A Study of Compulsory Licensing

Compulsory licensing getting increased attention in U.S.; LES subcommittee reports on research

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The question of whether compulsory licensing should become part of the fabric of intellectual property law in the U.S. is receiving ever increasing attention. Its proponents believe it will make inventions more widely available to the public. Its opponents believe it will dismantle the patent system or at least do violence to the constitutional mandate.

The question came to the Compulsory Licensing Subcommittee of the Government Relations Committee of LES U.S.A. because of the active consideration by the Energy Research and Development Administration to require compulsory licensing of inventions growing out of government funded programs. The ERDA held a public symposium early this year to hear the views of a panel of experts. The subcommittee attended the symposium but separate and apart from the view of the experts it independently studied the question which resulted in a recommendation to LES U.S.A. as what should be our official position on this critical issue.

The subcommittee in its study concerned itself with the general proposition of compulsory licensing and its role in our general patent laws as well as the specific situation involving government-funded research and development.

THE POSITION OF LES U.S.A.

Before discussing the details of the subcommittee's investigation, it is appropriate to report that following the concensus and recommendations of the subcommittee, the Board of Trustees of LES U.S.A. adopted the following resolution:

> RESOLVED, that the Licensing Executives Society U.S.A. is opposed to legislation and government regulations establishing compulsory patent licensing in any technological area because mandatory licensing of patent rights would unduly diminish the incentive necessary to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.

**Report of the Compulsory Licensing Committee of the Government Relations Committee of LES U.S.A., Mr. Goldstein, Chairman; members are Bertram Bradley, Stephen S. Grace, Julian S. Levitt, Robert H. Robinson.*

REPORT ON THE WORK OF THE SUBCOMMITTEE

The subcommittee concerned itself with the general proposition of compulsory licensing in the United States, considering the broader question of legislative enactment requiring compulsory licensing and the more specific issue of providing for mandatory patent licensing as part of the basic mission of the United States Energy Research and Development Administration as set forth by Congress in the Energy Reorganization Act of 1974.

Areas Looked Into by the Committee Pertinent to the Compulsory License Question

In order to assess the value of a mandatory licensing policy by ERDA, the committee briefly considered the following general aspects of the question:

1. The effectiveness of existing statutory provisions requiring compulsory licensing.
2. Present provisions under the law (outside special statutory provisions) which provide for compulsory licensing.
3. A comparison of patent laws in the United States with those in certain foreign countries having compulsory licensing requirements and their effectiveness in foreign countries.
4. Disadvantages of compulsory licensing.
5. Advantages of compulsory licensing.

The effectiveness of existing statutory provisions requiring compulsory licensing

Current U.S. statutes provide compulsory licensing in the areas of (1) private individual (or corporation) to private individual; (2) government to private individual; or (3) private individual to government. This latter type of compulsory licensing under 28 USC 1498 is essentially the government power of eminent domain.

The Atomic Energy Act permits individuals to obtain nonexclusive licenses under patents owned by other individuals where they have attempted but failed to obtain a voluntary license from the patent holder. The Atomic Energy Commission is to determine a reasonable royalty fee. The Clean Air Act of 1970 also set up limited situations where a private individual could demand a license from a United States patent owner.

The extent of use under these compulsory license provisions appears to be minimal — only one application for a license has been asked under the Atomic

Energy Act and a settlement between the parties was obtained before the commission was required to decide upon the application. There have been no requests or applications under the Clean Air Act.

Regarding compulsory licensing to private individuals under government-owned patents, there are again statutes under four particular areas, that is coal research and development, helium production, arms control and disarmament, and disposal of solid wastes. There have been no applications for compulsory licensing under these provisions.

Present provisions under the law (outside special statutory provisions (which provide for compulsory licensing

Both the Justice Department and the Federal Trade Commission have been effective in protecting the public interest from abuses or misuse of the patent system. (See Appendix I)

A comparison of patent laws in the United States with those in certain foreign countries having compulsory licensing requirements and their effectiveness in foreign countries

At least 25 countries have some form of compulsory licensing provision in their statutes. In the developing countries, compulsory licensing is intended as a sanction against nonuse of the patent, the objective being for the provision to operate as an incentive to manufacture with the corresponding increase in employment opportunities. However, at this time it is not apparent that the objective has been or may ever be reached in such less advantaged countries.

Insofar as the industrial countries are concerned, there is attached a brief study of compulsory licensing of the laws of Japan, West Germany, Switzerland, France and the United Kingdom, Canada, Australia and South Africa.

It is obvious that there has been little use of the provisions of foreign patent laws as they relate to compulsory licensing, with possibly the sole exception being Canada in the area of pharmaceuticals. As a consequence of the Canadian experience, there must be serious doubt that compulsory licensing in Canada has necessarily been in the public interest. The stated legislative objective of lowering drug prices for the Canadian consumer has not been achieved. In addition, there is some evidence that pharmaceutical companies in Canada may have been discouraged from making long-term commitments in research and development and have cancelled plans for further investments. (See Appendix II)

Disadvantages of compulsory licensing

We believe the large R&D establishments may shy away from energy R&D or attempt to keep energy solutions secret rather than apply for patent applications. The one solution selected for commercialization will no longer compete with parallel inventions to see which will do the best in the test market for fear that they will be competing against second and third-best technical approaches. This negative incentive prematurely to choose and predict the best technical solutions to the energy problem and avoid patent protection will retard the goal of energy independence due to restricted research and industrial secrecy.*

If compulsory licensing legislation is enacted, such improvements and breakthroughs may wind up in the hands of competitors after being patented. The risk of this happening will be a negative incentive to minimize product improvement and research activities for developing second and third-generation energy solutions or to keep such activity secret without reliance on patent protection.

Compulsory licensing would also tend to discourage the small energy R&D business.

A further disadvantage of a compulsory licensing statute in the energy field is that no matter how well drafted and how well intentioned it may be, abuse will be inherent. The fact there is a compulsory licensing statute in the energy field will encourage its use whenever convenient or expedient. Its existence also will make it seem like a new and improved way of avoiding infringement in the eyes of the energy industry.

It is anticipated that a compulsory licensing policy will retard or suppress. This is for the reason that business will rely on trade secrecy as opposed to patent protection for excluding competition.

It is anticipated that compulsory licensing will have the effect that in the long range a few companies will remain in control of a new product innovation and prices eventually will rise to whatever point the market will bear.

Advantages of compulsory licensing

It has been alleged that a compulsory licensing policy, especially in the field of energy research and development, would make available energy saving technology on a wide and immediate basis rather than have it concentrated in the hands of a few patentees.

Another advantage is the economic gain in terms of lower priced products or systems that would be available to the public because of the competition among several manufacturers rather than sourced from the patentee.

Compulsory licensing, as a general proposition, not necessarily related to any specific agency, might have the effect of reducing the amount of litigation in this field.

SUMMARY AND CONCLUSIONS

It is the consensus of the subcommittee on compulsory licensing, based on the brief study, that compulsory licensing, in the overall balance, would have an adverse effect in terms of the government sponsored energy programs attaining their objectives.

Appendix I

Compulsory Licensing

Private antitrust suits under the Clayton Act

1. *Bell & Howell Company v. Eastman Kodak Company.* This was an action by Bell & Howell charging Eastman Kodak with violating Section 2 of the Sherman Act by using its "monopoly power" in an attempt to monopolize the markets for movie cameras and cartridge-loading still

*APLA Quarterly Journal, Volume 3, No. 4, 1975, Philip Sperber.

cameras. Eastman Kodak agreed to disclose information on its future film and cartridges to Bell & Howell 18 months before introduction of the new products on the market, and if Bell & Howell pays proprietary data license fees, Eastman Kodak will make further periodic disclosures so that both companies can introduce the new products at about the same time.

Judicial Decisions in Patent Infringement Litigation:

1. *City of Milwaukee v. Activated Sludge, Inc.*, 69F 2nd 577 (1934). The trial court enjoined the city from operating its sewage plant, holding that Activated's patent was valid and infringed. However, the 7th Circuit Court of Appeals was persuaded that Milwaukee would have to dump its sewage in Lake Michigan if it could not operate its plant, and this would pollute the water and endanger the public health. The injunction was vacated.

2. *Allied Research Products, Inc. v. Heatbath Corp.*, 161 USPQ 527 (1969). The court stated that public policy requires liberal use of patents, and a patent owner cannot assert his rights under the law if he refuses to make use of the patent, or to license the patent so that it may be of use to the public, or refuses to license an applicant when it has already granted a license to the applicant's competitor. In this case, since the patent owner had granted a license, the court held that the defendant infringer, who willfully and deliberately infringed, was entitled to a license on the same terms.

3. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 161 USPQ 577. The U.S. Supreme Court held that it is a violation of the Sherman Act for an American patent owner to conspire with a Canadian patent pool to deny patent licenses to companies seeking to export American-made goods to Canada. It further held that conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent amounts to patent misuse.

4. *Jack Winter, Inc. v. Koratron Company, Inc.*, (1974). The U.S. District Court for Northern California held the "permanent-press" patent valid but unenforceable at that time as a result of Sherman Act violations.

5. *Foster v. American Machine & Foundry Company*, 182 USPQ 1 (1974). The Second Circuit Court of Appeals ordered a compulsory license with a reasonable royalty based on nonuse of the allegedly infringed patent by the patentee. The court stated that it would be unequitable to enjoin the infringer without any resulting benefit to the patentee, and since the patentee was not in business either directly or through licensees, he is entitled only to a reasonable royalty.

Antitrust Actions Against Patentee By Federal Trade Commission.

1. *FTC v. American Cyanamid Company*, 150 USPQ 135. The 6th Circuit Court of Appeals held that compulsory licensing of patents by courts for patent misuse is a permissable remedy in antitrust cases. The court held that if Section 5 of the FTC Act was violated by use of a patent to exclude competition following issuance of the patent because of improper conduct in the Patent Office, the FTC has authority to require compulsory licensing of the patent on a reasonable royalty basis. The court did hold that the FTC cannot invalidate or destroy patents nor can it order licenses without reasonable royalties.

2. *FTC v. Xerox Corporation.* A Consent Decree was issued in which the patent and know-how barriers to competition developed by Xerox were eliminated by requiring Xerox to license some of its patents royalty-free, and the rest at low royalties, and to offer all of its office copier know-how royalty-free to U.S. patent licensees.

3. *FTC v. Cereal Companies.* The FTC proposes creating five completely new cereal companies and requiring the major firms (Kellogg, General Mills and General Foods) to license their trademarks.

4. *FTC v. Borden Company.* An FTC Administrative Judge held that Borden had violated the antitrust laws by dominating the lemon juice market with its REALEMON product. Since the market domination was effected through the REALEMON trademark, the Judge decided that the market domination by Borden could be eliminated by requiring Borden to grant compulsory licenses under its REALEMON trademark.

Antitrust actions against Patentee by the Justice Department.

1. *Hartford-Empire Company v. U.S.*, 65 USPQ 1 (1945). The Supreme Court held that the defendants violated the antitrust laws (Sherman Act and Clayton Act), and it required them to grant licenses under their glassmaking machinery patents at "uniform reasonable royalties." In dicta, the court stated that it had no authority to order dedication of the patents which would be equivalent to royalty-free compulsory licensing.

2. *U.S. v. National Lead Company*, 73 USPQ 498 (1947). The Supreme Court used compulsory licensing with royalty payments to promote competition where the defendants conspired or combined to restrain trade in titanium products. The court stated that royalty-free compulsory licensing was an open matter to be decided in a future case. The decree did provide for the licensing of technology at a reasonable charge and limited to a three-year period.

3. *U.S. v. General Electric Company*, 99 USPQ 76 (1953). The District Court ordered the granting of licenses at reasonable royalties under patents acquired within five years of the decree.

4. *U.S. v. Singer Manufacturing Company*, 137 USPQ 808. The Supreme Court held that the Sherman Act is violated where, pursuant to a conspiracy between U.S., Swiss and Italian corporations, the Swiss corporation's patent is assigned to the U.S. corporation so that it may achieve the common purpose of using the patent to exclude Japanese competition from the United States for the joint benefit of the conspiring corporations. The Sherman Act imposes strict limitations upon concerted activities by patent owners.

5. *U.S. v. Glaxo Group Limited*, 176 USPQ 289. The U.S. Supreme Court held that the government may litigate the validity of a patent, despite the fact that the defendant did not rely on the patent in defense against antitrust claims, where patent licenses and pooling agreements are per se unreasonable restraints of trade, and where the government's claims for further relief are substantial. The court stated that mandatory sales and reasonable royalty licensing are well established forms of relief when necessary to an effective remedy, particularly where patents have provided leverage for or have contributed to an antitrust violation.

6. *U.S. v. Copper Development Association, Inc.* The government charged 11 copper fabricating companies and their trade association with violating Section 1 of the Sherman Act by conspiring to unlawfully restrict rights granted under jointly-owned patents for a single stack plumbing system. The government proposed a Consent Decree wherein the defendants agreed to license their patents and furnish technical data upon request at royalties not to exceed 3% of the net selling price of certain components of the system.

7. *U.S. v. Manufacturers Aircraft Association, Inc.* The government charged the defendants with violating Section 1 of the Sherman Act by utilizing patent pooling and cross-licensing arrangements to eliminate competition in research and development of aircraft inventions. The consent decree dissolves the association, cancels the cross-licensing arrangement, and provides for compulsory licensing of about 1,500 U.S. patents at reasonable royalties.

8. *In Re Coordinated Pre-Trial Proceedings in Antibiotic Antitrust Actions.* The U.S. District Court for Minnesota granted summary judgment and held the U.S. patent covering the antibiotic doxycycline to be invalid and unenforceable because Pfizer, Inc. "deliberately embarked upon a course of conduct to withhold from or to misrepresent to the Patent Office prior art and facts which were material" to the issue of patentability.

Appendix II

1. *Japan*

According to Japanese patent law a party may demand of a patentee the granting of a license where the working of the patented invention has not been appropriately carried out in Japan continuously for three or more years. If the voluntary demand is unsuccessful a person desiring to work the paten-

ted invention in Japan may ask for arbitration by the Patent Office. The law also includes a provision relating to dominating-dependent inventions whereby a second patentee can obtain a license to the dominating patent to the extent that he requires a license to practice his own invention. The law also provides for the licensing of patents if necessary for the public interest. Provisions of this type have been included in Japanese law since 1960.

In the period 1960-1974 there have been a total of 12 demands for arbitration; as of December, 1974, no compulsory licenses had been granted in Japan. There have been no serious efforts to strengthen or repeal compulsory licensing in Japan.

2. *West Germany*

Since 1911 the West German patent law has permitted the compulsory licensing of any patent provided it is in the public interest. Prior to World War II, about 25 licenses were issued; in the period 1945-1974 there have been approximately 10 requests. No compulsory license has been granted in the period 1950-1974.

3. *Switzerland*

Since 1928, Swiss patent law has included provisions for compulsory licensing in situations substantially similar to those applicable in Japan. Only a few compulsory licenses have been granted in the period 1928-1974. They have been issued by the Swiss courts and relate to the practice of a dependent invention under a dominating patent.

4. *France*

The concept of compulsory licensing is found in French law in the event of nonworking; in order to practice an improved second invention and for national defense purposes. Where drug patents are concerned, licenses may be demanded if the interest of public health requires it and the medicaments are available to the public only in an insufficient quantity or quality or at abnormally high prices.

Compulsory licenses have been granted under French law only because of insufficient local working of the invention, three licenses having been issued from 1953-1974.

5. *United Kingdom*

The British patent law provides for compulsory licensing for abuse of patents because of nonworking, or other showing of prejudice to local commercial or industrial activity or hinderance to exporting (§37). During the 22 years from 1950 to 1972 six of 45 applications for compulsory licenses were allowed. Drugs and foods are subject to compulsory patent licensing under §41 of the British law.

During the period 1950-1972, 76 §41 applications were filed; 25 were allowed, 8 refused, 33 withdrawn, and 10 were pending.

In 1967, the British government appointed a committee, chaired by Mr. Morris Banks, to examine the British patent system. The Banks Committee recommended repeal of §41 because the provision has proved to be discriminatory and against the long-term public interest. The committee concluded that §41 hinders research and innovation in the pharmaceutical industry and is contrary to the prevailing trend toward increased patent protection. The committee was of the opinion that there is no reason in principle why drugs should be treated differently from other patentable subject matter.

6. *Canada*

The Canadian patent law is generally patterned after the English law. Under Canadian law a compulsory license is available under generally the same criteria as of §37 of United Kingdom law; for nonworking or other abuse resulting in prejudice to local Canadian trade or industry. Between 1935-1974, 12 of 54 applications have been granted.

§41(4) is directed to compulsory licensing of drug patents. Prior to June, 1969, a compulsory license to a drug patent was available only upon a showing that the licensee would manufacture the drug in Canada, that is "work" the patented invention locally. Between 1935 and June, 1969, 22 of 49 license requests were granted. In June, 1969, §41 was amended to sanction licensing to import either in bulk or final dosage form. Since 1969, licenses have been available virtually as a matter of right. Only 2 of 125 applications have been refused in the period 1969-1974; 92 licenses have been granted to 35 different chemical entities, representing principally the largest selling patented Canadian drug products. The 1969 amendment has virtually eliminated the patent incentive for research and development, and yet has not resulted in significantly lower Canadian drug prices, which was the announced goal of the proponents of the 1969 legislation.

7. *Australia*

Australian law includes general compulsory licensing in the event of abuse of the patent right if "the reasonable requirements of the public with respect to the patented invention have not been met" (§§108-110). As of 1974, the general compulsory licensing provision had never been successfully invoked in Australia.

8. *South Africa*

The patent law of South Africa is very similar to British law. Compulsory licensing is permitted in case of abuse or insufficient use of patent rights. There is also provision for licensing with respect to a dependent invention. §48 of South African law is directed to the licensing of pharmaceuticals, and contains the exact wording of §41 of British law. Compulsory licensing has been included in the South Africa patent law since 1916; however, as of 1974 no compulsory license had been granted.