

PCA CASE N° 2014-01
IN THE MATTER OF AN ARBITRATION
- pursuant to –
THE ENERGY CHARTER TREATY
- and –
THE AGREEMENT BETWEEN THE FEDERAL REPUBLIC OF GERMANY AND
THE CZECH AND SLOVAK FEDERAL REPUBLIC
ON THE PROMOTION AND RECIPROCAL PROTECTION OF
INVESTMENTS SIGNED ON OCTOBER 2, 1990, IN FORCE AS OF OCTOBER 2, 1992

- between -
(1) ANTARIS GMBH (GERMANY)
(2) DR MICHAEL GÖDE (GERMANY)
(the “Claimants”)
- and -
THE CZECH REPUBLIC
(the “Respondent”, and together with the Claimants, the “Parties”)

AWARD

ARBITRAL TRIBUNAL:
Lord Collins of Mapesbury (Presiding Arbitrator)
Mr Gary Born
HE Judge Peter Tomka

REGISTRY:
The Permanent Court of Arbitration

2 May 2018

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LIST OF DEFINED TERMS

5% Break-Out Rule	Rule established by Section 6(4) of the Act on Promotion under which the FiT set by the ERO in a given year may not drop by more than 5% of the value of the FiT in the previous year
2001 Directive	Directive 2001/77/EC of the European Parliament and of the Council of September 27, 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market
2003 Treaty of Accession	Treaty of Accession to the European Union of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia of April 16, 2003
2005 UN Report	The Fourth National Communication of the Czech Republic on the UN Framework Convention on Climate Change of 2005
2009 Directive	Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009 on the Promotion of the Use of Energy from Renewable Sources Amending and Subsequently Repealing Directive 2001/77/EC and 2003/30/EC
2010 Action Plan	“National Renewable Energy Action Plan” which the Ministry of Industry and Trade published in July 2010
Act on Income Tax	The Act on Income Tax of 1992 (The Act No. 586/1992)
Act on Promotion	The Act for the Promotion and Use of Renewable Sources (Act No. 180/2005 Coll.)
Antaris	Antaris GmbH
Antaris AG	Antaris Solar AG
Antaris ZNL	Antaris Solar GmbH, Zweigniederlassung Kreuzlingen
BIT	The Agreement between the Federal Republic of Germany and the Czech and Slovak Federal Republic on the Promotion and Reciprocal Protection of Investments Signed on October 2, 1990, in force as of October 2, 1992
Counter-Memorial	Respondent’s Counter-Memorial dated January 29, 2016
Czech SPVs	Special Purpose Vehicle Companies, which were incorporated or of which the shares were purchased by the Claimants, all of which operated Photovoltaic Power Installations in the Czech Republic
Dr Göde	Dr Michael Göde

ECT	Energy Charter Treaty
ERO	Energy Regulatory Office
EU Commission	European Commission
EU Commission Submission	EU Commission written <i>amicus curiae</i> submission dated February 2, 2015
EU Commission's 2016 Decision	Decision of the EU Commission in case SA.40171 (2015/NN) — Czech Republic Promotion of electricity production from renewable energy sources
First [REDACTED] Report	Expert report of [REDACTED] dated April 15, 2016
First [REDACTED] Report	Expert report of [REDACTED] dated October 19, 2015
First Göde Statement	Witness statement of Michael Göde dated October 21, 2015
First Jones Report	Expert report of Wynne Jones (Frontier Economics) dated January 29, 2016
First Peer Report	Expert report of Michal Peer dated January 29, 2016
First [REDACTED] Report	Expert report of [REDACTED] dated October 23, 2015
Fiřt Statement	Witness statement of Josef Fiřt dated January 25, 2016
FiT	Feed-in tariff established by the Act on Promotion
FET	Fair and equitable treatment
FPS	Full protection and security
[REDACTED] Report	Expert report of [REDACTED] dated January 27, 2016
Holýřov	FVE Holýřov I s.r.o.
ILC Draft Articles	Draft articles on Responsibility of States for Internationally Wrongful Acts
Income Tax Exemption	Article 19(1) of the Act on Income Tax, exempting the income from photovoltaic power plants from income tax during the prescribed period
Kotáb Report	Expert Report of Petr Kotáb dated August 29, 2016
Memorial	Claimants' Memorial dated October 23, 2015
Minčiř Statement	Witness Statement of Ladislav Minčiř dated August 26, 2016
Mozolov	FVE Mozolov s.r.o.

Osečná	FVE Osečná s.r.o.
PCA	Permanent Court of Arbitration
Pricing Regulation	ERO Regulation No. 140/2009 Coll.
██████ Report	Expert report of ████████ dated May 9, 2016
Rejoinder	Respondent's Rejoinder dated August 30, 2016
Reply	Claimants' Reply dated May 16, 2016
RES	Renewable energy sources
Second Bacon Report	Expert report of Kelyn Bacon QC dated August 16, 2016
Second ████████ Report	Expert report of ████████ dated April 6, 2017
Second ████████ Report	Expert report of ████████ dated April 21, 2016
Second Göde Statement	Witness statement of Michael Göde dated May 15, 2016
Second Jones Report	Expert report of Wynne Jones dated August 30, 2016
Second Peer Report	Expert report of Michael Peer dated August 29, 2016
Second ████████ Report	Expert report of ████████ dated May 16, 2016
Shortened Depreciation Period	A shorter depreciation period (5 to 10 years) under the Act on Income Tax, pertaining to photovoltaic power plants with certain technological components
Solar Levy	The levy revenues generated by photovoltaic power plants stipulated in Section 7(a) of the Act on Promotion amended by Act 402/2010
Solar Levy Extension Claim	Claimants' claim as to the Extension of the Solar Levy by the Act No. 310/2013 Coll
██████ and ████████ Report	Expert report of ████████ and ████████ dated March 31, 2016
Stříbro	FVE Stříbro s.r.o.
Supplemental ████████ Report	Supplemental report of ████████ dated April 6, 2017
Taurus	TCS Taurus Service s.r.o.

Technical Regulation	ERO Regulation No. 475/2005 Coll.
Third [REDACTED] Report	Expert Report of [REDACTED] dated April 6, 2017
TFEU	Treaty on the Functioning of the European Union
UNCITRAL Rules	Arbitration Rules of the United Nations Commission on International Trade Law
Úsilné	FVE Úsilné s.r.o.
VCLT	Vienna Convention on the Law of Treaties, done in Vienna, done in Vienna on the 23 May 1969, 1155 U.N.T.S. 331

I. Introduction

A. The Treaties

1. Article 10(1) of the Energy Charter Treaty (the “**ECT**”) provides:

Each Contracting Party shall, in accordance with the provisions of this Treaty, encourage and create stable, equitable, favourable and transparent conditions for Investors of other Contracting Parties to make Investments in its Area. Such conditions shall include a commitment to accord at all times to Investments of Investors of other Contracting Parties fair and equitable treatment. Such Investments shall also enjoy the most constant protection and security and no Contracting State shall in any way impair by unreasonable or discriminatory measures their management, maintenance, use, enjoyment or disposal ...¹

2. Articles 2(1), 2(2) and 2(3) of the Agreement between the Federal Republic of Germany and the Czech and Slovak Federal Republic on the Promotion and Reciprocal Protection of Investments signed on October 2, 1990² (the “**BIT**”) provides that:

Article 2

- (1) Each Contracting Party shall in its territory promote as far as possible investments by investors of the other Contracting Party and admit such investments in accordance with its legislation. Each Contracting Party shall in all cases accord investments fair and equitable treatment. ...
- (2) Neither Contracting Party shall in any way impair by arbitrary or discriminatory measures the management, maintenance, use, or enjoyment of investments in its territory by investors of the other Contracting Party
- (3) Investments and returns from investment and, in the event of their reinvestment, the returns therefrom shall enjoy full protection under this Treaty.

and Article 4(1) provides

Investments by investors of either Contracting Party shall enjoy full protection and security in the territory of the other Contracting Party.

B. The Parties

3. The first Claimant in the present arbitration is Antaris GmbH (“**Antaris**”), a German company. Its registered address is Am Heerbach 5, D-63857 Waldaschaff, Germany. Prior to a change of name on July 16, 2013, Antaris was previously called Antaris Solar GmbH. The Second Claimant

¹ The ECT was negotiated on the basis of the European Energy Charter which envisaged the formulation of “stable and transparent legal frameworks creating conditions for the development of energy resources”. Title III (“Implementation”) of the European Energy Charter provided: “In order to promote the international flow of investments, the signatories will at national level provide for a stable, transparent legal framework for foreign investments, in conformity with the relevant international laws and rules on investment and trade. They affirm that it is important for the signatory States to negotiate and ratify legally binding agreements on promotion and protection of investments which ensure a high level of legal security and enable the use of investment risk guarantee schemes.”

² The BIT entered into force on August 2, 1992. By exchange of Notes of December 18, 1992 and January 1, 1993 respectively, the Federal Republic of Germany and the Czech Republic have agreed that the BIT should remain in force between the two States after the dissolution of Czechoslovakia.

in this arbitration is Dr Michael Göde (“**Dr Göde**”, together with Antaris, the “**Claimants**”), a German national. His address is [REDACTED]

4. Antaris is the ultimate parent company of Antaris Solar AG (“**Antaris AG**”), a Swiss company, which owns FVE Úsilné s.r.o. (“**Úsilné**”), FVE Mozolov s.r.o. (“**Mozolov**”), FVE Stříbro s.r.o. (“**Stříbro**”) and FVE Holýšov I s.r.o. (“**Holýšov**”). Antaris AG is wholly owned by Antaris Solar GmbH, Zweigniederlassung Kreuzlingen (“**Antaris ZNL**”), the Swiss branch of Antaris.
5. TCS Taurus Service s.r.o. (“**Taurus**”), which is owned by Dr Göde and Antaris ZNL, purchased 100 % of the shares in FVE Osečná s.r.o. (“**Osečná**”). These s.r.o. companies (the “**Czech SPVs**”) are special purpose vehicle companies incorporated in the Czech Republic.
6. Antaris is owned by Göde Holding GmbH & Co. KG, which is owned by Dr Göde.
7. The Claimants are represented in these proceedings by:

[REDACTED]

8. The Respondent in the present arbitration is the Czech Republic (the “**Respondent**”). Its address is Ministry of Finance of the Czech Republic, Letenská 15, 118 10 Prague 1, Czech Republic.
9. The Respondent is represented in these proceedings by:

Ministry of Finance
Marie Talašová
Head of Department of International Legal Services
Letenská 15
11810 Praha 1
Czech Republic

Ms. Karolína Horáková
Weil, Gotshal & Manges s.r.o.
Advokátní kancelář
Charles Bridge Center
Krizovnicke nam. 193/2
Prague
Czech Republic

From July 17, 2015, the Respondent has been represented by:

Paolo Di Rosa
Arnold & Porter Kaye Scholer LLP
601 Massachusetts Avenue NW
Washington DC 20001-3743
United States

Dmitri Evseev
Arnold & Porter Kaye Scholer (UK) LLP
Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom

Until July 16, 2015, the Respondent was represented by

David Alexander
Squire Sanders (US) LLP
2000 Huntington Center
41 South High Street
Columbus, Ohio 43215
United States

Stephen P. Anway
Squire Sanders (US) LLP
30 Rockefeller Plaza
New York, New York 10112
United States

Rostislav Pekař
Mária Lokajová
Squire Sanders
Václavské náměstí 57/813
110 00 Prague 1
Czech Republic

Prof. Zachary Douglas
Matrix Chambers
Rue de Candolle 9
1205 Geneva
Switzerland

C. Overview of the dispute

10. The Claimants submit that the Respondent breached its obligations under the ECT and the BIT by repealing incentive arrangements to attract investors in photovoltaic power generation contrary to its guarantees.
11. The Respondent asserts that the Tribunal is not competent to hear the claims under the ECT. It further submits that the Tribunal has no jurisdiction over the claims relating to the Mozolov plant because its operating licence was acquired “through improper means” and the Holýšov plant because the “Claimants have failed to establish a *prima facie* case in support of their claims

relating to that plant”.³ On the merits, the Respondent submits that the measures did not violate either the ECT or the BIT on the grounds that “(a) the Czech Republic never made [a] stabilization commitment to the Claimants, (b) the Czech Republic did not otherwise violate any legitimate expectations, and (c) the measures were reasonably tailored to achieve appropriate and rational state objectives.”⁴

II. Procedural history

12. On May 8, 2013, the Claimants, together with eight other claimants, served upon the Respondent a Notice of Arbitration, with accompanying evidence⁵, pursuant to Article 26 of the ECT, Article 10 of the BIT and Article 3 of the Arbitration Rules of the United Nations Commission on International Trade Law (“**UNCITRAL Rules**”).
13. In their Notice of Arbitration, the Claimants appointed Mr Doak Bishop as arbitrator.
14. By letter dated June 10, 2013, in response to the Notice of Arbitration, the Respondent objected to the Claimants’ consolidation of their claims with those of the eight other claimants and appointed Judge Tomka as arbitrator only in the proceeding involving the Claimants.
15. On June 24, 2013, the Claimants invited the Respondent to appoint a single arbitrator for all the claimants listed in the Notice of Arbitration.
16. By letter dated July 5, 2013, the Claimants requested that the Secretary-General of the Permanent Court of Arbitration (the “**PCA**”) designate an appointing authority on the grounds that the Respondent had failed to appoint an arbitrator for all the claimants listed in the Notice of Arbitration as required by the UNCITRAL Rules. By letter dated July 9, 2013, the Respondent objected to the Claimants’ request, noting that “there is no single arbitration agreement in existence that could possibly give a single arbitral tribunal authority over all the 10 claimants”. In a letter dated July 22, 2013, the Claimants objected to the Respondent’s position.
17. On August 13, 2013, the Secretary-General of the PCA rejected the Claimants’ request, holding that “the Respondent ha[d] actively participated and responded to the Notice of Arbitration [...] in a timely manner by appointing the second arbitrator in accordance with the procedure foreseen in each of the investment treaties invoked by the Claimants”.

³ Rejoinder, para 443.

⁴ Counter-Memorial, para 9.

⁵ Exhibits C-1-C-60.

18. On December 20, 2013, Mr Bishop and Judge Tomka jointly appointed Lord Lawrence Collins of Mapesbury PC, FBA as the presiding arbitrator after consultation with the Parties.
19. On August 1, 2014, Mr Bishop tendered his resignation as arbitrator.
20. On September 24, 2014, the Claimants informed the Tribunal that they had appointed Mr Gary Born as arbitrator to replace Mr Bishop.

A. Written Procedure

21. By letter dated January 10, 2014, the Tribunal proposed to the Parties draft Terms of Appointment, which included a proposed term concerning the place of arbitration, and invited the Parties' comments on the draft by January 17, 2014.
22. By letter dated January 17, 2014, the Claimants proposed that Geneva, Switzerland be the place of arbitration, as proposed in the Notice of Arbitration dated May 8, 2013, and stated that they would welcome the opportunity to provide "more ample reasons for their position on this point".
23. By letter dated January 17, 2014, the Respondent proposed that the seat of the arbitration be Paris, France, and stated the reasons for that proposal.
24. The Terms of Appointment were agreed between the Parties and were adopted on January 31, 2014. Paragraph 6.1 of the Terms of Appointment provides: "[p]ursuant to Article 16 of the Rules, the Tribunal will determine the place of arbitration having regard to the circumstances of the case, after consultation with the Parties".
25. By letter dated February 6, 2014, the Tribunal *inter alia* (i) invited the Claimants to confirm whether they agreed that their Statement of Claim was contained in their Notice of Arbitration; and (ii) proposed to decide on the place of arbitration in advance of the first procedural meeting on the basis of written submissions and invited the Claimants to provide their further comments on the place of arbitration.
26. By letter dated February 12, 2014, the Claimants confirmed that the Notice of Arbitration included their Statement of Claim and presented their "Submission on the Seat of Arbitration" of the same date.
27. By letter dated February 21, 2014, the Respondent contended that the Notice of Arbitration was not specific enough to be treated as Statement of Claim and submitted its comments in reply to the Claimants' Submission on the Seat of Arbitration, in which it provided reasoning in support of its proposal of Paris as the seat.
28. By letter dated March 10, 2014, the Tribunal invited the Respondent to clarify whether it intended

to object to the Tribunal's jurisdiction on the grounds that such did not extend to disputes between EU investors and EU Member States.

29. In the same letter, the Tribunal directed the Claimant to serve within 28 days a full Statement of Claim including, in particular, details of (a) their investments in the Czech companies; (b) the manner in which the alleged measures affected the investments; and (c) the financial consequences thereof, including the quantum of their alleged losses.
30. By letter dated March 17, 2014, the Respondent stated that it did not intend to object to the Tribunal's jurisdiction in this matter on the grounds that such does not extend to disputes between EU investors and EU Member States.
31. By letter dated March 26, 2014, the Tribunal fixed The Hague, The Netherlands, as the place of the arbitration.
32. On April 7, 2014, the Claimants submitted their Statement of Claim with accompanying evidence.⁶
33. By letter dated April 17, 2014, the Tribunal directed the Respondent to submit its Statement of Defense by June 17, 2014; directed that "the Tribunal shall conduct a procedural hearing in early July for the future timetabling of those matters which are not agreed"; and invited the Parties to indicate whether they agreed to these directions by April 28, 2014.
34. By letter dated April 23, 2014, the Respondent reserved the right to seek additional time to file its Statement of Defense in the event that the Claimants produced the expert reports referred to in its Statement of Claim but not annexed thereto.
35. On June 24, 2014, the Respondent submitted its Statement of Defense with accompanying evidence.⁷
36. On July 11, 2014, the European Commission (the "**EU Commission**") submitted an Application for Leave to Intervene as a Non-disputing party, requesting the opportunity to present its views *inter alia* on the jurisdiction of the Tribunal.
37. On July 28, 2014, upon invitation by the Tribunal, each of the Parties submitted their comments on the Application for Leave. The Claimants requested *inter alia* that the Tribunal reject the Application for Leave and that in the alternative intervention by the EU Commission be limited

⁶ Exhibits C-61-C-110.

⁷ Exhibits R-1-R-33; Legal Authorities RLA-1-RLA-52.

to written submissions and that the EU Commission must bear its own costs and reimburse those of the Parties. The Respondent stated that it did not oppose the EU Commission's Application for Leave.

38. On December 4, 2014, the Tribunal issued **Procedural Order No. 1 (EC Intervention and Place of Arbitration)**, granting the EU Commission leave for its *amicus curie* submission and changing the place of arbitration from The Hague to Geneva. In Procedural Order No. 1, the Tribunal ruled *inter alia* as follows:

- (1) the European Commission is granted leave to intervene as *amicus curiae* (subject to the condition in (6) below) in the present proceedings by way of one set of written submissions only;
- (2) the European Commission shall, by 19 January 2015, file its written *amicus curiae* submission on the three points of law set forth in the EC Commission Application for Leave: (i) "The Tribunal is invited to decline jurisdiction"; (ii) "As a matter of fact, the Czech Republic, by adopting the contested measure, may have merely complied with its obligation under European Union State Aid law"; and (iii) "The enforcement of a possible award may amount itself to State aid, and in that case would only be possible after an authorization by the EU Commission"

[...]

- (6) the European Commission should be required to undertake, prior to consideration of its submission, to pay in full the reasonable costs of both parties resulting from the submissions[.]
- (7) the place of arbitration shall be Geneva, Switzerland.

39. On February 2, 2015, the EU Commission filed its written *amicus curiae* submission (the "**EU Commission Submission**"). By letter of the date accompanying the EU Commission Submission, the EU Commission stated that it "cannot undertake to pay in full the reasonable costs of both Parties resulting from the submissions and would respectfully ask the Tribunal to reconsider its decision on this point".

40. By letter dated February 3, 2015, the Claimants requested that the Tribunal decline to accept the EU Commission Submission unless the EU Commission accepted the undertaking set forth at paragraph 30(6) of Procedural Order No. 1.

41. On February 13, 2015, the Tribunal issued **Procedural Order No. 2 (EC Intervention)**, in which it ruled that the EU Commission "may apply to vary Procedural Order No. 1, upon its undertaking to pay the reasonable costs of the Parties resulting from such application if so determined by the Tribunal" by February 27, 2015. The Tribunal did not receive any such application from the EU Commission.

42. By letter dated March 5, 2015, the Tribunal informed the EU Commission that, pursuant to paragraph 30(6) of Procedural Order No. 1, the Tribunal would not consider the EU Commission Submission on the ground that the EU Commission did not undertake to pay in full the reasonable

costs of the Parties resulting from the Submission.

43. By letter dated March 12, 2015, the Tribunal circulated a draft Procedural Order No. 3, which included proposed procedural directions, and invited the Parties to provide their comments.
44. By e-mail dated March 27, 2015, the Claimants provided the Tribunal with the Parties' joint proposal as to the draft Procedural Order No. 3, including an agreed procedural timetable. By e-mail of the same date, the Respondent confirmed its agreement on the proposal.
45. On May 22, 2015, the Claimants submitted their completed Redfern Schedule, setting out nine document production requests to which the Respondent had objected and requesting a ruling from the Tribunal regarding those disputed requests. On the same day, the Respondent filed its application for document production attaching the completed Redfern Schedule, requesting "the Tribunal to issue an order that the Claimants produce all documents responsive to Respondent's requests".
46. On June 9, 2015, the Tribunal issued its decision on the documents requested by the Parties.
47. On June 12, 2015, the Parties informed the Tribunal that they had agreed to alter the existing schedule of the proceedings.
48. On July 6, 2015, the Tribunal issued **Procedural Order No. 3 (Procedural Directions)**, setting forth *inter alia* the agreed amended schedule of further proceedings.
49. On October 23, 2015, the Claimants submitted their **Memorial** with accompanying evidence.⁸
50. By their Memorial of October 23, 2015, the Claimants requested the production of all correspondence and documentation exchange between the European Commission (the "**EU Commission**") and the Czech Republic and waiver of the confidentiality related to the State aid proceedings pending before the EU Commission.⁹ The Claimants alleged that the Tribunal had granted such a production in relation to no. 13 of the Claimants' document request of May 22, 2015, on which the Tribunal decided that "[p]roduction ordered but limited to Solar RES" in its order of June 9, 2015. Nevertheless, according to the Claimants, the Respondent failed to comply this order, raising objections based on confidentiality.

⁸ Exhibits C-111-C-209; Legal authorities CLA-1-CLA-60; Expert report of [REDACTED] dated October 23, 2015 ("**First [REDACTED] Report**"), Expert report of [REDACTED] dated October 19, 2015 ("**First [REDACTED] Report**"), Witness statement of Michael Göde dated October 21, 2015 ("**First Göde Statement**").

⁹ Memorial, paras 91-103.

51. On January 29, 2016, the Respondent submitted its **Counter-Memorial** with accompanying evidence.¹⁰
52. On May 16, 2016, the Claimants submitted its **Reply** with accompanying evidence.¹¹
53. On August 30, 2016, the Respondent submitted its **Rejoinder** with accompanying evidence.¹²
54. On October 28, 2016, the Parties jointly requested that the hearing, which was scheduled to take place from November 14 to 18, 2016, be re-scheduled [REDACTED]
[REDACTED] By e-mail of the same date, the Tribunal confirmed the postponement of the hearing.
55. By e-mail dated November 1, 2016, the Tribunal proposed to set the new dates for hearing as May 2 to 5, 2017. The Claimants and the Respondent confirmed their availability for the proposed dates by e-mails of November 11 and 14, 2016, respectively.
56. By e-mails dated November 2 and 11, 2016, the Claimants requested that the Tribunal and the Respondent confirm that all non-refundable costs arising from the cancellation of the November hearing would be charged exclusively and entirely to the Respondent, stating, among others, that their agreement to the postponement had been made under such an assumption.
57. By e-mail dated November 14, 2016, the Respondent suggested that submissions concerning the final allocation of such costs should be deferred until the end of the proceeding.
58. By e-mail dated November 16, 2016, the Tribunal informed the Parties that it would address this issue following submissions to be made at or after the adjourned hearing.

¹⁰ Exhibits R-34-R-254; Legal authorities RLA-53-RLA-186; Expert report of Wynne Jones (Frontier Economics) dated January 29, 2016 (“**First Jones Report**”), Expert report of Kelyn Bacon QC dated January 26, 2016 (“**First Bacon Report**”), Expert report of Michal Peer dated January 29, 2016 (“**First Peer Report**”), Expert report of [REDACTED] dated January 27, 2016 (“**[REDACTED] Report**”); Witness statement of Josef Fiřt dated January 25, 2016 (“**Fiřt Statement**”).

¹¹ Exhibits C-210-C-267; Legal authorities CLA-61-CLA-117; Expert report of [REDACTED] dated April 15, 2016 (“**[REDACTED] Report**”), Expert report of [REDACTED] and [REDACTED] dated March 31, 2016 (“**[REDACTED] and [REDACTED] Report**”), Expert report of [REDACTED] dated May 9, 2016 (“**[REDACTED] Report**”), Expert report of [REDACTED] dated April 21, 2016 (“**Second [REDACTED] Report**”), Expert report of [REDACTED] dated May 16, 2016 (“**Second [REDACTED] Report**”); Witness statement of Michael Göde dated May 15, 2016 (“**Second Göde Statement**”).

¹² Exhibits R-255-R-365; Legal authorities RLA-188-RLA-245; Witness Statement of Ladislav Minčič dated August 26, 2016 (“**Minčič Statement**”), Expert report of Wynne Jones dated August 30, 2016 (“**Second Jones Report**”), Expert report of Kelyn Bacon QC dated August 16, 2016 (“**Second Bacon Report**”), Expert report of Petr Kotáb dated August 29, 2016 (“**Kotáb Report**”), Expert report of Michael Peer dated August 29, 2016 (“**Second Peer Report**”).

59. By e-mail dated January 31, 2017, the Respondent informed the Tribunal that the Parties had agreed and jointly requested to submit (1) the EU Commission's decision in case "SA.40171 (2015/NN) — Czech Republic Promotion of electricity production from renewable energy sources" of November 28, 2016 (the "**EU Commission's 2016 Decision**") into the record of the present cases as exhibit R-366; and (2) each Party's written comments on the Decision. By e-mail of the same date, the Tribunal accepted and authorized the submissions as requested.
60. On February 15, 2017, the Claimants submitted their Comments on the EU Commission's 2016 Decision and accompanying documents.¹³ At paragraph 6 of their Comments, the Claimants renewed their document production request of October 23, 2015, requesting that the Tribunal order that the Respondent produce all missing documents responsive to the Claimants' document request no. 13 of May 22, 2015.
61. On the same date, the Respondent submitted its Comments on the EU Commission's 2016 Decision.
62. By letter of March 28, 2017 the Claimants requested that they be given an opportunity to submit an additional Rejoinder on Jurisdiction on the ground that the Respondent in its Rejoinder of August 30, 2016 "surprisingly addressed the ECT carve-out with the aid of an opinion on Czech law prepared by a *new* expert, Mr Kotáb". The Claimants further requested the exclusion of Mr ████████ report from the record pursuant to paragraph 7.8 of Procedural Order No. 3. They further requested a leave for filing "a short 'Supplemental Report' on quantum."
63. In letter of March 29, 2017 the Respondent raised objections to the above requests.
64. The Claimants addressed the Respondent's objections in their letter of March 31, 2017.
65. On March 31, 2017 the Tribunal informed the Parties of its decision on the Claimants' requests. The Tribunal denied the requests to file further pleadings, with further reports, as being too late. However, it granted the Claimants' request to file "the same reports on quantum and Czech tax law as in the parallel matters". The Tribunal further ruled that Mr ████████ report would not be excluded, but that it would take into account, in weighing its utility, that he did not appear.
66. On the same day the Respondent requested that it be authorized to file its own expert report responding to the Claimants' supplemental quantum expert report.
67. On April 4, 2017 the Tribunal informed the Parties that the Respondent's request was granted.

¹³ Exhibits C-268 and C-269; CLA-118.

68. By e-mail dated April 6, 2017, Claimants submitted, in accordance with the Procedural Order No. 3 (Procedural Directions), a letter to the Tribunal enclosing three additional expert reports.¹⁴
69. By email of April 26, 2017 the Respondent submitted, as authorized by the Tribunal, a letter to the Tribunal with a supplemental expert report.¹⁵
70. By Respondent's email of April 27, 2017 the Tribunal was informed that the Parties had agreed to add to the record a number of new or amended exhibits and legal authorities.¹⁶

B. Hearing

71. The Hearing was held at the Peace Palace in The Hague from May 2 to 5, 2017 and was attended by the following persons.

Arbitral Tribunal

Lord Collins of Mapesbury (Presiding Arbitrator)

Mr Gary Born

H E. Judge Peter Tomka

Claimants

Mr [REDACTED]
Mr [REDACTED]
Mr [REDACTED]
Ms. [REDACTED]
Ms. [REDACTED]

Mr [REDACTED]

Mr [REDACTED]

Dr Michael Göde
Witness

[REDACTED]
Client representative

Mr [REDACTED] - Ernst & Young CZ
Mr [REDACTED] - Compass Lexecon

Respondent

Ms. Anna Bilanová
Mr Tomáš Munzar
Ministry of Finance of the Czech Republic

Mr Paolo Di Rosa, Partner
Mr Dmitri Evseev, Partner
Ms. Mallory Silberman, Associate
Mr Peter Nikitin, Consultant
Mr Bart Wasiak, Associate
Mr John Muse-Fisher, Associate
Ms. Aimee Kneiss, Senior Legal Assistant II
Mr Eugenio Cruz Araujo, Legal Assistant
Mr Nathaniel Castellano (On Friday 5 May only)
Arnold & Porter Kaye Scholer (UK) LLP

Ms. Karolina Horáková, Partner
Mr Libor Morávek, Partner
Mr Pavel Kinnert, Associate
Weil, Gotshal & Manges s.r.o. Advokátní Kancelář

Mr Josef Fiřt

¹⁴ Expert report of [REDACTED] dated April 6, 2017 (“**Third [REDACTED] Report**”), Expert report of [REDACTED] dated April 6, 2017 (“**Second [REDACTED] Report**”), Supplemental report of [REDACTED] dated April 6, 2017 (“**Supplemental [REDACTED] Report**”).

¹⁵ Expert report of Michael Peer, dated April 26, 2017 (“**Third Peer Report**”).

¹⁶ Exhibits C-223a ; C-270-C-286 ; CLA-119-CLA-122 ; R-32a, R-296a, R-367-R-388 ; RLA-5a ; RLA-246-RLA-249.

Dr [REDACTED]
Mr [REDACTED] - Compass Lexecon
Mr [REDACTED] - Charles River
Associates
Mr [REDACTED] - Charles River Associates
(non-testifying colleague of Mr [REDACTED])
Experts

Mr Ladislav Minčíč
Witnesses

Mr Wynne Jones, Frontier Economics Ltd.
Mr Petr Kotáb, Dentons Europe CS LLP
Mr Michael Peer, KPMG Česká republika,
s.r.o.
Mr Jiří Urban, KPMG Česká republika, s.r.o.
(non-testifying colleague of Mr Peer)
Experts

Permanent Court of Arbitration

Ms. [REDACTED] Legal Counsel
Mr [REDACTED], Assistant Legal Counsel
Mr [REDACTED] Intern

Interpreters

Ms. [REDACTED] b
Ms. [REDACTED]
Ms. [REDACTED]
Dr [REDACTED]

Court Reporter

Mr [REDACTED]

C. Post-hearing Proceedings

72. On May 8, 2017, pursuant to the Tribunal's request at the hearing, the Parties submitted electronic copies of their presentation slides and demonstratives. On June 16, 2017, the Parties submitted their **Submissions on Costs**.
73. On March 13, 2018 the Respondent made an application to the Tribunal to admit the judgment of the Court of Justice of the European Union in *Slovak Republic v Achmea BV*, March 6, 2018, into the record and to establish a schedule for its jurisdictional objection. On March 15, 2018, the Tribunal refused the Respondent's application on the basis that it was too late, since in its Counter-Memorial, paragraph 472, it had waived any objection on the EU jurisdictional point, when it stated: "Accordingly, the Czech Republic does not pursue the jurisdictional objection articulated by the Commission before this Tribunal."

III. The Parties' requests for relief

A. The Claimants

74. The Claimants' Statement of Claim requested that the Tribunal:
- (a) Declare that the Respondent's actions and, in particular, the progressive dismantling of the Incentive Regime:
 - (i) constitute unfair and inequitable treatment in violation of the ECT and the Germany BIT;
 - (ii) were implemented through unreasonable and arbitrary measures which impaired the maintenance, use, enjoyment and disposal of the Claimants' investments in violation of the ECT and the Germany BIT;
 - (iii) potentially amount to indirect or creeping expropriation in violation of the ECT and the Germany BIT; and
 - (iv) constitute a failure to observe the Respondent's obligations in relation to the Claimants' investments in violation of the umbrella clauses contained in the ECT and the Germany BIT.
 - (b) Order the Czech Republic to:
 - (i) compensate the Claimants for all losses caused to them by the Czech Republic's breaches, in an amount that will be determined more precisely during the proceedings, but that shall not be less than EUR [REDACTED]
 - (ii) pay to the Claimants pre-award and post-award interest on any amount of damages awarded; and
 - (iii) reimburse the Claimants for all costs and expenses of this arbitration, including legal and expert fees, the fees and expenses of any experts appointed by the Tribunal, the fees and expenses of the Tribunal, and all other costs of the arbitration.¹⁷
75. In their Memorial, the Claimants requested that the Tribunal:
- (a) Declare that the Respondent's actions:
 - (i) constitute unfair and inequitable treatment and violate the obligation to provide full protection and security in breach of the ECT and the Germany BIT;
 - (ii) were implemented through unreasonable and arbitrary measures which impaired the maintenance, use, enjoyment and disposal of the Claimants' investment in violation of the ECT and the Germany BIT;
 - (b) Order the Czech Republic to:

¹⁷ Statement of Claim, para 178.

- (i) compensate the Claimants for all losses caused to them by the Czech Republic's breaches, in an amount of not less than CZK [REDACTED] (inclusive of pre-award interest);
- (ii) pay to the Claimants post-award interest on any amount of damages awarded, from the date of the final award until its full payment; and
- (iii) reimburse the Claimants for all costs and expenses of this arbitration, including legal and expert fees, the fees and expenses of any experts appointed by the Tribunal, the fees and expenses of the Tribunal, and all other costs of the arbitration, including any expenses arising from the participation of third parties.¹⁸

76. In their Reply, the Claimants requested that the Tribunal:

- (a) Dismiss the jurisdictional objections raised by the Respondent;
- (b) Declare that the Respondent's actions:
 - (i) constitute unfair and inequitable treatment and violate the obligation to provide full protection and security in breach of the ECT and the Germany BIT;
 - (ii) were implemented through unreasonable and arbitrary measures which impaired the maintenance, use, enjoyment and disposal of the Claimants' investment in violation of the ECT and the Germany BIT;
- (c) Order the Czech Republic to:
 - (i) compensate the Claimants for all losses caused to them by the Czech Republic's breaches, in an amount of not less than CZK [REDACTED] (inclusive of pre-award interest and tax gross-up);
 - (ii) pay to the Claimants post-award interest on any amount of damages awarded, from the date of the final award until its full payment; and
 - (iii) reimburse the Claimants for all costs and expenses of this arbitration, including legal and expert fees, the fees and expenses of any experts appointed by the Arbitral Tribunal, the fees and expenses of the Arbitral Tribunal, and all other costs of the arbitration, including any expenses arising from the participation of third parties.¹⁹

77. In their letter dated April 6, 2017, the Claimants adjusted their request for the relief of compensation from CZK [REDACTED] (inclusive of pre-award interest and tax gross-up) to CZK 306.53 million (inclusive of pre-award interest and tax gross-up).²⁰

¹⁸ Memorial, para 563.

¹⁹ Reply, para 950.

²⁰ Claimants' letter to the Tribunal dated April 6, 2017, pp. 3-4.

B. The Respondent

78. The Respondent's Statement of Defense requested that the Tribunal:
- (a) Declare that the Tribunal does not have jurisdiction over Claimants' claims regarding taxation measures under the ECT;
 - (b) Declare that the Tribunal does not have jurisdiction over the Solar Levy Extension Claim;
 - (c) Declare that the Tribunal does not have jurisdiction over Claimants' claims as they fail to disclose a prima facie case on the merits;
 - (d) Declare that the Czech Republic did not violate the ECT;
 - (e) Declare that the Czech Republic did not violate the Treaty;
 - (f) Dismiss Claimants' claims in their entirety;
 - (g) Order that Claimants pay the costs of these arbitral proceedings, including the cost of the Tribunal and the legal and other costs incurred by the Czech Republic, on a full indemnity basis; and
 - (h) Order Claimants to pay interest on any costs awarded to the Czech Republic, in an amount to be determined by the Tribunal.²¹
79. In its Counter-Memorial, the Respondent requested that the Tribunal:
- (a) Declare Claimants' ECT and BIT claims barred for lack of jurisdiction;
 - (b) With respect to any claims over which the Tribunal concludes that it has jurisdiction, declare that the Czech Republic did not breach any of its obligations under either the ECT or the BIT;
 - (c) In the event that it exercises jurisdiction over any of Claimants' claims and finds the Czech Republic liable, declare that Claimants are not entitled to damages;
 - (d) Order Claimants to pay all costs of the arbitration, including the totality of the Czech Republic's legal and expert fees and expenses, and the fees and expenses of the Tribunal, as well as the costs charged by the PCA; and
 - (e) Award to the Czech Republic such additional relief as it may consider just and appropriate.²²
80. In its Rejoinder, the Respondent stated its request for a declaration of lack of jurisdiction as following:: Declare Claimants' ECT claims, and their claims (under either treaty) in respect of the Mozolov and Holýšov plants, barred for lack of jurisdiction.²³

²¹ Statement of Defense, para 229.

²² Counter-Memorial, para 608.

²³ Rejoinder, para 589.

IV. The incentive regime

A. The Act on Income Tax 586/1992

81. In 1992, following the conclusion of the 1992 United Nations Framework Convention on Climate Change, the Czech Republic implemented two tax incentives through Act 586/1992 (the “**Act on Income Tax**”).²⁴ Section 19(1)(d) provided an exemption from income tax for the year in which solar facilities were put into operation and the following five calendar years (the “**Income Tax Exemption**”). Section 30, with Annex I, provided an accelerated depreciation period (between 5 to 10 years) for specific categories of electrical equipment and components for photovoltaic installations, such as solar panels, inverters, switchboards, fuse boxes, cut-out boxes and security camera systems (the “Shortened Depreciation Period”).²⁵

B. The Act on Promotion 180/2005

82. So far as is material the Act on the Promotion of Energy Production from Renewable Energy Sources, which was adopted on March 31, 2005 and entered into force on August 1, 2005 (the “**Act on Promotion**”),²⁶ provided that

- (1) investors would have a connection to the grid on a preferential basis (Section 4(1));
- (2) investors would have a period of 15 years for recovery of their investment through the feed-in tariff (the “**FiT**”) (Section 6(1)(b)(1));
- (3) the level of revenues per unit of electricity from renewable sources would be maintained, as a minimum, with promotion by FiT, for a period of 15 years from the year of putting the plant into operation, taking into account the price index of industrial products (Section 6(1)(b)(2));
- (4) As from 2007, the FiT set by the Energy Regulatory Office (the “**ERO**”) for the subsequent calendar year was not to be lower than 95% of the value of the FiT valid in the year during which a decision was made on their new values (Section 6(4)), the effect of which was that the FiT granted to photovoltaic plants put into operation in any given year could not be

²⁴ C-18, Section 19 of Act on Income Tax.

²⁵ C-18, Section 19 of Act on Income Tax. The Claimants make no claim for repeal of this advantage: Reply, para 67. The reason is that the SPVs were financed through sale and lease back agreements with UC Leasing providing for a monthly rent, which accounted for depreciation and therefore excluded a direct impact of changes to the depreciation period on the SPVs’ business: First Göde Statement, para 36.

²⁶ C-26, Act No. 180/2005 Coll. on the promotion of electricity production from renewable energy sources and amending certain acts, March 31, 2005.

reduced by more than 5% with respect to the FiT granted to photovoltaic plants put into operation in the previous year (the “**5% Break-Out Rule**”).

83. The Explanatory Report on a November 2003 draft of the Bill of the Act on Promotion also stated that the “support system is based: ... On maintaining the tax reliefs to the extent set out in the Acts on Income Tax ...”.²⁷

C. ERO Regulations

84. Section 4 of ERO Regulation 475/2005 (the “**Technical Regulation**”) provided²⁸

In order for the 15-year pay-back period to be assured through the support by Purchasing Prices [FiT] of electricity produced from renewable sources, technical and economic parameters of an installation producing electricity from renewable sources must be satisfied, where the producer of electricity from renewable sources shall achieve, with the given level of Purchasing Prices

- (a) an adequate return on invested capital during the total life of the installation, such return to be determined by the weighted average cost of capital (WACC), and
- (b) the net present value of the cash flows after tax over the total life of the installation, using a discount rate equal to WACC, at least equal to zero.

85. In May 2005, the ERO made available on its website its “Report on the procedure of specification of basic parameters of the regulatory formula and price specification for the 2nd regulatory period in the field of electrical energy.” In the section “Subsidy for Electrical Generation From Renewables” the Report stated:²⁹

Minimum purchase prices of electricity from individual renewable resources are specified in relation to the amounts of investment and operation costs of the individual categories of resources. The calculation was based on the method of net present value of the generated project cash flows (NPV CF) for the period of the given technology life equal to zero at the discount rate of 7%. ...

86. The weighted average cost of capital (“**WACC**”) was defined by the Technical Regulation as:

... weighted average of the expected interest rate on lending for investment in projects designed for using renewable sources for electricity generation and the expected return on equity of an investor in a project designed for using renewable sources for electricity generation.

²⁷ C-120, Explanatory Report on the bill of the Act on Promotion of November 12, 2003 (extended version), p 4.

²⁸ C-28, ERO Regulation No. 475/2005 Coll.; R-6, The Technical Regulation, Section 4(1).

²⁹ R-365, ERO Report on the procedure of specification of basic parameters of the regulation formula and price specification for the 2nd regulatory period in the field of electrical energy, May 2005, para 5.6.1. There is a dispute between the Parties on whether there was a 7% cap on the rate of return for investors. The Claimants say that neither the Act on Promotion nor the subsequent implementing regulations contained any provision on the profitability or rate of return of RES investments, and that the 7% “discount factor” was simply one of many indicative parameters used by the ERO as a benchmark to establish the initial level of FiT.

87. The Technical Regulation was subsequently amended by ERO Regulations 364/2007 and 409/2009,³⁰ which modified the technical and economic parameters and fixed the estimated lifetime of new photovoltaic plants at 20 years.
88. Article 2(9) of ERO Regulation 140/2009 (the “**Pricing Regulation**”) provided that (1) FiTs would be applied throughout the estimated lifetime of plants (i.e. 20 years); and (2) the FiT was to increase each year by between 2% and 4% taking into account the inflation price index for industrial producers throughout the lifetime of the plant. The FiT was to be set by the end of November for the following year.

V. State aids

89. State aid concerns over the incentive regime were raised on December 16, 2003 in a complaint filed with the EU Commission by the Czech Society of Wind Energy and the European Association for Renewable Energies (EUROSOLAR), alleging that the draft Act on Promotion contravened the Czech Republic’s obligations under EU state aid law. On July 27, 2004, the EU Commission informed the complainants that it did not consider the incentives foreseen by the Act on Promotion to constitute State aid, but invited the Czech Republic to inform the EU Commission of any new particulars which might demonstrate the existence of State aid.
90. The EU Commission did not take the matter further until the Czech Republic amended the Act on Promotion in 2010, when the funding mechanism was changed from a consumer-funded one to a hybrid one involving direct use of State resources. On November 18, 2011 the EU Commission expressed the concern that the proposed amendments might constitute State aid.
91. On May 30, 2012 Act 165/2012 was enacted, which replaced the Act on Promotion as of January 1, 2013. On June 11, 2014 the EU Commission authorized the support scheme for electricity produced from RES by installations commissioned as of January 1, 2013 as compatible State aid.
92. On December 11, 2014 the Czech Republic notified to the EU Commission, the support scheme for electricity production from RES by installations commissioned between January 1, 2006 and December 31, 2012.
93. On November 28, 2016 the EU Commission ruled that Act 180/2005 constituted State aid under Article 107(1) of the Treaty on the Functioning of the European Union (“**TFEU**”), and that by implementing Act 180/2005 on January 1, 2006, before a final EU Commission decision, the

³⁰ C-29, ERO Regulation No. 364/2007 Coll.; C-30, ERO Regulation No. 409/2009 Coll.

Czech Republic had breached the stand-still obligation in Article 10(3) TFEU, but that no objection to the aid would be made because it was compatible with the internal market pursuant to Article 107(3)(c) TFEU. But it also said (para 150):

... the Commission recalls that any compensation which the Arbitral Tribunals were to grant would constitute in and of itself State aid. However the Arbitral Tribunals are not competent to authorise the granting of State aid. That is an exclusive competence of the Commission. If they were to award compensation, they would violate Article 108(3) TFEU, and any such award would not be enforceable, as that provision is part of public order.

VI. The changes to the Incentive Regime

A. Abolition of 5% rule for plants connected to the grid from 2011

94. Act 137/2010 entered into force on May 20, 2010.³¹ It repealed Section 6(4) of the Act on Promotion pursuant to which the FiT could not decrease the FiT by more than 5% per year. It abolished the 5% rule only for those solar plants connected to the grid from 2011 onwards.
95. The four plants in question were constructed and commissioned after the Act came into force but were connected to the grid before the critical date of 2011.

B. Adoption of Solar Levy

96. Act 402/2010 entered into force on January 1, 2011 introducing Sections 7(a)-(i) in the Act on Promotion, establishing a levy on revenues generated by photovoltaic power plants (the “**Solar Levy**”). It applied from January 1, 2011 to December 31, 2013 to revenues generated by photovoltaic power plants put into operation between January 1, 2009 and December 31, 2010. It was extended beyond December 31, 2013 by Act 310/2013 for photovoltaic power plants put into operation between January 1, 2010 and December 31, 2010.
97. The Solar Levy was originally set at 26% and 28% for payments to solar energy producers respectively under the FiT system and under the Green Bonuses system. It was withheld by the grid operator who paid the FiT or Green Bonuses to the RES producers for the electricity produced.
98. Act 310/2013 set the Solar Levy at 10% for FiTs and 11% for Green Bonuses.
99. Article I(2) of Act 310/2013 also cancelled all incentives for electricity generated by solar power plants placed into service after January 1, 2014.

³¹ C-36, Act No. 137/2010 Coll.

C. Amendment of Act on Income Tax

100. Act 346/2010,³² which entered into force on January 1, 2011, amended the Act on Income Tax by repealing the Income Tax Exemption for RES producers, and the favourable depreciation allowances. Although it was prospective, it had the effect of removing tax exemptions and depreciation allowances which would otherwise have accrued.

D. Repeal of Act on Promotion

101. Act 165/2012³³ on Promoted Power Sources” which partly entered into force on January 1, 2013 and partly upon its publication on May 30, 2012 repealed the Act on Promotion. It left in place the method for determining FiT and Green Bonuses, as amended at the end of 2010, for plants put into operation before January 1, 2013, and introduced new rules for plants put into operation thereafter. It confirmed the Solar Levy and contained several provisions which the Claimants say negatively affected RES producers that put their plants into operation before January 1, 2013 (including the Claimants).³⁴

E. Extension of Solar Levy

102. Act 310/2013³⁵ was adopted on September 13, 2013, and extended the Solar Levy beyond December 31, 2013, at a new decreased 10% rate (but only applying to 2010 PV plants and for the entire lifetime) and 11% levy on Green Bonuses. It also imposed new obligations concerning disclosure of major shareholders and conversion of shares only on foreign joint stock companies producing electricity from RES. It cancelled RES support for PV plants commissioned after January 1, 2014.

F. Subsequent developments

103. On November 19, 2015, the ERO issued Price Decision 5/2015, which set the FiT applicable as of January 1, 2016 only to plants commissioned from 2013 to 2015, but not to plants put into operation from 2006 to 2012, thereby in effect removing the FiT. But on December 28, 2015, the Czech Government adopted Regulation 402/2015,³⁶ which overruled Price Decision 5/2015 and

³² C-38, Act No. 346/2010 Coll.

³³ C-39, Act No. 165/2012 Coll.

³⁴ See Reply, paras 240-241.

³⁵ C-107, Act No. 310/2013 Coll.

³⁶ C-249, Government Regulation No. 402/2015 Coll. of December 21, 2015.

provided that the incentives to RES plants commissioned before 2013 must be paid, pending any decision by the EU Commission on their compliance with EU State aid law. On December 29, 2015 the ERO issued Price Decision 9/2015 setting FiT and Green Bonuses for RES plants commissioned since 2006, including the Claimants' plants.³⁷

VII. The background and history

A. Development of the incentives

104. In 1997, following the 1997 Kyoto Protocol, the EU Commission released its White Paper for Community Strategy and Action Plan, which aimed to encourage governmental measures supportive of the development of Renewable Energy Sources (“**RES**”).³⁸
105. On March 30, 2000, the European Parliament adopted its resolution on Electricity from renewable energy sources and the internal electricity market, in which it, among others, requested that the EU Commission submit a proposal of a Directive to “establish a suitable and stable legal framework for renewable energies to underpin the rapid development of these energy sources.”³⁹
106. It was followed by the Directive 2001/77/EC of the European Parliament and of the Council on the promotion of electricity produced from renewable energy sources in the internal electricity market (the “**2001 Directive**”), which invited Member States to “take appropriate steps to encourage greater consumption of electricity produced from renewable energy sources in conformity with the national indicative target.”⁴⁰ The indicative targets for the consumption of electricity produced from RES which had to be attained by 2010 were laid down in the Annex to the 2001 Directive.⁴¹
107. On May 1, 2004 the Czech Republic became a Member State of the EU pursuant to the Treaty of Accession to the European Union of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia of April 16, 2003 (the “**2003 Treaty of**

³⁷ C-251, ERO Price Decision No. 9/2015 of December 29, 2015.

³⁸ C-212, EU Commission, White Paper for a Community Strategy and Action Plan COM(97)599, para 1.1.3.

³⁹ C-214, European Parliament's Resolution on Electricity from renewable energy sources and the internal electricity market, March 30, 2000, para R(3).

⁴⁰ C-20, Directive 2001/77/EC of the European Parliament and of the Council on the promotion of electricity produced from renewable energy sources in the internal electricity market, September 27, 2001, Art. 3(1).

⁴¹ C-20, Directive 2001/77/EC of the European Parliament and of the Council on the promotion of electricity produced from renewable energy sources in the internal electricity market, September 27, 2001, Annex.

Accession”).⁴² Annex II to the 2003 Treaty of Accession fixed at 8% the Czech Republic’s national target for the contribution of electricity produced from RES to the gross electricity consumption by 2010.⁴³

108. Following a proposal made in November 2003⁴⁴ the Act on Promotion (Act 180/2005)⁴⁵ was adopted on March 31, 2005 and entered into effect on August 1, 2005.
109. Section 1(2) stated that the purpose of the Act was in the interest of protection of the climate and protection of the environment, (inter alia) to promote the use of RES, and renewable energy sources (hereinafter referred to as “renewable sources”) and create conditions for fulfilment of the indicative target for the share of electricity from RES in the gross consumption of electricity in the Czech Republic amounting to 8 % in 2010, and for further increase of this share after 2010.
110. Section 6 provided under the heading “Amounts of Prices for Electricity from Renewable Sources and Amounts of Green Bonuses”

(1) The Office sets, one calendar year in advance, the purchasing prices for electricity from Renewable Sources (the “Purchasing Prices”), separately for individual kinds of Renewable Sources, and sets green bonuses, so that

(a) the conditions are created for the achievement of the indicative target so that the share of electricity produced from Renewable Sources accounts for 8% of gross electricity consumption in 2010 and

(b) for facilities commissioned

1. after the effective date of this Act, there is attained, with the Support consisting of the Purchasing Prices, a fifteen year payback period on capital expenditures, provided technical and economic parameters are met, such parameters consisting of, in particular, cost per unit of installed capacity, exploitation efficiency of the primary energy content in the Renewable Source, and the period of use of the facility, such parameters being stipulated in an implementing legal regulation,

2. after the effective date of this Act, the amount of revenues per unit of electricity from Renewable Sources, assuming Support in the form of Purchasing Prices, is maintained as the minimum [amount of revenues], for a period of 15 years from the commissioning year of the facility, taking into account the industrial producer price index; the commissioning of a facility is also deemed to include cases involving the completion of a rebuild of the

⁴² C-21, Treaty of Accession to the European Union of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, 2003.

⁴³ C-22, Annex II to Treaty of Accession to the European Union of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, 2003 - Energy, Part A.

⁴⁴ The 2003 Explanatory Report stated that the support system was based “on providing a guarantee to investors ... ensuring that the amount of revenue per unit of electricity produced from renewable sources acquired by producers from the support will be maintained for 15 years from placing the facility in service”: C-120, Explanatory Report on the bill of the Act on Promotion of November 12, 2003 (extended version), p.4.

⁴⁵ R-5, (Respondent’s translation) and C-26 (Claimants’ translation), Act No. 180/2005 Coll. on the promotion of electricity production from renewable energy sources and amending certain acts, March 31, 2005.

technological part of existing equipment, a change of fuel, or the completion of modernization that raises the technical and ecological standard of an existing facility,

3. prior to the effective date of this Act, there is maintained for a period of 15 years the minimum amount of Purchasing Prices set for the year 2005 in accordance with the legal regulations to date and taking into account the industrial producer price index.

(2) When setting the amounts of green bonuses, the Office also takes into account a heightened degree of risk associated with off-taking electricity from Renewable Sources in the electricity market.

(3) When setting Purchasing Prices and green bonuses, the Office proceeds on the basis of differing costs for the acquisition, connection and operation of individual types of facilities, including the development thereof [the development of such costs] over time.

(4) Purchasing Prices set by the Office for the following calendar year shall not be less than 95% of the Purchasing Prices in effect in the year for which the setting decision is made. This provision shall be used for the prices set for 2007.

111. During its passage, the Minister of Environment was quoted as describing the Act as “a step towards a more stable environment,”⁴⁶ and on June 1, 2005 Mr Martin Bursík, former Minister of Environment (described by the Claimants as one of the co-authors of the Act) published an article stating that the most important principle of the law for producers was the guarantee of a stable FiT for a 15 year period, thereby removing the risk that the ERO would reduce the FiT on a year on year basis and that the producers’ cash flow and ability to repay loans would be threatened.⁴⁷

112. Pursuant to Section 6(1)(b)(1) of the Act on Promotion, the ERO was to adopt implementing regulations to determine the technical and economic parameters for the Incentives for each RES technology.

113. These parameters were set by the Technical Regulation (ERO Regulation 475/2005).⁴⁸ By Section 4 of the Technical Regulation:

(1) In order for the 15-year pay-back period to be assured through the support by Purchasing Prices of electricity produced from renewable sources, technical and economic parameters of an installation producing electricity from renewable sources must be satisfied, where the producer of electricity from renewable sources shall achieve, with the given level of Purchasing Prices

a) an adequate return on invested capital during the total life of the installation, such return to be determined by the weighted average cost of capital (WACC), and

b) the net present value of the cash flows after tax over the total life of the installation, using a discount rate equal to WACC, at least equal to zero.

⁴⁶ C-25, “The state is to support renewable power resources,” Newspaper article in “Ihned.cz”, February 23, 2005.

⁴⁷ C-32, Newspaper article in “Moderniobec.cz”, June 1, 2005.

⁴⁸ C-28, ERO Regulation No. 475/2005 Coll.

- (2) Indicative values of technical and economic parameters, separately for individual supported categories of renewable sources and selected technologies allowing to meet the required economic criteria under subsection (1) in electricity production from renewable sources, are listed in Annex No. 3 hereto.⁴⁹

114. Annex 3 of the Technical Regulation proceeded on the basis that photovoltaic power plants had an expected lifetime of 15 years. It was amended by ERO Regulation 364/2007 which increased the expected lifetime to 20 years.
115. In the 2005 Fourth National Communication of the Czech Republic on the UN Framework Convention on Climate Change (the “**2005 UN Report**”), the Czech Republic described the purpose of Section 6(1)(b)(2) of the Act on Promotion as:⁵⁰

providing guarantees to the investors and owners of installations, producing electricity from renewable sources who are subject to support pursuant to the Act, that the amount of revenue per unit of produced electricity from renewable sources acquired by the producers from the support will be maintained for a period of 15 years from bringing the installation into operation (or for a period of 15 years for installations that were brought into operation prior to the date of effect of the Act)

116. In accordance with Articles 4 and 8 of the 2001 Directive, on December 7, 2005 the EU Commission issued a Communication addressing the progress made by each Member State in achieving the targets, and suggesting a way forward.⁵¹ The Commission said:

Member States shall optimize and fine tune their support schemes by:

Increasing legislative stability and reducing investment risk. One of the main concerns with national support schemes is any stop-and-go nature of a system. Any instability in the system creates high investment risks, normally taking the form of higher costs for consumers. Thus, the system needs to be regarded as stable and reliable by the market participants in the long run in order to reduce the perceived risks. Reducing investment risk and increasing liquidity is an important issue, notably in the green certificate market. The design of a support mechanism must minimise unnecessary market risk. Increased liquidity could improve the option of long term contracts and will give a clearer market price.⁵²

117. In this period the Czech Government promoted the scheme abroad.⁵³
118. On April 23, 2009 the European Parliament and the Council of the EU adopted Directive 2009/28/EC (the “**2009 Directive**”), which repealed the 2001 Directive and fixed new mandatory targets for the contribution of electricity produced from RES by 2020. The Czech Republic’s new

⁴⁹ Translation in R-6, The Technical Regulation, Section 4(1).

⁵⁰ C-72, Fourth National Communication of the Czech Republic on the UN Framework Convention on Climate Change of 2005, p 35.

⁵¹ C-216, EC’s Communication of December 7, 2005, *The support of electricity from renewable energy sources*.

⁵² C-216, EC’s Communication of December 7, 2005, *The support of electricity from renewable energy sources*, para 8.2.

⁵³ For Germany see C-230, ERO presentation of October 9, 2008 by Mr. Stanislav Trávníček.

target was set at 13% by 2020 (Annex I, Part A). The Recitals to the 2009 Directive emphasized (paras 14 and 25) that the main purpose of mandatory national targets was to provide certainty for investors and that Member States had to guarantee national support schemes to maintain investor confidence.

119. On May 11, 2009 the ERO adopted the Pricing Regulation (ERO 140/2009), Article 2(9) of which provided as follows:

Feed-in tariffs and Green bonuses stipulated by the Act on Promotion are applied throughout the estimated lifetime of plants determined by the regulation implementing some provisions of the Act on Promotion. The Feed-in tariffs increase annually throughout the lifetime of the plant classified in the respective category depending on the type of the renewable resource used and the date of launch into operation with respect to the industrial producers' price index by a minimum of 2% and maximum of 4%, with the exception of biomass and bio gas burning plants.

B. The solar boom and proposals for change: 2009-2010

120. Initially investment in solar power was not especially attractive because of the relatively high price of PV panels and the relatively poor irradiation profile of the Czech Republic. No significant volume of PV plants was installed prior to 2009.⁵⁴ The significant drop in the price of PV panels began in 2008 and accelerated in 2009. In early 2009 the ERO learned that the electricity transmission and distribution companies began receiving a significantly increasing number of preliminary applications for connection to the grid for solar installations. It took the view that an uncontrolled increase in solar energy would be highly undesirable because (1) it would increase the price of RES support paid by consumers; (2) it would lead to significantly higher profits for solar investors compared with other RES producers; and (3) it would threaten the stability of the grid because of the unpredictable and volatile nature of solar electricity production.⁵⁵
121. On January 29, 2009 Mr Fiřt, the then Chairman of the ERO, alerted the Prime Minister to these problems and to the need to amend the Act on Promotion to remove the 5% cap.⁵⁶
122. On March 1, 2009 the European Photovoltaic Industry Association published a study predicting 8% annual decrease in PV system prices for 2009, and a halving of costs every 8 years.⁵⁷
123. The ERO Report on the Fulfilment of the Indicative Target for Electricity Production from Renewable Energy Sources for 2008 (prepared in 2009) said that in a year-on-year comparison,

⁵⁴ R-8, The ERO Yearly Report on the Operation of the Czech Electricity Grid for 2012, Chapter 7 (Electricity generation from renewable energy sources (RES) since 2004), section 8.

⁵⁵ Fiřt Statement, paras 11-14.

⁵⁶ Fiřt Statement, para 15.

⁵⁷ C-36, Act No. 137/2010 Coll., p 16.

2007/2008 recorded an almost ten-fold rise in installed capacity of PV systems in the Czech Republic, which had been caused in particular by a fall in the prices of photovoltaic panels by over 40% and the retention of very favourable prices. It went on:

The massive interest shown by investors in photovoltaic systems is already causing significant problems both in the form of disadvantaging the other categories of RES or the speculative blocking of connection capacities at grid level and also a significant increase in ancillary costs for RES, which are subsequently transferred to the final prices of electricity for consumers.⁵⁸

124. But it recognized that the Act on Promotion brought a guarantee of long-term and stable promotion necessary for decision-making by businesses, a guarantee of revenues per unit of electricity produced for a period of 15 years from the date it is put into operation, and retention of the level of purchase prices for equipment already in operation for a period of 15 years, and a maximum year-on-year fall in purchase prices of electricity for new equipment of 5%.⁵⁹
125. The Prime Minister told Mr Fiřt that he would take steps to amend the Act on Promotion in accordance with Mr Fiřt's recommendation,⁶⁰ but following a vote of censure, in March 2009 the Government had to resign and elections were fixed for October 2009 (postponed by decision of Constitutional Court on September 10, 2009 to May 2010). In May 2009 the Fischer caretaker government was formed.
126. According to Mr Fiřt, in mid-2009 many banks temporarily suspended the financing of new solar installations, anticipating a possible change in legislation.⁶¹
127. On July 1, 2009 Mr Fiřt wrote to the Minister of Industry and Trade and to the Minister of Environment pointing to the "fairly dramatic" rise in preliminary connection requests for photovoltaic installations and urging the Government to abolish the 5% Break-Out Rule so that the ERO could reduce the incentives for investments made in 2010.⁶² The letter said:

I am writing to you with an urgent request concerning Act No. 180/2005 Coll., on promotion of production of power generated from renewable energy sources.

The Energy Regulatory Office is responsible for promotion of power generated from renewable energy sources under the law. The situation with regard to requests for connecting new sources to the grid (primarily photovoltaic plants) is currently fairly dramatic. The growth in installed capacity for photovoltaic plants between 2007 and 2008 amounted to nearly 1,500% (starting at 3.4 MW and finishing at 54.29 MW). The installed capacity hit 77 MW at the end of June this year. Regional distribution system operators predict that at least

⁵⁸ C-230, ERO presentation of October 9, 2008 by Mr. Stanislav Trávníček, para 3.6.2.

⁵⁹ C-230, ERO presentation of October 9, 2008 by Mr. Stanislav Trávníček, para 5.1.

⁶⁰ Fiřt Statement, para 15.

⁶¹ Fiřt Statement, para 19.

⁶² C-200, Letter of July 1, 2009 from Mr. Fiřt (Chairman of the ERO) to Mr. Tošovský (Minister of Industry and Trade).

another 250 MW will be connected and put into operation by the end of 2009.

At the same time, photovoltaic plants have seen a sharp decline in specific investment costs by approx. 30%. However, the Energy Regulatory Office cannot respond to this situation with the appropriate decrease in the feed-in tariff for power generated from these sources, which puts investors in this area at an unprecedented advantage over investors and producers of other types of renewable resources.

This situation also leads to a speculative block of connection capacities at the level of the distribution systems. For this reason it is no longer possible to grant a request for connection for any applicant in a large part of the Czech Republic for the foreseeable future. This applies not only to renewable resources, but also to sources for combined power and heat production.

The provisions of Section 6(4) need to be amended, because at present they are making it impossible for the Energy Regulatory Office to lower the feed-in tariff on power from renewable resources by more than 5% year-on-year.

I would also like to stress the financial and social aspect of this problem, since the current uncontrollable growth in photovoltaic plants already means that all customers in the Czech Republic, including households, will be making a contribution of more than CZK 3 billion in 2010 just for new photovoltaic plants, while the total fund for promoting all types of renewable resources for 2008 was CZK 2.658 billion. In simplified terms, all customers in the Czech Republic will pay about CZK 50/MWh more for power just due to the growth in photovoltaics.

For the reasons stated above, the Energy Regulatory Office proposes that Section 6(4) of Act No. 180/2005 Coll. should be repealed. This will make it possible to adjust the feed-in tariff for photovoltaics to match the actual situation.

In my opinion the issue described in this letter is extremely serious. I am also sending this letter to the Minister for the Environment as the co-sponsor of Act No. 180/2005 Coll. I will be happy to meet in person to discuss the issue, if needed.

128. On July 22, 2009 the Minister of Environment replied to Mr Fiřt to agree that the current market situation was unsustainable and that it was necessary to decrease a disproportionate economic profit of large-scale outdoor photovoltaic systems which these installations currently had compared to other renewable sources. But he disagreed with the proposal to amend Section 6(4) of the Act on Promotion, because it was necessary to preserve the trust of investors.⁶³
129. On July 29, 2009, the Minister of Industry and Trade replied to Mr Fiřt stating that the Government would “indeed make efforts to amend [Section 6(4)] as soon as possible.”⁶⁴
130. On August 10, 2009 the ERO’s Vice Chairman, Mr Němeček, wrote to the Acting Director of the Electric Power Department in the Ministry of Industry and Trade calling for the repeal of Section 6(4) to “make it possible to adjust the purchase price for photovoltaics to match the actual situation.”⁶⁵
131. On August 24, 2009 the Ministry issued a press release stating that “the grant policy from the

⁶³ R-306, Letter from L. Miko to J. Fiřt (Czech Original and English translation), July 22, 2009.

⁶⁴ R-135, Letter from V. Tošovský to J. Fiřt (Czech original and English translation), July 29, 2009.

⁶⁵ R-136, Letter from B. Němeček to R. Portužák, August 10, 2009.

part of the state has ceased to fulfil its primary function, because support for solar power stations has shifted from an area of necessary state support for its existence to the position of a branch where profit is guaranteed regardless of the situation on the market,” that it was “planning to change the maximum 5% limit by which the ERO can reduce the purchase price of electricity from renewable energy sources annually” and that it was “trying to ensure that the new act comes into force on 1 January next year.”⁶⁶ The press release read:

Ministry of Industry and Trade equalises support for renewable energy sources

The Ministry of Industry and Trade is preparing an amendment to Act No 180/2005 Coll., concerning support for electricity generation from renewable energy sources. The Ministry of Industry and Trade is planning to change the maximum 5% limit by which the Energy Regulation Office can reduce the purchase price of electricity from renewable energy sources annually. The system for support of renewable energy sources must guarantee a fair competition environment for all renewable sources, it must respect the realistic technical—economic parameters of the individual types of RES, and it must also ensure a commensurate attractiveness for investors. The Ministry of Industry and Trade is trying to ensure that the new act comes into force on 1 January next year.

The reason for the amendment of the act is primarily the situation in the area of photovoltaic devices, where the grant policy from the part of the state has ceased to fulfil its primary function, because support for solar power stations has shifted from an area of necessary state support for its existence to the position of a branch where profit is guaranteed regardless of the situation on the market.

Between the years 2007 and 2008 the installed capacity of solar power stations grew by almost 1500 % from an original 3.4 MW to 54.29 MW. By the end of June this year the installed capacity had risen to 80 MW.

The ongoing reduction in the prices of photovoltaic panels is leading to the uncontrolled development of solar power stations. Whereas technological advances have reduced the price of photovoltaic panels by more than 40%, by law the Energy Regulation Office can only reduce the purchase price of electricity for new renewable sources by 5% per year. So at present a significant advantage is being provided to newly built photovoltaic power stations compared to other sources of renewable energy.

Given the current parameters, customers in the Czech Republic, including households, will contribute more than CZK 3 billion in support of electricity generation from new photovoltaic sources alone in 2010. If the law were to remain unchanged, in the years to come the contribution for photovoltaic devices would rise dramatically.

Put simply, if the current state were maintained the price for the delivery of electricity would rise by more than CZK 50/MWh for all customers in the Czech Republic just as a result of increase in photovoltaic devices. In 2011 the price for customers would be even higher.

The purchase prices for electricity from photovoltaic devices are guaranteed for 15 years, but thanks to new technology in certain cases the return on the investment is a mere 5 years. The level of the purchase price for electricity from a photovoltaic device is almost CZK 13/kWh, whereas the market price for electricity is around CZK 2/kWh.

132. On August 28, 2009, the Acting Director of the Department in the Ministry of Industry and Trade wrote, in reply to Mr Němeček’s letter of August 10, 2009:

⁶⁶ R-138, “Ministry of Industry and Trade will equalize the support of renewable energy sources,” Ministry of Industry and Trade Press Release (www.mpo.cz), August 24, 2009.

I ... believe that the preferential treatment of investors and potentially adverse impact on the regulated part of electricity price mentioned by you are hardly sustainable in the future.

On the other hand, it is appropriate to realize that the goal of section 6(4) ... was to ensure the investors in renewable sources certainty of payback of their investments, transparency and predictability. A simple cancellation could thus entail a risk of suits filed by investors against the Czech Republic on grounds of lost investments.⁶⁷

133. On September 8, 2009 in an open letter to the Chairman of the Economic Committee of the Chamber of Deputies Mr Fiřt again proposed an amendment to the Act on Promotion to enable the ERO to lower the incentives, subject to ensuring “a reasonable vacatio legis period” whereby the change would take effect only from 2011, so that “Investors will be able to prepare sufficiently in advance for the change in the conditions for investing which should eliminate entirely the risk of possible lawsuits in the Czech Republic regarding protection of investments.”⁶⁸
134. ERO made presentations dealing with the solar boom issue. In an October 2009 presentation, ERO said that “the economic return [for solar investors] at the current prices is in conflict with the guaranteed return pursuant to the law and is almost half [of the original 15-year period].” ERO drew attention to the technical parameters specified in the Technical Regulation and explained that an appropriate drop in the 2010 FiT to reflect cost developments would amount to 29.5%.⁶⁹
135. In November 2009, the ERO adopted Regulation 409/2009, which modified the technical and economic parameters of the Technical Regulation.⁷⁰ The expected lifetime for photovoltaic plants was kept as 20 years, as set out in Regulation 364/2007.
136. In the same month, the ERO issued its Report, in which it said that “the construction of installed capacity in biomass (around 352 MW), wind (around 269 MW), photovoltaics (around 131 MW) and biogas (around 70 MW) [was] of key importance for the fulfilment of the [8%] indicative target [for 2010].”⁷¹

⁶⁷ R-145, Letter from Mr Portuřák to Mr Němeček, August 28, 2009.

⁶⁸ C-201, Letter of September 8, 2009 from Mr. Fiřt (Chairman of the ERO) to Mr. Vojřř (Chairman of the Economic Committee of the Chamber of Deputies), p. 2.

⁶⁹ R-156, Legislative environment and the promotion of the electricity produced from photovoltaic power plants in 2009,” ERO Presentation, October 15, 2009, p. 14.

⁷⁰ C-30, ERO Regulation No. 409/2009 Coll.

⁷¹ C-203, “Report on the Fulfilment of the Indicative Target for Electricity Production from Renewable Energy Sources for 2008” of November 2009, prepared by the Ministry of Industry and Trade.

137. On November 16, 2009 the Government put forward a proposal to amend Act 180/2005.⁷² The Explanatory Report says that the aims of the legislation were to adjust the prices for solar power as of January 1, 2011, to eliminate the current discrimination against other types of renewable sources and repeating Mr Fiřt’s formula about investors preparing in advance so as to eliminate the risk of potential lawsuits against the Czech Republic.
138. During a press conference on the same day,⁷³ the Minister of Industry and Trade, Mr Vladimír Tošovský, said that reduction of the promotion from 2011 was chosen to avoid changing the terms and conditions under which existing investors had invested.
139. On November 23, 2009, the ERO issued Price Decision 5/2009, which set the FiT for 2010 plants.⁷⁴
140. The Tribunal was referred to many published articles from June 2009 onwards recording that the Government wanted to end the boom,⁷⁵ and reporting opposition to its plans.⁷⁶
141. In this period there was a geometric increase in installed solar capacity, as many investors (most of them domestic rather than foreign) took advantage, according to Mr Fiřt, of what was widely perceived as an opportunity to earn very high profits.⁷⁷
142. As a result of the rise in the number of applications to connect new solar installations, from February 2010 the national transmission system operator and the regional distribution system operators started to limit the issuance of “binding statements”, i.e. the preliminary agreements which assured investors that their plants would be connected to the grid upon completion. The national moratorium on new applications was widely announced and reported.⁷⁸

⁷² R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009.

⁷³ C-197, Czech Government’s press conference of November 16, 2009, p. 2.

⁷⁴ R-49, The ERO Price Decision No. 5/2009, November 23, 2009.

⁷⁵ R-363, “State wants to stop solar power plants boom,” Mladá fronta; R-364, “ERO is preparing purchase price reductions” (greensolar.webnode.cz), June 24, 2009; R-143, M. Petříček, “Solar boom is slightly excessive,” Hospodářské Noviny, August 13, 2009; R-139, Právo, “Ministry of Industry and Trade wants to reduce support of solar power plants”, August 25, 2009; R-140, “Is there any danger of reduction of support for solar power plants”, Radio Praha, September 3, 2009; R-181, “Additional payments for solar energy reached three billion; the state may curtail their boom” (Novinky.cz), November 2, 2009; R-155, “Solar energy 2010: no solution to the crisis in sight” (nazeleno.cz), March 24, 2010.

⁷⁶, R-144, “We will pay dearly for the sun, Ekonom, October 7, 2009; R-362, “What is the adequate decrease of photovoltaic electricity purchase prices?”, oze.tzb-info.cz, October 19, 2009.

⁷⁷ Fiřt Statement, para 22.

⁷⁸ Press releases: R-225, “CEPS calls for the suspension of connections for new renewable energy sources,” AF Power press release, February 10, 2010; R-224, “CEZ Distribuce responds to CEPS’s demand,” CEZ press release, February 16, 2010; R-230, “Boom development of solar power plants must be balanced with

143. On March 12, 2010 the three regional distribution companies wrote an open letter to Parliament urging it to adopt the amendment to the Act on Promotion to curtail “excessive profits” of solar generators.⁷⁹
144. On March 17, 2010 the Chamber of Deputies approved Act 137/2010, which entered into force on May 20, 2010.⁸⁰ This measure abolished the 5% rule for plants connected to the grid from January 1, 2011 onwards (Article II).
145. The Czech Republic published its 2010 National Renewable Energy Action Plan in July 2010 (the “**2010 Action Plan**”).⁸¹ It stated that, in relation to solar plants, the “fixed tariffs” (including the FiT set for 2010) were guaranteed for a period of 20 years and that there was no cap “on the total volume of electricity produced per year or of installed capacity that is entitled to the tariff”⁸². In the 2010 Action Plan, the Income Tax Exemption was listed together with the FiT and Green Bonuses as available financial support for RES.⁸³
146. In July 2010 the Nečas Government was sworn in, following elections in May 2010, and held office until July 2013.
147. There was a series of newspaper articles between July and September 2010 suggesting that the Government might resort to taxation measures to deal with the solar boom.⁸⁴

C. The changes

148. On September 15, 2010 a bill (which became Act 330/2010) was introduced to eliminate all

the stability of the grid and distribution network,” E.ON press release, February 2010; R-229, “New solar power plants are out of luck, ČEZ and E.ON will no longer connect them to the grid” (Novinky.cz), February 17, 2010.

⁷⁹ R-152, Letter from electricity companies (ČEZ, E.ON and PRE) to the Chamber of Deputies, March 12, 2010.

⁸⁰ C-36, Act No. 137/2010 Coll.

⁸¹ C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade.

⁸² C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade, pp 58-59.

⁸³ C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade, pp 50-51.

⁸⁴ R-162, “Solar boom will cost us dearly”, iDes.cz, July 22, 2010; R-31, “Minister of Environment Wants to Tax Solar Power Plants,” Mladá Fronta Dnes, July 23, 2010; R-185, “Solar boom is over”, E15 July 30, 2010; R-186, “Nečas for HN: We will slow down the process of electricity price increases and maybe even reverse it,” iHNed.cz, August 27, 2010.

support for large solar plants commissioned on or after March 1, 2011.⁸⁵ The Explanatory Report stated:

It is a legislative change of claim for the support of production of electricity from renewable energy sources. Photovoltaic power plants already connected to the electric power system will have their right to claim support preserved under existing conditions. Facilities not yet connected to the electric power system but which started operation before January 1, 2011 will have 12 months to be connected to the electric power system. If they do so, then their right to claim support will be preserved. The extent of support will correspond to the guaranteed support for the respective facility as of the time of its connection to the electric power system.

...

It is proposed that this Bill comes into effect from January 1, 2011. From March 1, 2011 the only supported facilities will be photovoltaic power plants with the installed power output of less than 30 kWp that are located on roofs and constructions of buildings. To this date it is also guaranteed that photovoltaic power plants already connected to the electric power system will have their right to claim support preserved under existing conditions".⁸⁶

149. On September 22, 2010 the Czech Government instructed the Ministers of Industry and Trade and of Environment to form a Coordination Committee to evaluate the impact of support for RES on electricity and energy prices.⁸⁷
150. The Committee's tasks⁸⁸ included the preparation of specific analyses on the impact of RES support on prices and the preparation of a draft amendment to the Act on Promotion.
151. On October 13, 2010 a draft of legislation to amend the Act on Promotion was re-submitted.⁸⁹ The draft maintained support under existing legal regulations for sources commissioned prior to the effective date of the Act and connected to the grid by December 31, 2011 (Article II).
152. On October 13, 2010 (as the Deputy Industry and Trade Minister reported to the Coordination Committee on October 15, 2010) the Government approved proposals to reduce the impact of RES on the price of electricity by a combination of three solutions, namely: (1) "The introduction of a withholding tax on sales of electricity from photovoltaic power plants"; (2) "Change of rates for alienation of land from the agricultural land fund"; and (3) "Include the revenues from the

⁸⁵ R-172, Explanatory Report to Draft Act No. 330/2010 Coll. (Czech original and partial English translation).

⁸⁶ R-172, Explanatory Report to Draft Act No. 330/2010 Coll. (Czech original and partial English translation), p. 8.

⁸⁷ R-189, Resolution of the Government of the Czech Republic No. 681, September 22, 2010.

⁸⁸ R-190, Minutes of the 1st Meeting of the Coordination Committee for the assessment of the impact of support of renewable energy sources on electricity prices, September 23, 2010.

⁸⁹ R-299, Government Document No. 145/10, Government proposal of an act amending the Act on Promotion, October 13, 2010.

sale of emission permits, including derogative, in the financing of RES Support”⁹⁰. The first solution eventually became the Solar Levy.

153. First Deputy Environmental Minister Bízková is recorded as having said:

... it is necessary to find a formally correct mechanism for reduction of the support of RES from photovoltaic power plants, such that it cannot be legally contested.

and Mr J Fiřt was noted as declaring that the ERO fully supported “the legally strong variant, which shall ensure the reduction of the contribution to the PVPPs [photovoltaic power producers].”⁹¹

154. On October 20, 2010, the Government resolved to approve the introduction of “the levy on production of electricity from solar radiation from the facilities put into operation in 2009 and 2010.”⁹²

155. At a meeting on October 20, 2010, the Minister of Finance explained the Solar Levy as follows:

Mechanism to reduce the surge increase of the prices of electricity consists in translation of support for RES to the prices for the final consumers only to a limited extent. The Government shall provide the operators of the transmission and distribution system (grid operators) with additional funding to cover the increase of the contribution to RES. ...

For the operators of the systems, the price shall be compensated from the state budget

The necessary securing of budget resources on the part of the state budget is realised by increase of the revenues from the title of adoption of three measures:

1. Increasing the levy from removal of land from the Agricultural Land Fund ...;
2. The introduction of a levy on the production of electricity from solar radiation from plants commissioned into service in 2009 and 2010 ...;
3. The introduction of gift tax on emission allowances ...⁹³

156. On October 26, 2010 the Government introduced a draft of Act 346/2010 amending the Act on Income Tax by repealing the Income Tax Exemption and abolishing the Shortened Depreciation Period as from January 1, 2011.⁹⁴

157. The Explanatory Report to the draft Act stated:

The proposed changes are in response to the need to eliminate all legal means for the indirect

⁹⁰ C-198, Minutes of the third meeting of the Coordination Committee held on October 15, 2010, para 3.

⁹¹ C-198, Minutes of the third meeting of the Coordination Committee held on October 15, 2010, pp. 4-5.

⁹² R-307, Resolution of the Government of the Czech Republic No. 757 on the issue of solution to the increase in electric energy prices caused by the promotion of renewable energy sources, October 20, 2010.

⁹³ Annex 5 to First [REDACTED] Report, Ministry of Finance presentation for government meeting, October 20, 2010, p. 3.

⁹⁴ R-114, Explanatory Report to Draft Act No. 346/2010 Coll., October 26, 2010.

support of electric power generation from renewable resources (mainly solar power plants) that is no longer justified ... Taxpayers will be able to take advantage of this tax relief for the last time for the tax period that began in 2010. This means among other things that the change will also apply to taxpayers who put environmentally friendly power plants and facilities in operation before this amendment took effect.

...

This proposed effectiveness date [January 1, 2011] does not create a risk of true retroactivity, since it is not a revision of legal relationships that had already arisen, but is an adjustment of relationships for the future ...⁹⁵

158. At the session of October 29, 2010 the bill to amend the Act on Promotion was assigned to the Economic Committee of the Chamber of Deputies for review.

159. On November 2, 2010 a new draft was submitted to Parliament, introducing the Solar Levy (for 3 years).⁹⁶

160. In debate before the Economic Committee on November 2, 2010 the Government was asked whether the Ministry of Industry and Trade was not afraid of losing arbitrations, and the answer was that tax regimes were a matter for each country, and changes in tax rates should not be challenged in arbitration. The Minister of Industry and Trade, Mr Kocourek, said:

The issue of arbitrations in general is absolutely erratic. ... I declare that it will reduce the amount of intended support to make it bearable for the Czech Republic and for electricity consumers in the Czech Republic. This method – through the withholding tax – it is not just a retroactive correction of support. One may argue as to whether or not this is retroactive. Nevertheless, it is a similar situation as if you changed the conditions for investors by increasing the income tax. From the arbitration perspective, they will strive to advocate the principle on which the support for RES has been based, i.e. their 15-year payback period ... the rest is the question of tax regimes – this is the responsibility of each country, and changes in tax rates should not be challenged in arbitrations.⁹⁷

161. On November 8, 2010, the ERO issued Price Decision 2/2010, in which it set the FiTs for 2011 plants. The FiTs for plants with capacity of over 30kW commissioned in 2011 were set at lower than 50% of those for plants commissioned in 2010.⁹⁸

162. On November 12, 2010 the Czech Parliament approved Act 346/2010, which entered into force on January 1, 2011.⁹⁹

⁹⁵ R-114, Explanatory Report to Draft Act No. 346/2010 Coll., October 26, 2010, pp 4-5.

⁹⁶ R-300, Chamber of Deputies of the Parliament of the Czech Republic, Chamber print no. 145/1 of 2010, November 2, 2010.

⁹⁷ C-208, Minutes of meeting of the Economic Committee of the Chamber of Deputies of November 2, 2010, p. 5.

⁹⁸ R-50, The ERO Price Decision No. 2/2010.

⁹⁹ R-32, The Act 346/2010.

163. In this period, according to Mr Minčič, who was then the First Deputy Minister of Finance, investors rushed in to obtain the high FiTs, which had the effect of accelerating the boom in new solar installations, with the result that there would be electricity price increases of 12.7% for households and 18.4% for industrial consumers.¹⁰⁰
164. In the debate on the amendment to the Act on Promotion on November 29, 2010 the First Deputy Minister of Finance, Mr Minčič said that the solar boom might or would trigger an increase in electricity prices for business by 17% or more, and such an abrupt increase would almost liquidate a significant proportion of Czech industry. He also discussed the legal issues, including constitutional challenges based on the “quasi-retroactivity” of the Act, issues relating to the principle of legitimate expectations under EU law, and to undertakings which result from treaties protecting and supporting foreign investments. He accepted that there was a risk of arbitrations.¹⁰¹
165. The Minister of Industry and Trade made similar points at the Senate session of December 8, 2010.¹⁰² The Minister acknowledged the risk of investment arbitrations brought by aggrieved solar investors against the State, but referred to an opinion by a law firm, Advokátní kancelář Kříž a Bělina, which “concluded that from the general perspective, the Czech Republic should be able to defend the proposed solutions.”¹⁰³
166. In the debate Senator Jiří Čunek criticized the Government officials who failed to monitor the development of the solar market and said:
- However, what does our law say? Our law says that this is false retroactivity, that international arbitrations cannot be excluded in view of claims regarding the protection of investments, and that the taxation of emissions credits is legally contestable, since the decision of the state body is not a gift and is inconsistent with EU law. That means that we are in a very unconventional situation.
167. Senator Čunek also endorsed a proposal by the President of the Czech Republic to limit the Solar Levy to one year, so as to avoid payment of damages. As an alternative he proposed to raise funds for RES support by introducing a tax on the production of nuclear energy, as done in Germany.¹⁰⁴ In his opinion, that solution would have been consistent with the promotion of RES and would not have caused legal problems.

¹⁰⁰ Minčič Statement, paras 8, 11.

¹⁰¹ C-235, Transcript of the Senate session of November 29, 2010, p. 3-5.

¹⁰² C-236, Transcript of the Senate session of December 8, 2010.

¹⁰³ C-236, Transcript of the Senate session of December 8, 2010, p. 2; C-237, *Advokátní kancelář Kříž a Bělina's* Opinion of December 6, 2010.

¹⁰⁴ C-236, Transcript of the Senate session of December 8, 2010, pp. 4-5.

168. The Chairman of the Economic Committee, Senator Jan Hajda, warned about the likelihood of arbitrations and said that the only honourable course would be to reject the bill.¹⁰⁵
169. After the discussion, the Senate refused to approve the bill and none of the amendments proposed at the discussion were adopted. But Act 402/2010¹⁰⁶ passed on December 14, 2010, in accordance with Article 46(3) of the Czech Constitution pursuant to which a bill is considered adopted if the Senate takes no action within 30 days of its submission.
170. Sections 7(a)-(i) introduced the Solar Levy, which applied to power generated by solar radiation from January 1, 2011 to December 31, 2013 in a plant put into operation between January 1, 2009 and December 31, 2010. The levy rate was 26% on FiTs and 28% on Green Bonuses.
171. According to the Respondent, the levy rate of 26% was calculated in order to ensure that investors continued to have a guarantee of return of investment within 15 years and a return on capital of at least 7% per annum on average over the lifetime of their investment.¹⁰⁷
172. Act 330/2010, which came into force on January 1, 2011 amended Section 3(5) of the Act on Promotion and abolished all incentives related to photovoltaic plants with installed output exceeding 30 kWp commissioned after March 1, 2011.
173. On January 11, 2011 the European Commissioners for Energy and Climate Action expressed “serious concerns” about the retroactive character of the amendment to the Act on Promotion.¹⁰⁸
174. Act 165/2012¹⁰⁹ repealed the Act on Promotion as of January 1, 2013. The Act established a new funding mechanism under which, inter alia, the Czech Electricity and Gas Market Operator (OTE) paid (i) Green Bonuses directly to the RES producers; and (ii) the difference between the FiT and the market price to the “mandatory purchasers”. The Act also introduced the “negative hourly price”, which was designed to be paid to the “mandatory purchasers” by RES operators entitled to the FiT or to be deducted from the payable FIT by the “mandatory purchasers” when the price of electricity on the daily market had a negative value. Pursuant to the transitional provisions set out in Section 54, all of the Claimants’ plants have been receiving the same amount

¹⁰⁵ C-236, Transcript of the Senate session of December 8, 2010, p. 6. See also Senator Jan Horník, at p 9.

¹⁰⁶ R-173 (Respondent’s translation) and C-37 (Claimant’s translation), Act No. 402/2010 Coll., amending the Act on Promotion, by introducing the Solar Levy and Government subsidies for partial financing of the RES Scheme, December 14, 2010.

¹⁰⁷ Minčič Statement, para 17.

¹⁰⁸ C-205, Letter of January 11, 2011 from Ms. Hedegaard and Mr. Oettinger (Commissioners of the EC) to Mr. Kocourek (Czech Minister of Trade and Industry).

¹⁰⁹ C-39, Act No. 165/2012 Coll.

of FiTs provided for under the Act on Promotion as amended in 2010.

VIII. Jurisdictional/admissibility issues

A. Whether the Solar Levy is a tax for the purposes of Energy Charter Treaty, Art 21(1)

1. The Respondent's position

175. The Respondent contends that “[t]he Tribunal does not have jurisdiction over Claimants’ [ECT] claims that pertain to taxation” by reason of Article 21 of the ECT, which excludes “Taxation Measures” from the scope of the ECT.¹¹⁰

176. Article 21 of the ECT provides, in relevant part:

- (1) Except as otherwise provided in this Article, nothing in this Treaty shall create rights or impose obligations with respect to Taxation Measures of the Contracting Parties. In the event of any inconsistency between this Article and any other provision of the Treaty, this Article shall prevail to the extent of the inconsistency.

[...]

- (2) Article 10(2) and (7) [Most favourable and national treatment] shall apply to Taxation Measures of the Contracting Parties other than those on income or on capital.

[...]

- (5) (a) Article 13 [Expropriation] shall apply to taxes.

[...]

- (7) For the purposes of this Article: (a) The term “Taxation Measures” includes: (i) any provision relating to taxes of the domestic law of the Contracting Party or of a political subdivision thereof or a local authority therein; and (ii) any provision relating to taxes of any convention for the avoidance of double taxation or of any other international agreement or arrangement by which the Contracting Party is bound. [...] ¹¹¹

177. According to the Respondent, all of the Respondent’s amendments to the Incentive Regime, i.e., the installation and the extension of the Solar Levy and the repeals of the Tax Exemption and the Shortened Depreciation Period constituted taxation measures for the purpose of Article 21(1) of the ECT.¹¹² The Respondent notes that the Claimants do not object to the tax measure applicability as to the repeals of the Tax Exemption and the Shortened Depreciation Period.¹¹³ Accordingly, the tax carve-out becomes at issue only in relation to the introduction and the

¹¹⁰ Statement of Defense, paras 85-91.

¹¹¹ Statement of Defense, paras 87-88; RLA-5, the ECT.

¹¹² Statement of Defense, paras 92-97.

¹¹³ Rejoinder, para 339; Reply, paras 507; Memorial, paras 323-325.

prolongation of the Solar Levy.¹¹⁴

178. The Respondent asserts that the determination of whether a measure is characterized as a Tax Measure should be based on the plain text of Article 21(7) of the ECT and in accordance with the VCLT.¹¹⁵ Article 31 VCLT provides, *inter alia*, that “[a] special meaning shall be given to a term if it is established that the parties so intended”.¹¹⁶ The Respondent then submits that under Article 21(7)(a) the contracting State Parties intended to give a special meaning to the term “Taxation Measures” by defining them as including “any provision relating to taxes of the domestic law of the Czech Republic.”¹¹⁷ Accordingly, any provision relating to tax measures under domestic law is carved-out pursuant to Article 21(7) of the ECT.¹¹⁸
179. According to the Respondent, such a reference to domestic law is consistent with arbitral practice where “tribunals have not hesitated to apply domestic law when expressly instructed to do so.”¹¹⁹ This is also supported by the drafters’ intent to “preserve State autonomy over taxation matters, rather than wrest it from the State’s hands”.¹²⁰ The Respondent objects to the Claimants’ assertion that this interpretation allows a host State to evade an ECT obligation by categorizing its measure as tax, noting that the ultimate authority to decide the tax applicability belongs to a tribunal, instead of a host State.¹²¹ The Respondent also objects to the Claimants’ allegation that the reference to domestic law is contrary to the purpose of the ECT, stating that they do not provide an adequate explanation.¹²²
180. The Respondent rejects the Claimants’ argument that taxes must be “imposed in good faith” in order for the Article 21 carve-out to apply.¹²³ The Respondent notes that the Energy Charter Secretariat’s 2015 publication on “Taxation of Foreign Investments under International Law”—to which the Claimants refer—does not indicate that any such requirement applies.¹²⁴ The

¹¹⁴ Rejoinder, para 339.

¹¹⁵ Counter-Memorial, paras 487-8.

¹¹⁶ RLA-125, Vienna Convention on the Law of Treaties, Art. 31(1) and (4).

¹¹⁷ Counter-Memorial, para 488; Rejoinder, para 342.

¹¹⁸ Rejoinder, para 343.

¹¹⁹ Rejoinder, para 346.

¹²⁰ Rejoinder, para 347.

¹²¹ Rejoinder, para 349.

¹²² Rejoinder, para 348.

¹²³ Rejoinder, para 421; Reply, para 526.

¹²⁴ Rejoinder, para 421.

passage cited by the Claimants for support discusses various merits issues relating to a State's power to tax which the Respondent deems inappropriate for the determination of whether there is jurisdiction over the dispute.¹²⁵

181. In any event, the Respondent submits that the Claimants' allegation that the Respondent deliberately camouflaged the Solar Levy as a tax in order to evade international liability under the treaties, and thus, acted in bad faith, is without merit.¹²⁶ The Respondent contends that, as found by the tribunal in *Tza Yap Shum v. Peru*, the conduct of tax authorities ought to be examined "under an assumption of good faith".¹²⁷ According to the Respondent, the Claimants should have, but failed, to provide evidence to overcome this presumption by showing that the purpose of the introduction of the Solar Levy was one "entirely unrelated" to taxation, "such as the destruction of a company or the elimination of a political opponent".¹²⁸ Furthermore, several tribunals have ruled that a State cannot be deemed to have acted in bad faith simply because it did not pursue what a tribunal (in hindsight) believes would have been a better way of accomplishing an objective.¹²⁹
182. The Respondent maintains that the Solar Levy can meet the definition adopted in *Yukos v. Russia*, in which the tribunal defined taxation measures as "actions that are motivated by the purpose of raising general revenue for the State".¹³⁰ This is primarily based upon the Respondent's expert's analysis that "there is no obligation for the Government to use the funds that it receives pursuant to the Solar Levy to finance any specific purpose."¹³¹ The Respondent adds that its good faith is supported by the fact that it was looking for a lawful measure under domestic law, instead of simply reducing the FiT.¹³²

¹²⁵ Rejoinder, para 421.

¹²⁶ Rejoinder, para 433.

¹²⁷ Respondent's Rejoinder, para 423; *Tza Yap Shum v. Peru* (Kessler, Fernandez-Armesto, Otero), ICSID Case No. ARB/07/6 (Laudo, July 7, 2011), para 125.

¹²⁸ Counter-Memorial, para 506; *Yukos Universal Limited (Isle of Man) v. The Russian Federation* (Fortier, Poncet, Schwebel), UNCITRAL, Award, 18 July 2014, para 1407.

¹²⁹ Rejoinder, para 427; *Invesmart B.V. v. Czech Republic* (Pryles, Thomas, Bernardini), UNCITRAL, Award (Redacted), 26 June 2009, paras 430, 484 and 501; *ECE Projektmanagement International GmbH et al v. Czech Republic* (Berman, Bucher, Thomas), PCA Case No. 2010-5, Award, 19 September 2013, para 4.764; *Saluka Investments BV v. Czech Republic* (Watts, Fortier, Behrens), UNCITRAL, Award, 17 March 2006, para 411.

¹³⁰ Counter-Memorial, para 505; *Yukos Universal Limited v. Russia* (Fortier, Poncet, Schwebel), UNCITRAL, PCA Case No. AA 227, Final Award, 18 July 2014, para 1407.

¹³¹ Counter-Memorial, para 505; [REDACTED] Report, para 50. Rejoinder, para 387 citing Kotáb Report, paras 56, 57.

¹³² T/1/148.

183. The Respondent invokes the fact that the Solar Levy applied to all solar producers whose plants were put into operation in 2009 and 2010, irrespective of whether the solar producer could invoke an investment treaty or of whether that investment treaty contained a tax-carve out.¹³³ The Respondent rejects the Claimants' argument that the Tribunal read "bad faith" into the Deputy Environment Minister's contention that it was "necessary to find a formally correct mechanism for reduction of the support of RES from photovoltaic power plants, such that it cannot be legally contested" noting that it is the "essence of good faith" to find a lawful way to achieve a policy objective.¹³⁴
184. The Respondent describes that it did not choose to reduce the FiT because such a FiT reduction would have been (1) "[i]nsufficient by itself to compensate all budget support costs (unless FIT reduced by 50%); (2) "[l]ess suited to addressing temporary problem affecting only some producers of one source of RES"; (3) "[i]mpossible to implement before year-end (given need to amend multiple levels of laws/regulations)"; and (4) "[r]equire more radical revision of RES support framework".¹³⁵
185. The Respondent contends that the Solar Levy is a tax under Czech domestic law.
186. The Respondent submits that the Tribunal must determine whether the amendment measures constituted taxes under domestic law "in accordance to evidence presented to it as to the content of the law and the manner in which the law would be understood and applied by the municipal courts"¹³⁶ and there is "overwhelming evidence" that the Czech legal system overall treats the Solar Levy as a tax, and the Solar Levy has been "understood and applied" as such by the Czech municipal courts.¹³⁷
187. The Respondent notes that, like any tax, the Solar Levy has a rate, a base, and a taxpayer.¹³⁸ Therefore, the Czech legislator has provided for its collection by the tax authorities as revenue for the general State budget.¹³⁹

¹³³ Rejoinder, para 422.

¹³⁴ Rejoinder, para 423

¹³⁵ T/1/142; Respondent's opening statement, Slide 63; Rejoinder, paras 122-124.

¹³⁶ Rejoinder, para 352; *Emmis International Holding, B.V. et al. v. Hungary* (McLachlan, Lalonde, Thomas), ICSID Case No. ARB/12/2 (Award, 16 April 2014), para 175.

¹³⁷ Rejoinder, para 353.

¹³⁸ Rejoinder, para 354 citing RLA-212, A. Miller, L. Oats, *Principles of International Taxation* (2012), p. 4 ("Every tax has three essential elements, a base, a rate of tax and someone to pay it, a tax payer"); Kotáb Report, para 14.

¹³⁹ Rejoinder, para 354 *citing* R-5, Act on Promotion (as amended by Act 402/2010), Sections 7h, 7i; Minčič

188. The Respondent asserts that “the Czech legislation specifically designates the Solar Levy as a tax”.¹⁴⁰ The Solar Levy meets the definition of “tax” under the Tax Administration Law, a central instrument of Czech tax law, and is accounted for and reported as a tax in accordance with Czech accounting law and budgetary procedure, and listed as a tax in the reports of international organizations that use their own autonomous definitions of tax (OECD and Eurostat).¹⁴¹ The Respondent submits that the Solar Levy has never been classified as anything other than a tax in accounting legislation.¹⁴² Indeed, the Respondent emphasizes that the Claimants’ own financial statements also describe the Solar Levy as a “solar tax”.¹⁴³
189. The Respondent states that nothing in the ECT suggests that Article 21 only refers to taxes in a “narrow” or “theoretical” sense; on the contrary, the Energy Charter Secretariat’s publication on Article 21 indicates that the ECT “envisaged all kinds of special domestic taxes, including taxes to reduce excessive profits”.¹⁴⁴ Furthermore, there is no provision of the ECT requiring that “domestic law” provide a “general definition” of tax.¹⁴⁵ It only requires that the relevant provisions be provisions “relating to taxes of domestic law”.¹⁴⁶ In the Respondent’s view, the relationship between the Solar Levy and the Czech domestic tax system is direct and unequivocal, given that (1) the Solar Levy is directly transferred to the general State budget; (2) the Solar Levy does not impact gross revenues; and (3) the accounting practice categorizes the Solar Levy as a

Statement, para 14.

¹⁴⁰ Rejoinder, para 359.

¹⁴¹ Rejoinder, para 355; Counter-Memorial, paras 495-496, 504; Reply, paras 546-547; Kotáb Report, note 7, paras 28, 29.

¹⁴² Rejoinder, para 361; Second [REDACTED] Report, para 18; Kotáb Report, para 26, 28; R-297, European System of Accounts ESA 2010, p. 92, para 4.14; R-284, Revenue Statistics—OECD countries: Details of Tax Revenue—Czech Republic (<https://stats.oecd.org/>), rows 77, 88, R-283; OECD Revenue Statistics 2014, Annex A: The Interpretative Guide, para 60; R-279, FVE Úsilné s.r.o. financial statements as of 31 December 2015, p. 6; R-280, FVE Stříbro s.r.o. financial statements as of 31 December 2015, p. 5; R-281, FVE Osečná financial statements as of 31 December 2015, p. 6; R-282, FVE Mozolov financial statements as of 31 December 2015, p. 6; Counter-Memorial, para 504, note 957; Kotáb Report, paras 24, 34, 48; Annex 3 to [REDACTED] Report, R. Boháč, *Pojem daň v daňových zákonech*, p. 14 of the English translation (Boháč, *The Term “Tax” in Tax Laws*).

¹⁴³ Rejoinder, para 355 citing R-279, FVE Úsilné s.r.o. financial statements as of 31 December 2015, p. 6; R-280, FVE Stříbro s.r.o. financial statements as of 31 December 2015, p. 5; R-281, FVE Osečná financial statements as of 31 December 2015, p. 6; R-282, FVE Mozolov financial statements as of 31 December 2015, p. 6.

¹⁴⁴ Respondent’s Rejoinder, para 363 citing CLA-74, Ugur Erman Ozgur, *Taxation of Foreign Investments under International Law: Article 21 of the Energy Charter Treaty in Context (2015)* [“Ozgur, Taxation of Foreign Investments under International Law”], p. 56.

¹⁴⁵ Rejoinder, para 364; ECT Article 21(7).

¹⁴⁶ Rejoinder, para 364; ECT Article 21(7).

tax expense.¹⁴⁷

190. The Respondent notes further that the Czech judiciary overwhelmingly refers to the Solar Levy as a tax.¹⁴⁸ The Czech Constitutional Court unequivocally refers to the Solar Levy as “a tax or fee” for the purposes of Article 11(5) of the Czech Republic’s Charter of Fundamental Rights and Freedoms and satisfies the provision’s requirement that “taxes and fees should be levied only on the basis of the law”.¹⁴⁹ On the other hand, the Czech Supreme Administrative Court decision of July 10, 2014, on which the Claimants rely, is unpersuasive given that (1) the issue of non-equivalence had never been argued during the proceedings; (2) no other Czech court or scholar have cited this decision; and (3) no oral hearing was held and only two briefs were submitted.¹⁵⁰
191. The Respondent addresses the six features of taxation proposed by the Claimants: “(a) obligatory, (b) non-refundable and (c) non-equivalent payment (d) introduced by law, (e) intended to serve as income of the state budget for the financing of society-wide needs and (f) paid for no specific purpose.”¹⁵¹ According to the Respondent, contrary to the Claimants’ statements, the Solar Levy is “non-equivalent” and was not “paid for a specific purpose” since the proceeds are deposited into the general treasury account of the Ministry of Finance and serve to finance general government liabilities.¹⁵²
192. The Respondent further submits that the Solar Levy can also meet the autonomous criteria most

¹⁴⁷ Rejoinder, para 364; T/1/143-144.

¹⁴⁸ Rejoinder, paras 393-406; [REDACTED] Report, paras 47-48; R-38, Constitutional Court Judgement, paras 46, 59, 60, 64; Annex 13 to First [REDACTED] Report, Decision of the Grand Chamber of the Czech Supreme Administrative Court (Case No. 1 Afs 76/2013-57), December 17, 2013, paras 36, 50; Annex 18 to First [REDACTED] Report, Decision of the Czech Supreme Administrative Court (Case No. 1 Afs 256/2014-28), March 25, 2015, para 42; R-39, Decision of the Czech Supreme Administrative Court (Case No. 1 Afs 80/2012-44), December 20, 2012, para 19; Annex 21 to Second [REDACTED] Report, Decision of the Czech Supreme Administrative Court (Case No. 5 Afs 126/2013-34), May 7, 2014, paras 6, 40; R-291, Decision of the Supreme Administrative Court (Case No. Afs 66/2012-38), July 24, 2013, p. 4; Annex 14 to First [REDACTED] Report, Decision of the Czech Constitutional Court (Case No. II. US 2216/14), January 13, 2015, paras 14, 19, 20, 29; R-286, Decision of the Regional Court of České Budějovice (Case No. 10 Af 257/2011-43), December 5, 2012, paras 14, 16; R-287, Judgement of the Supreme Administrative Court (Case No. 8 Afs 3/2014-39, April 18, 2014, para 29.

¹⁴⁹ Rejoinder, para 356 citing Annex 14 to First [REDACTED] Report, Decision of the Czech Constitutional Court (case No. 2216/14), January 13, 2015, para 33 (“[The] Constitutional Court emphasizes that the option to levy taxes and fees is directly contained in Article 11(5) of the Charter and the “solar levy” can surely be considered such a tax or fee”); [REDACTED] Report, paras 47-48.

¹⁵⁰ T/151-152; T/4/755-756.

¹⁵¹ Respondent’s Rejoinder, para 373.

¹⁵² Respondent’s Rejoinder, paras 374, 386.

frequently invoked by tribunals to determine whether a measure is a tax.¹⁵³ According to the Respondent, the Solar Levy meets the requirement that “there is a law, which imposes a liability on classes of persons to pay money to the State for public purposes”, as expressed by several tribunals including *EnCana v. Ecuador*, *Burlington v. Ecuador*, and *Duke Energy Electroquil v. Ecuador*.¹⁵⁴

193. The Respondent also contends that, considering that French and Italian versions of the ECT employ the term of “fiscal measures”, instead of “taxation measures”, the scope of carve-out may go beyond taxation measures and include any fiscal measures.¹⁵⁵ In this context, the Respondent submits that the Czech Constitutional Court decision of May 15, 2012 and the Supreme Administrative Court decision of July 9, 2015 have confirmed the Solar Levy as a fiscal measure.¹⁵⁶ The Respondent further submits that the Claimants also confirmed it in stating that the Solar Levy was intended to cover the additional State subsidy and avoid an increase in the State deficit.¹⁵⁷
194. Lastly, pointing out that the Claimants’ experts are not tax lawyers, but tax advisors, the Respondent observes that its expert Dr Kotáb has more credibility.¹⁵⁸

2. The Claimants’ position

195. According to the Claimants, the ECT tax carve-out should be interpreted in accordance with the rules of interpretation of international treaties, regardless of its reference to domestic law.¹⁵⁹ Such rules are contained in the Vienna Convention on the Law of Treaties (the “VCLT”), and notable in Article 31(1), which provides:

A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.¹⁶⁰

¹⁵³ Counter-Memorial, paras 511-4.

¹⁵⁴ Counter-Memorial, para 511; *EnCana Corporation v. Ecuador* (Crawford, Grigera Naón, Thomas), LCIA Case No. UN3481, Award, 3 February 2006, para 142; *Burlington Resources Inc. v. Republic of Ecuador* (Kaufmann-Kohler, Stern, Orrego Vicuña), ICSID Case No. ARB/08/5 (Decision on Jurisdiction, June 2, 2010), para 165; *Duke Energy Electroquil Partners & Electroquil S.A. v. Republic of Ecuador* (Kaufmann-Kohler, Gómez Pinzón, van den Berg), ICSID Case No. ARB/04/19, Award, 18 August 2008, para 174.

¹⁵⁵ T/1/165-167.

¹⁵⁶ T/1/167; Respondent’s opening statement, Slide 108.

¹⁵⁷ T/1/167-168; Respondent’s opening statement, Slide 109.

¹⁵⁸ T/4/755.

¹⁵⁹ Reply, para 512.

¹⁶⁰ Vienna Convention on the Law of Treaties, Art. 31(1) (emphasis added by Claimants).

196. The Claimants find support for the importance of the “good faith” principle, “context” and “object and purpose” in treaty interpretation in the commentary of the International Law Commission, the writings of several authors and decisions of arbitral tribunals.¹⁶¹
197. Under these criteria, the tax carve-out in Article 21(1) ECT should not exclusively depend on a host State’s domestic tax legislation, because such an interpretation enables the host State to evade international liability by arbitrary categorizing its measure as tax.¹⁶² Rather, the good faith interpretation requires taxation measures to be legitimate or *bona fide* in order for the tax carve-out to apply.¹⁶³ The Energy Charter Secretariat’s own publication on Article 21 could not be more clear about the standard for what constitutes legitimate taxation as follows:

Whilst, States have a wide latitude of discretion in imposing and enforcing tax laws, taxes shall be imposed in good faith. Taxation measures shall not be confiscat[ory], prevent, or unreasonably interfere with, nor unduly delay effective enjoyment of a foreign investor’s property or its removal from the State’s territory.¹⁶⁴

198. The Claimants note that the tribunal in *Yukos* confirmed this interpretation concluding that good faith is required in order for Article 21 to apply:

1430. [...] the Tribunal concludes that it has jurisdiction to rule on Claimants’ claims under Article 13 of the ECT due to the fact that the Article 21 carve-out does not apply to the Russian Federation’s measures because they are not, as the Tribunal has concluded above, on the whole, a bona fide exercise of the Russian Federation’s tax powers.

1431. This accords with Claimants’ view **that Article 21 of the ECT can apply only to bona fide taxation actions, i.e., actions that are motivated for the purpose of raising general revenue for the State.** By contrast, actions that are taken only ‘under the guise’ of taxation, but in reality aim to achieve an entirely unrelated purpose [...] cannot qualify for exemption from the protection standards of the ECT under the taxation carve-out in Article 21(1)”.¹⁶⁵

199. The Claimants thus aver that both case law and good treaty interpretation mandate that in order for the Article 21(1) ECT tax carve-out to apply, taxes must be imposed in good faith. Referring to the 2014 *Yukos* awards, the Claimants note that the ECT tax carve-out mandates that the State’s

¹⁶¹ Reply, paras 515-517; CLA-70, International Law Commission Draft Articles on the Law of Treaties, 1966, p. 221, para 12; CLA-71, R. K. Gardiner, *Treaty Interpretation*, 2nd ed., 2015, Oxford, pp. 197, 211; CLA-72, J. Romesh Weeramantry, *Treaty Interpretation in Investment Arbitration*, Oxford, 2012, para 3.38; *Phoenix Action Ltd v. The Czech Republic* (Stern, Bucher, Fernández-Armesto), ICSID Case No. ARB/06/5 (Award, April 15, 2009), para 107.

¹⁶² Reply, para 519-524.

¹⁶³ Reply, para 525.

¹⁶⁴ Reply, para 525 citing CLA-74, Uğur Erman Özgür (for the Energy Charter Secretariat), Taxation of Foreign Investments under International Law: Article 21 of the Energy Charter Treaty in Context, p. 29 (emphasis added by Claimants).

¹⁶⁵ Reply, para 526; *Yukos Universal Limited (Isle of Man) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. 2005-4/AA 227, Final Award, 18 July 2014, paras 1430-1431 (emphasis added by Claimants).

power be exercised in a legitimate or *bona fide* way and it cannot be relied on when the Contracting States hides an action unfavourable to foreign investors “under the guise of taxation”.¹⁶⁶ Nor can the exception apply where the power to tax has been exercised in an abusive manner as was pronounced by the *Quasar v. Russia* tribunal, which noted that, absent such a standard, “international law would likely become an illusion, as states would quickly learn to avoid responsibility by dressing up all adverse measures [...] as taxation”.¹⁶⁷

200. In the present case, the Claimants allege that the Solar Levy is not a *bona fide* taxation measure under the *Yukos* standard.¹⁶⁸
201. The Claimants observe that the *Yukos* standard is not limited to “extreme circumstances such as the destruction of a company or the elimination of a political opponent” since the purpose of the standard is not to allow a host State from evading international liability by “disguising a measure as a tax”.¹⁶⁹ Even if such an extreme circumstance is necessary for the *Yukos* standard, this criterion can be met by the fact that the Respondent introduced the Solar Levy only for the purpose of evading international liability.¹⁷⁰ The Claimants submit that if the Respondent truly had intended to mitigate the burden on consumers, it would have simply reduced the FiT level.¹⁷¹
202. The Claimants contend that the Solar Levy was introduced for the purpose of “offset[ing] the introduction of the support from the State budget to pay the FiT”, instead of raising the State’s revenue.¹⁷² This is confirmed by the three indicators.¹⁷³ First, the Solar Levy was introduced in a retroactive manner, targeting a very narrow group, i.e., photovoltaic plants commissioned in 2009 and 2010.¹⁷⁴ Second, the Czech Republic introduced the Solar Levy in order to avoid

¹⁶⁶ Reply, para 526 citing *Yukos Universal Limited (Isle of Man) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. 2005-4/AA 227, Final Award, 18 July 2014, para 1431; *Hulley Enterprises Limited (Cyprus) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. AA 226, Final Award, July 18, 2014, para 1431; *Veteran Petroleum Limited (Cyprus) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. AA 228, Final Award, July 18, 2014, para 1431.

¹⁶⁷ Reply, para 528 citing *Quasar de Valors SICAV S.A. et al. (Formerly Renta 4 S.V.S.A et al.) v. The Russian Federation* (Brower, Landau, Paulsson), SCC Case No. 24/2007, Award, July 20, 2012, para 179; *RosInvestCo UK Ltd. v. The Russian Federation* (Böckstiegel, Steyn, Berman), SCC Case No. 079/2005, Final Award, September 12, 2010, para 628; Memorial, paras 278-280.

¹⁶⁸ Reply, para 529.

¹⁶⁹ Reply, paras 531-533.

¹⁷⁰ Reply, paras 534-535.

¹⁷¹ Reply, paras 536-542.

¹⁷² T/1/61.

¹⁷³ T/1/64.

¹⁷⁴ T/1/64.

international liability that would arise out of a simple reduction of the FiT amounts.¹⁷⁵ Third, the Supreme Administrative Court has decided in its decision of July 10, 2014, that the Solar Levy was not a tax.¹⁷⁶ The Czech Constitutional Court also has confirmed that the Solar Levy in substance reduced the FiT support level in its decisions of May 15, 2012, February 6, 2014 and January 13, 2015.¹⁷⁷

203. The Claimants contend that the Solar Levy is not a tax even under Czech domestic tax law for the following reasons.¹⁷⁸
204. As a threshold matter, the Tax Administration Law does not provide a general definition of tax.¹⁷⁹ The definition in Article 2(3) of the Tax Administration Law applies only for administration and collection of payments.¹⁸⁰ The Respondent's reliance on this definition is misplaced.¹⁸¹
205. The Claimants contend that whether the Solar Levy is a tax should be analysed in accordance with the common academic theory, according to which a tax generally has six features: "(a) obligatory, (b) non-refundable and (c) non-equivalent payment (d) introduced by law, (e) intended to serve as income of the state budget for the financing of society-wide needs and (f) paid for no specific purpose."¹⁸²
206. According to the Claimants, the Solar Levy lacks at least two of these six features, namely: (c) non-equivalent payment; and (f) paid for no specific purpose.¹⁸³
207. The Solar Levy is paid for a specific purpose, because it was introduced to "reduc[e] the burden on electricity consumers without negatively impacting on the Respondent's State deficit".¹⁸⁴

¹⁷⁵ T/1/64-65.

¹⁷⁶ T/1/654.

¹⁷⁷ T/4/746-747; Claimants' closing statement, Slide 64; CLA-16, Czech Constitutional Court, Decision (case No. Pl. ÚS 17/11), May 15, 2012, para 45; Annex 16 to First [REDACTED] Report, Decision of the Czech Constitutional Court (case No. 3211/13), February 6, 2014, para 5; Annex 14 to First [REDACTED] Report, Czech Constitutional Court, Judgment 2216/14, January 13, 2015, para 25.

¹⁷⁸ Memorial, para 343.

¹⁷⁹ Reply, para 546.

¹⁸⁰ Reply, paras 547-549.

¹⁸¹ Reply, para 550.

¹⁸² Reply, para 551-556.

¹⁸³ Reply, para 556.

¹⁸⁴ Reply, paras 567.

208. The Solar Levy does not involve the non-equivalent payment feature, which is found “when the taxpayer receives no direct consideration from the State for paying the tax.”¹⁸⁵ Under the financing mechanism introduced by the Act No. 402/2010, the State collected the Solar Levy from the solar energy producers, and used the amount for the compensation to the grid operators, who paid the FiT to the producers.¹⁸⁶ Because the collected Solar Levy constituted a source of FiT, which the solar energy producers received, the Claimants allege that the producers received direct consideration by the payment of the Solar Levy.¹⁸⁷
209. This conclusion is confirmed by the Czech Supreme Administrative Court decision of July 10, 2014, which concluded the Solar Levy did not meet the requirement of non-equivalence and was a *de facto* reduction of the FiT, finding that “the state use[d] the levy to lower the support it calculated and provided.”¹⁸⁸ According to the Claimants, this is a key and the only judgement in which the Czech court analysed the nature of the Solar Levy.¹⁸⁹ The Court carefully examined the nature of the Solar Levy since the issue was whether the Solar Levy and the corporate income tax constituted double taxation on the same income.¹⁹⁰ The Claimants observe that this ruling was confirmed at least four times by the Constitutional Court and the Grand Chamber of the Supreme Administrative Court.¹⁹¹
210. The Claimants submit that all of the Czech court decisions cited by the Respondent are irrelevant to the issue of whether the Solar Levy is a tax for the purposes of Article 21(1) ECT.¹⁹² The Supreme Administrative Court’s decisions of Ref. No. 1 Afs 80/2012-40 and Ref. No. 5 Afs 126/2013-34 did not analyse the nature of the Solar Levy.¹⁹³ The Grand Chamber of the Supreme Administrative Court decision of Ref. No. 1 Afs 76/2013-57 merely confirmed that the Solar Levy was a tax for the purpose of the Tax Administration Law, which does not provide a general definition of tax, and rather found that “introducing the solar power levy *de facto* results in decreasing the level of government support”.¹⁹⁴ The Czech Constitutional Court decision of Ref.

¹⁸⁵ Reply, para 569.

¹⁸⁶ Reply, para 570.

¹⁸⁷ Reply, paras 571-572.

¹⁸⁸ Reply, para 572.

¹⁸⁹ Reply, para 587.

¹⁹⁰ Reply, paras 573-574.

¹⁹¹ Reply, paras 575-578.

¹⁹² Reply, paras 580-581.

¹⁹³ Reply, paras 582.

¹⁹⁴ Reply, para 583; Annex 13 to First [REDACTED] Report, Decision of the Grand Chamber of the Czech Supreme

No. US 2216/14, which indicated that the Solar Levy was a “tax or fee”, did not provide a precise characterization of the Solar Levy.¹⁹⁵

211. The Claimants submit that further aspects indicate the non-taxation nature of the Solar Levy.¹⁹⁶ First, the legislative process of the Act No. 402/2010 was atypical for a tax. The bill was prepared by the Ministry of Industry and Trade, instead of the Ministry of Finance, which governs taxation measures.¹⁹⁷ Second, both the extremely limited scope of application and the unusual association with non-tax parameters in identifying the payers of the Solar Levy make it even harder to classify the Solar Levy as a tax measure.¹⁹⁸ Third, the temporariness of the Solar Levy was unprecedented.¹⁹⁹ The Solar Levy was initially introduced only for a three-year period from January 1, 2011 to December 31, 2013.²⁰⁰ Fourth, the use of the term “levy”, instead of “tax”, indicates the Czech Parliament’s awareness of not imposing a tax.²⁰¹ Finally, the Czech courts found that the Solar Levy may have had “strangling effects”, which violates a proportionality test under which a tax should not lead a tax payer to liquidation.²⁰²
212. In the Claimants’ view, the Solar Levy is a deduction of the FiT, instead of a tax.²⁰³ This is confirmed by the statement of Mr Kocourek, then Minister of Industry and Trade, which described the Solar Levy as “a new source of income” for the Czech Republic to provide budgetary support for the RES support mechanism.²⁰⁴ The Claimants submit that, as Mr Kotáb also accepts, the Czech Constitutional Court decision of May 15, 2012, and the Czech Supreme Administrative Court decisions of July 10, 2014 and December 17, 2013 have considered the Solar Levy as a *de facto* reduction of the FiT.²⁰⁵ The Claimants observe that nevertheless the Respondent choose not to simply reduce the FiT in order to mitigate arbitration risks.²⁰⁶

Administrative Court, December 17, 2013 (Case No. 1 Afs 76/2013-57), para 28.

¹⁹⁵ Reply, para 584-585.

¹⁹⁶ Reply, para 588.

¹⁹⁷ Reply, para 589.

¹⁹⁸ Memorial, para 346; Reply, para 590.

¹⁹⁹ Reply, para 591.

²⁰⁰ Reply, para 591.

²⁰¹ Reply, para 592.

²⁰² Reply, para 593.

²⁰³ Memorial, paras 349-351.

²⁰⁴ Memorial, para 350.

²⁰⁵ T/1/48; T/4/704.

²⁰⁶ Memorial, paras 356-358.

213. The Claimants allege that the wording of Article 21(7) of the ECT, “‘relating to’ taxes of domestic law”, was not meant to widen the scope of the carve-out beyond mere domestic taxation measures.²⁰⁷ The Claimants observe that the Respondent’s focus on these words suggests the Respondent’s admission that the amendment measures cannot be considered as tax under Czech domestic law.²⁰⁸
214. The Claimants object to the Respondent’s assertion that Italian and French versions of the ECT employ the language of “fiscal measures”, instead of “taxation measures”.²⁰⁹ The Claimants submit that the Italian and French words of “misura fiscale” and “mesure fiscale” have the same meaning of “taxation measures” in the English version.²¹⁰ Indeed, the Spanish and German versions employ “medida impositiva” and “steuerliche Maßnahme”, both of which correspond to the English “taxation measures”.²¹¹

3. The Tribunal’s conclusion

215. The Parties do not agree whether the Tribunal has jurisdiction over the Claimants’ claims under the ECT. As summarized above, the Respondent contends that all of the Respondent’s amendments to the Incentive Regime – the introduction and extension of the Solar Levy, the repeal of both the Income Tax Exemption and the Shortened Depreciation Period – qualify as “Taxation Measures” under of Article 21 of the ECT and therefore are excluded from the scope of the ECT.²¹² Article 21(1) of the ECT provides:

(1) Except as otherwise provided in this Article, nothing in this Treaty shall create rights or impose obligations with respect to Taxation Measures of the Contracting Parties. In the event of any inconsistency between this Article and any other provision of the Treaty, this Article shall prevail to the extent of the inconsistency.

Article 21(7)(a) of the ECT describes the term “Taxation Measures” as including:

- (i) any provision relating to taxes of the domestic law of the Contracting Party or of a political subdivision thereof or a local authority therein; and
- (ii) any provision relating to taxes of any convention for the avoidance of double taxation or of any other international agreement or arrangement by which the Contracting Party is bound.

²⁰⁷ T/1/66-67; Rejoinder, para 364; ECT Article 21(7) (emphasis by the Respondent).

²⁰⁸ T/1/66-67.

²⁰⁹ T/4/744-745.

²¹⁰ T/4/745.

²¹¹ T/4/745.

²¹² Statement of Defense, paras 92-97.

Paragraph (7) of Article 21 further specifies:

(b) There shall be regarded as taxes on income or on capital all taxes imposed on total income, on total capital or on elements of income or of capital, including taxes on gains from the alienation of property, taxes on estates, inheritances and gifts, or substantially similar taxes, taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation.

(c) A “Competent Tax Authority” means the competent authority pursuant to a double taxation agreement in force between the Contracting Parties or, when no such agreement is in force, the minister or ministry responsible for taxes or their authorised representatives.

(d) For the avoidance of doubt, the terms “tax provisions” and “taxes” do not include customs duties.

216. As summarized above,²¹³ the Respondent contends that the Tribunal does not have jurisdiction to entertain any of Claimants’ ECT claims because its jurisdiction under Article 26(1) of the ECT is limited to “disputes ‘concern[ing] an alleged breach of an obligation’ set out in Articles 10 to 17 of the ECT.”²¹⁴ According to the Respondent, “[t]he measures challenged by the Claimants in this arbitration, namely: the introduction of the Solar Levy, the repeal of the Income Tax Exemption and the prolongation of the Solar Levy’ are all ‘Taxation Measures’ within the meaning of the ECT;”²¹⁵ accordingly, they are excluded from the scope of Article 26’s dispute settlement provision.

217. The Claimants have abandoned their claim concerning the depreciation measures²¹⁶ and stated explicitly that they do not dispute that the repeal of the Income Tax Exemption constitutes a “Taxation Measure” under Article 21(7) of the ECT.²¹⁷ The Respondent emphasized this at the Hearing interpreting this as an “admission by Claimants that they do not contest that their ECT claims based on the repeal of the Income Tax exemption are barred by the Article 21 carve out,” and the Claimants did not comment on it.²¹⁸ The Tribunal agrees. It cannot be disputed that the repeal of the Income Tax Exemption constitutes a “Taxation Measure” for the purposes of the ECT. The Tribunal therefore concludes that it has no jurisdiction to entertain the Claimants’ claims arising out of this measure.

218. Regarding the Solar Levy, however, the Claimants contend that it cannot be characterized as a

²¹³ See above, para 168.

²¹⁴ Counter-Memorial, para 484 citing RLA-5, ECT Art. 26; Rejoinder, para 338.

²¹⁵ Rejoinder, para 338(d) citing Reply, p. 4.

²¹⁶ Reply, para 67 and note 222.

²¹⁷ Reply, note 577 (“As correctly noted by the Respondent (Counter Memorial, para 485), the Claimants do not deny that the Income Tax Exemption provided for by the Act on Income Tax are ‘taxation measures’ for the purposes of the ECT.”).

²¹⁸ T/1/161.

“Taxation Measure” for the purpose of Article 21(7) of the ECT. According to the Claimants, the ECT tax carve-out and its reference to domestic law should be interpreted in accordance with the rules of interpretation of international treaties contained in the VCLT.²¹⁹ According to Article 31(1)’s general rule of interpretation, the Claimants assert, “the definition of ‘taxation measure’ of Article 21(7) and the relevance of the reference to domestic law must be interpreted ‘in good faith’ and bearing in mind the ‘context’ of the relevant expressions and the ‘object and purpose’ of the ECT.”²²⁰ The ordinary meaning of a term contained in an international treaty is to be identified in the light of its object and purpose.²²¹ Exclusively relying on the host state’s domestic legislation to define the scope of the ECT’s tax carve-out, as the Respondent argues, would allow the host state “to escape its international obligations under the ECT by simply labelling a measure as a tax.”²²² That however would be at odds with the purpose of the ECT which, the Claimants assert, is “to promote long-term cooperation in the energy field.”²²³

219. The Claimants contend that the ECT’s tax carve-out must be limited to taxes imposed in good faith.²²⁴ Applying this principle, the Claimants follow the approach taken by the tribunals in the *Yukos* and the parallel *Hulley* and *Veteran* cases²²⁵ and conclude that the relevant standard for determining whether a particular regulatory measure qualifies as a “Taxation Measure” under Article 21(7) of the ECT is “whether it comes within the definition of ‘bona fide taxation actions, i.e., actions that are motivated by the purpose of raising general revenue for the State.’”²²⁶ The Claimants argue that the Solar Levy does not meet this *bona fide* standard, regardless how the measure might be sought to be characterized under Czech law.²²⁷ In any event, according to the Claimants, the Respondent’s characterization of the Solar Levy as a tax under both Czech Law and the autonomous standard applied by certain non-ECT tribunals is incorrect: the Solar Levy

²¹⁹ Reply, paras 512-513.

²²⁰ Reply, para 514.

²²¹ Reply, paras. 516-517 citing CLA-71, R. K. Gardiner, *Treaty Interpretation*, pp. 197, 211 and CLA-72, J. Romesh Weeramantry, *Treaty Interpretation in Investment Arbitration*, Oxford, 2012, para 3.38.

²²² Reply, para 520.

²²³ Reply, para 520 citing ECT, RLA-5, Article 2.

²²⁴ Reply, paras 525-526.

²²⁵ Memorial, paras. 333-335 citing *Yukos Universal Limited (Isle of Man) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. AA 227, Final Award, July 18, 2014; *Hulley Enterprises Limited (Cyprus) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. AA 226, Final Award, July 18, 2014; *Veteran Petroleum Limited (Cyprus) v. The Russian Federation* (Fortier, Poncet, Schwebel), PCA Case No. AA 228, Final Award, July 18, 2014.

²²⁶ Memorial, para 341 (footnote omitted).

²²⁷ Memorial, para 342; Reply, para. 508.

neither constitutes a tax under Czech law²²⁸ nor under the autonomous standard applied by certain tribunals operating under the US-Ecuador and Canada-Ecuador BITs.²²⁹

220. The Tribunal agrees that Article 21 of the ECT as a whole must be interpreted in accordance with the VCLT. The applicable provision here is the general rule of treaty interpretation in Article 31, which provides that “[a] treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.”
221. Article 21(7) of the ECT sets forth no self-standing definition of “Taxation Measures.” Instead Article 21(7)(a) of the ECT provides that such measures include “any provision relating to taxes of the domestic law of the Contracting Party or of a political subdivision thereof or a local authority therein” as well as “any provision relating to taxes of any convention for the avoidance of double taxation or of any other international agreement or arrangement by which the Contracting Party is bound.”
222. The Tribunal notes that, unsurprisingly, neither of the Parties has suggested that the Solar Levy qualifies as a “Taxation Measure” under the second subparagraph of Article 21(7)(a) of the ECT, (i.e. under an applicable international instrument), but that the Parties have centred all their arguments on the first subparagraph of Article 21(7)(a) referring to the domestic law of a Contracting Party
223. The Parties disagree on how this provision should be interpreted, the Claimants arguing that its explicit reference to domestic law does not reduce “the interpretation of the ECT tax carve-out to an exercise in Czech law.”²³⁰ According to the Claimants, the definition of “Taxation Measure” according to Article 21(7) and the relevance of the reference to domestic law must be interpreted in accordance with the general rule of treaty interpretation in Article 31(1) of the VCLT and “therefore be interpreted ‘in good faith’ and bearing in mind the ‘context’ of the relevant expressions and the ‘object and purpose’ of the ECT.”²³¹ The Respondent contends, in turn, that the Tribunal need only consider whether the Czech legislative provisions that introduced and later extended the Solar Levy constitute provisions relating to taxes of the domestic law of the Czech Republic in order to determine whether these measures fall in the scope of the ECT’s tax

²²⁸ Reply, para 595.

²²⁹ Reply, paras 597-604.

²³⁰ Reply, para 511.

²³¹ Reply, paras 513-514.

carve-out.²³² Because, according to the Respondent, the Solar Levy constitutes a tax under Czech Law, it qualifies under the ECT's tax carve-out.²³³

224. The Tribunal takes the view that in order to ascertain whether a putative tax measure qualifies under Article 21 of the ECT a two-step analysis is required: a characterization under domestic law followed by an application of Article 21's inherent limits.
225. The starting point of such analysis must be the characterisation of the putative tax measure by the State relying on the tax carve-out. In the Respondent's words "it must look to the domestic law of the Czech Republic" to determine whether the Solar Levy qualifies as a "provision relating to taxes" under Article 21 of the ECT.²³⁴ The Tribunal accepts that, in order for Article 21 of the ECT to apply, the domestic law of the host state must characterize the measure as a tax in nature and substance. That is clear from the text of Article 21(7)(a)(i) of the ECT, which is directed to "any provision relating to taxes of the domestic law" of the state in question. As the Respondent observes, this language focuses inquiry directly on the domestic law of the state relying on Article 21 of the ECT.
226. This interpretation is consistent with the need to interpret the ECT, including Article 21, in accordance with the VCLT and applicable rules of international law, which the Respondent explicitly recognizes.²³⁵ Interpreting Article 21 of the ECT in accordance with the VCLT requires that effect be given to the ordinary meaning of Article 21(7)'s reference to the domestic law of the state relying on the ECT's tax carve-out.
227. In addition to requiring an interpretation of treaty-terms according to their "ordinary meaning," Article 31(1) of the VCLT also requires the Tribunal to interpret the terms of Article 21 of the ECT in the light of the ECT's object and purpose. This interpretation is also consistent with the objective of Article 21, which was to permit, within the limits of Article 21, contracting states to exclude specific measures from certain of the ECT's international protections. Put simply, the terms of Article 21, interpreted in accordance with Article 31(1) of the VCLT, require reference to the domestic law of the state adopting a particular measure, in order to determine whether that measure constitutes a tax measure under the domestic law of that state. The result, *a contrario*, is that unless a measure constitutes a tax measure as a matter of its domestic law, Article 21's purposes are not applicable. Article 21 applies only to those measures which a contracting state

²³² Counter Memorial, para 487.

²³³ Counter Memorial, para 503.

²³⁴ Rejoinder, para 345; see also Counter Memorial, para 487.

²³⁵ Rejoinder, para 341.

to the ECT characterizes as tax measures within its domestic legal system (or within applicable international conventions).

228. If the putative taxation measure is found to constitute a taxation measure under the host state's domestic law, then, as discussed below, in a second step, an interpretation of the scope of the ECT's tax carve-out in accordance with Article 31(3) of the VCLT requires to consider the limits which Article 21 of the ECT imposes on those measures. However, before those limits become potentially relevant, a putative taxation measure must first constitute a tax measure as a matter of domestic law.
229. The Tribunal takes the view that when analyzing whether a certain measure is to be characterized as a taxation measure under domestic law, considerations of substance should prevail over a formalistic approach. In that sense although the Tribunal attaches some importance to the fact that the Solar Levy was titled just that – the Solar “Levy” – not the Solar “Tax” or some other type of tax, it is hesitant to assign decisive weight to a formal element as is the denomination of the measure. As the Respondent's expert, Mr Petr Kotáb, argues, in Czech law “the term ‘levy’ is very frequently used to designate payments that are more properly classified as ‘taxes’ or ‘fees’.”²³⁶ As discussed below, however, there are other significant considerations arguing against, not only a formal but also substantial, characterization of the measure as a tax under Czech law. The Tribunal heard considerable expert and other evidence on this point. The Parties' experts mainly focused on the definition of “tax” under Czech tax theory and on the position of Czech courts, namely the Supreme Administrative Court and the Constitutional Court, on the question whether the Solar Levy qualifies as a tax under Czech law.
230. Preliminarily, the Tribunal takes the view that reliance on the fact that the Solar Levy is administered by the Tax Administration Law is not dispositive of the question whether the Solar Levy constitutes a tax in substance. The “definition” of tax contained in the Tax Administration Law extends to many payments which by their nature are not taxes; reliance on the Tax Administration Law is therefore unsuitable to give a conclusive answer as to whether or not a payment it governs is in nature a tax. This was not contradicted by Respondent's expert Mr. Petr Kotáb at the Hearing.²³⁷

²³⁶ Kotáb Report, para. 35. However, the same consideration applies, *a contrario*, to the Respondent's contention that the fact that “Claimants' financial statements also describe the Solar Levy as a ‘solar tax’” has decisive weight on the characterisation of the Solar Levy as a tax. See Rejoinder, para. 355 referring to R-279, FVE Úsilné s.r.o. financial statements as of December 31, 2015, p. 6; R-280, FVE Stříbro s.r.o. financial statements as of December 31, 2015, p. 5; R-281, FVE Osečná financial statements as of 31 December 2015, p. 6; R-282, FVE Mozolov financial statements as of December 31, 2015, p. 6.

²³⁷ T/2/415-416 (“Q. In any case, just to be clear, on any analysis, the definition of ‘tax’ under the TAL extends

231. Likewise, the Tribunal accepts the Respondent’s argument that academic literature, in these particular circumstances, does not provide substantial guidance as to whether or not the Solar Levy is “legally a tax.”²³⁸ There is very little commentary addressing the characterization of the Solar Levy under Czech law and that commentary which does exist does not address many of the Czech judicial decisions referenced by the Parties.
232. In these circumstances, the Tribunal concludes that the decisions of the Czech Courts are of particular relevance for the characterization of the Solar Levy. In this regard, the Tribunal notes that Czech Courts have, at least prima facie, come to divergent characterization of the Solar Levy. While some court decisions refer to the Solar Levy as a tax, others come to the opposite result, finding that the Solar Levy is not a tax in substance. However, the former primarily addressed the issue of whether the Solar Levy qualified formally as a tax, in particular for purposes of the Tax Administration Law rather than addressing the issue of whether the Solar Levy constitutes a tax in substance. This applies to the decision of the Grand Chamber of the Supreme Administrative Court of December 17, 2013, cited by the Respondent as evidence that the Solar Levy was a tax for purposes of Czech law.
233. The Tribunal concludes instead that the Czech Supreme Administrative Court decision of July 10, 2014 – and the various other Czech court decisions – are authoritative on the issue of the characterisation of the Solar Levy. In that case, the Czech Court made the finding that the Solar Levy is not a tax for purposes of the prohibition against double taxation under Czech law. The Supreme Administrative Court expressly addressed the question whether, in combination with the corporate income tax, the Solar Levy would have been an improper instance of double taxation and rejected that conclusion, holding that the Solar Levy was paid for a specific consideration, “the government subsidy,” and therefore not a tax, whose “common essential feature ... is their non-equivalence,” but a *de facto* reduction of the FiTs and Green Bonuses.
234. In its decision, the Supreme Administrative Court stated in paragraph 19:

The Supreme Administrative Court notes with regard to the petitioner’s argumentation regarding the nature of the levy as a tax that the nature of any tax in the taxation system involves the government requiring funds from tax payers without immediate compensation. *It can thus be stated that a common essential feature of all taxes is their non-equivalence.* The subject of the levy collected under the Renewable Energy Sources Act is the amount resulting from the consideration of stipulating the amount of government support for this type

to a great many payments that are clearly not taxes. A. It extends to many payments which are not labeled as taxes, and also to payments which by their nature are not taxes. Q. In short, the TAL just cannot give us a conclusive answer as to whether or not a payment that it governs is in nature a tax? A. I would tend to agree that it cannot or it does not give us a conclusive answer, although I would say it gives us certain indication or direction.”).

²³⁸ Rejoinder, paras 368-369.

of economic activity. *Unlike collecting income tax on income resulting from the activities of the entity subject to the tax without any performance from the state at the time of taxation, the state uses the levy to lower the support it calculated and provided.* The levy was therefore correctly not included under Section 36 of the Income Taxes Act among the income subject to the withholding tax and that is not included in the tax base, for the reasons consisting of the differing natures of a levy and a tax. *Despite the fact that the levy uses the same collection mechanism as for withholding taxes on certain types of income, the levy does not have the nature of a tax.* (Emphasis added)

235. In the Court’s view, the essential feature of a tax was that of non-equivalence, i.e. that taxes are paid without concrete consideration. Since the Court considered the subsidies in form of FiTs and Green Bonuses a “performance from the state” directly linked to the collection of the Solar Levy, it found that the Solar Levy lacked the characteristic of “non-equivalence” and hence “does not have the nature of a tax” and “is in nature a decrease in government subsidy and not a tax.”²³⁹ Accordingly, the Court concluded that the Solar Levy “as introduced by Act No. 402/2010 Coll. is in nature a decrease in government subsidy and not a tax, where the basic criterion is non-equivalence.”²⁴⁰
236. The Tribunal accepts that, as conceded by the Claimants’ expert Mr [REDACTED] in the hearing, there “might be differences in the definitions” of taxes in Czech academic literature.²⁴¹ However, the Tribunal notes that it is undisputed that the element of non-equivalence is an essential feature to distinguish taxes from fees under Czech law – in both case-law and academic doctrine.²⁴² Whether the Solar Levy lacked or not the distinguishing feature of non-equivalence was heavily disputed between the Parties’ experts. In that regard, the Tribunal is also mindful of the Respondent’s contention that Czech academic literature, in particular Mr Radim Boháč in a 2013 publication, has described the Solar Levy as non-equivalent. However, in his analysis, Mr Boháč concedes that with regard to the Solar Levy one could “speak of ... some form of material and remote equivalence.”²⁴³ This analysis is essentially consistent with Mr [REDACTED] characterisation

²³⁹ Annex 11 to First [REDACTED] Report, Decision of the Czech Supreme Administrative Court of July 10, 2014, paras 19-20.

²⁴⁰ Annex 11 to First [REDACTED] Report, Decision of the Czech Supreme Administrative Court of July 10, 2014, para 20.

²⁴¹ T/2/377 ([REDACTED])

²⁴² See, e.g., T/2/404-405 (Kotáb); T/2/369 ([REDACTED] Annex 4 to First [REDACTED] Report, BAKEŠ, Milan et al. – Finanční právo. 6. aktualiz. vyd Praha: C. H. Beck, 2012, pages 92, 93 and 154 English title translation: “Section 3. Taxes, fees, customs duty”, p. 1.

²⁴³ R-318, R. Boháč, “Tax Revenues of Public Budgets in the Czech Republic”, p. 10. This reading was confirmed by Mr. [REDACTED] at the hearing: T/2/384 “My reading of [Mr. Boháč’s] conclusion is that, particular for non equivalence and specific purpose, he says that there is material sort of material is not equivalent, and materially there is a specific purpose. And then he basically makes a conclusion that he would rather sort of prefer the formal side, the way it was designed, and makes a conclusion on rather on the formal grounds than the substance and the materiality, but clearly accepts that there is materially like

of the Solar Levy as being “formally non-equivalent,” but materially bearing a direct causal link to the payment of the FiTs.²⁴⁴

237. The Tribunal also notes that Mr Boháč’s analysis precedes the July 10, 2014 Supreme Administrative Court judgment and that the Respondent failed to submit evidence that Mr Boháč maintains his analysis in view of the Supreme Court’s contrary conclusion.²⁴⁵ The Tribunal does not consider that it should attach the same weight to this analysis, as to the July 10, 2014 decision of the Supreme Administrative Court. This decision is directly relevant to the question whether the Solar Levy was characterized as a tax for purposes of Czech law. The Czech Supreme Administrative Court specifically concluded that the Solar Levy could not be treated as a tax in substance, and thus could not provide the basis for a finding of double taxation. In the Tribunal’s view, that conclusion directly addresses the proper characterization of the Solar Levy under Czech law.
238. The Supreme Administrative Court received argument on these questions and rendered a considered decision, in its July 10, 2014 judgment, expressly addressing the characterization of the Solar Levy. Moreover, this characterization was a significant and necessary element in the Court’s holding (that the tax payers were not entitled to protection against double taxation). As Mr Kotáb conceded, that decision has neither been overturned nor otherwise criticized in later judgments by Czech Courts.²⁴⁶ Importantly, other judgments of Czech courts, including the Constitutional Court, have likewise ruled that the Solar Levy is not a tax, but in substance a reduction of the FiT.²⁴⁷
239. The Tribunal is not persuaded that similar weight should be attached to the various decisions

of non equivalence, and there is materially a specific purpose.” [REDACTED]

²⁴⁴ First [REDACTED] report, para 30; Second [REDACTED] Report, paras. 60-61; T/2/384:13-21 [REDACTED]

²⁴⁵ T/2/446 (“Q. Just looking at the academic analyses of taxes you have accepted that a non equivalence is a mandatory feature of a tax, but let's just look at another point of academic law that you have referred to. You rely on Mr. Boháč's book and his analysis in tax revenues of public budgets; that's right, isn't it? A. That's right. Q. Now, that book was published in October 2013, wasn't it? A. That's correct. Q. And so, that was nine months before the July 2014 Judgment, and, of course, it had no opportunity to consider that judgment, did it? A. It would appear so.”) (Kotáb).

²⁴⁶ T/2/445 (“Q. And it's fair to say also that the July 2014 Judgment has never been itself subject to a reference to the Grand Chamber or otherwise judicially criticized or overturned. A. Well, not that I know. Neither it has been cited, but in following Supreme Administrative Court decisions, including those which repeatedly referred to the Solar Levy as a tax.”).

²⁴⁷ See, e.g., Annex 15 to First [REDACTED] Report, Decision of the Czech Constitutional Court of May 15, 2012 (case 220/2012 Coll.), para 45; Annex 14 to First [REDACTED] Report, Czech Constitutional Court, Judgment 2216/14, January 13, 2015, para 25; Annex 16 to First [REDACTED] Report, Decision of the Czech Constitutional Court of February 6, 2014 (case No. 3211/13), para 5.

cited by the Respondent as evidence that the Solar Levy was a tax for purposes of Czech law. These decisions principally involve determinations that the Solar Levy is subject to the procedural and administrative provisions of the Tax Administration Law and is a “tax or fee” within the meaning of Article 11(5) of the Czech Republic’s Charter of Fundamental Rights and Freedoms (“Charter”).²⁴⁸ This was reiterated by Claimant’s expert Mr [REDACTED] at the Hearing.²⁴⁹

240. As outlined above, the Tax Administration Law applies to a wide range of fiscal payments, including fees and other charges²⁵⁰ which are not generally regarded as taxes under Czech (or other) law; likewise, Article 11(5) of the Charter applies not only to taxes, but also fees. The Tribunal does not consider that these authorities establish more than that the Solar Levy was administered in accordance with general procedures and fairness requirements, applicable to both taxes and other fiscal charges, under Czech law.²⁵¹ This, however, is of no weight as the issue before the Tribunal is not whether the Solar Levy is administered in accordance with procedures that apply to taxes (and fees) but whether the Solar Levy is a tax in substance.
241. The Tribunal therefore considers the conclusions reached by the Czech Administrative Court, *inter alia* in its December 17, 2013 and April 18, 2014 decisions, of incidental relevance to the characterization of the Solar Levy as, in its nature, a tax. Those decisions do not affect the persuasive force of the Supreme Administrative Court’s July 10, 2014 decision, especially in light of the decisions of the Constitutional Court and other decisions of the Supreme Administrative Court finding that the Solar Levy was in substance a reduction of FiTs.
242. Given the foregoing decisions, the Tribunal is unwilling to adopt a different conclusion as to the proper characterization of the Solar Levy under Czech law. The Tribunal does not consider it decisive that, in the Czech legal system, judicial decisions (or decisions of the Supreme

²⁴⁸ First [REDACTED] Report, para 61.

²⁴⁹ T/2/363 [REDACTED] (“How does that correspond to the many other cases that referred to the levy as a tax? Actually, I find them perfectly compatible because many of them deal with the strangling effect, and are simply in the area of the tax administration law, whereas this 10th of July case is the only one dealing with the substance and addressing the substance question.”).

²⁵⁰ First [REDACTED] Report, para 38.

²⁵¹ This is particularly evident as regards the decision of the Grand Chamber of the Czech Supreme Administrative Court of December 17, 2013, to which Respondent attaches particular importance. When the Court states that “the solar power levy is actually a tax,” it explicitly links that finding to an earlier finding in that same decision, that the Solar Levy qualified as a tax “pursuant to Section 2(3)(b) of the [Tax Administration Law],” and that it was “administered by local financial authorities, which proceed pursuant to the [Tax Administration Law].” See Annex 13 to First [REDACTED] Report, Decision of the Grand Chamber of the Czech Supreme Administrative Court (case No. 1 Afs 76/2013-57), December 17, 2013, paras 23-25.

Administrative Court) are arguably not regarded as sources of law.²⁵² That is true in many legal systems. The essential point is that, in determining how the Solar Levy is characterized in the Czech domestic legal system, the decisions of the Supreme Administrative Court (and the other decisions noted above) are the best available guidance, regardless of their formal status as a source of law. In the Tribunal's view, these decisions are entitled to substantial weight in determining the characterization of the Solar Levy as a matter of Czech law.

243. The conclusion reached by the Czech Supreme Administrative Court in its 10 July 2014 decision, i.e. that the Solar Levy does not constitute a tax in substance, finds further support in the evidentiary record. Firstly, the Respondent itself argued, through its Ministry of Finance, that the Solar Levy was materially not a tax in proceedings before the Czech Constitutional Court. In those proceedings, the Finance Ministry formally took the position that, "from the material perspective, the introduced measures [of the Solar Levy] are considered a reduction of subsidy,"²⁵³ which is "aimed to decrease the economic feed-in tariffs."²⁵⁴ Secondly, the legislative history of the Solar Levy also supports this conclusion as the Czech Government stated in connection with the measure's enactment that it was "necessary to find a formally correct mechanism for reduction of the support of RES from photovoltaic plants, such that it cannot be legally contested."²⁵⁵ In the Tribunal's view, these characterizations – issued by the Czech Government itself – are precisely consistent with the holding of the Supreme Administrative Court that the Solar Levy was – rather than a tax – in substance a reduction of the FiT, a conclusion also reached by the Constitutional Court and the Grand Chamber of the Supreme Administrative Court in various decisions.
244. Moreover, and independently of the question of whether or not it qualifies as a taxation measure under Czech law, the Solar Levy cannot be considered to qualify as a "Taxation Measure" within the meaning of Article 21(7) of the ECT. The Tribunal is convinced that a measure will only be exempted from the ECT's coverage if it falls within the meaning of a "Taxation Measure" as contemplated by its Article 21. The Tribunal has no doubt that Article 21 imposes limits on those measures which may be invoked by a Contracting Party under the ECT. Article 21 is, of course,

²⁵² T/2/405 (Kotáb).

²⁵³ Annex 22 to Second [REDACTED] Report, Detailed opinion of Ministry of Finance provided Constitutional Court in 2011 the proceedings that led decision 220/2012 Coll., p. 39.

²⁵⁴ Annex 22 to Second [REDACTED] Report, Detailed opinion of Ministry of Finance provided Constitutional Court in 2011 the proceedings that led decision 220/2012 Coll., p. 17.

²⁵⁵ *See, e.g.*, C-198, Minutes of the third meeting of the Coordination Committee, October 15, 2010, pp. 4-5, ("1st Deputy Environmental Minister Bízková stated that it is necessary to find a formally correct mechanism for reduction of the support of RES from photovoltaic plants, such that it cannot be legally contested.").

a provision in an international treaty, subject to interpretation under the VCLT and international law more generally. It would ignore the ECT's text, and the specific reference to tax-related measures in Article 21(7)(a)(ii), to decline to give international content to these terms.

245. Moreover, a contrary result, in which the reference to "Taxation Measures" in Article 21 had no international content, would permit Contracting Parties unilaterally to define those measures which were, and were not, subject to the ECT. In the Tribunal's view, there is nothing to suggest that such a view of Article 21 of the ECT was contemplated. It would contradict the purposes of the ECT, aiming at the establishment of uniform international standards, contrary to the text of Article 21, which specifically limits the scope of the provision to tax measures. Article 21 clearly imposes limits on what constitute tax measures which are excluded from the ECT's coverage.
246. In that context, the Tribunal finds the Respondent's assertion, that the language used in the equally authentic French and Italian versions of the ECT supports a broad scope of the ECT's tax carve-out – going beyond taxation measures and including any fiscal measure – unpersuasive. Article 33(4) of the VCLT provides that "when a comparison of the authentic texts discloses a difference of meaning which the application of articles 31 and 32 does not remove, the meaning which best reconciles the texts, having regard to the object and purpose of the treaty, shall be adopted."
247. As noted above, Article 21 of the ECT does not itself provide an express international definition of tax measures to which the provision applies. In the Tribunal's view, there is also no need, in this arbitration, to comprehensively define what are, and what are not, tax measures for purposes of Article 21's limits. Rather, it is sufficient to address one aspect of these limits, which in the Tribunal's view is applicable to the Solar Levy.
248. Similarly situated tribunals have limited the application of Article 21 of the ECT to state actions directed at raising general revenue for the state. The *Yukos* tribunal declared that "Article 21 applies only to actions that are motivated for the purpose of raising general revenue for the State."²⁵⁶ The Tribunal is persuaded that Article 21 was not intended to encompass measures which had principal objectives other than the raising of revenue, but rather to exempt measures

²⁵⁶ *Yukos Universal Limited (Isle of Man) v. The Russian Federation* (Fortier, Poncet, Schwebel), UNCITRAL, PCA Case No. AA 227, Final Award, July 18, 2014, paras 1430-31 (Article 21 of the ECT applies only to "actions that are motivated for the purpose of raising general revenue for the State"; actions taken "to achieve an entirely unrelated purpose" are not within Article 21). See also *Quasar de Valores SICAV S.A. et al. (Formerly Rent a S.V.S.A et al.) v. The Russian Federation* (Brower, Landau, Paulsson), SCC Case No. 24/2007, Award, July 20, 2012, para. 179 ("international law would likely become an illusion, as states would quickly learn to avoid responsibility by dressing up all adverse measures ... as taxation").

which formed part of a Contracting Party's general tax regime, aimed principally at raising revenue.

249. If an ECT tribunal were to consider only the form of the measure rather than its substance, it would provide the scope for abuse of the ECT's tax carve-out, as the contracting states would be able to escape their obligations under Part III of the ECT, and thus liability from their violations thereof, simply by labelling governmental actions as "taxation" measures. There is no indication in the ECT that an ECT tribunal's jurisdiction does not encompass the determination of whether a particular measure constitutes a "Taxation Measure" for the purpose of Article 21 of the ECT. An ECT tribunal must therefore make a substantive determination of the measure in light of the relevant facts rather than simply adopting the contracting state's own, formal characterization of that measure.
250. It is true that one purpose of the Solar Levy was to raise revenue of the State budget (as one of the sources to cover the cost of subsidies to solar investors). Critically, however, the Solar Levy was structured as it was – covering only a certain class of solar energy producers and being calculated as a percentage of the FiT – in order to alter the level of the FiT rather than to raise revenue. That is confirmed, in the Tribunal's view, by the narrow class of persons subject to the Solar Levy (thereby limiting the revenue raised), the method of calculating the Solar Levy (which had the effect of reducing the FiT) and the method of collection and payment of the FiT (which involved withholding of amounts from the FiT paid to solar energy investors). In these respects, the Solar Levy's principal purpose was to reduce the FiT for certain investors.
251. As discussed above, both the Czech Supreme Administrative Court and the Czech Constitutional Court, as well as the Czech Ministry of Finance in its submissions to the Constitutional Court, concluded that the Solar Levy was in essence a reduction of the FiTs payable to certain solar energy producers. The Respondent's expert Mr Kotáb accepted that the characterization that the Solar Levy is, in substance, a reduction of the FiTs is now well established in Czech law, although in his view this did not necessary mean that the Solar Levy was not a tax.²⁵⁷ At the Hearing he admitted that the characterisation of the Solar Levy as a reduction of the FiTs "has been expressed repeatedly by courts, including Constitutional Court, so we may stick to the idea expressed here, in essence or in substance, this includes the reduction of a FiT" ²⁵⁸ This was further evidenced by both government statements made during the measure's enactment and the structure of the

²⁵⁷ T/2/443 (Kotáb).

²⁵⁸ T/2/443 (Kotáb).

measure.²⁵⁹ In the Tribunal's view, the evidence in the record, including expert testimony, confirms that the essence of the Solar Levy was the reduction of certain FiTs.

252. In light of this principle, the Tribunal concludes that the Solar Levy does not fall within the scope of Article 21 of the ECT. In this regard are of particular importance statements made in connection with the enactment of the Solar Levy, including the statements of the Minister of Industry and Trade on November 2, 2010 at meetings of the Economic Committee of the Chamber of Deputies.²⁶⁰ These statements clearly show that the Solar Levy's principal objective was a reduction in the level of the FiTs payable to certain solar investors, and not the raising of revenue; they also show that the Solar Levy was structured, in many respects, as a tax in order to reduce the risk of claims against the Czech Republic under international law.
253. By finding that the Respondent formulated the structure of the Solar Levy – resembling, in many respects, a tax – principally for the purpose of taking the reduction in the FiTs outside the protections accorded by several international investment treaties, including the ECT, the Tribunal does not imply that the Respondent was acting in bad faith. The Respondent might very well have attempted to reduce the FiTs in a manner that would be consistent with its legal obligations, including its investment protection obligations. The Tribunal merely finds that these attempts, including making the Solar Levy subject to the procedures set out in the Tax Administration Law, cannot change the fact the Solar Levy is, in substance, a measure whose objective was a reduction in the level of the FiTs payable to certain class of solar investors, and not the raising of revenue for the State.

²⁵⁹ Annex 5 to First [REDACTED] Report, Draft Government resolution on the problem of electricity price increases due to RES support presented by Ministry of Finance for Government session of 20 October 2010, p. 3.

²⁶⁰ See, e.g., Minutes of Session of the Economic Committee of the Chamber of Deputies of November 2, 2010, Annex 6 to First [REDACTED] Report, p. 5 (Mr. Kocourek, Minister of Industry and Trade: “The issue of arbitrations in general is absolutely erratic. ... I declare that it will reduce the amount of intended support to make it bearable for the Czech Republic and for electricity consumers in the Czech Republic. This method – through the withholding tax – is not just a retroactive correction of support. One may argue as to whether or not this is retroactive. Nonetheless, it is a similar situation as if you changed the conditions for investors by increasing the income tax. From the arbitration perspective, they will strive to advocate the principle on which the support for RES has been based, i.e., their 15-year payback period... the rest is the question of tax regimes – this is the responsibility of each country, and changes in tax rates should not be challenged in arbitrations.”).

B. Whether the Claimants complied with the notice requirements under the BIT and the ECT with regard to the claims arising out of the extension of the Solar Levy by Act 310/2013

1. The Respondent's position

254. In its Statement of Defense the Respondent contended that the Claimants' claim as to the Extension of the Solar Levy by the Act No. 310/2013 Coll. (the "**Solar Levy Extension Claim**") failed to satisfy the requirements of the prior written notification and the cooling-off period under Article 10(2) of the BIT and Article 26(2) of the ECT.²⁶¹ The Respondent alleged that even though the Claimants had ample opportunities to raise the Solar Levy Extension Claim after the adoption of the Act of September 13, 2013, the Claimants had not done so until the Statement of Claim of April 7, 2014.²⁶²

255. Article 10 of the BIT provides:

- (1) Disputes relating to investments between either Contracting Party and an investor of the other Contracting Party should as far as possible be settled amicably between the parties in dispute.
- (2) If a dispute cannot be settled within six months of the date when it was notified by one of the parties in dispute, it shall, at the request of the investor of the other Contracting Party, be submitted to arbitration.²⁶³

256. Article 26 of the ECT provides:

- (1) Disputes between a Contracting Party and an Investor of another Contracting Party relating to an Investment of the latter in the Area of the former, which concern an alleged breach of an obligation of the former under Part III shall, if possible, be settled amicably.
- (2) If such disputes cannot be settled according to the provisions of paragraph (1) within a period of three months from the date on which either party to the dispute requested amicable settlement, the Investor party to the dispute may choose to submit it for resolution [...].²⁶⁴

2. The Claimants' position

257. The Claimants took the view that the Solar Levy Extension Claim, i.e. the claim in respect of the prolongation of the Solar Levy, could not be characterized as a new dispute requiring an extra written notification and a new waiting period.²⁶⁵ The notice of dispute dated June 10, 2011

²⁶¹ Statement of Defense, paras 110-114.

²⁶² Statement of Defense, para 111

²⁶³ Statement of Defense, para 101; BIT, Article 10(2).

²⁶⁴ Statement of Defense, para 102; ECT, Article 26.

²⁶⁵ Memorial, paras 360-4.

referred to the adoption of Act No. 204/2010 concerning the introduction of the Solar Levy, and the Solar Levy Extension Claim concerns only the extension of the Solar Levy.²⁶⁶ On this basis, the Claimants contended that the Solar Levy Extension Claim was the same dispute in substance as that contained in the notice of dispute and thus did not require a separate notification and cooling-off period from the original claims.²⁶⁷

3. The Tribunal's conclusion

258. The Respondent did not pursue this objection in its Rejoinder, or during the hearing, but did not formally withdraw it.

259. The notice of dispute dated June 10, 2011 referred to Act 402/2010, which introduced the Solar Levy. The Solar Levy was extended by Act 310/2013.

260. The Tribunal is satisfied that the Claimants' argument is right. The claim relating to the Solar Levy extension is the same dispute in substance as that contained in the notice of dispute and does not require a separate notification and cooling-off period from the original claims.

C. Whether the Claimants' alleged misrepresentations in obtaining the operating licence for the Mozolov plant bar their claims in relation to the plant

D. Whether the Claimants have made a prima facie showing of a violation of the BIT and ECT in relation to the Holýšov plant

261. These issues partially concern the merits of the claim, and will be disposed of below.

IX. The substantive claims: legitimate expectation and arbitrary or unreasonable behaviour

1. The Claimants' position

262. As a threshold matter, the Claimants observe that their ECT claims should be maintained even if their ECT claims are "almost identical" to their BIT claims.²⁶⁸ The Claimants describe that this is because (1) the ECT is "more specific in protecting investments in the energy sector"; and (2) "[s]ince the EU is a contracting party to the ECT, there will be more grounds to oppose

²⁶⁶ Memorial, para 362.

²⁶⁷ Memorial, para 364.

²⁶⁸ T/4/743.

interference of the European Commission in relation to the enforcement of an eventual award.”²⁶⁹

263. The Claimants contend that the Respondent violated an obligation to provide a stable and predictable legal framework by modifying the Incentive Regime.²⁷⁰
264. According to the Claimants, the obligation to provide a stable and predictable investment framework may be distinguished from the obligation to protect an investor’s legitimate expectations.²⁷¹ The former concerns investors’ basic expectations as to stability of an investment framework, while the latter requires an analysis of individual investors’ expectations.²⁷² In the Claimants’ view, the obligation to provide a stable and predictable investment framework arose from (1) “the Incentive Regime’s intrinsic attribute of stability”; and (2) “the specific treaties invoked by the Claimants in this case”.²⁷³
265. As for “the Incentive Regime’s intrinsic attribute of stability”, the Claimants submit that the Incentive Regime was established to attract investments in the photovoltaic sector by providing long-term incentives.²⁷⁴ This inherent nature of the Incentive Regime created basic expectations and a promise that the Czech Republic would not modify the Incentive Regime, which are protected under the standard of “fair and equitable treatment” (“FET”).²⁷⁵
266. The Claimants submit that the requirements of protection of the investors’ basic expectations as to stability are essential elements of the FET standard.²⁷⁶ This is confirmed by the tribunal in *Tecmed* and other subsequent tribunals.²⁷⁷ The tribunal in *Bayindir v. Pakistan* further elaborated

²⁶⁹ T/4/743-744; Claimants’ closing statement, Slide 60.

²⁷⁰ Reply, para 643.

²⁷¹ Reply, paras 637, 639.

²⁷² Reply, para 643.

²⁷³ Reply, pars. 643, 673.

²⁷⁴ Reply, para 643.

²⁷⁵ Reply, para 643.

²⁷⁶ Reply, para 665.

²⁷⁷ Reply, paras 665-671; *Tecnicas Medioambientales Tecmed S.A. v. The United Mexican States* (Grigera Naón, Fernandez Rozas, Bernal Vereza), ICSID Case No. ARB (AF)/00/2, Award, May 29, 2003, para 154; *MTD Equity Sdn. Bhd. and MTD Chile S.A. v. Republic of Chile* (Rigo Sureda, Lalonde, Oreamuno), ICSID Case No. ARB/01/7, Award, May 25, 2004, para 114; *Occidental Exploration and Production Company v. Republic of Ecuador* (Orrego Vicuña, Brower, Barrera Sweeney), LCIA Case No. UN3467, Final Award, July 1, 2004, paras 191, 183; *CMS Gas Transmission Co. v. Argentina* (Orrego Vicuña, Lalonde, Rezek), ICSID Case No. ARB/01/8, Award, May 12, 2005, paras 275, 276, 134; *LG&E Energy Corp. LG&E Capital Corp. and LG&E International Inc. v. The Argentine Republic* (de Maekelt, Rezek, van den Berg), ICSID Case No. ARB/02/1, Decision on Liability, October 3, 2006, para 124; *Enron Corp. Ponderosa Assets L.P. v. Argentine Republic* (Orrego Vicuña, van den Berg, Tschanz), ICSID Case No. ARB/01/3, Award, May 22, 2007, paras 259-260.

that a host State's policy change may lead to a violation of the FET standard.²⁷⁸ This is particularly relevant to the present case, where the Czech Republic changed its policy towards the photovoltaic investors.²⁷⁹

267. The Claimants contend that the obligation to provide a stable and predictable legal framework also derives from specific treaties invoked by the Respondent, i.e., the BIT and the ECT.²⁸⁰ These treaties share the purpose to promote investment between contracting States by establishing a stable investment environment.²⁸¹
268. The Claimants allege that a promise of stability may arise in the absence of a stabilization clause.²⁸² The Respondent is said to have accepted this when stating that the Act on Promotion provided a promise of a 15-year simple payback and a 7% rate of return, even if the Act did not contain a stabilization clause.²⁸³ Such a payback and a rate of return, are undeniably a form of stability, with limited scope.²⁸⁴ The Claimants contend further that a contractual stabilization clause is unnecessary, considering that, in the circumstances of the RES sector, the host State does not enter a contractual relationship with individual investors.²⁸⁵ In the Claimant's view, the cases that the Respondent relies on, including *Parkerings v. Lithuania*,²⁸⁶ are distinguishable from the case at hand, because in those cases the tribunals found no basic or specific promise of stability by host States.²⁸⁷
269. The Claimants further contend that a stabilization clause is irrelevant to the issue of whether a host State owes an international obligation not to amend its legal framework.²⁸⁸ In the Claimant's view, a stabilization clause only generates an obligation under domestic law, and accordingly it

²⁷⁸ Reply, para 671; *Bayindir Insaat Turizm Ticaret Ve, Sanayi AS v. Islamic Republic of Pakistan* (Kaufmann-Kohler, Berman, Böckstiegel), ICSID Case No. ARB/03/29, Decision on Jurisdiction, November 14, 2005, para 240.

²⁷⁹ Reply, para 672.

²⁸⁰ Reply, para 673.

²⁸¹ Reply, paras 674-677.

²⁸² Reply, para 644.

²⁸³ Reply, paras 645-649.

²⁸⁴ Reply, paras 645-649.

²⁸⁵ Reply, para 650-664.

²⁸⁶ *Parkerings-Compagniet AS v. Republic of Lithuania* (Lew, Lalonde, Lévy), ICSID Case No. ARB/05/8, Award, September 11, 2007.

²⁸⁷ T/1/71-72.

²⁸⁸ T/4/710-712.

does not constrain a host State's authority to change its domestic legislation.²⁸⁹ This view is supported by the tribunal in *Oxus Gold v. Uzbekistan*, which provided that "a [stabilization] clause in a law or a general regulation does not give a vested right to the investor, as the State can always modify its laws and general regulations."²⁹⁰

270. The Claimants argue that the Respondent violated the Claimants' legitimate expectations with reference to the Incentive Regime, so as to satisfy the three prongs of the test applied by most arbitral tribunals, including, in particular, the *Micula* tribunal: "(a) the Respondent made a promise, assurance or representation of regulatory stability; (b) the Claimants relied on such promise, assurance or representation; and (c) such reliance was reasonable."²⁹¹ The Claimants observe that the doctrine of legitimate expectations is irrelevant to the reasonableness of a host State's measure.²⁹²
271. The Claimants contend that they had legitimate expectations that "(i) the FiT level would remain stable over the lifetime of the project (i.e. 20 years), and (ii) the Income Tax Exemption would last for 6 years (i.e. the first calendar year of operation of the plant plus the following five ones)".²⁹³
272. According to the Claimants, because the FET standard does not expressly provide which types of investors' expectations can be considered as legitimate, and accordingly "one has to determine whether, in the specific circumstances, the State's behaviour gave rise to an expectation that its legislative framework would not change to the detriment of the investors".²⁹⁴ The Claimants then submit that the specific circumstances in the present case was that the Respondent intended to attract investors by providing long and stable incentives through the Incentive Regime.²⁹⁵
273. The Claimants submit that domestic legislation can be treated as promises to foreign investors, referring to several legal authorities.²⁹⁶ Based on this proposition, the Claimants take the view

²⁸⁹ T/4/711.

²⁹⁰ T/4/711; *Oxus Gold v. Uzbekistan* (Tercier, Lalonde, Stern), UNCITRAL, Final Award, December 17, 2015, p.332.

²⁹¹ Memorial, paras 439-40; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, note 176, para 178.

²⁹² T/1/69; T/1/79-80; CLA-121, Decision of the German Constitutional Court (1 BvR 2821/11, 1 BvR 1456/12, 1 BvR 321/12), December 6, 2016.

²⁹³ Reply, para 690.

²⁹⁴ T/4/712-713.

²⁹⁵ T/4/713-714.

²⁹⁶ Memorial, para 448; *Enron Corp. Ponderosa Assets L.P. v. Argentina Republic* (Orrego Vicuña, van den

that the Czech Republic made explicit promises of stability to the investors throughout its legislation including the Act on Income Tax and the Act on Promotion.²⁹⁷ In this vein, the recent decision in *Charanne v. Spain*, in which the tribunal found an individual commitment was necessary for investors to enjoy legitimate expectations as to stability of investment framework, can be distinguished on the facts.²⁹⁸ In that case, the claimants invoked unreasonably long period of stability, i.e., 30 to 50 years.²⁹⁹

274. The Claimants provide a more specific analysis of the promises contained in Section 6 of the Act on Promotion.³⁰⁰ First, Section 6(1)(b)(2) provided a guarantee that “once it is established, the feed-in-tariffs cannot be reviewed for a given period of time, except for an increase, according to inflation.”³⁰¹ Second, Section 6(4) provided a guarantee of the 5% Break-Out Rule.³⁰²
275. The Claimants allege that these expectations were strengthened by the purpose and context of the Incentive Regime.³⁰³ The Explanatory Report on the bill of the Act on Promotion evidences that the Act on Promotion was enacted to meet the 8% EU target for 2010 under the EU policy of promoting RES.³⁰⁴ The importance of the achievement of 8% target is evidenced by Mr Firt’s statement that “it was not only [the] ERO that was interested but also the Ministry of Industry and Trade.”³⁰⁵ Dr Göde also testifies in his written statement that “the essential drive [to invest in the Czech Republic] was the Czech incentive system and its expected reliability, especially as

Berg, Tschanz), ICSID Case No. ARB/01/3, Award, May 22, 2007, paras 264-266; *LG&E Energy Corp. et al v. The Argentina Republic* (de Maekelt, Rezek, van den Berg), ICSID Case No. ARB/02/1, Decision on Liability, October 3, 2006, paras 130, 133; Reply, paras 699-706; CLA-35, R. Dolzer and C. Schreuer, *Principles of International Investment Law*, Oxford, 2008, pp. 134-135; *Electrabel S.A. v. Hungary* (Kaufmann-Kohler, Stern, Veeder), ICSID Case No. ARB/07/19, Award, November 25, 2015, para 155; *CMS Gas Transmission Co. v. Argentina* (Orrego Vicuña, Lalonde, Rezek), ICSID Case No. ARB/01/8, Award, May 12, 2005, para 443; *Binder v. Czech Republic* (Danelius, Creutzig, Gaillard), UNCITRAL, Ad Hoc Arbitration, Award, July 15, 2011, para 443; CLA-89, M. Téllez, Conditions and Criteria For The Protection of Legitimate Expectations Under International Investment Law, in *ICSID Review*, Vol. 27, No. 2, 2012, p. 436; CLA-85, Fair and Equitable Treatment, UNCTAD Series on Issues in International Investment Agreements II, 2012, p. 69.

²⁹⁷ Memorial, paras 447, 449.

²⁹⁸ Reply, para 697, citing *Charanne and Construction Investments v. The Kingdom of Spain*, SCC Case No. 062/2012, Final Award, January 21, 2016 (Mourre, Santiago Tawil, von Wobeser).

²⁹⁹ Reply, para 698.

³⁰⁰ T/1/26.

³⁰¹ T/1/26-27.

³⁰² T/1/27.

³⁰³ Reply, para 708.

³⁰⁴ Reply, para 709.

³⁰⁵ T/4/700-701; T/2/262-263.

to the long-term price guarantee for the electricity produced by solar operators. As known to solar producers, the energy sale price is in fact fundamental to the economics of a solar investment”.³⁰⁶ The Claimants emphasize that it was the guarantee of the long-term stable FiT which was integral to deciding to invest in RES.³⁰⁷ The importance of the stable FiT is evidenced by the fact that the investments in photovoltaic plants were up-front.³⁰⁸

276. According to the Claimants, the Explanatory Report shows that the Income Tax Exemption and the Shortened Depreciation Period constituted essential part of the Incentive Regime, in stating that “the support system is based [...] on maintaining the tax reliefs to the extent set out in the Act[s] on Income Tax”.³⁰⁹ In addition, the fact that the Act on Promotion did not mention the Income Tax Exemption is immaterial.³¹⁰ This was simply because the Income Tax Exemption was already established by the Act on Income Tax when the bill of the Act on Promotion was being discussed.³¹¹
277. The evidentiary value of the Explanatory Report is not decreased, say the Claimants, by the facts that the Report itself was not a legal source and that the Report was not specifically addressed to the Claimants.³¹² The Report shows significant insight of the legislative process and the purpose of the Act on Promotion.³¹³ An individualized promise is not necessary in invoking the protection of legitimate expectations.³¹⁴
278. The Claimants then contend that these general promises provided by the Act on Promotion and the Act on Income Tax were converted into specific promises by going through the licensing process and gaining required permissions to build and operate photovoltaic power plants.³¹⁵
279. The Claimants further submit that answers shown on the Q&A tool of the ERO website as well as the 2010 Action Plan prepared by the Czech Ministry of Industry and Trade on the duration of

³⁰⁶ Memorial, para 450; First Göde Statement, para 23.

³⁰⁷ Memorial, para 450.

³⁰⁸ T/1/78.

³⁰⁹ Reply, para 711; C-120, Explanatory Report on the bill of the Act on Promotion of November 12, 2003 (extended version), p. 4.

³¹⁰ Reply, para 712.

³¹¹ Reply, para 712.

³¹² Reply, paras 712-713.

³¹³ Reply, para 712.

³¹⁴ Reply, para 713.

³¹⁵ Memorial, para 453; First Göde Statement, paras 18-20.

the stable FiT can be characterized as specific promises to photovoltaic investors.³¹⁶

280. The Claimants contend that a promise contained in the Act on Promotion was not limited to the 15-year simple payback and the 7% WACC.³¹⁷ A promise of 15-year simple payback would contradict to the purpose of the Act on Promotion, since such a payback was insufficient to attract enough investors in order to achieve the EU targets.³¹⁸ WACC was a mere non-binding indicator for the ERO to set a FiT.³¹⁹ Indeed, the Act on Promotion did not contain reference to WACC.³²⁰
281. According to the Claimants, had it not been for the guarantee that the Incentive Regime should be granted and maintained, investors like the Claimants would not have invested in photovoltaic energy production in the Czech Republic.³²¹ This is because investors in the long-term RES business based their investment decisions on guarantees of stability derived from the purpose of the Incentive Regime.³²²
282. The Claimants make clear that in reliance on the legal framework set up by the Czech Republic and its commitments contained therein, they acquired or established SPVs, obtained the licences for energy production and invested a significant amount of money in their photovoltaic plants.³²³ In particular, the Claimants point out that they based their assessment of profitability on the analysis of the investment and operating costs to set up and operate the solar plants.³²⁴
283. The Claimants contend that their reliance on the promises provided for by the Incentive Regime was reasonable.
284. The Claimants maintain that their reliance was reasonable as it was predicated on the guarantees contained in the Incentive Regime and its “declared purpose”.³²⁵ According to the Claimants, “[the] system was designed precisely to attract the investments that the Czech Republic needed

³¹⁶ Memorial, paras 456-7; First Göde Statement, para 27; Annex II to First Göde Statement, Q&A tool available on the ERO's website in 2009.

³¹⁷ T/1/15:5-6.

³¹⁸ Memorial, para 450.

³¹⁹ T/1/29.

³²⁰ T/1/15.

³²¹ Memorial, para 446.

³²² Memorial, paras 444-6; First Göde Statement, paras 24-27.

³²³ Memorial, paras 459-60.

³²⁴ Memorial, para 460; First Göde Statement, paras 21, 28.

³²⁵ Memorial, para 462.

to comply with its EU law obligations.”³²⁶

285. The Claimants refer to both Czech and EU law to support the contention that their reliance was reasonable. With regard to Czech law, “the correctness of the Claimants’ understanding of the Incentive Regime was primarily confirmed by the ERO’s presentations on that matter and by the personal consultation that Dr Göde had with the Czech law firm, [REDACTED] in Prague.”³²⁷ As to EU law, “the compatibility of the Incentive Regime with EU state law was assessed both before the adoption of the Act on Promotion and after its implementation.”³²⁸
286. In addition, the Claimants submit that widespread beliefs among the photovoltaic market that the Incentive Regime would not be retroactively repealed provide support for the reasonableness of the Claimants reliance.³²⁹ As the tribunal in *CMS v. Argentina* stated, this is because “[i]t is not credible that so many companies and governments and their phalanxes of lawyers could have misunderstood the meaning of the guarantees offered in a manner that allowed for their reversal within a few years”.³³⁰ The Czech local banks financed solar projects for plants to be commissioned in 2010.³³¹ This is confirmed by the fact that on July 30, 2010, the head of KPMG’s Transaction and Acquisition Department confirmed that banks were interested in photovoltaic plants as long as they were commissioned by the end of 2010.³³² Such a belief was also shared by energy experts licensed by the Czech Ministry of Industry and Trade, who conducted energy audits before banks approved loans for solar projects.³³³
287. The Claimants emphasize that the Respondent repeatedly reassured that the amendments to the Incentive Regime would not affect plants commissioned before 2011.³³⁴ A Czech Republic’s report of November 2009 still indicated the need of attracting investors in order to achieve the 8% EU target for 2010.³³⁵ The abolishment of the 5% Break-Out Rule in March 2010 only affected plants commissioned from January 1, 2011 due to the political decision to keep providing

³²⁶ Memorial, para 463.

³²⁷ Memorial, para 466; First Göde Statement, paras 24, 27.

³²⁸ Memorial, para 468.

³²⁹ T/1/74.

³³⁰ T/1/74; *CMS Gas Transmission Co. v. Argentina* (Orrego Vicuña, Lalonde, Rezek), ICSID Case No. ARB/01/8, Award, May 12, 2005, para 137.

³³¹ Memorial, paras 473, 474, 476.

³³² T/1/74.

³³³ T/1/74.

³³⁴ Reply, para 731.

³³⁵ Reply, paras 733-734.

the same support level to plants commissioned by the end of 2010.³³⁶ Mr Jones, the Respondent's expert, also accepted that the ERO's letter of September 8, 2009, the Government's bill of November 16, 2009, the Ministry of Industry's press release of the same date, and the Government's bill of September 15, 2010, strengthened the investors' expectations that the upcoming change would not affect plants connected in 2010.³³⁷

288. The Claimants allege that the Czech Republic kept providing such reassurances during 2010.³³⁸ None of the Claimants' plants was affected by the moratorium on new applications for grid connections, because all of their plants obtained the capacity reservations before the moratorium started in February 2010.³³⁹ The 2010 Action Plan reaffirmed that the fixed FiT would be available for 20 years.³⁴⁰ Act No. 330/2010, which abolished all incentives for plants over 30kWp, only applied installations commissioned from March 1, 2011, and its Explanatory Report of September 15, 2010 provided that the existing investors would keep enjoying the incentives.³⁴¹ Both the 2010 Action Plan and the ERO's 2010 Report indicated that the future amendments to the Incentive Regime would not affect the existing investors.³⁴² Importantly, Dr Göde's last investment was made in the summer of 2010, when the Respondent still kept providing such reassurances.³⁴³
289. The Claimants submit that the 2010 Action Plan provided a strong reassurance.³⁴⁴ First, the Plan confirmed that the Income Tax Exemption was integral part of the Incentive Regime, by listing it as available financial support together with FiT and Green Bonuses.³⁴⁵ Second, the Plan did not suggest that the FiT level was not maintainable.³⁴⁶ Third, the Plan confirmed that the FiT would be stable for 20 years in stating that "[the] tariffs are guaranteed according to the following

³³⁶ Reply, para 736; T/1/34.

³³⁷ T/3/561-568; T/2/705; C-201, Letter from Mr Fiřt (Chairman of the ERO) to Mr Vojřř (Chairman of the Economic Committee of the Chamber of Deputies), September 8, 2009; R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009; C-197, Czech Government's press conference, November 16, 2009; R-172, Explanatory Report to Draft Act No. 330/2010 Coll., September 15, 2010.

³³⁸ T/1/34.

³³⁹ Reply, para 736.

³⁴⁰ Reply, paras 736, 193.

³⁴¹ Reply, paras 736, 199.

³⁴² Reply, paras 736, 737.

³⁴³ T/4/723-724.

³⁴⁴ T/1/36.

³⁴⁵ T/1/36.

³⁴⁶ T/1/36.

table [photovoltaic power plants 20 years]” and that no cap existed for RES support.³⁴⁷

290. The Claimants also submit that another strong reassurance was given by the Explanatory Report to Draft Act No. 330/2010 dated on September 15, 2010, which abolished all of the support for large photovoltaic plants as of March 1, 2011.³⁴⁸ The Report provided that “[p]hotovoltaic power plants already connected to the electric power system will have their right to claim support preserved under existing conditions.”³⁴⁹
291. In the Claimants’ view, the Respondent gave these reassurances in order to (1) provide sufficient time for investors to prepare for the upcoming scheme change; and (2) achieve the EU target for 2010 by means of contribution from photovoltaic plants.³⁵⁰
292. The Claimants allege that, in 2009 and 2010, it was impossible for photovoltaic investors to expect that the amendment measures would be introduced in a retroactive manner.³⁵¹ The Claimants submit that a number of documents published in 2009 and 2010 provided repeated reassurances, instead of warnings.³⁵² This was also supported by the fact that even ČEZ, a company controlled by the Czech Republic, kept investing in the photovoltaic market during the period.³⁵³ The Claimants observe that indeed the introduction of the Solar Levy had not been an option for the Czech Government until October 14, 2010, when it suddenly changed its policy.³⁵⁴
293. The Claimants observe that although the Respondent could have repealed the 5% Break-Out Rule or required grid operators to stop issuing new binding statements as soon as it had recognized the problem, it had chosen not to do so.³⁵⁵ In the Claimant’s view, this political decision conveyed a clear message to investors that the FiT level would remain stable for plants commissioned in 2009 and 2010.³⁵⁶
294. In this vein, the Claimants contend that the existence of the Fischer caretaker government during

³⁴⁷ T/1/36-37; C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade, July 2010, pp.58-60.

³⁴⁸ T/1/38.

³⁴⁹ T/1/38.

³⁵⁰ T/1/38-39.

³⁵¹ T/1/49-50.

³⁵² T/1/49-50.

³⁵³ T/1/49-50.

³⁵⁴ T/4/702.

³⁵⁵ T/4/728-729.

³⁵⁶ T/4/729.

May 2009 and July 2010 is irrelevant.³⁵⁷ It did not amount to a political crisis that might have affected an investor's legitimate expectations.³⁵⁸ As shown in its policy statement that it was prepared to take responsibility to manage the country, the caretaker government had authority to deal with the increase of the solar installations.³⁵⁹ Indeed, the caretaker government made the important decision to repeal the 5% Break-Out Rule.³⁶⁰

295. Similarly, the Claimants object to the Respondent's assertion that the postponement of the abolishment of the 5% Break-Out Rule was the result of solar investors' lobbying and threats of arbitration.³⁶¹ No evidence shows that such an activity existed. In any event, legitimate lobbying activity does not excuse a host State from not addressing a problem in a timely manner.³⁶²
296. The Claimants contend that their reliance on the Income Tax Exemption was equally reasonable.³⁶³ The repeal of the Income Tax Exemption is distinguished from an ordinary increase of income tax rate, because the Income Tax Exemption contained a promise of duration as an essential part of the Incentive Regime.³⁶⁴ This position is confirmed, according to the Respondent, by an expert opinion that the Czech Republic could repeal the Income Tax Exemption only in a non-retroactive manner.³⁶⁵
297. Furthermore, the Claimants submit that Dr Göde's team was formed by experienced experts including bankers and a Czech lawyer.³⁶⁶ While Dr Göde did not conduct a specific due diligence before his investment, his team provided sufficient expertise.³⁶⁷ In any event, given the small size of photovoltaic investments, a sophisticated due diligence should not have been required.³⁶⁸
298. The Claimants provide that "Dr Göde made the majority of his investment in the Czech Republic only after having obtained 'a direct confirmation of the reliability of the Czech environment in

³⁵⁷ T/4/732-733.

³⁵⁸ T/4/731-732.

³⁵⁹ T/4/733.

³⁶⁰ T/4/733.

³⁶¹ T/4/733-734.

³⁶² T/4/734.

³⁶³ Reply, para 729.

³⁶⁴ Reply, para 729.

³⁶⁵ Reply, para 730; C-222, Professor JUDr Aleš Gerloch, CSc's Opinion of December 3, 2010, pp. 10-11.

³⁶⁶ T/1/226; T/4/724.

³⁶⁷ T/4/724.

³⁶⁸ T/4/724.

general and of the FiT regime in particular”³⁶⁹ Indeed, Dr Göde made his second investment after having confirmed that his first solar plant became operational under the FiT scheme.³⁷⁰

299. The Claimants submit that the Respondent violated its obligation to accord “full protection and security” (“FPS”) set out in Article 10(1) of the ECT and Articles 2(3) and 4(1) of the BIT by failing to provide a stable and predictable legal framework as to the Claimants’ investment.³⁷¹
300. The Claimants submit that the scope of FPS extends beyond physical protection to legal security. To this extent, FPS and FET substantially overlap, and jointly require a host State to provide a stable and predictable legal framework.³⁷² In the present case, the Claimants contend that the FPS standard was violated by reason of the facts giving rise to a breach of the FET standard.³⁷³
301. The Claimants allege that, by dismantling the Incentive Regime, the Respondent violated the prohibition of arbitrary or discriminatory measures (“**Non-Impairment Standard**”) set out in Article 10(1) of the ECT and Article 2(2) of the BIT.³⁷⁴
302. In response to the Respondent’s argument that the Non-Impairment Standard requires an investor’s impairment to be significant, the Claimants submit that, referring to *Saluka*, “any negative impact or effect” caused by a host State’s measure satisfies the impairment requirement.³⁷⁵
303. The Claimants then submit that in any event their investments were significantly impaired, referring to Dr Göde’s statement that “the Czech Republic’s retroactive measures greatly impacted on the economics of [his] investment”.³⁷⁶ Dr Göde expected a return of EUR [REDACTED] (before taxation) for his investment, but, after the introduction of the Solar Levy, the Claimants’ internal forecasts now point to EUR [REDACTED]³⁷⁷

³⁶⁹ Memorial, para 479; First Göde Statement, para 29.

³⁷⁰ Memorial, para 479.

³⁷¹ Memorial, para 379.

³⁷² Memorial, paras 386-388, 400.

³⁷³ Memorial, para 400.

³⁷⁴ Memorial, paras 496-498; Memorial, paras 402-408. According to the Claimants, the Respondent’s unreasonable and discriminatory measure also violated the FET standard. While the Claimants also invokes the FET standard as the basis for the prohibition of arbitrary or discriminatory measures, they provide their arguments in the context of the Non-Impairment Standard.

³⁷⁵ Reply, para 761; *Saluka Investments B.V. v. The Czech Republic* (Watts, Fortier, Behrens), UNCITRAL, Partial Award, March 17, 2006, para 458.

³⁷⁶ Memorial, para 522 citing First Göde Statement, para 37.

³⁷⁷ Memorial, para 523.

304. The Claimants define an unreasonable measure as referring to “a measure that imposes excessive burdens on foreign investors not commensurate to the aims pursued or to the results achieved by the measures.”³⁷⁸
305. The Claimants submit that the determination of whether a measure is reasonable or not requires analysis of “whether (i) the state pursued a rational policy and (ii) acted reasonably in pursuit of such policy”, relying on the *AES* and *Micula* cases.³⁷⁹ A State’ policy is rational if it is taken “following a logical (good sense) explanation and with the aim of addressing a public interest matter”.³⁸⁰ A State acts reasonably if there is “an appropriate correlation between the state’s policy objective and the measure adopted to achieve it.”³⁸¹ Under the proportionality test, since the Respondent’s measures destroyed the Claimants’ investments, the Respondent must prove that “the maintenance of the Incentive Regime, and the allegedly attendant high electricity prices, would have entailed the catastrophic consequences for the Czech economy that are invoked, in terms of layoffs, plant shut downs and dramatic drops in the tax revenues.”³⁸²
306. The Claimants contend that “the Czech Republic’s dismantling of the Incentive Regime was neither adopted in furtherance of a rational policy, nor were the Czech Republic’s measures reasonable in the pursuit of such a policy, because the adverse impact on the Claimants’ investment did not outweigh the policy’s benefits.”³⁸³
307. The Claimants reject the Respondent’s assertion that it aimed “to counter soaring electricity prices and to address alleged ‘windfall profits’ of solar investors.”³⁸⁴

³⁷⁸ Memorial, para 499; *LG&E Energy Corp., LG&E Capital Corp. and LG&E International Inc. v. The Argentina Republic* (de Maekelt, Rezek, van den Berg, ICSID Case No. ARB/02/1, Decision on Liability, October 3, 2006), para 158; *Saluka Investments B.V. v. The Czech Republic* (Watts, Fortier, Behrens), UNCITRAL, Partial Award, March 17, 2006, para 307; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.7; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov, Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, para 525.

³⁷⁹ Memorial, para 501; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, 23 September 2010, paras 10.3.8 and 10.3.9; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov, Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, para 525.

³⁸⁰ Memorial, para 501; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, 23 September 2010, paras 10.3.8.

³⁸¹ Memorial, para 501; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, 23 September 2010, paras 10.3.9.

³⁸² Memorial, para 506.

³⁸³ Memorial, para 503.

³⁸⁴ Memorial, para 504; Statement of Defense, para 45.

308. With regard to the “high electricity prices” case, the Claimants assert that “there is no indication that such a risk was in any way concrete nor that the investors and the Incentive Regime would be responsible for it.”³⁸⁵ Rather, the extra costs of RES support, including the tariffs on consumers, and electricity prices in Czech Republic were lower than those in other EU countries.³⁸⁶
309. Moving on to “the alleged windfall profits of the investors”, the Claimants deny the presence of such profits.³⁸⁷ Rather, the rates of return provided for by the Incentive Regime at 10-15 % were in line with those in other EU Member States.³⁸⁸ The Claimants deny that any profit over the rate of 7% should be considered a windfall, considering that a return rate at the level of 7% would not have attracted sufficient investment to achieve the 8% EU target for 2010.³⁸⁹
310. According to the Claimants, the Respondent’s policy is irrational as “withdrawing benefits that [the Respondent] had used to induce investors into its solar market” dramatically reduces prospects for future investment by negatively signalling future investors and making it extremely difficult for it to attain its target of increasing electricity from solar energy by 2020.³⁹⁰
311. The Claimants contend that the Respondent’s amendment measures were unreasonable.
312. The Claimants submit that a host State’s measures are reasonable only if “its adverse effects on foreign investments are limited to what is strictly necessary to achieve the public interest and the public interest outweighs the negative impact on the rights of foreign investors in the specific case.”³⁹¹ In the Claimants’ view, proportionality is required not only between the policy objectives and the measures, but also between the benefits to the host State and the impact on investors.³⁹²
313. In the present case, the Claimants allege that “the Solar Levy is unreasonable because the results it achieved are completely out of proportion with respect to the harm it caused to solar

³⁸⁵ Memorial, para 507.

³⁸⁶ Reply, para 784

³⁸⁷ Memorial, para 509.

³⁸⁸ Reply, para 783.

³⁸⁹ Reply, para 783.

³⁹⁰ Memorial, para 510.

³⁹¹ Memorial, para 502.

³⁹² Reply, para 787.

investors.”³⁹³ According to the Claimants, the fact that “the end price of electricity continued to increase even after the introduction of the Solar Levy” confirms the assumption that “the effects of the Solar Levy on electricity prices were minimal and it did very little [...] to shield households and industries from purportedly soaring electricity prices.”³⁹⁴ The Claimants assert that this lack of proportionality was exacerbated by the abrupt legislative process without appropriate reflection.³⁹⁵

314. The Claimants contend that the repeals of the Income Tax Exemption and the Shortened Depreciation Period were irrational, pointing out that “there is no explanation as to how the repeal of the tax exemption can mitigate the increase in electricity prices”.³⁹⁶
315. The Claimants submit that the unreasonableness of the amendment measures was also criticized by the EU Commissioners, who expressed their concern as to the amendment measures in its letter of January 11, 2011. The EU Commission in its Communication of 2013 stated that “[a] need to make changes in regulatory conditions in response to developments in the market does not justify applying such changes retroactively to investments already made in situations where the need arises because of failures on the part of the public authorities to correctly predict or adapt to such developments in a timely manner.”³⁹⁷
316. The Claimants contend that the Czech Constitutional Court decision of May 15, 2012 is not helpful because “domestic courts cannot provide absolution from violation of international law.”³⁹⁸ The Claimants further submit that the decision is irrelevant to the present case because the Court (1) employed domestic, instead of international, standards; (2) employed an approach which was similar to that of expropriation; and (3) was silent as to whether the Czech Republic violated its obligation towards investors.³⁹⁹
317. In the Claimants’ view, the return rates above 7% WACC, which the amendment measures targeted, should be considered as reasonable, instead of excessive.⁴⁰⁰ The Claimants find support

³⁹³ Memorial, para 517.

³⁹⁴ Memorial, para 517.

³⁹⁵ Reply, para 790.

³⁹⁶ Memorial, para 518.

³⁹⁷ T/1/53-54; C-221, EC’s Communication, Delivering the internal electricity market and making the most of public intervention, November 5, 2013, p.12.

³⁹⁸ T/1/88.

³⁹⁹ T/1/88-89.

⁴⁰⁰ T/4/735.

in the EU Commission's 2016 Decision, which confirmed the return rates between 6.3% and 10.6% as reasonable.⁴⁰¹ The Claimants add that while the EU Commission referred the 10.6% rate regarding biogas, the 10.6% rate is also relevant to solar, given that the 7% WACC was set for the entire RES including both solar and biogas.⁴⁰² The [REDACTED] % return rate of Osečná plant also can be seen as reasonable, considering that the EU Commission approved up to 12 to 13% of return rates in relation to other EU Member States.⁴⁰³

318. The Claimants make four further allegations as to the unreasonableness of the Respondent's measures.⁴⁰⁴ First, the measures were intrinsically irrational, because the Respondent repealed the essential features of the Incentive Scheme.⁴⁰⁵ In this regard, the *Charanne* decision, in which the tribunal found that the changes to the FiT level and period did not amount to an alternation of the essential characteristics, is to be distinguished from the present case, because the alleged period, i.e., 30 to 50 years, was unrealistic for the plants' lifetime.⁴⁰⁶ Second, the measures were by definition unreasonable, because the Respondent repealed its clear undertaking to RES investors, which it had made in exchange for their investment.⁴⁰⁷ Third, the Respondent acted inconsistently in relation to the investors and its policy goal.⁴⁰⁸ The Respondent repeatedly announced that the amendments to the Incentive Regime would only affect new plants commissioned after 2011, nevertheless repealed the incentives provided for plants commissioned in 2009 and 2010.⁴⁰⁹ The amendment measures made it difficult for the Respondent to achieve its long-term policy goal of promoting RES by undermining the Respondent's reputation among investors.⁴¹⁰ Fourth, the Respondent cannot claim the reasonableness of its responses to the alleged solar boom, because the solar boom was caused by its own mismanagement.⁴¹¹ The ERO repeatedly drew attention to the rise of solar installations at least from 2008, nevertheless the

⁴⁰¹ T/4/735-736; R-366, European Commission's decision in State aid case SA.40171 (2015/NN) – Czech Republic (Promotion of electricity production from renewable energy sources), November 28, 2016.

⁴⁰² T/4/737-738.

⁴⁰³ T/4/738-739; Compass Lexecon presentation, Slide 20.

⁴⁰⁴ Reply, paras 763, 765, 773, 791.

⁴⁰⁵ Reply, para 765.

⁴⁰⁶ Reply, paras 766-772; *Charanne and Construction Investments v. Spain* (Mourre, Santiago Tawil, von Wobeser), SCC, Final Award, January 21, 2016, para 529.

⁴⁰⁷ Reply, para 763.

⁴⁰⁸ Reply, para 773.

⁴⁰⁹ Reply, para 774-776.

⁴¹⁰ Reply, para 777-779.

⁴¹¹ Reply, para 791.

Respondent did not address this issue until the end of 2010. As a result, the Respondent repealed the incentives in a retroactive manner, which was unprecedented among the EU Member States.⁴¹² In the Claimants' view, Article 25.2(b) of the Draft articles on Responsibility of States for Internationally Wrongful Acts (the "**ILC Draft Articles**"), by which a State is precluded from invoking the necessity defence when the State contributed to the situation of necessity, supports this assertion.⁴¹³

2. The Respondent's position

319. The Respondent contends that, in the absence of stabilization clause, a State may change its legislation without violating investment treaty obligations.⁴¹⁴ In other words, no legitimate expectations as to stability of legal framework may arise in the absence of a stabilization arrangement.⁴¹⁵ Such a stabilization clause can be either legislative or contractual, but a clear language of prohibiting legislative or regulatory change is required.⁴¹⁶ However, in the present case, no evidence shows such an explicit arrangement.⁴¹⁷
320. As to the alleged stabilization of the FiT level, the Respondent alleges that a simple use of the word "stable", as found in the ERO's report of 2009, is not sufficient to grant a promise of stabilization.⁴¹⁸ The Respondent denies that the Claimants' assertion that the Respondent admits that an obligation of stabilization may arise in the absence of stabilization clause in stating that the Act on Promotion and the ERO regulations provided for a 15-year simple payback and a 7% rate of return.⁴¹⁹ Because the Respondent keeps providing the payback and the rate of return, the stabilization of these incentives is not an issue of the present case.⁴²⁰
321. Regarding the Income Tax Exemption, the Respondent calls into doubt the evidentiary value of the 2003 Explanatory Report on the Bill of the Act on Promotion on which the Claimants seem to base their argument that the Respondent promised that the Income Tax Exemption "would

⁴¹² Reply, paras 307, 795; T/1/48-49.

⁴¹³ Reply, para 791-794.

⁴¹⁴ Rejoinder, para 454.

⁴¹⁵ Counter-Memorial, para 550.

⁴¹⁶ Rejoinder, para 455.

⁴¹⁷ Rejoinder, para 457.

⁴¹⁸ Rejoinder, para 458.

⁴¹⁹ Rejoinder, para 460.

⁴²⁰ Rejoinder, paras 461-462.

forever be available to [the] Claimants”.⁴²¹ According to the Respondent, “the 2003 Explanatory Report does not have the force of law and is not a source of legal rights.”⁴²² In addition, the Respondent notes that “the language in the 2003 Explanatory Report does not look anything like the type of language that States typically use when entering into a stabilization arrangement.”⁴²³

322. The Respondent provides that the ECT does not create such a stabilization despite of its Article 10, which provides that “Each Contracting Party shall [...] encourage and create stable conditions”.⁴²⁴ In the Respondent’s view, this does not purport to stabilize a legal framework for the duration of investment.⁴²⁵ The Respondent also notes that the BIT does not contain such a language.⁴²⁶
323. The Respondent further notes that Article 19(d) of the Act on Income Tax does not contain a “promise” of stabilization, but rather that there would be an exemption from corporate income tax for “income from the operation of [...] solar installations [...] in the calendar year in which they were first commissioned and in the immediately following five year period”.⁴²⁷ In the Respondent’s view, the tax exemption’s limitation in time to five years is not a guarantee that such exemption could not be abolished for five years or that the temporary benefit could not be subject to legislative amendment or a “grandfathering” rule for existing projects.⁴²⁸
324. The Respondent alleges that a stabilization clause generates an international obligation, despite that it is embodied in domestic legislation.⁴²⁹ For instance, legislative acts adopted by Nigeria and Timor-Leste contain stabilization clauses, under which an investor may file an international arbitration if the government has violated the stabilization assurance.⁴³⁰
325. The Respondent points to the *Charanne v. Spain* award which addressed a similar issue to that

⁴²¹ Counter-Memorial, para 549-50.

⁴²² Counter-Memorial, para 551.

⁴²³ Counter-Memorial, para 553.

⁴²⁴ T/4/787-788; ECT, Article 10.

⁴²⁵ T/4/787-788.

⁴²⁶ T/4/788-789.

⁴²⁷ Respondent’s Rejoinder, para 472 citing R-61, Act 586/1992 Coll., on Income Tax (Excerpts), p. 1, Section 19(d) (as effective from January 1, 2014 to December 31, 2010).

⁴²⁸ Respondent’s Rejoinder, paras 472-3 citing Crawford, *Treaty and Contract*, p. 369.

⁴²⁹ T/4/788-789.

⁴³⁰ T/4/788-789; Nigerian LNG (Fiscal Incentives, Guarantees and Assurances) Act of 1990 (as amended in 1993), 1993; Law No. 4/2003 on the Petroleum Development of Timor Sea (Tax Stability), 2003.

arising in this case, namely, the issue of whether governmental statements issued in connection with the regulatory framework could support a stabilization guarantee.⁴³¹ Noting that the *Charanne* tribunal “concluded that there was no evidence at all [...] of any stabilization guarantee,” the Respondent submits that in the present case, where the Claimants cite only an explanatory report to a preliminary draft of legislation, there is even less basis for the allegation of a “guarantee of stabilization” as to the tax exemption.⁴³²

326. According to the Respondent, Section 6 of the Act on Promotion was only meant to provide a 15-year simple payback, i.e., “full return of capital, but without any element of profit”.⁴³³ Nevertheless, in order to attract investors, the ERO decided in its Technical Regulation to provide them with “an adequate return on invested capital”, which was later set as 7% WACC.⁴³⁴ In the Respondent’s view, this 7% WACC should be considered as a reasonable return rate,⁴³⁵ and as Mr Firt testified, well known to public.⁴³⁶ The Respondent points out that Dr [REDACTED] Claimants’ expert, also accepts that profits above WACC is theoretically “supernormal”.⁴³⁷ Noting that the 15-year simple payback and the 7% WACC “w[ere] not legislatively guaranteed” without a stabilization arrangement, the Respondent submits that in any event the amendment measures have not affected these parameters.⁴³⁸ This being the case, the Respondent submits that the Claimants’ investment “has not suffered any adverse effect that is actionable under the ECT or the BIT” due to the Solar Levy.⁴³⁹
327. The Respondent points out that the Solar Levy has not changed the amounts of FiT and “affected the Claimants’ after-tax profits”.⁴⁴⁰ Accordingly, what the Claimants claim in this arbitration is

⁴³¹ Counter-Memorial, para 554; *Charanne B.V. and Construction Investments S.A.R.L. v. Kingdom of Spain* (Mourre, Tawil, von Wobeser), SCC Case No 062/2012 (Final Award and Dissenting Opinion, 21 January 2016).

⁴³² Counter-Memorial, para 554; *Charanne B.V. and Construction Investments S.A.R.L. v. Kingdom of Spain* (Mourre, Tawil, von Wobeser), SCC Case No 062/2012 (Final Award and Dissenting Opinion, January 21, 2016), para 490.

⁴³³ Counter-Memorial, para 37.

⁴³⁴ Counter-Memorial, para 38; R-6, The Technical Regulation, Section 4(1), November 30, 2005, Section 4(1)(a).

⁴³⁵ T/4/756.

⁴³⁶ T/1/254-256; T/4/753.

⁴³⁷ T/3/487; T/4/757.

⁴³⁸ Counter-Memorial, para 535.

⁴³⁹ Counter-Memorial, para 535.

⁴⁴⁰ Counter-Memorial, paras 534-535.

not a promise of stable FiT but a promise of profitability.⁴⁴¹ However, the Incentive Regime did not contain any guarantee of such profitability.⁴⁴²

328. The Respondent contends that, referring to *Arif v. Moldova*, a legitimate expectations claim “must proceed from the exact identification of the origin of the expectation alleged, so that its scope can be formulated with precision”.⁴⁴³ Therefore, legitimate expectations derived from legislation must be strictly based on provisions in the legislation in question.⁴⁴⁴ However, the original Act on Promotion did not contain any provision that FiTs would not be subject to taxation measures such as the Solar Levy.⁴⁴⁵
329. The Respondent contends that it had never promoted solar investments in order to achieve the 8% EU target.⁴⁴⁶ The ERO’s report of November 2009, on which the Claimants rely, merely listed solar power as one of several RES sources for the achievement.⁴⁴⁷ Rather, the Report described the rapid increase in solar installations as “significant problem” and “disadvantaging other [] RES sources and adversely affecting consumers”.⁴⁴⁸
330. According to the Respondent, “there is certainly no evidence that the Claimants ‘relied’ on the 2003 Explanatory Report or any other document, statement, or communication by the Czech Republic relating to [the tax exemption].”⁴⁴⁹ To support this, the Respondent notes that “the Claimants effectively admit that [the Income Tax Exemption] was not a determining factor in the decision to invest [by asserting that] ‘the purpose of the Incentive Regime would be frustrated if investors could rely only on the FiT support and not on the guarantees already in place and set out in the Act on Income Tax, which were evidently not sufficient by themselves to attract investments in the Czech Solar business.’”⁴⁵⁰ The Respondent asserts that conclusive effect

⁴⁴¹ Counter-Memorial, para 535.

⁴⁴² Counter-Memorial, para 535.

⁴⁴³ Respondent’s Rejoinder, para 476; *Franck Charles Arif v. Moldova* (Cremades, Hanotiau, Knieper), ICSID Case No. ARB/11/23 (Award, April 8, 2013), para 535.

⁴⁴⁴ Rejoinder, para 476.

⁴⁴⁵ Rejoinder, para 476.

⁴⁴⁶ T/4/763-764.

⁴⁴⁷ T/4/763-764.

⁴⁴⁸ T/4/764; C-203, “Report on the Fulfilment of the Indicative Target for Electricity Production from Renewable Energy Sources for 2008” of November 2009, prepared by the Ministry of Industry and Trade, p. 17.

⁴⁴⁹ Counter-Memorial, para 564.

⁴⁵⁰ Counter-Memorial, para 565.

should be given to the fact that “the Claimants actually were aware that Czech taxation law might change.”⁴⁵¹

331. The Respondent avers that the Claimants knew, or should have known, that the RES regime was based on the principle of minimum cost and reasonable (but not excessive) return, as defined by WACC and required under EU State aid law.⁴⁵² Furthermore, the Claimants were “almost certainly aware that the market they were entering was a bubble and that the FiT regime for solar installations was considered by the Czech authorities to be out of balance.”⁴⁵³
332. The Respondent alleges that the Claimants’ reliance on the assurances was unreasonable.
333. The Respondent contends that the Claimants knew or should have known that Czech RES support scheme was structured “based on the principle of minimum cost and reasonable (but not excessive) return, as defined by the WACC” because the Czech RES market was a regulated market.⁴⁵⁴ Accordingly, the Claimants’ reliance on the alleged promises by which investors would have received more than the WACC was not reasonable.⁴⁵⁵ This is supported by the decisions in *AES v. Hungary* and *Electrabel v. Hungary*, in which the tribunals affirmed Hungary’s measures that reduced the tariff rates to the WACC level.⁴⁵⁶
334. The Respondent also alleges that the Claimants should have expected that “where the government expressly warn[ed] that returns [of the photovoltaic producers were] contrary to the intent of existing law, [...] some claw-back of such excessive profits [would be] possible.”⁴⁵⁷ In late 2009, the ERO already expressed that the 2010 FiT would provide excessive returns to photovoltaic producers.⁴⁵⁸ The Respondent finds support for this in a Master’s thesis at the London School of Economics, which provides that “[i]nvestors should anticipate that overgenerous FiTs at public

⁴⁵¹ Counter-Memorial, para 566.

⁴⁵² Respondent’s Rejoinder, para 477.

⁴⁵³ Respondent’s Rejoinder, para 478.

⁴⁵⁴ Rejoinder, para 477.

⁴⁵⁵ Rejoinder, para 477.

⁴⁵⁶ Rejoinder, para 482; *AES Summit Generation Limited and AES-Tisza Erömu Kft v. The Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, paras 10.3.20, 10.3.31, 10.3.44; *Electrabel S.A. v. Republic of Hungary* (Kaufmann-Kohler, Stern, Veeder), ICSID Case No. ARB/07/19, Award, November 25, 2015, paras 8.33-8.34.

⁴⁵⁷ T/1/132-133; Respondent’s opening statement, Slide 45.

⁴⁵⁸ T/4/765; R-156, “Legislative environment and the promotion of the electricity produced from photovoltaic power plants in 2009”, ERO Presentation, October 15, 2009.

expense could well result in ‘retroactive’ adjustments to support regime.”⁴⁵⁹

335. The Respondent contends that it did not provide the alleged reassurances that FiTs would not be repealed in relation to plants commissioned by the end of 2010. According to the Respondent, the fact that the abolition of the 5% Break-Out Rule was once postponed from 2009 to 2010 cannot be considered as a reassurance from the Czech Republic that the upcoming modification to the Incentive Scheme would not affect plants commissioned by the end of 2010.⁴⁶⁰ The Respondent submits that the 1-year postponement was meant to avoid damaging ongoing projects at that time, i.e., September 2009, and that it did not purport to protect new projects starting after that moment.⁴⁶¹
336. Similarly, the fact that abolishment of 5% Break-Out Rule only affected plants commissioned as of March 2011 cannot be seen as such a reassurance.⁴⁶² The Respondent provides that the adoption of less drastic measures “cannot be understood as a promise that more drastic measures would not be required if the situation deteriorated further.”⁴⁶³ The Solar Levy was installed in such a context that solar installations were unexpectedly increased after the mid of 2010.⁴⁶⁴
337. The Respondent also contends that the moratorium period cannot be considered as a reassurance.⁴⁶⁵ Although the moratorium period had a particular scope, this did not mean that no other measures would be introduced.⁴⁶⁶ Rather, in the Respondent’s view, the moratorium conveyed a clear message that the government did not want further photovoltaic installations.⁴⁶⁷
338. The Respondent further contends that the 2010 Action Plan did not provide the message that the FiT level would be stable for 20 years.⁴⁶⁸ Although the Plan simply summarized the existing framework, it did not give a promise that such a framework would remain unchanged.⁴⁶⁹ Indeed, an article published in September 2010 stated that the 2010 Action Plan “would basically

⁴⁵⁹ T/1/133; Respondent’s opening statement, Slide 46.

⁴⁶⁰ T/1/132.

⁴⁶¹ T/1/132; Respondent’s opening statement, Slide 45.

⁴⁶² T/1/132; Respondent’s opening statement, Slide 45.

⁴⁶³ T/1/132; Respondent’s opening statement, Slide 45.

⁴⁶⁴ T/1/132; Respondent’s opening statement, Slide 45.

⁴⁶⁵ T/4/765-766.

⁴⁶⁶ T/4/766.

⁴⁶⁷ T/4/766.

⁴⁶⁸ T/4/766-767.

⁴⁶⁹ T/4/766.

exterminate the development of solar energy”.⁴⁷⁰ In this vein, the Respondent alleges that no reassurance had been given especially after July 2010.⁴⁷¹ This is when the Nečas government was established and the Prime Minister stated that the government was considering to introduce a solar tax.⁴⁷²

339. The Respondent also alleges that Act No. 330/2010, which abolished all of the photovoltaic support for large plants as of March 1, 2011, was not a reassurance.⁴⁷³ While the explanatory report on the Act provided that the plants commissioned before March 2011 would enjoy the existing conditions, it did not mean that other changes would not apply to these plants.⁴⁷⁴ The Respondent describes that Act as having been originally planned to be part of single legislation to introduce State budgetary support for RES scheme and later separated and became an independent Act.⁴⁷⁵ Accordingly, the introduction of the Act was not a sudden policy change of the Respondent.⁴⁷⁶
340. The Respondent reacted to the Claimants’ assertion that it could have taken other less harmful measures.⁴⁷⁷ According to the Respondent, the issue in the present arbitration should be whether the amendment measures constitute violations of the treaty standards based on the circumstances when they were introduced, instead of whether alternative methods were available.⁴⁷⁸ The Respondent observes that in any event the Claimants failed to demonstrate the existence of such alternatives.⁴⁷⁹ The Respondent did not abolish the 5% Break-Out Rule as of 2010, because it purported to minimize the impact on existing investors.⁴⁸⁰ The Respondent did not tax on other sectors because they had not received excessive profits from the RES support.⁴⁸¹ The moratorium period could not have been introduced earlier than February 2010, because it would have been

⁴⁷⁰ T/4/767; R-162, “Solar business will slow down, yet the price of electricity will soar,” *Mlada Fronta Dnes*, September 16, 2010.

⁴⁷¹ T/4/768.

⁴⁷² T/4/767-768.

⁴⁷³ T/4/768.

⁴⁷⁴ T/4/768-769.

⁴⁷⁵ T/4/769.

⁴⁷⁶ T/4/769-770.

⁴⁷⁷ T/4/772.

⁴⁷⁸ T/4/772.

⁴⁷⁹ T/4/772.

⁴⁸⁰ T/4/773; Respondent’s closing statement, Slide 15.

⁴⁸¹ T/4/773-774.

illegal under Czech and EU law.⁴⁸²

341. The Respondent argues that the investor that completes an investment *after* a measure is announced cannot claim that at the time of the investment, it had legitimate expectations that such a measure would not be adopted.⁴⁸³ In the present case, however, the power purchase agreements of Úsilné, Mozolov, and Osečná operations were signed on [REDACTED], [REDACTED], and [REDACTED], all of which were even after the adoption of the amendment measures.⁴⁸⁴ Furthermore, the Respondent rejects the Claimants' characterization that they had a "contractual" relationship under which the Respondent provided a promise of stability as a bargain, stating that the Claimants did not incur any legal obligation to make investment in the Czech Republic.⁴⁸⁵ It is the Respondent's view that the FET and FPS claims fail for these reasons.⁴⁸⁶
342. The Respondent contends that Dr Göde made his investment decision without familiarizing himself with the Czech photovoltaic legal framework, pointing out that during the hearing he could not remember whether he had reviewed the Technical Regulation.⁴⁸⁷
343. The Respondent, referring to *AES v. Hungary* and *Electrabel v. Hungary*, contends that a violation of the non-impairment standard "requires the impairment caused by the discriminatory or unreasonable measure to be significant"⁴⁸⁸ a high bar that, according to the Respondent, "cannot be met by the mere imposition of a tax, or the simple denial of a tax exemption."⁴⁸⁹
344. The Respondent submits that, in the present case, the Claimants have not demonstrated any effect or impact that rises to the level of "impairment" citing *Perenco* for support. The Respondent

⁴⁸² T/2/283; T/4/753; T/4/775.

⁴⁸³ Rejoinder, para 484; *Ulysseas, Inc. v. Ecuador* (Bernardini, Pryles, Stern), UNCITRAL, Final Award, June 12, 2012, para 252.

⁴⁸⁴ Rejoinder, para 485, note 998.

⁴⁸⁵ Rejoinder, para 486.

⁴⁸⁶ Rejoinder, para 474.

⁴⁸⁷ T/4/752.

⁴⁸⁸ Counter-Memorial, para 572; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.3; *Electrabel S.A. v. Hungary* (Kaufmann-Kohler, Stern, Veeder), ICSID Case No. ARB/07/19, Decision on Jurisdiction, Applicable Law and Liability, November 30, 2012, para 7.152.

⁴⁸⁹ Respondent's Rejoinder, para 495; *Occidental v. Ecuador* (Orrego Vicuña, Brower, Barrera Sweeney), LCIA Final Award, July 1, 2004, paras 2-3, 161; *Perenco v. Ecuador* (Tomka, Kaplan, Thomas), ICSID Case No. ASRB08/6, Decision on Remaining Issues of Jurisdiction and Liability, September 12, 2014, paras 596-99.

notes that, as in *Perenco*, the Claimants remain free to use, and have in fact used, the so-called “investments” to generate substantial revenues.⁴⁹⁰ In fact, the Claimants’ investment “continues to earn returns that are above the benchmark of ‘adequate return’ established under the Act on Promotion, and Claimants have failed to demonstrate that such returns are inadequate for a regulated investment such as theirs”.⁴⁹¹ The fact that the Claimants may have desired greater profits than they have obtained does not in and of itself demonstrate “impairment”.⁴⁹² The Respondent submits that “investment treaties do not guarantee that every business projection will be met” for “a State cannot be held liable for every single measure that might adversely affect an investment’s value”.⁴⁹³

345. Additionally, the Respondent argues that even if the Claimants could demonstrate “impairment”, they would have to also prove that such impairment “relates to the management, maintenance, use, enjoyment, or disposal of the purported investments”.⁴⁹⁴ According to the Respondent, this follows from both the plain text of the relevant ECT and BIT provisions as well as the interpretative principles of *effet utile* and *expressio unius est exclusio alterius*.⁴⁹⁵ The Respondent notes that the Claimants do not attempt to argue that the amendment measures impaired any of these activities.⁴⁹⁶ The Respondent submits that the Claimants’ contention that as a result of these measures, their purported investments suffered “negative effects” is not sufficient.⁴⁹⁷ Neither does the Respondent find convincing the Claimants’ argument that the measures reduced the solar plants’ respective rates of return as such reduction has nothing to do with the investment’s management, maintenance, use, enjoyment, or disposal.⁴⁹⁸

346. The Respondent submits that a host State’s policy is rational “if it had been adopted ‘following a logical (good sense) explanation and with the aim of addressing a public interest matter’” as

⁴⁹⁰ Rejoinder, para 496.

⁴⁹¹ Rejoinder, para 496.

⁴⁹² Rejoinder, para 496.

⁴⁹³ Rejoinder, para 496.

⁴⁹⁴ Rejoinder, para 497.

⁴⁹⁵ Respondent’s Rejoinder, para 497 citing *Perenco v. Ecuador* (Tomka, Kaplan, Thomas), ICSID Case No. ASRB08/6, Decision on Remaining Issues of Jurisdiction and Liability, September 12, 2014, para 596; RLA-161, K. J. Vandeveld, *Bilateral Investment Treaties* (Oxford University Press, 2010) p. 215; ECT, Art. 10(1); R-204, UNTS Translation of the BIT, Art. 2(2).

⁴⁹⁶ Respondent’s Rejoinder, para 498.

⁴⁹⁷ Respondent’s Rejoinder, para 498.

⁴⁹⁸ Respondent’s Rejoinder, para 498.

the *AES* tribunal stated.⁴⁹⁹

347. The Respondent notes that “tribunals have been reluctant to question a State’s ‘discretionary exercise of a sovereign power’ or to find a BIT violation simply because of a flaw in a given law or a shortcoming in its implementation.”⁵⁰⁰ In the Respondent’s words, “tribunals have found a wide range of policy objectives to be ‘rational’.”⁵⁰¹
348. In the present case, the Respondent maintains that its “objectives of reducing excessive profits, balancing the budget, and sheltering consumers from excessive electricity price rises are eminently rational.”⁵⁰²
349. The Respondent rejects the Claimants’ assertion as to the “rationality” requirement that “[i]t is [...] incumbent upon [the Respondent] to prove that the maintenance of the Incentive Regime, and the allegedly attendant high electricity prices, would have entailed the catastrophic consequences for the Czech economy that are invoked, in terms of layoffs, plant shut downs and dramatic drops in the tax revenues.”⁵⁰³ The Claimants’ position would require the Respondent to “prove that near-calamitous consequences would have occurred but for the State’s intervention.”⁵⁰⁴ According to the Respondent, “tribunals have found policy objectives to be ‘rational’ without considering whether the circumstances meet a certain threshold of risk to the State, or of overall gravity, in the absence of measures to address such policies.”⁵⁰⁵
350. The Respondent contends that the amendment measures were reasonable.
351. Referring to the *AES* award, the Respondent submits that “if there is ‘an appropriate correlation

⁴⁹⁹ Rejoinder, para 506; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.8.

⁵⁰⁰ Counter-Memorial, para 576; *S.D. Myers Inc. v. Canada* (Hunter, Schwartz, Chiasson), UNCITRAL, Partial Award, November 13, 2000, para 261; *Electrabel S.A. v. Hungary* (Kaufmann-Kohler, Stern, Veeder), ICSID Case No. ARB/07/19, Decision on Jurisdiction, Applicable Law and Liability, November 30, 2012, para 8. 35.

⁵⁰¹ Counter-Memorial, para 576; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.31; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov, Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, para 825; *Paushok and others v. Mongolia* (Lalonde, Grigera Naón, Stern), UNCITRAL, Award on Jurisdiction and Liability, April 28, 2011, paras 319-21.

⁵⁰² Respondent’s Rejoinder, para 510.

⁵⁰³ Counter-Memorial, para 587; Memorial, para 506.

⁵⁰⁴ Counter-Memorial, para 587.

⁵⁰⁵ Counter-Memorial, para 588; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, paras 10.3.31., 10. 3. 34.

between the state’s public policy objective and the measure adopted to achieve it”, “a State measure is deemed ‘reasonable’”.⁵⁰⁶ The burden “is on the Claimants to prove every element of its claim that the Respondent has acted ‘unreasonably’ in violation of its non-impairment obligation.”⁵⁰⁷ The Respondent adds that “there is ‘a presumption of validity in favour of legislative measures adopted by a State’”, relying on the *El Paso* award.⁵⁰⁸

352. In particular, with regard to a tax or fiscal measure at issue, the Respondent takes the view that “several tribunals have held that a State’s imposition of a tax or other fiscal measure for the purpose of regulating windfall profits is not ‘unreasonable’ under the non-impairment clause of a BIT”, referring to *Paushok v. Mongolia* and *AES v. Hungary*.⁵⁰⁹
353. The Respondent submits that the Claimants’ approach to the “reasonableness” element of the non-impairment standard distorts the “reasonableness” test and its second prong of proportionality.⁵¹⁰ The Respondent maintains that “tribunals are concerned not with the precise magnitude of harm to the investor vis-à-vis the magnitude of benefit to the state, but rather with whether the state measure is appropriate and justifiable in light of the public policy interest being pursued”.⁵¹¹
354. In relation to the Claimants’ contention that “a state measure is only reasonable if, in addition to pursuing a rational policy, its adverse effects on foreign investments are limited to what is strictly necessary to achieve the public interest [...]”, the Respondent states that the Claimants distorted the test as a strict scrutiny test and newly invented the phrase “strictly necessary”.⁵¹² The Respondent finds support for this in the *AES* and *Micula* decisions, which only required “an

⁵⁰⁶ Counter-Memorial, para 577; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.9.

⁵⁰⁷ Counter-Memorial, para 578.

⁵⁰⁸ Counter-Memorial, para 578; *El Paso Energy International Company v. Argentine Republic* (Caflisch, Bernardini, Stern), ICSID Case No. ARB/03/15, Award, October 31, 2011, para 290.

⁵⁰⁹ Counter-Memorial, paras 579-81; *Paushok and others v. Mongolia* (Lalonde, Grigera Naón, Stern), UNCITRAL, Award on Jurisdiction and Liability, April 28, 2011, paras 321; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, para 10.3.34.

⁵¹⁰ Counter-Memorial, paras 582-583. Respondent’s Rejoinder, para 511.

⁵¹¹ Counter-Memorial, paras 583-584; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov, Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, para 525; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, paras 10.3.9-13.

⁵¹² Counter-Memorial, paras 585-6; Memorial, para 502.

appropriate correlation’ between the state’s public policy objective and the measure adopted to achieve it” for the host States’ measures to be considered as reasonable.⁵¹³

355. The Respondent asserts that it “acted reasonably at all times [...] by imposing appropriate and proportional measures to correct the disequilibrium in the RES support regime” in response to “an unforeseen influx of investment in the photovoltaic industry [and] “an unforeseen drop in solar panel costs.”⁵¹⁴ According to the Respondent, in response to the unprecedented rise in PV capacity and generation and the resulting increase in the RES subsidies and the final electricity price, “it was entirely rational for the Czech Republic to craft measures aimed at correcting the system and easing the burden on consumers.”⁵¹⁵ In addition, the Respondent submits that “the Czech Republic also acted reasonably to rectify the good-faith mistake that had been made in the mechanism established to calibrate the RES subsidies.”⁵¹⁶
356. The Respondent contends that the reasonableness and proportionality of the measures in question was confirmed by the Czech courts after careful scrutiny.⁵¹⁷
357. The Respondent contends that it “carefully and selectively recalibrated the RES support system by targeting only the sector that was garnering a disproportionate percentage of the RES subsidy, and, within that sector, only those producers that were enjoying the greatest amount of excessive profits.”⁵¹⁸ The Respondent adds that “this approach was not only eminently reasonable, but also consistent with the Czech Republic’s binding obligations under EU state aid law to ensure that RES subsidies do not provide the beneficiaries with more than a ‘normal return on capital’”.⁵¹⁹
358. The Respondent emphasizes that the amendment measures only have decreased the Claimants’ after-tax returns by █%, i.e., █% to █%.⁵²⁰ Accordingly, the Claimants’ allegation that the amendment measures have deprived the fundamental guarantee of the Incentive Regime is

⁵¹³ Counter-Memorial, para 586; *Ioan Micula, Viorel Micula and others v. Romania* (Lévy, Alexandrov, Abi-Saab), ICSID Case No. ARB/05/20, Award, December 11, 2013, para 525; *AES Summit Generation Limited and AES-Tisza Erőmű Kft. v. Republic of Hungary* (von Wobeser, Stern, Rowley), ICSID Case No. ARB/07/22, Award, September 23, 2010, paras 10.3.9.

⁵¹⁴ Counter-Memorial, para 591.

⁵¹⁵ Counter-Memorial, paras 592-593.

⁵¹⁶ Counter-Memorial, para 593.

⁵¹⁷ Counter-Memorial, para 594; R-38, Decision of the Constitutional Court of the Czech Republic, May 15, 2012, Ref. No. Pl. ÚS 17/11, para 72.

⁵¹⁸ Counter-Memorial, para 595.

⁵¹⁹ Counter-Memorial, para 595.

⁵²⁰ T/1/141.

without merit.⁵²¹

359. The Respondent addresses the Claimants' other arguments as to the reasonableness of the amendment measures as follows.⁵²² First, the Respondent did not withdraw the essential features of the Incentive Regime, because it continues to provide the FiT for the lifetime of the plants.⁵²³ The introduction of the Solar Levy was meant to restore a direct relationship between investments and expected return, which should have been embedded from the beginning as an essential feature of the regime.⁵²⁴ Second, the Respondent rejects the Claimants' theory that the Czech Republic's repeal of the "consideration" to the investors provided a basis of the unreasonableness.⁵²⁵ Such a theory uplifts every contractual breach of a host State to a treaty violation.⁵²⁶ Third, the solar boom was not caused by the Respondent's mismanagement, but by investors' behaviour of rushing into the photovoltaic market toward the end of 2010.⁵²⁷ Even if there had been a better solution, a State is not liable only because "circumstances develop in a less-than-ideal way."⁵²⁸ Article 25.2(b) of the ILC Draft Articles, which the Claimants cite, is irrelevant to the present case, since the Respondent does not plead a defence of necessity.⁵²⁹ Fourth, the amendment measures were not unprecedented bad practice.⁵³⁰ Rather, the measures were comparable to those taken in other EU Member States.⁵³¹ In any event, whether a host State's measures are novel or whether there was a better solution is irrelevant to the unreasonableness analysis.⁵³² Fifth, the Respondent asserts that it addressed the solar boom in a speedy manner.⁵³³ In any event, measures cannot be unreasonable just because they were introduced quickly.⁵³⁴

⁵²¹ T/1/141.

⁵²² Rejoinder, para 515.

⁵²³ Rejoinder, para 516.

⁵²⁴ Rejoinder, para 516.

⁵²⁵ Rejoinder, para 517.

⁵²⁶ Rejoinder, para 517.

⁵²⁷ Rejoinder, para 520.

⁵²⁸ Rejoinder, para 520.

⁵²⁹ Rejoinder, paras 518-519.

⁵³⁰ Rejoinder, para 521.

⁵³¹ Rejoinder, para 522.

⁵³² Rejoinder, paras 522-525.

⁵³³ Rejoinder, para 526.

⁵³⁴ Rejoinder, para 527.

3. *The Tribunal's analysis*

A. **The Principles**

360. As is usual in these cases, the Parties have adduced many published awards (in this case more than 50) on the interpretation or application of the FET (“fair and equitable treatment”) standard, and the FPS (“full protection and security”) and non-impairment standards. Most of them are well-known, and, although formulations of the principles differ in detail, it is only necessary to summarize the present state of international law and practice in these general propositions (several of which overlap with each other):

- (1) There will be a breach of the FET standard where legal and business stability or the legal framework has been altered in such a way as to frustrate legitimate and reasonable expectations or guarantees of stability.⁵³⁵
- (2) A claim based on legitimate expectation must proceed from an identification of the origin of the expectation alleged, so that its scope can be formulated with precision.⁵³⁶
- (3) A claimant must establish that (a) clear and explicit (or implicit)⁵³⁷ representations were made by or attributable to the state in order to induce the investment, (b) such representations were reasonably relied upon by the Claimants, and (c) these representations were subsequently repudiated by the state.⁵³⁸
- (4) An expectation may arise from what are construed as specific guarantees in legislation.⁵³⁹

⁵³⁵ *Tecnicas Medioambientales Tecmed SA v United Mexican States* (Grigera Naón, Fernandez Rozas, Vereza), May 29, 2003, para 154; *Duke Energy Electroquil Partners v Republic of Ecuador* (Kaufmann-Kohler, Gomez Pinzon, van den Berg), August 18, 2008, para 340; *Bayindir v. Pakistan* (Kaufmann-Kohler, Berman, Böckstiegel), August 27, 2009, para 179; *Electrabel SA v Hungary* (Kaufmann-Kohler, Stern, Veeder), November 30, 2012, para 7.74; *El Paso v Argentina* (Caflisch, Bernardini, Stern), October 31, 2011, para 348; *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford), July 8, 2016, para 320. Some awards suggest that there is a free-standing and independent requirement to provide a stable and predictable legal order: see *Binder v. Czech Republic* (Danelius, Creutzig, Gaillard), July 15, 2011, para 446 (and awards cited there).

⁵³⁶ *Arif v Republic of Moldova* (Cremades, Hanotiau, Knieper), April 8, 2013, para 535.

⁵³⁷ See *Parkerings-Compagniet AS v Lithuania* (Lew, Lalone, Lévy), September 11, 2007, para 331; see Dolzer and Schreuer, *Principles of International Investment Law*, p 134.

⁵³⁸ *Mobil Investments Canada Inc v Canada* (van Houtte, Janow, Sands), May 22, 2012, para 154.

⁵³⁹ *Enron Corp v Argentina* (Orrego Vicuña, van den Berg, Tschanz), May 22, 2007, paras 264-266; *LG&E Energy Corp v Argentina* (de Maekelt, Rezek, van den Berg), October 3, 2006, paras 162-163.

- (5) A specific representation may make a difference to the assessment of the investor's knowledge and of the reasonableness and legitimacy of its expectation, but is not indispensable to establish a claim based on legitimate expectation which is advanced under the FET standard.⁵⁴⁰
- (6) Provisions of general legislation applicable to a plurality of persons or a category of persons, do not create legitimate expectations that there will be no change in the law; and given the State's regulatory powers, in order to rely on legitimate expectations the investor should inquire in advance regarding the prospects of a change in the regulatory framework in light of the then prevailing or reasonably to be expected changes in the economic and social conditions of the host State.⁵⁴¹
- (7) An expectation may be engendered by changes to general legislation, but, at least in the absence of a stabilization clause, they are not prevented by the fair and equitable treatment standard if they do not exceed the exercise of the host State's normal regulatory power in the pursuance of a public interest and do not modify the regulatory framework relied upon by the investor at the time of its investment outside the acceptable margin of change.⁵⁴²
- (8) The requirements of legitimate expectations and legal stability as manifestations of the FET standard do not affect the State's rights to exercise its sovereign authority to legislate and to adapt its legal system to changing circumstances.⁵⁴³
- (9) The host State is not required to elevate the interests of the investor above all other considerations, and the application of the FET standard allows for a balancing or weighing exercise by the State and the determination of a breach of the FET standard must be made in the light of the high measure of deference which international law generally extends to the right of national authorities to regulate matters within their own borders.⁵⁴⁴

⁵⁴⁰ *Electrabel SA v Hungary* (Kaufmann-Kohler, Stern, Veeder), November 30, 2012, para 7.78; *Electrabel SA v Hungary* (Kaufmann-Kohler, Stern, Veeder), November 25, 2015, para 15.

⁵⁴¹ *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford), July 8, 2016, paras 426-427.

⁵⁴² cf. *Micula v Romania* (Levy, Alexandrov, Abi-Saab), December 11, 2013, para 529; *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford) July 8, 2016, para 423.

⁵⁴³ *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford), July 8, 2016, para 422, citing many earlier awards.

⁵⁴⁴ *Saluka Investments BV v Czech Republic* (Watts, Fortier, Behrens) March 17, 2006, paras 305-306; *Arif v Republic of Moldova* (Cremades, Hanotiau, Knieper), April 8, 2013, para 537; *Electrabel SA v Hungary*

- (10) Except where specific promises or representations are made by the State to the investor, the latter may not rely on an investment treaty as a kind of insurance policy against the risk of any changes in the host State's legal and economic framework. Such expectation would be neither legitimate nor reasonable.⁵⁴⁵
- (11) Protection from arbitrary or unreasonable behaviour is subsumed under the FET standard.⁵⁴⁶
- (12) It will also fall within the obligation not to impair investments by "unreasonable ... measures" (Article 10(1), ECT) or "arbitrary ... measures (Article 2(2), Czech Republic/Germany BIT).⁵⁴⁷
- (13) The investor is entitled to expect that the State will not act in a way which is manifestly inconsistent or unreasonable (i.e. unrelated to some rational policy).⁵⁴⁸

361. In *Micula v Romania* the tribunal said:

525. ... [F]or a state's conduct to be reasonable, it is not sufficient that it be related to a rational policy; it is also necessary that, in the implementation of that policy, the state's acts have been appropriately tailored to the pursuit of that rational policy with due regard to the consequences imposed on investors.

...

669. There must be a promise, assurance or representation attributable to a competent organ or representative of the state, which may be explicit or implicit. The crucial point is whether the state, through statements or conduct, has contributed to the creation of a

(Kaufmann-Kohler, Stern, Veeder), November 25, 2015, para 165.

⁵⁴⁵ *EDF (Services) Ltd v Romania* (Bernardini, Derains, Rovine), October 8, 2009, para 219, approved in *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford), July 8, 2016, para 424.

⁵⁴⁶ *Oxus Gold v Uzbekistan* (Tercier, Lalonde, Stern), December 17, 2015, para 323; *Tecmed v Mexico* (Grigera Naón, Fernandez Rozas, Vereza), May 29, 2003, para 154; *CMS Gas Transmission Co v Argentina* (Orrego Vicuña, Lalonde, Rezek), May 12, 2005, para 290; cf *Bayindir v. Pakistan* (Kaufmann-Kohler, Berman, Böckstiegel), August 27, 2009, para 178.

⁵⁴⁷ See *LLC AMTO v Hungary* (Cremades, Runeland, Söderlund), March 26, 2008, para 74.

⁵⁴⁸ *Saluka Investments BV v Czech Republic* (Watts, Fortier, Behrens), March 17, 2006, para 309, approved in *Philip Morris Brands SÀRL v Uruguay* (Bernardini, Born, Crawford), July 8, 2016, para 322; *Sempra Energy International v Argentina* (Orrego Vicuña, Lalonde, Rico), September 28, 2007, para 318 (not for the tribunal to decide whether measures adopted "might have been good or bad": there must be some important manifest impropriety); *Plama Consortium Ltd v Republic of Bulgaria* (Salans, van den Berg, Veeder), August 27, 2008, para 184; *AES Summit Generation Ltd v Hungary* (von Wobeser, Stern, Rowley), September 23, 2010, para 10.3.7 ("the existence of a rational policy; and the reasonableness of the act of the state in relation to the policy"); *Binder v Czech Republic* (Danelius, Creutzig, Gaillard), July 15, 2011, para 447; *Micula v Romania* (Levy, Alexandrov, Abi-Saab), December 11, 2013, paras 520, 525 ("in the implementation of that policy, the state's acts have been appropriately tailored to the pursuit of that rational policy with due regard for the consequences imposed on investors"); *Electrabel SA v Hungary* (Kaufmann-Kohler, Stern, Veeder), November 25, 2015, para 155 ("a legitimate policy objective, necessary for that objective, and not excessive considering the relative weight of each interest involved").

reasonable expectation, in this case, a representation of regulatory stability. It is irrelevant whether the state in fact wished to commit itself; it is sufficient that it acted in a manner that would reasonably be understood to create such an appearance. The element of reasonableness cannot be separated from the promise, assurance or representation, in particular if the promise is not contained in a contract or is otherwise stated explicitly. Whether a state has created a legitimate expectation in an investor is thus a factual assessment which must be undertaken in consideration of all the surrounding circumstances.

...

672. The Claimants must also have relied on that expectation when they made their investments. However, it is not necessary for the entire investment to have been predicated solely on such expectation. Businessmen do not invest on the basis of one single consideration, no matter how important. In the Tribunal's view, that expectation must be a determining factor in an investor's decision to invest, or in the manner or magnitude of its investments.

362. The FPS standard reflects the traditional obligation under international law to protect aliens from acts of non-state parties,⁵⁴⁹ although a minority of awards treats FET and FPS as the same or similar or related concepts.⁵⁵⁰
363. As will be apparent from the Tribunal's factual analysis and the narrow basis of its holding, the precise ambit of, and the relationship between, the propositions set out above does not call for decision in these proceedings. It will be equally apparent that, contrary to the dissenting opinion,⁵⁵¹ the Tribunal's decision is not based on all of those propositions, but on the ambit of the legitimate expectation on the facts of the case.

B. Promise of stability

364. The first question is whether the Claimants made their investments in 2010 through a legitimate and reasonable expectation based on an explicit or implicit representation by the Respondent that the value of their investment would not be diminished in the way that it was.⁵⁵²

⁵⁴⁹ *Saluka Investments BV v Czech Republic* (Watts, Fortier, Behrens), March 17, 2006, paras 483-484; *El Paso v. Argentina* (Caflisch, Bernardini, Stern), October 31, 2011, para 522; *Electrabel SA v. Hungary* (Kaufmann-Kohler, Stern, Veeder), November 30, 2012, para 7.83; *Oxus Gold v Uzbekistan* (Tercier, Lalonde, Stern), 17 December 2015, para 353; *Spyridon Roussalis v. Romania* (Giardina, Reisman, Hanotiau), December 7, 2011, para 321. See also; *Binder v. Czech Republic* (Danelius, Creutzig, Gaillard), July 15, 2011, para 477.

⁵⁵⁰ E.g. *CME Republic BV v Czech Republic* (Kühn, Schwebel, Handl), September 13, 2001, para 613; *Azurix Corp v Argentine Republic* (Sureda, Lalonde, Martins), July 14, 2006, para 408.

⁵⁵¹ See paragraph 5.

⁵⁵² For the sake of completeness, the Tribunal should mention, in relation to renewable energy subsidies, that the Stockholm Chamber of Commerce majority awards in *Charanne and Construction Investments v Spain*, January 21, 2016 (Mourre, Santiago Tawil, von Wobeser) and *Isolux Infrastructure Netherlands BV v Spain*, July 12, 2016 (Derains, Santiago Tawil, von Wobeser) (no legitimate expectation); the PCA Award in *Wirtgen v Czech Republic*, October 11, 2017 (Kaufman-Kohler, Born, Tomka) (no legitimate expectation); and the ICSID awards in *Blusun SA v Italy*, December 27, 2016 (Crawford, Alexandrov, Dupuy) (no legitimate expectation) and *Eiser Infrastructure Ltd v Spain*, May 4, 2017 (Crook, Alexandrov,

365. The Tribunal does not accept that it should approach this question simply on the basis of the Claimants' argument⁵⁵³ that there is a free-standing obligation to provide a stable and predictable investment framework. Nor does it accept the Respondent's suggestion that no legitimate expectations as to stability can arise in the absence of a legislative or contractual stabilization arrangement.⁵⁵⁴
366. The Tribunal accepts that promises or representations to investors may be inferred from domestic legislation in the context of its background, including official statements. It is not essential that the official statements have legal force. There can be no doubt that both the Respondent and the ERO described the incentive regime in terms of a guarantee or promise of stability, and that the Czech Government actively promoted the new regime at home and abroad, and described its main element in terms of a guarantee.
367. The documents which establish this have already been referred to, and it is only necessary to mention that the Czech Ministry of Industry and Trade, when submitting the bill to Parliament, stated that one of the main objectives of the Act on Promotion was to establish a secure, stable and predictable regime; the 2003 Explanatory Report on the Act on Promotion stated that the support system was based "on providing a guarantee to investors";⁵⁵⁵ the former Minister of Environment stated that the most important principle of the law was the guarantee of a stable FiT for a 15 year period;⁵⁵⁶ the Respondent in the 2005 UN Report described the purpose of Section 6(1)(b)(2) as: "providing guarantees to the investors and owners ... that ... revenue ... will be maintained for a period of 15 years ..." ⁵⁵⁷; and the ERO described the Act on Promotion as "bringing a guarantee of long-term and stable promotion ..." including a "guarantee of revenues ... for a period of 15 years." ⁵⁵⁸

McLachlan (legitimate expectation) depend on their facts, and not on any point of principle.

⁵⁵³ Reply, paras 637, 639, 674-677.

⁵⁵⁴ Counter-Memorial, para 550.

⁵⁵⁵ C-120, Explanatory Report on the bill of the Act on Promotion of November 12, 2003 (extended version), p. 4.

⁵⁵⁶ C-32, Newspaper article in "Moderní obec.cz", June 1, 2005.

⁵⁵⁷ C-72, Fourth National Communication of the Czech Republic on the UN Framework Convention on Climate Change of 2005, p. 35.

⁵⁵⁸ C-203, "Report on the Fulfilment of the Indicative Target for Electricity Production from Renewable Energy Sources for 2008" of November 2009, prepared by the Ministry of Industry and Trade, p. 22, para 5.1.

C. Knowledge of the issues arising out of the solar boom

368. Nor can there be any doubt that investors such as the Claimants would have been well aware of the political and economic issues which arose from the solar boom, and the history has been set out above.⁵⁵⁹
369. This phase culminated in the press release on August 24, 2009 in which the Ministry stated that it was “planning to change the maximum 5% limit by which the ERO can reduce the purchase price of electricity from renewable energy sources annually” and that it was “trying to ensure that the new act comes into force on 1 January next year,”⁵⁶⁰ i.e. in January 2010.
370. As the Claimants accept,⁵⁶¹ rumours of an intention to reduce incentives began in the summer of 2009, and that many officials, including current and former ministers, issued statements about the problems of the solar boom.
371. On June 19, 2009, a major Czech newspaper reported in an article entitled “The state wants to stop solar power plants boom” that “[s]olar energy support is starting to cause problems for the state, which therefore wants to stop the ongoing solar boom. The solar electricity feed-in-tariff has gone in some instances economically beyond the limit ... ERO is therefore seeking ways to reduce the solar energy feed-in tariff dramatically. It is indeed extraordinarily attractive ...”. Mr Fířt was quoted as saying that the FiT had gone economically beyond the limit. The ERO was trying to agree an amendment to the 5% cap on decreases with the Government and members of Parliament, but the change would probably not come in 2009 because it would have to be debated in Parliament, which would not be able to make a decision before autumn, when ERO had to announce the tariffs for 2010.⁵⁶²
372. On June 24, 2009, an online article entitled “ERO is preparing purchase price reductions!” reported that: “The Energy Regulatory Office (ERO) is preparing to dramatically reduce the purchase prices of electricity produced from the sun by solar power plants. The reason for this is the exceedingly high price of the sun’s energy ... Pursuant to the regulations in effect ERO cannot

⁵⁵⁹ See especially C-200, Letter of July 1, 2009 from Mr. Fířt (Chairman of the ERO) to Mr. Tošovský (Minister of Industry and Trade); R-306, Letter from L. Miko to J. Fířt (Czech Original and English translation), July 22, 2009; R-135, Letter from V. Tošovský to J. Fířt (Czech original and English translation), July 29, 2009; R-136, Letter from B. Němeček to R. Portužák (Czech original and English translation), August 10, 2009; R-145, Letter from Mr Portužák to Mr Němeček, August 28, 2009.

⁵⁶⁰ R-138, “Ministry of Industry and Trade will equalize the support of renewable energy sources,” Ministry of Industry and Trade Press Release (www.mpo.cz), August 24, 2009.

⁵⁶¹ Reply, para 175.

⁵⁶² R-363, “State wants to stop solar power plants boom,” *Mladá fronta*.

decrease the RES electricity price by more than 5 % per year. Hence, ERO is seeking a way together with the government to amend the existing regulations.”⁵⁶³

373. In a presentation of June 25, 2009 the Prague office of the law firm Schönherr referred to “efforts to increase the percentage of decrease”.⁵⁶⁴
374. In an interview published on August 13, 2009, Mr Kunz, Chairman of the Board of Energy 21, referred to the 5% limit and said: “if the legislation changes, we must be ready for that. We cannot have too many projects in which we work on the assumption that nothing will change. Nevertheless, I don’t think the support will end entirely.”⁵⁶⁵
375. On August 25, 2009, following the press release of August 24, 2009, an article under the headline “Ministry of Industry and Trade wants to reduce support of solar power plants,” made reference to “Business without any risk and with a state guarantee, and said that purchase prices were guaranteed for 15 years while “thanks to current technologies, in some cases the payback period of the investment is only about five years, the [Ministry of Trade and Industry] says.”⁵⁶⁶
376. On September 3, 2009, an article by P Gabal⁵⁶⁷ highlighted the Ministry’s statement that there were 28 solar power plants in the Czech Republic in 2007, whereas there were 2,230 as at August 1, 2009, and reported that the Ministry wanted to change the 5% limit, ideally from January 1, 2010. Mr Kunz, the Chairman of Energy 21, was again quoted as counselling against abrupt changes in the law because of investments already committed.
377. On November 2, 2009 under the heading “Additional payments for solar energy reached three billion; the state may curtail their boom”,⁵⁶⁸ it was said “... it seems now that solar power plants will not be so lucrative anymore. The amendment being prepared by the Ministry of Finance and planned to come into force early next year will likely not include the limit which allows a decrease of the purchase price by not more than 5% every year.”

⁵⁶³ R-364, “ERO is preparing purchase price reductions” (greensolar.webnode.cz).

⁵⁶⁴ R-30, Schönherr v.o.s., “Legal Aspects of Photovoltaic Power Plant Implementation”, June 25, 2009.

⁵⁶⁵ R-143, M. Petříček, “Solar boom is slightly excessive,” Hospodářské Noviny, August 13, 2009.

⁵⁶⁶ R-139, Právo, “Ministry of Industry and Trade wants to reduce support of solar power plants”, August 25, 2009.

⁵⁶⁷ R-140, “Is there any danger of reduction of support for solar power plants”, Rádio Praha, September 3, 2009.

⁵⁶⁸ R-181, “Additional payments for solar energy reached three billion; the state may curtail their boom” (Novinky.cz), November 2, 2009.

378. ERO made presentations dealing with the issue. In an October 2009 presentation, ERO said that “the economic return [for solar investors] at the current prices is in conflict with the guaranteed return pursuant to the law and is almost half [the 15-year period].” ERO drew attention to the technical parameters specified in the Technical Regulation and explained that an appropriate drop in the 2010 FIT to reflect cost developments would amount to 29.5%.⁵⁶⁹
379. As a result of the rise in the number of applications to connect new solar installations, there was a widely announced and reported national moratorium on new applications in February 2010.⁵⁷⁰ The Respondent says that the Claimants made three of their five investments in the solar sector when the moratorium was in force.⁵⁷¹ The Claimants respond that they obtained the capacity reservations for their SPVs between [REDACTED] and [REDACTED] well before the moratorium came into force.⁵⁷² But the Respondent says⁵⁷³ that the binding statements for the Claimants’ 2010 installations had been issued to third parties and assigned to the Claimants in [REDACTED] and [REDACTED].⁵⁷⁴
380. It was reported that at a conference entitled Solar Energy in the Czech Republic 2010 “all conference participants agree that it is necessary to limit the speed at which the installed capacity of solar power plants has been growing but they are of fairly different opinions on how to do it.” The author said: “I think that in the fall when ERO will determine new electricity purchase prices for the year 2011, a quite stormy discussion will take place around it.”⁵⁷⁵

⁵⁶⁹ R-156, Legislative environment and the promotion of the electricity produced from photovoltaic power plants in 2009,” ERO Presentation, October 15, 2009, p. 14.

⁵⁷⁰ Press releases: R-225, “CEPS calls for the suspension of connections for new renewable energy sources,” AF Power press release, February 10, 2010; R-224, “CEZ Distribuce responds to CEPS’s demand,” CEZ press release, February 16, 2010; R-230, “Boom development of solar power plants must be balanced with the stability of the grid and distribution network,” E.ON press release, February 2010; R-229, “New solar power plants are out of luck, ČEZ and E.ON will no longer connect them to the grid” (Novinky.cz), February 17, 2010.

⁵⁷¹ Counter-Memorial, para 103.

⁵⁷² Reply, para 736, note 857.

⁵⁷³ Rejoinder, para 160.

⁵⁷⁴ C-81, Úsilné - Binding Statement; C-172, [REDACTED] C-101, [REDACTED] C-96, Osečná - Binding Statement; C-183, [REDACTED] C-184, Simplified share purchase agreement of September 1, 2010 between, *inter alia*, Ms. Denisa Rašková, as seller, and Taurus, as buyer.

⁵⁷⁵ R-155, K. Murtinger, Solar energy 2010: no solution to the crisis in sight” (nazeleno.cz), March 24, 2010.

D. Dr Göde's evidence

381. Dr Göde's evidence was that he was personally involved in the investment in the Czech Republic. In 2008 he had started contemplating entry into the energy market in the Czech Republic by constructing photovoltaic installations. He first heard from specialized periodical magazines dedicated to photovoltaic energy about the FiT incentive system implemented in the Czech Republic in 2005, which was based on the earlier German experience with FiT.
382. After having made due inquiries, including many personal consultations with the Czech law firm [REDACTED] in Prague, he acquired extensive knowledge of the legal framework of the incentive system, in particular of the Act on Promotion and of its implementing regulations issued by the ERO. The fundamental incentive of that system was the fixed FiT payable to renewable energy operators for the electricity produced over the expected lifetime of the plant, which, in case of solar installations, was originally fixed by the ERO in 15 years and then – by ERO Regulation 364/2007 – adjusted to 20 years. There was to be a stable FiT, subject only to yearly increase in the range 2-4% based on the inflation index for industrial producers. The Act on Promotion also provided that FiT payable to photovoltaic plants put into operation in any given year could not be more than 5% lower than those granted to photovoltaic plants put into operation in the previous year.
383. He said⁵⁷⁶ that he was told by [REDACTED] that the fundamental innovation and guarantee of the system was the long-term stability of the FiT level, as compared with the previous system. He went through every piece of legislation, but does not remember receiving any written advice, although he spent days discussing the Czech legal framework. During those consultations he was assured that once put into operation a solar panel would receive the FiT set for that year by the ERO for its lifetime, and he was reassured that the plant would benefit from a tax holiday in the year in which it was put into operation and for the following five years. He was never advised of a risk that the Czech Republic could have reneged on its commitments by introducing retroactive measures affecting the guaranteed 6 year tax vacation.
384. In addition⁵⁷⁷ he recalled an intensive promotion of the system by Czech officials, and there were many articles in local newspapers and the specialized press explaining the fundamental pillars of the promotion and showing that the new system from 2008 was capable of attracting the RES investments needed by the Czech Republic. He refers to a Report prepared by the Ministry of

⁵⁷⁶ Second Göde Statement, paras 13-17.

⁵⁷⁷ First Göde Statement, paras 18-20.

Industry and the ERO⁵⁷⁸ which stated that the Act on Promotion provided a “guarantee of long-term and stable promotion” and referred to “the guarantee of revenues per unit of electricity produced.”⁵⁷⁹ He says that he received clear reassurances from documents produced by the ERO which he studied at the time, including a “Q&A tool” available in German on the ERO’s website, which stated that the FiT had to remain stable for the expected lifetime of solar plants.⁵⁸⁰ The Q&A has a Question 9: for what period are FiTs “guaranteed”? The table gives 20 years for photovoltaic plants.⁵⁸¹

385. He was equally aware of the incentives in the Act on Income Tax and relied on them when he took the final decision to invest in the Czech Republic.
386. At the time of his investment, he did not doubt the reliability of the incentive system because he was aware that the Czech Republic needed RES investments to reach the EU targets. In addition, the State Energy Policy of the Czech Republic, prepared by the Ministry of Industry and Trade and approved by the Czech Government in March 2004, confirmed the Czech Republic’s favourable attitude to attract RES investments setting a long-term goal of 15-16% of energy production from RES by 2030. The Act on Promotion purported to establish a stable and predictable investment scenario for RES producers.
387. He remembered that the Ministry of Industry and Trade and the ERO engaged in a strong promotion of the Czech RES system with the aim of attracting investments. Between 2006 and 2009, the ERO’s website published several presentations on the incentive regime confirming his understanding of it.
388. Based on the estimates of the costs to set up solar plants and on the guarantees under the incentive regime, primarily the FiT one, he made the calculations to assess the profitability of the solar investment in the Czech Republic.
389. Before constructing the second plant, he had extensive practical knowledge of the incentive system. Before making further investments he wanted to obtain (and obtained) a direct confirmation of the reliability of the Czech environment in general and of the FiT regime in particular.

⁵⁷⁸ C-203, “Report on the Fulfilment of the Indicative Target for Electricity Production from Renewable Energy Sources for 2008” of November 2009, prepared by the Ministry of Industry and Trade.

⁵⁷⁹ He does not say that he read it at the time.

⁵⁸⁰ Annex II to First Göde Statement.

⁵⁸¹ There is a similar statement in the 2010 Action Plan relied on in the Reply, para 27: C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade, pp 54, 58.

390. Dr Göde was aware of the discussions about the possibility of adjusting the RES support system, and the level of FiT. Those discussions, however, focused exclusively on prospective changes for new investors in the market and, in particular, on the possibility of removing the 5% limit on the ERO's power to set the level of FiT. The final outcome of those discussions was the change in legislation, which was adopted in May 2010 and targeted exclusively investors setting up photovoltaic plants after January 1, 2011. To the best of his knowledge, no one had ever contemplated amendments to the FiT system affecting the level of incentives granted to existing investors.
391. From an investor perspective, therefore, the legislative amendment in May 2010 did not put into question the reliability of the RES incentive system because it introduced modifications for new investors only. It was a simple evolution of the Czech law supporting RES investments.
392. From Dr Göde's point of view, it was perfectly conceivable that the Czech Republic could decide to amend the then existing level of incentive for newcomers in the market. Conversely, it was completely unpredictable to contemplate the adoption by the Czech Republic of measures impacting on investments already made. The forward-looking legislative amendment of May 2010 precisely pointed to the Czech Republic's intention not to alter the system for existing investors, as it was absolutely reasonable to expect.
393. Following the May 2010 amendment, Dr Göde was encouraged to complete the pending projects within the deadline for obtaining subsidies under the original incentive system, i.e. December 31, 2010. Had the Czech Republic spelled out clearly that the original incentives could be modified also for photovoltaic plants connected in 2009 and 2010, he would have abandoned the ongoing projects, seeking simply to recover the expenses already incurred.
394. In cross-examination Dr Göde said that at the time of his investment he read through the entire Act on Promotion, and the Q&A in German on the ERO website (which was the most important for him⁵⁸²). He could not recall whether he had read the Technical Regulation.⁵⁸³
395. He did not ask any questions of the ERO before making the investment about any aspect of the regime because once there was an Act he was not going to ask for an interpretation.⁵⁸⁴ He did not commission any due diligence because he relied on his staff (Mr ██████████, who had been a banker and had been working in the solar industry, and Mr ██████████ who used to work for a Czech

⁵⁸² T/1/216.

⁵⁸³ T/1/217.

⁵⁸⁴ T/1/224.

bank) and his lawyer.⁵⁸⁵ He was aware that the Czech Republic was experiencing a boom in solar installations; he read articles about the solar boom, and continued after the initial investment was made to monitor the press for developments in the Czech solar industry.⁵⁸⁶ He was aware of a press article in June 2009⁵⁸⁷ stating that the State wanted to stop the solar boom and that the solar FiT was extraordinarily attractive and that amendments to the legal regime were being contemplated.⁵⁸⁸ He had a close look at the developments.⁵⁸⁹ They were a bit insecure about investing. But in October-November 2009 there was a declaration made by the ERO or the Czech Government and an interview with the Minister of Industry, in which the 5% reduction would only be done as of January 1, 2011. If it had changed by October 2010 they would not have continued investing.⁵⁹⁰ In re-examination he was shown the proposal in November 2009 for amendment. He had read it and it made clear that their investment would be secure until 2011. It gave them comfort that the product line could remain the way it was.⁵⁹¹

396. He knew that they could only invest in 2010 because in 2011 it was unknown how high the tariffs would be, because the 5% rule would cease to exist. He did everything to complete the 4 plants by the end of 2010.⁵⁹²
397. Counsel for the Claimants accepted that Dr Göde did not do specific due diligence.⁵⁹³
398. But they say that investors were reassured by the 2010 Action Plan issued in July 2010. In 2009 and 2010 a prudent investor would have had reason to believe that the Czech Government was able and willing to uphold the commitments.⁵⁹⁴ They rely especially on (1) Mr Fiřt's open letter of September 8, 2009 to the Chairman of the Economic Committee of the Chamber of Deputies, in which he said: "Investors will be able to prepare sufficiently in advance for the change in the conditions for investing which should eliminate entirely the risk of possible lawsuits in the Czech Republic regarding protection of investments";⁵⁹⁵ (2) The Explanatory Report on the November

⁵⁸⁵ T/1/226.

⁵⁸⁶ T/1/227.

⁵⁸⁷ R-363, "State wants to stop solar power plants boom," Mladá fronta.

⁵⁸⁸ T/1/227.

⁵⁸⁹ T/1/229.

⁵⁹⁰ T/1/229-230.

⁵⁹¹ T/1/243-244.

⁵⁹² T/1/235.

⁵⁹³ T/4/724.

⁵⁹⁴ [REDACTED] and [REDACTED] Report, para 7.49.

⁵⁹⁵ C-201, Letter from Mr Fiřt (Chairman of the ERO) to Mr Vojřif (Chairman of the Economic Committee of

16, 2009 proposal to amend the Act on Promotion,⁵⁹⁶ which emphasized that among the aims of the legislation were that investors might prepare sufficiently in advance for amendment of the conditions for investment; (3) statements made by the Minister for Industry and Trade at a press conference on the same day;⁵⁹⁷ (4) the removal in March 2010 of the 5% limit only for connections to the grid from January 1, 2011; (5) the July 2010 Action Plan,⁵⁹⁸ which referred to the guarantee of FiT for 20 years; and (6) the proposal in September 2010 to eliminate support for plants commissioned from March 1, 2011.⁵⁹⁹ The Claimants rely on the point that the Respondent's expert witness, Mr Jones, accepted in evidence that the documents in 2009 and 2010 (especially the open letter of September 8, 2009; the draft Act of November 16, 2009, and the interview of the same day; and the draft Act of September 15, 2010) did give the impression that the incentives would remain the same for 2010 investments.⁶⁰⁰

E. Overall conclusions

399. As already indicated, the Tribunal accepts the Claimants' case that to establish a legitimate expectation, there is no requirement that there be an express stabilisation provision, and that it is sufficient for the Claimants to establish an express or implied promise giving rise to a legitimate and reasonable expectation of stability.
400. The essential question is whether the combination of (1) the promotion of the Incentive Regime in its early days as a guarantee and (2) the deliberate non-retroactivity of the abolition of the 5% cap by Act 137/2010 for solar plants connected to the grid from 2011 and the abolition of the support by Act 330/2010 from March 1, 2011, gave rise to a legitimate expectation by solar investors in 2010 that there would be no other changes which would affect their investment. For this purpose, for the reasons given above, the imposition of the Solar Levy is to be treated as such a change.

the Chamber of Deputies), September 8, 2009, p. 2.

⁵⁹⁶ R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009. See also the July 2010 Action Plan: C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade.

⁵⁹⁷ C-197, Czech Government's press conference of November 16, 2009.

⁵⁹⁸ C-73, National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade.

⁵⁹⁹ R-172, Explanatory Report to Draft Act No. 330/2010 Coll., September 15, 2010.

⁶⁰⁰ T/3/562-566.

(i) The investments

401. It is important to have in mind the dates when the plants were built and commissioned. The Holýšov plant was commissioned on December 18, 2008. It was not affected by the Solar Levy or the repeal of the tax incentives. But the Claimants maintain a claim in respect of the plant on the basis that the Respondent's measures increased uncertainty in the solar energy investment environment, which indirectly caused a negative impact on the Holýšov SPV's enterprise value.⁶⁰¹
402. The effective dates for the EPC contracts for the other four plants were: (1) Stříbro plant: [REDACTED] (commissioned [REDACTED]); (2) Úsilné plant: [REDACTED] (commissioned [REDACTED]); (3) Mozolov plant: [REDACTED] (commissioned [REDACTED]); (4) Osečná plant: [REDACTED] (commissioned [REDACTED]).⁶⁰²
403. The Respondent says that the claim in respect of the Mozolov plant is not maintainable because its operating licence was obtained in bad faith after submitting falsified reports, and was annulled by the Czech administrative courts.⁶⁰³
404. The details are as follows. On October 29, 2008, Antaris AG purchased 100% shares in Holýšov for CZK 200,000. On [REDACTED] Holýšov executed a contract with [REDACTED] for the construction of a MW 1.244 solar power plant. On [REDACTED], Holýšov "entered into a CZK [REDACTED] agreement with [REDACTED] for the acquisition of land plots on which the solar plant would be built including, inter alia, the building permit to develop the plant and the right to connection to the grid granted by the grid operator [REDACTED]. On [REDACTED], [REDACTED] lent EUR [REDACTED] to [REDACTED] for the construction of the solar plant and the purchase of land plots. Consequently, the investment by the Claimants in the [REDACTED] power plant project was (i) CZK 200,000 (acquisition of Holýšov); and EUR [REDACTED] (loan to [REDACTED]).
405. On July 29, 2009, Antaris AG purchased 100% shares in Stříbro for CZK 200,000. [REDACTED] bought the project rights "for the development of the Stříbro solar plant and, on [REDACTED] sold the project rights to [REDACTED] for CZK [REDACTED]. On [REDACTED] [REDACTED] executed a contract with [REDACTED] for the construction of a MW 1.000 solar power plant. On [REDACTED] [REDACTED] loaned EUR [REDACTED] to [REDACTED] for the construction of the solar plant

⁶⁰¹ Reply, para 626.

⁶⁰² Memorial, para 176.

⁶⁰³ Counter-Memorial, paras 521-523. Similar claims in relation to the other plants are no longer maintained: Rejoinder, paras 430-433.

and the acquisition of the project rights. Consequently, the Claimants' investment in the Stříbro power plant was (i) CZK 200,000 (acquisition of Stříbro); and (ii) EUR [REDACTED] (loan to [REDACTED]).

406. On February 25, 2010, Antaris AG set up Úsilné with CZK 200,000 in capital. Úsilné acquired the project rights for the development of the Úsilné power plant from [REDACTED] for EUR [REDACTED]. On [REDACTED], [REDACTED] executed a contract with [REDACTED] for the construction of a MW 1.242 solar power plant. The Claimants' affiliated companies paid the expenses [REDACTED] incurred throughout 2010. Consequently, the Claimants' investment in the Úsilné power plant was (i) CZK 200,000 (payment of the registered capital of Úsilné); (ii) EUR [REDACTED] (construction contract); and (iii) EUR [REDACTED] (acquisition of project rights and payment of various expenses).

407. On [REDACTED], Antaris AG set up Mozolov with CZK 200,000 in capital. Mozolov acquired the project rights for the development of the Mozolov power plant from [REDACTED] for CZK [REDACTED]. On [REDACTED], [REDACTED] executed a contract with [REDACTED] for the construction of a MW 1.658 solar power plant. On December 30, 2010, [REDACTED] loaned EUR [REDACTED] to [REDACTED] for the construction of the solar plant and the acquisition of the project rights. Consequently, the Claimants' investment in the Mozolov power plant was (i) CZK 200,000 (payment of the registered capital of Mozolov); and (ii) EUR [REDACTED] (loan to Mozolov).

408. On June 26, 2008, Dr Göde established Taurus with CZK 200,000 in capital. On September 1, 2010, Taurus purchased 100% shares in Osečná for CZK [REDACTED]. In 2010 as a variety of expenses mainly arising out of operating and maintaining solar power plants.

409. On [REDACTED], [REDACTED] executed a contract with [REDACTED] for the construction of a MW 3.029 solar power plant. On [REDACTED], [REDACTED] loaned EUR [REDACTED] to [REDACTED] to cover the construction contract and other expenses. Consequently, the Claimants' investment in the Osečná power plant was (i) CZK 200,000 (payment of the registered capital of Osečná); (ii) EUR [REDACTED] (loan to [REDACTED]); and (iii) EUR [REDACTED] (loan to [REDACTED]).

(ii) Non-retroactivity of the FiT changes

410. The legislation to abolish the 5% cap was originally proposed, as has been seen, in 2009 and was originally intended to apply to solar plants commissioned from 2010, but eventually adopted by Act 137/2010 and applied only to plants commissioned from 2011. The complete abolition was effected by Act 330/2010, and took effect from March 1, 2011.

411. There can be no doubt that from 2009 the Respondent was entitled to take the view that the price

of energy was seriously distorted by the solar boom, and it was clear, or should have been clear, to any informed observer that it was common currency in the trade press and elsewhere that the Respondent wished to take steps to reduce the FiT, and that the original plan announced in the press release of August 24, 2009 was to reduce it from 2010.⁶⁰⁴

412. Subsequently, when the proposals to amend the Act on Promotion were crystallized, the Government made it clear that it was not to be retroactive, so that investors could prepare in advance, and thus the risk of lawsuits against the Government would be minimized.
413. On September 8, 2009 in an open letter to the Chairman of the Economic Committee of the Chamber of Deputies Mr Fiřt proposed an amendment to the Act on Promotion to enable the ERO to lower the incentives, subject to “ensuring a reasonable vacatio legis period in the form of an interim provision which shall read: “The Office shall proceed for the first time in accordance with Clause 6, paragraph 4 ... when setting the purchase prices for 2011.” The proposed amendment pursued the following aim (among others): “Investors will be able to prepare sufficiently in advance for the change in the conditions for investing which should eliminate entirely the risk of possible lawsuits in the Czech Republic regarding protection of investments.”⁶⁰⁵
414. On November 16, 2009 the Government put forward a proposal to amend Act 180/2005.⁶⁰⁶ The Explanatory Report said, in line with Mr Fiřt’s proposal, that the aims of the legislation were as follows:
- The proposed wording would enable the Office to adjust the prices for solar power to bring them in line with the principles used for other types of renewable resources as of 1 January 2011, which will eliminate the current discrimination against other types of renewable sources.
 - Investors may prepare sufficiently in advance for amendment of the conditions for investment, which should entirely eliminate the risk of potential lawsuits against the Czech Republic related to protection of investments.
 - In the soonest upcoming period (2011), overpayment for solar power from end customers will be limited.
 - After the purchase prices become more realistic, the operators of distribution systems and the operator of the grid will have relevant requirements for investments into the power network. Today’s exorbitant requirements are leading to investments of tens of billions of CZK, which have been reflected in regulated prices for end customers.

⁶⁰⁴ R-138, “Ministry of Industry and Trade will equalize the support of renewable energy sources,” Ministry of Industry and Trade Press Release (www.mpo.cz), August 24, 2009.

⁶⁰⁵ C-201, Letter from Mr Fiřt (Chairman of the ERO) to Mr Vojřif (Chairman of the Economic Committee of the Chamber of Deputies), September 8, 2009, p. 2.

⁶⁰⁶ R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009.

415. During a press conference on the same day,⁶⁰⁷ the Minister of Industry and Trade, Mr Vladimír Tošovský, said that: “The change consists of the ERO having an option to adjust the feed-in tariff so that it would reflect the costs and the required return from 2011, which is important” and “the promotion stays as it is for 2010.” He was asked by Czech Television: “You mentioned reduction of the promotion from 2011. Why 2011?”, to which he replied:

It is because some projects are currently under way and the investors or bank have already invested in them. If we did this, it would mean changing the terms and conditions under which they invested in the course of the development, which could pose a threat to their investment. That is why it is 2011.

416. The point that investment in 2010 would not be affected was taken up by specialists. In a German language article of December 16, 2009 entitled “An ‘all-clear’ for Investors” by members of the Renewable Energy team at the Czech law firm Ueltzhöffer Balada, it was said:

Investors in the photovoltaic industry can thus largely be given the “all-clear”. The proposed new provision changes nothing for facilities that connect to the network before the end of 2010. For those facilities, the prices of 23 November 2009, set by the regulator, will still apply. In subsequent years of operation, the reduction in feed-in tariffs will remain limited to 5 percent as before. There is thus about a year left to complete and connect a project in order to benefit from the already fixed prices.

...

From the point of view of both investors and lawyers, the proposed law sends a positive signal in terms of investment and protection of legitimate expectations. The current tariffs, which are still very high, will not bring investors much in the long term if they are highly controversial and so create a permanent risk of a change in the law. With this bill, the government has finally made a clear statement regarding the future development possibilities for photovoltaics in the Czech Republic.⁶⁰⁸

417. The Respondent now says that the main reason for postponing abolition of the 5% limit until 2011 was to avoid harming projects that were already in progress (but could not be completed in 2009) — not to give licence for even more investors (like the Claimants) to pile in.
418. The Respondent says that solar investors, including the Claimants, took advantage of the non-retroactivity of the change in the Act on Promotion, and used the delay to commission an unexpectedly massive number of new solar installations, with the result that more than half of the solar generation capacity in the Czech Republic today was brought online in the last three months of 2010.⁶⁰⁹
419. Mr Jones’ evidence was that “approximately 1,200 MW of capacity was commissioned in the

⁶⁰⁷ C-197, Czech Government’s press conference of November 16, 2009, p. 2.

⁶⁰⁸ R-234, L. Klett, P. Chmelíček, “An “all-clear” for investors,” Prager Zeitung, December 16, 2009.

⁶⁰⁹ Second Jones Report, para 7.11.

last three months of 2010 alone.”⁶¹⁰ He says that this development could not have been predicted with accuracy before mid-2010: “[T]he fact that most of the installed capacity was commissioned at the very end of 2010 suggests that the ERO did not receive the relevant license applications until relatively late in 2010 and so the Government could not have been certain, even in mid-2010, as to the amount of installed capacity that would be commissioned in 2010. I therefore completely disagree with Claimant’s suggestion that it would have been straightforward to calculate the financial impact of the solar boom prior to the end of the year.”⁶¹¹

(iii) *The Solar Levy*

420. There is no doubt that the mechanism of a tax was introduced to avoid claims by investors, especially foreign investors. Thus the minutes of the meeting of October 15, 2010 of the Coordination Committee promoted by the Czech Ministry of Industry and Trade state: “1st Deputy Environmental Minister Ms Bízková stated that is necessary to find a formally correct mechanism for reduction of the support of RES from photovoltaic power plants, such that it cannot be legally contested. ... Chairman of ERO Mr J Fiřt declared that the ERO fully supports the legally strong variant, which shall ensure the reduction of the contribution to the PVPPs [photovoltaic power producers].”⁶¹²
421. As already indicated, the point that investment in 2010 would not be affected was taken up by specialists, with the result that in a German language article of December 16, 2009 entitled “An ‘all-clear’ for Investors”⁶¹³ by members of the Renewable Energy team at the Czech law firm Ueltzhöffer Balada, it was said that “there is thus about a year left to complete and connect a project in order to benefit from the already fixed prices.”
422. The Government was obviously concerned about the prospect of lawsuits, including claims by foreign investors under investment treaties, as was the Coordination Committee.⁶¹⁴
423. In his September 8, 2009 open letter to the Chairman of the Economic Committee of the Chamber of Deputies Mr Fiřt said: “Investors will be able to prepare sufficiently in advance for the change in the conditions for investing which should eliminate entirely the risk of possible lawsuits in the

⁶¹⁰ Second Jones Report, para 7.11.

⁶¹¹ *Ibid.*

⁶¹² C-198, Minutes of the third meeting of the Coordination Committee held on October 15, 2010, p. 4-5.

⁶¹³ R-234, L. Klett, P. Chmelíček, “An “all-clear” for investors,” Prager Zeitung, December 16, 2009.

⁶¹⁴ R-190, Minutes of the 1st Meeting of the Coordination Committee for the assessment of the impact of support of renewable energy sources on electricity prices, September 23, 2010.

Czech Republic regarding protection of investments.”⁶¹⁵ The Government’s proposal of November 16, 2009⁶¹⁶ to amend the Act on Promotion said that one of its aims was to eliminate the risk of investor protection litigation.

424. It does not follow that any such claims would have succeeded, but it is clear that fear of them did lead the Government to adopt the device of the Solar Levy.
425. It was clear from mid-2010 that the Government might resort to taxation measures to deal with the solar boom, and statements to that effect by the Prime Minister, Minister of Industry and Trade, and the Minister of Environment were widely reported.
426. On July 23, 2010, the Minister of Environment was quoted in article entitled “The Minister of Environment wants to tax solar power plants” as saying: “The only instrument we have for the existing contracts is the fiscal instrument. I can imagine in these circumstances that some form of taxation could help to make the purchasing prices realistic ... This issue must be solved as a matter of urgency, because it is over economic means of this country and its citizens.”⁶¹⁷
427. On July 30, 2010, a newspaper reported under the headline “Solar boom is over” that the speculative sale of solar power plant projects was over, and that there was speculation in the market concerning a 30% reduction in the support and a special tax.⁶¹⁸
428. On August 27, 2010 the Prime Minister was quoted in an article as saying that “We must suppress the solar business. Also with the help of taxes ...” The State would intervene effectively but “primarily has to avoid arbitrations and litigations” but the government would try to reduce the attractiveness of the photovoltaic business: “The range of steps includes also tax considerations. I deem it fundamental to say that we do not want to neglect it.”⁶¹⁹
429. On September 16, 2010, the Minister of Industry and Trade was quoted in an article which began “The government is still obscure on how to restrict solar power plants this year. The fairest idea is to tax them” and saying, after a reference to the option to tax the producers: “If we [were] to tax the contribution, the support represented in the price of electricity will remain the same for

⁶¹⁵ C-201, Letter from Mr Fiřt (Chairman of the ERO) to Mr Vojříř (Chairman of the Economic Committee of the Chamber of Deputies), September 8, 2009, p. 2.

⁶¹⁶ R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009.

⁶¹⁷ R-147, Explanatory Report to Draft Act No. 137/2010 Coll., November 16, 2009.

⁶¹⁸ R-185, T. Zavadilová, “Solar boom is over,” E15, July 30, 2010.

⁶¹⁹ R-186, “Nečas for HN: We will slow down the process of electricity price increases and maybe even reverse it”, iHNed.cz, August 27, 2010.

the consumer.”⁶²⁰

430. The Tribunal accepts that the Solar Levy was a transparent device to avoid what the Respondent had been advised might cause investor claims. That is clear from the minutes the Coordination Committee.⁶²¹ But, in common with the Czech Constitutional Court,⁶²² and the European Commission’s Decision on state aid,⁶²³ the Tribunal does not consider that the modifications to the support scheme and the tax measures were retroactive, and considers that they did not violate the principle of legitimate expectation.
431. The Tribunal’s view is that Dr Göde was essentially an opportunistic investor who saw a window of opportunity and who was aware, or should have been aware, that dealing with the solar boom was a fast-moving and controversial political issue.
432. The Tribunal accepts the Respondent’s case that there is no evidence of any real due diligence by Dr Göde. The only documentary evidence of advice from [REDACTED] are some invoices (totalling approximately EUR [REDACTED], none of which specifies the nature of legal services provided, and originate from the law firm and lawyer (Ms [REDACTED] responsible for the Claimants’ commercial transactions during the relevant period.
433. He of course knew of, and endeavoured to take advantage of, the fact that the 5% limit had been removed only from 2011. But he was also aware that the Czech Government had been deeply concerned about the effect of the solar boom from 2009 and should have been aware that other legislative changes, especially with regard to tax, were in the air. The Claimants had avoided the February 2010 moratorium by taking assignments of the binding statements in relation to three of their largest projects.
434. The Tribunal accepts the Respondent’s case that the market which the Claimants were entering was a bubble and that the Czech Government considered that the FiT regime was out of balance and that would have been obvious to anyone who participated in industry discussions, or paid attention to warnings by specialist professionals, or read the local press.
435. The Tribunal considers that Dr Göde’s actions were essentially opportunistic, and that the investment protection regime was never intended to promote and safeguard those who, in the

⁶²⁰ R-162, “Solar boom will cost us dearly”, iDes.cz, July 22, 2010.

⁶²¹ C-198, Minutes of the third meeting of the Coordination Committee held on October 15, 2010, p. 4-5.

⁶²² May 15, 2015.

⁶²³ R-366, European Commission’s decision in State aid case SA.40171 (2015/NN) – Czech Republic (Promotion of electricity production from renewable energy sources), November 28, 2016, para 135.

words of the Respondent, “pile in” to take advantage of laws which they must know may be in a state of flux caused essentially by investors of that type. In the words of the Respondent, the Claimants had “a speculative hope – as opposed to an internationally-protected expectation.”⁶²⁴

436. The abolition of the tax exemption is not at the forefront of the Claimants’ case, since the material on which the claim of legitimate expectation is based is very thin, and consists of little more than a statement in the Explanatory Report in November 2003 of an early draft of the Act on Promotion that the promotion system was based on maintaining (inter alia) “the tax reliefs to the extent set out in the Acts on Income Tax ...”.⁶²⁵ It is true that an expert appointed by the Czech Government, Professor Dr Gerloch gave an opinion⁶²⁶ that under Czech law the removal of the exemption would be regarded as retrospective and unlawful, but the Czech Constitutional Court subsequently upheld the withdrawal of the tax exemption.⁶²⁷ In the view of the Tribunal, the Respondent is right to argue that investors did not have a legitimate expectation that the 5-year tax exemption was a guarantee that it could not be subject to legislative amendment within that period.
437. Investors know that the legislative framework may change and evolve in the light of circumstances and of political developments. It is not every change which gives rise to a claim based on breach of legitimate expectation.
438. It is also necessary to mention the Respondent’s argument that in any event the Claimants had no expectation of a WACC in excess of 7%. There is a dispute as to the significance of the 7% figure. According to the Respondent, until the end of 2010, the WACC level used by the ERO in calculating the FiTs for the purpose of section 4 of the Technical Regulation was 7% per annum,⁶²⁸ and it shows that the Claimants could only have expected to achieve a 15-year payback period for capital expenditures and a 7% rate of return.⁶²⁹
439. The Claimants accept that the Respondent did respect the 15-year simple payback and the 7% return, but say that this is irrelevant because the fact that the ERO used 7% as an internal method

⁶²⁴ Counter-Memorial, para 5(k).

⁶²⁵ C-120, Explanatory Report on the bill of the Act on Promotion of November 12, 2003 (extended version), p 4.

⁶²⁶ C-222, Professor JUDr. Aleš Gerloch, CSc’s Opinion of December 3, 2010.

⁶²⁷ R-38, Decision of the Constitutional Court of the Czech Republic, May 15, 2012, Ref. No. Pl. ÚS 17/11, paras 83–84.

⁶²⁸ Counter-Memorial, para 44; Reply, para 103.

⁶²⁹ Counter-Memorial, para 574.

(or benchmark) for calculating the FiTs cannot be invoked to assess what profits investors were promised and were entitled to receive, and the crucial figures are the levels of FiT set each year.⁶³⁰ The Respondent accepts that the return level did not operate as a cap on profits, but functioned as the baseline assumption applicable to setting the FiT.⁶³¹

440. The Tribunal is of the view that an informed investor who had undertaken proper diligence would have been aware of the use by the ERO of the 7% benchmark. A presentation by the Prague office of the regional law firm Schönherr entitled “Legal Aspects of Photovoltaic Power Plant Implementation” was aimed at solar investors and explained that the tariffs “reflect typical investment and operating costs of the projects and lifetime of the installations so that the revenues cover the expenditures + bring 7% profit . . .”⁶³² Press reports in 2009 discussed excessive rates of return for solar installations and cited 7% as the ERO benchmark.⁶³³ But in the light of the Tribunal’s main conclusion, it is not necessary to come to a final conclusion on the effect of the Claimants’ knowledge that the ERO’s policy was to use a 7% WACC.
441. In the view of the Tribunal, the Claimants’ complaint of impairment by arbitrary and unreasonable conduct also fails.
442. The Claimants accept that there was an undesired expansion of RES plants in many countries, but they say⁶³⁴ that the Czech measures were unreasonable and arbitrary and that some EU Member States were able to limit the undesired expansion of RES investments by means of sound regulatory and non-retroactive practices which did not betray the legitimate expectations of RES investors, especially Germany, Portugal, France, Austria, Denmark, The Netherlands, and Slovenia. They argue that the retrospective changes were “regulatory opportunism”, consisting in reducing regulated payments after the initial investments are already made. The burden of the incentive regime was not higher than that of similar regimes in other EU Member States. In any event, even if hypothetically the increase in the cost of electricity were viewed as excessive, that increase was easily predictable and was simply the price that the Respondent committed to pay

⁶³⁰ Reply, paras 20, 104.

⁶³¹ Rejoinder, para 16(c).

⁶³² R-30, Legal Aspects of Photovoltaic Power Plant Implementation, Schönherr v.o.s., The Czech Association of Scientific and Technical Societies, June 25, 2009.

⁶³³ R-362, “What is the adequate decrease of photovoltaic electricity purchase prices?” (oze.tzb-info.cz), October 19, 2009, p. 3, 5 (“ERO calculations set the return to 7% with a 15-year payback for all renewable sources (RES)”; R-156, “Legislative environment and the promotion of the electricity produced from photovoltaic power plants in 2009,” ERO Presentation, October 15, 2009, p. 15 (“Purchasing prices are calculated with the income of 7% (WACC) for all RES categories, nevertheless, for PVPP the income is more than twofold”).

⁶³⁴ Memorial, paras 496 et seq; Reply, paras 259 et seq.

to reach the 8% target fixed by the EU.

443. The Tribunal accepts that the Solar Levy was designed (unnecessarily, in the view of the Tribunal) to disguise abolition of the 5% limit. But it was adopted as part of a package of measures which (1) introduced a State budget subsidy to limit the rise in consumer electricity prices caused, in large part, by the solar boom, and (2) sought to offset this new budget expenditure with new tax revenues. The Solar Levy was specifically targeted at those solar installations that received a FiT which was excessive. The Tribunal accepts the Respondent's case that for purposes of the reasonableness analysis, it does not matter whether a tribunal believes that a particular course of action is "good" or "bad," that a different solution might have been "better," or that a State could have done "more," or that other States took different measures.
444. The Tribunal accepts that the Respondent had the rational objective of reducing excessive profits and sheltering consumers from excessive electricity price rises, and that its actions were not arbitrary or irrational. There was an appropriate correlation between the Respondent's objectives and the measures it took. There is nothing irrational or unreasonable about the imposition of a charge to regulate what the Respondent reasonably regarded as windfall profits and to reduce the impact on consumers, and the measures, which applied only to the most recent installations and therefore the ones able to earn the profits as a result of the decline in PV costs, were not disproportionate.
445. The measures dealt with a pressing problem caused by the late entry of many investors (mainly domestic) seeking to take advantage of an incentive regime which was bound to change. All that the measures did was to reduce the rate of return to a level which the State had originally intended. It is true in this context also that the Respondent resorted to the device of the Solar Levy instead of a change to the 5% limit in the FiT, but in the view of the Tribunal that does not alter the essential fact that the measures were rational and proportionate. The effect on the Claimants was that they would have an investment payback in [REDACTED] years and a rate of return of between [REDACTED]% and [REDACTED]%.⁶³⁵ On Dr Göde's original calculations, the effect was a reduction in profits from [REDACTED] euros to [REDACTED] euros over the life of the investment.⁶³⁶
446. Consequently, in the view of the Tribunal, there was neither an impairment of the investment, nor the use of unreasonable or irrational or arbitrary measures.

⁶³⁵ First Peer Report, para 2.2.2; Second Peer Report, paras 2.2.4, 2.2.8. Mr [REDACTED] said that he had no basis to dispute the mathematics of Mr Peer's payback period and rate of return assessment: T/3/621. The Respondent described the effect as an average decrease from [REDACTED]% to [REDACTED]%; T/1/141-142; T/4/798.

⁶³⁶ First Göde Statement, para 39.

X. Other issues

447. In the light of the Tribunal's conclusions on the merits, it follows that these issues do not arise: (1) whether compliance by the Respondent with an award of the Tribunal would be a state aid; (2) whether illegality barred the claim in relation to the Mozolov plant; (3) whether there was a prima facie case in relation to the Holýšov plant; and (4) the quantum of damages.
448. The claims are therefore dismissed.

XI. Costs

449. The effect of Articles 10(2) and 9(5) of the BIT and Article 40 of the UNCITRAL 1976 Rules is that the costs of arbitration are in principle to be borne by the unsuccessful party, but the Tribunal may apportion costs between the parties if it determines that apportionment is reasonable, taking into account the circumstances of the case.
450. The Claimants have prevailed on one important issue, namely the ECT tax carve-out objection, but have failed on the merits.
451. The Claimants claimed their costs in the amount of € [REDACTED] including their share of the fees and expenses of the Tribunal and the PCA.⁶³⁷
452. The Respondent claimed its costs of \$ [REDACTED] and in addition its share of the fees and expenses of the Tribunal and the PCA.⁶³⁸
453. Accordingly, in very broad terms the Claimants claim \$ [REDACTED] million and the Respondent claims \$ [REDACTED] million.
454. In the light of the Tribunal's conclusion that the Claimants succeeded on the issue of the tax carve-out but failed on the merits, the Claimants' primary submission is that they should be awarded the costs of this arbitration, relating to the Respondent's objections to the jurisdiction, but should not bear any of the Respondent's costs relating to the merits because the Claimants brought *bona fide* claims, while the Respondent, among others, raised the unnecessary EU State aid issue.
455. As regards quantum, the Claimants say that they ran the case with a small legal team (much smaller than the Respondent's team), relied upon expert evidence only where strictly necessary,

⁶³⁷ Claimants' Schedule of Costs, Annexed to the Claimants' Submission on Costs.

⁶³⁸ Respondent's Submission on Costs, para 1.

and, divided essentially all costs with the other eight Claimants with which it sought to bring a single multi-party arbitration. The Claimants say that if the Respondent's legal costs exceed those of the Claimants, such an amount would not be "reasonable", given that the Claimants bore the burden of proof as to most of the issues.

456. The Respondent submits that the costs should be allocated in accordance with the principle that the costs follow the event, and that its costs were reasonable. It should be entitled to its costs even if the Claimants were to prevail on some of the issues, because the Claimants caused an unnecessary aggravation of costs.
457. The Claimants have requested that the Tribunal order the Respondent to bear the costs occasioned by the postponement of the hearing [REDACTED].⁶³⁹ The Respondent says that no special order is required because it was an unforeseen event outside the Respondent's control.⁶⁴⁰
458. The Parties deposited with the PCA a total of GBP [REDACTED] (GBP [REDACTED] by the Claimant; GBP [REDACTED] by the Respondent) to cover the costs of arbitration.
459. The fees of Mr Gary Born, the arbitrator appointed by the Claimants, amount to GBP [REDACTED]. His expenses amount to GBP [REDACTED]. The fees of Judge Peter Tomka, the arbitrator appointed by the Respondent, amount to GBP [REDACTED]. The fees of Lord Collins, the presiding arbitrator, amount to GBP [REDACTED]. His expenses amount to GBP [REDACTED].
460. Pursuant to the Terms of Appointment and the agreement of the Parties, the International Bureau of the PCA was designated to act as Registry in this arbitration. The PCA's fees for registry services amount to GBP [REDACTED]. Other Tribunal costs, including court reporters, interpreters, travel, bank charges, and all other expenses relating to the arbitration proceedings, amount to GBP [REDACTED].
461. Based on the above figures, the combined Tribunal costs, comprising the items covered in Article 38 (a), (b) and (c) of the UNCITRAL Arbitration Rules, as enumerated above, are fixed at a total of GBP [REDACTED].
462. Finally, under Article 38(e), the Tribunal finds the costs claimed by the successful Party, the Respondent, to be reasonable in amount and proportionate to the nature and complexity of the

⁶³⁹ E-mail from the Claimants dated November 11, 2016: "the Claimants would like to receive confirmation from the Tribunal and the Respondent that all non-refundable costs arising from the cancellation of the November hearing will be charged exclusively and entirely to the Respondent."

⁶⁴⁰ E-mail from the Respondent dated November 14, 2016.

matter.

463. In the exercise of its discretion in the light of Article 40 of the UNCITRAL Rules, the Tribunal takes these matters into account: (1) the Respondent prevailed on the merits; (2) the Claimants succeeded on the issue of the tax carve-out; (3) it is reasonable to make some allowance for the Claimants' costs in relation to the adjournment.
464. In the light of all these considerations, the Tribunal's conclusion on legal and arbitration costs is that the Respondent should be awarded US\$ [REDACTED] in legal costs, and that the Claimants should bear three-quarters of the arbitration costs.

XII. Operative part

465. The Claimants' claims are dismissed.
466. The Claimants shall pay to the Respondent within 28 days of delivery of this award the sum of US\$1.75 million and GBP 178,125.50.
467. The arbitration costs are assessed at GBP [REDACTED], and any balance held by the PCA shall be remitted in equal shares to the Parties in accordance with Article 41(5) of the UNCITRAL Rules.

Place of Arbitration: Geneva, Switzerland

Signed, this 2nd day of May, 2018,



Mr Gary Born
Subject to the attached dissenting opinion



Judge Peter Tomka
Subject to the attached declaration



Lord Collins of Mapesbury PCA, FBA
Presiding Arbitrator

DISSENTING OPINION OF MR GARY BORN

1. I agree with many aspects of the Tribunal's conclusions in this arbitration. I concur with the Tribunal's conclusions regarding its jurisdiction under the Treaty between the Federal Republic of Germany and the Czech and Slovak Federal Republic on Encouragement and Reciprocal Protection of Investments (the "Germany BIT") and the Energy Charter Treaty (the "ECT," when referred to jointly with the Germany BIT, the "Treaties"). I also concur with the Tribunal's conclusion that the Czech Republic did not violate its obligations under Article 2(1) of the Germany BIT or Article 10(1) of the ECT when it amended the Act on Income Tax by repealing the Income Tax Exemption for renewable energy producers.
2. I am, however, unable to join the Tribunal's conclusion that the Czech Republic did not breach its fair and equitable treatment and non-impairment obligations under the Treaties to the claimants in this arbitration – Antaris GmbH, a German commercial company, and Dr. Michael Göde (the "Claimants") – when it imposed a levy that reduced the tariffs payable to certain renewable energy sources, including the Claimants' solar plants (the "Solar Levy").¹ Given the significance of the legal issues involved, and notwithstanding my deep respect for my colleagues on the Tribunal, I am compelled to address these issues in this separate opinion.
3. Before addressing these issues, it is useful to summarize the essential elements of the Tribunal's reasoning. The Tribunal centers its analysis of the Claimants' fair and equitable treatment and non-impairment claims on the following questions:

"The essential question is whether the combination of (1) the promotion of the Incentive Regime in its early days as a guarantee and (2) the deliberate non-retroactivity of the abolition of the 5% cap by Act 137/2010 for solar plants connected to the grid from 2011 and the abolition of the support by Act 330/2010 from March 11, 2011, gave rise to a legitimate expectation by solar investors in 2010 that there would be no other changes which would affect their investment. For this purpose, for the reasons given above, the imposition of the Solar Levy is to be treated as such a change."²

4. The Tribunal begins its analysis by relying on a selection of formulations of fair and equitable treatment and non-impairment standards from prior arbitral awards which it "summarize[s] as the present state of international law and practice" in the following "general propositions:"³

- (1) "An expectation may arise from what are construed as specific guarantees in legislation.
- (2) A specific representation may make a difference to the assessment of the investor's

¹ Regarding the four plants commissioned before 1 January 2011 (*see* Claimants' Opening Presentation, slides 47-50), but excepting the Holýšov plant, which was commissioned in 2008 and not affected by the Solar Levy. In my dissenting opinion, I have not considered the Respondent's allegations regarding irregularities surrounding the Mozolov plant.

² Award, para. 400.

³ *Ibid.*, paras. 360-362.

knowledge and of the reasonableness and legitimacy of its expectation, but is not indispensable to establish a claim based on legitimate expectation which is advanced under the FET standard.

(3) Provisions of general legislation applicable to a plurality of persons or a category of persons, do not create legitimate expectations that there will be no change in the law; and given the State's regulatory powers, in order to rely on legitimate expectations the investor should inquire in advance regarding the prospects of a change in the regulatory framework in light of the then prevailing or reasonably to be expected changes in the economic and social conditions of the host State.

(4) An expectation may be engendered by changes to general legislation, but, at least in the absence of a stabilization clause, they are not prevented by the fair and equitable treatment standard if they do not exceed the exercise of the host State's normal regulatory power in the pursuance of a public interest and do not modify the regulatory framework relied upon by the investor at the time of its investment outside the acceptable margin of change.

(5) The requirements of legitimate expectations and legal stability as manifestations of the FET standard do not affect the State's rights to exercise its sovereign authority to legislate and to adapt its legal system to changing circumstances.

(6) The host State is not required to elevate the interests of the investor above all other considerations, and the application of the FET standard allows for a balancing or weighing exercise by the State and the determination of a breach of the FET standard must be made in the light of the high measure of deference which international law generally extends to the right of national authorities to regulate matters within their own borders.

(7) Except where specific promises or representations are made by the State to the investor, the latter may not rely on an investment treaty as a kind of insurance policy against the risk of any changes in the host State's legal and economic framework. Such expectation would be neither legitimate nor reasonable.

(8) Protection from arbitrary or unreasonable behaviour is subsumed under the FET standard.

(9) It will also fall within the obligation not to impair investments by 'unreasonable ... measures' (Article 10(1), ECT) or 'arbitrary ... measures (Article 2(2), Czech Republic/Germany BIT).

(10) The investor is entitled to expect that the State will not act in a way which is manifestly inconsistent or unreasonable (i.e. unrelated to some rational policy)."⁴

5. Based on those "propositions," the Tribunal considers, and rejects the claim, that the Czech Republic breached the fair and equitable treatment and non-impairment protections under the Treaties when it imposed the Solar Levy.⁵ Regarding the Claimants' legitimate expectations, the Tribunal states that:

"The Tribunal accepts that the Solar Levy was a transparent device to avoid what the Respondent had been advised might cause investor claims. That is clear from the minutes the Coordination Committee. But, in common with the Czech Constitutional Court, and the European Commission's Decision on state aid, the Tribunal does not consider that the modifications to the support scheme and the tax measures were retroactive, and considers that they did not violate the principle of legitimate expectation."⁶

6. Likewise, the Tribunal concludes that the Solar Levy was not an arbitrary or unreasonable change to the Czech Republic's legislative framework for renewable energy:

⁴ *Ibid.*, para. 360 (footnotes omitted).

⁵ *Ibid.*, paras. 430, 441-446.

⁶ *Ibid.*, para. 430 (footnotes omitted).

“The Tribunal accepts that the Solar Levy was designed (unnecessarily, in the view of the Tribunal) to disguise abolition of the 5% limit. But it was adopted as part of a package of measures which (1) introduced a State budget subsidy to limit the rise in consumer electricity prices caused, in large part, by the solar boom, and (2) sought to offset this new budget expenditure with new tax revenues. The Solar Levy was specifically targeted at those solar installations that received a FiT which was excessive. The Tribunal accepts the Respondent’s case that for purposes of the reasonableness analysis, it does not matter whether a tribunal believes that a particular course of action is ‘good’ or ‘bad,’ that a different solution might have been ‘better,’ or that a State could have done ‘more,’ or that other States took different measures.”⁷

7. I disagree with the Tribunal’s conclusion that the Czech Republic did not, by enacting the Solar Levy, violate the Treaties’ fair and equitable treatment and non-impairment protections. In my view, the evidentiary record shows that the Czech Republic enacted legislation that provided specific and unambiguous guarantees to investors in the renewable energy sector and that these commitments guaranteed that specified minimum tariffs would be payable for electricity produced by renewable energy sources for a period of 15 years. The Claimants relied on these specified tariffs in making substantial investments in the Czech Republic but, thereafter, despite its statutory guarantees, the Czech Republic adopted the Solar Levy, which materially reduced the tariffs that would be paid to certain renewable energy sources, including the Claimants’ plants. In my view, that breach of the Czech Republic’s previous guarantees is a violation of both the Germany BIT and the ECT.
8. More specifically, in my view, this case requires that three questions be addressed: (a) whether Section 6(1) of the Act No. 180/2005 Coll. of 31 March 2005 on the promotion or electricity production from renewable energy sources and amending certain acts (the “Act on Promotion” or the “Act”) provided statutory guarantees to investors and, if so, whether these guarantees were breached by the Czech Republic’s imposition of the Solar Levy; (b) whether breaches of statutory guarantees of specified treatment to particular classes of investors are capable of triggering fair and equitable treatment or non-impairment responsibility under the Treaties; and (c) whether the Claimants in this arbitration could rely on any breaches by the Czech Republic of its statutory guarantees.
9. In my view, all three questions must be answered affirmatively. In the following sections, I briefly address the points on which I disagree with the Tribunal’s reasoning and conclusions. Since in my view the Czech Republic, by enacting the Solar Levy frustrated the Claimants’ legitimate expectations, I find it unnecessary to address the second question considered by the Tribunal – that is, whether the Czech Republic changed its regulatory framework in an arbitrary or unreasonable manner.

⁷ *Ibid.*, para. 443.

I. The Czech Republic guaranteed that it would maintain feed-in tariffs for renewable energy sources at fixed minimum levels for 15 years

10. In my view, it is clear that the Czech Republic guaranteed the Claimants and other investors that it would maintain feed-in tariffs (“FiTs” or “Purchasing Prices”) for renewable energy sources at fixed minimum levels for a defined period (15 years) from the date of commissioning of such sources. It is also clear that the Czech Republic subsequently breached this undertaking by imposing the Solar Levy on renewable energy sources that had already been commissioned, thereby reducing the guaranteed FiTs for electricity produced by these sources.
11. The Tribunal accepts that the Act on Promotion guaranteed specified treatment to renewable energy producers and that the Czech Republic then actively promoted the Act’s guarantee of stability to investors:

“There can be no doubt that both the Respondent and the ERO described the incentive regime in terms of a guarantee or promise of stability, and that the Czech Government actively promoted the new regime at home and abroad, and described its main element in terms of a guarantee.

The documents which establish this have already been referred to, and it is only necessary to mention that the Czech Ministry of Industry and Trade, when submitting the bill to Parliament, stated that one of the main objectives of the Act on Promotion was to establish a secure, stable and predictable regime; the 2003 Explanatory Report on the Act on Promotion stated that the support system was based ‘on providing a guarantee to investors’; the former Minister of Environment stated that the most important principle of the law was the guarantee of a stable FiT for a 15 year period; the Respondent described the purpose of Section 6(1)(b)(2) as: ‘providing guarantees to the investors and owners ... that ... revenue ... will be maintained for a period of 15 years ...’; and the ERO described the Act on Promotion as ‘bringing a guarantee of long-term and stable promotion ...’ including a ‘guarantee of revenues ... for a period of 15 years’.⁸

12. I agree with that conclusion. In my view, however, the Czech Republic provided more than an abstract promise of stability: Section 6 of the Act on Promotion contains a statutory guarantee that specified minimum FiTs would be paid for fixed time periods to defined renewable energy sources. This conclusion is crystal clear from the Act’s language and its object and purposes, and was publicly confirmed by the Czech Republic in numerous statements.
13. Section 6 of the Act is titled “*Amounts of Prices for Electricity from Renewable Sources and Amounts of Green Bonuses.*” The purpose of this provision was to prescribe the “*amounts of prices*” that would be payable for electricity produced from a defined category of sources (specifically, certain renewable energy sources).⁹ The Act guaranteed these prices – which were

⁸ Award, paras. 366-367 (footnotes omitted).

⁹ Respondent’s translation of the Act on Promotion (R-5).

different from the prices for other categories of electricity in the Czech Republic – for a vitally-important purpose. That purpose was to encourage the production and use of electricity from renewable energy sources and thereby achieve environmental protection objectives and satisfy commitments by the Czech Republic to the European Union regarding renewable energy.¹⁰

14. It is also clear that renewable energy installations generally require substantial initial capital investments, in often newly-developed technologies.¹¹ Absent a guarantee of fixed FiTs for electricity produced by renewable energy sources, it appears highly unlikely that investors would have constructed such sources or that lenders would have agreed to finance these investments.¹²
15. The Act on Promotion provides two separate, but critical, guarantees to investors in renewable energy: (i) a guarantee that the ERO will establish FiTs providing for individual categories of renewable energy sources commissioned in specific calendar years, at least a “fifteen year payback period;” and (ii) a guarantee that the FiTs established by the ERO for renewable energy sources commissioned in particular calendar years will not be reduced for 15 years (later extended to 20 years). Both of these guarantees are clear from the Act’s text and history.
16. First, Section 6(1)(b)(1) of the Act provides that the FiTs established by the ERO for particular sources in particular years would allow a return of an investor’s capital investment in 15 (later 20) years. In the words of Section 6(1)(b)(1),

“The Office [or the “ERO”] sets, one calendar year in advance, the purchasing prices for electricity from Renewable Sources (the ‘Purchasing Prices’), separately for individual kinds of Renewable Sources, and sets green bonuses, so that [...] (b) for facilities commissioned [...] [1] after the effective date of this Act, there is attained, with the Support consisting of

¹⁰ See statements by the Czech Minister of Environment regarding the implementation of Directive 2001/77/EC, Stenographic record of the meeting of the Chamber of Deputies, dated 13 February 2004 (“However, the 8% share of renewable resources in gross power consumption in 2010, which we undertook in the [accession treaty to the European Union], forces us to draft a bill which would facilitate private investment in this field, because it is impossible to fund it entirely from the Czech Energy Agency fund or from the State Environmental Fund. Since the energy market is still very deformed not just by the existence of obsolete power plants built under different economic conditions with material support of the state but mainly as a result of the insufficient internationalisation of external costs incurred by the power generation in classical power stations, the government proceeded to draft the bill, which should implement EP and EC Directive 2001/77/EC.”) (C-24).

¹¹ [REDACTED] and [REDACTED] Report, para. 1.13 (“Investment in RES involves a fundamental asymmetry between relatively large upfront, irreversible costs (‘sunk costs’), and high revenue uncertainty given that generation can, in general, vary significantly depending on the availability of the renewable resource (e.g., sunlight, wind or rainfall). As a consequence, most support schemes attempt to provide for substantial revenue certainty so as to make renewable projects bankable.”).

¹² Newspaper article in “Ihned.cz”, pp. 4-5 (“Once the plants’ owners will have the first 15 years of operation guaranteed, they will have an opportunity to draw funds from non-governmental sectors. According to Mr Ambrozek, this is the only way to meet EU requirements.”) (C-25); [REDACTED] and [REDACTED] Report, para. 3.26 (“If a regulatory framework does not offer investors a sufficient degree of predictability, investors will demand a higher rate of return or will directly choose to invest elsewhere. Similarly, lenders will not be willing to finance investors or will demand very high interest rates. This is more than theory: the negative impact of regulatory uncertainty on investment has been shown to be significant in the case of RES.”).

the Purchasing Prices, a fifteen year payback period on capital expenditures, provided technical and economic parameters are met [...]”¹³

Section 6(1)(b)(1) thus provided for the ERO to establish on an annual basis specified FiTs, for every category of renewable energy sources, which would apply to all such sources commissioned in that calendar year.

17. Second, and separately, Section 6 of the Act also very clearly and intentionally guaranteed that the FiTs established by the ERO would be maintained as a minimum for a certain period of time. Section 6(1)(b)(2) did so when it provided that

“[the ERO] sets, one calendar year in advance, *the purchasing prices for electricity from Renewable Sources (the ‘Purchasing Prices’)*, separately for individual kinds of Renewable Sources, and sets green bonuses, so that [...] (b) for facilities commissioned [...] [2] after the effective date of this Act, *the amount of revenues per unit of electricity from Renewable Sources, assuming Support in the form of Purchasing Prices, is maintained as the minimum [amount of revenues]*¹⁴, *for a period of 15 years* from the commissioning year of the facility, taking into account the industrial producer price index.”¹⁵

18. Section 6(1)(b)(2) is unequivocal. It provides that the ERO will establish, one year in advance, the “Purchasing Prices” for electricity produced from specified renewable energy sources, and then guarantees that these “Purchasing Prices” established by the ERO, and the “revenues per unit of electricity” from the specified energy sources, will be “*maintained as the minimum* for a period of 15 years” from the date of commissioning of each source. The provision required that the FiTs for electricity produced from renewable energy sources commissioned in a particular year be fixed by the ERO, one year in advance, and then for these FiTs to be maintained (as a minimum) for a 15-year period following commissioning of a source – that is, “*for a period of 15 years from the commissioning year of the facility.*” These fixed minimum “Purchasing Prices” and “revenues per unit of electricity” are subject only to the possibility of upward (not downward) adjustment under Section 6 for inflation.
19. Thus, Section 6 of the Act unambiguously guarantees that the FiTs for electricity produced from specified renewable energy sources will be fixed in advance and then maintained for 15 (later 20) years from the date of commissioning of the source. As discussed above, this long-term guarantee of a specific minimum FiT for each renewable energy source, following the date of its commissioning, was essential to the Act’s structure and purposes.¹⁶

¹³ Act on Promotion, Section 6(1). Respondent’s translation of the Act on Promotion (R-5).

¹⁴ Text in parentheses appears in the Czech Republic’s original translation.

¹⁵ Act on Promotion, Section 6(1). Respondent’s translation of the Act on Promotion (R-5) (emphasis added).

¹⁶ See para. 14 above.

20. Importantly, the guarantee of minimum FiTs provided in Section 6(1)(b)(2) of the Act is a separate guarantee of an absolute level of revenue, in addition to Section 6(1)(b)(1)'s guarantee of a 15-year payback of capital expenses per year over 15 (later 20) years. Pursuant to Section 6(1) of the Act, the Czech Republic not only guaranteed that the FiTs payable for electricity produced by renewable energy sources would allow a return of capital investment in 15 (later 20) years – Section 6(1)(b)(1) – but also that the FiTs established by the ERO for energy sources commissioned in a particular year would be maintained, as a minimum, for 15 (later 20) years – Section 6(1)(b)(2).
21. This is confirmed by Section 6(4) of the Act. Section 6(4) established a so-called “5% brake rule,” requiring the FiTs established by the ERO for a particular year to be no less than 5% lower than the FiTs that had been set for the preceding year.¹⁷ This 5% brake rule provided that “Purchasing Prices set by the Office for the following calendar year shall not be less than 95% of the Purchasing Prices in effect in the year for which the setting decision is made.”¹⁸ Section 6(4) inevitably meant that the FiTs set by the ERO for a particular year (“the Purchasing Prices”) would provide a higher rate of return than that specified in Section 6(1)(b)(1).¹⁹ Indeed, this was the sole purpose of Section 6(4)'s brake rule – namely, to guarantee FiTs that were *higher* than those prescribed by Section 6(1)(b)(1).
22. Despite this, the Respondent asserts that Section 6(1)(b) only maintains FiTs at the level prescribed by Section 6(1)(b)(1)'s guarantee of a return of investment in 15 years.²⁰ That reading is impossible to reconcile with either the language or the purpose of Section 6 of the Act.
23. As noted above, Section 6(1)(b)(2) could not be clearer in requiring payment of fixed minimum FiTs, prescribed for sources commissioned in a particular year. Likewise, Section 6(4) necessarily meant that there would be cases where the FiTs established by the ERO for a particular year were *higher* than those provided by Section 6(1)(b)(1)'s 15-year return of investment period. By interpreting Section 6(1)(b)(2) as guaranteeing only FiTs that provided a 15-year return on investment, the Respondent ignores not only the plain language of Section 6(1)(b)(2), but also reads Section 6(4) out of the Act. That reading is not only impossible to square with the Act's language, but also contradicts the Respondent's own acknowledgment that

¹⁷ Act on Promotion, Section 6(4). Respondent's translation of the Act on Promotion (R-5).

¹⁸ *Ibidem*.

¹⁹ Respondent's Rejoinder, para. 309 (“ERO calculated the WACC for the RES sector as being equal to a post-tax rate of 7%. This rate was then used in setting the FIT for solar RES in all years except 2009 and 2010, when the 5% Limit prevented ERO from doing so.”) (footnote omitted).

²⁰ Respondent's Counter-Memorial, para. 5(j).

“Claimants are correct that the prospect of a simple return of investment, without a profit element, is normally insufficient to induce investment, even in relatively safe assets.”²¹

24. The Respondent’s interpretation of Section 6 also ignores the Czech Republic’s own consistent descriptions of Section 6 and the Act on Promotion as providing a guarantee of minimum FiTs or Purchasing Prices for a 15-year period to investors in renewable energy sources, including the Czech Republic’s statements in this arbitration.

a. In June 2005, shortly after the implementation of the Act on Promotion, Mr. Martin Bursík, Minister of Environment from 2007 to 2009, authored a newspaper article declaring that “[t]he most important principle of the law for producers is the guarantee of a stable feed-in tariff for a 15-year period following the launch of the power station into operation. In practice, this means that the valid feed-in tariff stipulated by the price assessment of the ERO in a year in which the producer supplies the first kWh into the grid remains preserved for 15 years and, moreover, will be adjusted based on the index of prices of industrial producers. This principle removes the greatest weakness of the existing promotion of renewable resources - i.e. the risk that the ERO will reduce the feed-in tariffs on a year on year basis and the producer’s cash flow and ability to repay loans will be threatened.”²²

b. In a report submitted by the Czech Republic to the European Commission in 2005, the Czech Republic explained that the Act on Promotion “now provides previously missing guarantees for the long-term stability of the support needed for commercial decision-making,”²³ i.e. “an unprecedented system of support in the form of fixed purchase (feed-in) prices and, where necessary, supplements to market prices for electricity, and also guarantees a level of return on each unit of electricity produced for a period of 15 years.”²⁴ The Czech Republic’s statements were directed specifically to the guaranteed FiTs, over a 15-year period, and not on “return of investment” or payback period.

c. In a report submitted by the Czech Republic to the United Nations in 2006, the Czech Republic stated that “[t]he system of support [under Section 6 of the Act on Promotion] is based particularly on ... providing guarantees to the investors and owners of installations, producing electricity from renewable sources who are subject to support pursuant to the Act, that the amount of revenue per unit of produced electricity from renewable sources acquired by the producers from the support will be maintained for a period of 15 years from bringing the installation into operation (or for a period of 15 years for installations that were brought into operation prior to the date of effect of the Act).”²⁵ The report also said that “Act No. 180/2000 Coll. newly introduced a fifteen-year guarantee of minimum purchase prices from the date of bringing the installations into operation...”²⁶ Again, the Czech Republic’s statements specifically described the Act’s guaranteed “revenue” and “minimum purchase prices” for a 15-year period, not a “return of investment” or payback period.

d. The ERO made presentations to investors both inside and outside of the Czech Republic, including presentations in Prague and Augsburg. These included powerpoint presentations that stated that the Act on Promotion provided a 15-year guarantee of fixed minimum FiTs.²⁷

²¹ Respondent’s Rejoinder, para 62.

²² Newspaper article in “Moderniobec.cz” (Czech original and English translation), pp. 10-11 (C-32).

²³ 2004 Report on the Achievement of the Indicative Target for Renewable Electricity, p. 18 (R-165).

²⁴ *Ibid.*, p. 3 (R-165) (emphasis added).

²⁵ Fourth National Communication of the Czech Republic on the UN Framework Convention on Climate Change, p. 35 (C-72) (emphasis added).

²⁶ *Ibid.*, p. 41 (C-72) (emphasis added).

²⁷ Lecture by ERO at the conference “Energy from the Sun,” Prague, 26 January 2006 (C-34); ERO presentation by Mr. Stanislav Trávníček, Augsburg, 9 October 2008 (C-230).

i. In a 2006 presentation in Prague, the ERO stated that “[p]romotion of power generation from renewable resources pursuant to Act no. 180/2005 Coll.” included “economic return – 15 years” and “*preservation of promotion for 15 years while, taking into account the industrial producers price index (in feed-in tariffs).*”²⁸

ii. Two years later in a presentation in Augsburg entitled “Support of Renewable Electricity in the Czech Republic,” the ERO reiterated that the Act on Promotion “guaranteed” a “15 years (sic) payback period of investments.”²⁹ Similarly, the Czech Energy Agency stated in a presentation given in a 2006 workshop in Beroun that the Act on Promotion provided “*Guaranteed prices for 15 years (ERO price assessment).*”³⁰

e. The Czech Republic said in a 2006 Report on the Act that: “Act No 180/2005 on the promotion of electricity produced from renewable energy sources, which *guaranteed the long-term, stable support required for business decisions*, entered into effect on 1 August 2005. As of 1 January 2006 this Act introduced a new support system, the key features of which are: ... *the guarantee of revenue per unit of electricity produced over a 15-year period* as of the date a plant is put into operation [and] *the preservation of the level of feed-in tariffs for 15 years* for plants already in operation.”³¹ Once more, the Czech Republic’s statements focused on the guaranteed FiTs (or “revenue” and “feed-in tariffs”), over a 15-year period, and not on “return of investment” or payback period.

f. An Action Plan, submitted by the Czech Republic to the European Union in July 2010, addressed the question “how long is the *fixed tariff guaranteed,*” by stating “[t]ariffs are guaranteed according to the following table,” listing a “*Feed-in price guarantee (in years)*” for photovoltaic sources as “20 [years].”³² The 2010 Action Plan also stated, in answering a question whether “any tariff adjustment [is] foreseen in the scheme,” that “Feed-in prices for new production installations are calculated on an annual basis, taking into account current investment costs. *For existing sources, i.e. production installations already in operation, the prices are increased by 2 to 4 percent according to the development of the industrial producer price index.*”³³ The Action Plan said specifically that there were no caps or ceilings on the volume of electricity that was eligible for the guaranteed minimum tariffs.³⁴ As with the Czech Republic’s statements quoted above, the Action Plan referred to guaranteed “tariffs” and “feed-in-prices,” not “return of investment.”

g. A “Questions & Answers” section on the ERO’s website quotes, both in English and German, the provisions of Decree No. 150/2007, including the statements that the “*Purchase Price and Green Bonus are claimed according to Regulation No. 150/2007 coll. on the lifespan of facilities generating electricity*” and that the “*Purchase Prices ... will increase annually considering the price index of industrial manufacturers by 2 % minimum and 4 % maximum - with the exception of those facilities incinerating biomass and biogas.*”³⁵ The website also addresses the question whether “it [is] true that lifespan and pertinent payment of Purchase Prices was extended for photovoltaic power plants” stating “*Purchase Price and Green Bonus for photovoltaic plants with a start-up of operations on or after 1 January 2008 can be claimed for a term of 20 years.*”³⁶ Once again, the references are to guaranteed “Purchase Prices,” not “return of investment.”

²⁸ Lecture by ERO at the conference “Energy from the Sun,” Prague, 26 January 2006, p. 12 (C-34) (emphasis added).

²⁹ ERO presentation by Mr. Stanislav Trávníček in Augsburg on 9 October 2008, p. 4 (C-230).

³⁰ Lecture by ERO on support of renewable energy sources, 26 October 2006, p. 13 (C-35) (emphasis added).

³¹ “2006 Report on the Achievement of the Indicative Target for Renewable Electricity”, p. 19 (R-259) (emphasis added).

³² National Renewable Energy Action Plan of July 2010 published by the Ministry of Industry and Trade, pp. 58-59 (C-73) (emphasis added).

³³ *Ibid.*, p. 59 (emphasis added).

³⁴ *Ibid.*, p. 58.

³⁵ Q&A tool available on the ERO’s website in 2009, pp. 4-5, Göde FWS, Annex II (emphasis added).

³⁶ *Ibid.*, p. 11 (emphasis added).

25. One of the Czech Republic’s principal fact witnesses in this arbitration, Mr. Josef Fiřt, also expressly conceded that Section 6(1)(b)(2) of the Act provided a statutory guarantee of fixed minimum FiTs for the statutorily prescribed 15-year period: “The Act on Promotion required that, provided the investment met technical and economic benchmarks, the Subsidy level would be sufficient to receive a payback of the investment costs within 15 years. To accomplish this objective, *the Subsidy for each installation was to be fixed at the date of commissioning for a period of at least 15 years, subject to an annual adjustment for inflation.*”³⁷
26. In my view, these statements by the Czech Republic leave no doubt, as the Tribunal correctly recognizes, that the Czech Republic affirmatively described the Act on Promotion to investors as a guarantee of stability. In addition, however, these statements also leave no doubt that Section 6(1)(b)(2) means just what it says – “minimum purchasing prices,” “feed-in tariffs,” “revenue,” or “Purchasing Prices” for electricity from renewable energy sources would be “maintained as the minimum for a period of 15 years.” These statements unequivocally assured investors, and their lenders, that fixed minimum FiTs were guaranteed for a period of 15 (later, 20) years from the date of commissioning of a solar energy installation. There is no other plausible interpretation of these unambiguous statements, made repeatedly and uniformly over a number of years, by numerous different representatives of the Czech Republic.
27. These statements by the Czech Republic were not limited, as suggested by the Tribunal,³⁸ to the early days of the Act on Promotion. Rather, as the quotations in paragraph 24 make clear, they were made consistently, from 2005 until 2010 (including in 2008, 2009 and 2010).
28. Finally, it is clear, as the Tribunal acknowledges, that the Solar Levy reduced the level of the FiTs payable to the Claimants and other investors in solar power plants. In the Tribunal’s words, “the essence of the Solar Levy was the reduction of certain FiTs.”³⁹ Likewise, the Respondent also concedes its imposition of the Solar Levy reduced the level of FiTs payable under the Act to the Claimants and other investors in the solar energy sector.⁴⁰ These acknowledgments are plainly correct: the Solar Levy indisputably was intended to, and did, reduce the level of the FiTs payable to investors under Section 6 the Act.

II. The treaties’ fair and equitable treatment clauses require the Czech Republic to honor its stabilization commitments to foreign investors

³⁷ Josef Fiřt Witness Statement, para. 6 (emphasis added).

³⁸ Award, para. 400.

³⁹ Award, para. 251.

⁴⁰ Transcript, Day 1, page 208, lines 3-5.

29. In my view, the Czech Republic's largely undisputed refusal to honor its unambiguous undertaking in Section 6 of the Act to maintain fixed minimum FiTs for 15 (later, 20) years is an unmistakable violation of the Treaties' guarantees of fair and equitable treatment. None of the Tribunal's efforts to justify the Czech Republic's breach of its undertakings is either supported by the Treaties' text or international law and, on the contrary, contradicts both.
30. As the Tribunal observes, the Treaties provide unambiguous guarantees of fair and equitable treatment. Article 2(1) of the Germany BIT provides in relevant part that "Each Contracting Party shall in all cases accord investments fair and equitable treatment," while Article 10(1) of the ECT provides that "Each Contracting Party shall, in accordance with the provisions of this Treaty, encourage and create stable, equitable, favourable and transparent conditions for Investors of other Contracting Parties to make Investments in its Area. Such conditions shall include a commitment to accord at all times to Investments of Investors of other Contracting Parties fair and equitable treatment."
31. Unlike the terms of some investment protection treaties, the guarantees of fair and equitable treatment in the Treaties are unqualified. They assure investors fair and equitable treatment "*in all cases*"⁴¹ and "*at all times*."⁴²
32. It is clear that fair and equitable treatment and non-impairment protections, like those in the Treaties, apply even in circumstances in which a state has not provided express assurances of stability or other specified treatment to investors: "there is certainly an obligation not to alter the legal and business environment in which the investment has been made,"⁴³ and "stable and equitable conditions are clearly part of the fair and equitable treatment standard under the ECT."⁴⁴ Or, as another tribunal reasoned, "the Claimant's reasonable expectations to be entitled to protection under the Treaty need not be based on an explicit assurance [from a government]."⁴⁵ Other arbitral awards by other investment tribunals are to the same effect, holding in multiple

⁴¹ Germany BIT, Article 2(1) (C-1) (emphasis added).

⁴² ECT, Article 10(1) (emphasis added).

⁴³ *Occidental Exploration and Production Company v. The Republic of Ecuador*, UNCITRAL Final Award, 1 July 2004, para. 191 (CLA-38).

⁴⁴ *Plama Consortium Limited v. Republic of Bulgaria*, ICSID Case No. ARB/03/24, Award, 27 August 2008, para. 173 (RLA-2).

⁴⁵ *Saluka Investments BV (The Netherlands) v. The Czech Republic*, Partial Award, 17 March 2006, para. 329, (RLA-16).

circumstances that a state's frustration of an investor's legitimate expectations gives rise to liability under a fair and equitable treatment obligation.⁴⁶

33. Importantly, however, if a state does provide an express or implied assurance of specified treatment to investors, that state's failure to honor its undertakings constitutes a denial of fair and equitable treatment, giving rise to liability under international law. In particular, as detailed below, where a state undertakes to provide an investor with specified treatment, protections or rights, regardless if it does so by contract, statute, or otherwise, then the state's subsequent denial of that treatment or those rights will generally constitute a denial of fair and equitable treatment.

34. The foregoing principles are non-controversial and are acknowledged expressly by the Tribunal:

"The Tribunal does not [...] accept the Respondent's suggestion that no legitimate expectations as to stability can arise in the absence of a legislative or contractual stabilization arrangement."⁴⁷

"The Tribunal accepts that promises or representations to investors may be inferred from domestic legislation in the context of its background, including official statements. It is not essential that the official statements have legal force."⁴⁸

⁴⁶ See *International Thunderbird Gaming Corporation v. The United Mexican States*, Award, 26 January 2006, para. 147 ("where a Contracting Party's conduct creates reasonable and justifiable expectations on the part of an investor (or investment) to act in reliance on said conduct, such that a failure by the NAFTA Party to honour those expectations could cause the investor (or investment) to suffer damages.") (CLA-56); *CME Czech Republic B.V. v. The Czech Republic*, Partial Award, 13 September 2001, para. 611 ("breached its obligation of fair and equitable treatment by evisceration of the arrangements in reliance upon which the foreign investor was induced to invest.") (CLA-44); *Waste Management, Inc. v. The United Mexican States*, ICSID Case No. ARB(AF)/00/3, Award 30 April 2004, para. 98 ("it is relevant that the treatment is in breach of representations made by the host State which were reasonably relied on by the claimant.") (RLA-179); *El Paso Energy International Company v. The Argentine Republic*, ICSID Case No. ARB/03/15, Award, 31 October 2011, para. 364 ("the legitimate expectations of a foreign investor can only be examined by having due regard to the general proposition that the State should not unreasonably modify the legal framework or modify it in contradiction with a specific commitment not to do so") (RLA-39); *LG&E Energy Corp et al v. Argentine Republic*, ICSID Case No. ARB/02/1, Decision on Liability, 3 October 2006, para. 125 ("the stability of the legal and business framework in the State party is an essential element in the standard of what is fair and equitable treatment") (CLA-51); *Suez, Sociedad General de Aguas de Barcelona, S.A. and Vivendi Universal, S.A. v. Argentine Republic*, ICSID Case No. ARB/03/19, UNCITRAL Decision on Liability, 30 July 2010, paras. 222-223 ("When an investor undertakes an investment, a host government through its laws, regulations, declared policies and statements creates in the investor certain expectations about the nature of the treatment that it may anticipate from the host State. The resulting reasonable and legitimate expectations are important factors that influence initial investment decisions and afterwards the manner in which the investment is to be managed. The theoretical basis of this approach no doubt is found in the work of the eminent scholar Max Weber, who advanced the idea that one of the main contributions of law to any social system is to make economic life more calculable and also argued that capitalism arose in Europe because European law demonstrated a high degree of 'calculability.' An investor's expectations, created by law of a host country, are in effect calculations about the future. Where a government through its actions subsequently frustrates or thwarts those legitimate expectations, arbitral tribunals have found that such host government has failed to accord the investments of that investor fair and equitable treatment.") (RLA-19).

⁴⁷ Award, para. 365 (footnote omitted).

⁴⁸ *Ibid.*, para. 366.

Similarly, the Czech Republic itself recognized these well-settled principles in this arbitration.⁴⁹ In my view, these acknowledgements are correct and reflect basic rules of international law: it is well-settled that a state may, under international law, make a binding commitment to foreign investors in its legislation.

35. This principle follows from the basic character of fair and equitable treatment protections, which focus on the legal framework of a state, which seek to ensure “fair,” “equitable,” and “just” conduct by states,⁵⁰ and which protect the legitimate expectations of investors.⁵¹ The decisive issue is not the form of a state’s undertaking (as a contract, statute, decree or regulation) to investors, but whether the statements and actions of the state provide a sufficiently clear commitment regarding future treatment to give rise to legal rights or legitimate expectations on the part of an investor.
36. It is well-settled that a state may make binding commitments to foreign investors through the medium of statutes or other legislative acts. That principle is affirmed by authorities too numerous to fully recite:
 - a. “[S]tability means that the investor’s legitimate expectations based on this legal framework and on *any undertakings and representations made explicitly or implicitly by the host state will be protected*. The investor may rely on that legal framework as well as on

⁴⁹ Respondent’s Counter-Memorial, para. 544 (“If a State wishes to “stabilize” its legislation — i.e., to render the legislation immutable and to make any changes to the legislation actionable — a particular process or procedure must typically be followed by the relevant State under its law.”).

⁵⁰ RUDOLF DOLZER, *Fair and Equitable Treatment: Today’s Contours*, 12 SANTA CLARA J. INT’L L. 7 (2014), p. 12 (“The acceptance of the standard is directly linked to the fundamental moral and legal grounding of the notion of fairness, anchored in a universally accepted sense of justice, but also in classic rules of customary law governing the protection of foreign nationals and companies.”) (CLA-43); STEPHAN W. SCHILL, *Fair and Equitable Treatment, the Rule of Law, and Comparative Public Law* in INTERNATIONAL INVESTMENT LAW AND COMPARATIVE PUBLIC LAW 151 (Stephan W. Schill ed. 2010), p. 159 (“[M]ore recent arbitral jurisprudence increasingly converges in its application of fair and equitable treatment. It uses the standard to restrict the exercise of sovereign powers by host states, thus interpreting fair and equitable treatment as a public law concept.”). See also MARC JACOB & STEPHAN W. SCHILL, *Fair and Equitable Treatment: Content, Practice, Method*, in INTERNATIONAL INVESTMENT LAW: A HANDBOOK 700 (Marc Bungenberg et al. eds. 2015), p. 761 (“[T]he [FET] standard can be understood as an embodiment of the rule of law as it is familiar to numerous domestic and international legal regimes.”).

⁵¹ *Electrabel S.A. v. Republic of Hungary*, ICSID Case No. ARB/07/19, Award, 25 November 2015, para. 7.78 (“Fairness and consistency must be assessed against the background of information that the investor knew and should reasonably have known at the time of the investment and of the conduct of the host State. While specific assurances given by the host State may reinforce the investor’s expectations, such an assurance is not always indispensable Specific assurances will simply make a difference in the assessment of the investor’s knowledge and of the reasonability and legitimacy of its expectations.”) (CLA-88).

representations and undertakings made by the host state *including those in legislation, treaties, decrees, licenses, and contracts.*"⁵²

b. "Legitimate expectations may follow from *explicit or implicit representations made by the host state*, or from its contractual commitments. The investor may even sometimes be entitled to presume that the *overall legal framework of the investment will remain stable.*"⁵³

c. "What the investor may legitimately expect must be evaluated in the light of all circumstances in each given case. The expectations may relate not only to the existing contractual or other relations between the investor and the host state, *but may also concern the general legal framework in the host state.*"⁵⁴

d. "[A]n investor may derive legitimate expectations either from (a) specific commitments addressed to it personally, for example in the form of a stabilization clause, or (b) *rules that are not specifically addressed to a particular investor* but which are put in place with a specific aim to induce foreign investments and on which the foreign investor relied in making his investment."⁵⁵

37. These conclusions are also eminently sensible. In today's market economies, it is essential for states to have the ability to provide undertakings to private parties by way of "general" legislative or regulatory instruments. Modern states cannot negotiate contracts with large numbers of private actors, but as a practical matter must instead regulate the conduct of private actors through legislation. This is a common and distinguishing feature of an economic system based on the

⁵² *Frontier Petroleum Services Ltd. v. The Czech Republic*, UNCITRAL Final Award, 12 November 2010, para. 285. See also *Binder v. The Czech Republic*, UNCITRAL Final Award, 15 July 2011, para. 443 (CLA-42); *CMS Gas Transmission Company v. The Argentine Republic*, Award, ICSID Case No. ARB/01/8, 12 May 2005, para. 275 (CLA-48); *EDF (Services) Limited v. Romania*, ICSID Case No. ARB/05/13, 8 October 2009, para. 217 ("Except where specific promises or representations are made by the State to the investor, the latter may not rely on a bilateral investment treaty as a kind of insurance policy against the risk of any changes in the host State's legal and economic framework. Such expectation would be neither legitimate nor reasonable.") (RLA-175).

⁵³ *Toto Costruzioni Generali S.P.A v. Republic of Lebanon*, Award, ICSID Case No ARB/07/12, 7 June 2012, para. 159 (RLA-41).

⁵⁴ *Binder v. The Czech Republic*, UNCITRAL Final Award, 15 July 2011, para. 443 (CLA-42).

⁵⁵ UNCTAD, FAIR AND EQUITABLE TREATMENT, UNCTAD Series on Issues in International Investment Agreement II (2012), p. 69 (footnotes omitted) (CLA-85). See also RUDOLF DOLZER & CHRISTOPH SCHREUER, PRINCIPLES OF INTERNATIONAL INVESTMENT LAW (2d ed. 2012), p. 145 ("The investor's legitimate expectations are based on the host state's legal framework and on any undertakings and representations made explicitly or implicitly by the host state.") (CLA-35); MARC JACOB & STEPHAN W. SCHILL, *Fair and Equitable Treatment: Content, Practice, Method*, in INTERNATIONAL INVESTMENT LAW: A HANDBOOK 700 (Marc Bungenberg et al. eds. 2015), p. 748 ("[W]hen a foreign investor merely relies on the general legal framework without any specific commitments on behalf of the host State to attract foreign investor those concepts [of legitimate expectations predictability, and legal stability] may only have a more marginal scope of application. *They might still come into play, however, especially with respect to legislation with retroactive effect.*") (emphasis added). See also *BG Group Plc. v. The Republic of Argentina*, UNCITRAL Ad Hoc Arbitration, Final Award, 24 December 2007, para. 343 ("Thus, withdrawal of undertakings and assurances given in good faith to investors as an inducement to their making an investments (sic) is by definition unreasonable.") (RLA-123); *Sempra Energy International v. The Argentine Republic*, ICSID Case No. ARB/02/16, Award, 28 September 2007, para. 298 ("The essence of the protection sought was well explained in Tecmed, where the tribunal held in the light of the good faith requirement that under international law, the foreign investment must be treated in a manner such that it 'will not affect the basic expectations that were taken into account by foreign investor to make the investment.' This requirement becomes particularly meaningful when the investment has been attracted and induced by means of assurances and representations, as has been established in the jurisprudence that the Claimant has invoked.") (RLA-234).

rule of law, where legislative provisions, rather than individual governmental commands or directives, govern private conduct. It would gravely obstruct a state's governance and regulation, and undermine the rule of law, to deny states the power to make binding commitments to private parties, including investors, by way of legislative (or regulatory) guarantees.

38. Put simply, the members of the Tribunal and the Respondent agree that international law generally recognizes and gives binding effect to the authority of states to make binding, internationally-enforceable commitments to private actors that are capable of giving rise to the investor's legitimate expectations that the state will not renege on that commitment. Despite this, however, the Tribunal suggests that "[p]rovisions of general legislation applicable to a plurality of persons or a category of persons" are incapable of giving rise to legitimate expectations on the part of those persons "that there will be no change in the law."⁵⁶
39. The Tribunal apparently takes the view that when a state makes a commitment to investors in "general legislation applicable to a plurality of persons or a category of persons" – as opposed to by a contract or (individual) administrative act – that commitment is incapable of creating legitimate expectations that the law will remain unchanged. Relying on the award in *Philip Morris Brands SÀRL v. Uruguay*, the Tribunal says that "the State's rights to exercise its sovereign authority to legislate and to adapt its legal system to changing circumstances [remains unaffected]" if those legislative changes "do not exceed the exercise of the host State's normal regulatory power in the pursuance of a public interest and do not modify the regulatory framework relied upon by the investor at the time of its investment outside the acceptable margin of change."⁵⁷ In short, the Tribunal holds that if a state makes undertakings to a class of investors through the medium of "general legislation," the investor's legitimate expectations that the law will remain unchanged will be limited to changes that do not modify the regulatory framework for the investment beyond "an acceptable margin of change."
40. Similarly, citing awards in *Saluka Investments BV v. Czech Republic*, *Electrabel SA v. Hungary*, and *Arif v. Republic of Moldova*, the Tribunal also says that [t]he application of the FET standard allows for a *balancing or weighing exercise by the State* and the determination of a breach of the FET standard must be made in the light of the *high measure of deference* which international law generally extends to the right of national authorities to regulate matters within their own borders."⁵⁸

⁵⁶ Award, para. 360, no. 1.

⁵⁷ *Ibid.*, para. 360, nos. 7 and 8.

⁵⁸ *Ibid.*, para. 360, no. 9 (emphasis added).

41. References to “an acceptable margin of change,” a “balancing or weighing exercise by the State” and “a high measure of deference ... to the [state’s] right to regulate” appear to parallel the “margin of appreciation doctrine.” The margin of appreciation, as summarized by one commentator, “is most famously a doctrine of deference employed by the [European Court of Human Rights (“ECtHR”)] for resolving a state’s compliance with its obligations under the [European Convention on Human Rights (“ECHR”)]. The basic idea is that the state is entitled to a certain ‘space for maneuver,’ within which its conduct is exempt from fullfledged review.”⁵⁹ Paralleling this analysis, the Tribunal appears to conclude that the state retains a margin of discretion to balance the investor’s expectations against public policy objectives and that only exercise of regulatory power exceeding that margin can constitute a breach of that state’s obligations under the Treaties’ fair and equitable treatment and non-impairment standards, even where an undertaking to investors has been made.
42. I disagree fundamentally with the Tribunal’s analysis. The fact that a state makes an undertaking to investors in general legislation does not “limit” the legitimate expectations of investors nor afford the state with a margin of appreciation to refuse to honor the commitments it has made (whether by statute, treaty, contract or otherwise). As discussed above, the principle that legitimate expectations may arise from general legislation, i.e. “*rules that are not specifically addressed to a particular investor* but which are put in place with a specific aim to induce foreign investments”⁶⁰ is affirmed by numerous authorities. In my view, unless the language of the investment protection treaty says otherwise, there is no room for the proposition that states retain a margin of discretion to modify or disregard undertakings given to investors through “general legislation.”
43. The Tribunal’s suggestion that, absent specific commitments, general legislation is only capable of giving rise to “limited” legitimate expectations of stabilization (here, of tariff levels) is, in my view, contrary to the basic character of a state’s obligation to accord investments fair and equitable treatment. This obligation ensures fairness, equity, basic justice and rule of law; it is not directed towards formalities or technicalities.⁶¹
44. As a consequence, where a state is found to have provided undertakings or commitments to a class of investors of specified treatment, for a prescribed period of time, in its general legislation, obligations of fair and equitable treatment apply no less than where the state has made a specific

⁵⁹ JULIAN ARATO, *The Margin of Appreciation in International Investment Law*, 54 VA. J. INT’L L. 545 (2013-2014), pp. 549-550.

⁶⁰ UNCTAD, FAIR AND EQUITABLE TREATMENT, UNCTAD Series on Issues in International Investment Agreement II (2012), p. 69 (footnotes omitted) (CLA-85).

⁶¹ See paras. 32-37 above.

stabilization commitment to an individual investor. Fairness, justice and the rule of law apply no less to democratically-enacted laws than to a state's contractual commitments or executive declarations. As discussed above, the focus is not on artificial or arbitrary distinctions between "statutory" and "contractual" undertakings or "general legislation" and "specific assurances," but on whether the state's actions and statements have provided undertakings to investors which it would be unfair or inequitable for the state to dishonor.⁶²

45. Similarly, the fair and equitable treatment doctrine is directed towards the protection of the legitimate expectations of investors. There is no requirement that those expectations arise only from contractual instruments, or "specific" representations;⁶³ indeed, as noted above, fair and equitable treatment analysis focuses on a state's overall legal framework. The decisive question is not the form of a state's representations but whether the content and character of those representations is sufficiently clear to give rise to legitimate investor expectations that the state will abide by its commitments.
46. As discussed in detail above, that is plainly what the Czech Republic did in Section 6 of the Act: it unambiguously guaranteed investors in renewable energy fixed minimum FiTs for a 15 (later 20) year period. As a consequence, investors who made investments in compliance with the Act on Promotion's requirements could legitimately expect that the Czech Republic would honor its undertaking to maintain the fixed minimum FiTs for the specified time period. The fact that the Czech Republic made this guarantee to a number of investors, not just one investor, is irrelevant to the question whether that guarantee must be honored: as detailed above, it is well-settled that a state may make binding commitments through statutes and legislative acts, as well as otherwise.
47. Similarly, in my view, the Tribunal's reliance on a "margin of discretion" or "margin of change" in the context of a state's breaches of statutory or contractual guarantees of specified treatment to investors is fundamentally contrary to the text, objects and purposes of the Treaties and to the weight of well-reasoned authority on the topic. Indeed, in applying a "margin of discretion" or "margin of change" to a state's breach of its own guarantee of treatment to investors, the Tribunal adopts an unprecedented and, in my view, indefensible position.

⁶² See para. 33 above.

⁶³ *Electrabel S.A. v. Republic of Hungary*, ICSID Case No. ARB/07/19, Award, 25 November 2015, para. 7.78 ("Fairness and consistency must be assessed against the background of information that the investor knew and should reasonably have known at the time of the investment and of the conduct of the host State. While specific assurances given by the host State may reinforce the investor's expectations, such an assurance is not always indispensable Specific assurances will simply make a difference in the assessment of the investor's knowledge and of the reasonability and legitimacy of its expectations.") (CLA-88) (emphasis added).

48. First, I disagree with the Tribunal’s suggestion that the proposition that a state is entitled to a “margin of appreciation” or some kind of margin of discretion in all circumstances reflects the “present state of international law and practice.”⁶⁴ The application of a margin of appreciation to a state’s fair and equitable treatment obligations under investment treaties is not a generally accepted principle of international law.⁶⁵ On the contrary, outside the specific ECHR context, the decisive weight of international authority correctly rejects application of a margin of appreciation as a general principle of international law:

a. The International Court of Justice refused to apply a margin of discretion in *Oil Platforms*.⁶⁶ Instead, the Court held that “the requirement of international law that measures taken avowedly in self-defence must have been necessary for that purpose is strict and objective, leaving no room for a ‘measure of discretion’.”⁶⁷

b. The International Military Tribunal for the Nuremberg trials refused to afford a margin of appreciation to decisions by German authorities in World War II, holding instead that “whether the action taken under the claim of self-defense was in fact aggressive or defensive must ultimately be subject to investigation and adjudication if international law is ever to be enforced.”⁶⁸

c. An investment tribunal in *Pezold v. Zimbabwe* rejected the application of a margin of appreciation in the following terms: “[D]ue caution should be exercised in importing concepts from other legal regimes (in this case European human rights law) without a solid basis for doing so. Balancing competing (and non-absolute) human rights and the need to grant States a margin of appreciation when making those balancing decisions is well established in human rights law, but the Tribunal is not aware that the concept has found much support in international investment law. ... This is a very different situation from that in which margin of appreciation is usually used. Here, the Government has agreed to specific international obligations and there is no ‘margin of appreciation’ qualification within the BITs at issue. Moreover, the margin of appreciation doctrine has not achieved customary status. Therefore the Tribunal declines to apply this doctrine.”⁶⁹

d. In *Quasar de Valores*, another investment tribunal rejected the application of a margin of appreciation outside the context of human rights protections: “For one thing, human rights conventions establish minimum standards to which all individuals are entitled irrespective of any act of volition on their part, whereas investment-protection treaties contain undertakings which are explicitly designed to induce foreigners to make investments in reliance upon them. It therefore makes sense that the reliability of an instrument of the latter kind should not be diluted by precisely the same notions of ‘margins of appreciation, that apply to the former.’”⁷⁰

⁶⁴ Award, para. 360.

⁶⁵ See JULIAN ARATO, *The Margin of Appreciation in International Investment Law*, 54 VA. J. INT’L L. 545 (2013-2014), p. 554.

⁶⁶ *Oil Platforms (Islamic Republic of Iran v. United States of America)*, Judgement, 2003 ICJ REP. 161.

⁶⁷ *Ibid.*, para. 73.

⁶⁸ International Military Tribunal (Nuremberg), Judgment and Sentences, 1 October 1946, 1 AMERICAN JOURNAL OF INTERNATIONAL LAW 172 (1947), p. 207.

⁶⁹ *Bernhard von Pezold and Others v. Republic of Zimbabwe*, ICSID Case No. ARB/10/15, Award, 28 July 2015, paras. 465-466. The tribunal went further, noting at paras. 467-468: “In any case, the Claimants have noted that neither the “margin of appreciation” nor the proportionality doctrine can be used to justify illegal conduct, such as a breach of an obligation *erga omnes*, by engaging in racial discrimination ... there is ample evidence that the Claimants were targeted in the present case on the basis of skin colour. Accordingly, the Respondent’s arguments relating to the margin of appreciation are also dismissed.”

⁷⁰ *Quasar de Valores SICAV S.A. and others (formerly Renta 4 S.V.S.A and others) v. Russian Federation*, SCC Case No. 24/2007, Award, 20 July 2012, para. 22 (CLA-15).

49. In my view, these authorities are clearly correct. The awards cited by the Tribunal are outliers, which are neither well-considered nor reflective of the weight of authority on the topic.⁷¹ There is certainly no basis, given these authorities, for concluding that the application of a margin of discretion represents the present state of international law and practice.
50. Second, there is no reference to any “margin of discretion” or analogous standard of deference in either of the Treaties providing a textual basis for the Tribunal’s decision to abstain from a meaningful review of the Czech Republic’s acts under the Treaties and, in particular, there is no reference to any such margin in either of the Treaties’ fair and equitable treatment or non-impairment protections. On the contrary, as noted above, both Treaties provide the investors unqualified protections of fair and equitable treatment.⁷²
51. Third, the Tribunal’s reliance on a margin of discretion is even less justifiable – and is instead deeply flawed – where a state has made specific promises or representations to investors, as is the case here. As discussed above, the Respondent enacted statutory provisions guaranteeing investors not only general stability of the legal framework applicable to renewable energy but that specified minimum FiTs would be paid for electricity produced by renewable energy sources for a period of 15 (later 20) years. In these circumstances, application of a margin of discretion under the Treaties is wholly unjustifiable.
52. Most fundamentally, application of a margin of discretion (or change) in cases involving state guarantees of specified treatment to investors directly contradicts both the terms and purposes of such guarantees and, by extension, of fair and equitable treatment protections. The whole point of a state’s guarantee of specified treatment – like fixed minimum tariffs for a defined time period – is to exclude the possibility of later legislative change in breach of these guarantees. Applying a “margin of discretion” in this context fundamentally contradicts the basic purposes of state guarantees and, in turn, fair and equitable treatment protections.

⁷¹ The different tribunals’ formulations of, or references to, a margin of appreciation on which the Tribunal relies differ widely in both the underlying rationale for the application of such a doctrine as well as in the degree of deference adopted vis-à-vis the state actions. JULIAN ARATO, *The Margin of Appreciation in International Investment Law*, 54 VA. J. INT’L L. 545 (2013-2014), p. 551. Commentators have identified a variety of rationales for deference in investor-state arbitration, see, e.g., CAROLINE HENCKELS, *Balancing investment protection and the public interest: the role of the standard of review and the importance of deference in investor-state arbitration* 4 JOURNAL OF INTERNATIONAL DISPUTE SETTLEMENT 197 (2013), pp. 203 *et seq.*

⁷² This is particularly evident in the case of the ECT, which narrowly circumscribes in Article 24 the non-precluded measures applicable to Article 10(1). That provision does not contain a general “margin of appreciation” or public policy exception, the ECT instead sets forth very specific exceptions relating to human and animal health, security interests and public order (not pleaded by the Respondent and plainly not applicable here). See ALEXANDER REUTER, *Die nachträgliche Kürzung der Förderung erneuerbarer Energien auf dem Prüfstand völkerrechtlicher Investitionsschutzabkommen [Retrospective Cuts to Renewable Energy Support on the Test Bench of International Investment Protection Treaties]*, 1-2 RECHT DER INTERNATIONALEN WIRTSCHAFT (RIW) 43 (2014), p. 49.

53. This has been uniformly recognized in those awards addressing this issue. As the tribunal held in *BG Group v. Argentina*:

“withdrawal of undertakings and assurances given in good faith to investors as an inducement to their making an investments (sic) is by definition unreasonable.”⁷³

Similarly, the tribunal in *EDF v. Romania*, on whose findings the Tribunal relies, held that “[e]xcept where specific promises or representations are made by the State to the investor, the latter may not rely on a bilateral investment treaty as a kind of insurance policy against the risk of any changes in the host State’s legal and economic framework.”⁷⁴

54. On the Tribunal’s reasoning, a state’s contractual and other stabilization commitments to investors would apparently be subject to a “margin of discretion.” These commitments would not mean either what they said or what the state promised: they would only mean what the state later appreciated, in the exercise of its discretion. In my view, that betrays the expectations of investors, denies states the power to make internationally binding commitments and contradicts basic principles of international law.
55. Finally, finding that the state has made undertakings through general legislation does not mean that it is stripped of its regulatory power and put under the obligation to “crystallize” its regulatory framework. On the contrary, I agree with the Tribunal’s observation that “[t]he requirements of legitimate expectations and legal stability as manifestations of the FET standard do not affect the State’s rights to exercise its sovereign authority to legislate and to adapt its legal system to changing circumstances”⁷⁵ – but despite maintaining its freedom to regulate the state is under the obligation to redress the damage suffered by an investor whose expectations were frustrated.⁷⁶
56. When a state undertakes, by contract, legislation or otherwise, to provide particular treatment to a foreign investor, that undertaking will be given effect under international law, and violations of that undertaking will give rise to claims for compensation by the investor under commitments to

⁷³ *BG Group Plc. v. The Republic of Argentina*, UNCITRAL Ad Hoc Arbitration, Final Award, 24 December 2007, para. 343 (RLA-123).

⁷⁴ *EDF (Services) Limited v. Romania*, ICSID Case No. ARB/05/13, 8 October 2009, para. 217 (RLA-175) (emphasis added).

⁷⁵ Award, para. 360, no. 8.

⁷⁶ *Charanne and Construction Investments v. Spain*, SCC Case No. V 062/2012, Guido Santiago Tawil’s Partial Dissenting Opinion, 21 December 2015, para. 11 (RLA-156).

provide fair and equitable treatment.⁷⁷ In doing so, international law does not constrain the autonomy of states, but rather gives effect to it, by enabling states to provide enforceable commitments to private actors, in order to obtain valuable investments or other benefits from those actors.

57. As discussed in detail above, the Czech Republic unequivocally guaranteed specified minimum FiTs for a fixed statutory time period (of 15, later 20 years): Section 6(1)(b)(2) guarantees that the “revenues per unit of electricity,” and the “Purchasing Prices” for electricity, produced from specified renewable energy sources will be “maintained as the minimum for a period of 15 years,” subject only to the possibility of upward (not downward) adjustment of the price for inflation. That legislative guarantee, which was, as also discussed above, repeatedly reaffirmed in governmental statements, provided investors with an enforceable right to, and legitimate expectation of, stabilized FiTs for 15 (later 20) years – an expectation that the Czech Republic frustrated when it reduced those FiTs by imposing the Solar Levy.
58. That conclusion suffices to establish a violation of the Treaties’ fair and equitable treatment protections, entitling the Claimants to compensation. As discussed in detail above, international law, as well as Article 2(1) of the Germany BIT and Article 10(1) of the ECT, recognizes and gives effect to the power of the Czech Republic to make binding, internationally enforceable commitments to private parties.⁷⁸ Where the Czech Republic makes, and then breaches, such a commitment, it violates the Treaties’ fair and equitable treatment guarantees and international law. Here, the Czech Republic provided, and then breached, guarantees of fixed minimum FiTs for the electricity produced by the Claimants’ solar plants for a 15 (later 20) year period. That violates the Treaties’ guarantees of fair and equitable treatment entitling the Claimants to compensation.

⁷⁷ The same conclusion follows under the Treaties’ non-impairment guarantees. Article 2(2) of the Germany BIT (C-1) provides that “Neither Contracting Party shall in any way impair by arbitrary or discriminatory measures the management, maintenance, use, or enjoyment of investments in its territory by investors of the other Contracting Party,” and Article 10(1) of the ECT provides that “Each Contracting Party shall, in accordance with the provisions of this Treaty, encourage and create stable, equitable, favourable and transparent conditions for Investors of other Contracting Parties to make Investments in its Area. Such conditions shall include a commitment to accord at all times to Investments of Investors of other Contracting Parties fair and equitable treatment. Such Investments shall also enjoy the most constant protection and security and no Contracting State shall in any way impair by unreasonable or discriminatory measures their management, maintenance, use, enjoyment or disposal.”

⁷⁸ See paras. 29-38 above.

III. The Claimants had no reason to expect the Czech Republic to withdraw these guarantees retrospectively

59. Although the Tribunal acknowledges that the Czech Republic adopted and repeatedly referred to the Act on Promotion as a guarantee of stability, the Tribunal also denies that this guarantee gave rise to a legitimate expectation by solar investors in mid-2010 that there would be no reductions in Section 6's minimum FiTs. I do not believe that the evidence can be reconciled with this conclusion.

60. The Tribunal's Award accepts the Respondent's argument that, by mid-2010, the Claimants should have expected that further changes in the regulatory framework were likely. The Award states:

"It was clear from mid-2010 that the Government might resort to taxation measures to deal with the solar boom, and statements to that effect by the Prime Minister, Minister of Industry and Trade, and the Minister of Environment were widely reported."⁷⁹

"The Tribunal accepts that the Solar Levy was a transparent device to avoid what the Respondent had been advised might cause investor claims. That is clear from the minutes the Coordination Committee. But, in common with the Czech Constitutional Court, and the European Commission's Decision on state aid, the Tribunal does not consider that the modifications to the support scheme and the tax measures were retroactive, and considers that they did not violate the principle of legitimate expectation."⁸⁰

61. The Tribunal also concludes that:

"Dr Göde was essentially an opportunistic investor who saw a window of opportunity and who was aware, or should have been aware, that dealing with the solar boom was a fast-moving and controversial political issue."⁸¹

"He of course knew of, and endeavoured to take advantage of, the fact that the 5% limit had been removed only from 2011. But he was also aware that the Czech Government had been deeply concerned about the effect of the solar boom from 2009 and should have been aware that other legislative changes, especially with regard to tax, were in the air. The Claimants had avoided the February 2010 moratorium by taking assignments of the binding statements in relation to three of their largest projects."⁸²

62. The Tribunal therefore holds that the Claimants had "a speculative hope – as opposed to an internationally-protected expectation."⁸³ The Tribunal bases this conclusion on two principal categories of evidence: statements made by representatives of the Czech Republic in 2010 and the asserted lack of specific due diligence by Dr. Göde. In my view, none of this evidence, nor the other evidence in the record, supports the Tribunal's conclusions.

⁷⁹ Award, para. 425.

⁸⁰ *Ibid.*, para. 430 (footnotes omitted).

⁸¹ *Ibid.*, para. 431.

⁸² *Ibid.*, para. 433.

⁸³ *Ibid.*, para. 435 *citing* Respondent's Counter-Memorial, para 5(k).

63. First, it is in my view highly important to consider carefully what the Czech Republic said and did during the relevant time period (from mid-2009 to late 2010). In doing so, it is essential to have regard to the fact that most of the Claimants' investments were made prior to or during the summer of 2010.⁸⁴ During this time, the Czech Republic said and did the following:

a. On 24 August 2009, the Czech Ministry of Industry and Trade announced for the first time its intention to seek amendments to the Act on Promotion to reduce incentives for solar energy. The Ministry made this proposal because of concerns that an excessive number of solar plants were being planned by potential investors and that construction of these plants would result in an undue financial burden on the Czech Republic (which, as discussed above, had guaranteed the FiTs payable to these plants). Importantly, in considering a possible reduction in incentives for solar energy, the Ministry directed its attention only to the so-called 5% brake rule in Section 6(4) of the Act on Promotion, which the Ministry proposed abolishing prospectively (in January 2010), while also making it clear that the proposed changes would not affect the 15-year assurance of minimum FiTs for existing solar facilities.⁸⁵ Thus, while addressing imbalances in the renewable energy sector, the Ministry's proposal was directed only to the level of guaranteed minimum FiTs for *future* solar installations, not for *existing* solar installations which had already been commissioned.

b. The day after the Ministry of Industry and Trade's 24 August announcement, the Ministry's press department clarified the scope of the proposed changes in an interview published in a Czech newspaper (*Právo*). The Ministry explained that "the payback period of the investment will be guaranteed, specifically by a guarantee which is already included in the law saying that the investment in the solar system has to be paid off within 15 years."⁸⁶ There was again no suggestion by the Ministry that the guaranteed FiTs under Section 6(1)(b)(2) for existing solar installations would be affected.

c. A letter from the Ministry of Industry and Trade to the ERO on 28 August 2009 confirmed the Ministry's intention to preserve the treatment of existing solar installations which had already been commissioned, explaining that this was due in part to concerns about claims by existing renewable energy investors. The Ministry stated: "the goal of section 6(4) ... was to ensure the investors in renewable sources *certainty of payback of their investments, transparency, and predictability*. A simple cancellation could thus entail a *risk of suits filed by investors against the Czech Republic on grounds of lost investments*."⁸⁷ Again, the Ministry emphasized that existing projects would not be affected by any amendments to the Act, which would entail only a prospective amendment to Section 6(4)'s 5% brake rule.

d. In September 2009, the ERO wrote an open letter to the Czech Chamber of Deputies, citing delays in the introduction of legislative changes to Section 6(4)'s 5% brake rule and again stating that any amendments to the Act's guaranteed FiTs would only affect new

⁸⁴ The Claimants' expectations that the Czech Republic would not reduce the FiTs of installations commissioned before 1 January 2011 are limited to those investments made prior to the Czech government's decision to adopt the Solar Levy (20 October 2010). Here, all four plants affected by the Solar Levy were commissioned before 1 January 2011 (Stříbro plant on [REDACTED] Úsilné plant on [REDACTED] Osečná plant on [REDACTED] Mozolov plant on [REDACTED]). Moreover, the capital for these plants was, in most cases, committed well before these dates (and long before summer 2010 and the press reports cited by the Tribunal). The only apparent exception involves loans made by the Claimants to [REDACTED] and [REDACTED] on [REDACTED] (see Award, paras. 407, 409).

⁸⁵ "Ministry of Industry and Trade will Equalize the Support of Renewable Energy Sources," Ministry of Industry and Trade Press Release (mpo.cz) (Czech and English original), p. 1 ("The Ministry of Industry and Trade is planning to change the maximum 5% limit by which the Energy Regulation Office can reduce the purchase price of electricity from renewable energy sources annually. ... The Ministry of Industry and Trade is trying to ensure that the new act comes into force on 1 January next year.") (R-138).

⁸⁶ "Ministry of Industry and Trade wants to reduce support of solar power plants," *Právo* (Czech original and English translation), p. 1 (R-139) (emphasis added).

⁸⁷ Letter from R. Portužak to B. Němeček, 28 August 2009, p. 1 (R-145) (emphasis added).

sources commissioned after “1 January 2011.”⁸⁸ The ERO explicitly stated that this delay would enable solar investors that were already in the process of completing investments “to prepare sufficiently in advance for the change in the conditions for investing which should eliminate entirely the risk of possible lawsuits in the Czech Republic regarding protection of investments.”⁸⁹

e. Adopting the ERO’s recommendations, the Czech government proposed an amendment to the Act on Promotion in November 2009. The Explanatory Report to that Draft Act 137/2010 once more confirmed the Czech government’s commitment to preserving the statutorily-guaranteed treatment of solar installations that had already been commissioned. The Report stated that one of the aims of “[t]he proposed wording ... [was to] enable the [ERO] to adjust the prices for solar power ... as of 1 January 2011.”⁹⁰ The Report repeated the explanation, provided in the ERO’s earlier statements, that the prospective character of the amendment was intended to provide “[i]nvestors ... [to] prepare sufficiently in advance for amendment of the conditions for investment, which should entirely eliminate the risk of potential lawsuits against the Czech Republic related to protection of investments.”⁹¹

f. The amendment to the Act on Promotion was approved by the Chamber of Deputies on 17 March 2010 and came into force on 20 May 2010.⁹² The amendment provided only for the prospective elimination of Section 6(4)’s 5% brake rule for solar facilities commissioned after 1 January 2011 (not for facilities commissioned after January 2010).⁹³ The proposed amendment did not alter the guaranteed FiTs under Section 6(1)(b)(2) for existing solar installations that had already been commissioned or that would be commissioned prior to 1 January 2011. As Mr. Vladimír Tošovský, the Czech Minister of Industry and Trade, explained at a press conference on 16 November 2009, the decision to apply the elimination of the 5% brake rule only to solar plants commissioned after 1 January 2011 was deliberately taken to protect existing investments and investors’ expectations: “It is because some projects are currently under way and the investors or banks have already invested in them. If we did this, it would mean changing the terms and conditions under which they invested in the course of the development, which could pose a threat to their investment. That is why it is 2011.”⁹⁴

g. In February 2010, TSO and DSOs agreed on a moratorium refusing “new connection requests” for photovoltaic installations.⁹⁵ The moratorium was intended to address the predicted regulatory imbalance in the solar energy sector, but it only affected new installations, not existing investments. This was confirmed by the representatives of the Czech Republic.⁹⁶

h. In July 2010, the Czech Republic’s 2010 Action Plan (submitted to the EU) stated that “[t]ariffs are guaranteed according to the following table,” listing a “Feed-in price guarantee (in years)” for photovoltaic sources as “20 [years].”⁹⁷ The same document contained various

⁸⁸ Letter from J. Fiřt to O. Vojtř, p. 2 (C-201) (“The proposed wording will enable the Office with effect from 1st January 2011 to adjust the prices for photovoltaics in harmony with the principles used for other types of renewable resources thus removing the current discrimination against other types of renewable resources.”).

⁸⁹ *Ibidem*.

⁹⁰ Explanatory Report to Draft Act No. 137/2010 Coll., p. 5 (R-147) (emphasis added).

⁹¹ *Ibidem* (emphasis added).

⁹² Respondent’s Statement of Defense, para 56.

⁹³ See Article II of Act No. 137/2010 Coll., p. 27 (R-5).

⁹⁴ Czech Government’s press conference (Czech original and English translation), p. 2 (C-197).

⁹⁵ Respondent’s Counter-Memorial, para. 101 (emphasis added).

⁹⁶ Josef Fiřt Witness Statement, para. 21 (“Around the same time, the Czech transmission system operator, fearing for the stability of the electricity grid, insisted that the distribution companies observe a moratorium on issuing new grid connection approvals for new solar and wind plants.”).

⁹⁷ National Renewable Energy Action Plan, published by the Ministry of Industry and Trade, pp. 58-59 (C-73) (emphasis added).

further assurances to existing solar investors.⁹⁸ There was no suggestion of any sort in the 2010 Action Plan, or any associated documents that the FiTs which had been previously established and guaranteed for existing solar plants would be changed, notwithstanding the Czech government’s awareness of imbalances in the renewable energy sector.

i. In September 2010, the Czech government again considered legislation that would have reduced the financial costs of subsidies for renewable energy. In connection with proposed legislation, an Explanatory Report confirmed again that changes to FiTs for solar plants would only take effect with respect to solar installations commissioned after “1 January 2011.” The Report also made clear that the proposed legislation would not be applicable to “[p]hotovoltaic power plants *already connected to the electric power system*” and that the investors’ “*right to claim support [would be] preserved under existing conditions.*”⁹⁹ Furthermore, the government explicitly stated that “[f]acilities *not yet connected to the electric power system but which started operation before January 1, 2011 will have 12 months to be connected to the electric power system*” and would also have “*their right to claim support ... preserved.*”¹⁰⁰

64. At the Hearing, the Respondent’s expert acknowledged that these statements and regulatory actions gave investors in solar projects in the Czech Republic further comfort that plants commissioned in 2010 would not be affected by the changes.¹⁰¹ He confirmed that in his view investors could draw comfort from the September 2010 legislative amendment that no changes would be implemented for plants commissioned in 2010:

[Counsel for Claimants:] Now, this is September 15, 2010, so, by now, I think that they should have known very well what was going to happen in September 2010. This is a Government proposal which abolished all incentives related to large PV plants, from March 2011, and which was eventually approved by the Parliament on 3 November 2010.

Now, may I take you to the last page, when there are some interim provisions. And it says to – Section 2 –, it says: – It is a legislative change of claim for the support of production of electricity from Renewable Energy Sources, – ‘photovoltaic power plants already connected to the electric power system will have the right to claim support preserved under existing conditions.’

Now, don’t you think that, from an investor perspective again, this gave further comfort that no changes would have been implemented for the existing plants, for plants already connected in 2010?

[Mr. Wynne Jones]: I think that’s probably a fair comment.”¹⁰²

⁹⁸ See para. 24(f) above.

⁹⁹ Explanatory Report to Draft Act No. 330/2010 Coll. (Czech original and partial English translation), p. 6 (R-172) (emphasis added).

¹⁰⁰ *Ibidem* (emphasis added).

¹⁰¹ Transcript, Day 3, page 530, lines 6-22 (“[Counsel for Claimants]: Now, may I take you to Tab 21 in your bundle. And, this is actually this is the actual Government proposal for the Act that eventually amended the 5% Rule, and it’s dated 16 November 2009. If we go at Page 5, you can find at the bottom of the page exactly the same wording that was used by Mr. Firt in its letter. So, the Government transposed Mr. Firt’s proposal and wording into an Act of the Government, proposed to the Parliament. Now, don’t you think that this proposal, coming directly from the Government of the Czech Republic, provided an even stronger reassurance to PV investors that investments, or PV plants connected in 2000 by the end of 2010, they would have received that feed in tariffs for 20 years? A. Well, I think it’s probably more important that the Government gives that assurance than the Regulator proposes it. So, in that sense, yes.”); Transcript, Day 3, page 567, line 19 to page 568, line 11.

¹⁰² Transcript, Day 3, page 567, line 19 to page 568, line 11 (emphasis added).

65. As noted above, it is undisputed that virtually all of the investments made by the Claimants which are at issue in this arbitration were made during the foregoing time period (with Dr. Göde's last investment being made in summer 2010).¹⁰³ Thus, virtually all of the Claimants' investments were made at a time (i) when Section 6(1)(b)(2) of the Act explicitly guaranteed fixed minimum FiTs, (ii) when the Czech Republic had repeatedly reiterated that guarantee in its public statements and (iii) when steps had been taken to adopt prospective changes in order to address concerns about expected imbalances in the renewable energy sector, but without in any way questioning the rights of existing solar energy plants under Section 6(1)(b)(2) (or otherwise). On the contrary, the Czech Government had repeatedly assured investors that only future plants, commissioned in later years, would be affected by any legislative changes, and that plants commissioned in 2009 and 2010 would not be affected.
66. In these circumstances, it is in my view impossible to see why the Claimants were not entitled, prior to late 2010, to rely on the Czech Republic's legislative, regulatory and other assurances guaranteeing the levels of FiTs for their investments. All of the proposals for change during this time period involved only prospective changes for solar plants commissioned in future years and carefully preserved the rights of plants that had already been commissioned within the existing statutory time-limits.
67. It was only subsequently, in late October 2010, months after the Claimants had made virtually all of their investments,¹⁰⁴ that the Czech government abruptly changed its regulatory policy and, for the first time, proposed a "Solar Levy" that would reduce the FiTs for existing solar installations that had already been commissioned.¹⁰⁵
68. Despite this, the Tribunal cites four articles published in Czech newspapers between late July and mid-September 2010, which supposedly suggested that changes in FiTs were a possibility.¹⁰⁶ In my view, these articles clearly indicate only that the Czech government was aware of the

¹⁰³ See note 85 above.

¹⁰⁴ *Ibidem*.

¹⁰⁵ The earliest discussion of a potentially retroactive levy apparently occurred at a meeting of the "Coordination Committee for the assessment of the impact of support of renewable energy sources on electricity prices" on 4 October 2010. The minutes of the meeting were not, however, made public and the first draft of Act 402/2010 submitted by the Czech government to the Chamber of Deputies on 14 October 2010 did not contain potentially retrospective provisions, see Minutes of the 2nd Meeting of the Coordination Committee for the assessment of the impact of support of renewable energy sources on electricity prices (Czech original and English translation), pp. 7-8 (R-235); Czech Constitutional Court, Judgment Pl. ÚS 17/11, 15 May 2012, para. 15 (R-248). The Solar Levy was only subsequently introduced for the first time in the legislative draft of Act 402/2010, see "Government against rapid price hikes on electricity," pp. 1-2 (R-270). The Czech Republic enacted that Solar Levy two months later. See Article 1 of Act 402/2010 (C-37).

¹⁰⁶ Award, paras. 426-429.

imbalances in the renewable energy sector and was considering different mechanisms to reduce the FiTs. In particular, none of the sources cited by the Tribunal states that reductions of FiTs which might be adopted would apply to facilities commissioned before the end of 2010.

69. On the contrary, as Czech Prime Minister Nečas said, the Czech Republic had repeatedly stated that it "cannot interfere with the pending administrative periods, from the constitutional point of view ... [t]he Czech Republic may face arbitrations."¹⁰⁷ While it is clear that rumors of a possible reduction in incentives to renewable energy producers had begun circulating in mid-2009,¹⁰⁸ the Tribunal reads into the governmental statements of the Czech Republic during the decisive time period a meaning which simply is not there and which contradicts the express assurances by the Czech Republic at the relevant time.
70. In my judgment, a careful review of the evidentiary record demonstrates the opposite of what the Tribunal asserts in this regard. That record instead shows that the Czech government was aware of the expected imbalances in the renewable energy sector, but repeatedly reiterated from mid-2009 until October 2010 that the FiTs for sources, which had already been commissioned, would not be changed and that changes to address the regulatory imbalances would be directed prospectively only to renewable energy sources that were commissioned in the future.¹⁰⁹
71. Contrary to the Tribunal's suggestion, none of the Czech Republic's statements or actions should have led the Claimants to believe that the guaranteed FiTs for solar plants that had already been commissioned (or would be commissioned before 1 January 2011) would be reduced or otherwise affected. In fact, the Czech government had repeatedly said exactly the opposite – namely, that steps had been taken to address excess solar capacity in the future, but that guaranteed minimum FiTs for existing facilities would be maintained.
72. Second, the Tribunal criticizes Mr. Göde's due diligence, asserting that "there is no evidence of any real due diligence by Dr. Göde" and that his "actions were essentially opportunistic, and that the investment protection regime was never intended to promote and safeguard those who ...

¹⁰⁷ "Solar business will slow down, yet the price of electricity will soar," *Mlada Fronta Dnes* (Czech original and English translation), p. 1 (R-162).

¹⁰⁸ Claimants' Reply, para. 175. *See also* Award, para. 370.

¹⁰⁹ One of the Respondent's experts, explained why the Czech government could have wished not to disclose its intentions of applying tariff adjustments to existing renewable installations: "If [policymakers and regulators] attempt to introduce prospective reductions to the feed in tariff or a tariff mechanism that automatically responds to installed capacity, this will cause PV investors to rush in to qualify their projects under the existing scheme, thereby exacerbating the very problem that the change is trying to solve. Policymakers and regulators simply do not have the option of implementing a smooth adjustment to tariffs or telling investors in advance." *See* Wynne Jones First Report, p. 59, para. 5.50.

‘pile in’ to take advantage of laws which they must know may be in a state of flux caused essentially by investors of that type.”¹¹⁰ In my view, this analysis is unpersuasive.

73. In my view, it is not the role of the Tribunal to pass abstract judgment on the quality of the Dr. Göde’s due diligence. Due diligence is only relevant in a case such as this if it would have provided the Claimants with information that contradicted their asserted expectations. If due diligence inquiries by Dr. Göde would only have confirmed the fixed minimum FiTs that Section 6 of the Act, and the other governmental statements outlined above, guaranteed, then the failure of Dr. Göde to have conducted that due diligence is irrelevant.
74. Due diligence is not a condition to protection of an investment under international law, whether under the fair and equitable treatment standards prescribed by the Treaties or more generally. What is sometimes referred to as an obligation to conduct due diligence is relevant only where particular inquiries would have led an investor to alter its expectations about national law protections.¹¹¹ An investor is under no abstract duty to conduct due diligence.
75. The principle that an investor has no abstract duty to conduct a legal due diligence prior to making an investment was made clear by a recent investment award:

“[A]n investor cannot be required to conduct an extensive legal investigation. To determine whether the expectations invoked by the investor are reasonable, key elements are what every prudent investor needs to know about the regulatory framework before investing and the actual information held by an investor [...]. In particular, a legitimate investor expectation cannot be induced by a regulatory framework when the investor’s actual information allowed him to foresee and anticipate the unfavorable development of this regulatory framework before making the investment. In order to breach the legitimate expectations of the investor, the new regulatory measures should not have been foreseeable, either by a prudent investor or by an investor who, by reason of his personal situation, had specific reasons to foresee those measures.”¹¹²

76. In this case, as discussed above, further due diligence on the part of Dr. Göde would have revealed nothing different from what Section 6(1)(b)(2) of the Act on Promotion, and the Czech Republic’s representations, made clear: solar plants commissioned in 2010 would receive the FiTs prescribed for plants commissioned in 2010 by the ERO. As also discussed above, a careful review of the Czech government’s statements between January 2009 and October 2010 would have provided no reasons to doubt the Czech Republic’s commitments. As a

¹¹⁰ Award, paras. 432, 435.

¹¹¹ *Churchill Mining and Planet Mining Pty Ltd v. Republic of Indonesia*, ICSID Case No. ARB/12/14 and 12/40, Award, 6 December 2016, para. 506 (“The scope of the due diligence depends on the particular circumstances of each case, such as the general business environment, and includes ensuring that a proposed investment complies with local laws, as well as investigating the reliability of a business partner and that partner’s representations before deciding to invest.”).

¹¹² *Isolux Netherlands, BV v. Kingdom of Spain*, SCC Case V2013/153, Final Award, 17 July 2016, para. 781 (free translation).

consequence, the Tribunal's conclusions about Dr. Göde's due diligence are irrelevant as a matter of principle.

77. In any event, the Tribunal's assessment of Dr. Göde's due diligence fails to take into account the factual context of their investments. The Claimants' investments were not particularly large by the standards of many cross-border investments – involving an aggregate amount of some ████████ euros spread across several different installations.¹¹³ Moreover, the Claimants were investing in a Member State of the European Union, in a legal environment promising certainty, stability and the rule of law.¹¹⁴ International law protects small investments as well as large ones; equally, neither international law nor the drafters of investment treaties condition investment protection on unrealistic or uncommercial requirements. Any criticism of Dr. Göde's due diligence must take both the nature of his investments, and the clarity of the Czech government's commitments, into account.¹¹⁵
78. The Tribunal also refers in passing to a 2012 judgment of the Czech Constitutional Court¹¹⁶ and a 2016 Decision on State Aid of the European Commission,¹¹⁷ assertedly also reaching the decision that the modifications to the support scheme, including the Solar Levy, did not violate the principle of legitimate expectation:

“The Tribunal accepts that the Solar Levy was a transparent device to avoid what the Respondent had been advised might cause investor claims. That is clear from the minutes the Coordination Committee. But, in common with the Czech Constitutional Court, and the European Commission's Decision on state aid, the Tribunal does not consider that the modifications to the support scheme and the tax measures were retroactive, and considers that they did not violate the principle of legitimate expectation.”¹¹⁸

¹¹³ Award, paras. 404-409.

¹¹⁴ The Copenhagen criteria set out in 1993, now embodied in Arts. 2 and 49 of the Treaty on European Union, explicitly require for European Union membership “that the candidate country has achieved stability of institutions guaranteeing democracy, *the rule of law*, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.” See Copenhagen European Council – 21-22 June 1993, Conclusions of the Presidency, p. 13, available at <http://www.consilium.europa.eu/media/21225/72921.pdf> (last visited 25 January 2018). In accordance with the commitment to the rule of law that it requires from its Member States, the European Union stated in its 2013 “European Commission guidance for the design of renewables support schemes” that “Member States have introduced several unannounced measures that caught investors by surprise, altered expected returns, and diminished confidence in the entire energy sector,” and recommended “no unannounced interim changes” and “[c]lear commitments to avoid changes that alter the return on investments already made and undermine investors' legitimate expectations.” (Second ████████ Report, Exhibit 2.2).

¹¹⁵ *Churchill Mining and Planet Mining Pty Ltd v. Republic of Indonesia*, ICSID Case No. ARB/12/14 and 12/40, Award, 6 December 2016, para. 506.

¹¹⁶ Czech Constitutional Court, Judgment Pl. ÚS 17/11 (R-248).

¹¹⁷ European Commission's decision in State aid case SA.40171 (2015/NN) – Czech Republic (Promotion of electricity production from renewable energy sources) dated November 28, 2016 and made public on January 23, 2017 (R-366).

¹¹⁸ Award, para. 430 (footnotes omitted).

79. These decisions of the Czech Constitutional Court and European Commission are not decisive in determining whether Section 6(1)(b)(2) of the Act provided a guarantee of a minimum FiT for purposes of the Treaties' fair and equitable treatment protections. Rather, the Tribunal has an independent mandate, and obligation, under international law to apply the Treaties in light of the Act's provisions.¹¹⁹
80. The Czech Constitutional Court did not conclude, as the Tribunal suggests, that the Solar Levy was not retroactive, much less that the Solar Levy was not retroactive, or otherwise wrongful, for purposes of the fair and equitable treatment protections of the Treaties. Instead, the Constitutional Court held that the enactment of the Solar Levy was indeed quasi-retroactive,¹²⁰ but that – as a matter of Czech constitutional law – the expectations of renewable energy suppliers for fixed minimum FiTs for a 15-year period did “not attain the intensity of a constitutional-law issue.”¹²¹
81. Thus, the Constitutional Court's opinion states that the issue presented to, and decided by, that Court “involve[d] a challenge of the constitutionality of a law, a law that does not interfere with constitutionally-guaranteed rights and freedoms but which *has the effect of reducing the state support stipulated in an earlier law ...*”¹²² In response to this question, the Constitutional Court concluded that “although the enactment of the challenged provisions *reduced the support provided to operators of PVPP, ...* this did not constitute interference that would cause a breach

¹¹⁹ See ZACHARY DOUGLAS, THE INTERNATIONAL LAW OF INVESTMENT CLAIMS (2009), p. 81 (“The law applicable to the issue of liability for a claim upon an investment treaty obligation is the investment treaty as supplemented by general international law. ... Investment treaty obligations are formulated as general concepts of minimum investment protection standards. Those concepts are not controversial because they are formulated at such a general level of abstraction. In defending an investor's claim based upon the fair and equitable treatment, a state does not insist that foreign investments should be treated unfairly and inequitably. There is, in other words, no dispute that the state must conform to a fair and equitable standard of treatment in its conduct in respect of the foreign investment. The concept itself is not controversial: rather, it is the application of that concept to the circumstances of the specific case. What the parties argue about, and what the tribunal must ultimately decide, is the particular conception of the fair and equitable standard of treatment that must be applied to the case. ... [I]n arriving at a conception of the investment treaty protection standards, the tribunal must inevitably have recourse to general international law and conventional international law for otherwise it would be interpreting the legal standards in a void.”) (RLA-124).

¹²⁰ Czech Constitutional Court, Judgment Pl. ÚS 17/11, para. 48 (“In this regard, the Constitutional Court notes that the provisions of Sections 7a to 7i of the challenged act in essence bring forth the effects of pseudo retroactivity, since in consequence of such provisions, for those electricity producers for whom the fifteen year guaranteed period pursuant to Section 6(1) of Act No. 180/2005 Coll. began to run before Act No. 402/2010 Coll. entered into effect the amount of support ends up being reduced in the future by the amount of the levy.”) (R-248).

¹²¹ *Ibid.*, para. 87.

¹²² *Ibid.*, para. 77 (emphasis added).

of the constitutionally-guaranteed rights of the affected entities.”¹²³ In the Court’s opinion, “a simple payback period on investment of 15 years” does not violate the Czech Constitution. ¹²⁴

82. The Tribunal also refers to the interpretation of the Act on Promotion in the European Commission’s State Aid Decision.¹²⁵ In that decision the European Commission stated that “according to the case-law [of the CJEU], traders are not protected against future changes to an on-going situation, and the immediate application of the new rule is the general rule for the application in time of new rules. Therefore, the Commission takes the view – just like the Czech Constitutional Court – that the modifications to the support scheme and the tax measures were not retroactive, and did not violate the principle of legitimate expectation.”¹²⁶ These conclusions are of no relevance for the purpose of determining the Act’s guarantees for purposes of the Treaties’ fair and equitable treatment protections.

83. The European Commission’s assessment – which is currently on appeal to the General Court of the European Union¹²⁷ – that the amendments to the Act on Promotion, including the Solar Levy, did not violate the principle of legitimate expectations is limited to the general principle of legitimate expectations under EU law. That is of no material relevance to the interpretation of the Treaties in this arbitration.

84. Furthermore, the Commission was permitted to make *amicus curiae* submissions in this proceeding only on limited issues of EU law (where the Commission has special expertise), not on other issues, such as Czech law (where the Commission has no such expertise). The Tribunal decided not to consider the *amicus curiae* submission of the European Commission as it refused to bear the reasonable costs of the Parties resulting from the submission. In these circumstances, I see no basis for according weight to the Commission’s observations about Czech municipal law. I also note that, unlike this Tribunal, the Commission conducted no adjudicative proceedings, and sought no specialized expertise, in arriving at its observations about Czech law. In these circumstances, there is no reason to give the Commission’s apparent views about the content of Czech law any material weight.

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¹²³ *Ibid.*, para. 90 (emphasis added).

¹²⁴ *Ibid.*, para. 71.

¹²⁵ Award, para. 430.

¹²⁶ European Commission’s decision in State aid case SA.40171 (2015/NN) – Czech Republic (Promotion of electricity production from renewable energy sources) dated November 28, 2016 and made public on January 23, 2017, para. 135 (R-366).

¹²⁷ *FVE Holýšov I and Others v Commission* (Case T-217/17), Action brought on 3 April 2017.

85. In sum, I agree with many of the Tribunal's conclusions, but also part company with the Award on a number of important issues. In my view, the Tribunal's conclusions fail adequately to consider the repeated and specific undertakings of the Czech Republic, as well as its concessions in this arbitration. The Tribunal also misconstrues the principles of fair and equitable treatment, significantly limiting the scope of the protections afforded by those principles. With regret, I must therefore dissent.



Gary Born

DECLARATION OF JUDGE TOMKA

1. I agree with the Tribunal's decision and most of its reasoning. In my view, it is important that the Tribunal considered the Claimants' claims in relation to the Respondent's obligations both under the BIT and the ECT and found no breach.
2. The Tribunal dealt with the Respondent's objection that it does not have jurisdiction over the claims based on the ECT. In the Respondent's view, the Solar Levy is a tax, and therefore, under Article 21 of the ECT it does not come within the Tribunal's jurisdiction. The Tribunal rejected this objection and upheld its jurisdiction over the ECT claims. While I do not disagree with this outcome, I am not convinced that the Decision of 10 July 2014 rendered by the 9th (three-member) Chamber of the Czech Supreme Administrative Court in which it concluded that the Solar Levy is not a tax, is decisive and authoritative. That Decision is the main basis for the Tribunal's conclusion.
3. The nature of the Solar Levy under the Czech law is disputed and the Czech legal doctrine and jurisprudence of Czech courts are far from unanimous. In my understanding, however, the predominant view is that the Solar Levy is a tax. The leading Czech constitutional expert, Professor Dr. Aleš Gerloch, PhD., wrote in his opinion of 3 December 2010 on the amendment, then under consideration, of Act No. 180/2005 on the support of the generation of electricity from renewable sources of electricity:

“[i]t is without a doubt that the instituted concept of a levy [in Czech: odvod] has all the signs of being a tax since it represents a payment levied into the state budget from a certain base. It matters not at all that the instituted concept is called a “levy”; from the point of view of its content it is a payment that must fulfill the criteria of the provisions of Article 11, paragraph 5 of the Charter of Rights and Freedoms according to which taxes and fees may only be imposed on the basis of the law.”¹

In his conclusions, Professor Gerloch is unequivocal:

“in reality, this levy represents a tax and, therefore, it must fulfill the criteria that are set down in the Constitutional Order regarding the imposition of tax liabilities.”²

4. The expert on Czech financial law, and in particular on taxes, levies and fees, Associate Professor Dr. Radim Boháč, PhD, from Charles University Law School, in his monograph *Tax*

¹ C-222, p.2 (Czech original), p. 3 (in the English translation supplied by the Claimants).

² C-222 p. 8 (Czech original), p. 11 (in the English translation supplied by the Claimants). In the English translation the original Czech term “odvod” is imprecisely translated as “deduction”. The correct English term for “odvod” is “levy”.

Revenues of Public Budgets in the Czech Republic,³ analyses “whether individual levies in the contemporary legal system of the Czech Republic have the nature of taxes or fees.”⁴ After a detailed examination of the Solar Levy, he concludes that “the levy on electricity from solar radiation has all the obligatory (basic) theoretical features of a tax”⁵. He further states that “from the theoretical point of view” there are no important enough reasons justifying “the designation of the levy on electricity from solar radiation as ‘levy’ and not as a ‘tax’”⁶. Finally, he adds that “[u]nfortunately, professional views do not always prevail, ceding ground to political views that are capable of present implementation and realization in the short term.”⁷

5. The 9th Chamber of the Supreme Administrative Court, after a brief consideration, concluded that “the levy does not have the nature of a tax.”⁸ It was of the view that the levy does not fulfill “the basic criterion” or “a common essential feature of all taxes”, namely “non-equivalence”.⁹ It understood non-equivalence as subjecting an entity by the State to a tax “without any performance from the State at the time of taxation”.¹⁰ In its view, “the [S]tate uses the levy to lower the support it calculated and provided”.¹¹
6. I am not sure whether the Chamber properly understood the non-equivalence in Czech financial law. As the leading Czech expert in this field of law, Professor Dr. Milan Bakeš, DrSc., writes in his textbook, “taxes are mostly non-equivalent payments for which no direct *quid pro quo* is provided.”¹² Associate Professor Radim Boháč considers the Solar Levy as “non-equivalent, due to the absence of an immediate, direct and concrete consideration in return on the part of public authority.”¹³ He explains that “the State does not provide anything to the payers of the levy on electricity from solar radiation in return for this levy; the fact that these payers benefit from financial support and subsidy on the basis of provisions of

³ R-318, R. Boháč, *Daňové příjmy veřejných rozpočtů v České republice*, Wolters Kluwer, Praha 2013. This monograph was submitted to the Scientific Council of Charles University Law School as his *Habilitationsschrift*. In addition to his academic position, Dr. Boháč has been since 2011 the Deputy Director of the Tax Legislation Department of the Czech Ministry of Finance, having served earlier in 2010 as the Head of its Division for the Coordination of Tax Legislation.

⁴ *Ibid.*, p. 221, Section 9.2.

⁵ *Ibid.*, p. 225.

⁶ *Ibid.*, p. 226

⁷ *Ibid.*, pp. 226-227.

⁸ Judgment of 10 July 2014, para. 19, Annex 11 to First [REDACTED] Report.

⁹ *Ibid.*, para. 19 and 20.

¹⁰ *Ibid.*, para. 19.

¹¹ *Ibid.*

¹² M. Bakeš et al. *Finanční právo*, 6th updated edition, C.H. Beck, Praha 2012, p. 93, Annex 4 to First [REDACTED] Report.

¹³ R. Boháč, *op.cit.* supra fn 3, p. 225.

Sections 28 and 29 of the Act on Promoted Sources of Energy . . . does not have any impact on this.”¹⁴ In my understanding, no direct *quid pro quo* is provided by the State to the solar electricity producers. Their entitlement to the payment of the feed-in-tariffs (FiT) under the Act on Promotion is not subject to the condition of paying the levy.

7. It is to be noted that, despite the view expressed by the 9th Chamber of the Supreme Administrative Court, the Czech courts treated the Solar Levy as a tax in several subsequent judgments.
8. Thus, another Chamber of the same Supreme Administrative Court in its Judgment of 25 March 2015 stated that “should the solar electricity producer become affected by individual liquidating effects associated with the payment of this tax [i.e., the Solar Levy], such producer may apply for deferral of payment of another tax”.¹⁵
9. The Czech Constitutional Court in its Decision of 13 January 2015 expressed the view that “the ‘solar levy’ can surely be considered such a tax”.¹⁶
10. The Solar Levy was a device to reduce *de facto* the State subsidies to the solar plant operators without formally altering the FiT to which they were legally entitled. At the same time, the Solar Levy was one of the three necessary sources of new income for the State Budget in order to provide funding for the support of electricity production from renewable sources.¹⁷
11. Article 21 of the ECT refers the Tribunal to the domestic law of a Contracting Party, when considering a measure which is presented as a taxation measure. However, whether it constitutes a tax for the purposes of the ECT is in the end a matter of treaty interpretation.
12. The Solar Levy was purposefully construed as “a withholding tax”¹⁸ so that “it cannot be legally contested”¹⁹, particularly in international arbitration proceedings.²⁰ In view of this aim, I am convinced that the contested measure (the Solar Levy) should not escape the legal scrutiny

¹⁴ *Ibid.*

¹⁵ Judgment of the Chamber of the Supreme Administrative Court of March 25, 2015, para. 42. Annex 18 to First [REDACTED] Report. It is to be noted that the English translation, supplied by the Claimant, is slightly imprecise when it translates the words in the Czech original “tého daně” as “such tax”. Also the word “payment” in relation to deferral, although appearing in the Czech original [s úhradou], is missing from the translation.

¹⁶ Judgment of the Senate of the Czech Constitutional Court (11.ÚS 2216/14) of 13 January 2015, para. 33. Annex 14 to the First [REDACTED] Report.

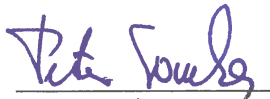
¹⁷ See Award, para. 155.

¹⁸ See C-198, Minutes of the third meeting of the Coordination Committee held on October 15, 2010, para. 3, quoted in the Award, para. 152.

¹⁹ *Ibid.*, quoted in the Award, para. 153.

²⁰ C-208, Minutes of meeting of the Economic Committee of the Chamber of Deputies of November 2, 2010, Statement of the Minister of Industry and Trade, quoted in the Award, para. 160.

of the Tribunal as to its conformity with substantive obligations of the Respondent under the ECT.


Peter Tomka