

# Compulsory Licenses in EEC

*Compulsory working of patents in the EEC: past, present, and future*

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In the EEC countries, compulsory licenses are granted mainly for two reasons: to enforce the working of a patented invention within the country or to lower the price of an article protected by patent (or, by the same mechanism, to bring about an increase in the production of that article). This talk is intended to concentrate on the manufacturing requirement which constitutes the most widespread ground for compulsory licensing. I will examine the national laws of the various EEC countries, the Community Patent Convention, and the prospects for the adoption of a Community Regulation on the granting of compulsory licenses.

## NATIONAL PATENT LAWS

102

### *A Bit of History*

By domestic manufacturing requirement, I mean the obligation, which most patent laws imposed upon patentees, to manufacture the patented product or to practice the patented process within the country, instead of supplying the domestic market from plants located abroad.

Compulsory domestic manufacturing is a remnant of the mercantilist era. Early patents were granted primarily to encourage establishment of new domestic industries. The legacy of this thinking survived in the patent laws of the XIXth Century under the form of patents of importation on the one hand, and compulsory manufacturing on the other hand. French law went particularly far in this direction — it made the mere importation of goods by patentees a ground for revocation (and this at a time when patents were considered to derive from natural property rights!).

The Paris Convention eliminated the prohibition of importation, but didn't succeed in completely abolishing the requirement that inventions be worked domestically. What it did was 1) substitute the granting of compulsory licenses for the revocation of patents as a primary sanction for failure to work, and 2) impose time limits before which such compulsory licenses could not be granted.

### Paris Convention

Actually, the restrictive conditions concerning the

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implementation of a working requirement, which are to be found in Article 5A of the Paris Convention, can be circumvented. They are applicable only when the nonworking of a patent is viewed as a so-called "abuse of the patent monopoly." Thus, somewhat paradoxically, when no abuse is involved — for instance, when an invention is being worked within the country, but an increase in the use of the invention seems desirable to promote the economic development of that country — compulsory licenses can be granted without complying with the conditions set out in the Paris Convention. An example is provided by "the licences d'offices" under French law.

### National laws and compulsory working

Today, the law of most EEC Member States requires that patented inventions be worked within the country. If patentees or their contractual licensees do not set up manufacturing facilities, preferring to supply the domestic from abroad, compulsory licenses are available.

In several states, it is true, provisions concerning non- or insufficient, working are seldom applied; this is certainly true in Belgium, in the Netherlands, and in Germany and probably also in Denmark.

Under the old *Belgian law of 1854*, patents can be revoked by governmental decree if the invention is not worked within a year after working has started abroad. However, owing to its inconsistency with the Paris Convention, this provision is now ineffective for all practical purpose.

*Dutch law* permits working to take place in another country designated by governmental decree. Although no such decree has been adopted, it has been decided that the exploitation of the invention in another EEC Member State could justify nonworking in the Netherlands.

Under *German law*, patents can be revoked if the invention is worked exclusively or mainly outside the national territory. However, this sanction for failure to work is of little practical significance because of the conditions which must be met before patents may be revoked. German law also provides for the granting of compulsory licenses, but nonworking in itself is not sufficient to warrant the granting of such licenses: one must also show that the public interest is negatively affected by the nonworking of the invention in Germany. Since the war, I am not aware of any compulsory license having been granted (if I am well informed).

### Domestic Requirement

Concerning the implementation of the Danish patent law of 1968, I have no information.

In the United Kingdom, France and Italy, the requirement that inventions be worked domestically is enforced, as shown by a number of recent cases.

In the *United Kingdom*, under section 37 of the Patents act, compulsory licenses may be granted, e.g. 1) if a demand is being met to a substantial amount by importation, or 2) if the commercial working of the invention is being prevented or hindered by the importation of the patented article, or 3) if the invention is not being worked in the United Kingdom to the fullest extent that is reasonably practicable, or 4) simply if a market for the export of the patented article manufactured in the United Kingdom is being neglected. I am leaving aside compulsory licenses granted on the basis of sections 41 and 46 for the manufacture of drugs.

The Comptroller General and British Courts have interpreted Section 37 of the Patents Act rather narrowly. Nevertheless since 1960, there have been about six successful applications for the granting of a compulsory license based on that section. Two of these cases are worth mentioning. In the *Fette's Patent* case, the patentee was not manufacturing in the United Kingdom, but importing from Germany. In the more recent *Penn Engineering* case (1973), the British market was supplied from the United States. The compulsory license granted in that case included the right for the licensee to export. The patentee did not possess foreign patents in countries in which there was likely to be a market for export from the United Kingdom. Justice Graham added that:

"at the present time, public interest does demand that exports from this country should be on as large a scale as possible."

This contrasts with a French decision denying the compulsory licensee the right to export from France.

French law requires that patents be effectively worked. French Courts have made it clear in several decisions that importing from abroad did not constitute effective working of the patent and that French patent law was designed to protect domestic industries. Since 1960, there have been seven applications for a compulsory license, five of which were successful. In all these cases, the patentee was a foreign firm and the applicant a French firm. In three cases, the patentee was a firm established in another EEC Member State, from which it was supplying the French market. In 1960 and 1963, French courts explicitly stated that the EEC Treaty had no bearing on the interpretation of the working requirement imposed by French law. Today, this opinion is no longer valid, as we will see later. Logical economic arguments put forward by a patentee to explain why it was more rational to import from abroad, rather than to build two plants, were dismissed as providing no excuse for the failure to work in France. Further, an infringer may apply for a compulsory license. This contrasts with the situation in Italy.

#### Protectionism

The sound of protectionism does not ring as loudly in all French decisions. Recently, the Tribunal de grande instance of Toulouse, refused to grant a compulsory license, despite indications that the Minister of Industry seemed to be in favor of granting the license.

In addition to what I would call "ordinary compulsory licenses" granted by judicial courts, French law

has provided, since 1968, for the grant of so-called "ex officio licenses" by the government in the interest of the national economy. Ex officio licenses are intended for exceptional cases. One of the reasons which the French government had in mind when it proposed the creation of ex officio licenses in 1968 is especially worthy of mention. This was the fear that, as a result of the progressive integration of the economies of the EEC Member States, an American firm would set up a manufacturing plant in one EEC country and, from there, supply the domestic market of all other EEC countries. A statement made by a member of the French government made this line of reasoning very plain.

No ex officio license has yet been granted. However, the mere fact that these licenses are available raises potentially thorny problems at the EEC level, as we will point out later.

In addition to the United Kingdom and France, Italy is another EEC country in which compulsory working is truly enforced. Proof of Italy's attachment to the requirement that inventions be domestically worked is the fact that Italy was responsible for the introduction of a reservation in the Luxembourg Convention (Common Market Patent).

Because the Italian Supreme Court considered that Article 5A of the Paris Convention was not directly applicable in Italy, until 1968 patents which had not been worked in Italy for three years were automatically revokable. The law was modified in 1968 to make the grant of compulsory licenses the primary remedy in a case of nonworking. However, today patents are still revoked if it can be shown that they had not been worked during a three-year period which expired prior to 1968. Thus, in Italy, some patents could be revoked for nonworking, even after 1970.

This brief review of the national patent laws of the EEC countries indicates at least one thing: compulsory working is more than a mere vestige of the past.

103

#### COMMUNITY LAW AND COMPULSORY WORKING

##### The EEC Treaty

Before examining the Community Patent Convention signed in Luxembourg in late 1975, a crucial point, hitherto overlooked, must be stressed.

It is clear from the EEC Treaty, that a manufacturing requirement, imposed by the law of a Member State, is no longer enforceable in relation to other Member States, but only in relation to non-EEC countries. In other words, patentees, already today, do not have to set up plants or to license manufacturing firms in more than one Member State. The granting in a Member State of a compulsory license for failure to work the patent on the domestic market is thus inconsistent with the EEC Treaty, if the patentee supplies that market from plants located in another Member State.

Why is this so? A domestic manufacturing requirement amounts to a restriction, imposed by the law of the state which grants the patent, upon the freedom of patentees (or of their licensees) to import from other states. Therefore, it falls within the broad category of

measures having an equivalent effect to quantitative restrictions. These are forbidden by Article 30 and seq. of the EEC Treaty.

Measures having an equivalent effect consist, according to the EEC Court of Justice, of:

"all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially intracommunity trade" (Scotch Whisky).

Admittedly, Article 36 of the Treaty exempts from the prohibition of Article 30 and seq., import restrictions justified by the protection of industrial property. However, one cannot contend that the requirement that patentees set up manufacturing plants on the domestic market, instead of importing from other Member States, falls within the scope of Article 36. Such a requirement is motivated by considerations foreign to the main purpose of the patent system which is to reward inventors and to stimulate innovation in the economy. Compulsory domestic working only promotes the uneconomic location of industrial activities in the EEC. It represents a "disguised restriction on trade between Member States" to which the exception of Article 36 does not apply.

### Community Patent Convention

#### a. Lack of Community compulsory licenses

104 A first observation is that EEC Member States have been unable to agree on a common policy toward the granting of compulsory licenses. Therefore, Community patents will be subject to the relevant provisions of the patent laws of the Member States as long as no Community regulation is worked out. This has important consequences.

According to Article 46 of the Luxembourg Convention, compulsory licenses granted under the law of a Member State will be limited to the territory of that state. Equally, the owner of a Community patent may oppose the resale of goods manufactured by a national compulsory licensee into another State. The strict territorial limitation of national compulsory licenses is understandable. Otherwise, the law of a Member State would *de facto* extend to the territory of other Member States. In the absence of a Community system for the granting of compulsory licenses, it belongs to each individual Member State to decide, through its appropriate bodies, whether a compulsory license should be granted with respect to its own territory.

#### b. Elimination of the manufacturing requirement in the context of relations between Member States

The Luxembourg Convention, although it does not create Community compulsory licenses, makes the domestic manufacturing requirement imposed by the law of many Member States unenforceable in the context of relations between EEC countries.

Article 47 provides that no compulsory license may be granted if the patent protected product is supplied in sufficient quantity on the market of a Member State from another Member State. This raises several points worthy of comment.

First of all, it follows a *contrario* that Member States may still grant compulsory licenses on Community or national patents which are worked outside the EEC,

even if their holder supplies the EEC market. However, despite the fact that it only applies to the relations between Member States, the removal of restrictions on patentees' and licensees' freedom to import represents a step in the right direction.

Actually, under some circumstances, Member States may still require that patents be worked within their territory, even though their domestic market is supplied in sufficient quantity from another Member State. This is because Article 47 does not apply to compulsory licenses granted for reasons of public interest.

This exception is to some degree justifiable. The government of a Member State may wish to grant a compulsory license in order to develop the domestic production of a patented article needed for military purposes, to avoid relying on imports from another State. Since the EEC does not constitute a military union, each Member State should remain free to decide where its "public interest" lies in that respect, and to grant compulsory licenses if needed.

However, under the guise of compulsory licenses granted in the public interest, a Member State may also seek to achieve objectives of a purely economic nature, hardly distinguishable from the traditional manufacturing requirement which Article 47 is designed to eliminate. This possibility is particularly clearly illustrated by the *ex officio* licenses which the French government may grant in the interest of the national economy.

The very ambiguity of Article 47 seems to have been the price for its acceptance by all Member States. Article 47 is somewhat redundant; however, as it purports to achieve something which the EEC Treaty has already achieved.

#### c. Reservation

Under pressure from Italy, a reservation was introduced in the Luxembourg Convention. According to Article 89, a Contracting State may declare that, for a period of 10 years, it will not comply with Article 47. In other words, Italy, for instance, could continue to require owners of Community patents or of Italian patents to manufacture in Italy even if the Italian market was supplied from France or Germany.

This reservation is in my opinion incompatible with the EEC Treaty which, as you know, takes precedence over the Luxembourg Convention. As I pointed out above, it follows from the EEC Treaty itself that a domestic manufacturing requirement can no longer be enforced in the relations between Member States. Such a requirement constitutes an import restriction forbidden by Articles 30 and seq. of the EEC Treaty. Of course, the Court of Justice might rule otherwise, but this would be rather surprising in view of its past decisions in the field of industrial property.

### COMMUNITY LAW AND COMPULSORY LICENSES: FUTURE PROSPECTS

I would now like to take a look at what the future holds, although I would first like to make a *general remark* with regard to Community Law.

As often observed, the EEC Treaty, which is quite specific concerning measures relating to negative integration — i.e. the removal of economic barriers be-

tween Member States — leaves largely uncharted the field of positive integration. It is with regard to the latter that special conventions, such as a Patent Convention, can be most helpful, by promoting the development of common economic policies, which are not mapped out in the EEC Treaty itself. The working of patents is a case in point. The Treaty implies that a domestic working requirement cannot be enforced in the relations between Member States, but it does not ensure that a unified policy concerning the working of patents in the EEC will be implemented. The definition of such a policy, and the setting up of the bodies needed to carry it out should have been the fundamental task of a Community Patent Convention. Unfortunately, the Luxembourg Convention falls short in this respect: no agreement on a common policy has yet been reached.

The absence of a unified system for the granting of compulsory licenses in relation to Community patents and the applicability of the corresponding provisions of the law of the Member States is likely to produce results inconsistent with the objectives inherent in the creation of Community Patents. First, the free movement of goods will be impaired each time a compulsory license is granted in a Member State. Second, since national laws vary widely with regard 1) to the grounds upon which compulsory licenses may be obtained, 2) the procedure, 3) the authorities entrusted with the task of granting the licenses, Community patent law will not have a similar effect throughout the EEC. Certainly, it would be preferable if the granting of compulsory licenses on Community patents was decided by a single authority acting on the basis of a set of Community rules.

### Community Regulations

At the end of the Luxembourg Conference, the EEC member States decided to draft a Community Regulation regarding the granting of compulsory licenses on Community patents. They will only start working on that draft, however, after the Luxembourg Convention enters into force. In other words, the adoption of this Community regulation is still many years away.

Concerning that future Community Regulation, one thing is almost certain. Patentees will have to work their invention within the EEC, and importing from a third country will not constitute effective working of the patent. With protectionist forces at work in several Member States, the maintenance of a manufacturing requirement at EEC level seems unavoidable. This will result in a situation comparable with the treatment of customs duties under the EEC Treaty. Tariffs were eliminated between Member States, but a com-

mon tariff has been established at the Community borders. Therein lies the essence of a customs union.

Apart from the maintenance of some sort of working requirement, it is difficult to predict what the future Community Regulation will be. The Member States have stated their intention to create *common authorities*. Will there be a truly independent authority and what form will it take — that of a judicial court or of an administrative board? Will the common authority consist of delegates from the Member countries? What power will that body receive? Will it be entitled to grant compulsory licenses only for the entire EEC or, also, for one or more Member State?

One of the most difficult issues facing those who will draft that future Community regulation is how to deal with compulsory licenses granted in the public interest. If they are left out of the Community Regulation, the danger arises that, in some Member States, the granting of licenses for reasons of public interest will be used to achieve the same protectionist objectives as the granting of compulsory licenses for failure to work sets out to do today.

If it takes too long to work out a Community Regulation, it might be useful to start harmonizing the provisions of the national patent laws dealing with the granting of compulsory licenses. Although this may seem a second best choice, as it will not lead to the setting up of a common authority at Community level, it nevertheless presents several advantages. First, Community patents are optional and a great many national patents will continue to be delivered. These patents would not be affected by the adoption of a Community Regulation, but would fall within the scope of a harmonization of national patent laws. Second, it may be easier for the Commission to harmonize national laws through the adoption of directives than for 9 or perhaps 12 Member States to agree on a Community Regulation. Finally, the gradual harmonization of national patent laws may be a prerequisite of the development of any meaningful Community Regulation.

### CONCLUSION

The difficulty of unifying patent laws with regard to the granting of compulsory licenses reflects the economic nationalism which lingers in some Member States and the different approaches that these States take toward the patent monopoly.

Nevertheless, the EEC countries' inability to agree upon a common policy, concerning the working of patents appears somewhat strange in view of the alleged ineffectiveness and the relatively infrequent use of compulsory licenses. It would seem from the behavior of Member States that this is a matter of great importance to them.