Zoricic Team

INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES CHAMBER IN FRANKFURT

MEDBERG CO.

[Claimant]

v.

THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

[Respondent]

MEMORIAL FOR CLAIMANT

September 7th, 2009

TABLE OF CONTENTS.

LIST OF AUTHORITIES	v
TABLE OF ABBREVIATIONS	xiv
SUMMARY OF ARGUMENT	1
STATEMENT OF FACTS	2
PART ONE: JURISDICTION.	4
I. THE TRIBUNAL HAS JURISDICTION OVER THE DISPUTE.	4
A. General remarks.	4
B. The standing requirements of Article 25 of the ICSID Convention are met	4
C. Investor fulfills requirements defined in BIT1.	5
D. All relevant treaties shall be interpreted in accordance with their object and purpose.	5
II. CLAIMANT IS A NATIONAL OF A CONTRACTING STATE IN THE MEANING OF ARTICLE 25(1).	6
A. MedBerg Co. and MedX Holdings Ltd are the same single group of companies.	7
B. Claimant is a national of another Contracting State and therefore has *ius standi* in this proceedings.	8
III. ALTERNATIVELY CLAIMANT MEETS THE *RATIONE PERSONAE* REQUIREMENTS DEFINED IN ARTICLE 25(2)(B) OF THE ICSID CONVENTION.	8
A. The existence of foreign control over Claimant is undisputable	9
B. Piercing the first layer is enough to find relevant foreign control.	10
C. MFN CLAUSE contained in BIT1 permits Claimant to invoke Consent Clause in BIT2 and fulfill the third requirement of Article 25(2)(b).	10
1. MFN CLAUSE permits Claimant to attract Consent Clause.	11
a. MFN clauses subsume dispute resolution.	11

b. Wording of the MFN CLAUSE permits a conclusion that the latter comprises jurisdictional issues 13

c. The possibility of recourse to the ICSID jurisdiction by application of the MFN clause does not violate public policy underlying BIT1 15

2. CC providing for a blank consent of the Respondent to treat a company incorporated in Bergonia as a foreign investor is more favourable than provisions of BIT1. 16

3. Claimant may benefit from the Consent Clause in BIT2 17

a. Claimant fulfils prerequisites set out in the CC 17

b. The right to deny benefits of BIT2 to the foreign investors vested upon Respondent, does not influence Claimant's position in this arbitration 17

i. The right of denial has never been executed with respect to the Claimant. 17

ii. The right of denial cannot and could never be executed with respect to the Claimant 18

D. Conclusion. 19

IV. CONSENT OF THE STATES-PARTIES TO BIT1 IS THE ONLY PREREQUISITE DETERMINING THE INVESTMENT 19

A. General remarks. 19

B. BIT1 clearly includes patents in the definition of the investment contained therein. 19

C. Article 25(1) of the ICSID Convention does not contain any mandatory prerequisites which investment shall fulfill. 21

D. Even if the 'Salini test' is to be applied, all its criteria are met in the present case 27

1. The ‘Salini test’ should be applied by the Tribunal with regard to certain amendments made by the arbitral tribunal in *LESI DIPENTA* case 27

2. Claimant has made significant contributions in Bergonia 29

3. The investment by Claimant had a certain duration 30

4. The investment by Claimant involved certain risks 30

E. Conclusion 32

PART TWO: MERITS OF THE CLAIM 34

V. COMPULSORY LICENCE ISSUED BY BERGONIAN INTELLECTUAL PROPERTY OFFICE VIOLATES PROVISIONS OF THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 34

A. Applicable Law - TRIPS falls within the definition of international law contained in Article 38 International Court of Justice Statute 34

B. Non compliance with any of the conditions specified in Article 31 renders the issuance of Bergonian CL illegal 36

C. TRIPS Objectives included in Article 7 TRIPS were the focal criterion considered in the process of undertaking the investment 40

D. Actions non compliant with Article 31 TRIPS cannot be justified by its Principles included in Article 8 40

VI. COMPULSORY LICENSE ISSUED BY BERGONIAN IP OFFICE BREACHES ARTICLE 4 (2) AND (3) OF BIT1 41

A. Compulsory license is a measure of expropriation or tantamount to expropriation 41

B. CL is a measure of unlawful expropriation 45

C. Conclusion 50

PART THREE: RELIEF REQUESTED 51

<u>LIST OF AUTHORITIES.</u>

	Full Name
<u>LIST OF AUTHORITIES:</u>	
Broches	Broches, A., *Convention on the Settlement of Investment Disputes between States and Nationals of Other States of 1965. Explanatory Notes and Survey of its Application*; Yearbook Commercial Arbitration, A.J. van den Berg (ed.), Vol. XVIII (1993).
Commentaries to Draft Articles on MFN	*Commentaries to Draft Articles on most-favoured-nation clauses*, Yearbook of the International Law Commission, 1978, vol. II, Part Two.
Dolzer, Schreuer	Dolzer, R., Schreuer, Ch., *Principles of International Investment Law*, Oxford University Press 2008.
Horn	Horn N., Kröll S., *Arbitrating Foreign Investment Disputes. Procedural and Substantive Legal Aspects*, (eds.) (2004).
Krishan	Krishan, D., *A notion of ICSID investment*, Transnational Dispute Management vol. 6, issue 1.
Longman Dictionary	*Longman Dictionary of Contemporary English*, Pearson Education 2000
Lowenfeld	Lowenfeld, Andreas F., *International Economic Law: Second Edition*, Oxford University Press 2008

Ranjan	Ranjan, P., *Medical Patents and Expropriation in International Investment Law - with Special Reference to India*, Manchester Journal of International Economic Law Volume 5.
Reed, Paulsson, Blackaby	Reed, L., Paulsson, J., Blackaby, N., *Guide to ICSID Arbitration*, Kluwer Law International 2004.
UNCTAD-ICTSD Resource Book	United Nations Conference on Trade and Development, International Centre for Trade and Sustainable Development, *Resource Book on TRIPS and Development,* Cambridge University Press 2005.

CASES:

15 Iran–US CTR	*15 Iran–US CTR* 189 (1987 II), 27 ILM 1314 (1988)
Ambatielos	*Ambatielos Claim (Greece v. United Kingdom),* 12 U.N. Reports of International Arbitral Awards 83, 108 (1956)
Amco	*Amco Asia Corp. v. The Republic of Indonesia*, ICSID Case No. ARJ318 111, Award on the Merits of 20 November 1984, 1 ICSID Reports 413
Amoco	*Amoco Int'l Finance Corp. v. Iran*, 15 IRAN-U.S. C.T.R.,27 ILM
Anglo-Iranian	*Anglo-Iranian Oil Co, United Kingdom v. Iran*, Jurisdiction,

Oil	Judgment, (1952) ICJ Rep 93; ICGJ 188 (ICJ 1952).
AWG Group	*AWG Group Limited v. Argentina*, Decision on Jurisdiction, IIC 21 (2006), 3rd August 2006, Ad Hoc Tr (UNCITRAL)
Bayindir	*Bayindir Insaat Turizm Tecaret ve Sanayi A Ş v. Pakistan,* Decision on Jurisdiction, ICSID Case No ARB/03/29; IIC 27 (2005)
Benvenuti	*Benvenuti and Bonfant v. People's Republic of the Congo*, ICSID Case No. ARB/77/2, Award of 8 August 1980, 21 ILM 740.
Berschader	*Berschader (Vladimir) and Berschader (Moïse) v. Russian Federation*, Award, SCC Case No 080/2004, IIC 314 (2006), 21st April 2006, SCC Arb Institute (Stockholm)
Biwater	*Biwater Gauff (Tanzania) Ltd v. Tanzania*, Award and Concurring & Dissenting Opinion, ICSID Case No ARB/05/22; IIC 330 (2008)
Camuzzi	*Camuzzi International SA v. Argentina*, Decision on Objections to Jurisdiction, ICSID Case No ARB/03/2, IIC 41 (2005), 11th May 2005, ICSID
CMS	*CMS Gas Transmission Co v. Argentina*, Decision on objections to jurisdiction, ICSID Case No ARB/01/8; IIC 64 (2003); 42 ILM 788 (2003)
Fedax	*Fedax NV v. Venezuela*, Decision on Jurisdiction, ICSID Case No ARB/96/3; IIC 101 (1997)

Gas Natural	*Gas Natural SDG SA v. Argentina*, Decision of the Tribunal on Preliminary Questions on Jurisdiction, ICSID Case No ARB/03/10, IIC 115 (2005), 17th June 2005, ICSID
Generation Ukraine	*Generation Ukraine, Inc v. Ukraine*, Award, ICSID Case No ARB/00/9; IIC 116 (2003)
Goetz	*Goetz and Others v. Republic of Burundi*, ICSID Case No ARB/95/3, 2 September 1998, ICSID Reports, Cambridge University Press 2004
INA	*INA Corp. v. Iran* (1985) 8 Iran-US CTR 373
Jan de Nul	*Jan de Nul NV and Dredging International NV v. Egypt*, Decision on jurisdiction, ICSID Case No ARB/04/13; IIC 144 (2006)
LESI DIPENTA	*Consorzio Groupement LESI and DIPENTA v. Algeria*, Award, ICSID Case No ARB/03/08; IIC 149 (2005)
Maffezini	*Maffezini v. Spain*, Decision on Objections to Jurisdiction, ICSID Case No ARB/97/7, IIC 85 (2000), (2001) 16 ICSID Rev-FILJ 212, (2002) 5 ICSID Rep 396, (2003) 124 ILR 9, (2001) 40 ILM 1129, 25th January 2000, ICSID
Malysian Historical Salvors (2009)	*Malaysian Historical Salvors Sdn Bhd v. Malaysia*, Decision on the Application for Annulment, ICSID Case No ARB/05/10; IIC 372 (2009)
Malysian	*Malaysian Historical Salvors Sdn Bhd v. Malaysia*, Award

Historical Salvors (2007)	on jurisdiction, ICSID Case No ARB/05/10; IIC 289 (2007)
Metalclad	*Metalclad Corp v. Mexico*, Award, Ad hoc—ICSID Additional Facility Rules; ICSID Case No ARB(AF)/97/1; IIC 161 (2000)
Middle East Shippping	*Middle East Shipping v. Egypt*, Award, 12 April 2002, 7 ICSID Reports (2005)
Pey Casado	*Pey Casado and Président Allende Foundation v. Chile*, Decision on Jurisdiction, ICSID Case No ARB/98/2, IIC 186 (2002)
Phoenix Action	*Phoenix Action Ltd v.Czech Republic*, Award, ICSID Case No ARB/06/5; IIC 367 (2009)
Plama	*Plama Consortium Limited v. Bulgaria*, Decision on Jurisdiction, ICSID Case No ARB/03/24, IIC 189 (2005), (2005) 20 ICSID Rev-FILJ 262, (2005) 44 ILM 721, 8th February 2005, ICSID.
Renta	*Renta 4 SVSA and ors v. Russian Federation*, Award on Preliminary Objections, SCC Case No 24/2007, IIC 369 (2009), 20th March 2009, SCC Arb Institute (Stockholm).
RFCC	*RFCC v. Morocco*, ICSID Case No. ARB/00/6, 20 ICSID Review, International Centre For Settlement Of Investment Disputes 2005
RosInvest	*RosInvest Company UK Limited v. Russian Federation*,

	Jurisdiction award, SCC Case No V079/2005, IIC 315 (2007), 1st October 2007, SCC Arb Institute (Stockholm).
SA Spectrum	*SA Spectrum de Argentina SA v. Argentina*, ICSID Case No ARB/05/5 ; II C 358 (2008)
Salini	*Salini Costruttori SpA and Italstrade SpA v. Kingdom of Morocco*, 42 ILM 609 (2003), 23rd July 2001, ICSID.
Santa Elena	*Compania del Desarrollo de Santa Elena, S.A. v. Republic of Costa Rica*, ICSID Case No. ARB/96/1, Award of 17 February 2000, 39 I.L.M. 1317, 1329 (2000)
SD Myers	*SD Myers Inc v. Canada*, First Partial Award and Separate Opinion, Ad hoc—UNCITRAL Arbitration Rules, IIC 249 (2000)
SGS	*SGS Société Générale de Surveillance SA v. Philippines*, Decision on Objections to Jurisdiction and Separate Declaration, ICSID Case No ARB/02/6, IIC 224 (2004)
Siemens	*Siemens AG .v Argentina*, Decision on Jurisdiction, ICSID Case No ARB/02/8, IIC 226 (2004), 3rd August 2004, ICSID
Southern Pacific	*Southern Pacific Properties (Middle East) Limited v. Arab Republic of Egypt*, ICSID Case no. ARB/84/3, Award of 20 May 1992, 3 ICSID Rep. 189, 249 (Dissenting Opinion of Dr El Mahdi)
Suez	*Suez and ors v. Argentina*, Decision on Jurisdiction, ICSID

	Case No ARB/03/19, IIC 232 (2006), 3rd August 2006, ICSID.
TECMED	*Técnicas Medioambientales Tecmed SA v. Mexico*, Award, ICSID Case No ARB(AF)/00/2, IIC 247 (2003), 10 ICSID Rep 130, (2004) 43 ILM 133, (2004) 19 ICSID Rev-FILJ 158, 19th May 2003, despatched 29th May 2003, ICSID.
Telenor	*Telenor Mobile Communications AS v. Hungary*, Award, ICSID Case No ARB/04/15, IIC 248 (2006), (2006) 21 ICSID Rev-FILJ 603, 22nd June 2006, despatched 13th September 2006, ICSID.
Tippets	*Tippets v. Tams-Affa Consulting Eng'rs*, (1984) 6 Iran-US CTR 219
Tokios Tokelės	*Tokios Tokelės v. Ukraine*, Decision on Jurisdiction and Dissent, ICSID Case No ARB/02/18; IIC 258 (2004); 20 ICSID Rev—FILJ 205
Tradex Hellas	*Tradex Hellas SA v. Albania* (Award), ICSID case ARB/94/2
Vacuum Salt	*Vacuum Salt Products Limited v. Ghana*, ICSID Case No ARB/92/1.
Waste Management	*Waste Management Inc v United Mexican States,* ICSID Case No. ARB(AF)/00/3, (2004) 43 ILM 967

LIST OF LEGAL RESOURCES:

Full name

BIT1	Treaty between the Democratic Commonwealth of Bergonia and the Sultanate of Conveniencia Concerning the Encouragement and Reciprocal Protection of Investments, concluded on May 30, 2003
BIT2	Treaty between the Government of Tertia and the Government of Bergonia Concerning the Reciprocal Encouragement and Protection of Investment, concluded on January 1, 2003
Doha Declaration	Doha Declaration, 14 November 2001, Doha.
ICSID Convention	Convention on the Settlement of investment disputes between states and nationals of other states, March 18, 1965, Washington Entered into Force: October 14, 1966
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights, 15 April 1994, Marrakesh.
Vienna Convention	Vienna Convention on the Law of Treaties, 23 May 1969, Vienna

<u>NON-BIDING LEGAL ACTS:</u>

Harvard Draft Harvard Draft Convention on the International

Convention	Responsibility of States for Injuries to Aliens, 1961
OECD Draft Convention	OECD Draft Convention on the Protection of Foreign Property (Oct. 12, 1967), 7 I.L.M 117, 126, Restatement (Third) of Foreign Relations Law section 712 cmt. (g) (1989)
UNCTAD	U.N. Conference on Trade and Development, Bilateral Investment Treaties in the Mid-1990s., New York and Geneva: United Nations), United Nations publication, Sales No. E.98.II.D.8.
Draft Articles on MFN	UN Draft Articles on Most-Favoured-Nation Clauses, 1978
Report of the Executive Directors	Report of the Executive Directors of the International Bank for Reconstruction and Development on the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, March 18, 1965.

WEBSITES:

http://www.wto.org/english/tratop_e/TRIPs_e/public_health_faq_e.htm

TABLE OF ABBREVIATIONS

Bergonia	Democratic Commonwealth of Bergonia
BIT	Bilateral Investment Treaty
CC	Consent Clause – Article VI(8) of BIT2
CL	Compulsory License
Claimant, Investor	MedBerg
Clarifications1	2009 Clarifications – 5 June
Clarifications2	2009 Clarifications – 14 August
Conveniencia	Sultanate of Conveniencia
DC	Denial Clause – Article I(2) of BIT2
FMV	Fair Market Value
GATT	General Agreement on Tariffs and Trade, October 30, 1947, Geneva
ICSID, Center	International Centre For Settlement Of Investment Disputes
MedBerg	MedBerg Co.

MedScience	MedScience Co.
MedX	MedX Holdings Ltd
MFN CLAUSE	Most favoured nation clause – Article 3 of BIT1
MFN clause	Most favoured nation clause
¶	Paragraph
Patent AZ2005	Patent No. AZ2005
IP Office	Bergonian Intellectual Property Office
WTO	World Trade Organization

SUMMARY OF ARGUMENT.

1 Firstly, Tribunal has jurisdiction over present dispute as Claimant, despite being a company incorporated in Bergonia, shall be treated as a foreign investor within the meaning of Article 25(1) of ICSID Convention. Alternatively, even if the Tribunal finds that Claimant is not a foreign investor, Claimant may still pursue ICSID arbitration against Respondent on the basis of Article 25(2)(b), as Claimant is entirely controlled by MedX, incorporated in Conveniencia and Respondent's consent contained in Consent Clause may be invoked by Claimant on the basis of MFN CLAUSE.

2 Secondly, the plain meaning of Article 1 of BIT1 which contains a definition of investment explicitly includes patents as investments. Moreover, save for the consent of the parties to the relevant BIT there are no other requirements contained in the plain text of the ICSID Convention, which an activity must fulfill in order to be treated as an investment. However, even if the Tribunal chooses to apply the so called 'Salini test' imposing such prerequisites, based on a questionable analysis of the ICSID Convention, the investment at hand meets all of the characteristics contained in the test. Therefore Claimant's exploitation of the Patent AZ2005 does constitute a protected investment.

3 Thirdly, Respondent's actions violated applicable international law by breaching Article 31 of TRIPS. They were also in clash with the Objectives and Principles laid down in Articles 7 and 8. Moreover, compulsory license issued by Respondent deprived Claimant of its rights and constituted a measure of expropriation. Due to the fact that it did not fulfill the conditions of public purpose, non-discrimination, due process of law and compensation, it was a measure of unlawful expropriation and hence a violation of Article 4 of BIT1.

STATEMENT OF FACTS

4 On January 1, 2003 the Democratic Commonwealth of Bergonia (Respondent) and the Government of Tertia entered into a Treaty Concerning the Reciprocal Encouragement and Protection of Investment (BIT2). Respondent and the Democratic Commonwealth of Bergonia entered into a Treaty Concerning the Encouragement and Reciprocal Protection of Investments (BIT1) on May 30, 2003. Both Treaties contain an MNF clause.

5 MedBerg Co. (Claimant) is a Bergonian company wholly owned and controlled by Med X Holdings Ltd (MedX). MedX is a Conveniencian entity controlled in 50% by Laputan capital through MedScience Co. and in 50% by a physical person of a dual, Amnesian-Bergonian nationality – Dr Frankensid – who remains an employee of MedScience Co. MedX had acquired worldwide interests in the invention (developed by Med Science and Dr Frankensid) and assigned those interests with respect to Bergonia to MedBerg.

6 As a holder of intellectual property rights in Dr Frankensid's invention, on February 5, 2004, Claimant applied for a Bergonian patent with a view to invest with it in Bergonia. On March 15, 2005 Claimant was granted Bergonian Patent AZ2005 by Bergonian IP Office.

7 After becoming an owner of Patent No. AZ2005, on March 31, 2005 Claimant entered into a License Agreement with a Bergonian company – BioLife. Under this Agreement BioLife was entitled to sell patented products and treatments in Bergonia.

8 On March 31, 2007 Claimant decided to terminate the License Agreement in accordance with its terms and conditions. Claimant was concerned with the fact that BioLife was conducting parallel exports to third countries and found it contrary to the provisions of the License Agreement.

9 Efforts had been undertaken between Claimant and BioLife to renegotiate the Agreement, however, no consensus had been reached and the negotiations were concluded within three days.

10 On June 1, 2007 Bergonian IP Office commenced proceedings which on November 1, 2007 led to the issuance of compulsory license (CL) with respect to Patent AZ2005 for the period of 48 months. No prior negotiations had taken place between Claimant and IP Office.

11 The IP Office claimed that the technology covered by the Patent AZ2005 is crucial in addressing important domestic medical needs, namely the critical obesity phenomenon in Bergonia and other associated medical problems. Patent AZ2005 covers a breakthrough treatment which IP Office claims could prove beneficial in tackling the issue.

12 Until January 1, 2009 BioLife and five other Bergonian entities invoked CL to produce and sell health-related products and treatments. Three of these entities exported a significant portion of products and treatments to third countries.

13 IP Office collected royalties from the entities operating under the CL and offered them to Claimant. These were not accepted by the Claimant as being inadequate.

14 On December 1, 2007 Claimant took action under Article 10(2) of BIT 1 by filing a Request for Settlement to the IP Office, as well as to Bergonian Foreign Ministry, Economics Ministry and Justice Ministry out of which response was received only from the Justice Ministry, which claimed CL issuance in accordance with Bergonian international obligations.

15 Claimant sought an independent review of the administrative decision on issuance of CL. Under Bergonian law the only procedure that was available to the Claimant was an appeal to the Patent Review Board – a body operating within IP Office – which declared IP Office’s actions lawful.

16 On November 1, 2008 Claimant initiated this arbitration.

PART ONE: JURISDICTION.

<u>I. THE TRIBUNAL HAS JURISDICTION OVER THE DISPUTE</u>.

A. General remarks.

17 Both parties to the dispute satisfy standing requirements of Article 25 of the ICSID Convention and prerequisites provided under terms of BIT1. Moreover, the abovementioned provisions shall be interpreted *in favorem iurisdictionis*, as the object and purpose of the Treaties strongly support this view.

B. The standing requirements of Article 25 of the ICSID Convention are met.

18 Article 25(1) of the ICSID Convention provides for ICSID jurisdiction over

any legal dispute arising directly out of an investment between a Contracting State (...) and a national of another Contracting State, which the parties to the dispute consent (...) to submit to the Centre.

19 Due to the fact that Bergonia ratified the ICSID Convention it is uncontested in this dispute that Bergonia is a Contracting State within the meaning of Article 25(1). Claimant is a national of another Contracting State, on the grounds that the corporate veil shall be lifted and MedBerg should be treated as a part of the same single group of companies as MedX, incorporated in Conveniencia (**II**). Alternatively, Article 25(2)(b) should be applied, so as to assert jurisdiction *ratione personae* over MedBerg (**III**).

20 None of the parties have challenged the legal character of the present dispute. Following, Patent AZ2005 by all means constitutes a protected investment (**IV**), since BIT1 expressly defines patents as investments and the ICSID Convention does not provide any additional requirements in this matter. Therefore it is beyond any doubt that the present dispute does fall within the scope of the ICSID jurisdiction.

C. Investor fulfills requirements defined in BIT1.

21 For the purpose of BIT1 the term "investor" in respect of the Sultanate of Conveniencia means *"any juridical person having its seat in the territory of the Sultanate of Conveniencia in accordance with its laws[1]"*. MedX is the sole owner of MedBerg. MedX is incorporated in Conveniencia and has a seat in its territory. Accordingly, MedX is a national of Conveniencia.

22 The term "investment" is defined in Article 1.1.(d) of BIT1 and explicitly comprises intellectual property rights, in particular patents. Therefore it cannot be doubted, that Patent AZ2005 constitutes an investment under BIT1.

D. All relevant treaties shall be interpreted in accordance with their object and purpose.

23 International courts have repeatedly applied, as the rule of customary international law, Article 31 of the Vienna Convention, according to which

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

In other words, when analyzing particular Treaties, it is crucial **to look at the intent of the parties** thereto expressed in preambles.

24 The BIT1 is a treaty for promotion and reciprocal protection of investments. Its preamble recognizes that

"the encouragement and contractual protection of such investments are apt to increase the prosperity of both nations through their positive effects, such as (...) transfer of capital and technology between the two countries[2]".

[1] BIT1, Article 1(3)(a).

[2] BIT1, Preamble, recital 2.

Providing a neutral ground for dispute resolution is a widely recognized form of investment protection. Additionally, the exchange of shares and patents between MedBerg (Bergonia) and MedX (Conveniencia) is nothing else, than transfer of capital and technology between two countries. Consequently, **it is legitimate to resolve Treaties' uncertainties in favour of the investment protection**[3] and thus, in favour of this Tribunal's jurisdiction.

25 It is widely accepted in the doctrine that

"the basic goal of the ICSID system is to promote much-needed international investment by offering a neutral dispute resolution forum both to investors (...) and to host States[4]".

On the one hand, most of the commentators[5] emphasize, that any interpretation of the Convention should exclude situation, where nationals raise claims under ICSID against their own state. However, it is not a case in our dispute. Taking into account only the literal meaning of particular ICSID Convention provisions and disregarding its object and purpose as a whole, would leave a considerable number of foreign investment disputes outside its scope. Since current transnational economic relations require establishing extremely complex structures, **it is important to analyze all relevant provisions in a way, that provides for ICSID jurisdiction over every modern form of conducting international business** and foreign direct investment. The former, shall especially taken into consideration when interpreting MFN clause in the treaties (¶.X).

II. CLAIMANT IS A NATIONAL OF A CONTRACTING STATE IN THE MEANING OF ARTICLE 25(1).

---

[3] Similarly in *SGS.*

[4] *Reed, Paulsson, Blackaby,* p. 2

[5] Distinguished by *P.Weil*, Dissenting Opinion, *Tokios Tokeles*; *Sornarajah*, p.198-204

26 The Tribunal shall "pierce the corporate veil" of the group of companies' structure to reveal the parent company (MedX) as the actual Investor and allow financial reality to prevail over legal structure in these proceedings. Doing so will allow the Tribunal to assume, that **MedX and MedBerg shall be treated as the same single Investor**. Further paragraphs provide sufficient grounds for the Tribunal to enable its jurisdiction over these proceedings.

A. MedBerg Co. and MedX Holdings Ltd are the same single group of companies.

27 MedX is a company incorporated in Conveniencia[6]. MedBerg is its wholly owned subsidiary[7] incorporated in Bergonia[8]. Two out of three members of MedBerg's management board (lawyer and tax advisor) are employed by MedX[9]. MedX acquired worldwide interests in the invention (developed by MedScience and its employee – Dr Frankensid) and had assigned those interests with respect to Bergonia to MedBerg[10]. In exchange for rights to the invention MedBerg transferred 100% of MedX shares to MedScience and Dr Frankensid, respectfully 50% shares each[11]. Hence, MedX ownes 100% of MedBerg shares and has the majority in its management board. Meanwhile, MedBerg possessed 100% of shares in MedX. **One could not imagine a stronger interrelationship between the two companies than interdependence between Claimant** (MedBerg) **and its parent company** (MedX).

---

[6] Clarificationss1 No. 45

[7] Annex 3, Uncontested facts, ¶ 2

[8] Clarificationss1 No. 45

[9] Clarifications2 No. 75

[10] Clarifications2 No. 74

[11] Clarificationss1 No. 45

B. Claimant is a national of another Contracting State and therefore has *ius standi* in this proceedings.

28 The context in which ICSID Convention defines corporate nationality allows the Tribunal to disregard Claimant's state of incorporation and determine its corporate nationality according to the nationality of its controlling shareholders, i.e., to pierce the corporate veil. In a present case, when "veil" is lifted, **it is evident that MedBerg and MedX are interchangeable companies**. In consequence, Claimant is to be seen as a national of Conveniencia, accordingly to BIT1, which defines the corporate nationality in relation to investor's seat of business (MedX has its *siège social* in Conveniencia).

29 To sum up, as MedBerg and MedX are clearly same and single group of companies, with interests in one another, they should equally be regarded as the same single Investor. Thus a genuine corporate nationality of the Investor is the nationality of MedX, who is a national of "another Contracting State" (Conveniencia) within the meaning of Article 25(1) of the ICSID Convention.

III. Alternatively claimant meets the *ratione personae* requirements defined in Article 25(2)(b) of the ICSID Convention.

30 However, if the Tribunal shall decide that Claimant does not meet conditions set out by Article 25(1) of the ICSID Convention, the following section of this article is applicable. Article 25(2)(b) defines national of another Contracting State as:

any juridical person which had the nationality of the Contracting State party (...) and which, because of foreign control, the parties have agreed should be treated as a national of another contracting State for the purposes of this Convention.

31 The abovementioned provision sets out two conditions that are to be fulfilled to pursue proceedings under the ICSID Convention. Firstly, existence of foreign control over the juridical person must be proved. (**A**) Claimant squarely fits this prerequisite, as it is fully controlled by MedX. Secondly, (**B**) piercing the first layer is enough to

find foreign control over MedBerg. Finally, the second requirement is the so-called "consent to treat as a foreign investor". It has to be stated, that according to numerous jurisprudences such consent may be implied. Thus (**C**) the MFN CLAUSE, contained in BIT1, permits Claimant to invoke Consent Clause in BIT2 and retain *ius standi* in this proceedings.

A. The existence of foreign control over Claimant is undisputable.

32 As already stated, MedX as the Conveniencian investor is the sole owner of MedBerg having 100% of its shares. Additionally, MedX has two out of three members in MedBerg's management board. Furthermore, all of abovementioned information was available in the Bergonian corporate registry at all times. As the Tribunal noted in *Vacuum Salt*, *"it stands to reason, of course,* ***that 100 per cent foreign ownership almost certainly would result in foreign control*** *(...)"*[12.]

Thus the Tribunal should "lift the corporate veil" and establish that there was foreign control of MedX over MedBerg.

33 Exception provided in ICSID Article 25(2) (b) is meant to extend jurisdiction of the Centre, on the one hand, but also define the outer limits of ICSID Convention. As it was vaguely repeated in jurisprudence, after a distinguished author,

"if no exception were made for foreign-owned, but locally incorporated companies. A large and important sector of foreign investment would be outside the scope of the Convention"[13].

Finally, professor *Weil* explains in his famous dissenting opinion, that

"(...) the object and purpose of this provision is to give effect to the genuinely international character of an apparently national investment (...)"[14].

[12] *Vacuum Salt* ¶ 43

[13] *Broches*, p. 358-9.

[14] *Tokios Tokeles* ¶ 23

There should be no doubts, that those are the exact circumstances of the present case.

B. Piercing the first layer is enough to find relevant foreign control.

34 There is a predominant tendency in jurisprudence to refuse lifting the veil beyond the first layer to look for foreign control[15]. As the Tribunal stated in SA Spectrum de Argentina, *"**There is no necessity to look for the nationality of the 'ultimate controller', since there is no such requirement in the BIT**[16]"*. This attitude is strongly supported by the **economics of the proceedings** (the Tribunal cannot spend unlimited time on looking for subsequent levels of foreign control). It is also noted in commentaries, that this attitude should be especially relevant, when **lifting the first layer ensures ICSID jurisdiction**. Claimant asserts that presented standpoint shall apply in a present case, since, as the foreign investor, Claimant shall be granted protection under ICSID.

C. MFN CLAUSE contained in BIT1 permits Claimant to invoke Consent Clause in BIT2 and fulfill the third requirement of Article 25(2)(b).

35 MFN CLAUSE contained in BIT1 provides that none of the contracting states to BIT1 shall subject the investors of the other Contracting State or their investments to treatment **less favorable** than it accords to investors or investments of any other third state. As a consequence, if such more favorable treatment is accorded to investors or investments of the third state on the basis of international treaty concluded by Bergonia with a third state, the investor, operating on the basis of BIT1, treated in the

[15] *Amco*

[16] *SA Spectrum* ¶ 127

discriminatory way may invoke such provisions and demand treatment not less favorable.

36 The requirement of consent to treat Claimant as a foreign investor under Article 25(2)(b) of ICSID Convention is therefore met in the present case, as (**1**.) MFN CLAUSE permits Claimant to attract dispute resolution provisions contained in BIT2 and *inter alia* Consent Clause, which provides blank consent of the Respondent to treat a company incorporated in Bergonia as a foreign investor (**CC**) (**2**.) CC is more favourable than the relevant provisions contained in BIT1 and (**3**.) Claimant may benefit from CC as it fulfils prerequisites set out thereunder, despite the existence of the Denial Clause in BIT2.

1. MFN CLAUSE permits Claimant to attract Consent Clause.

37 Claimant relying on the MFN CLAUSE may compel Respondent to arbitration as: (**a.**) trends in international ICSID arbitration show that MFN clauses subsume dispute resolution, and (**b.**) the broad scope of the MFN CLAUSE and its wording permits the Claimant to invoke dispute resolution provisions in BIT2, and (**c.**) possibility of recourse to the ICSID jurisdiction by applying the MFN CLAUSE does not violate public policy underlying BIT1.

a. MFN clauses subsume dispute resolution.

38 Pursuant to *ejusdem generis* rule, the MFN clause may be used to invoke other international treaties provisions, when the host state is a party only to the extent that it *falls within the limits of the subject-matter of the clause*[17]. In Ambatielos[18] the extension of the MFN clause to the "administration of justice" was found to be compatible with the *ejusdem generis* rule[19].

---

[17] *Draft Articles on MFN*, Article 9 and Article 10; *Commentaries to Draft Articles* p. 27.

[18] *Ambatielos*

[19] *Ambatielos* ; *Maffezini* ¶ 50

39 The reasoning expressed in 1956 by the arbitral tribunal in *Ambatielos* judgment, was sustained in more recent case law e.g. *Mafezzini* case[20]. According to *Maffezini* tribunal, even if the basic treaty containing the MFN clause does not refer expressly to the dispute settlement as covered by the latter, ***today dispute settlement arrangements are inextricably related to the protection of foreign investors***.[21] Thus it is not indispensable that a BIT contain an express reference for an MFN clause to cover issues related to dispute settlement.

40 The abundance of the case law, pursuing reasoning of *Maffezini* clearly shows that it shall be considered as prevailing. Although few tribunals adopted a contrary approach to the possibility of extension of MFN clause to ICSID jurisdiction issue[22], e.g. *Plama* case, *Salini* case, *Telenor* case and *Berschader* case, they shall be distinguished from the present case for a variety of reasons. In all above cases the parties invoking provisions of other international treaties concluded by the host states sought to extend the jurisdiction of ICSID tribunal to the cases, in which such jurisdiction was explicitly denied under the basic treaty.

41 In *Plama* case claimant attempted to replace dispute settlement provisions in their entirety by provisions contained in other treaty through operation of MFN clause, seeking ICSID arbitration instead of UNCITRAL rules arbitration. In *Salini* case claimant sought to attract dispute settlement provisions of another bilateral treaty, contrary to the explicit exclusion of ICSID arbitration in case of disputes arising out of or in connection with the contractual relationship. In both, *Telenor* and *Berschader* cases, claimants clearly contrary to the *ejusdem generis* rule, sought to arbitrate a subject matters, inarbitrable under basic treaties.

---

[20] See also e.g.: *Siemens*, *AWG*, *Gas Natural*, *Suez*, *RosInvest*, *Tecmed*, *Camuzzi* and recently issued *Renta*.

[21] *Maffezini*, ¶ 54.

[22] *Lowenfeld* p. 573.

42 Thus Claimant submits that, as facts of the case are much more similar to facts of *Maffezini* case, which established a trend in the recent case law, the reasoning outlined thereunder shall be followed in the present case.

b. Wording of the MFN CLAUSE permits a conclusion that the latter comprises jurisdictional issues

43 It is beyond any doubts that the MFN CLAUSE shall be interpreted in accordance with the interpretation principles set out by Vienna Convention[23], according to which treaty provisions shall be interpreted in good faith in accordance with the **ordinary meaning** to be given to the terms of the treaty in their **context** and in the light of its **object and purpose**.

44 First, the MFN CLAUSE in BIT1 provides that the contracting state may not subject investors and investments to "*treatment less favourable*" than this granted to investors and investments from any third states. Relying on the *Renta* case it must be observed that *"(...) there is no textual basis or legal rule to say that "treatment" does not encompass the host state's acceptance of international arbitration*[24]*"*.

45 The approach adopted in *Renta* case, which subsumes dispute resolution to the broad term of "treatment", shall be followed in the present case, especially in the view of contextual analysis of the entire MFN CLAUSE. MFN CLAUSE clearly indicates issues which are excluded from its scope (e.g. taxation on income[25], privileges accorded on account of membership of the third states in the economic union, common market[26]) and the fact that the dispute resolution matters do not fall within this catalogue strongly supports Claimant's position.

---

[23] See e.g. *Maffezini*, ¶ 27, *Siemens,* ¶ 31.

[24] *Renta*, ¶ 101.

[25] BIT1, Article 4.(5).

[26] BIT1, Article 4.(4).

46 Second, MFN CLAUSE shall be considered as encompassing dispute resolution provision in the light of the object and purpose of the BIT1 itself. BIT1 provides that contracting states aimed at *"(...) creation of the conditions more favourable to increase the investments by investors"*[27] and "*stimulate business initiatives*", undertaking *inter alia* to accord investments made by investors *"full protection under the Treaty"*[28]. Tribunal in *RosInvest* case stating that: *"submission to arbitration forms a highly relevant part of the corresponding protection for the investor"*[29], underlined the importance of the possibility to recourse to international arbitration as a form of the protection of foreign investments. The above clearly supports Claimant's statement.

47 Third, it is clear from the relevant provisions of BIT1 that the MFN CLAUSE treatment relates to the investors as regards regard to

"*their activity, in particular, though not exclusively, concerning (...) maintenance, operation, enjoyment or disposal of their investments"*[30]

and as found by *AWG Group* tribunal

"[t]he right to have recourse to international arbitration is very much related to investors management, maintenance, use, enjoyment, or disposal of their investments".

It is particularly related to the "maintenance" of an investment, a term which includes the protection of an investment."[31].

48 In the view of the above, it has to be concluded that the MFN clause terms' textual interpretation clearly shows that the dispute resolution issues are within its scope and therefore Claimant may attract dispute resolution provisions from BIT2 which are more favourable.

---

[27] BIT1, Preamble, first recital

[28] BIT1, Article 2.(2)

[29] *Rosinvest*, ¶ 130

[30] BIT1, Article 3(2)

[31] *AWG*, ¶ 57

c. The possibility of recourse to the ICSID jurisdiction by application of the MFN clause does not violate public policy underlying BIT1.

49 As a matter of principle the application of MFN clause is to some extent restricted as it may not violate public policy underlying the adoption of the relevant provisions by the parties to the BIT. Tribunal in *Maffezini* case stated that

> *"[t]he beneficiary of the clause should not be able to override public policy considerations that the contracting parties might have envisaged as fundamental conditions for their acceptance of the agreement in question*[32] *"*.

The above does not influence the position of Claimant as the public policy will not be violated by admitting Claimant the right to invoke dispute resolution provisions from BIT2.

50 First, it shall be noted that according to a well established view in the international literature and jurisprudence, violation of public policy is intrinsically related and restricted to the violations of fundamental principles and rules of law adopted by the state. In the present case, invoking ICSID arbitration by operation of MFN Clause will not violate Respondent's public policy as the Respondent itself agreed for submission of disputes with locally incorporated companies as foreign investors to ICSID arbitration in CC. Second, the time of adoption of both BIT1 and BIT2 (2003) shows, that there could not have been any significant change in public policy between two points in time. Third, the fact that BIT1 provisions do not include dispute settlement issues, as excluded from the scope of operation of MFN CLAUSE, supports Claimant's standpoint.

51 Thus the public policy issue may not prevent Claimant from invoking the CC contained in BIT2.

---

[32] *Maffezzini*, ¶ 62

2. **CC providing for a blank consent of the Respondent to treat a company incorporated in Bergonia as a foreign investor is more favourable than provisions of BIT1.**

52 According to a well established principle, the MFN clause permits an investor to invoke only provisions of other bilateral investment treaties that are more favourable to the investments or/and investors of the third party state accorded by the host state[33]. In order to conclude that the treatment of the third party treaty is more favourable, the treatment of the investor provided under basic treaty shall be found discriminatory.

53 The comparison shall be drawn between like persons or things[34]. As it will be proven further on, the Consent Clause applies to the entities operating in the Bergonian market, comparable to the Claimant and sets out the prerequisites, Claimant perfectly fulfills.

54 As already noted above, access to international arbitration is a part of substantial protection accorded to the investors[35]. It is beyond any doubt that provisions of BIT2, which provide for blank consent to treat a company as a foreign investor upon fulfillment of certain prerequisites and allow it to submit its disputes with the host state to impartial and extraterritorial dispute resolution body, are more favourable than the provisions of BIT2. The latter provisions deprive the comparable entity, which would otherwise be able to fulfill the conditions set out in BIT2, of such treatment and are discriminatory.

55 Claimant is undisputedly submitted to discriminatory treatment in comparison to entities, which may rely directly on the provisions of BIT2 and thus the existence of the MFN CLAUSE shall allow Claimant to invoke the Consent Clause.

---

[33] *Commentaries to Draft Articles on MFN* p. 22.

[34] *Commentaries to Draft Articles on MFN* p. 31; *Horn* p. 164.

[35] See ¶ 47 above.

3. Claimant may benefit from the Consent Clause in BIT2

56 Claimant is entitled to rely on Respondent's blank consent to treat locally incorporated companies as the investors of another contracting state in accordance with Article of 25(2)(b) of the Convention contained in the CC as (**a.**) Claimant fulfils the prerequisites set out in CC, and (**b.**) the right to deny benefits of BIT2 to the locally incorporated company does not influence Claimant's position.

a. Claimant fulfils prerequisites set out in the CC.

57 Pursuant to CC (Article VI.(8) of BIT2), a company legally constituted under the applicable laws and regulations of Bergonia shall be treated as a foreign investor for the purposes of Article 25(2) (b) of Convention if (**i**) immediately before the occurrence of the event or events giving rise to the dispute (**ii**) it was an investment of nationals or companies of the other contracting party.

58 Claimant shares were owned in 100% by a Conveniencian company – MedX - and since there was no change in control of Claimant in the period before the present dispute arose, there may be no doubt that the above prerequisites are fulfilled.

b. The right to deny benefits of BIT2 to the foreign investors vested upon Respondent, does not influence Claimant's position in this arbitration.

59 Respondent is wrong in its allegations that Claimant may not rely on the Consent Clause because of the existence of the right of denial in BIT2 as (**i**) the right of denial has never been executed with respect to the Claimant, and (**ii**) could never been effectively executed as the prerequisites set out thereunder are not fulfilled in the present case.

i. The right of denial has never been executed with respect to the Claimant.

60 The Article I.2 of BIT2 ("Denial Clause") provides for the *"right to deny to the company the advantages"* of the Treaty. Applying the Vienna Convention rule of interpretation of Article 31 it has to be noted, that the Denial Clause clearly provides a host state such right, but does not stipulate for automatic deprival of benefits under the BIT in certain circumstances. Following the reasoning of the tribunal in *Plama* case[36], the right shall be distinguished from its execution, as the host state may execute a right but it is never obliged to do so, and thus in order to be effective, the right of denial has to be executed by the host state.

61 In the present case Respondent has never, either before or after the dispute arose, availed itself of the above right. Moreover the mere fact that Respondent raised the existence of the right of denial in BIT2[37] in the present case may not be perceived to constitute an execution thereof.

62 Second, even if the Tribunal finds that because Respondent raised the existence of the Denial Clause in BIT2, amounted to such execution, it has to be stressed, that any denial executed on the basis of Denial Clause may not have retrospective effect[38] and thus does not influence the jurisdiction of this Tribunal. Filing its claim to this Tribunal, Claimant benefited from the provisions of the Treaty and thus the possibility of denial of this right, if any, cannot be effective towards Claimant.

ii. The right of denial cannot and could never be executed with respect to the Claimant.

63 Denial Clause sets out circumstances in which the right of denial may be executed, i.e. the right of denial may be executed towards an entity, which (**i**) has no substantial business in the other Party or alternatively (**ii**) is controlled by the nationals of a third country, with which the denying Party does not maintain normal economic relations.

---

[36] *Plama*, ¶ 155.

[37] Record**,** p. 5

[38] *Plama*, ¶ 162-165

In the view of the facts of the present case it has to be found that none of the above applies to the Claimant.

64 First, it is beyond any doubt that Claimant has a substantial business in Bergonia as its seat is located in Bergonia[39], where it has been selling its products since 2005. Second, as already proved above, Claimant was entirely controlled by MedX Holding, which is a company incorporated in Conveniencia and the mere fact that in May 20, 2003 Respondent with Conveniencia concluded a BIT1 with intent to "*intensify economic relations*" between them[40], clearly illustrates the existence of Respondent's economic relations with Conveniencia.

D. Conclusion.

65 Tribunal Has jurisdiction over present dispute as Claimant, despite being a company incorporated in Bergonia, shall be treated as a foreign investor within the meaning of Article 25(1) of ICSID Convention. Alternatively even if the Tribunal finds that Claimant is not a foreign investor, Claimant may still pursue ICSID arbitration against Respondent on the basis of Article 25(2)(b), as Claimant is entirely controlled by MedX incorporated in Conveniencia and Respondent's consent contained in Consent Clause may be invoked by Claimant on the basis of MFN CLAUSE.

IV. CONSENT OF THE STATES-PARTIES TO BIT1 IS THE ONLY PREREQUISITE DETERMINING THE INVESTMENT.

A. General remarks.

[39] Annex 3, Uncontested facts, ¶ 2

[40] BIT1, Preamble, first recital

66 In the following paragraphs it will be demonstrated beyond any doubt that Claimant's exploitation of the Patent AZ2005 does by all means constitute a protected investment both in the meaning of BIT1 as well as the ICSID Convention. Any objections raised by the Respondent, that Claimant's activity in Bergonia is not an investment, are ungrounded and should therefore not be given any attention, because (**B**.) BIT expressly defines patents as investments, (**C.**) under Article 25(1) of the ICSID Convention there are no additional requirements save for the consent of the parties to the relevant BIT that an activity must fulfil in order to be perceived as an investment and (**D.**) even if the Tribunal decides to apply the so-called 'Salini test', all of its requirements are met in the present case.

B. BIT1 clearly includes patents in the definition of the investment contained therein.

67 It is a common ground that in order to ascertain whether an activity does constitute a protected investment, one should refer to the consent of the parties expressed in the provisions of the relevant bilateral investment treaty. Rarely, if ever, do the BITs lack the definition of such a crucial notion, and BIT1 is no exception in this respect. Article 1 of this treaty which contains legal definitions of the notions used in the text of the treaty reads:

> *Article 1: Definitions*
>
> *For the purposes of this Treaty:*
>
> *the term "investments"* ***comprises every kind of asset invested*** *in accordance with the laws and regulations of a Contracting State and shall include in particular,* ***though not exclusively****:(...)*

68 It is therefore obvious **that the definition of investment included in BIT1 is of an open-ended nature** ("***every kind*** *of asset invested*"). Thus the list of activities included in Article 1 is only exemplificatory and should not be treated as a *numerus clausus* of involvements perceived as investments ("*shall include in particular,* ***though not exclusively***"). Such a conclusion alone might be deemed sufficient to identify Claimant's activity in Bergonia as an investment even if intellectual property

rights were not named on the non-exhaustive list contained in Article 1 of BIT1. But, what is even more significant, Article 1 of BIT1 further explicitly reads:

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

69 Such a **direct inclusion of patents** as one of the examples of activities that constitute investment within the meaning of BIT1, leaves no room for doubt with respect to the intention of the parties to this treaty to include this type of IP rights in the definition of investment. Therefore since the relevant BIT defines patents as investments and Claimant's activity consisted in the exploitation of the Patent AZ2005, it is obvious that Claimant's activity constituted a protected investment within the meaning of BIT1.

70 The last prerequirement of the investment to be found in BIT1 is that the asset is to be invested "*in accordance with the laws and regulations of the Contracting State*". Such reservation does indeed create a basis to a potential objection enabling Bergonia to challenge activities of investors before the tribunals in order to deny jurisdiction. **In the present case it cannot be raised, however, that Claimant's investment did not conform to the laws of Bergonia.** First of all, there are no indications in the facts of the case that any breaches of Bergonian law took place with regard to the investment in question. It must also be stressed that the patent for the obesity treatment was issued in Bergonia and, as such, it must have conformed to relevant rules of Bergonia IP law. As a conclusion it must be assumed that Claimant's investment in Bergonia did fulfill the prerequisite of conforming to the rules of law of the Contracting State.

71 It is clear from the facts of the case that the requirements of the relevant BIT are fulfilled in the present case. Therefore **the requirement of consent to arbitrate *ratione materiae* is fulfilled in its entirety**. Thus, the Tribunal should qualify Claimant's exploitation of the Patent AZ2005 as an investment.

C. Article 25(1) of the ICSID Convention does not contain any mandatory prerequisites which investment shall fulfill.

72 The next step to establish whether Claimant made an investment in Bergonia should be the reference to the ICSID Convention which defines the criteria which the dispute must fulfil for the Centre's jurisdiction to be granted. These criteria are contained within Article 25(1) of the ICSID Convention, which reads:

> *Article 25(1)*
>
> *The jurisdiction of the Centre shall extend to any legal dispute* ***arising directly out of an investment****, between a Contracting State (or any constituent subdivision or agency of a Contracting State designated to the Centre by that State) and a national of another Contracting State, which the parties to the dispute consent in writing to submit to the Centre. When the parties have given their consent, no party may withdraw its consent unilaterally.*

73 It follows that Article 25(1) of the ICSID Convention states that the jurisdiction of the Centre shall encompass legal disputes "arising directly out of an investment" between a state-party to ICSID and a national of another state party thereto. Therefore **the Centre's jurisdiction is limited exclusively to investment disputes** and does not cover e.g. disputes arising out of ordinary sale contracts. The Convention, however, **leaves this notion undefined** (as once explicitly stated by *Broches* "*the term 'investment' is not defined*"[41]). Neither Article 25(1) of the ICSID Convention nor any other section of the ICSID Convention contains any explanations as to this issue.

74 Hence in defining the notion of investment due regard should be given to the Convention's interpretation by the Executive Directors of the International Bank for Reconstruction and Development. In point 26 this document reads that *"[n]o attempt was made to define the term investment given the essential requirement of consent by the parties*"[42]. It is also widely accepted in the doctrine that the absence of the definition of investment

[41] *Broches*, p. 642

[42] *Report of the Directors*, point 26.

"*was a deliberate decision by the drafters, who recognized that, given the pivotal role of consent, a definition of the term could prove unhelpfully restrictive*"[43].

75 All these statements clearly indicate that in reality **Article 25(1) of the ICSID Convention was never perceived as containing any limits with respect to the issue of investment**. As a consequence the plain text of the ICSID Convention clearly indicates that it does not impose any additional criteria that the activity shall meet in order to be regarded as an investment. On the contrary, as confirmed in the aforementioned citations, the notion of investment was left for the BIT parties to define by their bilateral consent. The importance of this delegation is further emphasized by the declaration contained in the Report, which states that *"[c]onsent is the cornerstone of the jurisdiction of the Centre*"[44]. Therefore it is clear that the only element of the definition of investment under the ICSID Convention is the consent of the parties to the relevant BIT.

76 Over the years several arbitral tribunals however disregarded the plain text of the ICSID Convention which inextricably links the definition of the investment to the consent of the BIT parties. Instead those tribunals have defined several prerequisites investment should fulfill in order to be granted the jurisdiction of ICSID. Those prerequisites are referred to as the 'two-fold test' or the 'Salini test', since they were first defined in the award in *Salini* case. They are said to encompass the existence of contributions made by the investor, certain duration of the project, risks incurred by the investor and contribution to the host state's development[45]. This approach is however erroneous and should not be adopted by the Tribunal.

77 First of all, **following the requirements of 'Salini test' leads to an ungrounded narrowness of the definition of investment contained in the ICSID Convention**. Not only does the investment have to meet certain requirements under the relevant BIT, but also the alleged additional prerequirements inscribed in the ICSID

[43] *Reed, Paulsson, Blackaby*, p. 13.

[44] *Report of the Directors*, point 23.

[45] *Salini*, ¶ 53.

Convention. As a consequence, the application of the 'Salini test' often results in the dismissal of certain activities as investments under the ICSID Convention, even though they clearly constitute investments under the relevant BIT. It has already been noted in this respect by the doctrine that the 'two fold test' not only freezes the notion of investment into four or five defined criteria, but also "*presumes a transaction not to be an ICSID investment unless the contrary is proven*"[46]. This means that even though the burden of proof should rest with the party that challenges the jurisdiction *ratione materiae* of the arbitral tribunal, the application of the 'two-fold test' instead, forces the other party to prove that the prerequisites of the test have been passed in order for its activity to be perceived as investment. The decision of the sole arbitrator in *Malaysian Historical Salvors* case is a shrill evidence of such a situation. In this case claimant's failure to prove that its investment contributed to the development of Malaysia led the sole arbitrator to deny the jurisdiction of the ICSID while completely disregarding the provisions of the relevant BIT[47] and curtailing the importance of the parties' consent expressed in the BIT in question.

78 Furthermore at the same time the prerequisites of the 'Salini test', as noted in one of the decisions, *"(...) are not fixed or mandatory as a matter of law"* and "*do not appear in the ICSID Convention"*[48], and as a consequence, they are nothing more than non-textual, jurisdictional limitations to the ICSID definition of investment. Therefore, since

> "*[t]here is no multilateral grant of authority over objective interpretation granted to individual tribunals sitting in cases of particular investor – State disputes*"[49],

---

[46] *Krishan*, p. 6.

[47] *Malaysian Historical Salvors (2007).* This decision was perceived as controversial and therefore this judgment has been scrutinized and consequently cancelled in the annulment proceedings.

[48] *Biwater,* ¶ 312.

[49] *Krishan*, p. 10.

the application of the prerequisites of the 'Salini test' is an overt excess of power committed by arbitral tribunals. The practice of some tribunals which usurp such powers by applying the 'Salini test' may even gravely endanger to the ICSID arbitration system, for, as one of the arbitral tribunals concluded,

"*to ignore or depreciate the importance of the jurisdiction [the BITs] bestow upon ICSID, and rather to embroider upon questionable interpretations of the term "investment" as found in Article 25(1) of the Convention risks crippling the institution*"[50].

79 Furthermore, **the approach presented in this memorandum is coherent with the modern trend in the interpretation of the notion of investment by the arbitral tribunals**. It was stated in many decisions on jurisdiction that, since the Convention contains no definition of the term 'investment', it does not purport to define requirements it should meet to qualify for ICSID jurisdiction[51]. It was also explicitly noted that such lack of requirements means that definition of the investment is left for the parties to determine[52]. In one of the most recent decisions an arbitral tribunal brought the 'Salini test' under scrutiny and stated that

"(...) even if the Republic [the Respondent] could demonstrate that any, or all, of the Salini criteria are not satisfied in this case, this would not necessarily be sufficient — in and of itself — to deny jurisdiction"[53].

It is also worth noting that this line of argument was largely cited and sustained in a recent decision rendered in the annulment proceedings in the *Malaysian Historical Salvors* case[54]. It cannot therefore be argued that the Tribunal should apply the 'Salini test' because it is a common practice of arbitral tribunals in each and every case. Recent case law denies such a statement and practically rejects the rigid and

---

[50] *Malaysian Historical Salvors (2009)*, ¶ 73 *infra*.

[51] *Fedax*, ¶ 31*; CMS*, ¶ 51; *Tokios Tokeles*; *Malaysian Historical Salvors (2009), Biwater*, ¶ 312; *Generation Ukraine*, ¶ 8.2.

[52] *Tokios Tokeles*, quoting in this respect *Fedax.*

[53] *Biwater,* ¶ 318.

[54] *Malaysian Historical Salvors (2009)* , ¶ 61 - 79 *infra*.

questionable requirements of the 'two-fold test' in favor of the explicit consent expressed by the parties to the relevant BITs.

80 It may of course be raised against this line of argument that the consent of the parties itself does not suffice to establish jurisdiction. In this respect, certainly a quotation by honorable *Lord McNair* that *"[a]n international tribunal cannot regard the question of jurisdiction solely as question inter partes*"[55] will be cited. While this opinion must be regarded as an entirely correct one, it must be however noted that it cannot be mentioned deprived of context. One should observe that after writing this passage *Lord McNair* added that *"[t]he Court itself,* ***acting proprio motu****, must be satisfied that any State which is brought before it (...) has consented to the jurisdiction*"[56]. It is therefore clear that ***Lord McNair's*** **quotation concerned the fact that an arbitral tribunal is not precluded from examining ex officio whether it has competence to adjudicate the dispute**. Such competence is especially important in cases where parties to a dispute express their consent to arbitrate, but the additional factors (e.g. arbitrability of the dispute under the applicable law) are not met. This passage however is not aimed at preventing an arbitral tribunal to conclude that it has jurisdiction *ratione materiae* based on the parties' consent to arbitration, if there are no additional conditions to be fulfilled. And such is the situation in this case since, as it has already been mentioned, the ICSID Convention does not contain any requirements investment should fulfill and the arbitral tribunals sitting in particular cases are not empowered to formulate such binding interpretations of the ICSID Convention. As a consequence, in the lack of other prerequisites, it cannot be raised that sole consent of the parties cannot be perceived as sufficient to fulfill the definition of investment under the ICSID Convention.

81 Additionally, even if the Tribunal does not find the aforementioned argument persuasive and rules that consent of the parties would not be sufficient to establish its competence in this case, it must be emphasized that **the jurisdiction of the ICSID does not depend solely on the issue of whether certain activity can be treated as**

[55] *Anglo Iranian*, Individual Opinion of President McNair, ¶3.

[56] *Anglo Iranian* , Individual Opinion of President McNair, ¶ 3.

an investment. Article 25(1) of the ICSID Convention contains additional criteria, namely the existence of a legal dispute and the foreign nationality of the investor, which are prerequisites to the jurisdiction of the Centre. Therefore, even if the ICSID Convention does not establish additional requirements other than the consent of the parties to a relevant BIT for an investment to fulfill, it must be stressed that in order for the Tribunal to establish that it has jurisdiction, those other two prerequisites, explicitly contained in Article 25(1) of the ICSID Convention, must be met. Consequently, since the competence of the Tribunal is not entirely dependent on the consent of the parties defining investment, it would be ungrounded to claim that the definition of investment cannot be based solely on the consent of the parties to the relevant BIT and must encompass other criteria of a dubious provenience.

82 Therefore the Tribunal should disregard the questionable prerequisites contained in the so called 'Salini test' and accept that it is the consent of the parties to the given treaty, which is the only condition, which determines whether certain activities should be perceived as investments.

D. Even if the 'Salini test' is to be applied, all its criteria are met in the present case.

1. The 'Salini test' should be applied by the Tribunal with regard to certain amendments made by the arbitral tribunal in *LESI DIPENTA* case.

83 Alternatively, if the Tribunal does not accept the argumentation presented above and decides that the 'Salini test' is to be applied, **it must be underlined that all characteristics, which an investment should have according to it, are met in the present case**. It should however be noted that for the sake of issuing a just award, **the 'Salini test' should be applied by the Tribunal as modified by the tribunal in *LESI DIPENTA* case**.

84 The original 'Salini test' encompassed four characteristics: contributions, duration of the activity, risk borne by the investor and contribution to the host state's

development. Three first criteria, though vague and unclear, are of an objective nature and can be assessed on a case-by-case basis without much trouble. The last characteristic however, the contribution to the host state's development, when analyzed separately from those three "objective" factors may prove extremely difficult to establish. The arbitral tribunal in *Phoenix Action* even went on to state that

"(...) the contribution to the development of the host state is impossible to ascertain – the more so as there are highly diverging views on what constitutes 'development'"[57].

85 Such difficulty in ascertaining the contribution to the development of the host country factor may be the consequence of the fact, that it is immanent to the three other criteria of investment. As stated by the arbitral tribunal in *LESI Dipenta* the fourth attribute *"(...) is difficult to ascertain and (...) is implicitly covered by the three other criteria"*[58]. It was even ruled by one of the tribunals that the requirement of the contribution to the development of the host state, being difficult to establish, pertains more to the merits of the dispute than to the jurisdictional issues[59].

86 For that reason the criteria of **the 'Salini test'**, if the Tribunal nevertheless wishes to apply it in the present case, should be interpreted taking into account recent awards modifying that test and should only encompass the:

- the contributions in the host country by the contracting party,
- the duration of those contributions, and
- risk involved on the part of the contributor.

87 Moreover, **the Arbitral Tribunal should take holistic view of all these criteria and consider them as an entirety**. As a matter of fact, arbitral tribunals on numerous occasions stated that the characteristics of the investment may be

[57] *Phoenix Action* ¶ 85.

[58] *LESI DIPENTA.*

[59] *Pey Casado,* as quoted in ¶ 27 of the Dissenting Opinion of Judge M. Shahabuddeen in *Malaysian Historical Salvors (2009).*

"*interdependent*"[60] and "*closely interrelated*"[61]. Thus, **even if the Tribunal does ascertain, that one of those characteristics has not been fulfilled at all, the arbitrators should investigate, if the remaining criteria are met in such a manner, so as to compensate for the lack of fulfillment of that criterion**. Therefore all the characteristics should be "*assessed globally*"[62] by the Tribunal since they do not constitute formal prerequisites, which if not fulfilled in their entirety, prevent an activity from being perceived as an investment within the meaning of the ICSID Convention.

2. Claimant has made significant contributions in Bergonia.

88 The arbitral tribunals over the years have agreed that **the contributions made by the investor are not limited to direct capital contributions**. It has been ruled that the contributions of the investor may be of various nature and can be made in terms of know-how, industry[63], equipment, personnel[64] as well as amount of work involved[65]. Therefore a possible argument, that the contributions, which the investor must make in order for his activity to be perceived as an investment, must be direct ones of a capital nature is ungrounded.

89 In this respect it must be stressed that **the contributions made by Claimant in Bergonia were substantial**. By concluding the License Agreement with BioLife Claimant contributed his unique know-how in the form of his breakthrough obesity treatment thereby enabling numerous Bergonians to enjoy its benefits. It cannot be denied that rendering the obesity treatment accessible to the citizens of Bergonia was

---

[60] *Salini,* ¶ 53.

[61] *Bayindir*, ¶130; *Jan de Nul*, ¶ 91.

[62] *Salini*, ¶ 53.

[63] *Salini*, ¶ 54.

[64] *Bayindir*, ¶131.

[65] *Jan de Nul*, ¶ 92.

an important involvement and it is confirmed by the fact of issuing a compulsory license by the Bergonian patent office. Therefore the Tribunal should find that Claimant made substantial contributions in Bergonia by licensing the patented technology to BioLife and thereby enabling it to produce and market the treatment in Bergonia.

3. The investment by Claimant had a certain duration.

90 Claimant's exploitation of the Patent AZ2005 also fulfilled the duration criterion. Although the period of time, for which the activity should last in order to be perceived as an investment is nowhere to be found in the ICSID Convention (just as the other dubious characteristics contained in the 'Salini test'), it is widely agreed in the jurisprudence that "*the minimal length of time (...) is from 2 to 5 years*"[66]. Claimant filed his application for the Patent AZ2005 on February 5, 2004 and as of today the patent remains in force, which means that **the duration of the investment exceeds 5 years**. Thus the duration of Claimant's investment should be perceived by the Tribunal as satisfactory.

91 Furthermore, even if the Tribunal concludes that it was only the License Agreement with BioLife that constituted Claimant's investment, it must be stressed that the duration factor is satisfied as well. The Agreement was signed on March 31, 2005, and its termination took place on March 31, 2007. This means that the period during which Claimant's investment lasted amounted to exactly two years. Such period of time, though perceived rather as being a borderline one, is enough to perceive an activity as an investment, which means that Claimant's activity in Bergonia should be perceived as an investment.

4. The investment by Claimant involved certain risks.

---

[66] *Salini*, ¶ 54.

92 The last of the characteristics relevant in establishing that an activity constitutes a protected investment is that it involves certain risks on the part of the contributor. It is raised in the doctrine that this factor is present when "*the investor has to commit resources in the initial phase which subsequently need to be recovered through project income"*[67]. Claimant's activity in Bergonia did meet this requirement, for it must be stressed that there were several risks Claimant was running by conducting his activities in Bergonia.

93 First and foremost, **the very application for patent must be perceived as potentially risky**. Obtaining a patent is normally a long and complicated procedure, which is time (in this case over one year between February 5, 2004 and March 15, 2005) and money-consuming. Not only does an inventor have to pay numerous fees, (such as the maintenance fees, filing fees etc.) but also hire a professional patent attorney or IP company who can assist him in the process of obtaining the patent and provide legal advice concerning the relevant IP law issues. All these activities are normally conducted without any certainty of return of the resources invested since it is often unclear whether the invention will be marketable and whether the eventual royalties or incomes will cover the costs of the patent itself. Therefore it should be obvious that the mere application for patent by Claimant incurred several risks.

94 The agreement concluded by Claimant with BioLife was also the source of potential risks. It must be observed, that **Claimant did not obtain a fixed amount of money for committing his resources** – that is licensing the obesity treatment. The royalties due were based on sales[68], which means that **the sum of money obtained by Claimant in exchange for the license depended on BioLife's ability to market the product**. If BioLife were unsuccessful in marketing the obesity treatment, Claimant would not obtain any money at all despite having concluded the contract and having fulfilled his part of obligations arising out of that contract (i.e. granting the license to BioLife). As a consequence, by entering into an agreement containing such

---

[67] *Dolzer, Schreuer*, p. 68.

[68] Clarifications1 No.13.

provisions Claimant could expect high incomes if BioLife sold huge numbers of the licensed treatments, but **was also risking a loss of profits, should BioLife prove unable to place the product on the market**.

95 The risks incurred by Claimant were also inherent in the very activity of concluding the contract. **While entering in the License Agreement with BioLife Claimant risked that its business partner would not conform to the terms of the contract and abuse the license** by e.g. exporting the obesity treatments to third countries contrary to the terms of the license agreement. Since the patent was licensed to several other entities in different countries such parallel exports could in fact damage Claimant's reputation as a contracting party and reduce the licensees' turnover thus depriving the licensor of the royalties it would otherwise obtain. The materiality of this risk is illustrated by the fact, that after merely two years Claimant was forced to terminate the License Agreement with BioLife since the latter did not keep to the terms of the contract and indeed exported the obesity treatment to third countries.[69]

96 Therefore by entering into the agreement with BioLife Claimant incurred certain risks that should be deemed enough to fulfill the last characteristic an investment should have under the 'Salini test'.

E. Conclusion

97 The plain meaning of Article 1 of BIT1 which contains a definition of investment explicitly includes patents as investments. Moreover, save for the consent of the parties to the relevant BIT there are no other requirements contained in the plain text of the ICSID Convention which an activity must fulfill in order to be treated as an investment. However, even if the Tribunal chooses to apply the so called 'Salini test' imposing such prerequisites based on a questionable analysis of the ICSID Convention the investment at hand meets all of the characteristics contained in the

[69] Clarifications1 No 39.

test. Therefore Claimant's exploitation of the Patent AZ2005 does constitute a protected investment.

PART TWO: MERITS OF THE CLAIM

V. COMPULSORY LICENCE ISSUED BY BERGONIAN INTELLECTUAL PROPERTY OFFICE VIOLATES PROVISIONS OF THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

A. Applicable Law - TRIPS falls within the definition of international law contained in Article 38 International Court of Justice Statute.

98 Claimant contends that the law applicable to the present case shall be TRIPS Article 31 regardless of the provisions of TRIPS Article 64, which provides for dispute settlement under GATT and Dispute Settlement Understanding, whereby private investor's claim against the State of Bergonia would not be permissible.

99 Article 42 of the ICSID Convention provides:

*"The Tribunal shall decide a dispute in accordance with such rules of law as may be agreed by the parties. In the absence of such agreement, the Tribunal shall apply the law of the Contracting State party to the dispute (including its rules on the conflict of laws) and **such rules of international law as may be applicable**."*

100 It is beyond dispute that no body of law has been agreed by the parties. The provisions of BIT1 do not address the issue and neither has there been any separate agreement as to the legislation governing potential disputes. Therefore, the second sentence of Article 42 will have to determine the law applicable in the case at hand. However, the Investor – that is the Claimant, as has been proven in the paragraphs above – wishes to point out relevant provisions of the Vienna Convention, which both Bergonia and Conveniencia are party to[70], as well as arbitral practice in regard to the second sentence of Article 42.

[70] Clarifications2 No. 108

101 Article 27 of Vienna Convention states in the internal law and observance of treaties: *"A party may not invoke the provisions of its internal law as justification for its failure to perform a treaty"*. It is therefore submitted that it is the international law that should be applied over Bergonian legislation irrespective of its content for whenever there are inconsistencies resulting in the violation of an international treaty, the latter will prevail.

102 This supposition has been confirmed in investment arbitration practice. In *Santa Elena* the tribunal stated that:

*"**To the extent that there may be any inconsistency between the two bodies of law, the rules of public international law must prevail.** Where this not so in relation to takings of property, the protection of international law would be denied to the foreign investor and the purpose of the ICSID Convention would, in this respect, be frustrated"*[71].

Similar approach is to be found in *Amco* case[72] or *Southern Pacific*[73].

103 Paragraph 40 of the Report of the Executive Directors removes any doubts as to the interpretation of the term international law referred to in Article 42 of the ICSID Convention by explaining that:

"(...) The term "international law" as used in this context should be understood in the sense given to it by Article 38(1) of the Statute of the International Court of Justice, allowance being made for the fact that Article 38 was designed to apply to inter-State disputes".

104 The relevant Article 38 (1) states that Court shall apply: : "*(...) a. international conventions, whether general or particular, establishing rules expressly recognized by the contesting states"*. Consequently, in the light of a broad interpretation of international law and Article 38(1)(a), it is concluded that TRIPS falls within the notion and is therefore to be applied by the Tribunal.

105 Moreover, it would be unthinkable to disregard TRIPS in view of the Article 27 of the ICSID Convention:

---

[71] *Santa Elena,* ¶ 64.

[72] *Amco Asia*, ¶ 22

[73] *Southern Pacific*, ¶ 80-84.

"[n]o Contracting State shall give diplomatic protection, or bring an international claim, in respect of a dispute which one of its nationals and another Contracting State shall have consented to submit or shall have submitted to arbitration under this Convention, unless such other Contracting State shall have failed to abide by and comply with the award rendered in such dispute".

106 Article 27 effectively prohibits Conveniencia to launch WTO dispute settlement proceedings concurrently with Investor's initiation of arbitration. Had the tribunal refused to apply TRIPS in the present proceedings, Claimant's rights resulting from TRIPS would remain unprotected and unenforceable merely on the grounds that as an Investor, Claimant chose the preferential system of arbitration under the ICSID Convention.

B. Non compliance with any of the conditions specified in Article 31 renders the issuance of Bergonian CL illegal.

107 Having established the applicability of TRIPS, the Claimant will now turn to the analysis of its relevant provisions, namely Article 31 - Other Use Without Authorization of the Right Holder - which regulates the practice commonly known as compulsory licensing. Even though Article 31 does not limit the grounds on which CL can be granted, it does, however, set up certain procedural standards and conditions – a minimum that must be fulfilled for the issuance of CL to be lawful. In order to cast a just and equitable light on the foregoing analysis, it needs to be highlighted that even after Claimant had terminated license agreement with BioLife, their products continued to be available on the Bergonian market[74].

108 Investor submits that Respondent had violated not only one – which would be sufficient to establish unlawfulness of the CL – but several conditions imposed by Article 31.

109 First of all, Article 31(b) provides, that:

[74] Clarifications2 No. 114

"[S]uch use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time".

110 No negotiations have ever been undertaken on the part of the Respondent. It was not until the CL issuance proceedings were initiated that Claimant was even aware of Respondent's intentions[75]. Moreover, no direct negotiations have ever been established[76].

111 It is true that Article 31(b) further states that: *"This requirement may be waived by a member in the case of a national emergency or other circumstances of extreme urgency"*. However, the tribunal is asked to acknowledge that in the present case no such circumstances occurred. According to available data[77] the increase in product sales after the issuance of six compulsory licenses (noteworthy – not only in Bergonia but also in three other countries) in the period between the date of issuance that is 1st November 2007 and 1st January 2009 was only 55%. It is expectable that in case of a national emergency or extreme urgency increase in sales rate in Bergonia alone would be considerably higher.

112 Second of all, Article 31(c) states: *"[T]he scope and duration of such use shall be limited to the purpose for which it was authorized (...)".* The duration of CL was established at 48 months for the Respondent to determinate efficiency of the Patent in tackling the issue of obesity as well as whether CL will enable sufficient number of Bergonians to utilize the product[78.] Clearly, as has been shown in the paragraph above, the market proved to be in no urgent need for the patented treatment. In any case, had there ever been a national emergency, the period for which Respondent granted the CL was far too extensive to meet any immediate needs of the society.

---

[75] Clarifications1 No.46

[76] Clarifications1 No. 12

[77] Clarifications1 No. 19.

[78] Clarifications2 No. 66.

Claimant contends that resorting to such a drastic form of expropriation of rights for a period as long as four years was a violation of Article 31(c).

113 Thirdly, Article 31(f) stipulates:

"[A]ny such use shall be authorized predominantly for the supply of the domestic market of the member authorizing such use". According to *Longman Dictionary of Contemporary English*[79],

the word *"predominantly"* means "*mostly or mainly*". It is unquestionable that three out of six entities which invoked CL exported their products. No specific data as to the amounts exported is available, however, it has been established that exports comprise a *"significant"* proportion of the products sold[80] whereas *"significant"* means *"large enough to be noticeable or have noticeable effects"*[81]. Clearly and without doubt it can be assumed that any given amount of products cannot be used predominantly to supply domestic market while concurrently its significant proportion being exported.

114 Due to the fact that none of the importing countries was a least developed country nor did any of them make notifications to the TRIPS Council in accordance with its paragraph 2[82], the Decision on Implementation of Paragraph 6 Doha Declaration - which does allow to waive provisions of Article 31(f) subject to certain conditions - will not be applicable to the present case. Claimant therefore contends that Article 31(f) has been violated.

115 Fourthly, according to Article 31(i):

"[T]he 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".

Investor submits that no independent review of the decision to issue CL was ever available to him. Although Investor did file an appeal with a Patent Review Board,

---

[79] *Longman Dictionary*

[80] Clarifications2 No. 61.

[81] *Longman Dictionary*

[82] Clarifications1 No. 20.

such review cannot be seen as compliant with Article 31(i) as emphasis must be put on the phrases "*distinct higher authority*", as well as "*independent*". Uncontested remains the fact that the Patent Review Board functions **within** the IP Office, which issued the decision in the first instance. It is, therefore, impossible to characterize the Patent Review Board as a distinct higher authority.

*"The term 'higher authority' refers to a **more senior level government person or body** than the granting person or body. The term 'distinct' could refer to a person or body within the same government agency that initially grants the license, provided that there is **adequate separation of personnel and function** among the two persons or bodies"*[83].

116 Furthermore, the Tribunal is asked to consider that the appellate body is remunerated for their services by the first instance office which raises doubts as to its independence[84].

*"'Independent' means that the reviewing person or body should not be subject to control by the person or body that initially grants the license or determines the payment. Independence implies that the reviewer should be able to modify or reverse the initial decision without threat of political or **economic reprisal**"*[85].

Claimant therefore submits a breach of Article 31(i).

117 Moreover, Article 31(h) puts forward a condition that: *"[T]he right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization"*. Claimant submits that royalties offered by Respondent, which were moderately lower than those received under license agreement with BioLife[86] did not constitute adequate remuneration in view of the circumstances. Claimant had right to expect six different proceedings establishing adequate royalties from each entity, based on the market value of the license and costs borne by Investor on research and development.

118 In any case, according to Article 31(j):

---

[83] *UNCTAD-ICTSD Resource Book*, p. 478

[84] Clarifications1 No. 29

[85] *UNCTAD-ICTSD Resorce Book*, p. 478

[86] Clarifications2 No. 88

"[A]ny 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".

As has been shown in the previous paragraph, Investor was devoid of an opportunity to appeal to a body which would meet these fundamental requirements and therefore refused to accept the royalties offered. Claimant therefore submits that both Article 31(h) and (j) had been violated.

C. TRIPS Objectives included in Article 7 TRIPS were the focal criterion considered in the process of undertaking the investment

119 Claimant does recognize the importance of availability of their treatment and shares Respondent's concerns for obesity problem in Bergonia. It is this concern for public health that influenced Investor's efforts for their treatment to be present at Bergonian market even after the termination of license agreement with BioLife. Consideration must also be given to the fact that in a country where the GDP per capita is US$ 7,535[87], Investor decided to disseminate its technology and provide access to it at a price rate US$0,8 per day[88] which proves that Objectives put forward in TRIPS Article 7 were duly taken into account by Investor as it was his priority to

"contribute to the promotion of technological innovation and the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations"[89].

D. Actions non compliant with Article 31 TRIPS cannot be justified by its Principles included in Article 8

[87] Clarifications1 No. 44

[88] Clarifications2 No. 109

[89] TRIPS Article 7

120 While it is true that the Principles of TRIPS laid down in Article 8 permit Member States to

"(...)adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development"

– such flexibility is given to States on one, basic condition – it must be *"(...) provided that such measures are consistent with the provisions of this Agreement"*. As has been shown by the Claimant, measures undertaken by Respondent evidently violated provisions of the said treaty.

VI. COMPULSORY LICENSE ISSUED BY BERGONIAN IP OFFICE BREACHES ARTICLE 4 (2) AND (3) OF BIT1.

A. Compulsory license is a measure of expropriation or tantamount to expropriation.

121 Compulsory license (CL) as recognized within the international trade is issued *"(...) when a government allows someone else to produce the patented product or process without the consent of the patent owner"*90. Although it is not as such forbidden in international law and the states have the right to issue it in order to protect their domestic, mainly medical needs91, under some circumstances it may amount to expropriation, notwithstanding their lawfulness under other legal acts as TRIPS. **The CL issued by Bergonian authorities is a measure of expropriation or alternatively tantamount to expropriation, for it has the effect of depriving the patent owner of the essence of his right** namely of the ownership and exclusivity of the patented product and hence violates Article 4(2) of BIT1.

122 Indirect expropriation has been widely recognized since 1961 as such an interference into the sphere of the ownership that the owner although still having the title to the

[90] http://www.wto.org/english/tratop_e/TRIPs_e/public_health_faq_e.htm

[91] TRIPS, Article 31; Doha Declaration, ¶ 5(b).

property cannot control, use, dispose or have benefits from it and hence is *de facto* deprived of his property92. As it has been stated in *SD Myers*: "

An expropriation usually amounts to a lasting removal of the ability of an owner to make use of its economic rights although it may be that, in some contexts and circumstances, it would be appropriate to view a deprivation as amounting to an expropriation, even if it were partial or temporary"[93].

Moreover, as it has been held by another tribunal:

"(...) measures taken by the state have the effect of depriving the investor of the benefits that are expected to flow from the investment, these measures are 'indirect expropriation' even though the investor may retain the nominal ownership rights"[94].

Another judgment defining indirect expropriation states:

"(...) an indirect expropriation exists if the measure in question has effects of such substantial intensity that the expected legitimate benefits cease to flow from the respective investment and the possession of such an investment becomes meaningless"[95.]

123 CL in question **deprives Claimant of the most important rights, namely of the exclusivity of production, deciding about giving licenses and gaining appropriate benefits from the patent**. Moreover, Investor looses control over the Patent, its distribution and structure which by other subjects can be modified and finally the patent as such is deprived of its value. Furthermore, the quantity of companies producing patented medical product under various trade marks evaluations, vanishing of the identity of the product and decrees its value. Finally, the researches, the invention of the substance, patent registration and setting up production required so much effort from the Investor that depriving him of the patent is **deprivation of all sense of his business activity**. It is **the highest degree of interference into the rights of the owner, since it is a compulsory transfer of**

---

[92] *Harvard Draft Convention,* Article 10(3); *OECD Draft Convention*, sec. 712 cmt. (g); *UNCTAD*, at 66 (1998).

[93] *SD Myers*, ¶ 283

[94] *Middle East Shipping*, ¶ 107

[95] *RFCC*, ¶ 391

property rights96. And while dealing with the ownership of the patent, the CL is the ultimate measure that can be used by the state. Even though the title to the ownership of the patent has not been removed from Claimant, **the essence of the patent and economic benefits vanished**. It has become meaningless of being the owner of the patent. Moreover, very important is the period for which the CL has been issued. Although this time is limited, it lasts four years. Such a period in medical products market is not only very long, but also within that time it is almost certain that other, even better product would be invented. **Therefore such a CL deprives the investor of the greatest benefits that were expected to flow from the ownership of the patent in the only really profitable period**. And hence it is a measure of indirect expropriation.

124 However, even if the tribunal decides that the CL is not indirect expropriation, it fulfills the conditions for being a measure tantamount to expropriation. This measure is not expropriation as such, as it has been defined in *Waste Management* case:

"[a]n indirect expropriation is still a taking of property. By contrast where a measure tantamount to an expropriation is alleged, there may have been no actual transfer, taking or loss of property by any person or entity, but rather an effect on property which makes formal distinctions of ownership irrelevant"[97].

Similarly, the tribunal in *Metalclad* case stated that it concerns not only seizure of property:

"(...) but also covert or incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or reasonably–to–be–expected economic benefit of property even if not necessarily to the obvious benefit of the host state"[98].

Therefore even if the CL would be said not to deprive Investor of his property, nevertheless due to the reasons presented above, **it makes the fact of the ownership meaningless and takes from Claimant all benefits**. And the effect of this measure is the most important one.

---

[96] *Tradex Hellas,* ¶ 82

[97] *Waste Management,* ¶ 143

[98] *Metalclad*, ¶ 103

125 This view has been based on Iran – US Tribunal judgment in *Tippetts* case, in which it has been stated that:

> *"(...) the intent of the government is less important than the effects of the measures on the owner and the form of the measures of control or interference is less important than the reality of their impact*"[99]

what provided so-called "sole effect" doctrine of defining whether the measure is treated as expropriation or not, without taking into account the intention of the state. This way of interpretation is adequate in present case since the Article 4(2) of BIT1 clearly states that *"any other measure the effects of which would be tantamount to expropriation*" is forbidden. There for the only aspect that matters is the effect of taken measure, not the intent of the hosting state or the form of the measure.

126 Moreover due to the importance of the patent and its value measure applied also implicates the economic value of the whole investment. And four years is enough to deprive the owner of the patent of all benefits.

127 Even if Investor decides to produce and sell the product on its own nowadays, he would not earn as much as he could have earned without existence of the CL. Due to present competition it is doubtful, whether he would earn anything on its invention and on its patent.

128 Claimant has been deprived of the essence and ratio of the patent. And even if it is not clear whether the hosting state had any intention as to expropriate the Investor, nor any benefits were collected from the Investor, the very clear is the fact that the CL is a measure that effects of which are tantamount to expropriation.

129 **BIT1 does not provide any exception as to the definition of the expropriation**. In comparison to BIT2, such exclusion of CLs from the definition of expropriation has been included: "This Article does not apply to the issuance of CLs granted in relation to intellectual property rights in accordance with the TRIPS Agreement[100]". Although BIT2 and BIT1 are from the same year and were negotiated in the same

---

[99] *Tippets,* ¶ 225–226.

[100] BIT2, Article III. 4.

technologically known conditions, the absence of such an exception clearly indicates that none exception was intended by the parties. Hence CL cannot be excluded from the definition of expropriation. No exception with respect hereto is a general rule of law as well. That is why it cannot be claimed to be a lawful regulatory measure. BIT1 does not provide any such possibility.

130 Moreover, contrary to what has been raised by the Respondent, the exception from BIT2 cannot be used in present case to exclude CL due to MFN clause. This clause concerns that the investor from one contracting state in the territory of the other cannot be treated in a less favorable way than subjects from other states. Hence if other treaties provide more favorable provisions for the investor than in the BIT1, the investor may rely directly on them. Therefore if BIT2 is less favourable than BIT1 while speaking about expropriation, it will not be applicable at all.

131 Due to applicable international law and present facts, the CL issued by Bergonia falls within Article 4(2) of BIT1 by being a measure of expropriation.

B. CL is a measure of unlawful expropriation.

132 The CL issued by Bergonian authorities could be legal if it was in accordance with Article 4 of BIT1 providing that the measure should be:

"(...) in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation" as well as with regard to due process of law".

All these requirements have to be fulfilled cumulatively, what did not take place under the facts of the present case. And hence in the view of international investment law the CL is illegal.

133 First and foremost the measure should be used for public purpose. **While speaking about public purpose two aspects shall be taken into consideration: the nature of the purpose and proportionality of undertaken measure**[101]. The nature of the

[101] *TECMED*, ¶ 122

public purpose concerns fight with HIV/AIDS in South America, Brazil or Thailand[102]. The percent of people suffering from this disease, its seriousness, number of people dying and poverty of society, was an accepted justification for issuing CLs. In present case the public purpose in question was obesity. Investor does not doubt that nowadays it is a serious threat to societies. However it is not so incurable, wide spreading, and death cause as AIDS. It is not a disease, which is so sudden and acts so quickly that should be cured by issuing CL. Especially if Claimant has not been even given proper time after termination to find another contractor. So it cannot be deemed that Investor did not use the patent or acted in bad faith.

134 Contrary to Bergonia, since Bergonian authorities issued a CL just a month after termination. **Moreover, the Claimant could have legitimate expectations as to the treatment of his investment and his inventions as medical products**. It was not the behavior of the investor that was to be regulated but the internal problem of the State. Therefore it is not the investor who should bear negative consequences of the State's problems. The State cannot by its domestic measures nullify international obligations, especially if there is an entity relying on them in good faith. The failure of the Respondent to respect these expectations caused damaged to the Investor which amounted to expropriation.

135 **Moreover, the measure taken is not proportionate**. Issuing CL which nullifies benefits of the investor is not a proper measure with fighting against civilization disease. If Bergonia's intention was to increase the access to medical products, it should have taken place by negotiations with patent owner concerning improving distribution and sale or financial support of medical science what would improve competition.

136 It cannot be ignored that **significant portion of the product have been exported, because it was not so much needed in Bergonia**. Therefore CL was not necessary.

[102] *Ranjan*, p. 77, 79

137 There was no immediate need. Before issuing of CL the product was still available in Bergonia. Either state could negotiate, or the Investor could find another contractor and start selling the medicine again. However no chance has been given to him. Finally, the product was not too expensive while it cost 25$ per month. In these conditions by no means we can assume that there was any proper public purpose for issuing CL.

138 Secondly, the measure taken by the state shall not be discriminatory. CL deprived the foreign investor of his rights flowing from the ownership of the patent. **These rights and benefits have not only been transferred to domestic companies, but also they were allowed to export the product to other states**. None of these states was the least-developed one. Therefore the export cannot be justified. Hence, domestic companies could earn not only domestically but also abroad, whereas Claimant has been deprived any incomes in Bergonia as well as in other states.

139 Although other companies in Bergonia operate in the same business and there are similar technologies, none of them was subjected to CL or similar measure. Due to MFN clause in Article 4(4) of the BIT1, Article II.2(b) of BIT2 states that although the review of such a measure took place, the measure still can be discriminatory. And taking into account all facts presented above, in comparison to other companies, the CL has been discriminatory.

140 Thirdly, contrary to Article 4(3) of the BIT1 the issuance of CL has not fulfilled the requirement of due process of law. Although it might have been issued in accordance with domestic regulations, it has not been reviewed by independent from issuing the license body. **The objections of Investor have been presented to the Bergonian IP Office's Patent Review Board being within the structure of the Bergonian IP Office, hence it was not an independent review**. And therefore this requirement also has not been fulfilled.

141 The last condition that has to be fulfilled is that the compensation must be paid. It shall be prompt, adequate and effective[103] as well as carrying interest from the date of expropriation[104]. However, in present case this requirement is lacking as well.

142 First and foremost, the compensation has not been paid promptly, hence without delay. **The state authorities did not pay at the moment of taking of the expropriating measure but afterwards while collecting the money from particular companies**. Especially, that payment took place yearly, starting one year after issuing the CL. The compensation should be paid by the State, not by private companies, what de facto happened in present case. Therefore this requirement has been breached and the payment was not a legally effective compensation.

143 Furthermore, royalties cannot be acknowledged as adequate compensation. Literal meaning of Article 4 of the BIT1 states that:

"(...) compensation shall be equivalent to the value of the expropriated investment immediately before the date on which the actual or threatened expropriation has become publicly known".

That is why fair market value (FMV) method of valuation shall be used. FMV concerns the price which the willing buyer would give to the willing seller[105]. And on the basis of Article 4(4) of BIT1, which constitutes most-favoured-nation clause with respect to expropriation, Article III(1) of BIT2 strictly provides FMV as a method of valuation. Since this provision is more favorable, it is fully applicable in this case.

144 Royalties collected by state authorities basing on compulsory prices imposed by State on companies, which have been given CL, are certainly not equivalent to FMV. Obviously they are much lower. Hence they are inadequate to proper compensation. Claimant can easily evaluate market value of exclusive licence, as it was issued previously to him and he gained profits thereupon. If royalties collected by state

---

[103] BIT1, Article 4(2).

[104] BIT1, Article 4(3).

[105] *INA*, ¶ 127

authorities were in fact adequate, there would be no point for Investor to seek compensation.

145 The compensation shall include commercial interest. Although Article 4(3) provides requirements for valuation of the interest, more favorable are those stated in Article III(1) of BIT2. The interest shall *"(...) include interest at a commercially reasonable rate from the date of expropriation"*. The interest is closely related with "going concern" method of valuation. Hence it concerns the sum of money that the company was to earn on the basis of its documented previous activity[106]. So this sum would be simply the value of fees gained by Claimant during the previous license agreement. That is why this money shall be included into the amount of the compensation.

146 Finally, since the measure used by the hosting state was illegal, even higher compensation should have been paid. U.S. – Iran Tribunal stated:

"(...)the difference is that if the taking is lawful the value of the undertaking at the time of the dispossession is the measure and the limit of the compensation, while if it is unlawful, this value is, or may be, only part of the reparation to be paid"[107],

what in other words includes not only *damnum emergens*, but also *lucrum cessans*. *Lucrum cessans* is hypothetical money that the company would have earned if the expropriating act did not occur108. In present case that would be the value that Investor could have gained by issuing licenses to other companies.

147 **Therefore in consideration with present provisions of the BIT1, the compensation shall be based on FMV, shall include commercial interest and *lucrum cessans***. Under the facts of the case, state authorities simply collected compulsory fees from six domestic companies and offered them to Claimant. However this sum of money as being imposed by Compulsory License is not equal to the compensation due. And since the proper compensation has not been paid, the

---

[106] *Benvenuti*, ¶ 271-273

[107] *Amoco*, p. 1360

108 *15 Iran–US CTR*, ¶ 203

Compulsory License issued by Bergonian authorities is a measure of unlawful expropriation and violates BIT1.

148 Due to the facts presented above, the CL did not fulfill all necessary prerequisites for being a measure of lawful expropriation. Therefore Bergonia violated BIT1 and shall carry full responsibility for this act.

C. Conclusion

149 Respondent's actions violated applicable international law by breaching Article 31 of TRIPS Agreement. They were also in clash with the Objectives and Principles laid down in Articles 7 and 8. Moreover, compulsory license issued by Respondent deprived Claimant of their rights and constituted a measure of expropriation. Due to the fact that it did not fulfill the conditions of public purpose, non-discrimination, due process of law and compensation, it was a measure of unlawful expropriation and hence a violation of Article 4 of BIT 1.

PART THREE: RELIEF REQUESTED

150 As a consequence of the foregoing, the Claimant respectfully requests the Tribunal the following relief:

(1) A declaration confirming jurisdiction of the Tribunal,

(2) An award holding that the Commonwealth of Bergonia is wholly liable for actions connected with issuing Compulsory License, which was contrary both to BIT1 and to international law.

(3) An award evaluating the amount of compensation to the Claimant which is due; and

(4) And that this arbitration should proceed to the Quantification of Damages Phase.

Such additional or other relief as may be just.

Respectfully submitted
Broches&Partners
September 7, 2009