Questions 75; 76.

<sup>29</sup> Second Clarification, Question 75.

employees have a majority in the management board. Thus Claimant's management is placed under MedX's control. Moreover, the IP rights leading to the issuance of Patent AZ2005 were assigned to Claimant by MedX, the worldwide holder of the interests in the invention.<sup>30</sup> The Patent constitutes furthermore Claimant's only activity.<sup>31</sup> Finally, Claimant was incorporated on 30 January 2004, only six days before it applied for the Patent on 5 February 2004.<sup>32</sup> Therefore, it is evident from the facts that Claimant is dependent on MedX both financially and for its management, and was created for the sole purpose of MedX's investment in Bergonia. Hence, Claimant is under MedX's direct control.

28. Any eventual indirect control exercised over Claimant is, moreover, irrelevant for the purposes of Art. 25(2)(b) ICSID Convention. The *Barcelona Traction Case* (1970), used generally to determine corporate nationality, states that the nationality of the shareholders of a company is in principle irrelevant for the determination of the nationality of the company itself. As asserted in the *Barcelona Traction Case*, piercing the corporate veil is an "exceptional" process. It is not to be used unless there is "misuse of the privilege of legal personality".<sup>33</sup>
29. It is true that a recent case, *TSA v Argentina* (2008) denied jurisdiction over a locally incorporated company when its direct controlling company turned out to be in turn controlled by a national of the host state of the investment. This case, however, has to be considered as an exception to the principle in *Barcelona Traction*.
30. In *TSA v Argentina* the tribunal pierced the corporate veil because TSA's parent company was "an empty shell behind which stood an individual ...seeking to sue his own country",<sup>34</sup> and who held at all relevant times 51 percent or more of the shares of the parent company. Accepting jurisdiction in those circumstances would have been contrary to the ICSID Convention's core purpose, the resolution of disputes between "States and nationals of *other* States". Thus in *TSA v Argentina* the majority declined jurisdiction in

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<sup>30</sup> Second Clarification, Question 74.

<sup>31</sup> First Clarification, Question 19.

<sup>32</sup> Record, Annex 3, [1], [5].

<sup>33</sup> *Barcelona Traction Case* (1970), [56-58].

<sup>34</sup> Sinclair, p. 1.

order to avoid the abuse of ICSID arbitration by nationals of the host state of the investment.<sup>35</sup>

31. In the present case the situation is different. None of the two shareholders of MedX individually can assert control over the company. According to the facts of the case, they have both equal number of shares and voting rights.<sup>36</sup> Deadlocks between them are resolved by negotiations.<sup>37</sup> Moreover, the MedX shareholders, are nationals of different States – MedScience is a Laputan company and Dr Frankensid is a dual national of Bergonia and Amnesia.<sup>38</sup> Thus, even if Dr Frankensid is also a Bergonian national, he does not control MedX. Hence, piercing the corporate veil of MedX is not justified. The creation of a common company for the development in the global market of a particular invention<sup>39</sup> does not amount to an abuse of the privilege of corporate personality as defined by the *Barcelona Traction Case*. Rather, this structure is usual business practice for companies acting in the international markets. Therefore, Claimant submits that it is under the control of MedX, and that MedX's corporate structure is irrelevant for the purposes of Art. 25(2)(b) ICSID Convention.

## **2. MedX is a national of Conveniencia, another Contracting State.**

32. ICSID tribunals have previously determined a corporation's nationality in accordance with ICJ case law and taking into account the instrument containing the parties' consent to ICSID arbitration. They have, on the one hand, applied the *Barcelona Traction Case*, taking into consideration the company's place of incorporation and seat, irrespective of control.<sup>40</sup> On the other hand, consent is of crucial importance in ICSID arbitration. Thus, the definition of investor in the instrument containing the parties' consent to arbitration constitutes strong evidence of the relevant factor to take into account for the determination of the nationality of the investor for the purposes of the Center's jurisdiction. According to Aron Broches, the parties should be given considerable latitude

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<sup>35</sup> *TSA v Argentina* (2008), [153].

<sup>36</sup> First Clarification, Question . 23.

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

<sup>38</sup> Record, Annex 3, [2].

<sup>39</sup> Second Clarification, Question 74.

<sup>40</sup> *Tokios Tokeles v Ukraine* (2004).

in agreeing on the meaning of nationality. He asserts that a stipulation of nationality, made in conjunction with an arbitration clause that is based on a reasonable criterion should be accepted.<sup>41</sup>

33. In the present case, the relevant instrument of consent is the Bergonia-Conveniencia BIT.<sup>42</sup> Article 1(3)(b) of the BIT states that an investor of the Sultanate of Conveniencia is “any juridical person having its *seat* in [Conveniencia’s] territory” (emphasis added). Control was not considered a determining factor by Bergonia for the attribution of the privileges of the BIT, including ICSID arbitration, to Conveniencian investors, since it was not included in the definition of investor unlike in other investment treaties.<sup>43</sup> In accordance with Broches’ statement, since this criterion is reasonable and generally accepted for the determination of nationality of corporations in international law, the present Tribunal is requested to respect such a standard.

34. It is uncontested between the parties that MedX has its seat in Conveniencia and is incorporated in that state.<sup>44</sup> MedX would accordingly qualify as an investor of Conveniencia under the Bergonia-Conveniencia BIT and a national of Conveniencia according to the *Barcelona Traction* standard, both disregarding foreign control and basing nationality upon the place of the seat criterion. The Tribunal is therefore requested to find that MedX is a national of Conveniencia, and that as a result Claimant is controlled by a national of another Contracting State for the purposes of Art. 25(2)(b) ICSID Convention.

**B. Respondent has agreed to treat Claimant as a Conveniencian national for the purposes of ICSID Jurisdiction.**

35. Claimant submits that Respondent offered to treat it as a national of another Contracting State for the purposes of ICSID jurisdiction by virtue of Article VI.8 Bergonia-Tertia BIT. The Bergonia-Tertia BIT provision applies in the present case through the MFN

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<sup>41</sup> Broches [360-1].

<sup>42</sup> Bergonia-Conveniencia BIT, Article 10, and institution of proceedings by Claimant.

<sup>43</sup> Ukraine-United States BIT; ECT.

<sup>44</sup> Record, Annex 3, [2]; First Clarification, Question 35.

clause contained in Article 3(1) Bergonia-Conveniencia BIT.<sup>45</sup> Claimant accepted the offer to be treated as a national of another Contracting State at the time of the initiation of the present proceedings thus creating the necessary agreement between the parties to treat Claimant as a foreign national under Article 25(2)(b) ICSID Convention. Despite Respondent's contentions, the benefits of such agreement under Article VI.8 Bergonia-Tertia BIT cannot be denied to Claimant under the denial of benefits clause of Article I.2 of the same treaty, since the conditions for the application of the provision are not satisfied in this case.

36. Therefore, in accordance with the law on treaty interpretation **(1)**, the MFN provision grants Claimant the benefit of "foreign national treatment" under the Bergonia-Tertia BIT **(2)**, and Respondent cannot deny Claimant the benefits of this clause **(3)**.

**1. The law of treaty interpretation favours access to international arbitration.**

37. The law on treaty interpretation has been codified in the Vienna Convention on the Law of Treaties 1969 (VCLT), recognised by the ICJ to reflect customary international law on the subject.<sup>46</sup> It has been consistently applied by ICSID tribunals in the past.<sup>47</sup> Thus the Vienna Rules on Treaty Interpretation contained in Articles 31 to 33 VCLT would be relied upon by Claimant for the interpretation of the BITs and other relevant international agreements involved in the present dispute.

38. According to the general rule of interpretation contained in Article 31 VCLT

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

39. This provision is based on the idea that the interpretation of a treaty must be based above all on its text, rather than the "intention of the parties" to it, as the text is presumed in international law to be the most faithful expression of the common intention of the

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<sup>45</sup> Record, Annex 1 [8].

<sup>46</sup> Gardiner [29-38].

<sup>47</sup> *Ibid* [41 et seq.].

parties.<sup>48</sup> The Vienna Rules on Treaty Interpretation aim to establish the true meaning of the text of the treaty. In order to find this meaning, it is necessary, nevertheless, to read the provisions of the two BITs as a whole, having recourse to the context and purpose of the treaty.<sup>49</sup>

40. In the present case, the Tribunal is, thus, respectfully requested to take into account in its interpretation the purpose of the Bergonia-Conveniencia BIT, which is to “protect” and “promote” investments between the two countries.<sup>50</sup> Moreover, as stated in *Renta 4 v Russia* (2009), access to international arbitration, because of its fundamental importance in investment protection, is a “weighty factor in considering the object and purpose of BITs”.<sup>51</sup> Thus, favouring an investor’s access to arbitration should be considered an integral part of the purpose of BITs – and in particular, that of the Bergonia-Conveniencia BIT.

## **2. The MFN provision of the Bergonia-Conveniencia BIT grants Claimant “foreign national treatment” under the Bergonia-Tertia BIT.**

41. It is a general rule applied by the ICJ<sup>52</sup> and evidenced in the ILC Articles on MFN Provisions<sup>53</sup> that an MFN provision can only apply to articles of the third country treaty similar to the ones it was intended to apply to in the treaty in which it is incorporated. Respondent contends that the MFN provision of Article 3(1) Bergonia-Conveniencia BIT cannot be applied to jurisdictional issues. However, such an argument is erroneous.

42. The present Tribunal is certainly aware of the controversy that has developed in the past years regarding the possibility to apply MFN provisions to jurisdictional issues. There are now two schools of thought on the matter. One of them, characterised by cases such as *Plama v Bulgaria* (2005) or *Wintershall v Argentina* (2009), denies the applicability of MFN to jurisdictional clauses. Claimant submits, nevertheless, that the better view is the one of the other school, thus applying the MFN to clauses as the one at hand in the

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<sup>48</sup> *Ibid* [6].

<sup>49</sup> *Ibid* [144-5].

<sup>50</sup> Title and preamble of Bergonia-Conveniencia BIT, Record, Annex 1, p.7.

<sup>51</sup> *Renta 4 v Russia* (2009) [100].

<sup>52</sup> *Anglo-Iranian case* (1952); *Rights of US Nationals in Morocco* (1952).

<sup>53</sup> Article 9(1), ILC Articles on MFN Provisions.

present case. Claimant will demonstrate that the more favourable treatment in Article VI.8 Bergonia-Tertia BIT extends to Claimant (a), and Claimant can use the MFN provision in the Bergonia-Conveniencia BIT to avail of the “foreign national treatment” benefits in the Bergonia-Tertia BIT (b).

a. *The more favourable treatment in Art. VI.8 Bergonia-Tertia BIT applies to Claimant.*

43. Claimant submits that Article VI.8 Bergonia-Tertia BIT<sup>54</sup> (the comparator treaty for MFN purposes) is applicable to it by virtue of the operation of the MFN clause contained in Article 3(1) Bergonia-Conveniencia BIT (the basic treaty). Article VI.8 Bergonia-Tertia BIT confers more favourable treatment on Claimant than that in the provisions of the Bergonia-Conveniencia BIT, as the former extends the host state’s consent to ICSID jurisdiction to locally incorporated companies under foreign control.

44. Claimant is, moreover, incorporated under the laws of the Host State.<sup>55</sup> It is a 100 percent owned subsidiary of MedX, a company constituted under the laws of Conveniencia, the other Contracting Party to the basic treaty.<sup>56</sup> Thus, Claimant satisfies the condition of constituting an “investment” of a company of the other Contracting Party under Article 1(1)(b) Bergonia-Conveniencia BIT. As a result, Claimant is in a similar relationship with Bergonia, as needed for the application of Article VI.8 Bergonia-Tertia BIT, and Article VI.8 Bergonia-Tertia BIT is capable of being extended to Claimant by the operation of the MFN clause of Article 3(1) Bergonia-Conveniencia BIT.

b. *Claimant can use the MFN provision of Art. 3(1) Bergonia-Conveniencia BIT to invoke the benefits of the foreign national treatment clause of the Bergonia-Tertia BIT.*

45. Contrary to what Respondent alleges,<sup>57</sup> the MFN provision of Article 3(1) Bergonia-Conveniencia BIT is capable of extending the consent of Respondent by means of Article VI.8 Bergonia-Tertia BIT. There is no rule under international law which prevents an

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<sup>54</sup> Record, Annex 2, p.18.

<sup>55</sup> Record, Annex 3, [2].

<sup>56</sup> *Ibid.*

<sup>57</sup> Record, Annex 1, p.5.

MFN provision from applying to jurisdictional issues (i).<sup>58</sup> There is, in addition, nothing in the text of the Bergonia-Conveniencia BIT which limits the scope of the MFN provision of Article 3(1) in this respect (ii).

i. MFN provisions can apply to jurisdictional issues.

46. There is no legal basis for the refusal of application of MFN provisions to jurisdictional issues. The refusal of some tribunals to extend the effect of an MFN provision to jurisdictional issues originates in ICJ case law on the matter. In the *Anglo-Iranian Oil Case* (1952) it was Iran's consent to ICJ jurisdiction, given only regarding future treaties, which was discussed. The Court found that the United Kingdom could not rely on an MFN provision in order to extend such consent to ICJ jurisdiction to antecedent treaties.<sup>59</sup> As rightly analysed by the tribunal in the *Renta 4 v Russia* case, such consent to ICJ's jurisdiction given only with regard to future treaties meant that these treaties are the "basic treaties" for the purposes of an eventual application of the MFN provision, and not the ones signed previously with the United Kingdom.<sup>60</sup>
47. The question raised in the present case is different from the one discussed by the ICJ in the *Anglo-Iranian Oil Case*. Here, the issue is whether Respondent, by virtue of Article 3(1) Bergonia-Conveniencia BIT, consented to a broader scope of ICSID jurisdiction than in the one contained in Article 10 of the same BIT, knowing that neither the MFN provision nor Article VI.8 of the Bergonia-Tertia BIT, the comparator treaty was limited in time.
48. Therefore, the present question is closer to the one discussed by the ICJ in the *Rights of US Nationals in Morocco Case* (1952) regarding consular jurisdiction. In that instance the Court dealt with a treaty on the "footing" of "commerce" which entitled US Nationals to "whatever indulgence, in trade or otherwise" was granted to nationals of certain other States. In applying this provision, the ICJ found that, by virtue of the access to consular jurisdiction granted to UK Nationals, US nationals were entitled to such jurisdiction as well. The Court did not find it necessary for the application of the MFN provision, for jurisdictional issues to be mentioned in the treaty as entering in the scope of the MFN

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<sup>58</sup> *Ambatielos Claim* (1956); *Renta 4 v Russia* (2009); *Siemens v Argentina* (2004).

<sup>59</sup> *Anglo-Iranian Oil Case* (1952), p.109.

<sup>60</sup> *Renta 4 v Russia* (2009), [84].

provision.<sup>61</sup> Claimant emphasizes that there is no reason for a distinction between the legal regimes of consular jurisdiction and international arbitration, with regards to MFN provisions.

49. Another indication in the direction of applying MFN clauses to jurisdictional issues is provided also by the *Ambatielos Claim* (1956). The Arbitral Commission came to the conclusion that to the extent that “administration of justice” was concerned with the protection of the rights of traders under treaties of commerce and navigation, it was not excluded from the scope of an MFN provision in such treaties applicable to “all matters relating to commerce and navigation”. Thus, the possibility of the application of such MFN provisions was dependent on the intention of the Contracting States to the relevant treaty in accordance with its reasonable interpretation.<sup>62</sup>

50. A similar position was also adopted by arbitral tribunals in investor-state disputes. Thus the *RosInvest v Russia* (2007) tribunal came to the conclusion that

an arbitration clause, at least in the context of expropriation [as in the case at hand], is of the same protective value as any substantive protection offered by applicable provisions.

51. The *RosInvest* tribunal then applied an MFN provision in order to give the investor access to international arbitration.<sup>63</sup> Meanwhile, in *Renta 4 v Russia*, even if the tribunal finally declined jurisdiction because the particular BIT it was dealing with limited the effects of the MFN provision to FET, the principle of access to arbitration was nevertheless characterized as a “a fundamental and constant desideratum for investment protection”.<sup>64</sup>

52. Finally, Claimant stresses that the interpretation of the BITs in the present case should be distinguished from cases such as *Plama v Bulgaria* and *Wintershall v Argentina*. In these cases the tribunals found that MFN provisions cannot be applied in order to substitute one arbitration clause specifically negotiated by the Contracting States to the BIT with a different arbitration clause, because this would lead to forum shopping. Moreover, it would be difficult to judge which dispute resolution mechanism is more favourable. Nevertheless, Claimant does not seek to apply a *different* dispute resolution mechanism to

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<sup>61</sup> *The Rights of US Nationals in Morocco Case* (1952), [190].

<sup>62</sup> *Ambatielos Claim* (1956).

<sup>63</sup> *RosInvest v Russia* (2007), [132].

<sup>64</sup> *Renta 4 v Russia* (2009), [100], [101], [119].

its dispute with Respondent. Rather, Claimant emphasizes that it should receive more favourable treatment by acquiring access to the original dispute resolution mechanism provided for in the Bergonia-Conveniencia BIT, since MFN provisions are in general capable of being applied to jurisdictional issues according to international law, depending on the intention of the Contracting States to the relevant treaty.

ii. Art. 3(1) Bergonia-Conveniencia BIT applies to the jurisdictional provisions of the Treaty.

53. The Contracting States intended to extend the effect of Article 3(1) Bergonia-Conveniencia BIT to jurisdictional issues. Such conclusion is evident from the BIT itself, interpreted in a reasonable manner in accordance with the VCLT Rules of Interpretation. Firstly, the MFN provision of Article 3(1) Bergonia-Conveniencia BIT is drafted in general enough terms as to encompass jurisdictional issues. When interpreting its “ordinary meaning” there is no indication in the text of the provision of its limitation only to particular clauses of the BIT. In this respect the *Renta 4 v Russia* tribunal declared that there is no textual basis or legal rule to say that “treatment” does not encompass the host state’s acceptance of international arbitration.<sup>65</sup>
54. Moreover, clauses drafted in similar terms have been previously interpreted by investor-state tribunals to encompass jurisdictional issues. In *Siemens v Argentina* (2004), for instance, the tribunal found that a clause drafted in the same terms as the one contained in Article 3(1) Bergonia-Conveniencia BIT to be sufficiently broad as to encompass jurisdictional matters.
55. Secondly, an interpretation favouring the application of Article 3(1) to jurisdictional issues is in line with the way the Bergonia-Conveniencia BIT is drafted. Article 3 provides for exceptions to its application regarding certain matters: tax, forms of regional economic integration, as well as land ownership in Conveniencia.<sup>66</sup> It can be thus deduced from the structure adopted in the treaty that the Contracting States considered which issues are to be left outside of the scope of the MFN provision. Since jurisdictional issues are not included in the list of exceptions, it is reasonable to conclude that the Contracting States intended to extend the application of the MFN provision to the two

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<sup>65</sup> *Renta 4 v Russia* (2009), [101].

<sup>66</sup> Bergonia-Conveniencia BIT, Arts. 3(4) and 3(5).

dispute resolution clauses contained in Articles 9 and 10 of the BIT, despite Respondent's contrary suggestions.

56. Thirdly, the provisions of Articles 4(4) and 5(1) of the BIT, which respectively provide for MFN treatment regarding expropriation and compensation, further emphasize the general character of Article 3(1). Article 3(1), which is drafted separately from any substantive protection article, furthermore, refers to MFN and national treatment for investments under the BIT in general. It can be thus distinguished from MFN clauses contained in articles providing for substantive protections, such as expropriation and stating expressly that they apply only to "matters provided for in [those] Article[s]".<sup>67</sup>

57. For all the above reasons, Claimant respectfully requests the Tribunal to apply the MFN provision of Article 3(1) of the Bergonia-Conveniencia BIT as intended by the Contracting States. Therefore, to render Article VI.8 Bergonia-Tertia BIT applicable to Claimant and thus recognize that such provision constitutes Respondent's agreement to treat Claimant as a foreign national for the purposes of Article 25(2)(b) ICSID Convention.

**3. Respondent does not have the right to deny the benefits of Art. VI.8 Bergonia-Tertia BIT to Claimant.**

58. Contrary to Respondent's argument,<sup>68</sup> Respondent cannot deny Claimant the benefits of Article VI.8 Bergonia-Tertia BIT by virtue of the denial of benefits provision contained in Article I.2 of the same BIT,<sup>69</sup> since the conditions for the application of such provision are not satisfied in this case. Claimant invokes two arguments, each sufficient to lead to the non-application of the denial of benefits clause to Claimant. Claimant is not controlled (a) by a "national" of a third country (b).

*a. Claimant is not controlled by an entity from a third country.*

59. The basic condition for the application of the denial of benefits clause is control of the company in question by nationals of a third country. As argued by Claimant above,<sup>70</sup> this

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<sup>67</sup> Bergonia-Conveniencia BIT, Art. 4(4).

<sup>68</sup> Record, Minutes of the First Session of the Arbitral Tribunal, [14].

<sup>69</sup> Record, Annex 2, p.13.

<sup>70</sup> Part I.A.1.

condition is not satisfied in the present case. Claimant is controlled by MedX, a company incorporated in Conveniencia, the other Contracting State to the basic treaty (the Bergonia-Conveniencia BIT).

60. Even if the present Tribunal does not accept Claimant's argument regarding Article 25(2)(b), the standard of "control" to be applied when considering Article I.2 Bergonia-Tertia BIT is different from the one required for the application of Article 25(2)(b) ICSID Convention. According to Article I.1(a) Bergonia-Tertia BIT, when defining "investment", the Contracting States have expressly stated that an investment can be "directly or indirectly controlled" by investors of the other Contracting State.<sup>71</sup> In Article I.2 of the same treaty, however, the Contracting States refer simply to "control", without specifying the kind of control they envisage.

61. Therefore, by omitting to specify that indirect control is to be taken into account, the Contracting States intended to limit the application of Article I.2 only to *direct* control. Hence, Claimant's situation would still not enter into the scope of application of Article I.2 Bergonia-Tertia BIT, since it is evident that Claimant's direct controller is MedX.

*b. Claimant is not controlled by a "national" of a third country.*

62. Article I.2 Bergonia-Tertia BIT, requires that the company to which the benefits of the treaty are denied is controlled by "nationals" of a third country. The term "national", however, is defined in Article I.1(c) Bergonia-Tertia BIT as limited only to *natural persons*. According to Article 31(4) VCLT, when a special meaning is attributed to a term by the Contracting States to the treaty, this meaning should be respected when interpreting the treaty. Thus, "national" in Article I.2 Bergonia-Tertia BIT should be interpreted as referring only to natural persons – and not companies - of third country nationality.

63. Even if the present tribunal wishes to pierce the corporate veil of MedX and examine the situation of MedScience and Dr Frankensid, neither of them constitutes a "national" of a third country under Article I.2 Bergonia-Tertia BIT. MedScience is a corporation from

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<sup>71</sup> Record, Annex 2, p.13.

Laputa<sup>72</sup> and thus cannot constitute a “national” under the Bergonia-Tertia BIT. Meanwhile, Dr Frankensid is a dual Bergonian and Amnesian national.<sup>73</sup> Even if he is a natural person, Dr Frankensid has the nationality of one of the Contracting States to the BIT<sup>74</sup>. Therefore, he cannot be considered a national of a third state according to international law, except if one of his nationalities is considered to be of convenience<sup>75</sup>.

64. It is evident from the facts that Dr. Frankensid’s Bergonian nationality is one attributed by descent and birth<sup>76</sup>. Thus, this nationality is unlikely to be considered one of convenience. Moreover, unlike in *Soufraki v UAE* (2004), where the question was whether Mr Soufraki *recovered* his Italian nationality in accordance with a particular law, Dr Frankensid has never lost his Bergonian nationality. Therefore, the denial of benefits clause of Article I.2 Bergonia-Tertia BIT does not apply to Claimant. Hence, Claimant cannot be denied the application of Article VI.8 of the same treaty by virtue of this provision.

65. For all of the above reasons Respondent agreed, through the application of the foreign nationality treatment clause of the Bergonia-Tertia BIT, to treat Claimant as a foreign national for the purposes of Article 25(2)(b) ICSID Convention. Claimant is not only under foreign control but also subject to an agreement with Respondent that it would be treated as a foreign national. Thus, the requirements posed by Article 25(2)(b) for the jurisdiction *ratione personae* of ICSID and of the present Tribunal are fulfilled.

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<sup>72</sup> Record, Annex 3, [2].

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*

<sup>75</sup> *Nottebohm Case* (1955).

<sup>76</sup> First Clarification, Question 22.

## II. THE PATENT IS A PROTECTED INVESTMENT IN THE PRESENT CASE.

66. This case concerns Respondent's breach of its obligations under the Bergonia-Conveniencia BIT toward Claimant's investment in MedBerg, a corporation incorporated in Bergonia.

67. The relevant investment is Bergonian Patent AZ2005, which Claimant owns.<sup>77</sup> The patent protects the invention by Dr Frankensid, an employee of MedScience, of a range of anti-obesity products and treatments characterised by lipid absorption retardant combined with glycogen/lipid metabolism optimisation.<sup>78</sup>

68. A patent is a right granted by the state to prevent third parties from undertaking within that territory certain activities specified by the "claims" of the patent, which define the scope of the patent's monopoly.<sup>79</sup> In the present dispute, the lengthy process of research and development (R&D) on the obesity treatments eventually led to the application for and granting of Patent AZ2005 to Claimant. The patent provided a commercial incentive to the innovation of the breakthrough products.

69. The patent is an investment under the terms of the Bergonia-Conveniencia BIT. It is undisputed that patents are expressly included as "investments" in the BIT.<sup>80</sup> The state party to the BIT, in this case Bergonia, offered consent to arbitration to the investor who is a national of the other contracting party, Conveniencia. The arbitration agreement was perfected through the acceptance of that offer by Claimant, the investor.<sup>81</sup>

70. Consent to ICSID arbitration, however, is not enough: the requirements *ratione materiae* under Article 25 of the Convention must also be satisfied. Article 25(1) of the ICSID

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<sup>77</sup> Record, Annex 3, [3].

<sup>78</sup> Second Clarification, Question 73.

<sup>79</sup> Cook, [1.10].

<sup>80</sup> Bergonia-Conveniencia BIT, Article 1(1)(d).

<sup>81</sup> Dolzer and Schreuer, [242].

convention specifies that the jurisdiction of the Centre extends only to “any legal dispute arising directly out of an investment”.<sup>82</sup>

71. The term “investment”, however, is not defined in the ICSID Convention. The Tribunal will be familiar with the ongoing debate as to whether an investment with respect to Article 25(1) of the Convention needs to meet certain specified criteria, or whether such criteria are merely indicative. In assessing the existence of an investment, Claimant emphasizes that the criteria for an investment as defined in *Salini v Morocco* (2001) – a financial contribution, a certain duration, an element of risk, and economic development in the host State – and expanded in *Phoenix Action* (2009) are useful, but not binding, guidelines. Rather, the “typical characteristics” approach in the *MHS v Malaysia* Annulment (2009)<sup>83</sup> will be followed in the present case. Therefore, Claimant submits that the patent is a protected investment under both the Bergonia-Conveniencia BIT (A) and Article 25(1) of the ICSID Convention (B).

**A. The patent is a protected investment under the Bergonia-Conveniencia BIT.**

72. Claimant fulfils the requirements for jurisdiction under the Bergonia-Conveniencia BIT. Claimant and Respondent expressly agreed to classify patents as an investment in the BIT, and the dispute arises out of the investment. Article 1(1) of the Bergonia-Conveniencia BIT expressly includes patents<sup>84</sup> within the meaning of “investment”, which is defined as “every kind of asset invested in accordance with the laws and regulations of a Contracting State”.<sup>85</sup>

73. The BIT is the document that serves as evidence of consent between the parties.<sup>86</sup> When the drafters of the ICSID Convention declined to define the term “investment”, one reason for not doing so was the existence of the “essential requirement of consent between the parties”.<sup>87</sup> The intent of the drafters was to leave parties with some discretion of what they wish to treat as an investment, and so the BIT should be taken into account.

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<sup>82</sup> ICSID Convention, Article 25(1).

<sup>83</sup> *MHS v Malaysia* Annulment (2009), [77].

<sup>84</sup> Bergonia-Conveniencia BIT, Article 1(1)(d).

<sup>85</sup> *Ibid*, Article 1(1).

<sup>86</sup> Dolzer and Schreuer, [242].

<sup>87</sup> Executive Directors’ Report, [27].

74. In other words, if the parties have expressly or implicitly agreed to characterise a patent as an investment within the BIT, then such an agreement should control the constitution of an ICSID investment for the purpose of Article 25 of the Convention.<sup>88</sup> Therefore, Bergonian Patent AZ2005, owned by Claimant, is an investment under the BIT.

75. Moreover, the dispute arises out of the investment under the Bergonia-Conveniencia BIT, as it relates to the intellectual property rights of Claimant, which have been unlawfully exploited by Respondent through the issuance of the compulsory licence.

**B. The patent is an investment under Article 25(1) of the ICSID Convention.**

76. Bergonian Patent AZ2005 is a protected “investment” for the purposes of the ICSID Convention. An investment has many features, but it must be emphasized at the outset that the absence of one or more of the characteristics is not sufficient to deny jurisdiction (1). Claimant submits that the features described in *Salini v Morocco* (2001) and refined by *Phoenix Action* (2009) – are present in the patent. These include: a contribution in money or other assets (2); a certain duration (3); an element of risk (4); and an operation made to develop an economic activity in the host State (5).<sup>89</sup>

**1. An absence of one or more “investment” characteristics cannot deny jurisdiction.**

77. Claimant submits that a broad approach of “investment” should be applied. The Ad Hoc Committee in the *MHS v Malaysia Annulment Decision*<sup>90</sup> adopted the “typical characteristics” view of an investment, as opposed to a strict view. The *MHS Ad Hoc Committee* went on to cite with approval the commentary of Professor Christoph Schreuer, who stated that the features of an investment should not necessarily be understood as jurisdictional requirements, but merely as “*typical characteristics of investments under the Convention*” (emphasis added).<sup>91</sup>

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<sup>88</sup> Krishan, [6].

<sup>89</sup> *Phoenix Action* (2009), [114].

<sup>90</sup> *MHS v Malaysia Annulment* (2009), [77].

<sup>91</sup> Schreuer, p. 140, cited in *MHS v Malaysia Annulment*, [77].

78. *Biwater v Tanzania* (2008) also adopted a similar approach. In *Biwater* the Tribunal emphasized that the “typical characteristics” of an investment should not be elevated into a fixed and inflexible test, as it would risk the arbitrary exclusion of certain types of transaction from ICSID and be inconsistent with the intention of the parties in the BIT.<sup>92</sup>
79. The *Biwater* Tribunal also rejected the notion that arbitral tribunals should impose a definition of investment applicable “in all cases and for all purposes”.<sup>93</sup> Several authors have concurred with this reasoning: for instance, Devashish Krishan asserts that there is no “multilateral grant of authority” over objective interpretation granted to individual tribunals sitting in particular investor-State disputes.<sup>94</sup>
80. The two new characteristics added by the *Phoenix Action* case to the *Salini* elements, which must be taken into account - assets invested in accordance with the laws of the host State, and assets invested *bona fide* – will not be considered here, as these elements are not in dispute. Claimant stresses that neither the *Salini* nor the *Phoenix Action* criteria are absolute determinants of the existence of an investment. Rather, *all* the elements must be taken together as a whole, and the absence *per se* of one or more of the criteria is not enough to deny the presence of an investment.
81. Therefore, Claimant submits that the features of an investment identified in *Salini* and refined in *Phoenix Action* are hallmarks rather than strict characteristics. Thus, the typical characteristics approach shows that an investment exists in the present case, and so the relevant requirements *ratione materiae* are fulfilled.

## **2. The patent involves a contribution in money or other assets.**

82. In any case, the patent exhibits the typical characteristics of an investment under the above guidelines. One of the features is that of a contribution in money or other assets. The fact that the patent is an intangible property right does not disqualify it from being an investment. In *CSOB v Slovakia* (1999) a loan was found to be an investment, even

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<sup>92</sup> *Biwater v Tanzania* (2008).

<sup>93</sup> *Biwater v Tanzania* (2008), [313].

<sup>94</sup> Krishan.

though there was no transfer of financial resources in Slovakia.<sup>95</sup> Other intangible assets, such as promissory notes<sup>96</sup>, have been deemed investments.

83. Claimant acquired the right to apply for patent issuance when Dr Frankensid and MedScience assigned the intellectual property rights to the anti-obesity products to Claimant, in exchange for shares in MedX.<sup>97</sup> The transfer of shares signifies that there was a transfer of funds or other financial assets between Claimant and MedScience.
84. The investment need not be direct in order to fall under ICSID jurisdiction. Although it was MedScience, and not Claimant, who invested funds in the obesity products and treatments, Claimant was the assignee of the IP rights and was set up in order to register the patent. The identity of the investor does not diminish the nature of the investment.
85. The facts in the present case are similar to that in *Fedax v Venezuela* (1997), in which Venezuela argued that Fedax had made no investment in the host State, as it was merely the assignee of a promissory note transferred to it from a Venezuelan company, which meant it was not “direct”. The *Fedax* Tribunal, however, held that indirect investments came within the scope of Article 25(1) ICSID. As the Tribunal stated, “Jurisdiction can exist even in respect of investments that are not direct, so long as the dispute arises directly from such transaction”.<sup>98</sup>
86. The patent protects the invention by Dr Frankensid of a breakthrough range of products to treat obesity.<sup>99</sup> Consistent with the activities of a biotechnology company, MedScience, Dr Frankensid’s employer, invested money in R&D, which encompassed the technological equipment, premises, and other related expenses such as the cost of clinical trials and experimental techniques necessary to facilitate the scientific process.
87. Regulatory costs were also involved, as the Bergonian State Drug Administration approves all products that deal with medical treatments for humans.<sup>100</sup> This process is not

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<sup>95</sup> *CSOB v Slovakia* (1999) [76].

<sup>96</sup> *Fedax v Venezuela* (1997).

<sup>97</sup> First Clarification, Question 31.

<sup>98</sup> *Fedax v Venezuela* (1997), [24].

<sup>99</sup> Record, Annex 3, [4-5].

<sup>100</sup> Second Clarification, Question 10.

unique to Claimant's drugs, as pharmaceutical companies developing obesity treatments often face high regulatory hurdles in the approval of anti-obesity compounds.<sup>101</sup> Thus, the process leading toward the registration of the patent involved a considerable outlay of financial resources.

### 3. The patent is of a certain duration.

88. The patent was granted for a minimum of 20 years, which means that the investment fulfils the criterion of duration. This is due to the fact that the date from which the term of a patent is calculated is the filing date.<sup>102</sup> The TRIPS Agreement, to which both Bergonia and Conveniencia are signatories, mandates a minimum term of 20 years after the date of filing of the patent.<sup>103</sup> Claimant filed the patent application on 5 February 2004, which means that the term runs until at least 5 February 2024.

### 4. The patent involves an element of risk.

89. Claimant is a company that sells the anti-obesity products as its sole commercial endeavour.<sup>104</sup> Although Dr Frankensid's invention is thought to be more effective in combating obesity than the other drugs currently available in Bergonia<sup>105</sup>, only two scientific studies have been published thus far in support of this assertion.<sup>106</sup> Hence, the data is inconclusive; the products have not actually been proven to yield positive results. The drugs use a lipid absorption retardant, which by definition controls the rate of lipid absorption, or fat accumulation, in the digestive system.<sup>107</sup> Although recent scientific studies have shown that the retardant process *may* have some antiobesity effects in humans<sup>108</sup>, there is as yet no conclusive evidence to show that this is the case.

90. In addition to there being no guarantee of success, no other products exist to leverage the risk involved in developing the anti-obesity drugs. If these treatments prove to have

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<sup>101</sup> Solvay.

<sup>102</sup> Cook, [2.26].

<sup>103</sup> TRIPS Agreement, Art. 33.

<sup>104</sup> First Clarification, Question 35.

<sup>105</sup> Second Clarification, Question 68.

<sup>106</sup> First Clarification, Question 28.

<sup>107</sup> Arishima et al, [72].

<sup>108</sup> *Ibid.*

adverse side effects, then there is a high possibility that Claimant would lose its investment, as the treatments covered by the patent constitute its only type of merchandise.

91. The Tribunal in *Phoenix Action* (2009) considered a number of factors in assessing the element of risk.<sup>109</sup> It defined risk as involving “the investor los[ing] the amount he has paid”.<sup>110</sup> The Tribunal concluded that in the case of an investor buying a bankrupt company, the investor assumes the risk of not being able to revitalise the corporation.
  
92. Anti-obesity treatments have a controversial status in the medical field, as they often reveal long-term effects that negate the benefits of the drug. The case of Redux, a pill made from dexfenfluramine, a powerful appetite suppressant touted as a “miracle drug”,<sup>111</sup> serves as a cautionary tale that highlights the inherent risks involved in devising such treatments. Within months of its approval in April 1996 by the United States Food and Drug Administration, Redux became the fastest-selling drug in history, at the rate of 80,000 prescriptions a week.<sup>112</sup> It was not until October 1997 – 18 months later – that evidence surfaced that over 30 percent of users had suffered acute and even life-threatening side effects, ranging from heart failure to severe breathing difficulties.<sup>113</sup>
  
93. The element of risk, therefore, is ever-present in the development of anti-obesity treatments. There is as yet insufficient data to tell whether the problem of obesity can in fact be minimised through the drugs.<sup>114</sup> Even if the long-term effects of the products do not prove to be harmful, there remains the possibility that the weight of those taking the drugs would return once the pill is discontinued. Both patients and regulatory bodies are unlikely to tolerate unacceptable medium-to-long-term side effects, since obesity treatments are a preventive therapy for otherwise outwardly healthy people.<sup>115</sup> This would, in turn, affect the investment, particularly if users initiate product liability lawsuits or, most likely, simply stop taking the drug, which would diminish sales.

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<sup>109</sup> *Phoenix Action* (2009), [126-128].

<sup>110</sup> *Ibid*, [127].

<sup>111</sup> Shell, [133].

<sup>112</sup> *Ibid*, [137].

<sup>113</sup> *Ibid*, [138].

<sup>114</sup> Second Clarification, Question 67.

<sup>115</sup> Obesity Drug Discovery, p. 1.

94. Moreover, MedScience invested financial resources in R&D. Two further types of risk were involved: firstly, that Dr Frankensid's work could prove fruitless or lacking in commercial viability, and secondly, that the patent, even when granted, could be of limited value due to a competitor coming up with a better alternative solution to the product.<sup>116</sup> Claimant also risked the possibility that there would be no interest in Bergonia for the products. Therefore, Claimant faced a variety of risks in its investment.

**5. The patent involves an operation to develop the economic activity of Bergonia.**

95. Claimant sells the anti-obesity products and treatments in Bergonia, and submits that the patent contributed to the development of economic activity in that state. The Tribunal in *Sedelmeyer v Russian Federation* (1998) stated that:

It must be presupposed...that investments are made within the frame of a commercial activity and that investments are, in principle, aiming at creating a further economic value.<sup>117</sup>

96. Claimant intended to develop economic activity when it applied for, and was granted, the patent for Dr Frankensid's invention. Claimant then licensed BioLife, a Bergonian company, to utilise the patent in accordance with a Licence Agreement for the production of the anti-obesity drugs in the Bergonian domestic market.<sup>118</sup>

97. The development of economic activities need not be successful to be defined as such. The main requirement is that the activity must have been foreseen or intended,<sup>119</sup> which was fulfilled by Claimant's actions in exploiting its intellectual property rights. The fact that Claimant currently sells directly only very limited quantities of its obesity products and treatments in Bergonia<sup>120</sup> cannot negate the existence of an economic activity, because the key reason for the decrease in Claimant's sales is the issuance of the compulsory licence. An investment that has come to a standstill because of the host State's actions would still qualify as an investment.<sup>121</sup>

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<sup>116</sup> Cook, [1.02].

<sup>117</sup> *Sedelmeyer v Russian Federation* (1998), [224].

<sup>118</sup> First Clarification, Question 27.

<sup>119</sup> *Phoenix Action* (2009), [133].

<sup>120</sup> First Clarification, Question 35.

<sup>121</sup> *Phoenix Action* (2009), [133].

98. In fact, the total unit sales of the products by the six firms invoking the compulsory licence have increased to 155 percent of that sold previously by BioLife alone under the Licence Agreement.<sup>122</sup> The anti-obesity drugs have, at least so far, provoked commercial interest in Bergonia, thus contributing to economic activity in that state, even though Claimant does not directly profit from such activity.

99. Furthermore, the tribunal in *CSOB v Slovakia* (1999)<sup>123</sup> found support for an expansive interpretation of the term “investment” in the Preamble to the ICSID Convention, which states that:

The Contracting States [are] considering the need for international cooperation for economic development, and the role of private international investment therein.<sup>124</sup>

100. According to the *CSOB* Tribunal, the Preamble suggests that a transaction that contributes to cooperation designed to promote a state’s economic development can be considered an investment.<sup>125</sup> Therefore, it makes no difference whether or not the economic activity is successful for Claimant; what matters is the intention of the parties *vis-à-vis* that investment.

101. Claimant made good faith efforts to develop its products in Bergonia, but was prevented from doing so due to the interference of the Bergonian state. Claimant’s rights have been violated, and it should not be denied the protection of its investment.

## CONCLUSION ON JURISDICTION

102. The Tribunal is requested to find that it has jurisdiction over the present dispute. Firstly, Claimant fulfils the requirements of nationality for the purposes of ICSID jurisdiction. On the one hand, Claimant is controlled by a national of Conveniencia, another Contracting State to the ICSID Convention; on the other, Respondent has agreed, through the

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<sup>122</sup> First Clarification, [35].

<sup>123</sup> *CSOB v Slovakia* (1999), [64].

<sup>124</sup> ICSID Convention, Preamble.

<sup>125</sup> *CSOB v Slovakia* (1999), [64].

operation of the MFN clause of the Bergonia-Conveniencia BIT to treat Claimant as a foreign national. Secondly, Claimant and Respondent consented to the definition of a patent as an investment under the Bergonia-Conveniencia BIT. Finally, the patent is an investment for the purposes of Article 25(1) ICSID Convention; the features of an investment as described in the case law are merely “typical characteristics” that do not, in themselves, define the existence of an investment.

## PART TWO: MERITS OF THE CLAIM

### I. RESPONDENT EXPROPRIATED CLAIMANT'S PROPERTY.

103. Claimant contends that indirect expropriation of Claimant's property has occurred. Claimant will address the third issue of the written and oral procedures found in paragraph 14(c)<sup>126</sup> of the Minutes of the First Session of the Arbitral Tribunal. The issue of fair and equitable treatment of foreign investments will be considered in Section II below.

104. The argument to demonstrate that Claimant's property has been expropriated will be made in three equal parts. Firstly, Claimant submits that the "substantial deprivation test" formulated in *Metalclad*<sup>127</sup>, shows that the issuance of the compulsory licence by the Bergonian Authorities amounted to "taking" of Claimant's property (A). Secondly, Claimant will demonstrate that this "taking of property" amounted to indirect expropriation (B). Though indirect expropriation should be considered on a case by case basis, a number of principles have been formulated to demonstrate the existence of indirect expropriation, namely the intensity of interference with Claimant's property rights and breach of Claimant's legitimate expectations. Thirdly, Claimant submits that the indirect expropriation is unlawful (C).

105. The Bergonia-Conveniencia BIT provides in Article 4(2) that expropriation is only lawful where it is in accordance with applicable law, for the public benefit, non-discriminatory and against prompt and adequate treatment. Claimant argues that Respondent failed to satisfy two of these criteria, namely the requirement of public benefit (C.1) and adequate compensation (C.2). Claimant respectfully petitions the Tribunal to find that the compulsory licence amounted to unlawful expropriation and that Respondent breached its international legal obligations under the BIT.

#### A. Expropriation is defined in the Bergonia-Conveniencia BIT and under customary international law.

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<sup>126</sup> Record, Minutes of the First Session of the Arbitral Tribunal, [14].

<sup>127</sup> *Metalclad*, (2001) [103].

106. Article 4(2) of the Bergonia-Conveniencia BIT provides that investments will not be “direct or indirectly expropriated” or subject to measures whose effects are “tantamount to expropriation” unless it is in accordance with national law, for the public benefit, non-discriminatory and adequate compensation has been given. The value of the compensation is to be equal to the value of the investment “immediately prior” to the date the expropriation was made public.

107. The definition of an investment and whether intellectual property rights, specifically patents are an investment within the Bergonia-Conveniencia BIT has been presented by Claimant under the *rationae materiae* in Part One, Section II. Respondent has expropriated Claimant’s investment, Bergonian Patent AZ2005<sup>128</sup>, and must furnish appropriate compensation.

**1. The compulsory licence has substantially deprived Claimant’s use of the patent.**

108. Expropriation is not limited to a State's direct taking of assets but also encompasses any “unreasonable interference with the use, enjoyment or disposal of property so as to justify an inference that the owner thereof will not be able to use, enjoy or dispose of the property within a reasonable period of time after the inception of such interference.”<sup>129</sup>

109. In *Starrett Housing v. Iran* (1983) the Iran-US Claims tribunal found that the appointment of an Iranian manager over an American housing project represented interference with property to such an extent that the rights were rendered useless and deemed to have been expropriated, even though the legal title remained with the original owner.<sup>130</sup>

110. The issue of whether a compulsory licence amounts to indirect expropriation has been discussed extensively by Paulsson and Douglas. They consider that there are two primary stages of analysis for indirect expropriation: the “magnitude of the interference to the investor’s property”<sup>131</sup> by the host state’s actions, and the determination of

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<sup>128</sup> Record, Annex 3, [4], [5].

<sup>129</sup> Baxter, Article 10(5).

<sup>130</sup> *Starrett Housing v. Iran* (1983), [154].

<sup>131</sup> Paulsson and Douglas, [148].

whether the taking or interference amounts to indirect expropriation, with reference to the relevant investment treaties.<sup>132</sup>

111. Claimant submits that the first part of the analysis regarding indirect expropriation should be considered here. Indirect expropriation focuses on the measures which fall short of an actual taking but result in the loss of management, control or a significant depreciation in the value of the investor's assets.<sup>133</sup> Definitions of indirect expropriation have focused on the "unreasonable interference"<sup>134</sup> with the "prevention of enjoyment"<sup>135</sup> or with the "deprivation" of the Claimant's property.<sup>136</sup>
112. The Iran-US claims tribunal in the *ITT Industries v Iran* (1983)<sup>137</sup> case held that government interference may amount to expropriation if it denies property owners fundamental rights of ownership, use, enjoyment or management of the business. This position has also been adopted by other arbitration tribunals, notably the tribunal in *Metalclad* (2001)<sup>138</sup>.
113. Claimant stresses that the facts of the current dispute are analogous to those in *Metalclad* (2001), where a US corporation was granted a permit to develop a hazardous waste landfill site by the Mexican government. Subsequently, the municipal authorities refused to grant the necessary construction permit and the regional government declared the land in question a national area for the protection of cactuses. The arbitral tribunal found that there was indirect expropriation and a violation of NAFTA Article 1110.
114. In the present case, Claimant was granted a patent by the Bergonian IP Office in March 2005,<sup>139</sup> which was revoked after only two years in November 2007<sup>140</sup>, following which six other entities other than Claimant began to develop the obesity treatments associated with Patent AZ2005.

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<sup>132</sup> *Ibid.*

<sup>133</sup> UNCTAD.

<sup>134</sup> International Responsibility of States for Injured Aliens, Art 10(3)(a).

<sup>135</sup> Restatement, §712 comment G.

<sup>136</sup> Brownlie, [508].

<sup>137</sup> *ITT Industries v. Iran* (1983), [348].

<sup>138</sup> *Metalclad* (2001), [103].

<sup>139</sup> Record, Annex 3, [5].

<sup>140</sup> Record, Annex 3, [7-8].

115. The ICSID tribunal in *CMS v Argentina* (2005) endorsed the concept of “substantial deprivation” as determinative for establishing whether the level of deprivation suffered by the Claimant constituted a taking. The tribunal determined that the essential question which had to be determined was whether the enjoyment of the property had been neutralised.<sup>141</sup>
116. The definition of expropriation found in Article 4 of the Bergonia-Conveniencia BIT expressly states in line 2 that investments by Bergonian and Conveniencian nationals are protected from indirect and direct expropriation. The definition of expropriation in the BIT is broad in scope. Article 4(2) does not restrict expropriation to expropriating measures: it includes “measure[s] the effects of which would be tantamount to expropriation”. This definition is broad enough to encompass the concept of “substantial deprivation” found by the tribunal in *CMS v Argentina* (2005) to be the essential determinant of whether the level of deprivation suffered constitutes a taking.
117. It was noted by the tribunal in *Methanex* (2005) that the key function of property is the combination of rights achieved in a commercial setting under a regulatory regime to earn a reasonable rate of return.<sup>142</sup> The tribunal further found that whether the degree of interference caused by the compulsory licence can be classified as indirect expropriation is directly related to a number of factors, namely: (a) the scope and duration of the compulsory licence, (b) the parties authorised to invoke the compulsory licence, and (c) the amount of remuneration paid to the patent holder.<sup>143</sup>
118. A patent is a legal monopoly granted to a particular investor, providing it with the exclusive right to develop and profit from an invention. The effect of the compulsory licence is to breach this monopoly, allowing other actors or market players to benefit from the invention. Aside from BioLife, the original licensee,<sup>144</sup> a further five Bergonian entities with whom Claimant had no previous licence agreement<sup>145</sup> have invoked the compulsory licence and been permitted to develop the obesity treatment.

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<sup>141</sup> *CMS v Argentina*, (2005) [262].

<sup>142</sup> *Methanex* (2005), [7-8].

<sup>143</sup> *Methanex* (2005) [1345].

<sup>144</sup> Record, Annex 3, [6].

<sup>145</sup> First Clarification, Question 28.

As a result of the compulsory licence, Claimant is selling considerably less quantities of the obesity treatment in Bergonia<sup>146</sup>. Thus, the compulsory licence has significantly limited Claimant's economic activities in Bergonia.

119. The impact of the compulsory licence not only undermines Claimant's ability to earn a certain level of return to match the investment made into the patented technology but also diminishes the value of the investment. Even though the compulsory licence is limited in its duration (48 months)<sup>147</sup>, the obesity treatment technology is no longer protected technology, as the technology becomes freely available in the market. Even if the compulsory licence is repealed at a later date, the technology still exists with entities other than the investor. The overall value of the investment has depreciated as a result of the compulsory licence.

## **2. The Level of Interference with the Claimant's Property constitutes Indirect Expropriation.**

120. The Bergonian state interfered with Claimant's investment to such an extent so as to constitute indirect expropriation. In *Marvin Feldman v Mexico* (2002), the tribunal held that the identification of indirect expropriation measures could only be achieved via a case-by-case analysis of the specific facts.<sup>148</sup> However, tribunals have introduced criteria such as: **(a)** the disproportionate effect on the investor or **(b)** interference with legitimate expectations, which have been developed to help determine whether the level of taking of private property rises to the level of indirect expropriation.

### *a. The compulsory licence has a disproportionate effect on Claimant.*

121. Article 4(2) of the Bergonia-Conveniencia BIT focuses on "measures, the effect of which would be tantamount to expropriation." Amongst the legal principles used is the "sole effect" doctrine, which asserts that it is the effect of the governmental action rather than its purpose or intent which is the sole determining factor in determining whether

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<sup>146</sup> First Clarification, Question 19.

<sup>147</sup> *Ibid*, Question 24.

<sup>148</sup> *Marvin Feldman v Mexico* (2002) [107].

expropriation has occurred.<sup>149</sup> The definition of expropriation in the Bergonia-Conveniencia BIT focuses on the effects of measures to determine whether expropriation has occurred.

122. The development of patented technology requires a lengthy R&D process. The investment is in the research and technology needed to develop the patented technology. That is why the TRIPS Agreement provides that the term of protection afforded to patents is 20 years.<sup>150</sup> Only by affording such a lengthy period of protection is an investor able to recoup the large amounts of investment made into the patent. In the present case, Claimant and MedScience poured in substantial financial resources into the development of the anti-obesity drugs. The economic incentive for the investor to develop the technology is the knowledge that it will be able to recoup R&D costs and maximise profits for a protected duration.

123. There were ample reasons for Claimant to believe that the invention would be profitable: there was early interest from the scientific community in the form of two studies published in support of the efficacy of the products.<sup>151</sup> Anti-obesity treatments have often enjoyed commercial success, as evidenced by the healthy sales of diet aids such as Xenical in the United States, which in 1999 had sales of USD 146 million in the domestic market alone.<sup>152</sup>

124. An intellectual property right is an intangible property right granted to the investor – an exclusive right to exclude all others from using the technology and developing the products related to the patent. During the period in which the patent is in force, the investor has the vested right to exploit the technology of the patent to the maximum extent. The profits originating from the patent are not incidental, but rather a core part of the investor's right to fully exploit the economic benefits of the patent for a defined period.

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<sup>149</sup> Dolzer.

<sup>150</sup> TRIPS Agreement, Article 32.

<sup>151</sup> First Clarification, [28].

<sup>152</sup> Shell, p. 142.

125. In *RFCC v Morocco* (2003), the tribunal held that indirect expropriation exists where the measures have; effects of a substantial intensity which reduces or removes the legitimate benefits related to the use of the rights, by such an extent that they render any further possession of the property useless<sup>153</sup>. This position was endorsed in *CMS v Argentina* (2006)<sup>154</sup> and *Telenor v Hungary* (2006)<sup>155</sup> where in the latter case, the tribunal held that expropriation involved conduct which has an adverse effect on the economic value of the investment. The interference must substantially deprive the investor of the economic value, use or enjoyment of the investment.<sup>156</sup>
126. The Bergonia-Conveniencia BIT recognises that intellectual property rights and specifically “patents” comprise a foreign investment, invested in a contracting state. It is also accepted as part of customary international law<sup>157</sup> that expropriation may affect not only tangible property but also intangible property. Patent AZ2005 is a foreign investment protected from direct and indirect expropriation by the Bergonia-Conveniencia BIT.
127. The economic value of a patent is the right of the investor to exclude all other parties from utilising the patent. In Claimant’s case, the economic value of the patent has been deprived, following the issue of the compulsory licence on 1 November 2007, BioLife and five other entities are able to use the patent and develop the technology related to patent AZ2005<sup>158</sup>. Claimant no longer possesses exclusive economic rights over the development and production of the obesity treatment.
128. Claimant is not the only company in Bergonia who is researching and developing obesity treatments<sup>159</sup>, however to date only Claimant has had a compulsory licence imposed upon it by the Bergonian IP office. Also, the unit sales of the obesity treatment currently sold in Bergonia by Claimant have shrunk by a significant amount, while the units sold by other six firms which have invoked the compulsory licence is 155% of that

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<sup>153</sup> *RFCC v. Morocco* (2003) [391].

<sup>154</sup> *CMS v Argentina* (2006) [262, 263].

<sup>155</sup> *Telenor v Hungary* (2006) [64].

<sup>156</sup> *Telenor v Hungary* (2006) [65].

<sup>157</sup> Article 1139, NAFTA.

<sup>158</sup> Record, Annex 3, [7,8].

<sup>159</sup> Second Clarification, Question 84.

sold previously by BioLife.<sup>160</sup> Apart from BioLife none of the other five entities which have invoked the compulsory licence were in negotiations with the Claimant about a licence agreement.<sup>161</sup> All these companies have benefited commercially from patent AZ2005 without negotiating with the Claimant.

129. Moreover, under the previous licence agreement with BioLife, the majority of the obesity products manufactured were for consumption within Bergonia. Following the issuance of the compulsory licence, however, parallel exports have occurred.<sup>162</sup> Therefore, the compulsory licence not only affects Claimant in Bergonia but also impacts on Claimant's patent rights overseas.

*b. The compulsory licence has interfered with Claimant's legitimate expectations.*

130. When Claimant was granted Bergonian Patent AZ2005 on 15 March 2005<sup>163</sup> by the Bergonian IP Office, it was implicit in the granting of the patent that Claimant would have the right to enjoy the economic benefits of the patent for an exclusive period of 20 years.<sup>164</sup> However, after less than three years following the issue of the patent, the Bergonian IP Office issued a compulsory licence which has expropriated Claimant's property. The Bergonian government has breached Claimant's legitimate expectations, which during the patent protected period Claimant would have the exclusive rights to exploit the economic benefits of the patent. This is compounded by the fact that the issuance of the compulsory licence is in violation of the TRIPS Agreement, a closer examination of which will be made in the following section (II.A).

131. The tribunal in *Metalclad* (2001) also relied upon, for its finding of indirect expropriation, the "reasonably to be expected economic benefit"<sup>165</sup> of the investor. The tribunal stressed the reliance of the investor on the host states' good faith which had been breached by the host state. In *Metalclad* (2001), the crucial element to the tribunal's finding of expropriation was that the investor had relied upon the representations of the Mexican government of its exclusive authority to issue permits for

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<sup>160</sup> First Clarification, Question 19.

<sup>161</sup> *Ibid*, Question 28.

<sup>162</sup> Second Clarification, Question 13.

<sup>163</sup> Record, Annex 3, [5].

<sup>164</sup> TRIPS Article 33.

<sup>165</sup> *Metalclad* (2001), [103].

hazardous waste disposal facilities. In the present case, Claimant relied upon the representations of the Bergonian government in granting Patent AZ2005 that Claimant would enjoy the exclusive economic rights to the patent.

132. In *Thunderbird v Mexico* (2006), the tribunal provided as part of the definition of legitimate expectation that, states can create reasonable and justifiable expectations on the part of an investor to act on reliance of such expectations<sup>166</sup>. Claimant argues that this provides useful guidance to the issues which must be considered when examining whether a taking of property reaches the level of indirect expropriation. It is the Claimant's submission that the level of indirect expropriation has been met because the compulsory licence has a disproportionate effect on Claimant. Thus, the compulsory licence which was issued in violation of the TRIPS Agreement breached Claimant's legitimate expectations.

#### **B. The Expropriation of Claimant's Property is Unlawful.**

133. The twin concepts of indirect expropriation and legitimate regulatory actions – which do not give rise to claims of compensation<sup>167</sup>-- are accepted and have been applied by arbitral tribunals.<sup>168</sup> The difficulty lies in distinguishing between an indirect expropriation (unlawful) and a regulatory measure (lawful). Article 4(2) of the Bergonia-Conveniencia BIT states four circumstances in which expropriation is lawful: in accordance with applicable law, for the public benefit, on a non-discriminatory basis and against prompt and adequate compensation. Claimant will demonstrate that neither the public benefit requirement (1) nor that of compensation (2) has been satisfied.

##### **1. The issuance of the compulsory licence by the Bergonian IP office does not satisfy the public benefit requirement.**

134. Article 4(2) of the Bergonia-Conveniencia BIT makes it clear that foreign investments shall not be expropriated except in exceptional circumstances for the public benefit. Claimant submits that the Bergonian IP Office has failed to satisfy the public benefit

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<sup>166</sup> *Thunderbird v Mexico* (2006) [147].

<sup>167</sup> Muchlinski et al [433].

<sup>168</sup> *Metalclad* (2001) & *CMS v Argentina*, (2006).

standard when issuing the compulsory licence. The Bergonia-Conveniencia BIT does not provide any clarifications as to what ‘for the public benefit’ means, therefore the Claimant suggests turning to other international agreements, such as the WTO Agreement.

135. The Bergonian Government has failed to provide sufficient evidence to show that there is a “domestic medical emergency” in their country which required the issuing of a compulsory licence. Furthermore, the timing of the of the commencement of proceedings to issue the compulsory licence by the Bergonian IP office occurred two months after Claimant and a Bergonian company<sup>169</sup>, BioLife, failed to reach an agreement on the continuation of a licence agreement permitting BioLife to develop the obesity treatment. Following the issue of the compulsory licence, BioLife and 5 other Bergonian entities have been awarded the right to produce the obesity treatment<sup>170</sup>.
136. The WTO Agreement contains many specific agreements; among these is the TRIPS Agreement, which examines intellectual property rights. Article 31 of the TRIPS Agreement provides for the exceptional circumstances in which a compulsory licence may be issued to patented technology. Article 31(a) TRIPS states that every authorisation for compulsory licensing should be considered on its own merits. In paragraph (b) of Article 31 TRIPS, it is stated that only in circumstances of a ‘national emergency’ or ‘circumstances of extreme urgency’ can the requirement to obtain permission from the patent holder be waived. The main body of the TRIPS Argument with regards to the expropriation of Claimant’s property is found in Section **II.A**.
137. The text of the Doha declaration on the TRIPS Agreement and Public Health<sup>171</sup> provides a clarification of the circumstances in which a state may issue compulsory licences. As both Bergonia and Conveniencia are members of the WTO<sup>172</sup>, the TRIPS Agreement and all other covered agreements are binding on both states. Though the legal value of this declaration is limited, since it is not been incorporated into the TRIPS Agreement and is part of the Covered Agreements listed in Annex 1A of the Marrakesh Agreement.

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<sup>169</sup> Record, Annex 3, [7].

<sup>170</sup> Record, Annex 3, [8].

<sup>171</sup> Doha Declaration on TRIPS and Public Health.

<sup>172</sup> Record, Annex 3, [3].

138. Paragraph 5(b) of the Doha Declaration states that members have the right to grant compulsory licences and to determine on what grounds they should be issued. However in paragraph 5(c) of the Doha Declaration this discretion is clarified (limited). It lists “HIV/AIDS, tuberculosis and malaria and other epidemics” as examples of what constitutes a national emergency. Though the declaration makes clear that the listed examples of public emergencies are not exhaustive<sup>173</sup>, it is nevertheless difficult to classify obesity as an epidemic.

139. It is recognised by Claimant that there are related health risks to obesity such as; heart disease, high blood pressure, diabetes. These medical conditions are not comparable to the list of national emergencies found in paragraph 5(c) of the Doha Declaration. Further the health risks related to HIV/AIDS, malaria and other examples are more severe and contagious than obesity. Therefore, obesity does not satisfy the public benefit requirement, nor does it represent a national emergency or a circumstance of extreme urgency as provided in Article 31 of the TRIPS Agreement.

140. The fact that the six entities which have invoked the compulsory licence have been exporting the obesity treatments overseas<sup>174</sup> makes difficult to reconcile with the Bergonian IP Office’s claim that there is a national health emergency in Bergonia. If there were indeed a national emergency, the likelihood is that the obesity treatments would be stockpiled and kept for use in Bergonia. Instead, exports comprise a significant portion of the obesity technology produced by the six entities<sup>175</sup>. Thus, the reason for imposing the compulsory licence is not a national emergency but profit.

## **2. The compensation offered by Respondent is inadequate.**

141. Even if the public benefit standard is satisfied, Claimant submits that the expropriation is still unlawful because the compensation offered by the Bergonian IP Office does not satisfy Article 4(2) and 4(3) of the Bergonia-Conveniencia BIT.

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<sup>173</sup> Doha Declaration on TRIPS and Public Health, Paragraph 5(d).

<sup>174</sup> Record, Annex 3, [8].

<sup>175</sup> Second Clarification, Question 61.

142. Article 4 of the Bergonia-Conveniencia BIT also explains the level of compensation which must be offered to the investor of expropriated property. Article 4(2) states that the compensation must be “prompt” and “adequate”. Also the compensation is to be equivalent to the value of the property on the date prior to the actual or threatened expropriation. Article 4(3) provides more detail about the amount of compensation and the timing of payment, that it should be paid without delay and carry interest from the date of expropriation until the date of payment.

143. Article 31(h)-(j) of the TRIPS Agreement also contains rules regarding compensation:

(h) The right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(i) The legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(j) Any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member.

144. Following the issue of the compulsory licence on 1 November 2007, BioLife and five other entities have invoked the compulsory licence from 1 January 2009.<sup>176</sup> The Bergonian IP Office has collected royalties from these companies and offered them as compensation to Claimant.<sup>177</sup> Claimant submits that the compensation offered is in breach of the Bergonia-Conveniencia BIT and International Law.

145. Articles 4(2) and 4(3) of the Bergonia-Conveniencia BIT provide for the level of compensation which must be offered to Claimant. Article 31(h) of the TRIPS Agreement also provides that compensation is dependant upon individual circumstances and must take into account the economic value of the expropriated property. The royalties offered by the Bergonian IP Office are at a lower rate than the royalties which Claimant obtained from BioLife in its licence agreement<sup>178</sup>, regardless of the value of the investment, Patent AZ2005. The Royalties offered to the claimant do not take into account the market value of Patent AZ2005, prior to the compulsory licence being issued. The Royalties offered are only collected from domestic sales of the obesity

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<sup>176</sup> Record, Annex 3, [8].

<sup>177</sup> Record, Annex 3, [8].

<sup>178</sup> 1<sup>st</sup> Clarification Question 21.

treatment; it does not include foreign sales of the product which represent a significant portion of total sales<sup>179</sup>.

146. Further, Article 4(3) requires that the compensation will carry “interest from the date of expropriation until the time of payment at a commercially reasonable interest rate”. The interest from the date of expropriation, 1 November 2007, until the date of payment (at present an unspecified time) has not been offered to Claimant. Therefore, Respondent is in breach of Article 4(2) and 4(3) of the Bergonia-Conveniencia BIT by failing to provide adequate compensation including interest to Claimant following the issuance of the compulsory licence.

147. In summary, Claimant submits that the compulsory licence issued by the Bergonian IP Office amounts to an indirect expropriation of Claimant’s property, namely Patent AZ2005. Following the issue of this compulsory licence, Claimant has been substantially deprived of the right to benefit from the exclusive economic rights associated with Patent AZ2005. The compulsory licence is unlawful, it fails to satisfy the public benefit criteria, it is not in conformity with the TRIPS Agreement, and the Bergonian IP Office have failed to provide adequate compensation to Claimant.

**II. RESPONDENT HAS BREACHED ITS OTHER OBLIGATIONS UNDER INTERNATIONAL LAW.**

148. Claimant will demonstrate that in addition to the expropriation of Claimant’s property, Respondent is also in breach of its obligations under public international law, specifically the TRIPS Agreement **(A)** and the requirement of fair and equitable treatment (FET) under the Bergonia-Conveniencia BIT **(B)**.

**A. Respondent has breached its obligations under the TRIPS Agreement.**

149. Article 31 TRIPS allows for compulsory licences to be issued under exceptional conditions. Firstly, the proposed user must have made efforts to obtain authorisation on

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<sup>179</sup> 2<sup>nd</sup> Clarification, Question 61.

“reasonable commercial terms” and this must have been done within “a reasonable frame of time”.<sup>180</sup> A waiver of this condition can be made, but only if the member state is in a state of national emergency.<sup>181</sup> Secondly, the scope and duration of the licence must be limited to “the purpose for which it was authorised”.<sup>182</sup> Thirdly, the licence must be “predominantly” for the supply of the domestic market.<sup>183</sup>

150. Article 31(b) of TRIPS states that a government or third parties authorised by a government must have tried to obtain a patent on “reasonably commercial terms” prior to issuing the compulsory licence. With respect to Patent AZ2005, however, there is no evidence that the Bergonian IP Office did so. On the contrary, the IP Office offered Claimant royalties collected from the entities invoking the compulsory licence only *after* the compulsory licence had been issued.<sup>184</sup>

151. Moreover, Article 31(c) TRIPS requires that the compulsory licence’s scope and duration is “limited to the purpose for which it was authorised”. On 1 June 2007 the Bergonian IP Office began proceedings to issue a compulsory licence with respect to Patent AZ2005.<sup>185</sup> The reasoning the IP Office gave for beginning proceedings was that the technology covered by Patent AZ2005 was needed to address “urgent domestic medical needs”<sup>186</sup>, namely obesity in Bergonia. However, BioLife and the other five entities who have received the compulsory licence have used them for a commercial purpose.<sup>187</sup> Together, the six entities have sold 155 percent more of the anti-obesity products under the compulsory licence than that sold previously by BioLife alone under the original Licence Agreement with MedBerg.

152. The compulsory licence does not have any specific provisions permitting exports to other countries.<sup>188</sup> Article 31(f) TRIPS states that the use of the compulsory licence should be “predominantly for the supply of the domestic market”. Paragraph 6 of the

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<sup>180</sup> TRIPS, Article 31(b).

<sup>181</sup> *Ibid.*

<sup>182</sup> TRIPS, Article 31(c).

<sup>183</sup> TRIPS, Article 31(f).

<sup>184</sup> Record, Annex 3, [8].

<sup>185</sup> Annex 3, [7].

<sup>186</sup> *Ibid.*

<sup>187</sup> First Clarifications, Question 34.

<sup>188</sup> *Ibid.*, Question 30.

Doha Declaration on TRIPS and Public Health does permit members to export licensed products, but this is limited to “countries with insufficient or no manufacturing capacity in the pharmaceutical sector”<sup>189</sup> and, in paragraph 7, “least developed member countries”.<sup>190</sup> Of the countries to which BioLife and the other six entities export the obesity treatment, all have pharmaceutical manufacturing capacity,<sup>191</sup> and none are least-developed countries.

153. Respondent has not complied with the terms of Article 31 TRIPS when issuing its compulsory licence with respect to Patent AZ2005. Therefore, Respondent is in breach of its obligations under Articles 31(b), (c), (f) and (h) of the TRIPS Agreement.

**B. Respondent has breached its obligation to provide fair and equitable treatment to Claimant’s investment.**

154. On the basis of the arguments on the indirect expropriation of Claimant’s property, it can be concluded that Respondent has acted contrary to the requirements of fair and equitable treatment (FET) and full protection under the Treaty. Claimant submits to the Tribunal that regardless of the satisfaction of the tribunal on the matter of expropriation, there are other grounds on the basis of which Respondent is in breach of its obligations under Article 2(2) of the Bergonia-Conveniencia BIT, which entitles Claimant to FET and full protection under the Treaty. The standard of FET against which the acts of Respondent are to be measured is an absolute, non-contingent standard whose meaning is determined by reference to the circumstances of the case and Customary International Law.<sup>192</sup>

155. Although the meaning of FET is still a matter of academic discussion<sup>193</sup>, Claimant argues that Respondent has acted contrary to two of the fundamental requirements of establishing FET under Article 2 of the Bergonia-Conveniencia BIT. In interpreting the provisions of the Bergonia-Conveniencia BIT, regard must be given to the purposes of the Treaty, one of which (as outlined in the Preamble) is the encouragement of foreign

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<sup>189</sup> Doha Declaration on TRIPS and Public Health, [6].

<sup>190</sup> *Ibid*, [7].

<sup>191</sup> Second Clarification, Question 70.

<sup>192</sup> Fatouros, pp. 135-141, 214-215.

<sup>193</sup> Muchlinski, p. 625; Salem, pp.579-626.

investment.<sup>194</sup> In light of such interpretation, Claimant argues that the acts of Respondent are contrary to the principles of FET as required by the Article 2 of the Bergonia-Conveniencia BIT, namely due diligence and vigilant protection of Claimant's investment (1) and due process (2).

**1. Respondent has not fulfilled its obligation of due diligence and vigilant protection of Claimant's investment.**

156. Claimant had terminated the license agreement with BioLife mainly due to parallel export of products in breach of the aforesaid agreement.<sup>195</sup> Respondent argues that the compulsory licenses were issued to determine the efficacy of the Patent and to induce correction in the domestic market.<sup>196</sup> However, the licenses are silent on the export of the products<sup>197</sup>, and as a result the licensees, who are exploiting the Patent for commercial purposes<sup>198</sup>, are receiving a significant portion of their returns from exports.<sup>199</sup> This does not just amount to correction of domestic markets for the benefit of Bergonian residents, but rather market manipulation on a global scale, which has put Claimant and its parent company in significant economic difficulty.

157. Moreover, while the remuneration provisions in the initial BioLife license were based on sales<sup>200</sup>, the current compulsory license regime only provides for yearly royalties. Thus, notwithstanding the phenomenal growth in sales volume and higher revenues for BioLife and five other firms<sup>201</sup>, Claimant has not benefited fairly from its investment. The compulsory license regime, which Claimant has not consented to, does not allow for the owner of the patent to benefit from its success under a fair and reasonable business arrangement.

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<sup>194</sup> Bergonia-Conveniencia BIT, Preamble; *Lauder v Czech Republic* (2001).

<sup>195</sup> First Clarification, Question 15.

<sup>196</sup> Second Clarification, Question 66.

<sup>197</sup> First Clarification, Question 24.

<sup>198</sup> *Ibid*, Question 20.

<sup>199</sup> Second Clarification, Question 61.

<sup>200</sup> First Clarification, Question 41.

<sup>201</sup> *Ibid*, Question 39.

158. FET and full protection and security of investment are usually interpreted as interlocking concepts.<sup>202</sup> In *Azurix v Argentina* (2006) the tribunal was persuaded of the interrelationship of FET and the obligation to afford the investor full protection and security<sup>203</sup>, a finding that was not overturned during the annulment proceedings. The Ad Hoc Committee in the *Azurix Annulment* (2009) clarified that the tribunal did not necessarily consider the two standards identical, but that it did consider full protection and security to be a sub-category of fair and equitable treatment, in that a “breach of the latter standard would necessarily entail a breach of the former”.<sup>204</sup>

159. In a patent-related case such as the one at hand, however, FET can be looked at as a standalone requirement under Article 2(2) of the Bergonia-Conveniencia BIT. Thus, it is Claimant’s submission that Respondent has not shown due diligence in protecting Claimant’s investment. The situation is analogous to that of the respondent in *Wena Hotels v Egypt* (2001)<sup>205</sup>, which failed to take all measures necessary to protect the interest of the claimant against the practice of parallel exporting and providing reasonable protection for the claimant’s legitimate interests in a commercially successful investment.

**2. Respondent has failed to provide due process to an extent which amounts to arbitrariness.**

160. The Bergonian IP Office issued six compulsory licenses for the exploitation of the patent for 48 months each, without prior consultation with Claimant. In the absence of any judicial or administrative pronouncements on the matter<sup>206</sup>, Claimant took the proper steps under Article 10(2) of the Bergonia-Conveniencia BIT to communicate its objections to the relevant authorities. However, only the Ministry of Justice of Bergonia responded to the objections raised, asserting that the acts of the authorities were in compliance with Bergonia’s obligations under international law.<sup>207</sup> The Ministry’s claim is backed up neither by evidence nor any logical and legal explanation for the manifest

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<sup>202</sup> *AMT v Zaire* (1997).

<sup>203</sup> *Azurix v Argentina* (2006), [408].

<sup>204</sup> *Azurix v Argentina Annulment* (2009), [138].

<sup>205</sup> *Wena Hotels v Egypt* (2002).

<sup>206</sup> Second Clarification, Question 113.

<sup>207</sup> *Ibid*, Question 111.

breach of Article 2 of the BIT. Therefore, Claimant has not been afforded a reasonable response to its complaints.

161. Significantly, Article 2(3) of the Bergonia-Conveniencia BIT accords fair and equitable treatment as a substantive requirement encompassing due process of law and avoidance of arbitrary measures. Thus, the minimum international standards of due process should be followed in the process of issuing a compulsory license, requiring Respondent to make available acceptable procedures for reasonable notice and a reasonable opportunity for interested persons to present facts and arguments in support of their positions. This is manifestly not the case here.

### **CONCLUSION ON THE MERITS**

162. Respondent has breached its international obligations with respect to expropriation, fair and equitable treatment, and full protection and security. Respondent is also in breach of its international law obligations with regard to the TRIPS Agreement.

**REQUEST FOR RELIEF**

163. Claimant respectfully asks the Tribunal to find that:

- (1) both the requirements *ratione personae* and *ratione materiae* under Article 25 of the ICSID Convention are satisfied and therefore the Tribunal has jurisdiction over the present dispute;
- (2) the compulsory license issued by Respondent constitutes an indirect expropriation of Claimant's investment;
- (3) the compulsory license issued by Respondent constitutes in addition a breach of Respondent's obligations under the TRIPS Agreement; and
- (4) Respondent has failed to provide fair and equitable treatment to Claimant with respect to its investment in Bergonia.

Respectfully submitted on 7 September 2009 by

JENNINGS

On behalf of Claimant

MEDBERG CO.