JESSUP

BEFORE THE FRANKFURT INTERNATIONAL ARBITRATION CENTRE

(ICSID Case No. ARB/X/X)

MEDBERG CO.

Claimant

v.

THE GOVERNMENT OF THE REPUBLIC OF BERGONIA

Respondent

FOREIGN DIRECT INVESTMENT INTERNATIONAL MOOT COMPETITION (FDI MOOT)

2009

Frankfurt, Germany

Memorial for the Claimant

TABLE OF CONTENTS

3.1 Whether the compulsory license issued for patent AZ2005 by Bergonian Intellectual property Office violated the provisions of TRIPS provisions?

3.1.1 That whether export of product by the companies to other countries violated Art 31(f)?

3.1.2 That whether granting of non-adequate remuneration by the companies violated Art 31(h)?

3.2 Whether the compulsory licensing by respondent amounts to expropriation under principles of international law?

3.3 Whether there has been discrimination against claimant by Bergonian Intellectual Property Office?

3.3.1 That whether there is right of Claimant to independent review before the Competent Authority as per Art 31(i) TRIPS?

3.3.2 That whether claimant has been given less favorable treatment as investor in Bergonia for the purposes of Bilateral Treaty between Bergonia and Conveniencia?

5. Conclusion

List of Authorities

- Barcelona Traction, Light and Power Co. Ltd. (Belgium v. Spain), 1970 I.C.J. 3.
- Smith, Stone and Knight v Birmingham Corporation [1939] All ER 116.
- Salomon v Salomon & Co. [1897] AC 22
- DHN Food Distributors Limited v Tower Hamlet London Borough Council [1976] 3 All ER 462.
- Liberian Eastern Timber Corporation v. Republic of Liberia (Case No. ARB/83/2)
- CSOB v Slovak Republic, Decision on Jurisdiction, 24 May 1999, 14 ICSID Rev-FILJ (1999).
- Salini Costruttori v Morocco, Decision on Jurisdiction, 23 July 2003, 42 ILM 609 (2003), paras 44, 52.
- CMS Gas Transmission **Company v** Argentina*,* Decision on Objections to Jurisdiction, ICSID Case No ARB/01/8; IIC 64 (2003), 17 July 2003.
- Fedax N.V. v. Republic of Venezuela, Decision on Jurisdiction, Case No. ARB/96/3 (July 11, 1997), 37 I.L.M. 1378 (1998), at para. 22.
- Salini Costruttori v Morocco, Decision on Jurisdiction, 23 July 2003, 42 ILM 609 (2003).
- Malaysian Historical Salvors v Malaysia, Award on Jurisdiction, 17 May 2007.
- Tradex v Albania, Award, 29 April 1999, 5 ICSID Reports 70, at paras 105, 108–111.
- Olguín v Paraguay, Award, 26 July 2001, 6 ICSID Reports 164, at para 66, FN 9.
- Tokios Tokelės v Ukraine, Decision on Jurisdiction, 29 April 2004, 11 ICSID Reports 313, at para 80.
- Autopista v Venezuela, Decision on Jurisdiction, 27 September 2001, 16 ICSID Review —FILJ (2001) 469, paras 94–101.
- Bayindir v Pakistan , Decision on Jurisdiction, 14 November 2005, para 131;
- Saipem v Bangladesh, Decision on Jurisdiction, 21 March 2007, para 100.
- *LESI/Dipenta v Algeria* , Award, 10 January 2005, 19 ICSID Review—FILJ (2004) 426, para 52;
- Bayindir v Pakistan, Decision on Jurisdiction, 14 November 2005, para 133.
- Jan de Nul/Dredging International v Egypt, Decision on Jurisdiction, 16 June 2006, paras 93–96.

- Compañia del Desarrollo de Santa Elena S.A. v. Republic of Costa Rica**,** ICSID Case No. ARB/96/1, (2000), 5 ICSID Rep. 153, para. 77.
- Waste Management, Inc. v. United Mexican States, ICSID Case No. ARB (AF)/00/3, (2004), 43 *ILM* 967 (2004), para. 145.
- Methanex Corporation v. United States of America, Final Award of the Tribunal on Jurisdiction and Merits, 3 August 2005 (UNCITRAL).
- the Neer claim (US v. Mexico*)* (1926), *Reports of International Arbitral Awards*, vol. 4, pp. 60–6, esp. at pp. 61–2.
- the Roberts claim (US v. Morocco) (1926), ibid., pp. 77–81, esp. at p. 80;
- the Chevreau case (France v. Great Britain) (1931), American Journal of International Law, 27 (1933), p. 153–82, esp. at p. 160.
- Anglo-Norwegian Fisheries case, ICJ Reports, 1951, p. 116, at p. 131.
- Fisheries Jurisdiction case (UK v. Iceland) (Merits), ICJ Reports, 1974, p. 3, at pp. 91–2;
- North Sea Continental Shelf cases, ICJ Reports, 1969, p. 3, at pp. 26–7;

List of Legal Sources

Books, Journals and Articles

- C.F. Amerasinghe, "The Jurisdiction of the International Centre for the Settlement of Investment Disputes," 19 Indian J. Int'l Law (Apr.–June 1979).
- M. Sornarajah, The Settlement of Foreign Investment Disputes(2000).
- Report of the Executive Directors on the Convention on the Settlement of Investment Disputes between States and Nationals of Other States,4 ILM , 18 March 1965;
- Carolyn B.Lamm, Jurisdiction of the International Centre for settlement of Investment Disputes, ICSID Review, Foreign Investment Law Journal, Vol 6, 1991.
- Christoph H. Schreuer, The ICSID Convention: A Commentary, Cambridge University Press, 2001.
- Carolyn B. Lamm and Abby Cohen Smutny, "The Implementation of ICSID Arbitration Agreements," 11 ICSID Review–FILJ (1996).
- C Schreuer, The ICSID Convention: A Commentary (2001).
- History of the ICSID Convention, Vol. I.
- Michelle M Nerozzi, " The Battle Over Life-Saving Pharmaceuticals: Are Developing Countries Being 'TRIPed' by Developed Countries?", Vilanova Review, Vol 47, No.605,, 2002.
- Christoph Schreuer, "The Concept of Expropriation under the ETC and other Investment Protection Treaties", (2005), 2 Transnational Dispute Management, November 2005,
- Rudolf Dolzer, "Indirect Expropriations: New Developments?" 11 NYU Env LJ (2002).
- Sinclair, The Vienna Convention on the Law of Treaties, 2nd ed., 1984,
- Bin Cheng, General Principles of Law as Applied by International Courts and Tribunals, 1953.
- F.A. Mann, British Treaties for the Promotion and Protection of Investments, 52 BRIT. YB Int'l L(1981).
- UNCTAD, Fair and Equitable Treatment 40 (UNCTAD Series on Issues in Int'l Investment Agreements) (1999).
- The Compact Edition of the Oxford English Dictionary (1971). With similar effect, Black's Law Dictionary defines 'fair', in the sense relevant for the present purposes, as

'having the qualities of impartiality and honesty; free from prejudice, favoritism, and self-interest. Just; equitable; even-handed; equal, as between conflicting interests': 6th edn.1990.

- *British Digest of International Law*, Vol. 6 (1965).
- Adede, 'The Minimum Standards in a World of Disputes', in MacDonald and Johnston (eds.), The Structure and Process of International Law, (1986).
- *Yearbook of the International Law Commission*, 1957, Vol. 1.
- American Law Institute, *Restatement of the Law (Second), Foreign Relations Law of the United States* (1965). Fitzmaurice, ' The Law and Procedure of the International Court of Justice, 1951–54: General Principles and Sources of Law', (1953).
- Charney, 'The Persistent Objector Rule and the Development of Customary International Law', (1985)
- Colson, 'How Persistent Must the Persistent Objector Be?', *Washington Law Review*, 61 (1986).
- Stein, ' The Approach of a Different Drummer: The Principle of the Persistent Objector in International Law', Harvard International Law Journal, 26 (1985).
- Whiteman, Digest of International Law, Vol. 8.

Applicable Conventions, Treaties & Agreements

- International Convention on Settlement of Disputes(ICSID)
- The Vienna Convention on Law of Treaties, 1965
- Trade Related Intellectual property Rights(TRIPS)

Statement of Facts

Background of Claimant

I. Claimant MedBerg Co. was established in Bergonia on 30th September 2004.

II. Medscience Co. is accompany based in state of Laputa. MedScience is publicly traded, but it can be assumed that the majority of its shareholders are Laputan.

III. Dr. Frankensid, who is dual national of Amnesia and Bergonia but habitually resides in Laputa since 1998, is a scientist employed by MedScience Co. and credited with a breakthrough leading to several patents including Bergonian Patent No. AZ2005. Dr. Frankensid is a Bergonian national by descent and birth. He was naturalized in Amnesia in 1991.

IV. CC123 Holding Ltd was incorporated by Convenient Companies SARL on 1 January 2003. On 1 December 2003, its name was changed to MedXHolding Ltd.

V. MedScience Co. and Dr. Frankensid acquired 50% each shares respectively in a company MedxHoldings ltd. on December 1, 2003 and had assigned their worldwide interests in the invention they were developing to MedX Holdings and MedX holdings assigned their interests with respect to Bergonia to Medberg. Medberg was established before the existence of Patent AZ2005.

VI. Claimant Medberg Co. applied for patent in relation to Dr. Frankensid's invention on 5 February 2004, and was granted Berginian Patent No. AZ2005 on 15 March 2005. Claimant is the Owner of Bergonian Patent No. Az2005.

VII. Claimant is represented by Broches & Partners in this present claim before the tribunal.

VIII. Background of Respondent

IX. Respondent is the Democratic Commonwealth of Bergonia.

X. The income level of Bergonia was US $7,535 GDP 2006.

XI. Respondent is having Bilateral Treaties with the Sultanate of Conveniencia which they have ratified on 6th October 2003 and the Government of Tertia which they have ratified on 15th March 2003.

XII. Respondent is represented by Shihata e Associati in this present claim before the tribunal.

XIII. Genesis of Dispute

XIV. Claimant licensed BioLife Co., a Bergonian company, to utilise Bergonian Patent No. AZ2005 on 31 March 2005 (the License Agreement). The license agreement between BioLife and Claimant was an exclusive license. The Claimant terminated the License Agreement in accordance with the License Agreement's notice and termination provisions on 31 March 2007. BioLife complained that upon receiving notice of termination it had sought to renegotiate the terms of the License Agreement, but that Claimant ended these negotiations after only three days. MedBerg Co. does not admit that it refused any effort to renegotiate the License Agreement. MedBerg's revenues decreased after termination of the License Agreement. Medberg's choice to terminate was driven in large part by concerns of parallel exports of the patented treatments and products by BioLife into third-countries other than Bergonia, in a manner that Medberg believed was inconsistent with the terms of the License Agreement. These third-countries are members of a customs union with Bergonia. After terminating the License Agreement with BioLife Co., the Claimant had no immediate plans to license its intellectual property to a third-party in Bergonia.

XV. On 1 June 2007, the Bergonian Intellectual Property Office (IP Office) commenced proceedings for the issuance of a compulsory license with respect to Patent No. AZ2005, stating that the technology covered by this patent is needed to address important domestic medical needs. The technology covered by MedBerg's Patent No. AZ2005 is used to produce certain health-related products, which are important for Bergonia's domestic medical needs. In particular, the patent covers a breakthrough treatment (and related products) that certain] medical experts believe is useful for treatment of obesity, which has been a serious problem among a large population group in Bergonia. Given the genetic make-up and traditional diet of this population, obesity has been a significant and long-standing issue, causing numerous other associated medical problems.

XVI. The Bergonian IP Office issued a compulsory license for Patent No. AZ2005 on 1 November 2007. As of 1 January 2009, BioLife and five other Bergonian entities had invoked the compulsory license. These companies are using the technology covered by Patent No. AZ2005 to produce certain health-related products. Three of these companies have exported some of the

products to other countries. None of the companies that invoked the license entered into negotiations with claimant about a license agreement before the compulsory license.

XVII. On numerous occasions, Claimant communicated its objections to the Bergonian IP Office, but these objections were not resolved to the Claimant's satisfaction. Despite Claimant's objections, there has been no independent review of the IP Office's decision to issue the compulsory license. Following the IP Office's administrative decision to issue the compulsory license, the Claimant filed an appeal with a Patent Review Board within the IP Office. The Patent Review Board is a quasi-judicial body, which draws upon existing Bergonian judges to sit in particular intellectual property cases and be paid for their services by the Bergonian IP Office.

XVIII. On 1 November 2008, the ICSID Secretary General registered the dispute for arbitration.

XIX. Claimant contends that Respondent's issuance of a compulsory license with respect to Claimant's intellectual property (Bergonian Patent No. AZ2005) violates its rights in accordance with general international law and applicable treaties, in particular Article 4 of the Bergonia Conveniencia BIT.

XX. Respondent contends that this Tribunal lacks jurisdiction because a national of Conveniencia does not have control of the Claimant within the meaning of ICSID Convention Article 25(2)(b), nor has Respondent consented to treat Claimant as a national of Conveniencia.

XXI. Agreed Points

XXII. It was agreed that the proceedings herein shall be comprised of both written and oral procedures. It was agreed that ICSID Arbitration Rule 21 shall govern with respect to pre-hearing conferences.

XXIII. It was agreed that, pursuant to Article 44 of the ICSID Convention, the proceedings would be conducted in accordance with the ICSID Arbitration Rules in force since 10 April 2006.

XXIV. The parties agreed that, in accordance with Article 61 of the ICSID Convention and Rule 14 of the ICSID Administrative and Financial Rules, the parties would defray the expenses of the proceeding in equal parts, without prejudice to the final decision of the Tribunal as to costs. It was recalled that the Centre had requested in Case No. ARB/x/x each party to pay an amount of US$25,000 to defray the costs of the proceeding during its first three to six months. The

Claimant made the payment requested on 15 March 2008 and the Respondent on 17 March 2008.

XXV. Bergonia, and Conveniencia are ICSID Contracting States and all have ratified the Convention. They are also Members of the World Trade Organisation (WTO) and parties to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). They are also parties to Vienna Convention on laws of treaties.

XXVI. Laputa is not an ICSID Contracting State nor a Member of the WTO.

Arguments

1. **Whether the Tribunal has jurisdiction in view of the nationality of those parties controlling the Claimant?**

It is submitted that in view of the nationality of the parties controlling the Medberg Co., the claimant in the present case, the tribunal a has complete jurisdiction to try the present dispute. That in view of the real control of the claimant through MedXHoldings ltd. based in Convencia all the requirements of ICSID jurisdiction as per provisions of Art 25(2)(b)[1] are satisfied.

1.2 **Whether the requirement of a foreign investor under Article 25(2)(b) is fulfilled in the present case?**

1.1.1 Whether there are sufficient circumstances for the lifting of corporate veil?

In the case of *Barcelona Traction*[2] the International Court of Justice ("ICJ") stated, "the process of lifting the veil, being an exceptional one admitted by municipal law in respect of an institution of its own making, is equally admissible to play a similar role in international law."[3] The wealth of practice which has accumulated indicates that the veil is lifted.[4] It is also necessary here that the tribunal shall 'pierce the corporate veil' and determine that Medberg Co. is entitled to submit a claim against Bergonia. In the case of Smith, Stone and Knight v Birmingham Corporation[5] the court observed that factors like profits of the subsidiary treated as profits of the parent, persons conducting the business of the subsidiary appointed by the parent and the subsidiary company's profits made by the skill and direction of the parent etc direct towards the relation of a subsidiary as an agent of the parent company. It can be very clearly inferred from the case that the profits of medberg were considered as profits of Medxholdings, further the lawyer and a tax adviser have been appointed by medxholdings[6] and the profit is being made due to the skill of Dr. Frankenseid.[7]

[1] Article 25, International Convention on Settlement of Investment Disputes.
[2] Barcelona Traction, Light and Power Co. Ltd. (Belgium v. Spain), 1970 I.C.J. 3.
[3] Id at para 58.
[4] Ibid.
[5] [1939] All ER 116.
[6] Clarification no. 75.
[7] Annex 3, para 5.

Futher the courts have indicated that where the justice of the case so requires, the separate legal personality of companies within a group may be disregarded and the companies may be treated as being a single economic entity. This approach is not considered to be a departure from the principle as laid down in the *Salomon case*[8] but rather is regarded as an application of that principle.[9] It is submitted that Medberg Co. and Medxholding ltd should not be treated separately so as to be defeated on a technical point. It is further argued that in the interest of justice, two related companies should be treated as a single entity so that the business notionally carried on by one will be regarded as the business of the group.

1.1.2 Whether it is justified for the Tribunal to apply the control test in the preent case?

Instead of determining the nationality on the basis of place of incorporation, it is submitted that the tribunal shall adopt a 'control test' and look to the real control of the claimant. The purpose of the control test in the second portion of Aricle 25(2)(b) is to expand the jurisdiction of the centre. It has too been argued by various scholars that Article 25 of the convention allows the tribunal to be "extremely flexible" in using various methods to determine the nationality of juridical entities, including the control test,[10] so that every effort should be made to give the centre jurisdiction by the application of the flexible approach.[11] It is further advocated that if no exception were made for foreign-owned but locally incorporated companies, a large and important sector of foreign investment would be outside the scope of the Convention.[12]

1.1.3 That whether the claimant in the present case be considered as a foreign national for the purposes of jurisdiction of the Centre?

Foreign control is an objective requirement which must be examined independently of the foreign nationality. However, causal relationship is needed between the control and the agreement, yet it has also been argued that the agreement on nationality by itself assumes the existence of foreign control. Determination of the foreign nationality was done in several ways in different cases In *LETCO v. Liberia*[13] the Tribunal examined the causal relationship between foreign control and the agreement on nationality and found that where foreign control exists, the

[8] Salomon v Salomon & Co. [1897] AC 22
[9] DHN Food Distributors Limited v Tower Hamlet London Borough Council [1976] 3 All ER 462.
[10] C.F. Amerasinghe, "The Jurisdiction of the International Centre for the Settlement of Investment Disputes," 19 Indian J. Int'l Law 166, 214 (Apr.–June 1979).
[11] Id. At p. 215.
[12] M. Sornarajah, The Settlement of Foreign Investment Disputes, p. 211 (2000).
[13] Liberian Eastern Timber Corporation v. Republic of Liberia (Case No. ARB/83/2)

agreement to treat the company as a foreign national is because of this foreign control. This means that all that is required for the purposes of Article 25 (2) b) is the objective fact of foreign control, the host state's awareness of the latter and a valid consent to ICSID jurisdiction. In the present case too Bergonia has been aware of the control of Medxholdings over Medberg as the same has been registered in the Bergonian Corporate registry at all times.[14]

1.3 Whether the present dispute satisfies all elements of ICSID jurisdiction?

1.3.1 That whether parties adhere to jurisdiction of Ratione personae?

The jurisdiction of Ratione personae arises between a Contracting State and a national of another Contracting State.[15] A Contracting State or any constituent subdivision or agency of a Contracting State designated to the Centre by that State shall stand on one side. On the other side, there must be an investor being the national of another Contracting State. The investor party to the dispute can be either a natural or a juridical person. There is a special opportunity for juridical persons having the same nationality as the State party on the date on which the parties consented to submit such dispute to arbitration. If such a juridical person is involved in the dispute and the parties have agreed that because of foreign control that juridical person shall be treated as a national of another Contracting State for the purposes of the Convention, the jurisdictional requirements are also met.[16]

1.3.2 That whether parties adhere to jurisdiction of Ratione Materiae?

The jurisdiction of Ratione Materiae or subject matter of Centre states that there should be a legal dispute arising directly out of an investment.[17]

i. That dispute must arise out of investment.

It is submitted that investors need to ascertain with some certainty whether an investment structure would fall within the protection of a particular investment treaty. The concept of investment is central to the ICSID Convention's subject-matter jurisdiction. Therefore, the approach adopted in the Convention gives potential parties to ICSID arbitration wide discretion to describe a particular transaction, or a category of transactions, as investment. Ultimately, however, the requirement of an investment is an objective one. The parties' discretion results from the fact that the notion of investment is broad and that its contours are not entirely clear. But the parties do not have unlimited freedom in determining what constitutes an investment.

[14] Clarification no. 59.
[15] Article 25(1), International Convention on Settlement of Investment Disputes.
[16] Article25(2)(b), International Convention on Settlement of Investment Disputes.
[17] Article 25(1), International Convention on Settlement of Investment Disputes.

Any such determination, while important, is not conclusive for a tribunal deciding on its competence. Under Article 41 of the Convention, a tribunal may examine on its own motion whether the requirements of jurisdiction are met.

ii. That dispute in question is legal dispute.

The ICSID Convention has not defined the term 'legal dispute'. The real intention behind the qualification by the term 'legal' is not clear in *travaux preparatoires*.[18] It must concern the existence or scope of a legal right or obligation, or the nature or extent of the reparation to be made for the breach of a legal obligation.[19] The requirement that there is a legal dispute is an absolute requirement for ICSID's jurisdiction. It is independent of the chosen method of dispute settlement under the Convention and applies even if a tribunal is authorized to decide on the basis of equity rather than law. Therefore, the requirement that there is a legal dispute needs to be met irrespective of whether the parties have agreed to submit a dispute to arbitration or to conciliation, and even if they have agreed under Article 42(3) that the dispute may be decided *ex aequo et bono*.

[18] C.F. Ameeresinghe, A Guide to the Jurisdiction of International Centre for the Settlement of Investment Disputes, 1978.

[19] Report of the Executive Directors on the Convention on the Settlement of Investment Disputes between States and Nationals of Other States,4 ILM at 9, 18 March 1965; Carolyn B.Lamm, Jurisdiction of the International Centre for settlement of Investment Disputes, ICSID Review, Foreign Investment Law Journal, Vol 6, p.463, 1991.

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

The autonomous understanding of Article 25 has, in cases based on BITs, led to the practice of a dual examination of the notion of investment, sometimes called the 'double keyhole approach'. The tribunal in *CSOB v Slovakia*[20] said in this respect: A two-fold test must therefore be applied in determining whether this Tribunal has the competence to consider the merits of the claim: whether the dispute arises out of an investment within the meaning of the Convention and, if so, whether the dispute relates to an investment as defined in the Parties' consent to ICSID arbitration, in their reference to the BIT and the pertinent definitions contained in Article 1 of the BIT.[21]

2.1 Whether the requirement of investment under Artticle 1.1 of the BIT is satisfied?

Article 25 of the Convention requires that, in order for the Centre to have jurisdiction, a dispute must arise from "an investment." As with corporate nationality, the parties have broad discretion to decide the "kinds of investment they wish to bring to ICSID."[22] Indeed, "precisely because the Convention does not define 'investment', it does not purport to define the requirements that an investment should meet to qualify for ICSID jurisdiction."[23] Parties have a "large measure of discretion to determine for themselves whether their transaction constitutes an investment for the purposes of the Convention."[24] Here, that discretion is exercised in the BIT. It has been provided under the Bergonia Convencia Treaty that the term investment comprises every kind of asset invested in accordance with the laws and regulations of a contracting state.[25] It is stated that in accordance with this provision the inteelectual property right which is an asset of Medxholding has been invested in Bergonia through patent no. AZ 2005 which is in accordance with laws and regulations of the state. Further it has been provided particularly that intellectual property rights in particularly the patents are covered under the scope of investment under this treaty.[26] There is

[20] *CSOB v Slovak Republic* , Decision on Jurisdiction, 24 May 1999, 14 ICSID Rev-FILJ (1999).
[21] *Salini Costruttori v Morocco* , Decision on Jurisdiction, 23 July 2003, 42 ILM 609 (2003), paras 44, 52.
[22] Christoph H. Schreuer, *The ICSID Convention: A Commentary*, Cambridge University Press, 2001, p. 158, para.124.
[23] *CMS Gas Transmission* ***Company v*** *Argentina,* Decision on Objections to Jurisdiction, ICSID Case No ARB/01/8; IIC 64 (2003), 17 July 2003.
[24] *Fedax N.V. v. Republic of Venezuela*, Decision on Jurisdiction, Case No. ARB/96/3 (July 11, 1997), 37 I.L.M. 1378 (1998), at para. 22 (quoting Carolyn B. Lamm and Abby Cohen Smutny, "The Implementation of ICSID Arbitration Agreements," 11 ICSID Review–FILJ 64, 80 (1996)) ("*Fedax*").
[25] Article 1.1, Bergonia-Conveniencia BIT.
[26] Id at Article 1.1.d.

no other requirement as to the capital used by the investor should originate from a particular country. An investment under the BIT is read in ordinary meaning as "every kind of asset" for which "an investor of one contracting party" caused money or effort to be expended and from which a return or profit is expected in the territory of the other contracting party. Further The tribunal in *Salini v Morocco*[27] said in this respect: This provision [the required compliance with the laws and regulations of the host state] refers to the validity of the investment and not to its definition.

2.2 Whether the dispute arises out of an investment within the meaning of the Convention?

In *Malaysian Historical Salvors* ,[28] *the tribunal* called this approach a 'double-barrelled test': Under the double-barrelled test, a finding that the Contract satisfied the definition of 'investment' under the BIT would not be sufficient for this Tribunal to assume jurisdiction, if the Contract failed to satisfy the objective criterion of an 'investment' within the meaning of Article 25. [29] The decisive criterion for the existence of a foreign investment is the nationality of the investor. An investment is a foreign investment if it is owned or controlled by a foreign investor. There is no additional requirement of foreignness for the investment in terms of its origin.[30] Since in the present case the investment of exploitation of intellectual property right has been owned and controlled by Medxholding which has been made through Medberg Co.

2.3 Whether the essential requirements set forth by ICSID scholars are satisfied?

ICSID jurisprudence has essentially been based on the understanding that the four criteria set forth by academic commentators i.e. contribution of the investor, certain duration of the project, existence of operational risk, and contribution to the host state's development[31] will have to be considered, in addition to the requirements in a bilateral treaty or another instrument embodying consent to ICSID jurisdiction.[32] As to the qualities of a 'contribution' (or commitment) by the

[27] *Salini Costruttori v Morocco* , Decision on Jurisdiction, 23 July 2003, 42 ILM 609 (2003).
[28] *Malaysian Historical Salvors v Malaysia* , Award on Jurisdiction, 17 May 2007.
[29] Id at para 55.
[30] *Tradex v Albania* , Award, 29 April 1999, 5 ICSID Reports 70, at paras 105, 108–111; *Olguín v Paraguay* , Award, 26 July 2001, 6 ICSID Reports 164, at para 66, FN 9; *Tokios Tokelės v Ukraine* , Decision on Jurisdiction, 29 April 2004, 11 ICSID Reports 313, at para 80.
[31] C Schreuer, *The ICSID Convention: A Commentary* (2001) 140.
[32] *Autopista v Venezuela* , Decision on Jurisdiction, 27 September 2001, 16 ICSID Review—FILJ (2001) 469, paras 94–101.

investor, any significant financial resource or transfer of know how, equipment, and personnel will count.[33] It is stated that knowledge of the invented patents been contributed. Concerning the duration of the project, a time of five years was considered at one point of the negotiations of the ICSID Convention.[34] More recently, it has been said that the threshold should not be 'excessively rigorous'[35] and presumably a time of two years may be sufficient.[36] As in the present case the patent was granted on 15th March, 2005 and Biolife was licensed on 31st March, 2005 which counts to be more than 4 years. The third element, ie the existence of a risk for the investor, is also available as the compulsory license was issued curtailing the right of claimant. Moreover regarding the fourth element the patent has been considerable in Bergonia's Development by treating the major problem of obesity._ It is stated that in the present case it has been the contribution of Medxholding for the invention of patent AZ 2005,

3. Whether the compulsory license amounts to expropriation or discrimination, or otherwise violates general international law or applicable treaties?

[33] *Bayindir v Pakistan* , Decision on Jurisdiction, 14 November 2005, para 131; *Saipem v Bangladesh* , Decision on Jurisdiction, 21 March 2007, para 100.
[34] History of the ICSID Convention, Vol. I, 116.
[35] *LESI/Dipenta v Algeria* , Award, 10 January 2005, 19 ICSID Review—FILJ (2004) 426, para 52; *Bayindir v Pakistan* , Decision on Jurisdiction, 14 November 2005, para 133.
[36] *Jan de Nul/Dredging International v Egypt* , Decision on Jurisdiction, 16 June 2006, paras 93–96.

Every natural or legal person is entitled to the peaceful enjoyment of its possessions. No one should be deprived of his possessions except in the public interest and subject to the conditions provided for by the law and by the general principles of international law.[37] In patent law one mode of limiting or restricting the patent holder from right to use his work is issuance of compulsory license. Compulsory license is an action of a government forcing an exclusive holder of a right to grant the use of that right to others upon the terms decided by the government. Thus, a compulsory license is an act of diluting an earlier grant, whereby an exclusive right was conferred upon the right holder. Also known as a non-voluntary licenses, compulsory licenses are a judicial or governmental annulment of patent rights, depriving a patentee of a monopoly or an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state.[38] In the present claim before the tribunal, the respondent by issuing compulsory license unnecessarily on patent AZ2005 has expropriated, discriminated and violated the general principles of international laws.

3.1 Whether the compulsory license issued for patent AZ2005 by Bergonian Intellectual property Office violated the provisions of TRIPS?

The TRIPS agreement provides that signatory States are obliged to protect any inventions, whether products or processes, in all fields of technology, provided they are new, involve an inventive step and are capable of industrial application.[39] Further the agreement confers upon the patent holders the exclusive rights to prevent third parties not having the owner's consent from the acts of making, using, offering for sale, selling or importing patented products.[40] Compulsory licenses provisions are majorly envisaged in Article 31.[41] In the present claim before the tribunal it is submitted that the conditions for grant of compulsory license under Bergonian laws[42] have never been tested by any challenge to determine whether or not its provisions would be considered in conformity with Article 31of the TRIPS agreement.[43] And in the present claim

[37] Article 1 of Protocol 1, the European Convention of Human Rights 1954
[38] Michelle M Nerozzi, " The Battle Over Life-Saving Pharmaceuticals: Are Developing Countries Being 'TRIPed' by Developed Countries?", Vilanova Review, Vol 47, No.605, p.612, 2002.
[39] Article 27(1), Trade Related Intellectual Property Rights.
[40] Article 28(1)(a), Trade Related Intellectual Property Rights.
[41] Article 31, , Trade Related Intellectual Property Rights.
[42] Came in to force on 1997, Clarification 104.
[43] Clarification 21.

these granting conditions imposed by Intellectual Laws of Respondent are prima facie violating TRIPS provisions.

3.1.1 That whether export of product by the companies to other countries violated Art 31(f)?

The TRIPS agreement provides that the proposed user must have made reasonable commercial efforts to obtain authorization from the right holder for reasonable period of time.[44] Although there have been prior negotiation between Claimant and Bio-life Co. but they did not re-negotiate on terms of agreement. MedBerg Co. does not admit that it refused any effort to renegotiate the License Agreement but rather its choice to terminate was driven in large part by concerns of parallel exports of the patented treatments and products by BioLife into third-countries other than Bergonia, in a manner that Medberg believed was inconsistent with the terms of the License Agreement.[45] Upon the perusal of the provisions of the TRIPS agreement, it seems fairly obvious that the grant of the compulsory license must be proportional. That is to say that the scope of the grant must be limited to the purpose for which the license is conferred.[46] In the present case the purpose of granting the compulsory license is to curb the disease of obesity in the domestic area of Bergonia. But three of the companies were exporting some of the products to other countries [47] and thus violating the whole purpose of issuance of compulsory license. Since obesity is the problem faced by people of Bergonia and not by the other countries so there is prima facie evidence before this tribunal that compulsory license is being misused for commercial purposes. That is the reason claimant earlier did not accept terms of Bio-Life earlier during re-negotiation of the License agreement between them because it didn't want that product should be exported to outside the country. Thus it is submitted that respondent violated the Article 31(f) of TRIPS in the present claim before the tribunal by exporting the product outside for commercial purposes and did not intend to address more on the needs of domestic market.

3.1.2 That whether granting of non-adequate remuneration by the companies violated Art 31(h)?

[44] Article 31(b), Trade Related Intellectual Property Rights.
[45] Clarification
[46] Article 31(c), Trade Related Intellectual Property Rights.
[47] Point 8, Annex 3 Uncontested Facts page no.20, Problem 2009.

The TRIPS agreement provides that the right holder be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization.[48] In the present claim the claimant has been paid considerably low remuneration.[49] It is one aspect or condition of Compulsory license that the patent holder must be paid adequate remuneration for the work. There is not a fixed criterion for remuneration but governments have considerable discretion to define the level and kind of remuneration that the patent owner should receive. In the past some of the methods have been used to calculate remuneration. UNDP report proposed a base royalty rate of 4% of the generic drug price.[50] This can be increased or decreased by 2%, for a range of 2%-6%, depending upon various factors such as how innovative the medicine is, or the role of governments in paying for research and development. Again in accordance with the WTO decision of 2003, the 2005 Canadian government established royalty guidelines for compulsory licensing of patents to countries that lack the capacity to manufacture medicines. The royalty rate between 0.02% and 4% of the price of a generic drug is determined by a country's rank in the UN Human Development Index. It is humbly submitted that respondents again had not fulfilled the basic and foremost condition of paying adequate royalities to claimant in lieu of issuance of compulsory license on patent AZ2005. By not paying adequate remuneration to claimant, the respondent has violated Article 31(h). It is submiited before the tribunal to give directions to respondent for release of adequate royalities according to the present guidelines of WTO in case of defeat of this claim as an alternate remedy.

3.2 Whether the compulsory licensing by respondent amounts to expropriation under principles of international law?

Customary international law does not preclude host states from expropriating foreign investments. This present claim is prima facie an expropriation case. The respondents have expropriated by issuance of compulsory licenses and thus violated the rights of patent holder. Expropriation is one of the **political risks** involved with **foreign direct investment** (FDI). It is characterized by **confiscation** of the foreign asset, and a **pittance payment**. Expropriation could take different forms, it could be direct where an investment is nationalized or otherwise directly expropriated through formal transfer of title or outright physical seizure. In addition to the term

[48] Article31(h) , Trade Related Intellectual Property Rights.
[49] Clarification 42.
[50]The 2001 United Nations Development Programme (UNDP) Human Development Report.

expropriation, terms such as "dispossession", "taking", "deprivation" or "privation" are also used. International law is clear that a seizure of legal title of property constitutes a compensable expropriation. Expropriation and Unilateral Alterations or Termination of Contracts states that a state may not expropriate or otherwise take in whole or in part a foreign private investment in its territory, or take measures which have similar effects, except where this is done in accordance with applicable legal procedures, in pursuance in good faith of a public purpose, without discrimination on the basis of nationality and against the payment of appropriate compensation.[51] It is a settled principle of NAFTA that no party may directly or indirectly expropriate an investment of an investor of another Party in its territory or take a measure tantamount to expropriation of such an investment except some exceptions. There is ample authority for the proposition that a property has been expropriated when the effect of measures taken by the state has been to deprive the owner of title, possession or access to the benefit and economic use of his property.[52] Thus there is textual basis for the Claimant's submission that 'the modern definition of expropriation must be broad enough to encompass every course of sovereign conduct that unfairly destroys a foreign investor's contractual rights as an asset.[53] Nowadays direct expropriation is the exception rather than the rule, as States prefer to avoid opprobrium and the loss of confidence of prospective investors by more oblique means. UNCTAD'S 2000 year study on taking of property, which summarises existing jurisprudence, confirms this view. It observes that measures short of physical takings may amount to takings in that they result in the effective loss of management, use or control, or a significant depreciation of the value of the asset of a foreign investor;[54] that takings tantamount to expropriation are those that result in a substantial loss of control or value of a foreign investment;[55] that creeping expropriation may be defined as the slow and incremental encroachment on one or more of the ownership rights of a foreign investor that diminishes the value of its investment. This is so even though the legal title to the property remains vested in the foreign investors but the investors' rights of use of the property are diminished as a result of the interference by the state.[56] In the present case, Claimant has

[51] Section IV (1),World Bank Guidelines 1992
[52] **Compañia del Desarrollo de Santa Elena S.A. v. Republic of Costa Rica**, ICSID Case No. ARB/96/1, (2000), 5 ICSID Rep. 153, para. 77.
[53] ***Waste Management, Inc. v. United Mexican States***, ICSID Case No. ARB(AF)/00/3, (2004), 43 *ILM* 967 (2004), para. 145.
[54] UNCTAD, TAKING OF PROPERTY 36, (UNCTAD Series on International Investment Agreements 2000), at p. 4.
[55] *Ibid*., at p. 41.
[56] *Ibid*., at pp. 11–12.

asserted that Bergonia was guilty of conduct amounting to indirect, creeping expropriation, that is, expropriation taking forms other than the divestment of assets and consisting of acts committed over a period of time no one of which had to be shown as in itself amounting to expropriation. In considering whether Claimant has shown a *prima facie* case of indirect expropriation in this present claim, it is instructive to examine the various types of conduct that have been held by tribunals in earlier cases to constitute expropriation and use these as a benchmark against which to measure claimant's case. In considering whether measures taken by government constitute expropriation the determinative factors are the intensity and duration of the economic deprivation suffered by the investor as the result of them.[57]There is a divergence of views as to whether the intention or objectives of the government in introducing the measures may also be taken into account or whether the sole criterion is the effect of the government measures.[58] In the present case respondent by issuing compulsory license infringed patent right of claimant thus violating his economic right. It is again submitted that in the present claim there arises no such condition of compulsory license as there was no emergent situation as of average of 35% of people of Bergonia were affected by obesity problem. Moreover before the issuance of compulsory license by Bergonain IP office and after the termination of license agreement with Bio-Life, the medicine was available in the domestic market for the people of Bergonia. So there was no need of issuance of compulsory license on this product owned by the claimant.

3.3 Whether there has been discrimination against claimant by Bergonian Intellectual Property Office?

A state measure will be discriminatory if it results in an actual injury to the alien with the intention to harm the aggrieved alien to favor national companies.[59] It is submitted that Respondent has made discrimination with Claimant twice. Firstly there was no independent review by the IP office neither Patent Board's decision was satisfactory. Secondly the claimant has been given less-favorable treatment in respondent's state thus violating the provisions of BIT. Respondent did not intend to abide by the preamble and provisions of BIT and general

[57] Christoph Schreuer, "The Concept of Expropriation under the ETC and other Investment Protection Treaties", (2005), 2 Transnational Dispute Management, November 2005, para. 82.
[58] Rudolf Dolzer, "Indirect Expropriations: New Developments?" 11 NYU Env LJ 64, 79 (2002).
[59] Dolzer and Stevens *op. cit. n.5 at 99.*

principles of international customary law and thus resulted in an actual injury to the claimant with the intention to favor its own investors.

3.3.1 That whether there is right of Claimant to independent review before the Competent Authority as per Art 31(i) TRIPS?

In order to provide an opportunity to the right holder to prevent abuse of his right by grant of compulsory licenses, the TRIPS agreement obliges the member countries to a judicial review or other independent review to test the legal validity of any decision relating to the authorization.[60] It is a settled principle that a competent authority under the domestic law must be vested with the power to review and must review the matter, upon such request, about the continuing existence of the circumstances that led to the granting of the compulsory license. There is no provision under the agreement as to what is the nature of the competent authority or its qualifications. Therefore, it seems that the competent authority to look into the continuity of the circumstances may either be the same authority which granted the license or may be some other authority, preferably judicial. It is submitted that in the present claim Claimant on numerous occasions communicated its objections to the Bergonian IP Office, but these objections were not resolved to the Claimant's satisfaction. Despite Claimant's objections, there has been no independent review of the IP Office's decision to issue the compulsory license. Following the Respondent's IP office administrative decision to issue the compulsory license, the claimant filed an appeal with a Patent Review Board within the IP Office which is consists of Bergonian judges who sit in particular intellectual property cases.[61] Thus recourse to local remedies was fulfilled in accordance to provisions of ICSID convention also.[62] In the present claim it is submitted before the tribunal to make a decision ex aequo et bona by keeping all the totality of facts and circumstances in mind since the claimant has approached this tribunal because of grievances from the Patent Review Board of IP office of Respondent.

3.3.2 That whether claimant has been given less favorable treatment as investor in Bergonia for the purposes of Bilateral Treaty between Bergonia and Conveniencia?

[60] Article 31(i), Trade Related Intellectual Property Rights.
[61] Clarification 29
[62] Article 26, International Centre on Settlement of Investment Disputes.

It is submitted that there exists bilateral treaty between Republic of Bergonia and Sultanate of Conveniencia concerning the encouragement and reciprocal protection of Investments.[63] Both the states desire to intensify economic co-operation and to create favourable conditions to increase investments by investors of one of the contracting states in the territory of the other contracting state.[64] It was undisputed that the BIT is a treaty. It is thus to be interpreted in accordance with the international law rules of interpretation reflected in Vienna Convention on the Law of Treaties that is in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in light of its object and purpose.[65] As was noted by the tribunal in Methanex,[66] Article 31(1) of the Vienna Convention is comprised of three separate principles. The first, good faith, requires no further explanation. As to the second, interpretation in accordance with the ordinary meaning of a term, scholars have noted that this is not merely a semantic exercise in uncovering the literal meaning of a term.[67] As to the third, the term is not to be examined in isolation or *in abstracto*, but in the context of the treaty and in the light of its object and purpose. The terms 'fair and equitable treatment' envisage conduct which goes far beyond the minimum standard and afford protection to a greater extent and according to a much more objective standard than any previously employed form of words. A Tribunal would not be concerned with a minimum, maximum or average standard. It will have to decide whether in all circumstances the conduct in issue is fair and equitable or unfair and inequitable. No standard defined by any other words is likely to be material. The terms are to be understood and implied independently and autonomously.[68] An UNCTAD Report on Fair and Equitable Treatment concluded that where the fair and equitable standard is invoked, the central issue remains simply whether the actions in question are in all the circumstances fair and equitable or unfair and inequitable.[69] In the present bilateral treaty before the tribunal, provisions have been made in BIT to put investors of both the states on equal footing in terms of their treatment by the respective

[63] BIT, The Democratic Commonwealth of Bergonia And The Sultanate of Conveniencia, Page 7.
[64] Preamble, BIT The Democratic Commonwealth of Bergonia And The Sultanate of Conveniencia, Page 7.
[65] Article 31 (1), Vienna Convention on the Law of Treaties,1969
[66] *Methanex Corporation v. United States of America*, Final Award of the Tribunal on Jurisdiction and Merits, 3 August 2005 (UNCITRAL).
[67] Sinclair, *The Vienna Convention on the Law of Treaties*, 2nd ed., 1984, p. 121; *Bin Cheng*, *General Principles of Law as Applied by International Courts and Tribunals*, 1953, p. 114.
[68] *F.A. Mann, British Treaties for the Promotion and Protection of Investments*, 52 BRIT. YB Int'l L. 241, 244 (1981).
[69] UNCTAD, *Fair and Equitable Treatment* 40 (UNCTAD Series on Issues in Int'l Investment Agreements) (1999).

states.[70] But in the present claim before this tribunal it is essential to define the concept of fair, equitable treatment before proving that the claimant has got less favourable treatment than investors of Respondent. It is submitted that at least two different views have been advanced as to the precise meaning of the term 'fair and equitable treatment' in investment relations. One possible approach is that the term is to be given its plain meaning: hence, where a foreign investor has an assurance of treatment under this standard, a straightforward assessment is to be made whether particular treatment meted out to that investor is both 'fair' and 'equitable'. Under this approach, treatment is fair when it is free from bias, fraud or injustice; equitable, legitimate not taking undue advantage; disposed to concede every reasonable claim;[71] and by the same token, equitable treatment is that which is 'characterized by equity or fairness that is fair, just, reasonable' The second approach to the meaning of the term suggests that fair and equitable treatment is synonymous with the international minimum standard in international law.[72] This interpretation proceeds from the assumption that under customary international law foreign investors are entitled to a certain level of treatment and that treatment which falls short of this level gives rise to liability on the part of the State. If, in fact, fair and equitable treatment is the same as the international minimum standard, then some of the difficulties of interpretation inherent in the plain meaning approach may be overcome; there is a substantial body of jurisprudence and doctrine concerning the elements of the international minimum standard.[73] The question is whether the fair and equitable standard has passed into the corpus of customary international law. This is not simply a technical legal issue because, if the standard has, in fact,

[70] Article 3(1) and Article3(2), BIT The Democratic Commonwealth of Bergonia And The Sultanate of Conveniencia, Page 8.

[71] *The Compact Edition of the Oxford English Dictionary* (1971), p. F-26. With similar effect, *Black's Law Dictionary* defines 'fair', in the sense relevant for the present purposes, as 'having the qualities of impartiality and honesty; free from prejudice, favoritism, and self-interest. Just; equitable; even-handed; equal, as between conflicting interests': 6th edn., 1990, p. 595.

[72] On the international minimum standard generally, see, e.g., Brownlie, op. cit. above (n. 12), at pp. 523–8; Parry (ed.), *British Digest of International Law*, vol. 6 (1965), pt. vi, pp. 290–5; Adede, 'The Minimum Standards in a World of Disputes', in MacDonald and Johnston (eds.), *The Structure and Process of International Law*, (1986), pp. 1001–26; *Yearbook of the International Law Commission*, 1957, vol. 2, pp. 49 ff.; 112 ff.; ibid., vol. 1, pp. 154 ff. For traditional statements on the Western perspective in favour of the international minimum standard, see, for instance, American Law Institute, *Restatement of the Law (Second), Foreign Relations Law of the United States* (1965), pt. IV, pp. 499, 501, quoted in Whiteman, *Digest of International Law*, vol. 8, p. 697; UK response to the Panamanian Draft Declaration of Rights and Duties of States submitted to the United Nations General Assembly in 1947, quoted ibid., p. 699.

[73] Arbitral decisions supporting the international minimum standard include: the *Neer* claim *(US* v. *Mexico)* (1926), *Reports of International Arbitral Awards*, vol. 4, pp. 60–6, esp. at pp. 61–2; the *Roberts* claim *(US* v. *Morocco)* (1926), ibid., pp. 77–81, esp. at p. 80; the *Chevreau* case *(France* v. *Great Britain)* (1931), *American Journal of International Law*, 27 (1933), p. 153–82, esp. at p. 160.

become a part of customary international law, then even where States exclude reference to fair and equitable treatment for foreign investors in their treaty arrangements,[74]this level of treatment will ensure by operation of law to such investors.[75] In brief, Claimants submits that this treaty provision extends beyond physical security, and encompasses what may be described as a general obligation of a host state proactively to provide security against harassment that impairs the normal functioning of an investor's business. Thus issuance of compulsory license without having an independent review of claimant's objections the respondent has given more favourable treatment to its own investors than the claimant which is national of Conveniencia and hence it is submitted that there has been discrimination with the claimant from the Respondent's side. This discrimination is both violation of BIT and the general principles of customary international law.

Conclusion

It is humbly prayed that in the light of issues raised, arguments advanced the tribunal should declare that:

[74] The customary international law rule will also apply to countries which have denounced treaties containing the rule in question: Baxter, loc. cit. above (n. 12), at p. 300.

[75] *Anglo-Norwegian Fisheries* case, *ICJ Reports*, 1951, p. 116, at p. 131. See also separate opinion of Judge de Castro, *Fisheries Jurisdiction* case *(UK* v. *Iceland)* (*Merits*), *ICJ Reports*, 1974, p. 3, at pp. 91–2; *North Sea Continental Shelf* cases, *ICJ Reports*, 1969, p. 3, at pp. 26–7; separate opinion of Judge Ammoun, at p. 131; dissenting opinion of Judge Lachs, at pp. 235, 238; Akehurst, 'Custom as a Source of International Law', this *Year Book*, 47 (1974–5), pp. 1–54, at pp. 23–7; Fitzmaurice, 'The Law and Procedure of the International Court of Justice, 1951–54: General Principles and Sources of Law', ibid., 30 (1953), pp.1–70, at pp. 24–6; Charney, 'The Persistent Objector Rule and the Development of Customary International Law', ibid., 56 (1985), pp. 1–24; Colson, 'How Persistent Must the Persistent Objector Be?', *Washington Law Review*, 61 (1986), pp. 957–70; Stein, 'The Approach of a Different Drummer: The Principle of the Persistent Objector in International Law', *Harvard International Law Journal*, 26 (1985), pp. 457–82.

a) The Tribunal has jurisdiction in view of the nationality of those parties controlling the Claimant.

b) Claimant's exploitation of its intellectual property in Bergonia constituted an investment under applicable international law; and

c) the compulsory license amounts to expropriation or discrimination, or otherwise violates general international law or applicable treaties.

Representing Claimant

Broches & Partners