INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES

MEDBERG CO.

Claimant

v.

THE GOVERNMENT OF THE RUPUBLIC OF BERGONIA

Respondent

MEMORANDUM FOR CLAIMANT

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EXECUTIVE SUMMARY OF ARGUMENT

RATIONE PERSONAE: The Tribunal has jurisdiction over the parties for two reasons. First, MedBerg is a national of Conveniencia because it is owned and controlled by MedX, a national of Conveniencia. The analysis of jurisdiction should not continue to extend beyond this level of ownership. This is because when an acceptable classification of foreign ownership is identified, jurisdiction exists. Otherwise, the analysis could continue indefinitely and without ever establishing legal certainty. Second, the Most Favored Nation (MFN) Clause provides written consent of the parties to submit this dispute to arbitration.

RATIONE METERIAE: The Tribunal has jurisdiction over the subject matter for two reasons. First, this is a legal dispute involving an investment under the International Center for Settlement of Investment Disputes ("ICSID") Convention. The creation of MedBerg as an entity, transfer of patent rights from MedX to MedBerg and the business activity tied to the Bergonian patent constitutes an investment in Bergonia. MedBerg hoped of gaining returns on its investment with the realization of risk spread over a number of years. Second, this is a legal dispute involving an investment under the Bergonia-Conveniencia Bilateral Investment Treaty ("Bergonia-Conveniencia BIT" or "the BIT") because the BIT obligates Bergonia to protect the investment.

The Bergonia-Conveniencia BIT specifically identifies patents as investments, and the issuance of Patent AZ2005 stimulated new business initiatives consistent with the purpose of the BIT.

SUBSTANTIVE MERTIS: MedBerg invested in Bergonia with the realistic expectations that Bergonia would exercise its policy strategies in a fair and balanced manner. Bergonia failed to provide MedBerg due process when it issued a compulsory license in a reckless manner without giving MedBerg an opportunity to take the steps necessary to mitigate the effects of the compulsory license. As a result, the most significant benefits associated with exclusive patent rights have been lost and the entire purpose for MedBerg's existence has been destroyed. This is tantamount to expropriation. Providing MedBerg with the revenue from the compulsory license does not meet the expected returns that could only have been achieved following MedBerg's deliberate business plan and contract negotiation strategies that it had been following prior to the expropriation.

STATEMENT OF FACTS

1. The Democratic Commonwealth of Bergonia ("Bergonia") and the Government of Tertia concluded a Treaty Concerning the Reciprocal Encouragement and Protection of Investment on January 20, 2003. Four months later, Bergonia and the Sultanate of Conveniencia ("Conveniencia") concluded a Treaty Concerning the Encouragement and Reciprocal Protection of Investments on May 30, 2003.

2. MedBerg Co. ("MedBerg") was established in Bergonia on January 30, 2004 by MedX Holdings Limited ("MedX"), a corporation of Conveniencia.[1] MedX holds 100 percent of MedBerg's shares.[2] Therefore, it ultimately has the ability to control every aspect of MedBerg's business operations. MedX is entitled to 100 percent of the returns on MedBerg's investments. Every dollar of loss in the value of MedBerg is endured 100 percent by MedX.

3. MedX's securities are held equally between the shareholders of MedScience Co., a publicly traded corporation of Laputa, and Dr. Frankensid, a dual national of Amnesia and Bergonia. Each holds 50 percent of the outstanding shares of MedX.[3] Dr. Frankensid is employed by MedScience and is the original inventor of the technology covered by the patent at issue in this case. Dr. Frankensid relinquished all rights to his invention in exchange for certain shareholder rights in MedX.[4]

4. On February 5, 2005, MedBerg applied to the Bergonia Intellectual Property ("IP") Office for a twenty year patent covering the property rights it owns related to Dr. Frankensid's invention.[5] The Bergonian IP Office granted Patent AZ2005 on March 15, 2005. Patent AZ2005 is valuable for producing certain health-related products, including products useful for treating obesity.[6] The product's market price is 9,950 Bergonian ECU, or U.S. $300.[7]

[1] Annex 3, *Uncontested Facts*, para. 1.
[2] Annex 3, para. 2.
[3] *Id.* at para. 2.
[4] Response to Request No. 25.
[5] *Id.* at No. 58, Annex 3 para. 5.
[6] *Id.* at No. 40.
[7] *Id*. at No. 109.

5. MedBerg entered into an exclusive licensing agreement with BioLife Co., a Bergonian company, on March 31, 2005.[8] MedBerg asserts that BioLife violated these terms and exported the product outside of Bergonia.[9] On March 31, 2007, after three days of failed negotiations, MedBerg terminated BioLife's license in accordance with the agreement.[10]

6. Only two months after MedBerg canceled its license agreement with Bio-Life, the Bergonian IP Office commenced proceedings to issue a compulsory license regarding Patent AZ2005 on June 1, 2007.[11] On November 1, 2007, the IP Office subsequently issued the compulsory license only five months after proceedings began.[12]

7. As of January 1, 2009, six Bergonian companies, including BioLife, have invoked the compulsory license, three of which now export health-related products based on the patent to other countries that have the capacity to manufacture pharmaceuticals on their own[13] All of the companies use it for commercial purposes.[14] The license from Bergonia does not place any restrictions on the export of the drug.[15] These other countries include countries in which MedX or its subsidiaries hold exclusive patents.[16] MedBerg has chosen not to accept royalties that the Bergonian IP Office collected from these companies because the royalty rates are inadequate and did not result from licensing agreements through MedBerg.[17]

8. The Secretary of the International Centre for Settlement of Investment Disputes registered these proceedings for arbitration on November 1, 2008.[18]

[8] Annex 3, para. 6; Response to Request No. 32.
[9] Response to Request No. 39
[10] Annex 3, para. 6.
[11] *Id.* at paras. 6, 7.
[12] *Id.* at para. 8.
[13] *Id.* at para. 8. Response to Request No. 70
[14] Response to Request No. 34
[15] *Id.* at No. 30
[16] *Id.* at No.101, 103.
[17] *Id.* at No. 42.
[18] Annex 3, para. 10.

PART ONE: RATIONE PERSONAE MERITS OF THE CLAIM

9. The Tribunal has jurisdiction over the parties under both the first and second clauses of Article 25(2)(b) of the ICSID Convention.[19]

10. First, this case involves a dispute between a Contracting State and a national of another Contracting State. MedBerg is a national of Conveniencia under the first clause of Article 25(2)(b) because it is owned and controlled by a national of Conveniencia.

11. Second, there is written consent to settle the dispute by ICSID arbitration as between the Contracting State and investor.[20] Bergonia consented to treat MedBerg as a foreign national through the MFN Clause in the Bergonia-Conveniencia BIT, and because MedBerg is under foreign control.

I. UNDER THE FIRST CLAUSE OF ARTICLE 25(2)(B), MEDBERG IS A NATIONAL OF A CONTRACTING STATE OTHER THAN THE HOST STATE BECAUSE IT IS OWNED AND CONTROLLED BY A NATIONAL OF CONVENIENCIA.

12. MedBerg is wholly owned and controlled by MedX Holdings Limited ("MedX"), a national of Conveniencia. Therefore, MedBerg is a national of Conveniencia under the first clause of Article 25(2)(b) of the ICSID Convention.

13. MedBerg is a national of Conveniencia for three reasons. First, MedBerg is controlled by MedX, a national of Conveniencia. Second, the incorporation test for nationality is not appropriate in this case. Third, MedX's control existed on the date which the parties consented to ICSID arbitration.

[19] *1965 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States* ("ICSID Convention"), Article 25(2)(b). See also *Phoenix Action, Ltd. v. The Czech Republic*, Award, ICSID Case No. ARB/06/5, para 54.
[20] *Id.*

14. The first clause of Article 25(2)(b) states the local legal entity must have the nationality of a Contracting State other than the host State that is party to the dispute.[21]

(A) MEDBERG IS OWNED AND CONTROLLED BY A NATIONAL OF CONVENIENCIA.

15. MedBerg is a national of Conveniencia under Article 25(2)(b) of the ICSID Convention because MedX, a national of Conveniencia, has complete control over MedBerg. This control makes MedBerg a subsidiary of MedX for purposes of determining jurisdiction under the ICSID Convention.

16. MedX, a legal entity of Conveniencia, owns and controls MedBerg for purposes of Article 25(2)(b) and the Bergonia-Conveniencia BIT. Thus, the application of a control test results in the finding that MedBerg is as a national of Conveniencia.

(1) 100 Percent of Share Ownership Creates a Presumption of Control.

17. The Tribunal in *Vacuum Salt Products Ltd.* v. *Republic of Ghana* found that 100 percent ownership of shares of a company necessarily demonstrates control.[22] The Tribunal stated: "It stands to reason, of course, that 100 percent foreign ownership almost certainly would result in foreign control, by whatever standard."[23] The tribunal went on to state that share ownership was a reasonable criterion for demonstrating control so long as this was supported by some level of control or interest in the subsidiary.[24] Tribunals have declined to pursue a standard of "actual control" in supplementing ownership because "the concept is sufficiently vague as to be unmanageable."[25] Instead, the purpose of the BIT in stimulating investment should govern the control standard.[26]

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[21] *ICSID Convention*, Article 25(2)(b).
[22] *Vacuum Salt Products Ltd. v. Republic of Ghana*, ICSID Case No. ARB/92/1, February 16, 1994, para. 43.
[23] *Id.*
[24] *Id.* at paras 43-44.
[25] *Aguas del Tunari S.A. v. Republic of Bolivia*, ICSID Case No. ARB/02/3, Decision on Jurisdiction, 21 Oct. 2005, para 246.
[26] *Id.* at para. 247.

18. Because MedX holds 100 percent of MedBerg's shares, MedX possesses the necessary voting power to exercise complete control over MedBerg. MedX may choose to exercise its control as such, or it may choose to leave MedBerg to govern itself and pursue its own claims. As a result, no practical conditions for defining control can be associated with Bergonia.

19. To the extent that the Tribunal in *Tokios Tokeles* v. *Ukraine* rejected application of a control test, the Tribunal only rejected its use for restricting the scope of the meaning of "investors" in the BIT.[27] The Tribunal warned against stifling the expression of the parties as set out in their BIT as being inconsistent with the object and purpose of the agreement.[28]

20. Unlike the situation in *Tokios*, however, application of the control test to these proceedings will create jurisdiction consistent with the object and purpose of the BIT, namely, providing protection to Conveniencian investments in Bergonia.

(2) Control Stops at the Level of MedX Because Control does not go Beyond the First Degree

21. In *Amco* v. *Indonesia*, the Tribunal looked only to the first level of control and concluded that examining control of a local company to the "second, and possibly third, fourth, or fifth degree" is contrary to the ICSID Convention.[29]

22. Bergonia contends that the Tribunal in Amco, although finding jurisdiction, did not do so by looking to the nationality of the local company's controlling shareholder. However, this dispute differs factually because here the only shareholder is not merely an individual shareholder, but is also the parent company, MedX. This is an exceptional circumstance that necessitates looking to the controlling shareholder, but no further, as the determinative factor in deciding nationality.

23. Alternatively, even if the Tribunal finds it appropriate to recognize a level of control beyond MedX by looking to MedScience and Dr. Frankensid as equal shareholders in MedX, the connections between these shareholders and MedBerg's actions are attenuated. Since

[27] *Tokios Tokeles v. Ukraine*, Decision on Jurisdiction, ARB/02/18, April 29, 2004, para. 31.
[28] *Id.* at para 32.
[29] *Amco Asia Corp. v. Indonesia*, ICSID Case No. ARB/81/1, Decision on Jurisdiction, September 25, 1983, para.14.

relinquishing the rights to what became Bergonian Patent AZ2005 on December 1, 2003, Dr. Frankensid has had no meaningful say in the direction or use of that technology after assigning it to MedBerg. Dr. Frankensid relinquished all rights to the technology covered by Patent AZ2005 in exchange for 50% of MedX's outstanding shares. MedScience is equally removed from actual control of MedBerg.

(B) A CONTROL TEST IS APPROPRIATE FOR DETERMINING CORPORATE NATIONALITY IN THIS CASE.

24. Tribunals traditionally apply tests of state of incorporation or location of corporate seat to determine the nationality of legal entities. Because of MedX's control, however, this case requires a "realistic assessment" through the use of a control test.[30] A "control test" provides the most realistic method for determining corporate nationality because accounts for this control, whereas a test of incorporation or corporate seat will not account for that control.

25. On the one hand, recent "jurisprudence reveals the willingness of ICSID tribunals to refrain from making decisions on their competence base on formal appearances, and to base their decisions on a realistic assessment of the situation before them."[31] In contrast to the realistic assessment approach, Professor Schreuer references another line of cases and concludes that, "a systematic interpretation of Article 25(2)(b) would militate against the use of the control test for a corporation's nationality."[32]

26. However, the "realistic assessment" approach is required in this case because MedBerg is a wholly owned subsidiary of MedX, a juridical national of Conveniencia. Therefore, MedBerg's incorporation and maintaining its corporate seat in the territory of Bergonia do not necessitate a finding of MedBerg's nationality as Bergonian for purposes of ICSID jurisdiction. Article 25(2)(b) provides an exception where a juridical person is under foreign control and an agreement to treat that person as a foreign national exists. Article 25(2)(b) defines the exception to incorporation presumption by stating that 'national of another Contracting State' means:

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[30] *Banro American Resources, Inc., Societe Aurifere du Kivu et du Maniema S.A.R.L. v. Democratic Republic of the Congo*, ICSID Case No. ARB/98/7, September 1, 2000, para 11.
[31] *Id.* at para 11.
[32] Schreuer, Christoph. *Commentary*, at 278-79, quoted in *Tokios Tokeles v. Ukraine*, para 42.

> 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 purposes of the Convention.

27. The traditional method of determining corporate nationality by place of incorporation and corporate seat is not determinative in this dispute because such an agreement exists by virtue of the MFN clause which is addressed fully below.

28. The well established principle of *expressio unius est exclusio alterius* states that the nationality of a juridical person is linked to the State of its incorporation and corporate seat as defined in the relevant BIT.[33] Traditionally, the place of incorporation and corporate seat are the traditional criteria for determining corporate nationality. However, Article 25(2)(b) provides an exception to the traditional presumption of nationality when the host state has agreed to treat the local juridical entity as a foreign juridical entity of the other Contracting State and when the foreign juridical entity possesses some control over the foreign juridical entity.[34]

29. In *Banro American Resources, Inc., Societe Aurifere du Kivu et du Maniema S.A.R.L.* v. *Democratic Republic of the Congo*[35] the tribunal deemed it appropriate for tribunals "to work their way from the subsidiary to the parent company rather than the other way around."[36] The *Banro* Tribunal further stated that**, "consent expressed by a subsidiary is considered to have been given by the parent company, the actual investor, whose subsidiary is merely an 'instrumentality.'"**[37]

30. Applying the reasoning of the *Banro* Tribunal, consent given by MedBerg has the same weight as consent given by MedX because MedBerg is a mere "instrumentality" of MedX. In

[33] *Tokios Tokeles*, para 30.
[34] *Amco Asia Corp.* at para 14.
[35] *Banro* para 12.
[36] *Id*.
[37] *Id*.

this case, MedBerg expressed consent to jurisdiction, is considered to have been given by its parent company, MedX, who was the actual investor, thereby making MedBerg a national of Conveniencia for purposes of ICSID.

31. Although the *Banro* Tribunal did not find it had jurisdiction over the matter, the single factual barrier to jurisdiction in *Banro* does not appear in this case. The parent company in *Banro* was not a national of a Contracting State and improperly sought both diplomatic protection as well as protection under the BIT.[38] This was improper because the ICSID Convention was designed to protect investments made by nationals of Contracting States other than the host State, not investments by third nations.

32. Unlike the parent company in *Banro*, MedX is a national of a Contracting State. Furthermore, the claimant in Banro attempted to take advantage of two methods of dispute settlement, whereas in this case MedBerg seeks remedies solely under the terms of the BIT. Therefore, MedBerg is not seeking to sidestep the purpose of the ICSID Convention as the *Banro* claimant did.

33. Therefore, the Tribunal can apply a control test consistently with the ICSID Convention and the intentions of the Contracting Parties.

(C) MEDX'S CONTROL EXISTED ON THE DATE OF CONSENT TO ARBITRATION.

34. Article 25(2)(b) requires that a juridical person have the nationality of a Contracting State other than the one party to the dispute on the date on which the parties consented to arbitration.[39]

35. Bergonia consented to arbitrate this dispute in the Bergonia-Conveniencia BIT on May 30, 2003.[40] Bergonia's consent to arbitrate disputes related to investments by Conveniencian nationals was held open from that date. But because MedBerg had not yet consented to

[38] *Id.* at, para 24.
[39] *ICSID* at Article 25(2)(b).
[40] Bergonia-Conveniencia BIT, Article 12(4).

arbitration of the dispute on that date, it is not the appropriate date for determining jurisdiction under ICSID Article 25(2)(b).

36. The relevant date in this analysis is November 1, 2008, because that was the date on which this dispute was registered for arbitration with ICSID. MedBerg was a national of another Contracting State on the date to which the parties consented to arbitration. Therefore, MedBerg was a national of Conveniencia on the date of consent to arbitration as required by Article 25(2)(b).

II. UNDER THE SECOND CLAUSE OF ARTICLE 25(2)(B), BERGONIA CONSENTED TO TREAT MEDBERG AS A 'NATIONAL OF ANOTHER CONTRACTING STATE' THROUGH THE MFN CLAUSE CONTAINED IN THE BERGONIA-CONVENIENCIA BIT.

37. Bergonia is in violation of the Article 3 MFN Clause because it treats MedBerg less favorably than investors of third States. MedBerg may obtain the same treatment that Bergonia gives to Tertian investors by incorporating Article VI.8 of the Bergonia-Tertia BIT.

38. First, the Article 3 MFN Clause may be used to incorporate favorable treatment regarding jurisdictional matters. Second, clauses similar to Article VI.8 are consistently held to create jurisdiction. Third, the denial of benefits clause contained in the Bergonia-Tertia BIT does not bar jurisdiction.

(A) THE ARTICLE 3 MFN CLAUSE COVERS JURISDICTIONAL MATTERS

39. The Article 3 MFN Clause covers jurisdictional matters such as those contained in Article VI.8 of the Bergonia-Tertia BIT.

40. The MFN Clause is powerful; it "is not a rule of interpretation …. It is a substantive rule that endows its beneficiary with rights that are additional to the rights contained in the basic treaty."[41] Subsection (2) of Article 3 precludes Bergonia from subjecting investors of Conveniencia,

[41] Christoph Schreuer, *Consent to Arbitration*, in *The Oxford Handbook of International Investment Law*, (Oxford University Press, 2008), page 855.

> as regards their activity, in particular, though not exclusively, concerning management, maintenance, operation, enjoyment or disposal of their investments, to treatment less favorable than it accords to its own investors or to investors of any third State, whichever is more favorable to the investors.[42]

41. This provision requires Bergonia to give MedBerg the same jurisdictional rights as a Tertian investor because the Bergonia-Conveniencia BIT does not explicitly limit or restrict the MFN Clause to particular issues. In particular, the terms "operation, enjoyment or disposal" are not restrictive.[43] Moreover, a non-restrictive reading of these terms is consistent with good faith and the "object and purpose" requirements found in Article 31 of the Vienna Convention.[44] The complete absence of any provisions limiting jurisdiction in the Bergonia-Conveniencia BIT demonstrates that neither party intended to limit jurisdiction of investment disputes by the MFN Clause. Professor Schreuer states: "In the absence of such a specification, it is difficult to understand why a broadly formulated MFN clause should apply only to issues of substance but not to questions of dispute settlement."[45]

42. The decision on jurisdiction in *Emilio Agustin Maffezini* v. *The Kingdom of Spain*[46] demonstrates that an MFN clause may incorporate jurisdictional provisions where they are "essential for the adequate protection of the rights they sought to guarantee."[47] The *Maffezini* Tribunal reasoned that such incorporation is proper when the clause of the third party treaty is of the same class of disputes and thus consistent with the principle of *ejusdem generis*, and when the third party treaty relates to the same subject matter.[48] The Tribunal concluded:

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[42] BIT at Article 3(2).
[43] *Id.*
[44] *Vienna Convention on the Law of Treaties*, Article 31, May 23, 1969.
[45] Schreuer, C. Consent at p. 855.
[46] *Emilo Agustin Maffezini v. The Kingdom of Spain*, ICSID Case No. ARB/97/7, Decision on Jurisdiction, January 25, 2000.
[47] *Maffezini*, para 54; see also, August Reinisch, *Maffezini v. Spain Case*, Max Plank Encyclopedia of Public International Law.
[48] *Maffezini* at para 56.

> If a third-party treaty contains provisions for the settlement of disputes that are more favorable to the protection of the investor's rights and interests than those in the basic treaty, such provisions may be extended to the beneficiary of the most favored nation clause as they are fully compatible with the *ejusdem generis* principle.[49]

43. Therefore, incorporating jurisdictional issues is contrary to the will of the parties only if creates new or different consent by one of the Parties to jurisdiction not anticipated in the BIT.

44. Under the Bergonia-Conveniencia BIT, jurisdictional matters are essential to protect the rights of investors and host States. Incorporation of Article VI.8 through the MFN Clause is therefore necessary. Furthermore, it is consistent with the principle of *ejusdem generis* because the Bergonia-Conveniencia and Bergonia-Tertia BITs belong to the same class of agreements, those covering the "reciprocal encouragement and protection of investment."[50] Protection in both BITs extends to investments involving the same subject matter, namely, "intellectual and industrial property,"[51] and "intellectual property rights" and "industrial designs."[52]

45. Furthermore, incorporating Article VI.8 into the Bergonia-Conveniencia BIT is consistent with the reasoning of the Tribunal in *Plama Consortium Limited* v. *Republic of Bulgaria*.[53] The claimant in *Plama* sought to incorporate a dispute resolution procedure that was not contemplated in its own BIT.[54] The *Plama* Tribunal concluded that while supplementing treatment in the original BIT is appropriate, "it is quite another thing to replace a procedure specifically negotiated by the parties with an entirely different mechanism."[55]

46. Unlike the claimant in *Plama*, MedBerg does not seek to replace a procedure in its own BIT with an entirely different one. Because both BITs provide for consent to ICSID jurisdiction,

[49] *Id.* at para 56.
[50] BIT at *preamble.*
[51] *Id.* at Article I.1(a)(iv).
[52] *Id.* at Article 1.1(d).
[53] *Plama Consortium Limited v. Republic of Bulgaria*, ICSID Case No. ARB/03/24, February 8, 2005.
[54] *Id.* at para 209.
[55] *Id.*

MedBerg is not seeking a different dispute resolution mechanism than what Bergonia has agreed to in the BIT. Instead, MedBerg relies on the MFN Clause of Article 3 only to the extent that it supplements—not replaces—the treatment in its own BIT with more favorable treatment provided in Article VI.8 of the Bergonia-Tertia BIT.

47. Subsection (3) of Article 3 of the Bergonia-Conveniencia BIT states particular examples of "treatment less favorable," and deals exclusively with substantive issues protected under the BIT.[56] It does not explicitly exclude jurisdictional issues.[57] Thus, subsection (3) is separable from other clauses in Article 3 and does not limit the MFN Clause to substantive matters.

(B) CLAUSES SIMILAR TO ARTICLE VI.8 ARE CONSISTENTLY HELD TO CREATE JURISDICTION.

48. Clauses similar to Article VI.8 of the Bergonia-Tertia BIT are consistently held to create jurisdiction in ICSID where the claimant is a company incorporated in the Host Contracting State party to the dispute.[58] Incorporating Article VI.8 merely extends the standing of MedX to its subsidiary MedBerg.

49. Denying a legal entity of a Contracting State access to ICSID arbitration where its parent company has standing is "treatment less favorable" under the BIT. A jurisdictional provision in the United Kingdom Model Agreement states:

> A company which is incorporated or constituted under the law in force in the territory of one Contracting Party and in which before such a dispute arises the majority of shares are owned by nationals of companies of the other Contracting Party shall in accordance with article 25(2)(b) of the Convention be treated for the purposes of the Convention as a company of the other Contracting Party.[59]

[56] BIT at Article 3(3).
[57] *Id.*
[58] *Wena Hotels Limited v. Arab Republic of Egypt*, ICSID Case No. ARB/98/4, page 12.
[59] *Id.* at page 11.

50. The Tribunal in *Wena Hotels* stated that, "Under treaties containing such a provision, proceedings may be instituted directly by the local subsidiary."[60] Therefore, under similar provisions, ICSID jurisdiction exists when a subsidiary incorporated in the Host Contracting State is controlled by a national of the Other Contracting State.

51. Similarly, in disputes involving Tertian subsidiaries in Bergonia, this Tribunal would have jurisdiction under Article VI.8 of the Bergonia-Tertia BIT which states:

> any company legally constituted under the 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.[61]

52. Like the U.K. Model Agreement, the Bergonia-Tertia BIT allows a company incorporated in the Host Contracting State to be considered a national of. Therefore, the Bergonia-Tertia BIT accords less favorable treatment to investments of Conveniencia in Bergonia than investments of Tertia. This is because the Bergonia-Tertia BIT explicitly extends the parent company's standing to its subsidiary, whereas the Bergonia-Conveniencia BIT, absent the MFN clause, does not assert this right.

53. Article 3(2) of the Bergonia-Conveniencia BIT states that Bergonia shall not subject MedBerg "to treatment less favorable than it accords to investments of its own investors or investments of any third State."[62] Incorporating Article VI.8 will put MedBerg on equal footing with Tertian companies in their relations with Bergonia by applying the more favorable procedural rule. Incorporating the provision is necessary to give effect to the intent of the Parties. Because Bergonia and Conveniencia contemplated the use of ICSID arbitration in Article 10(2) of their BIT, invoking Article VI.8 does not manufacture Bergonian consent to a

[60] *Id.*
[61] BIT at Article VI.8
[62] *Id.* at Article 3(2).

completely new dispute resolution authority.[63] Nor does it manufacture Bergonian consent to a new category of dispute since both BITs require disputes arising out of an "investment" and both include "intellectual property" within the category investment.[64]

54. Finally, Article VI.8 creates jurisdiction because MedBerg was an investment of MedX immediately before the events giving rise to the dispute. To be treated as a national of another Contracting State under Article VI.8, a company constituted under Bergonian law must have been an investment of nationals of another Contracting State immediately before the occurrence of the events giving rise to the dispute.[65]

55. This dispute arises out of the issuance of the compulsory license by the Bergonian IP Office on November 1, 2007. MedBerg was established by MedX to manage the investment of medical technology associated with Patent AZ2005 in Bergonia. MedBerg existed for this purpose immediately prior to November 1, 2007. Therefore, MedBerg existed as MedX's investment immediately before the issuance of the compulsory license.

(C) THE DENIAL OF BENEFITS CLAUSE CONTAINED IN THE BERGONIA-TERTIA BIT CANNOT BE INVOKED AND DOES NOT BAR JURISDICTION.

56. Bergonia is precluded from incorporating the denial of rights clause found in Article I.2 of the Bergonia-Tertia BIT because no similar clause exists in the Bergonia-Conveniencia BIT. Moreover, even if Bergonia can invoke Article I.2, it has not demonstrated that the requirements contained in that provision are satisfied. Therefore, the existence of a denial of benefits clause in the Bergonia-Tertia BIT does not restrict MedBerg's status as a national of Conveniencia for purposes of jurisdiction.

57. A denial of benefits clause cannot be invoked where no such clause was contemplated in the original bilateral investment treaty. The BIT in *Tokios Tokeles* v. *Ukraine*[66] contained no

[63] *Id.* at Article 10(2).
[64] *Id.* at Article I.1(a)(iv); BIT at Article 1(1)(d).
[65] *Id.* at Article VI.8.
[66] *See: Tokios Tokeles*

provision limiting jurisdiction over local companies under the control of nationals of a third country.[67] The Tribunal viewed "the absence of such a provision [from the BIT] as a deliberate choice of the Contracting Parties" to not restrict the jurisdiction under ICSID.[68]

58. Similarly, the Bergonia-Conveniencia BIT lacks any provision limiting jurisdiction through a denial of benefits clause where nationals of a third country control the claimant. The only limiting provisions involve matters such as equal treatment regarding expropriation, membership in customs or economic unions, and "ownership of lands and real estate."[69] These provisions significantly do not include jurisdictional matters of any kind.

59. The Tertia and Bergonia exchanged instruments of ratification on March 15, 2003. On October 6 of that same year, Bergonia and Conveniencia exchanged instruments. Bergonia had every opportunity to negotiate a denial of benefits clause into the Bergonia-Conveniencia BIT just as it negotiated with Tertia seven months earlier. Therefore, Bergonia cannot invoke a denial of benefits clause from another BIT to bar jurisdiction because it would frustrate the "deliberate choice of the Contracting Parties."[70]

60. Moreover, Bergonia may not incorporate the denial of rights clause of Article I.2 because it is permissive and not mandatory. Article I.2 begins: "Each party reserves the right to deny …" which suggests that the clause does not apply automatically.[71] Interpreting a denial of benefits clause of the Energy Charter Treaty, the tribunal in *Plama* stated that "the existence of a right is distinct from the exercise of that right."[72] Thus, "reservation" of a right is distinct from taking action. The holder of the right may choose not to invoke the right at all. It follows that rights established by permissive language require their exercise to "be associated with publicity or other notice so as to become reasonably available to investors."[73] Without such notice, the investor would be unduly prejudiced.

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[67] *Tokios Tokeles*, para 36.
[68] *Id.*
[69] BIT at Articles 3(3), 3(4) and 3(6).
[70] *Tokios Tokeles*, para 36.
[71] BIT at Article I.2.
[72] *Plama* at para 155.
[73] *Id.* at para 157

61. Therefore, invoking Article I.2 is a much different endeavor from invoking Article VI.8 because the express language treating local companies actually under foreign control as foreign nationals of the respective Contracting State makes Article VI.8 a mandatory clause under the Bergonia-Tertia BIT. In contrast, the permissive language of Article I.2 categorizes that provision as optional.

62. Even if invoked, the criteria required to apply Article I.2 does not exist.[74] MedBerg is controlled by a national of Conveniencia, not by nationals of third parties. Furthermore, MedBerg has substantial business activities in Conveniencia. Finally, Bergonia maintains sufficiently normal economic relations with both Laputa and Amnesia.

III. CONCLUSION OF RATIONE PERSONAE MERITS OF THE CLAIM

63. The Tribunal has jurisdiction over the parties because MedBerg is wholly owned and controlled by a national of a Conveniencia and because Bergonia has consented through the MFN clause to treat MedBerg as a national of Conveniencia for purposes of ICSID jurisdiction.

[74] BIT at Article 1.2.

PART TWO: RATIONE MATERIAE MERITS OF THE CLAIM

64. Article 25(1) states that ICSID only has jurisdiction over a "legal dispute arising directly out of an investment."[75] The term 'investment' was left undefined.[76] It was left undefined in part to allow contracting states to define the term investment as appropriate for each specific agreement.[77] However, the reason why 'investment' was left undefined in the Convention does not change the overall text of the Convention as it is written. Nothing in the text of the Convention itself defers to the States exclusive authority to define the scope of ICSID jurisdiction by agreeing to define 'investment' a certain way in a Bi-lateral treaty. Just because 'investment' was left undefined in ICSID does not mean that the signatories of ICSID did not expect tribunals to apply reasonable allowances and restrictions. Therefore, arbitration under the rules of ICSID requires subject matter jurisdiction issues to pass two tests.

65. First, it must concern definition of a legal dispute arising directly out of an investment that would reasonably fit the broad intentions of the parties to ICSID. This includes the intention of the parties for leaving investment undefined under ICSID.

66. Second, in order for there to be a legal dispute under ICSID, the case must concern whether the States intended to create a legal right or obligation, or in the case of a breach of an obligation, the case must concern whether reparations should be made.[78] These intentions can be evidenced through treaties, agreements or other applicable means in international law. Therefore, the second test is whether the State party has created a legal obligation under its own agreements to define the conflict as "a dispute arising directly out of an investment." This second test requires a Tribunal to both find that the State created an obligation to define the subject matter as an investment and also to find that the State intended to create an obligation or duty on itself related to 'investments.'

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[75] *ICSID* at Article 25(1)
[76] *Report of the Executive Directors on the Convention on the Settlement of Investment Disputes between States and Nationals of Other States*. March 18, 1965, para. 27. available at http://icsid.worldbank.org/ICSID/StaticFiles/basicdoc/partB-section01.htm.
[77] *Id*. at para. 27.
[78] *Id*. at para. 26.

67. In the case at hand, the rules of law as articulated by in the text of ICSID and the arbitral rulings defining that the text of the Convention support MedBerg's assertion that it has invested in Bergonia under the terms of ICSID. It therefore passes the first test.

68. It also passes the second test because the issue falls under the State party's intended definition of investment as evidenced by the Conveniencia-Bergonia BIT. Furthermore, the BIT obliges Bergonia to pay reparations to the claimant upon an expropriation. (In Part Three of this argument, the claimant will prove that the respondent intended for the facts of this case to fall under the definition of an expropriation.

69. MedBerg's claim that its investments were expropriated without just compensation is supported by the rules of ICSID, the BIT and Bergonian law. However, when these rules are in dispute, the tribunal may apply the customs and general principles of international law to demonstrate what Bergonia should have reasonably expected its obligations to entail.[79] Furthermore, even in instances where the rules of ICSID, the BIT, and Bergonia law are in conflict, the applicable rules of international law are supportive of the substantive merits MedBerg's claim.

I. THE TRANSFER OF PATENT RIGHTS FROM MEDX TO MEDBERG IS AN INVESTMENT IN BERGONIA UNDER THE ICSID'S DEFINITION OF INVESTMENT.

(A) OVERVIEW OF THE ISSUES TO BE CONSIDERED WHEN IDENTIFYING AN INVESTMENT

70. Christoph Schreuer has summarized the typical features of an investment in the following way:

1. the project should have a certain duration
2. there should be a certain regularity of profit and return
3. there is typically an element of risk for both sides
4. the commitment involved would have to be substantial

[79] *ICSID* at Article 42; *Report of the Executive Directors* at para. 40; ***Statute of the International Court of Justice***, Article 38(1) June 26, 1945, (3 Bevans 1179).

5. the operation should be significant for the host State's development[80]

71. Case law under ICSID arbitration has provided similar guidelines for defining investments. The panel in *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of Morocco* listed a four part guideline for identifying a legitimate investment.[81] It suggests asking whether there has been:

1. a contribution in money or other assets;
2. a commitment over a certain duration;
3. participation in the risk;
3. a contribution to the host State's development.

72. In *Phoenix Action Ltd. v. The Czech Republic*, the arbitral panel essentially re-affirmed the same test.[82] The *Phoenix* ruling clarified point three of the Salini test in a way that was consistent with the way countries have been interpreting the meaning of a contribution to the host State's development. It suggests asking whether there has been:

1. a contribution in money or other assets,
2. over a certain duration;
3. an operation made in order to develop an economic activity in the host State;
4. assets invested in accordance with the law of the host State;
5. assets invested that are *bona fide.*

73. Points 4 and 5 of *Phoenix* re-iterated the recent arbitral rulings that are inherent under ICSID and international law. Many BITs already state that investments must be in accordance with the law of the host State. Several cases have interpreted this to mean that the investment must not be an illegal activity within the host state.[83] *Phoenix* simply stated that this clause is

[80] OECD. *International Investment Law: Understanding Concepts and Tracking Innovations*. P. 61 (OECD, 2008).

[81] *Salini Costruttori S.p.A. and Italstrade S.p.A. v. Kingdom of* Morocco (ICSID Case No. ARB/00/4) para, 52.
[82] *See: Phoenix Action, Ltd. v. The Czech Republic*, Award, (ICSID Case No. ARB/06/5), April 15, 2009.
[83] *See: Salini v. Morocco, LESI, S.p.A. and Astaldi, S.p.A. v. People's Democratic Republic of Algeria* (ICSID Case No. ARB/05/3) Decision on Jurisdiction, July 12, 2006, and *Tokios v. Ukrain*.

applicable to all investments being contested under ICSID regardless of whether legality was mentioned in the BIT or not. The reference to *bona fide* assets is intended to ensure that ownership and control of a corporation is not transferred to another country after the event that gave rise to a claim has already occurred. In this way, point five simply is a measure to guard against jury shopping after jurisdiction to a claim is already legally established.

74. It is not disputed that MedBerg's activity was legal in Bergonia or that MedBerg was owned by a Conveniencia corporation prior to the events giving rise to this claim. Therefore, points four and five of *Phoenix* are not at issue in the current case.

75. The first three points of *Salini, Phoenix* and all the points in Schreuer's assessment can be categorized as issues that either addresses the impact on the investor or the impact on the host state. These will be addressed separately in the next two sub-sections.

(B) IMPACT ON MEDX AND ITS SUBSIDIARY MEDBERG: BECAUSE MEDX GAVE PATENT RIGHTS TO MEDBERG EXPECTING MEDBERG TO EXERCISE THAT RIGHT IN BERGONIA, MEDX'S OPPORTUNITY TO GENERATE RETURNS FROM THAT ASSET BECAME CONTINGENT ON ITS LEGITIMATE EXPECTATION THAT BERGONIA WOULD COMPLY WITH ITS OBLIGATIONS TO PROTECT MEDX'S OPPORTUNITY TO GENERATE RETURNS.

76. The definitions for investment listed above only describe a typical investment. In order to identify an investment, the totality of the facts needs to be considered. The tribunal in *ADC v. Hungary* stated that it is the substance of the transaction that reveals the answer as to whether any investment has been made[84] The tribunal held that the complexity of the transactions and business arrangements, that together comprised the investment, should not detract from the fact that the claimant's activities relieved Hungary from having to obtain its benefits for itself. The investment was no less direct because it was channeled through the Project Company. And it was no less covered by the Convention.[85] This comprehensive assessment of an investment matches the actions taken by MedBerg and its parent company.

[84] ADC Affiliate Limited and ADC & ADMC Management Limited v. Republic of Hungary (ICSID Case No. ARB/03/16) para 325.
[85] *Id*. at para 331.

(1) ASSETS: The Issuance of a Patent to MedBerg in Bergonia Officially Finalized a Transfer of Assets from Conveniencia into Bergonia

77. MedX previously owned the entire bundle of intellectual property rights that covered the drug at issue in this case. Those rights included trade secrets. Without knowledge of those secrets, no one could obtain a patent. With those rights, MedX held the exclusive ability to patent the drug both in Conveniencia and internationally. The trade secret at issue was the description of a drug that is patentable. It is not contested in this case that this is a drug with global demand. The right to patent this drug therefore carried with it a potential to generate returns from the sale of the drug and licenses for the manufacture and sale of the drug. This ability to generate future returns is what creates the asset in intellectual property rights. Since the rights created an opportunity to generate returns, it naturally follows that those rights have value that can be invested or sold. Therefore, it is an asset. The panel in *Eureko B.V. v. Poland* recognized that the right for an investor to acquire a greater ownership percentage in a company was asset that could be expropriated.[86] Like the current case, *Eureko* represents the idea that an investment does not need to be the input of real money into a country. Rather, an asset can be any tradable right to future opportunities that are inextricably linked to that country.

78. The issuance of a patent to MedBerg had significant value. The value of the invested asset can be found from its fair market value. An intellectual property right for a commodity with international demand is more valuable to a company that already has an international business model. The costs of becoming an international corporation creates a barrier of entry for companies to enter into the market for the purchase a patent right to a viable international product. The patent is more valuable in the hands of a company that has established international subsidiaries to help market and utilize the licenses. Therefore, the fair market value of the patent is inevitably more than simply the cost of research and development and all the costs associated with acquiring a patent in a particular country. The value must also take into account the cost of creating an international corporation in the first place.

79. In the case at hand, the tradable value of the patent must take into account the extent that this patent can added value to MedX's international business infrastructure. Put another way,

[86] *See*: *Eureko B.V. v. Poland*, Partial Award, 19 August 2005, 12 ICSID Reports 335.

MedBerg would not sell its assets unless the price was more than the loss in value to MedX's entire international business model if MedX lost all control over MedBerg and lost MedBerg's assigned share of the entire original bundle of intellectual property rights. The Value is significant and it will be discussed further in Part Three.

80. This understanding of the value of an investment is consistent with *Holiday Inns v. Morocco* where the panel extended the reach of an investment to include general unity of activity surrounding the investment. In fact, the panel in *Holiday Inns* found that this general unity is more important than any specific component of an investment.[87]

(2) DURATION: MedBerg's Anticipated Duration for Obtaining Exclusive Revenue from its Pharmaceutical Patent is Twenty Years

81. One of the reasons most countries offer a patent process within their laws is to ensure that the company that expended the time and resources to develop the intellectual property has exclusive access to the economic market long enough to earn the type of financial returns needed to justify the initial outlay of time and resources. Among countries that are signatory to TRIPS, a design patent will shield the investor from competition for twenty years.[88]

82. MedBerg fully intended to utilize the full twenty years of exclusivity. Within that time, it reserved its right to carry out the commerce behind the licensing and sale of manufacturing and sales licenses at it felt most suitable to current economic conditions and comparative contractual trade opportunities.

83. MedBerg also had reasonable expectations that Bergonia would not issue a compulsory license within a three-year time period from the grant of the patent. At least MedBerg could expect a revocation would not be based on its choice to temporarily revoke its license to Bio-Life. This is because non-working patent is protected for three years under the Paris Convention

[87] *See: Holiday Inns S.A. and others v. Morocco* (ICSID Case No. ARB/72/1) Decision on Jurisdiction, May 12, 1974.

[88] *Marrakesh Agreement Establishing the World Trade Organization, Annex 1C Agreement on Trade Related Aspects of Intellectual Property Rights.* part 2, section 5, Article 33 Apr. 15, 1994, (33 I.L.M. 114).

for the Protection of Industrial Property.[89] Because Bergonia has signed TRIPS and because TRIPS requires compliance with portions of the Paris Convention, MedBerg had reason to believe that Bergonia would comply with the conditions of the Paris Convention.[90]

84. Given the protections of patents in international law that extend from the above mentioned minimum of three years to the 20 years anticipated in TRIPS, MedBerg's investment falls within the minimum threshold for the duration of an investment as applied by the Tribunal in *Jan de Nul N.V. and Dredging International N.V. v. Arab Republic of Egypt*.[91]

(3) RISK: MedBerg's Intellectual Property Assets are at Risk of Losing a Significant Portion of Their Value from Potential Changes in Market Conditions.

85. Investing in a new product involves risk. There are high costs associated with designing an idea, securing the patent and making a business model that allows the patent to generate money. Sufficient returns to cover those high costs can only be generated if there is sufficient demand in economic market. There are numerous conditions that can derail the investor's prospects of recouping those investment costs. These include changes in the overall economy to the development of competing products on the market price, to the risk of natural disasters and changes in governments. These are all conditions that MedBerg considered when calculating the risk of its investment. Because of the likelihood for these risks to materialize increase when forecasted further into the future, MedBerg's determination of when it hoped to generate returns on its investment were frontloaded into the first years of the patent's coverage.

86. When MedX gave its intellectual property rights to MedBerg to be exercised in Bergonia, it relinquished its rights to sell those rights to some other company. It basically put all of its eggs with respect to sales in Bergonia into the single MedBerg basket; thus, creating additional opportunity cost if it turned out that the investment might have generated more returns from some other business opportunities.

[89] Paris Convention for the Protection of Industrial Property, Article 5 section 40.
[90] *TRIPS* at Part 1, Article 2
[91] *Jan de Nul N.V. and Dredging International N.V. v. Arab Republic of Egypt* (ICSID Case No. ARB/04/13)

87. MedBerg adopted significant risk by assuming a portion of research and development costs from MedX. Rather than MedX selling its patent rights in Bergonia to another company in order to help recoup its original research and development costs, MedBerg assumed that responsibility. The percentage of the original costs assumed by MedBerg was roughly equivalent to the percentage of total international returns that MedX anticipated could come from Bergonia. MedBerg's ability to generate its anticipated share of international revenues is dependent on the continued existence of profit margins of the size that are only achievable with the volume of sales that can be obtained with exclusive market access. This ability to generate returns is especially critical in the initial years of the patent's coverage.

88. Bergonia had an obligation to assume the additional costs to MedBerg associated with any changes in the market that are due to Bergonia's failure to maintain market exclusivity for MedBerg that arise from an expropriation of MedBerg's intellectual property assets.

(C) IMPACT ON BERGONIA: BECAUSE BERGONIA OBTAINED INCREASED SALES TAX REVENUE AND CORPORATE INCOMETAX REVENUE FROM MEDBERG'S LICENSING ACTIVITES IN BERGONIA AND BECAUSE BERGONIA HAD OBTAINED COLLATERAL EMPLOYMENT FOR ITS CITZENS BECAUSE OF MEDBERG'S STATUS AS A PATENT HOLDER, AND BECAUSE THESE COULD ALL LAST FOR AT LEAST TWENTY YEARS, BERGONIA RECEIVED REAL ASSETS FROM MEDX THAT IMPROVED THE ECONOMIC ACTIVITY IN BERGONIA.

(1) The Development of Economic Activity in Bergonia

89. In *Phoenix Action Ltd v. Czech Republic* the arbitral panel held that ownership of a business operation could qualify as an investment, regardless if it had yet made any money if the claimant had the intention of engaging in economic activity.[92] The current case is even more solid in its application of this principle in that MedBerg had actually generated business activity prior to Bergonia's issuance of the compulsory license.

(2) A Substantial Contribution to Bergonia's Development

[92] *Phoenix* at para. 133.

90. The concept of substantial contributions in a country is a relative guideline for identifying an investment under ICSID. One fact that can be considered is the relative state of development in the host country. Because Bergonia has a GDP of only $7,535, it qualifies as an upper middle income country according to the World Bank's Atlas categorization method. This is comparable to Brazil.[93] The development of business activity in the present case is occurring in Bergonia, a country with less than half the Gross National Income per capita as the Czech Republic in the *Phoenix* case.[94] Because of this, the standards for finding sufficient economic activity in Bergonia should not be more strict than what was applied in the *Phoenix* case.

II. THE TRANSFER OF PATENT RIGHTS FROM MEDX TO MEDBERG IS AN INVESTMENT UNDER THE BERGONIA-CONVENIENCIA BIT.

(A) THE CONVENIENCIA BERGONIA BIT SPECIFICALLY IDENTIFIES PATENTS AS A VALID INVESTMENT.

91. Article 1 of the BIT, the section titled Definitions states that the term investments shall include intellectual property rights, in particular, patents.[95]

(B) THE TRANSFER OF INTELLECTUAL PROPERTY RIGHTS FROM CONVENIENCIA TO BERGONIA IS AN INVESTMENT UNDER THE BIT.

92. Article 1 of the BIT, the section titled Definitions states that the term investments "[c]omprises every kind of asset invested in accordance with the laws and regulations of a Contracting State."[96] The BIT specifically references "interests in companies" and" intellectual property rights" in the broadest sense.[97] The intellectual property rights previously owned by MedX constituted an interest in MedX that was transferred to become an asset of MedBerg; which is incorporated in Bergonia and which has provided economic activity to Bergonia in the past and, pending the outcome of this case, will have the ability to continue generate economic activity in Bergonia in the future.

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[93] World Bank. *Gross national income per capita 2008 Atlas Method and PPP*, available at: http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf.
[94] *Id.*
[95] BIT at Article 1, section 1.
[96] *Id.*
[97] *Id.*

(C) THE ISSUANCE OF LICENSES FROM A BERGONIAN PATENT STIMULATED NEW BUSINESS INITIATIVES IN A MANNER THAT IS CONSISTENT WITH THE PURPOSE LISTED IN THE BIT.

93. The entire purpose of the BIT was intended to cover MedBerg's activities as being an investment. The BIT states that its goal is "the stimulation of business initiatives and transfer of capital and technology between the two countries."[98] MedBerg has fully intended to stimulate further business initiatives in Bergonia. It initiated a license with Bio-life on March 31, 2005, just sixteen days after MedBerg was granted its patent on March 15, 2005. This business contribution continued for two years until Bio-Life violated its license agreement with MedBerg.

III. CONCLUSION OF RATIONE MATERIAE MERITS OF THE CLAIM

94. MedX's establishment of MedBerg in Bergonia, the transfer of intellectual property rights into Bergonia and the past and anticipated future licensing of the patent and its related business activities represent and investment under the anticipated usage by parties to ICSID. The entire package represents a real asset that could have been traded prior to the expropriation. MedBerg assumed risk. Its anticipated returns were uncertain and the full returns were expected to take several years

95. MedBerg's investment is expressly anticipated under the definitions of the BIT "interest in companies" and "intellectual property rights".

96. The conflict is a legal dispute for the following reason. If the Tribunal determines 1) that MedBerg's activity are an Investment under ICSID and 2) that Bergonia and Conveniencia intended it to be an investment, then Bergonia would have certain obligations in respect to MedBerg's activities, (as expressed in the BIT). The conflict is then understood as Bergonia's refusal to properly fulfill that obligation.

[98] *Id*. at preamble.

PART THREE: SUBSTANTIVE MERITS OF THE CLAIM

I. THE GRANTING OF CUMPULSARY LICENSES BY BERGONIA, IN A RECKLESS MANNER THAT DID NOT TAKE INTO CONSIDERATION THE SEVERE IMPACT IT WOULD HAVE ON MEDBERG'S INVESTMENT, CONSTITUTES AN EXPROPRIATION.

(A) REGARDLESS OF WHETHER BERGONIA'S ISSUANCE OF CUMPULSORY LICENSES ADDRESSED A NATIONAL POLICY OBJECTIVE, IT DEPRIVED MEDBERG'S INVESTMENT OF ECONOMIC VALUE.

97. Any discussion about the merits of this case must inevitably reach the conclusion that MedBerg experienced harm by Bergonia's actions. This is not a case about whether issuing a compulsory license for a drug that might reduce obesity is a valid policy goal. It does not matter what the drug was for or how important the policy objectives are. The fact of the matter is that Bergonia violated the terms of the BIT in order to fulfill its health policies. In *Compañía del Desarrollo de Santa Elena*, the panel stated where property is expropriated, even for environmental purposes, whether domestic or international, the state's obligation to pay compensation remains."[99] It does not matter that *Compañía* was about an environmental policy and not health. Health and environment are equally valid policies when used as a defense for an exception to trade practices as expressed in Article 27 or TRIPS.[100] However, this is not about creating exceptions to trade barriers. This is a case about a State's obligations under an investment agreement.

98. In ADC *Affiliate Limited and ADC & ADMC Management Limited v. Republic of Hungary* the panel held that a State's obligations under a BIT cannot be ignored because of a State's right to regulate. [101] MedBerg does not dispute Bergonia's sovereign right to set its own health policies as it chooses. However, those policies cannot be used as an excuse for failing to comply

[99] *Compañía del Desarrollo de Santa Elena, S.A. v. Republic of Costa Rica*, (ICSID case No. ARB/96/1), p. 192 February 17, 2000.
[100] *TRIPS* at Article 27 para. 2.
[101] *ADC* at para. 423.

with the terms of the BIT. The manner in which Bergonia meets its policy objectives must take into consideration its previous obligations to investors.

99. In Both the current case and in *Middle East Cement Shipping and Handling Co. S.A. v. Arab Republic of Egypt* the BITs in question protect an investor against State actions tantamount to expropriation.[102] The panel in *Middle East Cement* that the key effect to look for is whether the investor was derived of benefit from the investment, or loss of certain parts of the investment, regardless if the investor still retained ownership of the investment.[103] Under a States violation of the BIT, using this understanding of the phrase "tantamount to expropriation," the panel in *Middle East Cement* the panel determined that the State was liable to pay compensation as determined by the market value of the portion of the investment affected.[104]

100. Although it is theoretically possible that Bergonia may return exclusive patent powers to MedBerg. However, this could never make MedBerg whole again. The tradable quality of an exclusive patent in Bergonia has been destroyed as no investor can again be assured that Bergonia would not issue another compulsory license in a similar situation. A similar fear was recognized as valid in *Middle East Cement*.[105] Even if MedBerg could resume exclusive use of its patent and even if it MedBerg's faith in Bergonian patent rights could be restored, then the effects that this period of non-exclusivity has had on MedBerg's business decisions remains a strong enough reason for MedBerg to determine that the continued application for such an investment in its business portfolio no longer make sense. This right to re-evaluate investment opportunities was granted in *Middle East Cement*.[106]

101. As the Panel in *Middle East Cement* pointed out, identifying what was lost requires an assessment of the lost opportunities to contract.[107] Even though the actions by Bergonia were not specifically aimed at thwarting MedBerg's investment opportunities, it had that effect. As the panel in *ADC*

[102] *Middle East Cement Shipping and Handling Co. S.A. v. Arab Republic of* Egypt (ICSID Case No. ARB/99/6)para. 104; BIT Article 4 section 2.
[103] *Id.* at para. 108
[104] *Id.* at para. 108
[105] *Id.* at 82 subpart 7.
[106] *Id.* at para 169
[107] *Id.* at para 112

v. Hungary held, a State action that had the effect of harming the legitimate expectations of the investor was tantamount to an expropriation.[108]

102. In the current case, we can clearly identify the lost opportunities because we have specific examples of companies that have taken advantage of the compulsory license offered by Bergonia. MedBerg was deprived the opportunity to negotiate the terms of those licenses on its own terms in a way that best matches its business strategies and market expectation that it relied on in order to justify its initial investment.

103. Furthermore, the issuance of a compulsory license by Bergonia against MedBerg's patent rights had ramifications on MedX's entire international business investments. MedBerg is not simply a single investment, it represents a critical component of a comprehensive international business model. The ability for MedBerg to fulfill a piece of that model added more value to the whole than it was worth by itself. This is because in addition to generating financial returns in Bergonia from selling licenses, MedBerg also acted as a protection from other potential patent claims to that drug in Bergonia. MedX feared that if it did not secure a patent in Bergonia, someone else would and would compete against the other MedX subsidiaries. This would destroy the original motive behind the drugs research and development expenses. It is the extent of these ramifications that that represent actual cost of the expropriated assets.

(B) THE MEASURES TAKEN BY BERGONIA DID NOT CREATE A REASONABLE AND PROPORTIONATE BALANCE BETWEEN MEDBERG'S INVESTMENT INTERESTS AND THE BERGONIA'S HEALTH POLICY INTERESTS.

104. It is well established in International law that when a country takes actions to protect a public policy those means to achieve those policy goals must not place an un-proportional burden on a party being harmed if that other party would otherwise be protected against expectations of such from the terms set forth in a treaty. The European Court of Human Rights stated "There must also be a reasonable relationship of proportionality between the means

[108] *ADC* at para. 304

employed and the aim sought to be realized..."[109] This understanding was used by the panel in Técnicas Medioambientales Tecmed, S.A. v. United Mexican and in various WTO cases.[110]

105. It is clear that Bergonia never considered the effects on MedBerg. Bergonia had other available options as a way to address its policy objectives that would not have impacted MedBerg's investment to the same extent. Bergonia could have mitigated the negative effects by issuing a limited test license that strictly controlled the distribution of the drug. This could have been done in a way where Bergonia could measure the effectiveness of its policy. A better solution would have been to ask MedBerg to expedite the development of a new licensing contract with a Bergonian manufacture. In any case, issuing a wide spread compulsory license with no export controls is not the means with the least impact on MedBerg's investment.

(C) MEDBERG HAD REALISTIC EXPECTIONS BERGONIA WOULD GRANT IT MORE TIME TO NEGOTIATE A NEW LICENSES ON ITS OWN BEFORE BERGONIA WOULD ISSUE A COMPULSORY LICENSE.

106. The panel in *ADC v. Hungary* stated that "the legal procedure must be of a nature to grant an affected investor a reasonable chance within a reasonable time to claim its legitimate rights." [111] MedBerg had legitimate expectations that it would be afforded reasonable time to adjust its business transactions to meet a changing Bergonian policy. This expectation is evident in the BIT. The BIT requires the contracting States to accord foreign investments "fair and equitable treatment."[112]

107. The Panel in Tecmed interpreted such "fair treatment" in the following way:

> The foreign investor expects the host State to act in a consistent manner, free from ambiguity and totally transparently in its relations with the foreign investor, so that it may know beforehand

[109] European Court of Human Rights, In the case of James and Others, judgment of February 21, 1986, 50, pp.19-20.
[110] Técnicas Medioambientales Tecmed, S.A. v. United Mexican States (ICSID Case No. ARB(AF)/00/2) para 122; *See also* GATT Arbitration. Appellate Body Report, *Canada – Measures Affecting Exports of Unprocessed Herring and Salmon* (BISD 35S/98) (March 22, 1988) and WTO Dispute Resolution Body. Appellate Body Report, *United States – Restrictions on Imports of Tuna* (DS 21/R) (September 3, 1991).
[111] *ADC* at para 435
[112] BIT at Article 2, Section 2.

> any and all rules and regulations that will govern its investments, as well as the goals of the relevant policies and administrative practices or directives, to be able to plan its investment and comply with such regulations. . . The foreign investor also expects the host State to act consistently, i.e. without arbitrarily revoking any preexisting decisions or permits issued by the State that were relied upon by the investor to assume its commitments as well as to plan and launch its commercial and business activities.[113]

108. MedBerg was justified in relying on the exclusivity of its patents because Bergonia had never before communicated that obesity was an emergency issue. If it were an emergency issue before the patent was issued, MedBerg would have expected those concerns to be communicated to it at the time it applied for the patent. There had been no public announcements prior to the issuance of the compulsory license of evidence that numerous obese people would die in the next few months unless the drug was quickly placed on the market. There were no announcements by Bergonia because immediate access to the drugs never has been a valid component of Bergonia's health policy. It would have been irrational for MedBerg to have anticipated otherwise.

109. Without an investor having reasonable expectations of a possible issuance of a compulsory license, the host state must afford the investor due process before taking actions that have an effect tantamount to an expropriation. The BIT in the current case states that expropriation is illegal if it is not in compliance with the laws of the host state.[114] Due process is a required element in the BIT.[115]

110. The panel in *Middle East Cement* stated that an action that normally would not qualify as a taking would be tantamount to expropriation if they are not taken "under due process of law"[116] The *Tecmed* Panel ruled that Tecmed's investment assets were illegally expropriated because the host State did not engage Tecmed prior taking regulatory actions. This deprived Tecmed the

[113] *Tecmed* at para. 154
[114] BIT at Article 4 section 2
[115] *Id* at Article 4 section 3.
[116] *Middle East Cement* at para. 139

ability know the host State's policy objectives and to take appropriate measures to respond to those objectives in a way to protect the value of its investment.[117]

111. Had Bergonia allowed MedBerg more time to renegotiate a new license to replace the one Bio-Life violated, MedBerg could have maintained the value of its investment. Being granted this time to renegotiate clearly is what was intended in the BIT as being "fair and equitable treatment" that allows for "due process" before an expropriation takes place.

(D) TRIPS IS NOT CONTROLLING IN REGARDS TO THE INTERPRETATION OF RIGHTS GRANTED BY THE BIT.

(1) The BIT and ICSID are more specific on the issues of this case

112. TRIPS is a treaty that specifies the rights and regulations that countries must include in their national laws regarding patents and means of recognizing intellectual property. This is not a case about the conformity of Bergonia's laws to the standard established by TRIPS. Rather, this is a case about Bergonia's failure to provide the protections to an investment that is required to provide under a completely separate treaty. The BIT, is more specific on the intentions of Conveniencia and Bergonia as it relates to the issue of providing relief to a private party due to the expropriation of its foreign investment. TRIPS only address obligations between sovereign nations.[118] Therefore, under the principle of *lex specialis*, the obligations of the BIT should prevail.

(2) The MFN clause of the Bergonia-Conveniencia BIT cannot be invoked by Bergonia to restrict Conveniencia to the same diminished treatment of foreign investors standards that are found in the Tertia-Bergonia BIT.

113. Bergonia contends that investors from Conveniencia should be held to the restrictions found in Article III.4 of the Bergonia-Tertia BIT. This Article states that investments must conform to TRIPS. Most Favored Nation Status is intended to be used by a claimant party to demand the same treatment that the respondent party is giving to a third party. If Bergonia wanted to invoke the MFN clause in the Bergonia-Conveniencia BIT, it would have to assert that Conveniencia was giving better treatment to a

[117] *Tecmed* at para. 173
[118] *See TRIPS.*

third party than it was giving to Bergonia. Bergonia's attempt use of the MFN clause in the Bergonia-Conveniencia BIT to invoke the Bergonia-Tertia BIT and its reference to TRIPS confuses the proper use of a MFN clause.

(E) EVEN IF TRIPS IS USED TO IDENTIFY WHAT THE LEGITIMATE EXPECTATIONS SHOULD HAVE BEEN REGARDING THE ISSUANCE OF COMPULSORY LICENSES, BERGONIA FAILED TO CONFORM WITH TRIPS

114. TRIPS requires a country that issues a compulsory license to negotiate with the original patent holder first unless it is an emergency. Bergonia has stated that it anticipates it could take 48 months to assess the effects of the compulsory license on the health of its citizens. However, it also claims that it noticed the need for a compulsory license within just the two month period between the date MedBerg revoked its license with BioLife and when Bergonia first began its proceedings to issue the compulsory license. If an emergency can manifest itself in two months, the effects of the policy should be discernable in less than two years. Regardless, obesity is not a condition that would generate an emergency in two months sufficient to issue a compulsory license to six times as many businesses than what held a license prior to the emergency.

115. The award in *ADC v. Hungary* represents the principle that an ICSID Tribunal can look beyond the stated policy purpose of the host state. The tribunal can ascertain for itself the true purpose for a state's actions that lead to an expropriation.[119]

116. MedBerg asks this Tribunal to recognize the true purpose behind this expropriation. That purpose is for Bergonia to provide unfair assistance to its locally owned companies by helping them enter into an international pharmaceutical market without having to endure the costs and risk of research and development and also without having to compete in difficult negotiations to obtain a license from the foreign controlled patent holder.

[119] *See: ADC v. Hungary.*

II. CONCLUSION OF SUBSTANTIVE MERITS OF THE CLAIM

117. Bergonia expropriated the value of MedBerg's investment. Although MedBerg still owns the patent rights, the value of those rights were destroyed when the exclusivity of the patent was destroyed. The impact of this Bergonia's actions decreased the value and purpose for MedBerg's existence in the MedX's international business model.

118. The manner in which Bergonia issued the patents did not achieve a balance between stated policy objectives and the burden on MedBerg. The reckless manner in which Bergonia issued the compulsory license demonstrated Bergonia's lack of concern to mitigate the effects on MedBerg. This reveals Bergonia's true protectionist intentions behind issuing the compulsory license.

119. Bergonia should have afforded MedBerg more time to negotiate a licensing agreement with another company after MedBerg revoked its license with BioLife

120. TRIPS does not control in this case because the BIT is more specific to the facts of this dispute.

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RELIEF REQUESTED

1. MedBerg is entitled to be treated as a National of Conveniencia.

2. MedBerg is entitled to damages measured under the international law standard of compensation for an unlawful taking in the following manner:
   a) The consequential damages of the taking, plus,
   b) The greater of:

      The market value of the expropriated investment at the moment of expropriation; or,

      The sum of (x) the market value of the expropriated investment at the date of the award, determined by the value of the investment as to MedX, and (y) the value of the income that the MedBerg would have earned from the expropriated investments between the date of the taking and the date of the award.

"where the state has acted contrary to its obligations, any award to the claimant should, as far as possible, wipe out all the consequences of the illegal act and re-establish the situation which would in all probability have existed if that act had not been committed (the status quo ante)."[120]

RESPECTFULLY SUBMITTED ON September 6, 2009 BY

Klaestad

On behalf of Claimant
MEDBURG CO.

[120] *Metalclad Corporation v. Mexico*, ICSID Case No. ARB(AF)/97/1, Award, 30 August 2000, held at para. 122.