Second Annual
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23 and 24 October 2009

Medberg Co.,
Claimant

v.

Government of the Republic of Bergonia,
Respondent

MEMORANDUM FOR CLAIMANT

Respectfully Submitted,

Counsel Team El-Erian

TABLE OF CONTENTS

TABLE OF AUTHORITIES

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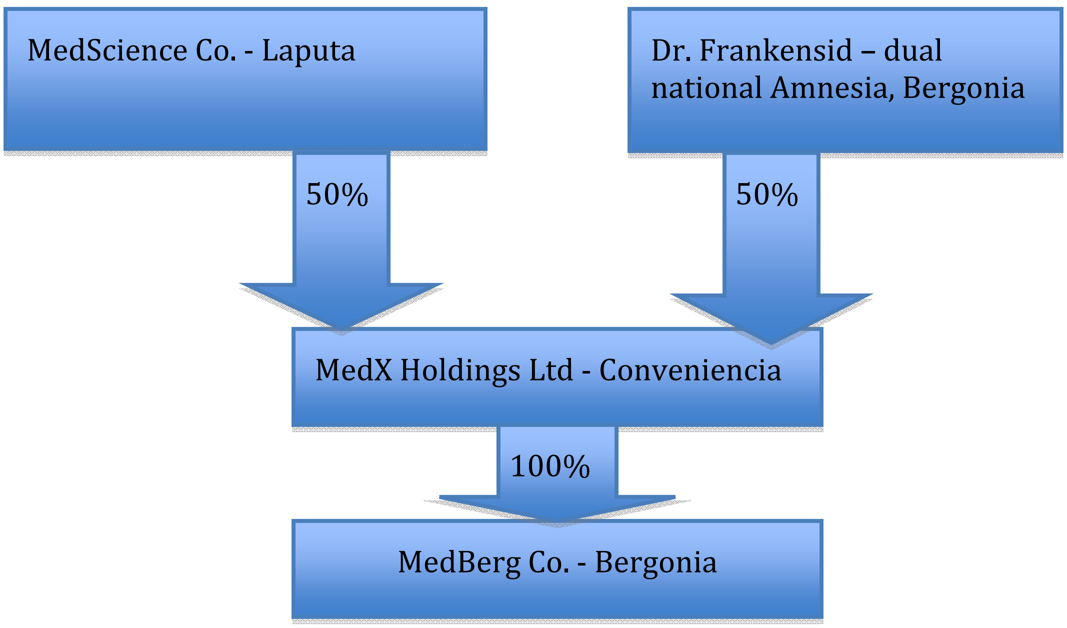
STATEMENT OF FACTS

1. The Democratic Commonwealth of the Republic of Bergonia ("Respondent") and the Sultanate of Conveniencia entered into an Agreement on the Encouragement and Reciprocal Protection of Investments on 30th May 2003. Respondent and the Government of Tertia entered into an Agreement on the Reciprocal Encouragement and Protection of Investment on 1st January 2003.

2. MedBerg Co. ("Claimant") was established in Bergonia on 30 January 2004.[1]



3. Since its establishment, MedBerg has been registered in the Bergonian corporate registry, which provides the company's ownership information.[2]

4. MedBerg's board, which is comprised of a Bergonian national and two MedX employees who work in Conveniencia,[3] almost always meets in Bergonia.[4]

[1] *Record*, at 20 ¶ 1.
[2] *Clarifications*, Q.59.
[3] *Clarifications*, Q.75.
[4] *Clarifications*, Q.43.

5. Dr. Frankensid, who is a scientist employed by MedScience Co., developed a breakthrough treatment for obesity based on lipid absorption retardant combined with glycogen/lipid metabolism optimization.[5]

6. MedX acquired the IP right to this medicine from Dr. Frankensid and MedScience in exchange for shares in MedX. [6] After this acquisition, MedX assigned the IP right to Claimant. Claimant applied and was granted the Bergonian Patent No. AZ2005 on 15 March 2005. Claimant proceeded to successfully exploit the patent, granting BioLife Co a license to utilize Patent No. AZ2005 for two years in exchange for royalties based on sales.[7]

7. On 1 November 2007, the Bergonian IP Office issued a compulsory license for Patent No.AZ2005, alleging that the technology covered by this patent was needed to address the longstanding domestic health problem of obesity in Bergonia. The IP Office argues the license must remain in effect for at least 48 months.[8] This was the first compulsory license issued in MedBerg's business sector.[9]

8. The Health Ministry has tried other approaches to the obesity problem. The Ministry has sponsored information campaigns on nutrition and exercise, and has proposed an 18% tax on sugared beverages and beverages containing corn syrup.[10]

9. Since issuance of the license, BioLife and five other Bergonian entities had invoked the compulsory license, and three of these companies have exported a significant portion of their products to other countries. Under the compulsory licenses, royalty rates have been lower than the rates under the original license

[5] *Clarifications*, Q.73.
[6] *Clarifications*, Q.74.
[7] *Clarifications*, Q.13.
[8] *Clarifications*, Q.66.
[9] *Clarifications*, Q.84.
[10] *Clarifications*, Q.85.

between BioLife and MedBerg,[11] and MedBerg has declined payment under these new rates.[12]

10. Claimant objects to the Bergonian IP Office's issuance of the compulsory license, and has communicated its objections to the IP Office on numerous occasions.[13] Following the IP's office administrative decision, Claimant appealed the decision to a Patent Review Board within the IP Office.[14] The Board concluded the compulsory license accorded with Bergonian law. On December 1, 2007, MedBerg submitted a written complaint to the IP Office, copying the letter to the Justice Ministry.[15] In response, the Justice Ministry stated the issuance of the compulsory license had conformed to Bergonia's international obligations.[16] There has never been an independent review of the IP's office decision to authorize the compulsory license.[17]

[11] *Clarifications*, Q.25.
[12] *Record*, at 20, ¶ 8.
[13] *Record*, at 20, ¶ 9.
[14] *Clarification*, Q. 29.
[15] *Clarifications*, Q.111.
[16] *Id*.
[17] *Record*, at 20, ¶ 9.

SUMMARY OF ARGUMENT

11. **JURISDICTION.** This dispute satisfies Article 25(1) and 25(2)(b) of the Convention. Respondent's objections are meritless. First, this Tribunal has jurisdiction *ratione personae* as Claimant is a national of another Contracting State within the meaning of Article 25(2)(b) and Bergonia has impliedly agreed to treat Claimant as a national of Conveniencia. Alternatively, if this Tribunal finds that the requirements in Article 25(2)(b) ICSID are not met, the Tribunal still has jurisdiction *ratione personae* as Article VI(8) of the Bergonia-Tertia BIT provides Bergonia's express consent to treat MedBerg as a Conveniencian national. MedBerg can invoke Article VI(8) through the most-favored nation clause of the Bergonia-Conveniencia BIT. MedBerg's invocation of Article VI(8) would not trigger the application of any provisions of the Bergonia-Tertia BIT less favorable than the provisions of the Bergonia-Conveniencia BIT. Secondly, this Tribunal has jurisdiction *ratione materiae* to hear this "investment dispute" because Patent No.AZ2005 constitutes an investment within the meaning of both Article 1(1) Bergonia-Conveniencia BIT and the applicable test for investment under Article 25(1) of the ICSID Convention.

12. **MERITS OF THE CLAIM.** Respondent has breached several provisions of the Bergonia-Conveniencia BIT and, in so doing, has created unfavorable conditions for actively discouraged intellectual property investments in Bergonia. *First*, Respondent has unlawfully expropriated Claimant's investment. Respondent's issuance of a compulsory license with respect to Claimant's patent rises to the level of expropriation. (Respondent can not utilize the MFN clause in the Bergonia-Conveniencia BIT to import an *unfavorable* clause from another BIT as this is contrary to the purpose of MFN clauses, which is to ensure the highest standards of treatment for investors.) Respondent's expropriation does not fall within the exceptions established by Articles 4(2) and 4(3) of the Bergonia-Conveniencia BIT. Moreover, Respondent's expropriation of Claimant's patent does not comply with Article 31 TRIPS, the applicable law in this dispute. *Second*, Respondent has denied Claimant fair and equitable treatment.

13. **RELIEF REQUESTED**. Claimant respectfully requests that this Tribunal order Respondent to revoke the compulsory license over Patent No.AZ2005 and to pay compensatory damages to Claimant in an amount to be duly calculated in a separate proceeding on damages.

ARGUMENT

PART ONE: JURISDICITION

I. THE TRIBUNAL HAS JURISDICTION TO HEAR THIS DISPUTE

14. Article 25(1) of the International Convention in the Settlement of Investment Disputes (ICSID) provides for jurisdiction of the Center over

> [A]ny legal dispute arising directly out of an investment, between a Contracting State . . . and a national of another Contracting State, which the parties to the dispute consent . . . to submit to the Centre.

15. Accordingly, in order for the Center to have jurisdiction over an investment dispute, the following conditions must be met: (i) the investor must be a national of a Contracting State other than the State party to the dispute, or a national of the Contracting State part to the dispute if there is both foreign control and an agreement setting foreign control (*ratione personae*); (ii) the object of the dispute must be a protected investment under both the applicable BIT and the Convention (*ratione materiae*); (iii) both parties must have agreed on ICSID jurisdiction (*ratione voluntatis*); and (iv) the acts or omissions complained of must have occurred after the date of the investor's purported investment (*ratione temporis*).[18]

16. There is no dispute concerning *ratione voluntatis* and *ratione temporis*.

17. To satisfy *rationae voluntatis*, both the State and investor must consent in writing to arbitration.[19] The Bergonia-Conveniencia BIT, which came into force on June 2003, includes Respondent's generally accepted consent to arbitration. Claimant requested arbitration in writing from the Secretary General of ICSID on 1 November 2008.[20] Thus, there is consent in writing to arbitration by both parties.

18. With regards to the condition *ratione temporis*, it is uncontested that the ICSID Convention was applicable when the parties gave their consent. Besides, the event

[18] *Phoenix*, at ¶ 54.
[19] Article 25(1) of the Convention.
[20] *Phoenix*, at ¶66; *Azurix*, at ¶2; *El Paso Energy*, at ¶35; *Hoffman and Tams*, at 104.

giving rise to the present dispute, *i.e.* the issuing of the compulsory license over Patent No.AZ2005, which revocation is seek in the present arbitration, took place after Claimant made its investment, so there is no doubt that the Convention is applicable.[21]

19. Respondent raises two objections to the jurisdiction of the Tribunal. First Respondent argues Claimant should not be considered a foreign investor within the meaning of Article 25(2)(b) ICSID and thus that there is no jurisdiction *rationae personae*.[22] Second, Respondent argues that Patent No.AZ2005 is not a protected investment under the Convention and the Bergonia-Conveniencia BIT and hence there is no jurisdiction *rationae materiae*.[23]

20. This Tribunal has jurisdiction notwithstanding Respondent's objections because **(A)** Claimant is a "national of another Contracting State" within the meaning of Article 25(2)(b) ICSID or, alternatively, Article VI(8) of the Bergonia-Tertia BIT, which can be invoke through the most-favored nation clause of the Bergonia-Conveniencia BIT, provides Bergonia express consent to treat MedBerg as a Conveniencian national, and **(B)** the Patent owned by Claimant is a protected investment under both Article 25(1) of the ICSID Convention and Article 1(d) of the Bergonia-Conveniencia BIT.

A. This Tribunal has jurisdiction *ratione personae* because Claimant is a national of Conveniencia within the meaning of Article 25(2)(b) ICSID or, alternatively, Article VI(8) of the Bergonia-Tertia BIT provides Bergonia's express consent to treat MedBerg as a Conveniencian national

21. This Tribunal has jurisdiction *ratione personae*. First, Claimant is a national of Conveniencia within the meaning of Article 25(2)(b) ICSID **(1)**. Alternatively, Article VI(8) of the Bergonia-Tertia BIT provides Bergonia's express consent to treat MedBerg as a Conveniencian national through the application of the most-favourable nation clause of the Bergonia-Conveniencia BIT **(2)**.

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[21] *Record*, at 20.
[22] *Record*, at 5, ¶14
[23] *Id.*

1. Claimant is a national of Conveniencia within the meaning of Article 25(2)(b) ICSID

22. When analyzing whether it has jurisdiction, the Tribunal should consider both the applicable BIT and the ICSID Convention.[24]

23. Article 25(2)(b) of the Convention envisages two different situations in which a juridical person can be considered a "national of another Contracting State". The first sentence simply defines "National of another Contracting State" as "any juridical person which had the nationality of a Contracting State other than the State that is a party in the dispute." The second sentence extends the definition to include

> 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.

24. According to this second sentence, three requirements must be met in order to consider an investor a national of another Contracting State. Additionally, Article 10 of the Bergonia-Conveniencia BIT establishes the need of a prior three months long attempt of amicable settlement between the Contracting State and the investor, before filing the request of arbitration.

25. Claimant satisfies the three requirements of *ratione personae* set forth in Article 25(2)(b) ICSID because **(a)** Claimant is a national of Bergonia under the Bergonia-Conveniencia BIT; **(b)** Claimant is controlled by a foreign company; and **(c)** Bergonia has impliedly agreed to treat Claimant as a national of Conveniencia.

a. <u>Claimant is a national of Bergonia under the Bergonia-Conveniencia BIT</u>

26. In order to determine the ICSID jurisdiction, Article 25(1) of the Convention refers, among others, to a dispute "between a Contracting State . . . and a **national of another Contracting State**" [emphasis added]. The nationality of an investor

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[24] *Phoenix*, at ¶74; *Hoffman and Tams*, at 130.

is determined, firstly, "by the law of the State whose nationality is claimed".[25] Though it is not necessary, most BITs contain a stipulation concerning the investor's nationality. Such an agreement creates "a strong presumption in favor of the existence of the stipulated nationality"[26] and it will only be invalid if proven that the investor does not have the stated nationality.

27. Article 1(3)(a)(2) of the Bergonia-Conveniencia BIT provides as follows

> 3. The term "investor" means
> (a) in respect of the Democratic Commonwealth of Bergonia:
> (…)
> any juridical person as well as any commercial or other company or association with or without legal personality having its seat in the territory of the Democratic Commonwealth of Bergonia, irrespective of whether or not its activities are directed at profit.

28. Claimant was established and has its seat of business in Bergonia[27]. Therefore, under the Bergonia-Conveniencia BIT Claimant is a Bergonian investor.

b. <u>Claimant is a foreign controlled company pursuant to Article 25(2)(b) ICSID</u>

29. Article 25(2)(b) of the Convention envisages two different situations in which a juridical person can be considered a "national of another Contracting State". The first sentence simply defines "National of another Contracting State" as "any juridical person which had the nationality of a Contracting State other than the State that is a party in the dispute." The second sentence extends the definition to include

> 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.

30. The second sentence of Article 25(2)(b) establishes an exception to the general notion that the Convention only applies to disputes between a Contracting State

[25] *ICSID Commentary*, at ¶429; *Hoffman and Tams*, at 105.
[26] *Id.*, at ¶434.
[27] *Record*, at 20, ¶1; *Clarifications*, Q.35.

and an investor from another Contracting State. That exception applies when a national corporation of the Contracting State is controlled by a foreign company of another Contracting State and an agreement to treat the investor as a national of a foreign country exists (see paras. 32 to 54 below).[28]

31. While ICSID jurisprudence has not established a broadly accepted definition of "foreign control"[29], ICSID commentators have considered it an objective requirement[30] of which the Contracting State must be aware.[31] Different tribunals have emphasized different aspects of foreign control, namely **(i)** the foreign shareholding percentage; **(ii)** decision making structure; and **(iii)** the level of control that must be regarded.

i. Claimant is 100% owned by a foreign company of a Contracting State

32. The *Vacuum Salt*, *LETCO* and *Aguas del Tunari* tribunals found that when the foreign shareholding equals 100% a strong presumption of foreign control exists[32]. The tribunal in *Vacuum Salt* stated that

> it stands to reason, of course, that 100 percent foreign ownership almost certainly would result in foreign control, by whatever standard (…)[33]

33. Tribunals have also found the existence of foreign control when the foreign shareholding was 51%.[34]

34. It is uncontested that Claimant is 100% owned by MedX[35], a company incorporated in Conveniencia, another Contracting State. Respondent had, at the vey least, constructive notice of this foreign control, as the information was

[28] *ICSID Commentary*, at ¶¶ 496-499.
[29] *Vacuum Salt*, at ¶ 37. See also, *Grierson*, at 110.
[30] *ICSID Commentary*, at ¶548.
[31] *ICSID Commentary*, at ¶544.
[32] *Vacuum Salt*, at ¶ 31; *LETCO*, at ¶2) 3.a; *Aguas del Tunari*, at ¶208-209. See also *Grierson*, at 112.
[33] *Vacuum Salt*, at ¶43.
[34] *Kloeckner*; *Aguas del Tunari*. See also *Vacuum Salt*, at ¶43; *Camuzzi International*, at ¶33; *Hoffman and Tams*, at 109, footnote 29.
[35] *Record*, at 20,¶2.

"available in the Bergonian corporate registry at all times."[36] Respondent demonstrated that it was aware of this foreign control in the answer given by the Bergonia's Justice Ministry to Claimant's objections regarding the issuing of the compulsory license, stating that "the compulsory license was issued in conformity with Bergonia's international obligations."[37]

ii. *Claimant's decision making structure is controlled by the Conveniencian company MedX*

35. Moreover, when determining the existence of foreign control, tribunals have considered not only the shareholding percentage, but also other elements such as the company's decision making structure and the exercise of management.[38] The tribunal in *SOABI* even found that if one out of three members of a Board of Directors was of a certain nationality, this would sufficiently support the nationality of the foreign controller.[39]

36. As in the *SOABI*'s case, Claimant's management board is formed by a Bergonian national and MedX's lawyer and tax adviser[40]. Thus, the decision making within Claimant is controlled by MedX. This supports the aforementioned fact that Claimant is subject to foreign controlled by MedX, a company from another Contracting State.

iii. *As only the first control level must be regarded, Claimant is in all senses controlled by a foreign company from another Contracting State*

37. The tribunal in *Amco Asia* clearly stated that, under the Convention, no search for foreign control beyond the first level is permissible, *i.e.* when analyzing the existence of foreign control over the investor, the tribunals should only take into account the direct control, as looking into the nationality of the controller of the investor's controller is "not in accord with the Convention."[41] Claimant's direct

[36] *Clarifications*, Q.59.
[37] *Clarifications*, Q.111.
[38] *ICSID Commentary*, at ¶ 564; *Amerasinghe*, at ¶ 265. See also *Camuzzi International*, at 36.
[39] *SOABI*, at ¶¶182-3.
[40] *Clarifications*, Q.75.
[41] *Amco Asia*, at ¶¶ 361-3; *Autopista Concesionada*, at ¶69.

controller, MedX, is a national of another Contracting State, Conveniencia, and therefore the first requirement of Article 25(2)(b) is met.

38. Respondent argues that, even with a 100% shareholding over Claimant, MedX does not exercise control over Claimant[42]. Respondent may base this argument on the fact that MedX (Claimant's direct controller) is controlled in equal shares by MedScience (a corporation incorporated in Laputa, a non-Contracting State) and Dr. Frankensid (a dual national of Amnesia and Bergonia). In doing so, Respondent erroneously assumes that the nationality of MedX's shareholders should be considered by this Tribunal as they may indirectly control Claimant. However, Claimant's indirect controllers should not be taken into account.

39. The tribunal in *Aguas del Tunari* established the difference between direct and indirect control in the following terms:

> [A]n entity that is *directly controlled* implies that there is no intermediary between the two entities, while an entity that is *indirectly controlled* implies that there is one or more intermediary entities between the two.[43]

40. Respondent may try to rely on *SOABI*'s majority decision in which the tribunal took into account the investor's indirect control because the direct controller was from a non-Contracting State, and this would have led to the result that the ICSID and the tribunal did not have jurisdiction.

41. However, even when applying the reasoning of *SOABI*'s award to this dispute, the Tribunal would reach the same conclusion. Effectively, the only reason why the tribunal in *SOABI* looked at the indirect controllers of the investor was because the foreign direct controller was a national of a non-Contracting State which would have barred the tribunal's jurisdiction over the dispute.

[42] *Record*, at 5, ¶14.
[43] *Aguas del Tunari*, at ¶236.

42. In this regard, it has been established that any reasonable means should be used in order to establish foreign control by nationals of a Contracting State.[44] One of the leading ICSID commentaries has stated that

> [T]he search should be pursued until foreign control by nationals of a Contracting State can be established. Once the appropriate foreign control has been found, the search should end.[45]

43. Therefore, tribunals may only take into consideration the nationality of the investor's indirect controllers when looking into the first level of control would lead to a non-Contracting State.

44. This is in accordance with the Convention's objective of promoting international cooperation for economic development and guarantying a certain level of protection to foreign investors in order to achieve that main purpose.[46] This objective would not be met if a company incorporated under the laws of the Contracting State but with a foreign control would be excluded of the Convention's scope of application[47], as in many cases States require that investment operations are carried out by companies organized under local law in order to have a better supervision of the investors' activities.[48]

45. In the present case, an effective foreign control by a national corporation of another Contracting State is found at the first level of control. As stated on para. 38, this foreign control is exercised by MedX, a Conveniencian company, which owns 100% of Claimant's shares and also controls its management board, so there is no need to search any further.

46. Lastly, regarding the time in which the control has to be exercised by the foreign controller, the leading ICSID commentators have established that "foreign control must have existed at the time of the agreement."[49] There has been no change of

[44] *Amerasinghe*, at ¶ 477.
[45] *ICSID Commentary*, at ¶563.
[46] *Preamble ICSID Convention*.
[47] *ICSID Commentary*, at ¶497.
[48] *ICSID Commentary*, at ¶496.
[49] *ICSID Commentary*, at ¶579.

control at any level occurred after Claimant gave its consent to ICSID jurisdiction by filing the present request for arbitration.[50]

47. In conclusion, a Conveniencian company, MedX, not only owns 100% of Claimant's shares, but also exercises effective control over Claimant. Additionally, Respondent was aware of that fact. Thus, because a company from another Contracting State has direct control over Claimant the first requirement of Article 25(2)(b) ICSID is met.

c. <u>Bergonia has impliedly agreed to treat Claimant as a national of Conveniencia</u>

48. The last requirement of Article 25(2)(b) of the Convention states the need of an agreement between the Contracting State and the investor to treat the latter as a national of another Contracting State because of the foreign control.

49. Tribunals have been very generous in construing an agreement on foreign nationality[51] as they have even inferred the existence of an agreement between the parties to treat the investor as a national of a foreign Contracting State because of foreign control just by establishing that the investor fell within the definition of foreign control pursuant to Article 25(2)(b) ICSID.[52]

50. The leading interpretative treatise on the ICSID Convention has stated that

> [T]he practice of ICSID tribunals shows an increasing readiness to accept an implicit agreement to treat a juridical person as a foreign national because of foreign control.[53]

51. An implied agreement can be determined by examining the parties' actions[54], for example by the granting of privileges that are reserved to foreign investors.[55] Furthermore, when foreign control exists, the agreement to treat a company as a

[50] *Clarifications*, Q.45.
[51] *ICSID Commentary*, at ¶519; *Dolzer*, at ¶53; *Hoffman and Tams*, at 108.
[52] *Aguas del Tunari*, at ¶¶ 280-281.
[53] *ICSID Commentary*, at ¶510. See also *Grierson* at 108.
[54] *LETCO*, at ¶2)3.b.
[55] *Cable TV*, at ¶5.18–5.24.

national of another Contracting State is presumed to be "because" of that foreign control.[56]

52. When commenting on the *LETCO* award, the leading ICSID commentators have stated that "all that is required for the purposes of Article 25(2) is the objective fact of foreign control, the host state's awareness of the latter and a valid consent to ICSID jurisdiction."[57]

53. Admittedly, Claimant was not treated differently than any national corporation because Bergonia's laws does not provide for any particular requirements for foreign companies.[58] However, as stated in para. 34, the answer given by Bergonia's Justice Ministry in reply to Claimant's letters regarding Article 10(2) of the Bergonia-Conveniencia BIT, shows that Respondent was aware of Medberg's foreign control and that it had agreed to treat Claimant as a foreign company.[59] Effectively, with that statement Bergonia impliedly recognized that Claimant has been treated as a foreign company. Because an objective foreign control exists, it must be presumed that Respondent's agreement is because of that foreign control.

54. Therefore, because Claimant is completely controlled by a Conveniencian company, Respondent was aware of that foreign control and both parties gave their consent to ICSID jurisdiction the requirements of Article 25(2)(b) of the Convention are met and this Tribunal has jurisdiction over the present dispute. Hence, Respondent's objection on ICSID jurisdiction and the Tribunal's competence to hear this dispute must be dismissed.

2. Alternatively, the Most-Favoured-Nation clause of the Bergonia-Conveniencia BIT allows Claimant to invoke the Bergonia-Tertia BIT, which provides Bergonia's express consent to treat Claimant as a Conveniencian national.

[56] *LETCO*, at ¶2)3.b. See also, *Amerasingue*, at 471.
[57] *ICSID Commentary*, at ¶544.
[58] *Clarifications*, Q.14,110.
[59] *Clarifications*, Q.111.

55. Article VI(8) of the Bergonia-Tertia BIT provides that if a company legally constituted in one contracting state is an investment of a national of another contracting state, that company shall be treated as a national of the other contracting state. **(a)** This would provide recognition of MedBerg as a Conveniencian national. **(b)** Without such recognition, MedX, MedBerg's parent company, would be treated less favorably than a Tertian parent company of a Bergonian company. **(c)** Because the Bergonia-Conveniencia BIT requires equal treatment of parent companies from both Parties, MedBerg must be able to invoke Article VI(8) from the Bergonia-Tertia BIT, via the MFN clause of the Bergonia-Conveniencia BIT. **(d)** The MFN clause of the Bergonia-Conveniencia BIT incorporates dispute resolution provisions from other treaties. Further, **(e)** Respondent may not invoke Article I(2) of the Bergonia-Tertia BIT to deny Claimant the benefit of Article VI(8) of the same BIT.

a. <u>Under the terms of the Bergonia-Tertian BIT's Article VI(8), MedBerg is a Conveniencian National for purposes of this arbitration</u>

56. Article VI(8) of the Bergonia-Tertian BIT reads,

> For purposes of an arbitration under [Bergonia-Tertian BIT Article VI.3], any company legally constituted under the applicable laws and regulations of a Party or a political subdivision thereof but that, immediately before the occurrence of the event or events giving rise to the dispute, was an investment of nationals or companies of the other Party, shall be treated as a national or company of such other Party in accordance with Article 25(2)(b) of the ICSID Convention.[60]

57. Like the dispute resolution provision of the Bergonia-Conveniencian BIT, Article VI.3 of the Bergonia-Tertian BIT provides for arbitration under the ICSID Convention. Thus, a valid reading of the introductory clause of Bergonia-Tertian BIT Article VI(8) would be, "For purposes of an arbitration under the ICSID Convention."

[60] Article VI(8) Bergonia-Tertia BIT.

58. MedBerg is a "company legally constituted under the applicable laws and regulations" of Bergonia.[61] Article I(1)(ii) of the Bergonia-Tertia BIT provides that "a company" is a type of "investment." Thus, according to Article VI(8) of the Bergonia-Tertia BIT, MedBerg should "be treated as a national or company of" Conveniencia.

b. <u>If MedBerg Were Not Treated as a Conveniencian National, Then MedX Holding Ltd Would Be Treated Less Favorably Than a Tertian Company in Exactly the Same Situation as MedX.</u>

59. Because MedX owns MedBerg and dominates the latter company's management board,[62] MedX has a vested interest in the outcome of legal disputes involving MedBerg. If Article VI(8) of the Bergonia-Tertian BIT were inapplicable to MedBerg in this dispute, then MedBerg might be precluded from dispute resolution under the auspices of ICSID. That would amount to "treatment less favourable" to MedX Holding Ltd. than to a Tertian company owning and controlling a Bergonian company. Regardless of whether ICSID arbitration would be objectively preferable to domestic dispute resolution, the option itself is preferable to a lack of such option.

c. <u>Because the Bergonia-Conveniencia BIT requires equal treatment of parent companies from both Parties, MedBerg must be able to invoke Article VI(8) from the Bergonia-Tertia BIT, via the MFN clause of the Bergonia-Conveniencia BIT</u>

60. Article 3(1) of the Bergonia-Conveniencia BIT specifically prohibits Bergonia from "subject[ing] investments in its territory owned or controlled by investors of the other Contracting State to treatment less favourable than it accords…to investments of investors of any third State."[63] Thus, Article 3(1) grants Conveniencia rights in respect of "investments" in Bergonia "owned or controlled by" Conveniencian "investors." This outcome is consistent with the International Law Commission's Draft Article 9.2 on Most-Favoured-Nation Clauses, which

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[61] *Record*, at 20, ¶ 1.
[62] *Record*, at 20, ¶ 2; *Clarifications*, Q.75.
[63] Article 3(1) Bergonia-Conveniencia BIT.

reads, "The beneficiary State acquires the rights [in a most-favored-nation clause] only in respect of persons or things which are specified in the clause or implied from its subject-matter."[64]

61. The Bergonia-Conveniencia BIT's definition of "investments" includes "shares of companies and other kinds of interest in companies."[65] Therefore, under the Bergonia-Conveniencia BIT, MedX's 100% interest in MedBerg is an "investment[] in [Bergonian] territory."

62. The Bergonia-Conveniencia BIT's definition of "investor" includes "any juridical person having its seat in the territory of the Sultanate of Conveniencia in accordance with its laws."[66] This description applies to MedX.

63. The MFN provision in the Bergonia-Conveniencia BIT requires application of the Bergonia-Tertia BIT's Article VI(8) to MedX's ownership and control of MedBerg.

64. The fact that the Bergonia-Tertia BIT treats MedBerg as a company whereas the Bergonia-Conveniencia BIT treats MedBerg as another company's asset does not sever the MFN link. In both treaties, the intended beneficiaries are the controlling foreign investors, i.e., MedX in this instance. It just so happens that in this situation, MedX's investment, i.e. MedBerg, is able to bring its own arbitration claim. As the *Renta* tribunal established, "Whether MFN treatment is stated in the relevant BIT to relate to investors rather than investments is in principle of no moment."[67]

d. <u>The MFN clause of the Bergonia-Conveniencia BIT incorporates dispute resolution provisions</u>

65. The text of the Bergonia-Conveniencian BIT supports a reading of the BIT's MFN clause that would incorporate dispute resolution provisions like Article

[64] *Yearbook of the International Law Commission*, 1978, vol. II, Part Two, at 27.
[65] Article I(1)(b)Bergonia-Conveniencia BIT.
[66] *Id*., Article I(3)(b).
[67] *Renta*, ¶ 101.

VI(8) of the Bergonia-Tertia BIT. Article 3(2) entitles investors to MFN treatment regarding the "maintenance, operation, enjoyment or disposal of their investments." The *Siemens* tribunal found the "right to have recourse to international arbitration is very much related to investors 'management, maintenance, use, enjoyment, or disposal of their investment,'" especially as "'maintenance' of an investment…includes the protection of an investment."[68] Substantial academic and jurisprudential authority support a reading of "treatment" that does incorporate dispute resolution provisions from other treaties.[69]

66. Moreover, the Bergonia-Conveniencian BIT was signed to "intensify economic-cooperation," to "create favourable conditions to increase [cross-border] investments," and to "stimulat[e] business initiatives."[70] These purposes support broad MFN provisions that would encompass dispute resolution provisions from other treaties.

67. The *Maffezini* tribunal found that an MFN clause should not "override public policy considerations that the contracting parties might have envisaged as fundamental conditions for their acceptance" of the basic treaty.[71] That tribunal listed four conditions that an MFN clause could not override: (1) "one contracting party has conditioned its consent to arbitration on the exhaustion of local remedies; (2) the treaty contains "a so-called fork-in-the-road provision requiring an irrevocable choice between submission of the dispute to domestic courts or international arbitration;" (3) "the agreement provides for a particular arbitration forum, such as ICSID;" and (4) "the parties have agreed to a highly institutionalized system of arbitration that includes precise rules of procedure." None of these situations is at issue here. Furthermore, in light of the Bergonia-

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[68] *Siemens*, at ¶57.
[69] *See, e.g., Ambatielos*, at 108; *Maffezini*, at ¶54; *Siemens*, at ¶103; *National Grid*, at ¶93; *Aguas III*, at ¶55; *Renta*, at ¶ 101; *Vesel*, at 186-187; *Lowenfeld*, at 573
[70] *Preamble* of Bergonia-Conveniencia BIT.
[71] *Maffezini*, at ¶62.

Conveniencia BIT's object and purpose, certain tribunals' presumptions against generally protective MFN provisions[72] are inapplicable here.

3. Respondent may not invoke Article I(2) of the Bergonia-Tertia BIT to deny Claimant the benefit of Article VI(8) of the same BIT.

68. Respondent contends Claimant's invocation of the Bergonia-Conveniencia BIT's MFN clause would entail not only the application of Article VI(8) of the Bergonia-Tertia BIT but also the application of Article I(2) of the Bergonia-Tertia BIT. Application of Article I(2) would provide Bergonia "the right to deny to [MedBerg] the advantages" of the Bergonia-Tertia BIT.

69. Respondent's contention is unsupported by the text of the Bergonia-Conveniencia BIT's MFN clause. That clause simply reads, "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 investments of its own investors or to investments of investors of any third State."[73] In subsequent paragraphs, Article 3 does qualify this statement by providing specific examples of behavior that does not count as "treatment," but nowhere does the Article generally equate MFN treatment with the application of *all* provisions of a third-party BIT to the Bergonia-Conveniencian BIT. Therefore, application of the Bergonia-Tertian BIT's more favorable dispute resolution provisions to the Bergonia-Conveniencian BIT does not entail application of the Bergonia-Tertian BIT's *less favorable* limitation clause.

70. Like the Bergonia-Conveniencia BIT's MFN clause, Article VI(8) of the Bergonia-Tertia BIT is textually unqualified by the restrictions in Article I(2). Thus, in the words of Sir Arnold McNair, the restrictions of Article I(2) are not "an inherent element"[74] of Article VI(8) of the Bergonia-Tertia BIT and, therefore, do not limit it. Respondent could argue Article I(2) is an "inherent element" of Article VI(8) only to the extent Article I(2) is an inherent element of

[72] *Salini v. Jordan,* at ¶118; *Plama,* at ¶204; *Telenor,*at ¶91; *Wintershall,* at ¶ 168.
[73] Article 3(1) Bergonia-Conveniencia BIT.
[74] *McNair,* at 287.

every other provision of the same BIT, since Article I(2) by its terms applies to the entire treaty. Such a fundamental exception to overall BIT protection is most reasonably interpreted as a specific point of negotiation between the two treaty parties. As such, it would be inapplicable to a state invoking one of the treaty's provisions on grounds of MFN.

71. Substantial authority supports MedBerg's general position. As the *Siemens* tribunal observed, conditioning application of an MFN clause on the application of less favorable aspects of the third-party treaty "would defeat the intended result of the clause which is to harmonize benefits agreed with a party with those considered more favorable granted to another party."[75] The tribunal found support for its position in the following commentary to the International Law Commission's Draft MFN Articles: "Whenever the beneficiary State is accorded different types of treatment with respect to the same subject matter, it shall be entitled to whatever treatment or combination of treatment it prefers in any given case."[76] And, as McNair has affirmed, an MFN clause entitles a claimant to "claim the Boon without the Price."[77]

72. For the foregoing reasons, Claimant may rely on the Bergonia-Conveniencia BIT's MFN clause to invoke Article VI(8) of the Bergonia-Tertia BIT, which provides explicit recognition of Bergonia's Conveniencian nationality.

[75] *Siemens*, at ¶ 120.
[76] ILC MFN Report at 52, cited in *Siemens* at ¶ 65.
[77] *McNair*, at 287.

B. This tribunal has jurisdictional *ratione materiae* because Claimant's exploitation of its Patent in Bergonia is an investment within the meaning of Article 1(1) Bergonia-Conveniencia BIT and Article 25(1) ICSID

73. As discussed in paragraph 21, the jurisdiction of the Tribunal is dependent upon the fulfillment of the jurisdictional requirements of both the ICSID Convention and the Bergonia-Conveniencia BIT. As stated in the recent ICSID case of *Malaysian*

> [U]nder the double barreled test, a finding that the Contract satisfied the definition of investment under a BIT would not be sufficient for this Tribunal to assume jurisdiction, if the Contract failed to satisfy the criterion of an investment within the meaning of Article 25.[78]

74. The Tribunal has jurisdiction to hear the "investment dispute" because Patent No.AZ2005 constitutes an investment within the meaning of both the Bergonia-Conveniencia BIT and the Convention. Patent No.AZ2005 is an investment because it satisfies **(1)** the definition of investment under the Bergonia-Conveniencia BIT Article 1(1) and **(2)** the *Salini v. Morocco*[79] test of investment under Article 25(1) ICSID by possessing the six characteristics required by the *Salini v. Morocco* test.

1. The Patent is a protected investment under the Bergonia-Conveniencia BIT

75. The Bergonia-Conveniencia BIT offers a broad formulation of "investment" to encompass "every kind of asset," and Article 1(1)(d) ICSID expressly and unequivocally includes intellectual property rights, in particular "patents" under the definition of "investments". Accordingly, Bergonian Patent No.AZ2005 constitutes a protected investment under the Bergonia-Conveniencia BIT.

76. The Bergonia-Conveniencia BIT came into force on 30 June 2003.[80] Article 11(1) Bergonia-Conveniencia BIT stipulates the temporal requirements necessary for the application of the BIT. Given that the Treaty applies to investments made

[78] *Malaysian*, at ¶55. See also *Dolzer*, at 61.
[79] *Salini v. Morocco.*
[80] *Record*, at 12.

either prior or after the Treaty came into force and that prior to the 30 May 2003 there was no dispute with regard to the existence of an "investment", Patent No.AZ2005 clearly falls within the temporal requirements of Article 11(1) Bergonia-Conveniencia BIT.

2. The Patent is a protected investment under Article 25(1) ICSID

77. Article 25(1) ICSID provides that ICSID jurisdiction extends to "any legal dispute arising out of an investment" anywhere in the ICSID Convention. The term "investment" is not defined under Article 25(1) ICSID and it was left undefined with the intention of, *inter alia*, giving greater discretion to the parties.[81] This is illustrated by the Report of the Executive Directors of the World Bank in the following terms

> No attempt was made to define the term "investment" given the essential requirement of consent by the parties, and the mechanism through which Contracting States can make known in advance, if they so desire, the classes of disputes which they would or would not consider submitting to the Centre (Article 25(4)).[82]

78. Although it is recognized that this does not give total discretion to the parties to define for themselves what disputes they are willing to submit to ICSID,[83] it is submitted that IP rights such as patents should be recognized as they have "have never been more economically and politically important or controversial than they are today"[84]. Patents also constitute a vital part of foreign direct investment as evidenced by their inclusion in numerous BITs including Article 8 in the seminal BIT Pakistan-Germany in 1959.[85]

79. The applicable criteria for finding an investment is set out in the *Salini v. Morocco*[86] award as interpreted by the tribunal in *Phoenix.*[87] That tribunal

[81] *Malik*, at 14.
[82] 1 ICSID Reports 28.
[83] *Phoenix*, at ¶ 82.
[84] *Abbott*. See also *Gibson*, at 1438.
[85] *Liberti*, at 6. See also BIT Pakistan-Germany.
[86] *Salini v. Morocco.*
[87] *Phoenix*, at ¶114.

requires "investment" to possess six distinct characteristics: a) a contribution in money or other assets; b) a certain duration; c) an element of risk; d) an operation made in order to develop an economic activity in the host State; e) assets invested in accordance with the laws of the host State and f) assets invested *bona fide*.

a. The Patent requires a contribution in money or other assets

80. Claimant has made a substantial contribution in both money and other assets to establish, maintain and enforce its Patent in Bergonia for three reasons. Firstly, Claimant makes a contribution of an asset to Bergonia by bringing the IP right of the would-be Patent into Bergonia; secondly, Claimant paid to register the IP right and thirdly, Claimant exploits the Patent for economic profit.

81. Firstly, although the research and development costs of the drug were borne by MedScience,[88] MedX acquired the IP right from both MedScience and Dr. Frankensid in exchange for shares in MedX. [89] Thus, MedX paid for the IP right of the would-be Patent with shares in MedX. This IP right is an asset which is later given formal recognition and protection under Patent No.AZ2005. MedX later assigned the IP right to Claimant, which in turn made a contribution of an "other asset" to Bergonia by bringing the IP right into Bergonia.

82. Secondly, Claimant's application for the formal recognition and protection of the IP right in the form of a patent also demonstrates a financial contribution on the part of Claimant.

83. Thirdly, Claimant licensed BioLife to utilize Patent No.AZ2005 after the Patent was granted[90] and received royalties from BioLife based on the sales of BioLife.[91] The fact that Claimant received financial gain from its exploitation of the Patent clearly indicates that the asset (Patent No.AZ2005) was of substantial economic value.

[88] *Clarifications*, Q.105.
[89] *Clarifications*, Q.74.
[90] *Record*, at 20, ¶6.
[91] *Clarifications*, Q.12.

b. <u>The Patent is of a certain duration</u>

84. The duration criteria generally requires that the investment project be carried out over a period of at least two years.[92] In this case, Claimant applied for a patent for Dr. Frankensid's invention on 5 February 2004 and was granted Patent No.AZ2005 on 15 March 2005[93]. Claimant licensed BioLife to utilize Patent No.AZ2005 on 31 March 2005 for a two year period which expired on 31 March 2007.[94] The money paid in relation to the application of the Patent should be considered as giving rise to an investment. This means that the duration of the investment has extended for more than five years.

85. However, even if an investment is only found to arise after the successful grant of Patent No.AZ2005, the duration requirement of the investment would still be satisfied even if the assessment of duration commenced on the License Agreement between BioLife and Claimant. Furthermore, the special nature of intellectual property rights means that although patents are intangible, they are not ephemeral. Thus, whilst the usefulness of the Patent may decline over time, the duration of the intellectual property is not extinguished. Even after the issuance of the compulsory license, Claimant is still selling, albeit very limited quantities, of its obesity treatment and products in Bergonia.[95] Following this analysis, the duration of the investment is at least four years long.

c. <u>The exploitation of the Patent involves an element of risk</u>

86. There is a substantial element of risk associated with investing in patents as

> All forms of intellectual property share the unique and constant risk of infringement by third parties not privileged in their use. Intellectual property simply does not have the kind of one-off price guarantees associated with turnkey sales agreement that fall out of the Convention's definition of investment.[96]

[92] *Phoenix*, ¶124.
[93] *Record*, at 20 ¶ 5.
[94] *Record*, at 20 ¶ 6.
[95] *Clarifications*, Q.19.
[96] *Mortenson*, at 8.

In this case, this risk has turned into reality through the Bergonian IP Office's issuance of the compulsory license which constitutes an unlawful expropriation.

d. The exploitation of the Patent constituted to an operation made in order to develop an economic activity in the host State

87. The tribunal in *Phoenix* has found that the criterion which purports to assess the "contribution of an international investment to the development of the host State" is impossible to apply in practice due to the highly diverging views on what constitutes "development".[97] Thus, following *Phoenix*, this criterion is to be interpreted as the "contribution of an international investment to the *economy* of the host State, which is normally inherent in the mere concept of investment as shaped by the elements of contribution/duration/risk."

88. Applying this to the facts, it is clear that Claimant's Patent No.AZ2005 contributes to the development of Bergonia in both a broader sense and also a narrower economic sense.

89. The former argument is evidenced by the fact that the Patent is used to produce certain health related products and specifically a breakthrough treatment of obesity which has been a serious problem among a large population group in Bergonia.[98] The significance and long-standing nature of this problem is evidenced by the fact that 34% of females and 38% of males of the Bergonian population suffer from obesity.[99] Given this, it is clear that the exploitation of the Patent constitutes an operation that significantly benefits the host State by effectively combating one of its key problems. Furthermore, there is no other medical treatment as effectively the one developed under Patent No.A2005.[100]

90. In a narrower economic sense, the exploitation of the Patent also contributes to the economy of the host State as it helps to alleviate a significant health problem facing a large percentage of the population. It is envisaged that the combating of

[97] *Phoenix*, at ¶85.
[98] *Clarifications*, Q.40.
[99] *Clarification*, Q.65.
[100] *Clarifications*, Q.65.

this health problem will enable a greater proportion of the population to contribute to the economy. Similarly, there is also evidence that three out of the six companies who possess the compulsory license of Patent No.AZ2005 are exporting a significant proportion of these products to other countries and thus highlighting the economic benefits of this patent.

e. <u>The exploitation of the Patent is made in accordance with the laws and the regulations of the host State</u>

91. There is nothing in the conduct of Claimant with regard to its exploitation of Patent No.AZ2005 that indicates that it has acted contrary to the laws and regulations of Bergonia. Furthermore, the pertinent line of cases[101] in this area exhibit a marked tendency to interpret this factor broadly. This is highlighted by the tribunal in *Tokios*[102] which stated that

> [T]o exclude an investment on the basis of such minor errors [technical defects in the registration of the investment] would be inconsistent with the objects and purpose of the Treaty.

f. <u>The Claimant invested the IP assets bona fide</u>

92. This factor aims to flush out cases in which a claimant attempts to abusively gain access to ICSID protection. This is not an issue on this factual matrix as Section A establishes that Claimant should be treated as a foreign investor and is therefore entitled to protection over the ICSID Convention.

93. The nature of Claimant's operations in Bergonia possess all six of the criteria for "investment" and thus constitutes a protected investment under Article 25(1) ISCID.

94. However, even in the event that not all of the above elements are conclusively proved, the six factors above are not "jurisdictional requirements but merely typical characteristic of investment under the Convention".[103] Thus,

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[101] *Salini v. Morrocco; Tokios*.
[102] *Tokios*, at ¶86.
[103] *ICSID Commentary*, ¶122.

> [T]he precise legal forms in which these operations are cast are less important than the general economic circumstances under which they are undertaken. [104]

95. Thus even if all six factors cannot be conclusively established, this is not fatal to a finding of the Patent constituting an "investment" under Article 25(1) ICSID.

96. Moreover, ICSID tribunals should always defer to a BIT's definition of "investment" except in cases that would constitute an outrageous abuse of the arbitral forum. The tribunal in *Phoenix* cites transactions such as a dowry or a sale of goods as falling outside the definition of investment.[105] Comparing the exploitation of Patent No.AZ2005 with the above transactions highlights how fundamentally and materially different the Patent is with those which were held not to fall within the definition of investment. Thus Patent No.AZ2005 constitutes an investment.

[104] *ICSID Commentary*, ¶ 120.
[105] *Phoenix,* at ¶82.

PART TWO: MERITS OF THE CLAIM

97. Respondent has breached a number of its obligations under the Bergonia-Conveniencia BIT because **(I)** it unlawfully expropriated Claimant's investment; and **(II)** it violated the Fair and Equitable Treatment standard.

I. RESPONDENT UNLAWFULLY EXPROPRIATED CLAIMANT'S INVESTMENT

98. Article 4(2) of the Bergonia-Conveniencia BIT provides

> [I]nvestments by investors of either Contracting State shall not *directly* or *indirectly* be *expropriated*, nationalized or subjected to *any other measure the effects of which would be tantamount to expropriation* or nationalization (hereinafter referred to as "expropriation") in the territory of the other Contracting State except, in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation [emphasis added].

99. Respondent has unlawfully expropriated Claimant's investment because **(A)** Respondent's actions constitute an expropriation within the meaning of Article 4(2) Bergonia-Conveniencia BIT; **(B)** Respondent failed to comply with the conditions established in Article 4(2) Bergonia-Conveniencia BIT; and, even if Respondent complied with Article 4(2) Bergonia-Conveniencia BIT, **(C)** Respondent failed to comply with Article 31 TRIPS.

A. *Respondent Expropriated Claimant's Investment*

100. When it issued the compulsory license, **(1)** Respondent directly expropriated Claimant's intellectual property. Claimant, however, acknowledges that a compulsory license does not result in a *de jure* transfer of the legal title.[106] If, on this basis, this Tribunal finds that Respondent's grant of a compulsory license does not amount to a direct expropriation, it should nevertheless find **(2)** that Respondent indirectly expropriated Claimant's intellectual property.

[106] *Gibson*, at 18.

1. Respondent directly expropriated Claimant's Intellectual Property

101. Expropriation is "a forcible taking by the Government of tangible or intangible property owned by private persons by means of administrative or legislative actions to that effect."[107]

102. The defining feature and sole purpose of a patent, as a limited property right, is the right to exclude others from making, using, selling, offering for sale or importing the patented invention for the term of the patent.[108] It confers a legal monopoly within the host state that is specific to the invention which is covered by the particular patent.[109] A compulsory license is a seizure of title by the government. By issuing the compulsory license, Respondent deprived Claimant of its patent and the exclusivity rights attached thereto.[110] Respondent has taken the patent and distributes the patent's benefit as it sees fit, and Claimant is denied the right to contract or use its property[111] in any way other than narrowly sanctioned by Respondent.

103. Respondent's taking, thus, qualifies as a direct expropriation.

2. Respondent Indirectly Expropriated Claimant's Intellectual Property

104. Article 4(2) Bergonia-Conveniencia BIT explicitly protects against indirect expropriation. There is no clear cut definition of indirect expropriation.[112] However, recent awards have developed certain standards on the issue. These include the substantive deprivation of an investor, the adverse effect upon the economic benefit and value of the investment, the respondent state's purpose for authorizing the compulsory license, the investor's legitimate expectations, and the duration of expropriatory conduct. A breach of any of these elements can amount to an indirect expropriation.

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[107] *Tecmed*, at ¶113.
[108] *Bernieri*, at 8; *Correa,* at 11; see also Article 28 TRIPS.
[109] *Gibson*, at 25.
[110] *Record*, at 20, ¶8.
[111] *Record*, at 20, ¶7.
[112] *McLachlan*, at ¶ 8.75 *et seq*.

105. Respondent indirectly expropriated Claimant's intellectual property because **(a)** Respondent's grant of a compulsory license substantially deprives Claimant of the use, enjoyment and control of its patent; **(b)** Respondent's grant of a compulsory license has an adverse effect upon the economic benefit and value of Claimant's patent; **(c)** Respondent's alleged purpose for expropriating Claimant's patent does not constitute a legitimate exercise of regulatory powers; **(d)** Respondent's grant of a patent right with regard to Claimant's investment has created reasonable and legitimate expectations on the part of Claimant that were violated by the grant of the compulsory license; and **(e)** Respondent's grant of a compulsory license was not "merely ephemeral" and, therefore, qualified as an expropriation. Under each standard, Respondent indirectly expropriated Claimant's intellectual property.

a. <u>Respondent's grant of a compulsory license substantially deprives Claimant of the use, enjoyment, and control of its patent</u>

106. In establishing whether an indirect expropriation had taken place, the tribunal in *CMS* endorsed the concept of "substantial deprivation."[113] A similar position was taken by the tribunals in *Metalclad*,[114] *CME*,[115] and *Pope & Talbot*.[116] The question was "to establish whether the enjoyment of the property has been effectively neutralized."[117]

107. Claimant's enjoyment of Patent No.AZ2005 has been effectively neutralized. As discussed in paragraph 102, the defining feature and sole purpose of a patent, as a limited property right, is the right to exclude others from making, using, selling, offering for sale or importing the patented invention for the term of the patent.[118] It confers a legal monopoly within the host state that is specific to

[113] *CMS Award,* at ¶262.
[114] *Metalclad I,* at ¶103.
[115] *CME v. Czech Republic,* at ¶688.
[116] *Pope & Talbot*, at ¶102.
[117] *CMS, Award,* at ¶262.
[118] *Bernieri*, at 8; *Correa*, at 11; see also Article 28 TRIPS.

the invention which is covered by the particular patent.[119] By awarding the compulsory license, Respondent currently forces Claimant to grant use of its invention to six different Bergonian entities.[120] Moreover, an unlimited number of companies can apply for it in the future in order to further exploit Claimant's invention and generate profit on Claimant's costs.[121] This deprives Claimant of its legal monopoly and prevents Claimant from excluding others from using its patented invention. Claimant does not have the right to use and enjoy its property as it wishes anymore.

108. Therefore, Respondent's grant of the compulsory license substantially deprives the Claimant of the use, enjoyment, and control of its patent.

b. Respondent's grant of a compulsory license has an adverse effect upon the economic benefit and value of Claimant's patent

109. It is generally recognized that the degree of interference caused by the compulsory license is directly dependent upon the compulsory license's terms.[122] These include the scope and duration of the license, the parties authorized by the government to make use under the license, and any remuneration to be paid to the investor.[123]

110. Respondent initially issued the compulsory license for Patent No. AZ2005 for a period of 48 months.[124] Respondent is authorized, under Bergonian law, to extend this period.[125] This patent term adversely affects Claimant's business in Bergonia and is not required to meet any immediate needs of the Bergonian population.[126]

[119] *Gibson*, at 25.
[120] *Record*, at ¶8.
[121] *Record*, at ¶8.
[122] *Gibson*, at 23.
[123] *Gibson*, at 23.
[124] *Clarification*, Q. 66.
[125] *Clarification*, Q. 66.
[126] *Clarification*, Q. 66.

111. The compulsory license undercuts Claimant's ability to establish the level of return on its investment that it deems appropriate. Due to the compulsory license, Claimant sells only very limited quantities of its obesity treatment in Bergonia.[127] This directly diminishes the value of Claimant's patent-based investment.

112. Respondent has so far authorized six Bergonian companies[128] to invoke the compulsory license and it remains entirely unclear how many other companies will make use of the license in the future. Three of the companies currently authorized to exploit to Claimant's patent have even exported a significant portion of their products to third countries. This impacts Claimant's economic benefit beyond Respondent's borders.[129] Claimant's subsidiaries license production and sale of the patented treatment and products in these other countries; their efforts are undermined by the parallel imports from Bergonia.[130]

113. Further, the royalty rates that have been set by the Bergonian IP Office are inadequate. While the total sales revenue is higher,[131] the royalty rates are lower than the rate which had been in effect under the terms of the License Agreement between Claimant and BioLife[132] and are offered only on a yearly basis.[133] Claimant requires working capital in order to fund its operations and overhead. Payment of royalties on a yearly basis, rather than on a more frequent basis, could force Claimant to borrow capital from alternative sources of financing, requiring the payment of interest and leaving the Claimant in a less secure financial position overall.

114. For all these reasons, the Respondent's grant of the compulsory license has an adverse effect upon the economic benefit and value of Claimant's patent.

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[127] *Clarification*, Q. 19.
[128] *Record*, at ¶8.
[129] *Clarification*, Q. 61.
[130] *Clarification*, Q. 39.
[131] *Clarification*, Q. 19.
[132] *Clarification*, Q. 25.
[133] *Clarification*, Q. 87.

c. Respondent's alleged purpose for expropriating Claimant's patent does not constitute a legitimate exercise of regulatory powers

115. Respondent's alleged purpose for expropriating Claimant's patent does not constitute a legitimate exercise of regulatory power because **(i)** it is irrelevant; and **(ii)** even if it is considered relevant, it cannot justify the expropriation of Claimant's intellectual property.

i. Respondent's alleged purpose for expropriating Claimant's intellectual property is irrelevant

116. Respondent justifies its actions with recourse to public policy, stating that the technology covered by this patent is needed to address important domestic medical needs.[134] However, neither the Bergonia-Conveniencia BIT nor general international law require this Tribunal to take into account the alleged purpose of Respondent's expropriation.

117. Article 4(2) of the Bergonia-Conveniencia BIT specifically refers to indirect expropriation in terms of a "measure the effects of which would be tantamount to expropriation." In interpreting the similarly framed Argentina-Germany BIT, the tribunal in *Siemens* found that "[t]he [t]reaty refers to measures that have the effect of an expropriation; it does not refer to the intent of the State to expropriate."[135]

118. Under the "sole effects"-doctrine, the determining factor whether an indirect expropriation has occurred is solely the effect of Respondent's measure on the investment, while its purpose is irrelevant. Authority for this "sole effects"-doctrine comes from the Iran-US Claims Tribunal in *Tippets*. The tribunal in this case established that "[t]he intent of the government is less important than the effect of the measure on the owner."[136] Likewise, in *Tecmed*, the tribunal found that "[t]he government's intention is less important than the effect of the

[134] *Record*, at 20, ¶7.
[135] *Siemens*, at ¶ 270.
[136] *Saluka*, at ¶ 255.

measures on the owner of the assets."[137] Similarly, the tribunal in *Santa Elena* has noted with regard to expropriatory environmental measures that "no matter how laudable and beneficial to society as a whole – [these measures] are similar to any other expropriatory measure."[138] Reviewing the awards, Professor Schreuer concluded that "[a]n intention to expropriate is not necessary. The purpose or motive, including a purpose that serves the public interest, is not decisive."[139] A taking, even for a public purpose, should not be shouldered by a foreign investor who has no role in the political process of the host State. The costs of taking should be distributed.

119. Accordingly, the alleged purpose Respondent's grant of the compulsory license is immaterial.

ii. Even if the Tribunal considers Respondent's alleged purpose a relevant factor in the analysis, that purpose cannot justify expropriation of Claimant's intellectual property

120. Some tribunals have ruled that regulatory state measures that were taken for a public purpose do not amount to an expropriation.[140] As discussed in paras. 109-114, this approach is inconsistent with the general proposition that the relevant metric for determining whether an expropriation has occurred is the degree of harm suffered by the investor. Nevertheless, if this Tribunal deems Respondent's alleged purpose a relevant factor in the analysis, that purpose still cannot justify the expropriation of Claimant's patent.

121. This Tribunal should not take Respondent's alleged purpose at face-value. This is because it is generally difficult to ascertain the proper purpose behind a government's measure. There may be multiple purposes behind a government's authorization of the compulsory license and the state's real purpose may be

[137] *Tecmed*, at 44.
[138] *Santa Elena*, at ¶ 270.
[139] *Schreuer*, at 158.
[140] *S.D. Myers*, at ¶285; *Methanex*, Final Award, at ¶7; *Saluka*, at ¶255; see also *Correa*, at 12.

intentionally oblique.[141] For instance, a compulsory license that was authorized for public health reasons may also serve a local protectionist purpose.[142]

122. Respondent asserts that it issued the compulsory license in order to address immediate medical needs of its population.[143] However, the weight-related issues faced by the Bergonian population do not constitute a medical emergency. A medical emergency is an injury or illness that is acute and poses an immediate risk to a person's life or long term health. The problem of obesity, however, is a long-standing issue of the Bergonian population.[144] Its medical causes are the genetic make-up and the traditional diet of this population.[145] The Bergonian population has suffered from obesity for generations. It is not a new phenomenon and, as such, it is not acute and does not meet the definition of medical emergency. Contrary to Respondent's allegation[146], there is no evidence that the medical needs became more acute after the License Agreement was terminated.

123. Furthermore, Respondent does not need to observe empirical results as the effects of the patented medication in treating this type of obesity have already been conclusively established by two studies.[147] In any case, the patent term of 48 months exceeds the time period which may be deemed appropriate to address any immediate medical needs.

124. Moreover, the patented medication was freely available for a reasonable price in Bergonia between the termination of the License Agreement with BioLife and issuance of the compulsory license.[148] The treatment cost is ca. US $300 per annum,[149] while the Bergonian GDP per capita was US $7,535.[150] It was, thus,

[141] *Gibson*, at 29.
[142] *Gibson*, at 29.
[143] *Record*, at 20, ¶7.
[144] *Clarification*, Q. 39.
[145] *Clarification*, Q. 39.
[146] *Clarification*, Q. 26.
[147] *Clarification*, Q. 26.
[148] *Clarification*, Q. 114.
[149] *Clarification*, Q. 109.
[150] *Clarification*, Q. 44.

easily obtainable and affordable for the Bergonian population. There was no need for any compulsory license.

125. For all these reasons, Respondent's alleged purpose does not constitute a legitimate exercise of regulatory power.

d. <u>Respondent violated Claimant's reasonable and legitimate expectations by granting the compulsory license</u>

126. The notion of legitimate expectations on the part of the investor has been increasingly employed by tribunals in order to identify an indirect expropriation. Both the *Metalclad*[151] and *Revere*[152] tribunals found that the violation of investors' legitimate expectations by the host state amounted to an expropriation. The following comprehensive definition of "legitimate expectations" was set forth by the tribunal in *Thunderbird*:

> [t]he concept of "legitimate expectations" relates . . . to a situation where a Contracting Party's conduct creates reasonable and justifiable expectations on the part of an investor (or investment) to act in reliance on said conduct, such that a failure . . . to honour those expectations could cause the investor (or investment) to suffer damages.[153]

127. The Respondent's grant of Patent No. AZ2005 to Claimant qualifies as a cognizable conduct, which created reasonable and justifiable expectations on the part of Claimant.

128. A patent is a specific legal property right that the government grants to the inventor in exchange for the inventor's agreement to share the details of the invention with the public.[154] It is only approved and authorized by the state after the inventor applies through the specific procedures established by the state.

129. Respondent's grant qualifies as cognizable conduct. It was legitimate and reasonable for Claimant to rely on Respondent's grant of Patent No.AZ2005

[151] *Metalclad II*, at ¶107.*Revere*, at 271.
[152] *Revere*, at 271.
[153] *Thunderbird*, at ¶147.
[154] TRIPS Agreement, Articles 28, 29.

throughout the length of the patent's terms. For countries that are members of the WTO, this term is 20 years from the filing date of the patent.[155] Unlike other areas of law, the scope of a patent is not subject to cavalier regulatory changes on the part of the granting state. While it may be unreasonable to expect that tax regulations never change, a state's grant of a patent establishes legitimate expectations on the part of the patent grantee.[156] Once a patent is granted, the host state's powers are limited as it enjoys protection under international investment law and WTO law.[157] Claimant, as a foreign investor, is then able to bring claims under the applicable treaty instruments. This serves to fortify Claimant's reliance.[158] Claimant's reliance is further fortified by the well-established practice in the vast majority of countries that are granting compulsory licenses only in exceptional circumstances.[159]

130. Claimant's legitimate expectations are substantiated despite the fact that Bergonia's IP Law explicitly provides for the authorization of compulsory licenses.[160] Other companies in Bergonia that operate in the same business sector as Claimant have not encountered any measures similar to the ones conducted in relation to Claimant's patent.[161] Hence, Claimant was reasonably entitled to rely on Respondent's consistent past practice.

131. Respondent, thus, violated Claimant's legitimate expectations by granting the compulsory license.

e. <u>The duration of Respondent's grant of compulsory license was not "merely ephemeral" and, therefore, qualifies as an expropriation</u>

132. Another criterion that is assessed by tribunals when evaluating whether an expropriation has occurred is the duration of the government's measure. A

[155] *Gibson*, at 26.
[156] *Gibson*, at 26.
[157] *Seelig*, at 9.
[158] *Gibson*, at 27.
[159] *Gibson*, at 26.
[160] *Clarification*, Q. 104.
[161] *Clarification*, Q. 84.

measure is deemed not to amount to an expropriation if the deprivation is "merely ephemeral".[162]

133. In *S.D. Myers*, the tribunal held that "it might be appropriate to view a deprivation as amounting to an expropriation, even if it was partial or temporary."[163] Likewise, the tribunal in *Wena Hotels* ruled that the seizure of an investor's property for less than a year was not "ephemeral" but amounted to an expropriation.[164] It had "no doubt . . . that the deprivation of . . . fundamental rights of ownership was so profound that the expropriation was indeed a total and permanent one."[165]

134. Respondent authorized a compulsory license for Claimant's patent for 48 months.[166] This by far exceeds the span of less than one year used by the tribunal in *Wena Hotels*. In addition, this time period may be extended at Respondent's discretion. Further, as established in paras. 106-108, Respondent's issuance of the compulsory license substantially deprives Claimant of the use, enjoyment, and control of its patent and, therefore, deprives Claimant of the fundamental rights of ownership.

135. For these reasons, Claimant's expropriation is total and permanent and not "merely ephemeral."

3. *Claimant's invocation of the MFN provision of the Bergonia-Conveniencia BIT, in order to gain access to international arbitration, does not entail the application of Article III.4 of the Bergonia-Tertia BIT.*

136. Article III(4) of the Bergonia-Tertia BIT expressly excludes compulsory licenses from classification as expropriation. Respondent argues the invocation of the Bergonia-Tertia BIT's Article VI(8) via the Bergonia-Conveniencia BIT's MFN provision, described above, would require Claimant to accept the terms of

[162] *Tippetts*, at 225.
[163] *S.D. Myers*, at ¶283.
[164] *Wena Hotels*, Award, at ¶99.
[165] *Wena Hotels*, Decision on Interpretation, at ¶120.
[166] *Clarification*, Q. 24.

Article III(4) of the Bergonia-Tertia BIT. These terms are less favorable than the Bergonia-Conveniencia BIT, which does not exclude compulsory licenses as expropriations.

137. For the reasons explained above,[167] Respondent must fail in its attempt to import *less favorable* provisions of a third-party treaty as a condition for the importation of *more favorable* provisions through a *most-favoured-nation* clause. Specifically, the text of the relevant BITs,[168] the International Law Commission[169] and arbitral precedent[170] do not support Respondent's position.

138. In this instance, the two clauses bear no evident relation to one another. Article VI(8) covers jurisdiction *ratione personae*, and Article III(4) covers expropriation. They are conceptually distinct, make no textual reference to each other and appear in separate treaty provisions. Because it would make no sense to condition MFN treatment in one respect on submission to less favorable treatment in another, completely unrelated respect, Respondent's MFN claim must fail.

139. Consequently, the Bergonia-Conveniencia BIT does not prevent compulsory licenses from being treated as expropriation.

B. Respondent's Expropriation of Claimant's Intellectual Property does not meet the Criteria for the Exception Established in Articles 4(2) and 4(3) of the Bergonia-Conveniencia BIT

140. Article 4(2) Bergonia-Conveniencia BIT provides an exception to the general prohibition of expropriation if the expropriation is

> *in accordance with the applicable laws of the latter Contracting State for the public benefit, on a non-discriminatory basis and against prompt, adequate and effective compensation* [emphasis added].

141. Article 4(3) Bergonia-Conveniencia BIT adds the requirement that

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[167] *See* ¶¶ 44-61, *supra*.
[168] Bergonia-Conveniencia BIT, Article 3.
[169] ILC MFN Report at 52, cited in *Siemens* at ¶ 65.
[170] *Siemens,* at ¶ 120.

> 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 legal system [emphasis added].

142. Respondent's expropriation of Claimant's Patent No.AZ2005 does not meet the conditions of Articles 4(2) and 4(3) of the Bergonia-Conveniencia BIT because **(1)** it did not comply with Bergonian laws; **(2)** it was not conducted for the public benefit; **(3)** it was not accompanied by prompt, adequate and effective compensation; and **(4)** it did not comply with due process of law.

1. Respondent's Expropriation of Claimant's Intellectual Property did not comply with Bergonian Laws

143. Bergonian law specifies the conditions that justify the issuance of compulsory licenses. The wording of this law approximates the text of Article 31 TRIPS.[171] For this reason, and because the record does not provide the precise text of Bergonia's law, Respondent's compliance with Bergonian law will be analyzed against the requirements contained in Article 31 TRIPS

144. In relevant part, Article 31 TRIPS stipulates:

> Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:
> . . .
> (b) such use may only be permitted if, prior to such use, the *proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time*. This requirement may be waived by a Member in the case of a *national emergency or other circumstances of extreme urgency* or in cases *of public non-commercial use*. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable . . .
> (c) the scope *and duration of such use shall be limited to the purpose for which it was authorized*, and in the case of semi-conductor technology shall only be for public non-commercial use

[171] *Clarifications*, Q. 21.

> or to remedy a practice determined after judicial or administrative process to be anti-competitive;
> . . .
> (f) any such use shall be authorized *predominantly for the supply of the domestic market of the Member authorizing such use*;
> . . . [emphasis added].

145. Respondent's expropriation of Claimant's intellectual property failed to comply with Bergonian law, because **(a)** proposed users have made no efforts to obtain authorization from Claimant on reasonable commercial terms and conditions; **(b)** there was no state of national emergency in Bergonia; **(c)** the companies invoke the compulsory license for commercial purposes; and **(d)** the compulsory license was not authorized predominately for the supply of the domestic market. A breach of any of these provisions violates Bergonian domestic law.

a. <u>Proposed users have made no efforts to obtain authorization from Claimant on reasonable commercial terms and conditions,</u>

146. Article 31(b) TRIPS stipulates that the proposed licensees must first attempt to obtain authorization from the license holder on reasonable commercial terms before they may apply for a compulsory license. A compulsory license shall, therefore, not be granted if the prospective licensee has not sought a voluntary license on reasonable commercial terms within a reasonable period of time first.

147. While BioLife complains that Claimant ended the negotiations regarding the extension of the License Agreements after only three days,[172] it is a sound business practice to refuse to engage in commercial deals, particularly when the party seeking to negotiate has already breached the former License Agreement.[173]

148. Aside from BioLife, none of the other five companies that invoked the compulsory license attempted to obtain authorization from Claimant at any time.[174]

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[172] *Record*, at 20, ¶6.
[173] *Pires de Carvalho*, ¶31.8.
[174] *Clarifications*, Q. 28.

149. Thus, the proposed users have made no efforts to obtain authorization from Claimant on reasonable commercial terms and conditions. This conduct amounts to a violation of Bergonian law that is framed similar to Article 31(B) TRIPS.

b. <u>There were no circumstances of extreme urgency and Bergonian licensees invoke the compulsory license for commercial purposes</u>

150. The only exceptions to the requirement to seek prior authorization of the patent holder are set forth in Article 31(b) TRIPS, namely: circumstances of extreme urgency, and public non-commercial use.

151. First, this Tribunal has the power to decide whether there was a state of national emergency in Bergonia in accordance Article 31(b) TRIPS. The wording of Article 31(b) TRIPS clearly refers to such circumstances. This clear and unambiguous wording cannot be waived by paragraph 5(c) of the Doha Declaration on TRIPS and Public Health, which provides that each member has the right to determine what constitutes a national emergency.[175] The WTO Members' freedom to determine when a national emergency occurs is limited by the Agreement itself.[176]

152. It can be derived from the wording of Article 31(b) TRIPS ("national emergency *or* other circumstances of extreme urgency or" emphasis added) that the case of "national emergency" is only an example of "circumstances of extreme urgency."[177] Accordingly, there cannot be a national emergency where there is no extreme urgency. It has to be noted that the urgency must be "extreme" and, therefore, has to be distinguished from a "normal" urgency.[178] Only extreme time constraints permit governments to bypass the market.[179] The urgency is

[175] *Pires de Carvalho*, ¶31.19.
[176] *Pires de Carvalho*, ¶31.19.
[177] *Pires de Carvalho*, ¶31.13.
[178] *Pires de Carvalho*, ¶31.14.
[179] *Pires de Carvalho*, ¶31.14.

"extreme" when spending time with negotiations would impair the desired outcome of the compulsory license.[180]

153. As discussed in paras. 120-125, obesity is a long-standing issue in the Bergonian population.[181] It is related to the genetic make-up of the Bergonian population and its traditional diet.[182] Accordingly, the Bergonian population has suffered from obesity for generations. Spending comparably little time with negotiations, thus, would not have negatively impaired the outcome of the compulsory license.

154. For these reasons, there was no case of extreme urgency and, hence, no state of national emergency in Bergonia.

155. Furthermore, it is undisputed that the six Bergonian companies have invoked the compulsory license for commercial purposes.[183] Hence, the exception for public non-commercial use does not apply to Respondent's issuance of a compulsory license.

c. The duration of the compulsory license exceeds the purpose for which it was authorized

156. Respondent authorized the compulsory license for 48 months.[184] This patent term exceeds the time period which may be deemed appropriate to address any immediate medical needs.[185] As discussed in para. 123, Respondent does not need to observe empirical results as the effects of the patented medication in treating this type of obesity have already been conclusively established by two studies.[186]

157. Hence, the duration of the compulsory license exceeds the purpose for which it was authorized and violates Bergonian law that is reasonably close to Article 31(c) TRIPS.

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[180] *Pires de Carvalho*, ¶31.14.
[181] *Clarifications*, Q. 39.
[182] *Clarifications*, Q. 39.
[183] *Clarifications*, Q. 36.
[184] *Clarifications*, Q. 66.
[185] *Clarifications*, Q. 66.
[186] *Clarifications*, Q. 26.

d. <u>Respondent did not issue the compulsory license predominantly for the supply of the domestic market</u>

158. Article 31(f) TRIPS stipulates that the compulsory license may only be authorized predominantly for the supply of the domestic market. Further, Article 31(b) TRIPS sets out that the scope of the compulsory license must be limited to the purpose for which it was granted. Accordingly, the quantities to be produced under the compulsory license must be in relation to the level of domestic demand.[187] Only unintended surpluses may be exported.[188]

159. The fact that the companies are exporting the patented medication to third countries that are part of a customs union with Respondent[189] is irrelevant. The concept of "domestic market" cannot be extended to mean the combined markets of the members of a customs union.[190] The statement of the African Group in the WTO to that effect[191] is misguided. It is clear from its wording that Article 31(f) TRIPS does not deal with tariffs, but with the exploitation of patents. Hence, the concept of "domestic market" must have a link to the territory in which the patent was granted, has legal validity and may be enforced before national courts.[192] Accordingly, "domestic market" can only mean the market of the country which has issued the patent in the first place.

160. Furthermore, the submission of the African Group in the context of paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health that "predominantly" "should be interpreted to mean that up to 49.9 percent of the production can be exported"[193] makes little sense in this context. It is unreasonable to suggest that 50.1 percent always constitutes a predominant portion of the production.[194] Rather, the interpretation of "predominant" should

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[187] *Pires de Carvalho*, ¶31.31.
[188] *Pires de Carvalho*, ¶31.31.
[189] *Clarifications*, Q. 39.
[190] *Pires de Carvalho*, ¶31.32.
[191] *Joint Communication from the African Group*.
[192] *Pires de Carvalho*, ¶31.32.
[193] *Joint Communication from the African Group*.
[194] *Pires de Carvalho*, ¶31.32.

be informed by the intention of the licensee in the sense that only unexpected and unavoidable surpluses do not fall under the scope of Article 31(f) TRIPS.[195]

161. In the case at hand, three out of the six companies that have invoked the compulsory license have exported significant amounts of their production to third countries.[196] In order to do so, they must have significantly increased the production of the patented medication above the levels of domestic demand. This violates both Articles 31(b) and 31(f) TRIPS.

162. Moreover, although there is at least one developing country among the countries of export destination[197], all those countries have pharmaceutical manufacturing capacity of their own.[198] In any case, no notification pursuant to paragraph 6 of the Doha Declaration has been made to the TRIPS Council.[199] Hence, the exception that authorizes exports under compulsory licenses without regard to the constraints of Article 31(f) TRIPS does not apply here.

163. For these reasons, Respondent did not issue the compulsory license predominately for the domestic market in violation of Bergonian law similar to Article 31(f) TRIPS.

2. Respondent's Expropriation of Claimant's Intellectual Property was not conducted for the public benefit

164. Respondent's expropriation of Claimant's investment does not fall within the exception provided by Article 4(2) Bergonia-Conveniencia BIT because the expropriation of Claimant's property was not conducted for the public benefit.

165. As more fully discussed in para. 115 *et sec.*, Respondent's expropriation of Claimant's patent was not conducted for the public benefit because the problem of obesity is a long-standing issue of the Bergonian population and, as such, does

[195] *Pires de Carvalho*, ¶31.32.
[196] *Clarifications*, Q.61.
[197] *Clarifications*, Q.62.
[198] *Clarifications*, Q.70.
[199] *Clarifications*, Q.20.

not constitute a medical emergency. Medication was freely available for a reasonable price.

3. Respondent's Expropriation of Claimant's Intellectual Property was not accompanied by prompt, adequate and effective compensation

166. Respondent's expropriation of Claimant's investment does not fall within the exception provided by Article 4(2) Bergonia-Conveniencia BIT as the expropriation of Claimant's patent was not accompanied by prompt, adequate, and effective compensation.

167. The requirement of "prompt, adequate and effective" compensation is contained not only in Article 4(2) Bergonia-Conveniencia BIT but it is also endorsed by scholars[200] and arbitral tribunals. This requirement is also contained in the World Bank Guidelines, which summarize the usual practice with regards to compensation awards. Guideline IV(2) states that

> [C]ompensation for a specific investment taken by the State will . . . be deemed "appropriate" if it is adequate, effective and prompt.[201]

168. In the present case, these three requirements were not met as the compensation offered by Respondent was neither prompt, nor adequate, nor effective.

169. Prompt means that "interests shall accrue from the date of the expropriation and shall be included in any agreement, or any arbitral award, concerning the amount of compensation."[202] In the present case, not only would Claimant receive the royalty fee on a yearly basis[203] – which already implies a delay in the context of prompt payment – but also Respondent has not in any way taken into account the interest that would accrue from a deferred payment of the royalty fees.

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[200] *Dolzer*, at 90.
[201] *World Bank Guidelines*, Guideline IV.
[202] *Lowenfeld*, at 565.
[203] *Clarifications*, Q.87.

170. Adequate is defined as compensation "based on the fair market value of the taken asset."[204] The World Bank Guidelines have, in turn, defined fair market value as

> [a]n amount that a willing buyer would normally pay to a willing seller after taking into account the nature of the investment, the circumstances in which it would operate in the future and its specific characteristics, including the period in which it has been in existence, the proportion of tangible assets in the total investment and other relevant factors pertinent to the specific circumstances of each case."[205]

171. In the present case, the compensation offered by Respondent to Claimant by means of the royalty fee was inadequate as it did not even equal the amount contained in the License Agreement. Therefore, by the issuing the compulsory license Claimant was put in a worse situation than it was before.

172. Hence, Respondent violated Article 4(2) Bergonia-Conveniencia BIT by not providing prompt, adequate and effective compensation.

4. Respondent's Expropriation of Claimant's Intellectual Property did not comply with due process of law

173. Article 4(3) Bergonia-Conveniencia BIT provides:

> 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 legal system.

174. Due process may be breached in a variety of ways - failure to provide notice or a fair hearing, non-compliance with local law, or failure to provide a means of legal redress.[206]

175. The manner in which Claimant was treated by the Bergonian IP Office with respect to its objections to the compulsory license violates two requirements of due process – fair hearing and a means of legal redress.

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[204] World Bank Guidelines, Guideline IV(3). See also *Lowenfeld*, at 564; *White & Szczepanik*, at 9.
[205] World Bank Guidelines, Guideline IV(5).
[206] *Schwarzenberger*, at 206; see also *ADC*, ¶435.

176. First, Claimant did not receive a fair hearing by an unbiased and impartial adjudicator by the Patent Review Board. Claimant communicated its objections to the Bergonian IP Office on numerous occasions.[207] Following the IP Office's administrative decision, Claimant appealed the decision to a Patent Review Board.[208] The Patent Review Board is a quasi-judicial body, which draws upon existing Bergonian judges to sit in intellectual property cases and are paid by the Bergonian IP Office.[209] In light of this close financial connection between the judges and the IP Office, it cannot be said that Claimant's appeal was heard by an unbiased and impartial adjudicator.

177. Second, despite Claimant's objections, there has never been an independent review of the IP Office's decision to authorize the compulsory license.[210] Thus, Claimant was not provided with a means of legal redress.

178. For these reasons, Respondent's expropriation of Claimant's patent did not comply with due process of law. (The lack of due process also amounts to a denial of justice which in turn constitutes a breach of the "fair and equitable treatment" requirement.)

C. Respondent's Expropriation of Claimant's Intellectual Property does not meet the Conditions Established in Article 31 TRIPS

179. Even if this Tribunal finds that Respondent's expropriation of Claimant's patent complies with Article 4 of the Bergonia-Conveniencia BIT, this will not render the expropriation of Claimant's intellectual property legal, as Respondent failed to meet the conditions established in Article 31 TRIPS.

1. Article 31 TRIPS is applicable law in this dispute

[207] *Record*, ¶9.
[208] *Clarifications*, Q. 29.
[209] *Clarifications*, Q. 29.
[210] *Record*, ¶9.

180. This Tribunal is required to make a substantive determination with reference to WTO laws because both the Bergonia-Conveniencia BIT and the ICSID Convention require its application.

181. Articles 8(1) and 8(2) Bergonia-Conveniencia BIT set out the applicable law for an investment dispute under the BIT by stating:

> (1) If the legislation of either Contracting State or *obligations under international law* existing at present or established hereafter between the Contracting States in addition to this Treaty contain a regulation, whether general or specific, *entitling investments by investors of the other Contracting State to a treatment more favourable than is provided for by this Treaty*, such regulation shall to the extent that it is more favourable prevail over this Treaty.
>
> (2) Each Contracting State shall observe *any other obligation* it has assumed with regard to investments in its territory by investors of the other Contracting State [emphasis added].

182. Both Bergonia and Conveniencia are members of the WTO and, therefore, also parties to TRIPS.[211] Article 31 TRIPS is an "obligation under international law" within the meaning of Article 8(1) Bergonia-Conveniencia BIT and an "other obligation" in the sense of Article 8(2) Bergonia-Conveniencia BIT.

183. Similarly, Article 42 ICSID requires this Tribunal to apply "such rules of international law as may be applicable." Article 31 TRIPS constitutes such a rule of international law that is applicable between Bergonia and Conveniencia, both being parties to TRIPS.[212]

184. Moreover, numerous recent BITs explicitly exclude TRIPS-compliant compulsory licenses from provisions on expropriation.[213] Those BITs would not make such a provision unless TRIPS-incompatible licenses are presumptively subject to expropriation rules.

[211] *Record*, at 20, ¶1.
[212] *Record*, at 20, ¶1.
[213] Article 6(5) U.S.-Uruguay BIT: "This Article does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement."

185. Accordingly, Article 31 TRIPS is applicable in this investment dispute. Although Article 31 TRIPS is WTO law, this Tribunal is not the wrong forum to address the question whether Respondent's issuance of the compulsory license meets the conditions established in Article 31 TRIPS.

2. Respondent's expropriation of Claimant's patent does not meet the conditions established in Article 31 TRIPS

186. The wording of the Bergonian domestic law is reasonable close to Article 31 TRIPS.[214] As discussed more fully in para. 146 *et sec*, Respondent violated Article 31 TRIPS because the expropriation did not comply with Bergonian domestic laws, it was not conducted for the public benefit, it was not accompanied by prompt, adequate and effective compensation, and it did not comply with due process of law.

II. RESPONDENT HAS BREACHED ITS OBLIGATION TO PROVIDE FAIR AND EQUITABLE TREATMENT TO CLAIMANT'S INVESTMENT

187. Like most BITs, the Bergonia-Conveniencia BIT entitles investors of each party to "fair and equitable treatment" ("FET").[215]

188. Tribunals have identified four distinct inquiries relevant to determining whether a host state's conduct has violated this standard: (1) whether the conduct was "arbitrary, grossly unfair, unjust or idiosyncratic;"[216] (2) whether the conduct involve[d] a lack of due process leading to an outcome which offends judicial propriety;"[217] (3) whether the conduct has "substantially changed the legal and business framework under which the investment was decided and implemented;"[218] and (4) whether the conduct was "in breach of representations made by the host state which were reasonably relied on by the claimant."[219] To evaluate the reasonableness of a claimant's reliance, tribunals have used the

[214] *Clarification*, Q.21.
[215] Bergonia-Conveniencia BIT, Art. 2(2).
[216] *BG Group*, ¶ 292 (quoting *Waste Management II*, ¶ 98).
[217] *Id*.
[218] *Sempra*, ¶ 303; *Enron*, ¶ 264.
[219] *BG Group*, ¶ 297 (quoting *Waste Management II*) (quoting *LG&E*).

following standard: "[F]air expectations have the following characteristics: they are based on the conditions offered by the host state at the time of the investment; they may not be established unilaterally by one of the parties; they must exist and be enforceable by law."[220]

189. When conducting these inquiries, tribunals do not consider good faith on the part of the host state to preclude a finding of FET violation.[221] Tribunals also ignore the merits of the host state's intentions with respect to the conduct at issue.[222] A clear illustration of this objective approach is the series of awards finding Argentina had breached the FET standard by taking measures to resolve its economic crisis in the late 1990s.[223]

190. Under each distinct inquiry noted above, Bergonia has denied MedBerg FET. **(A)** Respondent's issuance of a compulsory license for MedBerg's patent was "arbitrary, grossly unfair, unjust [and] idiosyncratic;" **(B)** the compulsory license has "substantially changed the legal and business framework under which the investment was decided and implemented;" **(C)** the compulsory license was a breach of Respondent's implicit representations of investment security; and **(D)** the Patent Office's Appeal Board's review of Claimant's objections to the compulsory license constituted a lack of due process.

A. Bergonia's issuance of a compulsory license for MedBerg's Patent was "arbitrary, grossly unfair, unjust [and] idiosyncratic."

191. *First*, the issuance of the compulsory license for Patent No. AZ2005 was *arbitrary* because Bergonia's IP office failed to take similar action against manufacturers of other obesity pharmaceuticals, despite the fact that MedBerg's products had not been proven effective against obesity[224] and despite the fact that

[220] *BG Group* , ¶ 292 (quoting *Waste Management II*, ¶ 98).
[221] *See, e.g.*, *BG Group*, at ¶ 303; *Azurix Corp v United States*, at ¶ 372; *Tecmed*, at ¶ 153; *Mondev*, at ¶ 116.
[222] *Sempra*, ¶ 304.
[223] *BC Group*; *Sempra*; *LG & E*; *Enron*; *Siemens*; *CMS Gas*.
[224] *Clarifications*, Q. 68, 101.

MedBerg's obesity problem had been "significant and long-standing" even before MedBerg had acquired Patent No.AZ2005.[225]

192. *Second*, the compulsory license was *idiosyncratic*, because the Respondent could have taken a number of other measures to combat obesity or test MedBerg's product. For example, Respondent itself could have conducted experiments with the product, rather than allowing commercial exploitation of the patent by local companies. Or, Respondent could have enacted its proposal to levy a tax on unhealthy food.[226]

193. Moreover, even had Respondent legitimately deemed commercial exploitation necessary for domestic public health, consumption of the product in other countries does not relate to domestic public health. The license, however, does not expressly prohibit sale of the products to third countries,[227] and indeed the license-holders have been exporting the product to other countries.[228]

194. *Third*, the compulsory license is *unjust* and *grossly unfair*, because MedBerg's royalty rate is lower under the compulsory license than it had been under MedBerg's initial agreement with BioLife.[229] Bergonia has not explained how MedBerg's lower rate is necessary for effective distribution of the licensed products.

195. For all these reasons, Bergonia has engaged in "arbitrary, grossly unfair, unjust [and] idiosyncratic" behavior and, consequently, has violated the FET standard of treatment the Bergonia-Conveniencia BIT requires.

B. Issuance of the compulsory license has "substantially changed the legal and business framework under which the investment was decided and implemented."

196. The legal and business environment in which MedBerg applied for its patent and negotiated its license with BioLife was secure and stable: no compulsory license

[225] *Clarifications*, Q.40.
[226] *Clarifications*, Q.85.
[227] *Clarifications*, Q.30.
[228] *Record*, at 20, ¶ 8.
[229] *Clarifications*, Q.88.

had been issued for a patent in MedBerg's sector,[230] the government appeared committed to resolving the country's obesity problem through taxes and public awareness campaigns,[231] MedBerg received a patent providing exclusive use and control of its intellectual property for twenty years,[232] and the license MedBerg negotiated with BioLife provided for royalty payments in Conveniencian currency.

197. The situation is currently much different. The Patent Office has forced MedBerg to license its patent to an unspecified but apparently unlimited number of companies, the compulsory licenses provide for royalty payment in local currency, the royalty payment rate is lower than under the original license with BioLife, the compulsory license lasts for at least four years, and the compulsory license has allowed MedBerg's products to be sold in non-domestic markets. and

C. The Patent Office's Appeal Board's review of Claimant's objections to the compulsory license constituted a lack of due process.

198. MedBerg's objections to the compulsory license were reviewed by a judicial body that was part of the same institution that instituted the compulsory license. Such an arrangement is a conflict of interest, and MedBerg is entitled to review by an independent judicial body.

D. The compulsory license was a breach of implicit representations made by Bergonia that were reasonably relied upon by MedBerg.

199. By its very nature, a patent entitles the holder to protection for a certain duration. In this case, by virtue of Bergonia's membership in the WTO, that duration was twenty years. MedBerg was further entitled to expect protection because Bergonia had not issued compulsory licenses for any other company in MedBerg's sector, and it had planned less extreme action to address its obesity problem.

[230] *Clarifications*, Q.84.
[231] *Clarifications*, Q.85.
[232] *Clarifications*, Q.58;

For all of the foregoing reasons, Claimant has violated the FET standard of the Bergonia-Conveniencia BIT.

PART THREE: RELIEF SOUGHT

I. CLAIMANT IS ENTITLED TO THE RESTITUTION OF PATENT NO. AZ2005 AND COMPENSATORY DAMAGES

200. As a consequence of Respondent's violations of the Bergonia/Conveniencia BIT, Claimant seeks in terms of reparation the restitution of Patent No. AZ2005 and the compensatory damages derived from Respondent's unlawful conduct.

201. In this regard, the PCIJ in *Chorzow Factory* stated that

> [r]eparation must, as far as possible, wipe out all the consequences of the illegal act and reestablish the situation which would, in all probability, have existed if that act had not been committed.[233]

202. By means of the present arbitration, Claimant seeks, first, the restitution of Patent No. AZ2005, *i.e.* Claimant asks this Tribunal to declare unlawful the compulsory license issued by Respondent and to order Bergonia to revoke the compulsory license and, second, compensation for the loss of the use of the property during the period of time in which Claimant has been unlawfully deprived from the property of Patent No.AZ2005.

203. Under the ICSID Convention, the power of arbitrators extends also to ordering specific performance and injunctions and this is supported by the Convention's drafting history.[234] Prof. Schreuer has stated that

> [T]he Convention's drafting history indicates that an ICSID tribunal has the power not only to award monetary damages but also to order a party to perform a specific act or to desist from a particular course of action.[235]

204. Similarly, the tribunal in the *Enron* dispute concluded that

[233] *Chorzow Factory*, at ¶ 497-8
[234] *Schreuer*, at ¶ 325
[235] *Schreuer*, at ¶ 326. See also *White and Szczepanik*, at footnote 79.

> [I]n addition to declaratory powers, it [the tribunal] has the power to order measures involving performance or injunction of certain acts.[236]

205. Therefore, as this Tribunal has the power to order specific performance in addition to any pecuniary remedy, Claimant respectfully request this Tribunal to order Bergonia to revoke the compulsory license and to grant Claimant the compulsory damages that may be duly calculated in a separate second stage concerning remedies if the Arbitral Tribunal confirms its jurisdiction and finds the Respondent to be liable.

206. In addition, Claimant asks this Tribunal to rule that Respondent shall pay compensation in the form of lost sales or lost profits for the period of time when its patent should have been enforced but was not. These could be measures by the sales of the infringing competitor or the loss of projected sales by the inventor during the period when it otherwise would have enjoyed exclusivity.[237]

207. In light of the submission made above. Claimant respectfully requests this Tribunal to find that:

(i) this Tribunal has jurisdiction over this dispute;

(ii) Respondent violated its obligations under Articles 2 and 4 of the Bergonia-Conveniencia BIT; and

(iii) this arbitration should proceed forthwith to the Quantification of Damages Phase.

-------/s/---------

Team El-Erian

On behalf of Claimant

MEDBERG CO.

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[236] *Enron*, at ¶81. See also *Texaco* (after a review of judicial practice and of scholarly authorities the tribunal held that the primary remedy would be the *restitutio in integrum*).
[237] *White and Szczepanik*, at 11.