THE SECOND ANNUAL FOREIGN DIRECT INVESTMENT MOOT COMPETITION

23 OCTOBER TO 24 OCTOBER 2009

IN THE

ARBITRAL TRIBUNAL

FRANKFURT INTERNATIONAL ARBITRATION CENTER

FRANKFURT AM MAIN

YEAR 2009

MEDBERG CO. / THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

CLAIMANT RESPONDENT

ON SUBMISSION TO THE ARBITRAL TRIBUNAL

- MEMORIAL FOR THE CLAIMANT -

MEDBERG CO.

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STATEMENT OF FACTS

1. The Democratic Commonwealth of Bergonia (Respondent) and the Sultanate of Conveniencia entered in to an Agreement on the promotion and Protection of Investments. Respondent and Government of Tertia entered in to an Agreement concerning the reciprocal encouragement and protection investments.
2. MedBerg Co. (Claimant), was established in Bergonia on 30 January 2004. The MedBerg Co.'s (claimant), 100% shares are held by the MedX Holdings Ltd., which is seated in State of Conveniencia and 50% shares of Med X Holdings Ltd is held by Med Science Co., which is situated in State of Laputa and rest 50% shared are held by Dr. Frankensid, a dual national of State of Amnesia, Bergonia. Ultimately 100% shares of Med Berg Co., is held and controlled by MedX Holdings Ltd.
3. Amnesia, Bergonia, and Conveniencia are ICSID Contracting States and all have ratified the Convention. They are also Members of the World Trade Organisation (WTO) and parties to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). However Laputa is neither an ICSID Contracting State nor a Member of the WTO.
4. Dr. Frankensid is the scientist employed by MedScience Co. and credited with a breakthrough leading to several patents including Bergonian Patent No. AZ2005.
5. On 5 February 2004 the Claimant applied for a patent in relation to Dr. Frankensid's invention, and on 15th March 2005 the claimant was granted Bergonian Patent No. AZ2005. Claimant is the owner of Bergonian Patent No. AZ2005 for at least 20 years as per the standards of the TRIPS agreement.
6. Claimant licensed BioLife Co., a Bergonian company, to utilise Bergonian Patent No. AZ2005 on 31 March 2005 (the License Agreement). Under the License Agreement with BioLife, MedBerg contends that all products and treatments were intended for sale in Bergonian domestic market. On 31 March 2007 the Claimant terminated the License Agreement in accordance with the License Agreement's notice and termination provisions. BioLife complained that upon receiving notice of termination it had sought to renegotiate the terms of the License Agreement, but the Claimant ended these negotiations.
7. On 1 June 2007, the Bergonian Intellectual Property Office (IP Office) commenced proceedings for the issuance of a compulsory license with respect to Patent No.

AZ2005, stating that the technology covered by this patent is needed to address important domestic medical needs.

8. On 1 November 2007 the Bergonian IP Office issued a compulsory license for Patent No. AZ2005 for a period of 48 months.
9. As of 1 January 2009, BioLife and five other Bergonian entities had invoked the compulsory license. These companies are using the technology covered by Patent No. AZ2005 to produce certain health-related products for commercial purpose whereby three of these companies have exported significant amount of products to other countries where the number of developing countries to which it is exported is hardly one. The compulsory license does not provide for export of these products and neither any notification has been made to the TRIPS Council as per paragraph 6 of Doha Declaration.
10. The Bergonian IP Office had collected royalties from the six Bergonian companies and offered these royalty payments to Claimant, but the Claimant refused, as the percentage of royalty rate was lower which was set by the Bergonian IP office than the rate that had been in effect under the terms of the License Agreement between MedBerg and BioLife.
11. There were many companies in Bergonia operating in the same business sector as Claimant, yet the Bergonian IP Office had not issued compulsory licences with regard to any other patented technology similar to claimant's Patent.
12. Claimant communicated its objections to the Bergonian IP Office, prior to and then formally, during the course of the compulsory license proceedings between 1 June and 1 November 2007 and also the claimant filed a Request for Settlement under Art. 10(2) of the Bergonia-Conveniencia BIT but Only the Justice Ministry replied to MedBerg's letter, stating that the compulsory license was issued in conformity with Bergonia's international obligations. Thus the objections were not resolved to the Claimant's satisfaction. And neither there here has been any independent review of the IP Office's decision to issue the compulsory license.
13. On 1 November 2008, the ICSID Secretary General registered the dispute for arbitration.

SUMMARY OF ARGUMENTS

14. **JURISDICTION:** The tribunal has jurisdiction in view of the nationality of those parties controlling the Claimant, as the test of 'foreign control' would have to be applied in case of determining the true nationality of the Claimant. MedX Holdings Ltd which is incorporated in Conveniencia has control of the Claimant within the meaning of the Convention. Secondly, even if it is assumed that the Claimant does not satisfy the test of foreign control, the shareholders of a company have the right of remedy against the wrong perpetrated by a Contracting State, and since 100 percent of the Claimant shares are held by Nationals of Bergonia, hence the jurisdiction of this tribunal is satisfied. Thirdly, when a Contracting State signs an investment agreement, containing an ICSID arbitration clause, with a foreign controlled juridical person with the same nationality as the contracting State it would be deemed to have agreed to treat that company as a juridical person of another Contracting State. Hence, express consent need not be required under Article 25(2)(b) of the ICSID Convention. Fourthly, it can also be stated that the said requirement is subverted by the incorporation of the MFN Clause in the Bergonia-Conveniencia BIT as invoking Article VI.8 of the Bergonia-Tertia BIT can be construed as the consent needed to recognize the Claimants as an entity which is controlled by nationals of Conveniencia. Lastly, the nationality of Dr. Frankensid and MedScience Co. is irrelevant has the chain of control can only be traced back to the first degree and not to the xth degree.

15. **MERITS OF THE CLAIM:** Intellectual property is a particularly strong version of "private property" that should be upheld against untoward redistributionist state interference and trespassory infringement by individual. Firstly, the right to license a patent, exclusively or otherwise, or to refuse to license at all, is the 'untrammeled right' of the patentee. Hence, Med Berg is under no duty to meet the objective of protecting public health in Bergonia vide the use of its patent. Secondly, TRIPS does not mandate compulsory exploitation of the patent by constant use by the patent holder. It has only included such a provision to prevent 'non-use' in the case of Trade Marks. As the drug involved in this case is only an obesity cure drug and there is evidence of supply of that drug in the market even during the period after which the license was revoked with Bio Life thus, public health was not being compromised in

this case at any point of time. Thirdly, the contribution by the patented drug to the economy of the state was intermittent, thereby only affecting the size of the contribution, which by the aforementioned case is irrelevant as long as there is shown be some contribution. The actions on part of the respondent state are in violation of Articles 2.2, 2.3, 2.4 and 4.3 of the Conveniencia -Bergonia BIT. Article 2.2 provides for fair and equitable treatment. Fair and equitable treatment does not require bad faith or malicious intention of the recipient State as a necessary element, infact a pro-active behavior of the State to encourage and protect investments should be th*e* standard of conduct of host parties. The IP office of the government of Bergonia did not release any information as to any statics or other basis of reaching their decision. The claimant was also not given any evidence to support the respondents action. Thus, the entire exercise lacked transparency is violative of the fair and equitable clause of the BIT. Article 2(4) and 4(3) of the Conveniencia-Bergia BIT bring in the aspect of good faith in the actions of the host country, in this matter being Bergonia. The actions on part of the respondent state were arbitrary and lacked transparency hence defeating the good faith requirement of the BIT.

ARGUMENTS

PART ONE: JURISDICTION

I. THE TRIBUNAL HAS JURISIDICTION TO HEAR THIS DISPUTE

16. Article 25 (2) (b) of the Convention provides for the definition of the term 'National of another Contracting State', and reads as under:

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

17. The Convention contains a specific provision to address the phenomenon of investments made through corporations that are registered in the host state. Article 25(2) (b) of the ICSID Convention deals with juridical persons that are incorporated in the host state but are controlled by nationals of another state. These may be treated as foreign nationals on the basis of an agreement.
18. This dispute concern's the Respondent's express violation of the obligations arising under the Bergonia-Conventia BIT in relation to the Claimant's investment in the Respondent country.
19. The Claimant is wholly owned by MedX Holdings Ltd. which is incorporated in Conveniencia.[1] Both the Respondent country and Conveniencia are ICSID Contracting States, Members of the World Trade Organisation (WTO) and parties to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).[2]
20. The Claimant asserts that the tribunal has jurisdiction because **[A]** a national of Conveniencia would be regarded to have control of the Claimant within the meaning of ICSID Convention Article 25(2)(b) and **[B]** in case of express consent being required, then Article VI.8 of the Bergonia-Tertia BIT allows the Claimant to approach the tribunal.

[1] Record at, Chart in Annex 3

[2] Record at, Annex 3, ¶ 3.

[A] A NATIONAL OF CONVENIENCIA HAS CONTROL OF THE CLAIMANT WITHIN THE MEANING OF THE CONVENTION

21. A corporate person may have a nationality based on the place of incorporation, or the effective seat of management or principal place of business. Under the conditions of Article 25(2)(b) of the ICSID Convention and provisions in some BITs, the local company might qualify as a foreign investor because of its foreign control.
22. The tribunal in *Vacuum Salt Prod. Ltd. v. Republic of Ghana*[3], noted and confirmed that 'foreign control' under the second clause of Article 25(2) (b) does not contemplate or mandate a particular percentage of share holding/ ownership. 100 percent foreign ownership almost certainly would result in foreign control, by whatever standard, and that a total absence of foreign shareholding would virtually preclude the existence of such control.
23. In the course of the drafting of the Convention, it was said that 'interests sufficiently important to be able to block major changes in the company' could amount to a controlling interest that 'control could in fact be acquired by persons holding only 25 percent of 'a company's capital and even that '51% of the shares might not be controlling' while for some purposes '15% was sufficient'.[4]
24. The objective existence of foreign control shall be presumed in all cases wherein foreign shareholding is 100 percent.[5]
25. In *Autopista v. Venezuela*[6] the nationality of the company that acquired the majority of the shares was determined as per the most common criterion, i.e., place of incorporation.
26. The Claimant in the present matter is solely owned by MedX Holdings Ltd, a corporate incorporated in Conveniencia.[7]

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[3] *Autopista Concesionada de Venezuela, C.A. (AUCOVEN) v. Bolivarian Republic of Venezuela* ICSID Case No. ARB/92/1, Award of 16 February 1994, 4 ICSID Reports 329, 331-40, 344-51 (1997)

[4] R. Doak Bishop, James Crawford & W. Michael Reisman, Foreign Investment Disputes: Cases, Materials and Commentary, (Kluwer Law International, 2005)

[5] *Ibid* fn. 26

[6] Case No. ARB/00/5, award of September 27, 200.1

[7] Record at Chart 3, Annex 3

27. Control under international law, is a flexible and broad concept that may refer not only to the rights of majority shareholders but also to other reasonable criteria such as management responsibility, voting rights and nationality of board members. The ICSID tribunal in *Vacuum Salt v. Republic of Ghana*[8] award, stated that acting or being 'materially influential in a truly managerial rather than technical or supervisory vein' or being 'in a position to steer, through either positive or negative action, the fortunes' of the company would suffice to demonstrate control.
28. In *Amco Asia et al. v. Indonesia*[9] the Tribunal rejected the search for indirect control beyond the first level of control and found that the search was restricted to the immediate control of the parent company over the local company.[10] Immediate control over the Claimants is held by MedX Holdings Ltd. which is incorporated in Conveniencia.
29. The tribunal added that the Convention did not require that 'a formal indication, in the arbitration clause itself, of the nationality of the foreign juridical or natural persons who control the juridical person having the nationality of the contracting State party to the dispute'. Since, in its investment application, Amco Asia proposed to set up a foreign business in Indonesia and capitalize P.T. Amco with foreign capital, that constitutes acknowledgement of P.T. Amco as foreign controlled.[11]
30. The ownership of the Claimant *i.e.* MedBerg was available in the Bergonian corporate registry at times.[12]
31. In *Kolckner v. Cameroon*[13] according to the Tribunal, since SOCAME was a foreign controlled company, this was, in itself, sufficient to impute that it was also considered

[8] *Vacuum Salt Prod. Ltd.* v. *Ghana*, ICSID Case No. ARB/92/1, Award of 16 February 1994, 4 ICSID Reports 329, 331-40, 344-51 (1997)

[9] *Ibid* fn. 26 at 404-405

[10] Omar E. García-Bolívar, *International Law Of Foreign Investment At A Crossroads: The Need To Reform*, http://works.bepress.com/cgi/viewcontent.cgi?article=1002&context=omar_garcia_bolivar

[11] A. Sule Akyüz, *The Jurisdiction Of ICSID: The Application of the Article 25 of Convention on the Settlement of Investment Disputes Between States and Nationals of Other States*, Yıl 2003, pg. 353

[12] Record at Response to Clarification No. 59.

[13] *Ibid* fn. 25

as being a "national of another Contracting State" within the meaning of Article 25(2)(b). The tribunal asserted that the insertion of an ICSID arbitration clause is sufficient by itself to presuppose and imply that the parties had agreed to consider SOCAME, at the time, to be a company under foreign control.

32. The Bergonia-Conveniencia BIT in Article 10.2 provides for settlement of disputes between an Investor and Contracting State through international arbitration under the Convention of ICSID.

33. The decisive criterion for the existence of a foreign investment is the nationality of the investor. An investment is a foreign investment if it is owned or controlled by a foreign investor. There is no additional requirement of foreignness for the investment in terms of its origin.[14] The foreign nature of an investment is determined exclusively by the nationality of the investor that exercises ownership and control.[15]

34. Indirect control by nationals of Contracting States of the company established under local law is sufficient to satisfy the nationality requirements of Article 25 of the Convention.[16]

35. 'Control' or 'ownership' is the only criterion that requires a real 'connection' which can only be determined by lifting the corporate veil.[17] This test is not unfamiliar to traditional international law. A control test was applied in cases of enemy aliens, and that thus resulted in the piercing of the corporate veil. [18]

36. One of the main purposes of ICSID is to 'facilitate the settlement of disputes between States and foreign investors' with a view to 'stimulating a larger flow of private international capital into those countries which wish to attract it'.[19] Weil in his

[14] *Tradex v Albania* , Award, 29 April 1999, 5 ICSID Reports 70, at ¶ 105, 108–111; *Olguín v Paraguay* , Award, 26 July 2001, 6 ICSID Reports 164, at ¶ 66, FN 9; *Tokios Tokelės v Ukraine* , Decision on Jurisdiction, 29 April 2004, 11 ICSID Reports 313, at ¶ 80.

[15] Peter Muchlinski, Federico Ortino & Christoph Schreuer, The Oxford Handbook Of International Investment Law, (Oxford University Press, 2007).

[16] *SOABI v. Senegal* , ICSID ARB/82/1, published at 1993 2 *ICSID Rpts*. 165 .

[17] *Supra* fn. 13.

[18] *Barcelona Traction Light and Power Company Limited (Belgium v Spain)* (1970) ICJ Reports 3.

[19] Report of the Executive Directors on the Convention, ¶ 9, as quoted in the Dissenting Opinion, *Tokios Tokelès v Ukraine, Ibid* at ¶ 3

dissenting opinion in *Tokios Tokeles v. Ukraine*[20] emphasizes the fact that ICSID was aimed at the settlement of investment disputes between *foreign* investors and other states, thus clearly not between states and their own nationals. By not piercing the corporate veil, this is indeed the result that was achieved and it does not fall within the scope and objective of the Convention.

37. In the *SD Myers*[21] case, decided under NAFTA, the element of control played an important role in the tribunal's decision. The tribunal found that SD Myers, even though it owned no shares in Myers Canada, was effectively controlled by the same individual and thus allowed the claim. The tribunal stated that since the two legal entities were effectively controlled by the same individual, technical arguments with respect to corporate structure should not defeat "an otherwise meritorious claim". This tribunal clearly showed a willingness to look beyond the 'technicalities' at the real facts. This is also needed within the ICSID framework, especially in the determination of the nationality of corporations.[22]

38. Mr. Amerasinghe has stated that

> "a tribunal may regard any criterion based upon management, voting rights, shareholding or any other reasonable theory as being reasonable for the purpose. The point is that the concept of 'control' is broad and flexible…."

39. Mr. Broches, too, has written that, whilst the Convention begins from the premise that incorporation determines nationality, an ICSID tribunal should take account not only of formal criteria such as incorporation, but also of economic realities such as ownership and control.[23]

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[20] *Tokios Tokeles v. Ukraine*, Decision of April 29, 2004, Case No. ARB/02/18. http://www.worldbank.org/icsid/

[21] *Myers (SD) Inc v Canada* , NAFTA Arbitration, UNCITRAL Award of 12 November 2000, 40 ILM 1408 (2001).

[22] Chris Tollefson, *Games without Frontiers: Investor Claims and Citizen Submissions under the NAFTA Regime* 27 Yale J Int'l L 141 (2002)

[23] *Rumeli Telekom AS and Telsim Mobil Telekomikasyon Hizmetleri AS v Kazakhstan*, ICSID Case No ARB/05/16; IIC 344 (2008), ¶ 281

40. In the *Holiday Inns*[24] decision on jurisdiction, in order to find that the parent companies of the investor, which were not themselves parties to the investment agreement, were proper parties to the proceedings, the tribunal looked specifically to their actual participation in the carrying out of that investment agreement. By the same token, in the *Klöckner v. Cameroon*[25] case, the tribunal found that it had jurisdiction over Klöckner for the purposes of the government's counterclaim even in relation to an investment agreement which had been concluded between a company which was not Klöckner but in which Klöckner had a majority interest, and the government.
41. In *Amoco Asia* case[26] the tribunal nonetheless accepted that the true nationality of the controller would have to be taken into account where, for political or economic reasons, it matters for the host State to know the nationality of the controller.
42. Hence, in the present dispute, the true nationality of the controller, as indicated in the Bergonian corporate registry at all times, was MedX Holdings Ltd., which in turn also held a 100 percent stake in the Claimants. As, MedX Holdings Ltd. is incorporated at Conveniencia, a national of Conveniencia would be regarded to have control of the Claimant within the meaning of ICSID Convention Article 25(2)(b).

Arguendo,

[A.1] ***Agency Principle***

43. Most investment treaties offer a solution that gives independent standing to shareholders: the treaties include shareholding or participation in a company in their definitions of 'investment'[27] In this way, it is not the locally incorporated company that is treated as a foreign investor. Rather, the participation in the company becomes

[24] *Holiday Inns S.A. and others v. Morocco* ICSID Case No. ARB/72/1, Decision on Jurisdiction of May 12, 1974

[25] *Klöckner Industrie-Anlagen GmbH and others v. United Republic of Cameroon and Société Camerounaise des Engrais* ICSID Case No. ARB/81/2, Award of October 21, 1983, 2 ICSID Reports 9, at 17

[26] *Amco Asia Corporation and others v. Republic of Indonesia* ICSID Case No. ARB/81/1, Decision on Jurisdiction of September 25, 1983, 1 ICSID Reports 396

[27] See R Dolzer and M Stevens, *Bilateral Investment Treaties* (1995) 27–28. See also Article 1139 of the NAFTA; Article 1(6)(b) of the ECT.

the investment. Even though the local company may be unable to pursue the claim internationally, the foreign shareholder in the company may pursue the claim in its own name. Put differently, even if the local company is not endowed with investor status, the participation therein, is seen as the investment. The shareholder may then pursue claims for adverse action by the host state against the company that affects its value and profitability. Arbitral practice on this point is extensive and uniform.[28]

44. Article 1.1(a) of the Bergonia-Conveniencia BIT defines 'investments' to inclue shares 'of companies and other kings of interest in companies'.

45. In *Alex Genin v Estonia*[29], the tribunal rejected the respondent's argument that the claim did not relate to an 'investment' as understood in the BIT. It said:

"The term 'investment' as defined in Article I (a)(ii) of the BIT clearly embraces the investment of Claimants in EIB. The transaction at issue in the present case, namely the Claimants' ownership interest in EIB, is an investment in 'shares of stock or other interests in a company' that was 'owned or controlled, directly or indirectly' by Claimants. "[30]

46. This practice has also been extended to indirect shareholding through an intermediate company.[31] The same technique has been employed where the affected company was incorporated not in the host state but in a third state. [32]

47. Shareholder protection is not restricted to ownership in the shares. It extends to the assets of the company. Adverse action by the host state in violation of treaty

[28] See eg *Goetz v Burundi* , Decision of 2 September 1998, 6 ICSID Reports 5; *Maffezini v Spain* , Decision on Jurisdiction, 25 January 2000, 5 ICSID Reports 396; *Compañía de Aguas del Aconquija, & CGE v Argentina* (the *Vivendi* case), Decision on Annulment, 3 July 2002, 6 ICSID Reports 340; *Pan American v Argentina* , Decision on Preliminary Objections, 27 July 2006, ¶ 209–222.

[29] *Genin v Estonia*, Award, 25 June 2001, 6 ICSID Reports 241.

[30] *Supra*, ¶ 324

[31] *Siemens v Argentina* , Decision on Jurisdiction, 3 August 2004, 44 ILM 138 (2005); *Enron v Argentina* , Decision on Jurisdiction, 14 January 2004, 11 ICSID Reports 273; *Camuzzi v Argentina* , Decision on Jurisdiction, 11 May 2005, ¶ 9; *Gas Natural v Argentina* , Decision on Jurisdiction, 17 June 2005, ¶ 9, 10, 32–35.

[32] *Lauder v The Czech Republic*, 9 ICSID Reports 66; *Waste Management v Mexico*, 43 ILM 967 (2004).

guarantees affecting the company's economic position gives rise to rights by the shareholders.[33] It follows that it is now generally accepted, on the basis of treaty provisions, that shareholding in a company is a form of investment that enjoys protection. Thus, even if the affected company does not meet the nationality requirements under the relevant treaty, there will be a remedy if the shareholder does. This is particularly relevant where, as is frequently the case, the company has the nationality of the host state and does not qualify as a foreign investor. In this situation, the company in question is not treated as the investor but as the investment. This protection extends not only to ownership in the shares but also to the assets of the company. There is no doubt that currently in ICSID-related investment arbitrations the shareholder can bring an action (and rely on protection from) against the host state.[34]

48. Hence, the right of action of the Claimants against the Respondent's under the Bergonia-Conveniencia BIT exists, as the 100 percent stake held by MedX Holdings Ltd. which is incorporated in Conveniencia in MedBerg, would be regarded as an investment within the Bergonia-Conveniencia BIT.

[B] NO EXPRESS CONSENT REQUIRED UNDER ARTICLE 25(2)(B) OF THE ICSID CONVENTION

49. In *Holiday Inns SA, Occidental Petroleum Corp. v. Government of Morocco*[35], the first case decided by ICSID, the tribunal refused to require an express agreement, but noted that an implicit agreement would be acceptable.
50. The International Court of Justice in *Ambatielos Case*[36] rejected the view that a state's consent to arbitration should be construed narrowly.

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[33] *CMS v Argentina* , 42 ILM 2003, Decision on Jurisdiction, 17 July 2003, , p. 788, ¶ 59, 66–69; *Azurix v Argentina* , 43 ILM 2004, Decision on Jurisdiction, 8 December 2003, p. 259 at ¶ 69, 73; *Bogdanov v Moldova* , Award, 22 September 2005, ¶ 51.

[34] See also *Suez, Sociedad General de Aguas de Barcelona SA and InterAguas Servicios Integrales del Agua SA v The Argentine Republic* , ICSID Case No. Arb/03/17, Decision on Jurisdiction, 16 May 2006, available at <http://www.investmentclaims.com/decisions/Suez-Argentina-Jurisdictional_Award.pdf>.

[35] *Supra* fn. 24

[36] *Greece v. U.K.*, 1953 I.C.J. 10 (May 19)

51. Subsequent tribunals have implied agreement through ICSID arbitration clauses. In *Liberian Eastern Timber Corp.(LETCO) v. Liberia*[37], French investors held one hundred percent (100%) of the company's stock. A concession agreement between the government of Liberia and Letco included an ICSID arbitration clause, but did not include an agreement to treat Letco as a foreign national. The tribunal found that the existence of an ICSID arbitration clause constituted an agreement to treat Letco as a foreign national.
52. When a Contracting State signs an investment agreement, containing an ICSID arbitration clause, with a foreign controlled juridical person with the same nationality as the contracting State and it does so with the knowledge that it will only be subject to ICSID jurisdiction if it has agreed to treat that company as a juridical person of another Contracting State, the Contracting State could be deemed to have agreed to such treatment by having agreed to the ICSID arbitration clause. This is especially the case when the Contracting State's laws require the foreign investor to establish locally as a juridical person in order to carry out an investment. The insertion of an ICSID arbitration clause by itself presupposed and implied that the parties have agreed to consider Socame as a company under foreign control.[38]
53. Article 10 of the Bergonia-Conveniencia BIT provides for an ICSID arbitration clause and the BIT does not include an agreement to treat the Claimant as a foreign national. But, even in such a situation the Contracting State *i.e.* the Respondent state would be deemed to have agreed to treat the Claimant as a juridical person of another Contracting State. This consent is also express in the fact that the Bergonian corporate registry at all times showed the ownership of MedBerg in the hands of MedX Holdings Ltd.[39]

[37] *Liberian Eastern Timber Corp.(LETCO) v. Liberia* 2 *ICSID Rep.* at 349

[38] *Supra* fn. 25

[39] Record at, Response to Clarification No. 59.

Arguendo,

[B.1] ***The Requirement For Express Consent Is Subverted By The Incorporation Of The Mfn Clause In The Bergonia- Conveniencia Bit***

54. The requirement for express consent is subverted by the incorporation of the MFN clause in the Bergonia-Conveniencia BIT which can be used to invoke the Bergonia-Tertia BIT.
55. Article VI.8 of the Bergonia-Tertia BIT provides that for the purposes of arbitration any company legally incorporated under the applicable laws and regulations of a Party, who immediately before the occurrence of events giving rise to the dispute was an investment of national or companies of the other Party, shall be treated as a national or company of such other Party in accordance with Article 25(2)(b) of the ICSID Convention.
56. Article 3 of the Bergonia-Conveniencia BIT provides that neither Contracting State shall subject investments in its territory owned or controlled by investors of the other Contracting State to treatment less favourable than it accords to the investments of investors of any third State.
57. Article 3 of the Bergonia-Conveniencia BIT provides either of the Contracting States to invoke provisions in other BIT's entered into by either of the Contracting States, in case of any provision in their BIT which renders a Contracting State's treatment by the Party on a less favourable ground than any third State with which another BIT by the Party has been entered into.
58. An MFN provision means, for instance, that should most-advantageous conditions be granted to the members of a regional agreement (established after the entry into force of the WTO Agreement), such conditions must be extended, automatically and unconditionally, to all WTO Members[40].
59. The Respondent's contention that Article 3 of the Bergonia-Conveniencia BIT may not be invoked, and the benefit of Article VI.8 of the Bergonia-Tertia BIT maybe be denied by the Respondent in accordance with Article I.2 of the Bergonia-Tertia BIT, is erroneous in law and does not stand.

[40] Carlos M. Correa, *Investment Protection In Bilateral And Free Trade Agreements Implications For The Granting Of Compulsory Licenses* 26 Mich. J. Int'l L. 331

60. In the ICSID award of *Maffezini v. Spain*[41] the tribunal had to consider the application of the provisions of a Most Favoured Nation (MFN) clause in a BIT between Argentina and Spain, in particular with reference to the dispute resolution provisions of a 1991 BIT between Chile and Spain. The *Maffezini* Tribunal did not base its decision on the breadth of the MFN clause in the Argentina-Spain BIT. Instead, it asserted that "there are good reasons to conclude that today dispute settlement arrangements are inextricably related to the protection of foreign investors."
61. In Maffezini the tribunal upheld an interpretation of the most-favoured-nation treatment clause since this clause was more favourable for the claimant investor.[42]
62. The *Siemens* and *National Grid* tribunals later determined that an MFN clause which referred only to an unqualified investment's "treatment" also attracted dispute resolution.[43]
63. In *Siemens A.G. v. Argentine Republic*[44] the Tribunal granted itself jurisdiction over the dispute and found interpretive guidance in the BIT's object and purpose – "to create favorable conditions for investments and to stimulate private initiative."[45]
64. It did soon the basis that access to certain dispute resolution procedures was considered a distinctive feature of the Argentina-Germany BIT. In fact, the status of the dispute resolution provisions indicated that they were considered part of the protections offered by the treaty.[46] As a result, access to such provisions was considered part of the 'treatment' that the MFN clause guaranteed to investors.
65. The correct rule is that an MFN clause incorporates dispute resolution as *ejusdem generis*. According to the principle of *Ejusdem Generis* an MFN clause can only attract matters

[41]*Emilio Agustìn Maffezini v. Kingdom of Spain*, ICSID Case No. ARB/97/7, Decision of the Tribunal on Objections to Jurisdiction, January 25, 2000, ICSID Review— Foreign Investment Law Journal Volume 16, No. 1 (2001)

[42] Pia Acconci, *Most-Favored Nation Treatment*, *C.f* The Oxford Handbook, 361 (2008) at page. 388

[43]*Ibid* at ¶103; *National Grid, P.L.C. v. The Argentine Republic*, UNCITRAL Arbitration, Decision on Jurisdiction, June 20, 2006 , at ¶93.

[44] *Siemens A.G. v. Argentine Republic* ICSID Case No. ARB/02/8 ¶ 124

[45]Quoting Vienna Convention on the Law of Treaties art. 31(1), May 23, 1969, 1155 U.N.T.S. 331, 340).

[46] *Supra* fn. 44 ¶ 102.

belonging to the same subject matter to which the clause relates.[47] The Commission of Arbitration in the *Ambatielos*[48] case, which had specifically acknowledged that a most-favoured-nation treatment clause might also cover the 'administration of justice', as long as the ejusdem generis principle was satisfied.

66. Hence, the principle of *Ejusdem Generis* should be used to interpret the MFN clause in the Bergonia-Conveniencia BIT. The preamble of the BIT reads that it is to 'create favourable conditions to increase investments by investors of one of the Contracting States in the territory of the other Contracting State.' Hence, the most reasonable interpretation would be to interpret dispute resolution provisions as a part of the 'treatment' that the MFN clause guaranteed, in order to further the objective of the Bergonia-Conveniencia BIT as indicated in its preamble.
67. In *Plama Consortium Limited v. Republic of Bulgaria*[49] the tribunal held that that MFN clause should not apply to dispute settlement except where it was the clear intention of the parties.
68. The intention of the parties in the Bergonia-Conveniencia BIT in to incorporate an MFN clause in matters relating to expropriation is evident under Article 4.4 of the Bergonia-Conveniencia BIT. Article 4.4 extends most-favoured- nation treatment to either of the parties in all matters relating to compensation in case of expropriation. The present dispute under consideration is in regards to validity of expropriation and compensation thereof, and hence the clear intent of the parties to extend MFN treatment for this matter is clear and apparent.
69. While recognizing that "the disadvantages may have been a trade-off for the claimed advantages," the Tribunal asserted that, as the name suggests, MFN clauses relate "only to more favorable treatment."
70. Hence, the claim of the Respondent that it may deny the Claimant the benefits of Article VI.8 of the Bergonia-Tertia BIT in light of Article I.2 of the same BIT which

[47]Draft Articles on Most-Favoured-Nation Clauses, 2 Y.B. INT'L L. COMM'N (1978), U.N. Doc.A/CN.4/SER.A/1978/Add.1 (pt. 2), at 8, http:// untreaty.un.org/ilc/texts/instruments/english/draft%20articles/1_3_1978.pdf, *U.K. v. Iran*, 1952 I.C.J. 93 (July 22) [Anglo-Iranian Oil Co.]; *France. v. U.S.*, 1952 I.C.J. 176 (Aug. 27)[Case Concerning Rights of Nationals of the United States of America in Morocco]

[48] *Supra* fn. 24 *C.f.* fn. 42

[49] *Plama Consortium Limited v. Republic of Bulgaria*, ICSID Case No. ARB/03/24 ¶ 226

reserves the right of a Party to deny to any company the advantages of the treaty if nationals of any third country control such a Company, does not stand.

71. A recent jurisdiction hearing before an ICSID tribunal affirmed the Maffezini approach by ruling that "Unless it appears clearly that the state parties to a BIT or the parties to a particular investment agreement settled on a different method for dispute resolution of disputes that may arise, most-favored-nation provisions in BITs should be understood to be applicable to dispute settlement."[50]
72. Hence, in the present dispute the MFN clause in Article 3 of the Bergonia-Conveniencia BIT is applicable to invoke the jurisdiction of this tribunal.

[C] NATIONALITY OF DR. FRANKENSID AND MEDSCIENCE CO. IS IRRELEVANT

73. There are no international law principles applicable to the determination of the nationality of a particular individual. This is dependent on the national legislation of the relevant state.[51] Article 1 of the 1930 Hague Convention on Certain Questions Relating to the Conflict of Nationality Laws[52] provides the following:

> It is for each State to determine under its own law who are its nationals. This law shall be recognised by other States in so far as it is consistent with international conventions, international custom, and the principles of law generally recognised with regard to nationality.[53]

74. In *Amco Asia*[54] it was stated that in determining the legal nationality of a locally incorporated company, one should for the purpose of Article 25(2)(b) not only take into account the nationality of the foreign judicial person which controls the national entity but also the nationality of the persons or juridical persons which control that

[50] Luke Eric Peterson, *Tribunal OKs Treaty-Shopping for Better Arbitration Options in Gas Natural Case*, Inv. L. & Pol'y News Bull., July 13, 2005 http://www.bilaterals.org/article.php3?id_article=2427.

[51] In *Waguih Elie George Siag and Clorinda Vecchi v The Arab Republic of Egypt* , ICSID Case No. Arb/05/15 Decision on Jurisdiction, 11 April, 2007 (available at http://ita.law.uvic.ca/documents/Siagv.Egypt.pdf)

[52] http://www.unhcr.org/refworld/publisher,LON,,,3ae6b3b00,0.html

[53] 1937 League of Nations Treaty Series 4137. Even though this Convention never came into force, it contains the generally accepted position in international law on the issue.

[54] *Supra* fn. 26

foreign judicial person i.e. to take into consideration the control at the third, fourth or xth degree is a reasoning, in law, not in accord with the Convention.

75. Hence, in the present dispute, in order to determine the nationality of the Claimants, only the nationality of the foreign judicial persons which control the Claimants, should be taken into consideration and the control cannot be traced back to the third, fourth or xth degree, as the same would not be in accord with the ICSID Convention.

PART TWO: MERITS OF THE CLAIM

I. CLAIMANTS' EXPLOITATION OF THEIR INTELLECTUAL PROPERTY IN BERGONIA CONSTITUTED INVESTMENT UNDER GENERAL INTERNATIONAL LAW

76. The Bergonia-Conveniencia BIT in Article 1 defines 'investment' to include intellectual property rights such as patents.
77. A patent is generally a statutorily-created state grant of a limited monopoly or exlusive right of exploitation. Intellectual property is a specialized form of private property. Fundamental to the rights of all private property, whether intellectual property or real property – is the right to decide whether to keep or sell it, or to control who uses it and on what terms[55].

[A] A PATENT IS A PROTECTION GRANTED BY THE STATE TO PRIVATE PROPERTY

78. Intellectual property is a particularly strong version of "private property" that should be upheld against untoward redistributionist state interference and trespassory infringement by individual[56]. The legal protection of Intellectual property, especially through patents, gives to the patentees' monopoly rights over the product or process, during the patent life-span. Such a right may indeed allow a patentee to produce and supply the product only when and where it is possible to recover, through pricing policies, the costs of the investments contained in its development, as well as the expected revenues, while disregarding those who cannot afford the product prices. Within an open free trade system, intellectual property rights constitute an exceptional monopoly regime[57].

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[55] William Grantham, *The Arbitrability of International Intellectual Property Disputes,*14 Berkeley J. Int'l L. 173, 180 (1996)

[56] Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 Harv. J. L. & Pub. Pol'y 108 (1990).

[57] Diarmuid Martin, *Intervention by His Excellency Mons. Diarmuid Martin to the Plenary Council* of the. *World Trade Organization on Trade-Related Aspects of Intellectual Property Rights*, ¶11 (*June 20*, 2001),

79. After revocation of the license with Bio Life in 2007, the product continued to be available in the market by means of direct import from the parent company[58].
80. The OECD round table conference Report[59] and specialized courts such as the US Court of Appeals specifically created to promote the monopolies[60] have been trying to promote the concept of IPR as a property right and as such the very basis of capitalistic society while trying to downplay the role of competition policy to restrict any action against the misuse of IPRs[61]. 'Property' and 'monopoly' are one and the same from the economic point of view, and that the 'owner' of an invention has a monopoly of its use just as the owner of a house has a 'monopoly' of the use of the house[62] and this includes the right to not use property.
81. When patents are granted, the inventors may not yet be aware of the usefulness of their inventions. Patents, therefore, operate as titles of legal security that permit the inventors to prospect the market for commercial opportunities[63].

[B] RIGHTS OF PATENT HOLDER IN DEVELOPED JURISDICTIONS

82. The right to license a patent, exclusively or otherwise, or to refuse to license at all, is the 'untrammeled right' of the patentee. In the *Continental Paper Bag*[64] Court stated that such exclusion may be said to have been the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.
83. Med Berg is under no duty to meet the objective of protecting public health in Bergonia vide the use of its patent. This was reiterated by the Supreme Court in

[58] Record at , Response to Clarification No. 113

[59] William K. Tom, *Background Note*, OECD Round Table Report, at 22

[60] James B. Gambrell, *The Evolving interplay of Patent rights and Antitrust Restraints in the Federal Circuit*, 9 Texas Intellectual Property Law Journal 137 (2001).

[61] *CSU Holdings, Inc v. Xerox Corp* 203 F 3d 1322, 1325-28

[62] *An Economic Review of the Patent System*, S. Res. 236, at 53, 85th Cong. (1958) (statement of F. Machlup).

[63] Edmund W. Kitch, *The Nature and Function of the Patent System,* 20 J.L. & ECON. 265, 266 (1977).

[64] *Continental Paper Bag Co. v. Eastern Paper Bag Co* 210 U.S. 405 (1908) at 429

Hartford-Empire Co. v. *United States*[65] where it rejected the assertion that a patent was a public privilege that imposes a duty to use the invention. The Court stated:

> 'A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others.'[66]

84. As a general rule, a patentee is not obligated, under either patent or antitrust laws, to use or allow others to use a patent. As patents are a form of property[67] and the rights of patentees are identical to those of private property owners[68], patented technologies may be shelved in the same way that the owner of a piece of real property or an item of private property may choose not to use it or to exclude all others from using it.
85. One of the strongest arguments against the proposed use requirement is that "even in the absence of commercial exploitation a patent holder is entitled to protection."[69]

[C] THE TRIPS DOES NOT MANDATE USE OF PATENT BY THE PATENT HOLDER

86. The TRIPS does not mandate compulsory exploitation of the patent by constant use by the patent holder. It has only included such a provision to prevent 'non-use' in the case of Trade Marks.[70]
87. TRIPS' objective is to liberalize the international trading system while protecting the private rights of intellectual property owners.[71] Its objective is also to eliminate "free-riding" distortions resulting from the fact that some countries did not protect intellectual property rights. TRIPS' preamble highlights these objectives by explicitly referring to the need to protect private interests:

[65] *Hartford-Empire Co*. v. *United States,* 323 U.S. 386 (1945)

[66] *Supra* at 432

[67] *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643 (1947)

[68] *Brown v. Duchesne*, 60 U.S. 183, 197 (1856)

[69] *Monsanto Canada Inc. v. Schmeiser* (2004), 31 C.P.R. (4th) 161 (S.C.C.) at ¶ 145.

[70] Article 19 of TRIPS

[71] Agreement on Trade-Related Aspects of Intellectual Property Rights Article 1, April 15, 1994, Article 7 and Preamble of Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 33 I.L.M. 1197

"Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights."[72]

88. A reading of the term 'patent' in Article 1 that precludes the right of the patent holder to not-use his patent is contrary to the mandate of the TRIPS to which both states are parties. The TRIPS seeks to protect private property rights and this right includes the right to use or not use ones property.[73]
89. As an attempted balance to TRIPS' expansive minimum substantive rights, Article 30 states that members may provide exceptions to the rights TRIPS confers on patentees. The exceptions, however: (1) must be "limited"; (2) cannot unreasonably conflict with a normal exploitation of the patent; and (3) must not unreasonably prejudice the legitimate interests of the patent owner.[74] This tripartite test must be met before any member can limit a patentee's rights.
90. The fact that TRIPS recognizes the "legitimate interests of the patent owner" only reinforces the right of the patent owner to refuse to license his patent to serve his financial interests.
91. The origins of TRIPS also serve as indicia of TRIPS' focus on private interests. The leading motivation behind the move to increase international intellectual property protection was the developed countries' push to protect their interests in the face of globalization and the increased economic importance of intellectual property[75].
92. Conveniencia has a GDP of US $40,213[76] which makes it far more developed than Bergonia which has a GDP of UC $7,535.[77]It naturally has concerns of a developed country which include the need for greater protection to Intellectual Property Rights.

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[72] Donald P. Harris, *TRIPS' Rebound: An Historical Analysis Of How The Trips Agreement Can Ricochet Back Against The United States* 25 Nw. J. Int'l L. & Bus. 99

[73] *Supra* fn. 57

[74] Agreement on Trade-Related Aspects of Intellectual Property Rights Article 1, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 33 I.L.M. 1197 Article 30

[75] A. David Demiray, *Intellectual Property and the External Power of the European Community: The New Extension*, 16 Mich. J. Int'l L. 187, 200 (1995).

[76] Record at, Response to Clarification No. 89

[77] Record at, Response to Clarification No 44

93. In the Doha Declaration on TRIPS and Public Health[78], WTO Members unanimously expressed their consensus that "each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles. The objective of TRIPS is to promote protection for intellectual property rights and the absence of recognition of such right will deter innovation by businesses, or at the very least, would encourage reliance on trade secrets, thus depriving the public of important knowledge.[79]

[D] PATENT HOLDER IS UNDER NO OBLIGATION TO MEET A PUBLIC INTEREST REQUIREMENT

94. The objective of all laws to protect and grant intellectual property rights is to balance public interest with private rights. Thus naturally all cases of qualifying private rights should be subject to a public interest being achieved.[80] Not all cases of patent non-use are socially inefficient, which is a viable test to check supersession of public interest in cases of allowing non-use.[81]
95. The drug involved in this case is only an obesity cure drug[82] and there is evidence of supply of that drug in the market even during the period after which the license was revoked with Bio Life.[83] Thus, public health was not being compromised in this case at any point of time.

[78] World Trade Organization, Ministerial Declaration of 14 November 2001,
Paras 4-5, WT/MIN(01)/DEC/2, 41 I.L.M. 746 (2002); Frederick Abbott, *The Doha Declaration on the TRIPS Agreement and Public Health: Lighting a Dark Corner at the WTO*5(2) J. INT. ECON. L. 491 (2002)

[79] Mark Laurosech, *General Compulsory Patent Licensing in the United States: Good in Theory, But Not Necessary in Practice,* (1990).6 Santa Clara Computer & Hi. Tech. L.J. 41.

[80] *Kurt M. Saunders, Patent Nonuse And The Role Of Public Interest As A Deterrent To Technology Suppression,* 15 Harv. J.L. & Tech. 389

[81] Note, *Limiting The Anticompetitive Prerogative Of Patent Owners: Predatory Standards In Patent Licensing* 92 Yale L.J. 831

[82] Record at, Response to Clarification No. 40

[83] Record at, Response to Clarification No. 114

[E] INVESTMENT UNDER GENERAL INTERNATIONAL LAW

96. To qualify as foreign direct investment under international law, three criteria need to be meant. These are: the investment is I. 'foreign' in nature, II. The objective test of investment.

[E.1] *The Investment Is A Foreign Investment*

97. The traditional point of view is that the 'decisive criteria for the existence of a foreign investment is the nationality of the investor', the source of the funds being irrelevant. An investment is a foreign investment if it is owned or controlled by a foreign investor. There is no additional requirement of foreignness in terms of its origin or in terms of the currency in which it is made.[84]
98. It has been established in (the part where foreign control is discussed) that control in this case was Conveniencian and hence foreign for the purposes of Bergonia.

[E.2] *Objective Test Of Investment*

99. The parties to a dispute cannot by contract or treaty define as investment, for the purpose of ICSID jurisdiction, something which does not satisfy the objective requirements of Article 25 of the Convention. Otherwise Article 25 and its reliance on the concept of investment, even if not specifically defined, would be turned into a meaningless provision[85]
100. The objective test states that the ICSID Convention entails objective requirements to define an investment. The Arbitral Tribunal in *Salini v Morocco*[86], required four conditions to identify such an investment:
    1. Contributions; or
    2. Certain duration of the performance of the contract; or
    3. Participation in the risks of the transaction; or
    4. Contribution to the economic development of the host State.[87]

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[84] Kenneth J Vandevelde, *The Economics of Bilateral Investment Treaties*, 41 Harv Int'l LJ 469 (2000) at 476.

[85] *Joy Mining* v. *Egypt* ICSID Case No. ARB/03/11

[86] *Salini Costruttori SpA and Italstrade SpA v Morocco* ,Decision on Jurisdiction, ICSID Case No. ARB/00/4; 42 ILM 609 (2003), 23 July 2001, at ¶ 53

[87] See also *Consortium Groupement Lesi – Dipenta v Algeria* ICSID Case No ARB/03/8; 19 ICSID Rev—FILJ 426 (2004), 10 January 2005, at ¶ 13–14

There are four characteristics of investment identified by ICSID case law[88] and commented on by legal doctrine[89] but in reality they are interdependent.

101. In this case the requirement of contributing to the economic development of the other state is being met as the product is still available in the market. The contribution may have been "short term" at the maximum but such a characteristic of the asset does not deter it from being qualified as in investment as was held in *Mitchell v. The Democratic Republic of the Congo,*[90] where the Arbitral Tribunal found that the notion of investment under the ICSID Convention and the US—Zaire/DRC BIT also included '"smaller" investments of shorter duration and with more limited benefit to the host State's economy'.

102. Even though the patent was not being used temporarily, it served to economically benefit the state during its license to Bio Life and by the ratio in the aforementioned case, still qualifies as an investment.

103. The existence of a contribution to the economic development of the host State is an essential although not sufficient characteristic or unquestionable criterion of the investment does not mean that this contribution must always be sizable or successful; and, of course, ICSID tribunals do not have to evaluate the real contribution of the operation in question. It suffices for the operation to contribute in one way or another to the economic development of the host State, and this concept of economic

[88] *Fedax N.V. v. Republic of Venezuela* ICSID Case No. ARB/96/3, Decision on Objections to Jurisdiction, July 11, 1997, 5 ICSID Rep. 186 (2002); *Salini Construttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco* (Case No. ARB/00/4), Decision on Jurisdiction, July 23, 2001, 129 Journal du droit international 196 (2002) [English translations of French original in 42 ILM 609 (2003), 6 ICSID Rep. 400 (2004)].

[89] Christoph Schreuer, The ICSID Convention: a Commentary, (Cambridge University Press, 2001)), p. 140; See also Sébastien Manciaux, *Investissements étrangers et arbitrage entre Etats et ressortissants d'autres Etats — Trente ans d'activité du CIRDI*, Litec 2004, pp. 63

[90] *Mitchell v The Democratic Republic of the Congo*, ICSID Case No ARB/99/7; IIC 172 (2006) Decision on the Application for Annulment of the Award

development is, in any event, extremely broad but also variable depending on the case.[91]

104. The contribution by the patented drug to the economy of the state was intermittent, thereby only affecting the size of the contribution, which by the aforementioned case is irrelevant as long as there is shown be some contribution.

II. THERE IS GROSS VIOLATION OF THE TREATY PROVISIONS.

105. The actions on part of the respondent state are in violation of various provisions of the Conveniencia-Bergonia BIT which are as follows:

[A] FAIR AND EQUITABLE TREATMENT

106. Article 2(2) of the Conveniencia - Bergonia BIT provides that investors of each party are entitled to fair and equitable treatment which is being violated in the present matter.

[A.1] *The Fair And Equitable Standard Is A Higher Standard Over The International Minimum Standard*

107. The 1926 decision of the US Mexico Claims commission on the *Neer Claim* is regarded as a landmark case for the international minimum standard of treatment of foreigners and of their property, required by international law. The commission held thus:

> "the propriety of governmental acts should be put to the test of international standards...the treatment of an alien, in order to constitute an international delinquency should amount to an outrage, to bad faith, to willful neglect of duty, or to an insufficiency of governmental action so far short of international standards that every reasonable and impartial man would readily recognize its insufficiency. Whether the insufficiency proceeds from the deficient execution of a reasonable law or from the fact that the laws of the country do not empower the authorities to measure up to international standards is immaterial"[92]

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[91] *Patrick Mitchell v Democratic Republic of the Congo* ICSID Case No. Arb/99/7, Annulment Decision, 1 November 2006 at <http://ita.law.uvic.ca/documents/mitchellannulment.pdf>.

[92] *Neer v. Mexico*, United Nations, Reports of International Arbitral Awards, 1926, IV 60

108. However, the recent trend seems to reject this minimum standard view as recent awards are mandating that violation of Fair and equitable treatment does not require bad faith or malicious intention of the recipient State as a necessary element, infact *a pro-active behavior of the State to encourage and protect investments should be the* standard of conduct of host parties.[93]

a. Recent Tribunal Decisions In Favour Of An ''Additive Approach'' Of The Fair And Equitable Treatment Standard Vis-À-Vis Position Of International Minimum Standards Under Customary International Law

109. International Tribunals such as the ICSID while exercising under NAFTA or other BIT"s of Countries granting jurisdiction to ICSID, Ad-hoc tribunals constituted under various treaties as well as the International Court of Justice's decisions and views of prominent Jurists, scholars of international law[94], all stand proof to adopting a higher standard over international minimum standards while considering interpretation of the Fair and Equitable standard of treatment by allowing claims grounded on *transparency*[95]*, legitimate investor expectations*[96]*, good faith*[97], as well as *denial of justice claims*[98] to be incorporated in the protection offered to investors through the 'Fair and Equitable treatment' clause.

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[93] *Ibid*, Para 368

[94] *Pope & Talbot Inc. v. Government of Canada*, UNCITRAL (NAFTA) Award on the Merits of phase 2 (April 10, 2001), F.A. Mann, *British Treaties for the Formation and Protection of Investment*, 24 BRIT. Y.B. INT'LL 244 (1981); Dolzer & M. Stevens, Bilateral Investment Treaties, (Kluwer Law International, 1995)

[95]*Tecnicas Medioambientales Tecmed SA v. United Mexican States* (Award, 29 May 2003) ICSID Case ARB(AF)/00/2, *Metalclad Corporation v. The United Mexican States*, ICSID (Additional Facility), case No. ARB(AF)/97/1

[96] *Saluka Investments B.V. v. Czech Republic*, Partial Award, March 17, 2006, ¶ 300, *El Paso Energy International Co. Ltd. v. Argentine Republic*, ICSID Case No. ARB/03/15, Decision on Jurisdiction, April 27, 2006, ¶ 70.

[97] *Saluka Investments v. Czech Republic*, *Supra*; *ADF Group Inc. v. United States of America*, ICSID Case No. Arb (AF)/00/1 Award, 9 January, 2003

[98] *The Loewen Group, Inc and Raymond L. Loewen v. United States of America* ICSID case No. ARB(AF)/98/3.; *Mondev International LTD v. United States of America*, ICSID Case No. ARB(AF)/99/2 (Award)(11 October, 2002)

[A.2] *Principle Of Transparency*

110. **Transparency** as a principle incorporated in the Fair and equitable treatment clause owes its origin to the decision of *Metalclad Corporation v. The United Mexican States*[99] in which the Tribunal noted that fair and equitable treatment under international law had been violated because of Mexico's failure to *"ensure a transparent and predictable framework for the investor's business planning and investment."* A similar view was held in *LG&E* v. *Argentine Republic*[100] where the Tribunal was of the view that that Fair and equitable clause mandates consistent and transparent way free of ambiguity that involves the obligation to grant and maintain a stable and predictable legal framework necessary to fulfill justified expectations of the foreign investor[101].

111. A similar matter took place in *Maffezizni v. Kingdom of Spain*[102] wherein the tribunal based its conclusion on the lack of transparency on Spain's side honour its commitment of the loan transaction amounted to violation of Article 4(1) of the Spain-Argentina BIT dealing with Fair and Equitable treatment clause.

112. In the present case, the IP office of the government of Bergonia did not release any information as to any statics or other basis of reaching their decision. The claimant was also not given any evidence to support the respondents action. Thus, the entire exercise lacked transparency and thus, is violative of the fair and equitable clause of the BIT.

[B] VIOLATION OF THE GOOD FAITH REQUIREMENT

113. Article 2(4) and 4(3) of the Conveniencia-Bergia BIT bring in the aspect of good faith in the actions of the host country, in this matter being Bergonia. In the *TECMED S.A.* v. *The United Mexican States*[103], the Tribunal interpreted the "fair and equitable treatment standard" as resulting from the good faith principle. This principle encompasses the basic expectations of the investor to be treated by the State in a

[99] *Supra,* fn. 96

[100] *LG&E International Inc. v. Argentine Republic*, ICSID Case No. ARB/02/1

[101] *CMS Gas Transmission Company v. The Argentine Republic ICSID* (W. Bank) Case No. ARB/01/8 Award, 12 May 2005, *MTD Equity Sdn. Bhd. and MTD Chile S.A. v. Republic of Chile,* Award ¶ 113 (May 25, 2004)

[102] *Maffezini v. Kingdom of Spain,* ICSID case No ARB/97/7 Award (November 13, 2000).

[103] *Supra*

transparent, consistent, i.e. non arbitrary manner which would not *conflict with what a reasonable and unbiased observer would consider fair and equitable*". This notion has been carried on in *Saluka Investments v. Czech Republic*[104] as well as in *Opel Austria GmBH* v. *Council of the European Union*[105] which held that the host state must observe good faith, due process and non discrimination, as there observance determines the investor's expectations. In the present case, the claimant submits that the actions on part of the respondent state were arbitrary and lacked transparency thereby defeating the good faith requirement of the BIT.

[C] DUE PROCESS OF LAW NOT FOLLOWED

114. Article 4(3) of the Conveniencia-Bergonia BIT provides that *".....The legality of any such expropriation and the amount of compensation shall be subject to review by due process of law according to the respective national legal system."* Manifest injustice in the sense of a lack of due process leading to an outcome which offends a sense of judicial propriety is enough, even if one applies the Interpretation according to its terms.[106] Denial of justice refers to the standard of treatment of aliens applicable to decisions of the host state's courts or tribunals[107]. "Denial of justice occurs when there is a denial, unwarranted delay or obstruction of access to courts, gross *deficiency in the administration of judicial or remedial process, failure to* ***provide those guarantees which are generally considered indispensable to the proper administration*** of justice or a manifestly unjust judgement."[108] Further the conditions as laid down in *Companie Générale des Eaux (Vivendi) v. Argentine Republic*[109] have also laid emphasis on the due process of law being followed by the state. In the present case there has been no review of the IP office's granting of the compulsory license as is clearly provided for in the BIT.

[104] *Supra* fn. 97 ¶ 300

[105] *Opel Austria GmBH* v. *Council of the European Union* (1997) ECR II-4239, para 78.

[106] *Supra* fn. 98

[107] *Mondev International LTD v. United States of America*, *Supra* fn. 98

[108] I. Brownlie, Principles of Public International Law, (Oxford, Sixth Edition 2003), at 506

[109] *Companie Générale des Eaux (Vivendi) (France) v. Argentine Republic*, ICSID case No ARB/97/3 (Award) (November 21, 2000)

[D] PROTECTION AGAINST ARBITRARINESS AND DISCRIMINATION

115. The tribunal in *Waste Management* states that fair and equitable treatment is breached if:

> "the conduct is arbitrary, grossly unfair, unjust or idiosyncratic, is discriminatory and exposes the claimant to sectional or racial prejudice, or involves a lack of due process leading to an outcome which offends judicial propriety-as might be the case with a manifest failure of natural justice in judicial proceedings or a complete lack of transparency and candor in an administrative process."[110]

116. The concepts of arbitrary treatment and fair and equitable treatment are interrelated because arbitrariness is closely connected with the idea of the rule of law, foundational to the fair and equitable treatment standard[111]. While some investment treaties have specific provisions on arbitrary and discriminatory treatment, arbitral tribunals also place this element in the concept of fair and equitable treatment. The fair and equitable treatment standard can be understood as "a rule of law standard that the legal systems of host states have to embrace as a standard for the treatment of foreign investors."[112] Thus, arbitrary treatment is sufficient for a finding of a violation of fair and equitable treatment.

117. Article 2(3) of the Conveniencia-Bergonia BIT provides: *"Neither Contracting State shall in any way impair by arbitrary or discriminatory measures the management, maintenance, use, enjoyment or disposal of investments in its territory of investors of the other Contracting State."* The same has been violated by the respondent state in the present matter as the actions are arbitrary in nature.

III. COMPULSORY LICENSING IN THE PRESENT CASE AMOUNT TO EXPROPRIATION

[A] THE CONCEPT OF INDIRECT EXPROPRIATION

118. Indirect expropriation occurs when the country takes an action that substantially impairs the value of an investment without necessarily assuming ownership of the

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[110] *Supra* fn. 42

[111] Stephan Schill, *Fair and Equitable Treatment as an Embodiment of the Rule of Law,* Hoffman and Tams, 31 (2007)

[112] *Id.*

investment. Accordingly, indirect expropriation may occur even though the host country disavows any intent to expropriate the investment.[113]

119. In the case of *CME v. Czech Republic*[114] the Tribunal referred to indirect expropriation as "covert or incidental interference with 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." [115]

[B] CONTRACT RIGHTS ARE GIVEN EQUAL PROTECTION IN INTERNATIONAL LAW AS PROPERTY RIGHTS

120. There is considerable authority for the proposition that contract rights are entitled to the protection of international law and that the taking of such rights involves an obligation to make compensation therefore.[116]

[B.1] *Use And Benefit Of An Investment Have Been Held To Be Covered Under The Protection From Exproriation*

121. It has been held that "A regulatory scheme could result in "creeping expropriation if that scheme substantially deprived the Investor of profits which would otherwise have resulted from the investment".[117]

122. In *Middle East Case,* the tribunal held:

> "When measures are taken by a State the effect of which is to deprive the investor of the **use and benefit of his investment** even though he may retain nominal ownership of the respective rights being the investment, the measures are often

[113] U.N. Conference on Trade and Development, Bilateral Investment Treaties in the Mid 1990s, at 66 (1998)

[114] *CME Czech Republic B.V. (The Netherlands) v. The Czech Republic,* 14 WTAM 109 (2002).

[115] *Tippetts, Abbett, McCarthy, Stratton v. TAMS-AFFA*, 6 Iran–U.S. Cl. Trib. Rep. 219 (1984).

[116] *SPP v. Egypt*, Award, 20 May 1992, 3 ICSID Reports 189, at 28, ¶164

[117] *Pope & Talbot v. Canada, Ibid* fn. 140 at ¶ 102.

referred to as a ‘‘creeping’’ or ‘‘indirect’’ expropriation”.[118]

123. Prevention of an investor from pursuing its approved project would constitute constructive expropriation of the investor’s contractual rights in the project unless the Respondents can establish by persuasive evidence sufficient justification for these events.[119]

[C] COMPULSORY LICENSING AMOUNTS TO INDIRECT EXPROPRIATION

124. Compulsory licenses are extremely powerful rights granted to governments, which must be used prudently. A compulsory license restricts the rights of a patent holder by authorizing third parties to make, use, and sell patented products without the consent of the patent holder.[120]Through the compulsory license, a government authority interferes directly with a privately owned intellectual property right, such as a patent, to authorize its use by the government or by one or more third parties, subject to certain terms.[121]

125. Many authors focus on indirect expropriation while discussing compulsory license.[122] A government’s authorization of a compulsory license does not fall

[118] *Middle East Cement Shipping and Handling Co. S. A. v. Arab Republic of Egypt*, Award, 12 April 2002, 7 ICSID Reports 178; *Goetz and Others v. Republic of Burundi*, Award, 2 September 1998, 6 ICSID Reports 5

[119]*Biloune and Marine Drive Complex Ltd. v. Ghana Investments Centre and the Government of Ghana*, UNCITRAL ad hoc Tribunal, Award on Jurisdiction and Liability of 27 October 1989, 95 ILR 183, 209.

[120] See Daniel R. Cahoy, *Confronting Myths and Myopia on the Road from Doha*, 42 Ga. L. Rev. 131, 133 (2008). See also Colleen Chien, *Cheap Drugs at What Price to Innovation: Does the Compulsory Licensing of Pharmaceuticals Hurt Innovation?*, 18 Berkeley Tech. L.J. 853, 858 (2003).

[121] Christopher S. Gibson, Electronic copy available at: http://ssrn.com/abstract=1428419

[122] Carlos M. Correa, *Bilateral Investment Agreements: Agents of New Global Standards for the Protection of Intellectual Property Rights?* (Aug. 2004); South Center and Center for International Environmental Law, *Implications of Investment Agreements on Regulations and Enforcement of Intellectual Property Rights*, IP Quarterly Update, at 2 (2006).

within the scope of direct expropriation, as there is no transfer of the legal title of the patent to itself or to a third party.[123]

[C.1] *Sole Effect Doctrine*

126. *Starrett Housing Corporation v. Islamic Republic of Iran*[124] laid down:

> "It is recognized in international law that measures taken by a state can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the state does not purport to have expropriated them and the legal title to the property formally remains with the original owner."

Under this test if there is extreme and arbitrary interference with property rights, it is sufficient to constitute expropriation.[125] In the present case, the state actions interfere with the legal monopoly granted to the claimant, in an arbitrary manner and without any just reason, thereby constituting expropriation.

[C.2] *Triple Test*

127. The U.S.-Uruguay BIT has added[126] that an indirect expropriation includes "an action or series of actions by a Party that has an effect equivalent to direct expropriation without formal transfer of title or outright seizure."[127] The Annex then lists three factors whichmay be used to see what constitutes an indirect expropriation:

- ***The economic impact of the government action:*** The key function of property is less the tangibility of 'things', but rather the capability of a combination of rights in a commercial and corporate setting under a

[123] Christoph H. Schreur, The ICSID Convention: A Commentary, at 623 (2005).

[124] *Starrett Housing Corporation v. Islamic Republic of Iran* 4 Iran-U.S. C.T.R. 122, at 154 *(1983)*.

[125] Andrew Newcombe, *The Boundaries of Regulatory Expropriation in International Law,*1 ICSID Review – FILJ, 8-9 (2005)

[126] Treaty Between the United States of America and the Oriental Republic of Uruguay Concerning the Encouragement and Reciprocal Protection of Investment, November 2005 (U.S.- Uruguay BIT), at www.unctad.org.

[127] *Ibid*

regulatory regime to earn a commercial rate of return.[128] In the present case a government-authorized compulsory license operated to undermine legal monopoly and protection i.e. an essential element of a patent-based investment. The compulsory license, thus, undercut the ability to earn a certain level of return, which diminished the value of the patent-based investment.

- ***The extent to which the government action interferes with distinct, reasonable investment-backed expectations:*** The investor has a reasonable expectation that the host government will carry out its obligations towards the investor and compliance, in this case, to the WTO regulations in regards the patent rights. These expectations have not been adhered to. The same has been discussed in detail late in the submissions.
- ***The character of the government action:*** This refers to the reasons on which the actions of the government are justified. In the present case, as is clear from the written submissions, the compulsory license was not justified.

128. Thus, it is clear that the action of the respondent in the present case leads to indirect expropriation of the claimants investment, which is invalid.

[D] PRINCIPLE OF LEGITIMATE INVESTOR EXPECTATIONS IN EXPROPRIATION CLAIMS

129. The prohibition against indirect expropriation should protect legitimate expectations of the investor based on specific undertakings by the Host State upon which the investor has reasonably relied. This is a useful guiding principle that covers many situations that have come before modern investment treaty tribunals.[129] Tribunals also take into account factors such as discrimination and the disappointment of legitimate

[128] Thomas Waelde & Abba Kolo, *Environmental Regulation, Investment Protection and 'Regulatory Taking' in International Law,* 50 ICLQ 88, 835 (2001). See also *Methanex Corporation v. United States of America,* Part IV, Chapter D, at 7-8, ICSID (2005)

[129] Jan Paulsson & Zachary Douglas, *Indirect Expropriation in Investment Treaty Arbitrations*, N. Horn(ed), Arbitrating Foreign Investment Disputes, (145-158), Studies in Transnational Economic Law, Vol. 19 (Kluwer Law International, Netherlands, 2004)

expectations created by state for deciding issues of expropriation.[130] In the present case, the claimant legitimately expected the respondent to continue with same protection of patent rights as promised. This, however, was not taken care of by the respondent.

ARGUENDO,

[E] CONDITIONS FOR LAWFUL EXPROPRIATION

130. According to the customary international law expropriation is a taking of property that, in order to be legal, must be accomplished in accordance with the minimum international standard for the treatment of aliens. The minimum international standard demands that the expropriation occur for a public purpose and be accompanied by the payment of compensation for the full value of the property.[131]

[F] AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS AGREEMENT) HAS NOT BEEN COMPLIED WITH

[F.1] ***Trips Agreement Applicable In The Present Matter***

[F.1.a] Article 31 of the Trips Agreement as the Minimum Standards under International Law

131. Article 31 has to be considered in the present case due to a Two-fold reason. Firstly it will be considered the minimum standards due, to impart meaning for a vague investment standard such as "fair and equitable" treatment as is present in the BC-BIT.[132]

132. Secondly due to the application of the Article III (4) of the BT-BIT it is incumbent upon the Tribunal to consider Article 31 of the Trips agreement. Thus the tribunal's

[130] *Tecnicas Medioambientales Tecmed SA v. United Mexican States* ICSID Case ARB(AF)/00/2, *Metalclad Corporation v. The United Mexican States*, ICSID (Additional Facility), case No. ARB(AF)/97/1

[131] *Occidental Exploration and Production Co.* v. *Ecuador*, Award, 1 July 2004, at ¶ 235

[132] Charles Owen Verrill, Jr., *Are WTO Violations Also Contrary to the Fair and Equitable Treatment Obligations in Investor Protection Agreements?*, 11 ILSA J. Int'l & Comp. L. 287, at 288 (2005)

assessment shall focus on the criteria of Article 31. If a compulsory license is TRIPS Agreement compliant, an expropriation claim can be dismissed. However, if the compulsory license was found to be non-compliant with TRIPS Agreement standards then a claim for indirect expropriation can proceed.[133] The reasons will be further discussed to provide insight into their application.

[F.1.b] Fair And Equitable Treatment

133. Article 2(2) of the BCBIT clearly provides that each party will provide for fair and equitable treatment to the investments by investors of the other Contracting State. Thus in the present case there is an inherent right of each party for the provision of fair and equitable treatment[134] which furthers the application of Article 31 of the TRIPS agreement.

134. In the present case as a violation of the TRIPS agreement is not being considered thus even excluding direct application of WTO law, several commentators have suggested that the law and jurisprudence of the WTO may provide interpretive context for investment disputes pursuant to Article 31(3)(c) of the Vienna Convention on the Law of Treaties (VCLT).[135]

135. It is noteworthy that both parties i.e. Bergonia and Conveniencia are members of the WTO and parties to the Vienna Convention on the Law of Treaties 1969[136].

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[133] Emias Tekeste Biadgleng, *IP Rights Under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protections of Public Interest,* Research Paper No. 8, South Centre (Aug. 2006)

[134] Stephen Vasciannie, *The Fair and Equitable Treatment Standard in International Investment Law and Practice*, 70 The British Yearbook of International Law 99 (2000); Rudolf Dolzer, *Fair and Equitable Treatment: A Key Standard in Investment Treaties*, 39 International Lawyer 87 (2005); Christoph Schreuer, *Fair and Equitable Treatment in Arbitral Practice*, 6 Journal of World Investment and Trade 357 (2005); Stephan Schill, *Fair and Equitable Treatment under Investment Treaties as an Embodiment of the Rule of Law,* 3 Transnational Dispute Management, online journal (2006).

[135] Gaetan Verhoosel, *The Use of Investor-state Arbitration Under Bilateral Investment Treaties to Seek Relief for Breaches of WTO Law,* 6 J. Int'l Econ. L. 493 (2003)

[136] Record at, Response to Clarification No. 108

136. Therefore in a dispute between two WTO members even at ICSID which deals with compulsory licensing, Article 31(3)(c) of the VCLT provides grounds for considering the TRIPS Agreement and the detailed terms of its Article 31 as a means of providing minimum standards under International Law.

137. These standards, as part of the international law applicable in the relations between the two states, may provide relevant background on the host state's international obligations that would be hard for an arbitration tribunal to ignore. Thus, the TRIPS Agreement norms can provide interpretive background on minimum standards under international law for a compulsory license in relation to claims of expropriation as is present in the case at hand.[137]

138. In *Pope and Talbot v. Canada*[138], a US investor with a Canadian subsidiary that operates softwood lumber mills in British Columbia, brought a claim against Canada under the UNCITRAL Arbitration Rules alleging that Canada's implementation of the US-Canada Softwood Lumber Agreement violated several NAFTA provisions. Here, the tribunal went into an extensive examination of WTO practice[139], though without discussing the applicability of general international law and Art. 31 (3) (c) of the VCLT.

139. An analogy can be drawn from the Doha Declaration on the TRIPS Agreement and Public Health[140] is a good example of how the WTO develops a possible coherent reading of WTO provisions taking into account potentially relevant human rights law[141], an equivalent can be foreseen in the field of investment law as well[142], wherein

[137] Anne van Aaken, *Fragmentation of International Law: The Case of International Investment Protection,* Univ. St. Gallen Law School, Law and Economics Research Paper Series, Working Paper No. 2008-1

[138] *Pope and Talbot* v. *Canada*, Award on the Merits (10 April 2001), *7 ICSID Reports* 102 at ¶ 45

[139] *Ibid.*, at ¶ 45-63, 68-69

[140] WTO, Ministerial Conference, Fourth Session, Doha, 9-14 November 2001, Declaration on the TRIPS Agreement and Public Health, WT/MIN (01)/DEC/2, 20 November 2001.

[141] Gabrielle Marceau, *WTO Dispute Settlement and Human Rights*, 13 European Journal of International Law (2002) 753- 814.

the TRIPS regime is harmonized with the Bilateral Investment Treaties to provide TRIPS Plus protection.[143] As Art. 1 (1) of the TRIPS clarifies that states are free to choose more extensive protection of intellectual property rights, thus a regime which provides greater protection from a harmonization of the TRIPS and Bilateral Investment Treaties is what is to be considered by the Tribunal. [144] The TRIPS Agreement, as specified in Article 1(1), is intended to provide international minimum standards for the recognition, protection and enforcement of intellectual property rights, while WTO members may, if they choose, "implement in their law more extensive protection."

140. Thus due to the aforementioned, it is apparent that the TRIPs regime can be considered rules of international law which can be applied in cases of violations of Bilateral Investment Treaties especially when dealing with IPR specific issues such as compulsory licensing which have been adequately provided for in the TRIPS regime as per Article 31(3)(C) of the VCLT.

[F.1.c] TRIPS Compliance due to Article III (4) of the BT-BIT

141. As the Respondent itself has argued the application of the Article in the present case it is evident that the application of the article in the present case is necessary.

142. Article III(4) ensures that TRIPS Compliance needs to be adjudicated in the investment dispute. To the extent that a compulsory license is TRIPS Agreement compliant, the expropriation provisions in Article III (4) will not apply at all. Thus this article instead of barring the TRIPS jurisdiction which seems the obvious intent, it rather ensures that TRIPS compliance is a primary issue when adjudicating claims of compulsory Licensing.

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[142] Joost Pauwelyn, *Trade and Investment Disputes: Complement or Conflict?*, paper presented at the Annual WTO Conference, British Institute of Comparative and International Law, 24 May 2006.

[143] Emias Tekeste Biadgleng, *IP Rights Under Investment Agreements: The TRIPS-Plus Implications for Enforcement and Protections of Public Interest,* Research Paper No. 8, South Centre (Aug. 2006).

[144] Tillmann Braun and Pascal Schonard, *Der neue deutsch-chinesische Investitionsförderungs- und Schutzvertrag*, 53 Recht der Internationalen Wirtschaft (RIW) (2007) 561-69.

143. Thus the tribunal in such a case needs to adjudicate the claim according to the minimum standards set by the WTO. Moreover Article III (4) has the effect of importing WTO standards, as applicable law, into the context of the investment dispute concerning a compulsory license.[145]

144. Thus Article 31 of TRIPs due to the aforementioned reasons is an essential to ensure minimum standards as provided by TRIPS as well compliance necessary due to Article III (4) of the BT-BIT.

[F. 2] ***Article 31 of The TRIPS Agreement***

145. Article 31(b) of the TRIPS agreement states that compulsory licensing is only permitted if prior to such use the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms in a reasonable time. In such a case a proposed user can be the government as well. In the present case neither have all the private companies nor the government approached claimant for authorization on reasonable commercial terms. Medberg's choice to terminate was driven in large part by concerns of parallel exports of the patented treatments and products by BioLife into third-countries other than Bergonia, in a manner that Medberg believed was inconsistent with the terms of the License Agreement.[146]

146. Thus for the reason of parallel exports the claimant had refused to provide a license to Biolife. The term of parallel export by Biolife can be considered unreasonable as the claimant had patents of a similar nature in other countries and the exports by Biolife would hamper the same. Thus the refusal to license in such a case was reasonable and further the authorisation was attempted at by only one of the licensees and the government itself did not attempt at the same.

147. Moreover it is not understood that a refusal by a patent owner inspite of being offered reasonable commercial terms does not result in the compulsory license being

[145] Christopher S. Gibson, *A Look At The Compulsory License In Investment Arbitration: The Case Of Indirect Expropriation*, Legal Studies Research Paper Series, Research Paper 09-32, July 1, 2009

[146] Record at, Response to Clarification No. 39

automatically granted.[147] A right of refusal is an inherent right of the patent holder which cannot be considered as Primae Facie violative of law.[148]

148. The only exceptions where prior authorisation is not required which might be the justification in the present case is in:-

i. Circumstances of extreme emergency (eg. national emergency);and
ii. Public non commercial use

149. There is no requirement of authorization in the case of urgency is when circumstances lead to the conclusion that spending time with undertaking such negotiations would necessarily impair the desired outcome of the compulsory license. In the present case the patented product was for curtailing obesity and had been freely available in the market for the past 48 months through Biolife, thus there being no reason for urgency on the basis of time taken to acquire authorization. Obesity as such cannot be considered an emergency; the doha declaration clearly provides public health crisises such as aids, tubercolosis, malaria and other epdemics can represent national emergencies. This it is evident that the intention of the TRIPs agreement is to include health epidemics and rampant diseases and not common concerns such as obesity. It might be leading to a number of other medical problems but it cannot still be brought under the category of epidemics.

150. In the case of "public non commercial use", the reason for not seeking the prior authorization of the patent owner is the prevalence of the public interest in the non commercial use of the invention. The non commercial nature of the use relates to the end use of the invention, for example gratuitous distribution of medicaments to the poor. In the present case all six companies which received the compulsory license used them for commercial purpose[149]. Thus in such a it is evident from the factual matrix that it was provided for a commercial purpose.

151. Thus there is no justification for the government to provide a compulsory license without the proper authorisation from the patent-holder as clearly the product is not for any national emergency nor is its end use for a non commercial purpose.

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[147] Carlos M. Correa, *Investment Protection in Bilateral and Free Trade Agreements: Implications for the Granting of Compulsory Licenses*, 26 Mich. J. Int'l L. 331 (2004)

[148] *Volvo (AB)* v. *Erik Veng (UK)Ltd.* , 1986-88 Common Mkt. Reg. (CCH) 14, 498 (1988)

[149] Record at, Response to Clarification No. 34

152. Article 31(c) states that the scope of such use shall be limited to purpose it was authorised. The Respondents claimed that the compulsory license was issued to address important domestic medical needs. Thus the scope of such a license should have been limited to the domestic market while exports comprised a significant portion for the companies involved.[150] Further Article 31(f) of the TRIPs agreement also provides that a compulsory license should be issued predominantly for the supply of the domestic market as it is an inherent principle that such an authorisation by the government cannot be used to hamper the business of the patent holder in other countries. Article 31(c) if read if clause (f) clarifies that the scope of the compulsory license should be provide for the domestic needs as claimed b the respondent.[151] Thus the compulsory license should only permit production and sale of the licensed product to the level of national demand. Surplus in such a case can be exported but in the present case it is evident that export was not only restricted to surplus and was a significant amount of the product as produced by the six entities.

153. Moreover, the present compulsory license is violative of Article 31(c) as well as 31(f) as the scope of the license was beyond the purpose for which it was granted and the use of the license itself was not merely for the supply to the domestic market.

154. All compulsory license provisions, even in the law of developing countries during the pre-TRIPS era, provided for remuneration. This provision, 31(h), now speaks of "adequate" remuneration, "taking into account the economic value of such authorization." Significantly, there is no reference a duty to "compensate the right-holder fully" as proposed by the United States or to "an equitable remuneration corresponding to the economic value of the license" as proposed by the European Union.[152] There is also no requirement to pay the right holder his "normal cost," as interpreted by some commentators. Indeed, if this were to be the case, the license would be termed "voluntary." However, it is only fair that the compulsory licensee does not rake in abnormal profits by charging excessively high prices while paying a low remuneration to the right holder. The potential profits of the licensee and, therefore, the economic value of the authorization to him, have to be taken into

[150] Record at, Response to Clarification No. 61

[151] Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis (London: Sweet and Maxwell, 1998) Page 166

[152] MTN.GNG/NG11W/70 and MTN.GNG/NG11W/68

account. Doubtless, the right holder will make all conceivable arguments for adequate remuneration and the licensee will rebut such claims with counter arguments. Eventually, the interpretation of these terms will be left to the national authorities, subject only to review by a distinct higher authority (31(j)), which can be administrative in nature.[153] No guidelines have been given under TRIPS and none can be imposed in interpretation. Again, this provision does not apply to adjudicated competition cases, where remuneration can be decided on a case-by-case basis (31(k)).

155. The possibilities for interpreting the concept of 'adequacy' are manifold. WTO panel practice for TRIPS cases has, however, been to take a close literal reading, and then to test it for consistency with the diplomatic record, with actual state practice, and to some extent with broader international law; a distinction should be drawn, however, between testing for consistency and applying these potential sources of law as law.

156. Although there is an inherent contradiction between compulsory licensing, which aims to increase competition, and a profit-based standard for compensation that would preserve the monopoly right of the patent,[154] the patent right holder should be willing to accept the remuneration lower than the normal in the case of WTO Member's using "limited exceptions" analogous with granting compulsory license to address public health problems.

157. In the present case the compensation for the compulsory license was based on royalty which was less than what was provided by Biolife thus it is clear that the compensation is not based on reasonable commercial terms. There is no reason for the compensation to be lower as the advantage will be for the licensees in such a case who will gain an extra profit. The compulsory license issues by the respondents did no intend to lower the price of the product for the market and was to only increase the supply thus there is no reason for the remuneration to be decreased

158. Further compensation in such a case should be speedy and effective while in the present case it is being paid as royalty (yearly) thus the compensation cannot be speedy in such as case as it would be based on sales by the domestic entities.

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[153] MTN.GNG/NG11/W/70: Draft Agreement on TRIPS—Communication from United States, May 11, 1990, Article 27.

[154] Arvind Subramanian, *The AIDS Crisis, Differential Pricing of Drugs, and the TRIPS Agreement—Two Proposals*, 4 The Journal of World Intellectual Property , 2001, p. 331.

159. Only the "legal validity" of the decision to authorize the use, and significantly not the grounds for such use, is subject to review by a distinct higher authority, under the ninth clause, 31(i). There is a strong case for instituting a separate administrative authority to deal only with appeals on compulsory licenses, government use, and abuses relating to IPRs, including anti-competitive conditions on contractual licenses, as this would lead to speedy disposal of such cases. Consultation and cooperation with other WTO Members is required under Article 40 only in the latter set of cases.

160. In the current case the judicial review was not independent as the panel of the Patent Review Board is a quasi-judicial body, which draws upon existing Bergonian judges to sit in particular intellectual property cases and be paid for their services by the Bergonian IP Office.[155] Thus as the board was paid for its services by the IP office it is clear that its loyalties will lie with the IP office itself and thus it is evident Primae Facie that an award by the patent review board in such a case will not be independent.

161. Thus as is apparent from the aforementioned arguments that the compulsory licensing in such a case was not TRIPS compliant. Thus it does not meet the minimum standards as required by general international law and the expropriation in such a case is clearly violative of the BC-BIT as well as General International law.

[155] Record at, Response to Clarification No. 29.

PART THREE: RELIEF REQUESTED

162. In light of the submission made above, Claimant respectfully asks this Tribunal to find:

1) that the tribunal has Jurisdiction over this dispute;
2) that the exploitation of the patent in Bergonia constituted a part of the Claimant's investment;
3) that the compulsory license in the present case amounts to Expropriation;
4) that the Respondent violated various provisions of the Coveniencia-Bergonia BIT;
5) and that this arbitration should proceed to the Quantification of Damages Phase.

RESPECTFULLY SUBMITTED ON SEPTEMBER 7, 2009 BY

-------s/d----------

TEAM CASTRO

ON BEHALF OF CLAIMANT

MEDBERG CO.