

*Export Restrictions.*

From 1st January 1973, it would appear that those restrictions permitted under the 1956 Act in respect of exports to other Member States of the Common Market may, in some measure, become unlawful under Article 85(1) as interpreted by Regulation 67/67.

*Industrial Property Rights.*

The trend emerging from the Grundig-Consten, Parke-Davis, Sirena and Deutsche Grammophon cases differentiating between the existence of territorial property rights and the exercise of them may well limit the value of the exceptions under Section 8 of the 1956 Act.

*Notification of Restrictive Agreements.*

The Treaty of Accession permits British Companies a period of six months until 30th June 1973 to amend or notify restrictive practices which become prohibited by Article 85 of the Treaty of Rome by virtue of British accession to the Common Market.

This concession therefore applies, for example, to a current restrictive agreement between a British company and a company in any of the other EFTA countries. Denmark and Eire will of course also be Member States of the European Communities and thus be bound by Article 85. The remaining EFTA countries have agreed in their "Free Trade Agreements" with the Common Market to implement and enforce competition law similar to Article 85.

The concession does not apply (as I.C.I. discovered on being fined \$55,000 for concerted practices in relation to prices) to British companies which, prior to 31st December 1972, participated in restrictive practices which affect inter-state trade in the existing Common Market, as Article 85 *already* (as opposed to "by virtue of accession") applies by reason of what is known as "the effects doctrine."

In essence, therefore, if there now exists any agreement or concerted practice between a British Company and any company in the Common Market as now constituted, the British Company should either amend or terminate it immediately or after 1st January 1973 notify it to obtain negative clearance with the knowledge that the Commission may well fine it for its activities prior to notification. Dr. Willy Schlieder, Director General for Competition, on 5th October advised a Conference in London at the Royal Institute of International Affairs that, in these circumstances, the Commission is unlikely to adopt a harsh approach from the point of view of fines.

#### THE NATIONAL LAWS OF EACH COUNTRY WHERE TRADE IS DONE

Only a local practitioner in each particular country is competent to explain these to the foreign trader.

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*Restrictive Practices Sub Committee British National Committee International Chamber of Commerce. Company — Chloride Group Limited. Although it has other interests including plastics, sanitary ware and machinery, over 90% of the Chloride Group's sales is directly connected with batteries.*

*Chloride is the largest British manufacturer of accumulators, namely secondary and rechargeable batteries, and one of the largest battery companies in the world. It operates through subsidiary and associated companies in 25 countries and has a widespread distribution network in others.*

*The Group is a leading supplier to major petrol and diesel motor manufacturers and is well-known in the British automotive battery replacement market. Over one-third of its sales, however, is in markets reflecting the enormous variety of industrial battery applications which range from fork lift trucks and electric delivery vehicles to telecommunications, standby equipment and emergency lighting.*



G. E. Spencer

#### THE BRITISH COMPULSORY LICENSING SYSTEM

by  
G. E. Spencer\*

The compulsory licensing system in Great Britain falls into three broad divisions.

First, compulsory licenses applied for by third parties based upon mis-use of the patent by the patentee or related circumstances,

Second, compulsory licenses under patents relating to medicines or food, and

Third, compulsory licenses obtained by Government Departments and the related provisions covering the use of patented inventions by Government Departments, the so-called "Crown Use" provisions.

I do not propose to discuss this third category since the provisions for Government Departments to apply for a compulsory licence are substantially the same as the provisions covering the first category I have mentioned and the Crown Use provisions are not really relevant to what is generally thought of as compulsory licensing.

Turning now to the first category, there have been provisions in British patent Law for the compulsory licensing of patents on the basis of misuse, more particularly non-working, by the patentee since the Patents Act of 1883, which was the first of our modern patents acts and the one which set up the patent system substantially as we have it today.

The British patent system, even in its very earliest period in the 16th century, has always been primarily concerned with the setting up of manufacturing processes in Great Britain, so that it is a fundamental part of the British patent philosophy that if a patentee does not work his invention in Great Britain, he should be penalised. Added to this has been the suspicion in some quarters in more recent times, that patents are used by some large companies to prevent the introduction of valuable new developments. Although there has never been any evidence of this last mal-practice, there is no doubt that the very comprehensive nature of our present compulsory licensing provisions is, in

part, due to a political need to take account of this view and to provide the appropriate remedy.

For these reasons the grounds and procedure for obtaining a compulsory licence have been broadened and changed in succeeding Patents Acts down to our present statute, the Patents Act of 1949.

We now have in Section 37 of the Act a very comprehensive and elaborate statement of the grounds under which a compulsory licence may be obtained; other important provisions are contained in Sections 38 and 39.

The first ground upon which a compulsory licence can be obtained is stated in the following terms:

"That the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonably practicable."

This is the classical non-working ground, but it will be noted that it refers not only to non-working, but also to an inadequate extent of working. In order to succeed under this ground, it will normally be necessary for the applicant for licence to bring evidence to show what the demand for the invention might reasonably be expected to be and how far short production in the United Kingdom fails to supply that demand.

It is an intriguing point that in rebutting an application under this ground, the patentee may rely not only upon such working in the United Kingdom that he and his existing licensees, if any, are carrying out, but also on working by unlicensed infringers.

On the general point of whether the extent of working in the United Kingdom is sufficient, it is not enough for the patentee to have worked the invention at some time before the application and then to have discontinued. The Patent Office will also be influenced towards granting a licence if the invention is being successfully worked in other countries.

In the past, under our previous Patents Act, patentees were able in some cases to prevent a licence being granted, by saying that their failure to work the patent was due to circumstances beyond their control. Thus patentees have argued in the past that there was no demand for the invention in the United Kingdom, although this argument was rarely accepted unless they also showed that they made a real attempt to create a demand, or that special skills or special equipment that were necessary to carry out the invention were not available in the United Kingdom. Because of the broader and more comprehensive wording of our present Patents Act, it is doubtful that the defense that the failure to work was due to circumstances beyond the patentees control, would now succeed, unless the circumstances were quite exceptional.

The second ground is as follows: "That a demand for the patented article in the United Kingdom is not being met on reasonable terms, or is being met to a substantial extent by importation."

The demand for the invention referred to in this ground must be an actual existing demand and not

#### BENELUX LICENSING MEN

You are invited to attend, on Wednesday, May 30, 1973 a one day I.E.S. licensing conference in Brussels, Belgium. LES will hold a lunch and a business meeting for the purpose of organizing a BENELUX chapter of I.E.S. Such a chapter will be helpful in several ways to those licensing men who live in Benelux. For example, with a BENELUX chapter will go the right to join LES International and to send two voting delegates to represent the interests of BENELUX at all meetings of I.E.S. International. The first meeting (constitutional convention) of LES International will be held June 4 in London. I.E.S. BENELUX can and should be represented at London if those attending the Brussels meeting see fit to organize a LES chapter at the Brussels meeting.

The BENELUX meeting will be 10 A.M. to 4 P.M. Wednesday, May 30, at the Hotel Westbury in Brussels. Registration including lunch and coffee breaks is U.S. \$25 or equivalent.

In the past two months, we have tried directly to contact all possible BENELUX registrants for the LES Brussels meeting. If we missed you or one of your friends and you are interested, please register or ask for information from:

LES BENELUX MEETING  
% F. Gevers  
Gevers Company  
10 Place Stephanie  
1050 Brussels, Belgium

one which the applicant hopes and expects to create if he is granted a licence.

The third ground is an extension of the second and is as follows:

"That the commercial working of the invention in the United Kingdom is being prevented or hindered by the importation of the patented article."

The fourth ground covers a number of situations and reads as follows:

"That by reason of the refusal of the patentee to grant a licence on reasonable terms

- (i) a market for the export of the patented article manufactured in the United Kingdom is not being supplied; or
- (ii) the working or efficient working in the United Kingdom of any other patented invention which makes a substantial contribution to the art is prevented or hindered; or
- (iii) the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced."

The reasonable terms referred to in this ground relate not only to the level of royalty, but also to any other conditions which the patentee may impose on the grant or a licence. In deciding whether the terms offered by the patentee are reasonable, the Patent Office will consider all aspects of the situation.

If an application is made under head (i) of this fourth ground, the licence, if granted, may restrict the countries to which the applicant may export.

No licence will be granted under head (ii) unless the patentee of the other patented invention, who is assumed to be the applicant for the licence, is prepared to cross-licence the patentee. It should be noted that the possession of a minor improvement patent on somebody else's main patent will not enable the patentee of such an improvement patent to obtain a licence under head (ii), since the other patented invention referred to must be one which makes a substantial contribution to the art. No doubt there will be much argument about the relative merit of the improvement patent as and when an application under this head is made, but none has been so far.

The fifth and last ground is as follows:

"That by reason of conditions imposed by the patentee upon the grant of licences under the patent, or upon the purchase, hire or use of the patented article or process, the manufacture, use or sale of materials not protected by the patent, or the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced."

This ground covers the situation where the patentee is prepared to grant a voluntary licence to the applicant and the royalty terms are reasonable, but the licence contains other conditions which are unfair or onerous on the licensee.

Having outlined the grounds on which a compulsory licence application may be made, I will now refer to the procedure to be used and other general matters.

Firstly, a compulsory licence application based on

the grounds I have described cannot be made until three years after the patent has been granted. The applicant for licence files his application with the Patent Office. As well as certain formal documents, the applicant is required to file, at this stage, written evidence supporting his claim that one or more of the grounds I have described is applicable and evidence that the patentee has refused to grant him a voluntary licence or has offered a licence containing unreasonable terms.

The Patent Office subject those papers to preliminary examination to see whether the applicant has made out a prima facie case. If the Patent Office considers that he has not, the application may be rejected at this stage, but it is far more likely that they will call for additional explanations or evidence. When this preliminary examination has been completed the application is advertised in the Patent Office Journal and copies of all the papers filed by the applicant are sent to the patentee and to any licensees who are already recorded under the patent.

Opposition may be filed, and, of course, normally will be, by the patentee and any existing licensees within 2 months of the advertisement in the Journal. The opposition is supported by written evidence seeking to disprove or rebut the case made out by the applicant.

The applicant and the patentee then have an opportunity to file further written evidence and when the filing of evidence is complete, the application proceeds to an oral hearing at the Patent Office and a decision is then issued. If the decision is that a licence should be granted, it is the current Patent Office practice to try to settle the licence terms at the same time as giving the decision and, for this purpose, the applicant should file a draft licence either with his original application or with his reply evidence.

#### LES BOOK ON LICENSING

A limited number (approximately 100 copies) of the second edition of "The Law and Business of Patent and Know-How Licensing" are now available for sale to LES members on a first come, first served basis. This book was prepared jointly by LES and Patent Resources Group for use in the PRG licensing course and the graduate-level course on licensing which is taught to students at George Washington University Law School. This book was co-edited by Marcus B. Finnegan and Brian G. Brunsvold. Copies can be obtained by sending a check for \$30 per copy, made out to "LES, Inc." to:

Marcus B. Finnegan  
Finnegan, Henderson, Farabow & Garrett  
1775 K Street, N. W.  
Washington, D. C. 20006

All profits resulting from the sale of this book are turned over to the LES Treasury.

If there has been considerable argument at the hearing as to the licence terms, the Patent Office may not be able to settle the terms in detail when the decision is given, and in this case the applicant and the patentee will usually be directed to put in a draft licence agreed between them as far as possible within a specified time from the decision, and the Patent Office will then determine the remaining matters which are still in dispute as to the licence terms.

The licence only operates from the date when its terms are finally settled and approved by the Patent Office; it is not back-dated to the date of the application. It follows that any use of the patented invention by the applicant prior to the final approval of the licence by the Patent Office is likely to be an infringement for which he can be sued by the patentee.

Patentees are, of course, fully aware of the fact that it is in their interests to prolong the application and the Patent Office is not, perhaps, as firm as it should be in keeping the proceedings as short as possible. In the case of an application which is vigorously contested by the patentee, it is likely to be from 2 to 3 years between the application being filed and the licence being finally granted.

Either party, that is the applicant or the patentee, may appeal from the decision of the Patent Office. If the decision is that a licence should be granted and the licence terms have been settled, it is thought that the applicant may safely proceed to use the invention even though the patentee appeals.

The Patent Office will consider all the circumstances of the case in deciding the terms and, particularly, what royalty to include in the licence. The Patent Office is guided by certain general principles which are not out in Section 39, one of which is that the patentee shall receive reasonable remuneration having regard to the nature of the invention. There is certainly no general royalty figure which is applied to all cases. Each case is considered on its own and the Patent Office will resolve the matter as best it can in the light of the evidence and arguments of the two parties. In practice, the Patent Office will be largely guided by the royalty paid by any existing licensees in the United Kingdom or elsewhere, or, if there are no existing licensees, by the general level of royalty in the industry in question.

Finally, it is worth emphasizing that in the case of compulsory licences based on the grounds I have described, the Patent Office has no pre-disposition either to grant or to refuse a licence; each case is considered on its merits. It is also worth noting that despite the very comprehensive nature of these provisions, there have been very few applications for compulsory licences under them. In the 22 years since the Patents Act 1949 came into force, there have been only 5 applications that were taken to a hearing and in these 5 cases, a licence was refused in 2 cases, and a licence was granted in 3 cases, but in one of these three the patentee did not oppose the application in time.

The small number of applications under these provisions does not prove that they are of little value. On the contrary, it is generally thought that although

little used, they serve their purpose well in ensuring that patentees work their inventions in the United Kingdom or are ready to grant voluntary licences to licensees who will do so.

I turn now to the second category of compulsory licences I mentioned at the beginning, namely compulsory licences in respect of medicines and food. The provisions relating to this category of compulsory licences are contained in Section 41 of the Act and it is convenient to refer to this category as "Section 41 licences". It is important to note that this category has nothing whatever to do with mis-use of his patent by the patentee and is therefore not governed by Article 54 of the Paris Convention. As a result, this type of licence can be applied for at any time after the grant of a patent and an applicant does not have to wait until 3 years have elapsed.

The provisions for Section 41 licences should be seen, therefore, as a deliberate policy of Parliament to restrict and reduce the nature of the monopoly which patentees in this field can obtain. These provisions date from 1919, a period when the British pharmaceutical industry was small and ineffective, whilst the German pharmaceutical industry was relatively well established. At that time it was not possible to obtain patents for medicines or methods of making them in Germany, France or Italy and Parliament considered it undesirable that German pharmaceutical companies should be able to obtain British patents and thus dominate the infant British industry, when they could not obtain patents in their own country.

In addition to the fact that there need not be any element of mis-use of his patent by the patentee, another very important element of the Section 41 provisions is that they are written so that there is a pre-disposition towards the granting of a licence to the applicant. The provisions are, indeed, such that the Patent Office are required to grant a licence to the applicant unless there are, as it states, "good reasons for refusing the application"

These provisions were not, at first, any more used than the non-working provisions previously discussed, but in the last 10 years, in particular, there have been a substantial number of applications and patentees have expended considerable ingenuity in trying to find "good reasons" for the refusal of a licence.

Among the reasons which patentees have put forward, but which have been rejected by the Patent Office are:

- (1) that the patentee was capable of meeting the whole of the demand for the patented medicine, and that another source of supply was unnecessary;
- (2) that the applicant for licence did not have the required plant and personnel to manufacture the medicine;
- (3) that it would be some years before the applicant was capable of making any substantial amount of the medicine;
- (4) that the applicant would not be able to make the medicine to the required standard of purity; and
- (5) that the applicant did not possess the necessary clinical knowledge of the medicine and would not be able to answer doctors' enquiries about pre-

scribing, contra-indications, and the like.

As I said, none of these arguments has been accepted by the Patent Office as constituting a good reason for refusal of the licence.

At the present time, there do, in fact, seem to be only two reasons which would be accepted by the Patent Office.

The first is where the medicine is already being manufactured in the United Kingdom by the patentee or an existing licensee and the applicant proposes to operate the licence, if granted, solely by importing the medicine from abroad. In this case, the licence would almost certainly be refused, but if the applicant undertook to manufacture in the United Kingdom, the licence would be granted and would stipulate that the medicine had to be manufactured in the United Kingdom.

Where the patentee himself imports the medicine into the United Kingdom, the applicant will be allowed to do the same.

The second reason that would probably be accepted as a good reason for refusal of a licence is where the applicant was shown to be dishonest or financially insecure.

It follows from all this that Section 41 applications tend to be concerned not with whether a licence should be granted or not, since the patentee really has no choice but to accept that a licence will be granted, but rather with the licence terms and, in particular, the royalty. Section 41 specifies that in settling the terms of the licence, the Patent Office shall try to ensure that the medicine is available at the lowest price consistent with the patentee deriving a reasonable advantage from the patent. Patentees have been quick to seize upon this latter requirement to argue for as high royalties as possible and there has, indeed, been an upward trend in the royalties granted in the last 10 years. In an important case about 10 years ago, the Patent Office set down a method of royalty computation which has, in principle, been followed in subsequent cases. This takes into account three elements, first the patentees current research expenditure, second the patentee's promotional costs for the particular medicine in question, and third, a so-called profit element. In the case I have referred to the computation gave a royalty of 16% based on the applicants proposed selling price of the medicine. The patentee appealed and the Appeal Tribunal raised the royalty to 18%.

In more recent cases, higher royalties up to about 25% have been awarded. In the older cases, royalties based on the applicant's selling price were usually awarded, but more recently patentees have sought to have the royalty assessed as a fixed sum per kilo of the active material of the medicine. The advantage of this to the patentee is that he still obtains the same royalty if the applicant reduces his price, and the disadvantage to the applicant is that if the patentee is prepared to cut his prices to a sufficiently low level, the applicant may be put in the position that he can no longer sell at a competitive price and make a worthwhile profit.

There has been at least one case recently where the patentee has been successful in getting a fixed

kilo royalty, despite vigorous argument by the applicant against this royalty basis, and in future cases we can expect patentees to continue to press even more strongly for the royalty to be expressed on this basis. An appeal was recently taken to the Appeal Tribunal which was largely concerned with the basis on which the royalty should be calculated, that is as a percentage of the applicant's selling price or as a fixed sum per kilo, and it was expected that the Tribunal would give general guidance as to which basis was to be preferred. In the event the Tribunal declined to do so and said that each case should be considered on its merits.

I think it is possible to detect a trend, however, towards fixed kilo royalties.

These considerations apply where there is no existing voluntary licensee. If there is an existing licensee, the royalty provided in the compulsory licence will generally be the same as that in the voluntary licence.

The development of the law and practice with regard to Section 41 licences in recent years has been of great interest to those of us in Great Britain who are concerned with pharmaceutical patents, but this branch of our law is likely to disappear in the near future. The Association of the British Pharmaceutical Industry has been campaigning for years against Section 41 and their efforts were rewarded when a Government committee considering revision of the patent law, the Banks Committee, published its recommendations. The Banks Committee recommended that Section 41 should be abolished and I have little doubt that this recommendation will be adopted in the new Patents Bill which is currently being drafted.

Almost certainly, therefore, all that I have said about Section 41 will in a year or two be no more than history, but while it continues to survive there are few parts of our Patents Act that arouse more controversy.

*\*About the Speaker: G. E. Spencer graduated from Cambridge University in 1950 with a degree in Chemistry and entered the patent agents profession as a technical assistant with Frank B. Dehn & Co., London. He qualified as a patent agent in 1955, was employed with Page, White & Farrer, London from 1956-1958, and moved to his present firm, A. A. Thornton & Co., London in 1959. He became a partner of the firm in 1961.*

I have now received translations of quite a number of the workshops that were held in Pugnuchiuse, Italy. Because of lack of space, I cannot publish them, but I will be very glad to Xerox them and send them to you if you have an interest in them. Just write me.

Thelma C. Heatwole - Editor