Chapter Eight

LEGAL CONTROL OF ABUSES OF THE PATENT GRANT
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I. Introduction

Patent monopoly, is the reward offered by society to the patentee for the efforts and resources invested in the creation of the invention. The patentee in his turn is expected to convey to society all the technical information needed to enable others to use the invention and to work the invention in the interests of the society. Whereas developed countries view compulsory working requirements as a form of trade protectionism, comparable in its effect to restrictive tariffs and having detrimental effect on international trade. In their view, it may not be economically desirable to exploit an invention within the country as it may produce undesired effects on the domestic consumer. The other objections raised by them are yet unsubstantiated: That uncalculated exploitation will injure small firms as they would be compelled to license larger competitors; that they destroy and diminish the value of patents as an incentive to invention and investment in expensive research facilities.


2It is however, important to consider the practical connotation of "technological progress" as stated by developed countries (mainly carried out by MNCs which is merely concerned product differentiation, model changes, slight improvements in packaging or designs. These are costly and necessary for selling in developed countries; see. Sanjaya Lall, "The Patent System and The Transfer of Technology to Less-Developed Countries", Journal of World Trade Law, vol.10 (1976), p.4.
On the other hand, it is pointed out that the patents granted in developing countries are primarily foreign owned and their main objective is not to encourage inventive activity but to assist profit maximization of large multinational corporations. The problems faced by developing countries rather have complex dimensions. In view of these, the patent legislations of some developing countries provided for the strict working of the patented invention to meet the demands of the local markets. The Indian Patents Act, 1970, for example, provides:

... (a) that patents are granted to encourage inventions and to secure that the inventions are worked in India on a commercial scale and to the fullest extent that is reasonably practicable without undue delay; and (b) that they are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article.

It is notable that during 1970s patent laws of a few developed countries had also sought to emphasize on the working requirements of the patented invention. The report of the Committee to examine the British patent system in 1970 had recognized that "the basic aim of a patent system, and indeed its effect, is to encourage the successful industrial application of inventions". In 1972, Canada had sought to amend its 1952

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2Indian proposal to the TRIPs, for instance, refers to basic factors concerning this problem; see, *MTN GNG/NG 11/W/37*, 10 July 1989, Standards and Principles Concerning the Availability Scope and Use of Trade-Related Intellectual Property Rights: Communication from India, p.5.


Patent Act, to specifically provide that patents "are granted not only to encourage inventive activity but to secure that new inventions shall so far as possible be worked on a commercial scale in Canada without undue delay". However, the majority of the developed countries, with their increasing industrial and technological strength, sought to exclude the working requirements from the international patent system, particularly from the Paris Convention.

In the early stages of its evolution, the patent system had, however, accorded primacy to the strict working requirements. But over the years, it is possible to discern the gradual weakening of working requirements in the Paris Convention through the formulations adopted in its six Revision Conferences. Realising this, developing countries had demanded the revision of Article 5 of the Paris Convention which inter alia incorporated provisions relating to "Importation and Compulsory Licensing".

II. Can Importation Constitute Working

The question whether importation of a patented article could constitute 'working' or not is still relevant today because actual 'working' of patented inventions alone contributes, to technological growth. The Paris Convention, however, has treated the

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1 Roffee, n.5, p.17.
2 For an elaborate treatment of the early patent systems and its evolution, see Chapter Three.
3 For the discussion of Revision Conferences and the substantive aspects dealt with in it see Chapter Three.
4 Refer to the discussion in Chapter Four to consider the revision of Article 5 in the Diplomatic Conference.
question of importation constituting working consistently in the affirmative." For this reason some of the developing countries, including India have not acceded to the Paris Convention. The Diplomatic Conference to revise the Paris Convention did not change the essential component of this clause. Furthermore, the Agreement on TRIPS unambiguously states:

...patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced" (emphasis added).

The TRIPS Agreement does not make any distinction between products produced locally or imported. It negates two fundamental objectives for the grant of patent in the international context, namely: (a) to secure transfer and retention of new technology; and (b) to meet the needs of the local market adequately. The developed countries have opposed the "strict working" requirement on two grounds, namely: (a) it might not be economically feasible in certain circumstances to work the patented invention in a particular country; and (b) a strict working rule might create an unnecessary burden on

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1See Chapter Three for an historical account of Revision Conferences which did not even touch the "importation" formulations.

11In the Diplomatic Conference developing countries sought to strengthen the non-voluntary licensing requirements. This was, however, totally resisted by developed countries, particularly by the United States. The same view prevailed and entered the negotiating agenda of GATT with totally different focus; Chapters Three and Four deal with these aspects in greater detail.

13Article 27(1), The Agreement on Trade-Related Aspects of Intellectual Property Rights in the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, (Marrakesh : GATT Secretariat, 1994).

the consumers by way of high prices or administered prices, particularly in an underdeveloped country with its relatively weak market.

However, the non-feasibility of working" in a developing country due to lack of infrastructural facilities or the concern for consumers are not the sole reasons for justifying 'importation'. There is the need "to preserve markets that were once captured through exports and are subsequently threatened by competitors and/or by the import-substituting strategies of the host count ries". Albeit, it may be admitted that even today there is no system which could conclusively say that a particular patented invention is being used as such a devise by the MNCs. One way to evidence it is to refer to the serious shift in both industrialized and developing countries in the concept of 'ownership' of invention. Constantine Vaitos, writing in 1972, noted this trend and stated that "at one time an individual inventor might have "owned" a few patented inventions; nowadays a business corporation might have hundreds or thousands of patents. Such a shift in the ownership of patents has revolutionized the concept of the patent and changed its implications".

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13Developed countries had argued in the Diplomatic Conferences held to Revise the Paris Convention during 1980s that it would be highly impractical to commercially work the patented invention particularly in a developing country where there was no adequate infrastructural facilities; See Chapter Four.

14Vaitos, n.3, p.77.

15Ibid., p.75.

16Ibid.
National legislations have sought to treat the concept of 'importation' in a balanced way: they do not or did not allow 'importations' to override societal interests. The Indian Patents Act, 1970 for example, emphasises that patents are not granted merely to enable patentees to enjoy a monopoly for the importation of patented article. Similarly, the United Kingdom patent law (1977) created a ground for an application for a compulsory licence and for the marking of the patent by "licences of right", if: "(a) a demand for the patented article in the United Kingdom is being met to a substantial extent by importation; or (b) the commercial working of the invention in the United Kingdom is being prevented or hindered by the importation of the patented article".

Both Indian and U.K. patent laws do not exclude "importation" altogether. In other words, it becomes an abusive practice only when it transgresses a certain limit and ends up as a monopoly favouring in the process the patentee. The U.K. patent law clearly spells it out when it outlines these limits as "a demand for the patented article is being met to a substantial extent by importation" or "the commercial working itself is hindered by importation. The Trips formulation, on the other hand, treats "importation" and "working" as one. Whether a patented product is imported or it is actually worked

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19 According to a UN Study during 1970s the following countries provided in national laws mechanisms to minimize the importation of the patented article, namely, Algeria, Australia, Canada, India, Ireland, Israel, Malawi, New Zealand, Nigeria, Sudan, United Kingdom and Zambia; see: The Role of the Patent System in the Transfer of Technology to Developing Countries (New York: United Nations, 1975), p.12.

is irrelevant for the TRIPs formulation so long as the patents are available and patent rights enjoyable without discrimination.

Developing countries are apprehensive, and rightly so, that the blurring of distinction between "importation" and "working" is sure to affect their interests. For instance, it allows patentees, mostly MNCs, to make maximum profit by taking advantage of importation of products. MNCs, by utilizing the provision of importation, will move the products from one country to another so as to create price fluctuations in the domestic markets of any two countries. By taking advantage of these price fluctuations and the differentials in the prices, the MNCs will make maximum profits. Further, they will also facilitate increasing importation techniques by building "network of patents" in more than one country. These are also termed as "interdependent patents". These mechanisms adopted by the MNCs are not always transparent and straightforward. "Importation" in such circumstances, becomes an abuse.

III. Abuses of the Patent Grant

It is said that a patent monopoly is abused when the economic and social objectives of the patent system are jeopardized by the behaviour of the patentee. The scope and extent of the abusive practices were determined by a study prepared for the

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"The features of "network of patents" or "interdependent patents" have been elaborately considered subsequently in this chapter. An "interdependent patent" simply refers to a situation "where a patented invention cannot be worked without also using another invention for which a patent has been granted".

22Roffee, n.5, p.15.
U.S. Senate Committee in the following way: "the temporal, functional, or material limits of the monopoly intended by the patent grant are overstepped and the actually achieved monopolistic control is extended in time, in scope, or in strength". 23 Three different kinds of abuses were identified, namely, (a) insufficient disclosure; (b) lack of use or inadequate use by the patentee; and (c) abusive practices in licensing agreements. 24 A fourth one could be added to this list, namely, the ‘networking’ of patents. ‘Networking’ is done with a view to further the monopoly hold over the patented invention. 25

The Agreement on TRIPs, on the other hand, provides that "appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology". 26 However, it nowhere states or defines what may actually constitute an abuse of patent rights.


24 The other dimensions of abusive practices relate to: (a) refusal to grant a licence on reasonable terms; (b) importation of the patented article; (c) failure to satisfy demand in the market; and (d) situation of interdependence of patents. See Roffee, n.5, p.17.

25 "Networking of Patents" is discussed in the later part of this Chapter while outlining the features of "interdependent patents".

26 Article 8, TRIPs Agreement, n.13, p.323.
On the contrary, the TRIPs Agreement defines the abuses of IPRs having an adverse effect on competition. Further, it seeks the Members to specify in their legislation licensing practices or conditions that may in particular cases constitute an abuse of IPRs. While Article 30 of the TRIPs text allows states to limit exclusive rights conferred by the patent, it makes it clear that these exceptions should not unreasonably conflict with the normal exploitation of the patent and should not unreasonably prejudice the legitimate interests of the patent owner. The following discussion briefly outlines the various aspects of abusive practices.

A. Insufficient Disclosure

The fundamental rule of a disclosure is that the patent application must contain technical information describing the invention in a manner which has to be sufficiently clear and complete for it to be carried out by a person with skill in the art. Patent laws enacted at the municipal level should describe the manner and requisites of a sufficient disclosure. This is particularly important for developing countries as they grant greater number of patents to foreigners and they would gain little by rewarding the inventor with monopoly rights without receiving in exchange relevant and valuable information of the

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27 Ibid.
28 Ibid.
29 Article 30, TRIPs Agreement, n.13, p.332; This has been created as an exception to the rights conferred on the patentee.
patented invention. The Indian Patent Act, 1970, for example, seeks disclosure in a patent specification in a specific way, such as:

(a) fully and particularly describe the invention and its operation or use and the method by which it is to be performed; (b) disclose the best method of performing the invention which is known to the applicant and for which he is entitled to claim protection; and (c) and claims defining the scope of the invention for which protection is claimed.

However, it is often difficult to assess the sufficiency of a disclosure. For sufficiency can be evaluated only when the patented invention is put to actual use. In view of the growing complexity of scientific and technological developments, the possibilities of ineffective disclosure are real. Furthermore, as Taylor and Silberston point out, information may not be known at the time of filing specifications or too cumbersome to put into a specification, as, for instance, when the details of a process vary greatly with the local conditions under which it operated or the purpose for which it was used. Finally, the patentee may seek to sell it separately as secret know-how. The combination of patented technology and unprotected technology in the form of secret know-how may constitute a new source of gain for the patentee.

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"The issues relating to the "sufficiency of disclosure" in biotechnological inventions have been elaborately dealt with in Chapter Seven while considering "Patenting of Life-forms".

i. **Disclosures and Know-how**

Know-how could be described as a technical information or expertise which "is not known at the time of putting the description together as part of the documentation to be submitted to obtain the grant of a patent for invention". It relates to certain special knowledge which is essential to actually work the patented invention. The causes for non-disclosure of a know-how at the time of patenting is stated to be inevitable due to following reasons: "The description of the invention claimed in the application for the grant of a patent for invention is often based on research work carried out under laboratory or small-scale conditions. Commercial production or even production on a pilot scale may not come until a later stage. It may then be too late for it to be incorporated in the description of the invention in the form of an amendment to the application as filed because the patent for invention has long since been granted."

Know-how is being increasingly used as a tool to regulate the process of transfer of technology. It is regulated through "know-how contracts". These "contracts" are generally undertaken in two forms, namely, tangible and intangible. Documents, photographs, blueprints, computer cards and micro-films could be cited as some examples of tangible form. On the other hand, the intangible form relates to more

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34Ibid.
informal way of communicating, training and assisting the various aspects of technology transfer.\textsuperscript{35}

In recent times unpatented know-how has been the major factor in the transfer of technology process. Patents, in fact, occupy a small space when compared to unpatented know-how. One reason for such a trend is attributed to the secrecy surrounding the transfer of such know-how. In its second foreign collaboration survey (1965-1970), the Reserve Bank of India (RBI) noted that 'unpatented know-how was a constituent of the agreements entered by over 90 per cent of companies in the private sector, while it was the sole asset transferred in the agreements of 50 per cent of companies'.\textsuperscript{36} The same trend has continued in the 1980s also. Following table shows the 'assets' transferred to the Indian Companies by the foreign collaborators during the period 1977-1981.

\footnotesize{\textsuperscript{35}Ibid.}

\footnotesize{\textsuperscript{36}Quoted in Amiya Kumar Bagchi, Parthasarathi Banerjee and Uttam Kumar Bhattacharya, "Indian Patents Act and Its Relation to Technological Development in India", \textit{Economic and Political Weekly}, 18 February 1984, p.287.}
Table 8.1: Classification of Companies by Type of Assets Transferred (1977-81)

<table>
<thead>
<tr>
<th>Type of Assets</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents, trademarks, know-how</td>
<td>36</td>
</tr>
<tr>
<td>Patents and trademarks</td>
<td>01</td>
</tr>
<tr>
<td>Patents and Know-how</td>
<td>36</td>
</tr>
<tr>
<td>Trademarks and Know-how</td>
<td>10</td>
</tr>
<tr>
<td>Patents</td>
<td>02</td>
</tr>
<tr>
<td>Know-how</td>
<td>64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149</strong></td>
</tr>
</tbody>
</table>


From Table-8.1 it is clear that know-how constituted the major factor in the assets transferred to the Indian companies. Even with patents and trademarks the transfer of know-how constituted the major factor.

According to another RBI survey, conducted as far as back in 1970 (as shown in Table-8.2) know-how, pure and simple was the single most important type of asset transmitted. The transfer of know-how was found in the agreements entered into by three-fifths of the total number of companies followed by a combination of patents, trademarks and know-how. This combination also constituted almost 22 per cent of the total number of companies.
Table 8.2: Classification of Companies by Type of Assets Transferred (1970-73).

<table>
<thead>
<tr>
<th>Types of Assets</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subsidiaries</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Patents, trademarks and know-how</td>
<td>13</td>
</tr>
<tr>
<td>Patents and trademarks</td>
<td>02</td>
</tr>
<tr>
<td>Patents and know-how</td>
<td>11</td>
</tr>
<tr>
<td>Trademarks and know-how</td>
<td>01</td>
</tr>
<tr>
<td>Patents</td>
<td>-</td>
</tr>
<tr>
<td>Trademarks</td>
<td>02</td>
</tr>
<tr>
<td>Know-how</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
</tr>
</tbody>
</table>


In the last two decades in India transfer of technological information has taken place mostly in terms of know-how. But, these know-how agreements, as mentioned above, are too restrictive and seek to keep the information secret. A combination of patent and know-how provides not only exclusive protection to patented invention but also allows the patentee to keep the information embodied in the patent specification secret and incomplete. Without the availability of the secret know-how, a patented invention may not be workable at all. In this sense, the increasing reliance on the know-how with no disclosures may constitute an abuse. By its very nature, a know-how is protected through secrecy. In other words, trade-secret or confidentiality laws constitute an important element in regulating abuses relating know-how agreements. In order to

"Trade and Development Report, 1991 (New York, UNCTAD: 1991), p.188; In fact, there is a secondary market almost in place to deal with the sale of unpatented know-how. In the US, for instance, presently the debate is on as to how best biotechnological inventions could be protected through trade secrets. Apart (continued...)"
regulate abuses perpetrated through patent and know-how agreements, the trade-secret and confidentiality laws should incorporate provisions for effective disclosures after the expiry of certain period.

ii. Undisclosed Information

Article 39 of the Agreement on TRIPs protects 'undisclosed information'. It provides in clause 2 that

Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices, so long as such information: (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Further, this article defines in the footnote the acts which will constitute "a manner contrary to honest commercial practices". These include practices such as 'breach of contract, breach of confidence and inducement to breach and includes the acquisition of

\[\ldots\text{continued}\]

from immense possibilities for the future profit, the biotechnology field is throwing up new ways of modifying life. So, considering the huge projects undertaking research simultaneously, there is always a likelihood of somebody overthrowing the other in patenting new life-forms. So, it is increasingly felt that trade secrets could offer best solutions; see C. Steven McDaniel, "Protecting Biotechnology Trade Secrets in University and Industrial Research, Houston Journal of International Law, vol. 16, 1994, p.565; also see Chapter Seven for an account on the recent developments in the arena of biotechnology.

\[\ldots\text{The meaning of "undisclosed information" also includes Trade Secrets. According to Trade and Development Report, 1991, it is a "broad expression including know-how and the protection of trade secrets generally". See Trade and Development Report, 1991, n.37, p.188.}\]
undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition".  

The objective of incorporating a provision relating to the "protection of undisclosed information" has been stated in Article 39(1) as to ensure "effective protection against unfair competition as provided in Article 10 bis of the Paris Convention (1967)." Clause 3 of Article 39 protects against unfair commercial use such information required, "as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test of other data, the origination of which involves a considerable effort".

With this provision, the Agreement on TRIPS created space for such possibilities which could lead to deliberate non-disclosures on the grounds specified above. This requirement should be related to clause 8 of Article 70 of the TRIPs text which seeks to grant exclusive marketing rights for pharmaceutical and agricultural products of a member country till it begins to grant product patents. While granting these rights a preliminary examination at least has to show the patentability of these products. And

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"Article 39, The Agreement on TRIPs.

"Article 10-bis provides: (1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition; (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition; (3) The following in particular shall be prohibited: 1. All acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor; 2. False allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor; 3. Indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

"Article 70*8, The Agreement on TRIPs."
while undertaking this preliminary examination the patent application should at least disclose the basis of patentability of the invention. Article 39 on the other hand, seeks to restrict these disclosures under the guise of "unfair commercial use". In other words, it negated the purpose of "sufficient disclosure" as embodied in Article 29 of the Agreement. As noted in the Trade and Development Report, 1991 developing countries were not in favour of including this provision in the TRIPs text. On the other hand, they were keen "to restate the canons of unfair competition law applicable to the misappropriation of trade secrets, particularly by ethical conduct".

The implications of insufficient disclosure for developing countries are grave for the following reasons. Firstly, technological dependence has impaired their bargaining strength vis-a-vis MNCs. Secondly, the sufficiency of disclosure is all the more crucial in a developing country as the patented invention may not be economically put to use there by the MNCs. A study by the UNCTAD relating to "Industrial Property Protection and Technological Innovation" outlines the difficulties experienced by a developing country in effectively implementing the provisions of its patent law. One of the conclusions of the study is that "innovations which are actually performed...are primarily minor modifications to already existing inventions". In view of these, the legal

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42Trade and Development Report, 1991, n.37, p.188.
43Ibid.
mechanism to decide the effective and sufficient disclosure should be carefully constructed, particularly in developing countries.

There are other procedural and infrastructural factors which have resulted in insufficient disclosures in developing countries, especially in the least-developed countries. The lack of adequate search system, patent specification formats and not-so-competent patent examiners often contribute to an insufficient disclosure. These inadequacies, on the other hand, may be of great advantage for MNCs as they need not take the same care as they would have taken in a developed country while applying for patents. Instead, they may prefer to achieve the objective of creating a mere patent monopoly so as to make maximum profits. This situation can stifle innovative activity in a developing country.

B. Lack of Use or Inadequate Use

The content and meaning of "use" is employed in consonance with the meaning of "working" or "exploitation". The circumstances defining the lack of use or the inadequate use of the patented invention broadly include the following, namely (a) refusal to grant a licence on reasonable terms; (b) failure to satisfy a demand in the market; (c) failure to satisfy an export market; and (d) situation of interdependence of patents. The lack of use or inadequate use of a patented invention may also include "failure to work or insufficient working" and "importation of the patented product". But,

\[\text{The Role of Patents, n.1, p.63; Roffe, n.5, p.16.}\]
the foremost reason for the lack of use or inadequate use emerges from the patentee's refusal to grant licences on reasonable terms. As a result of this refusal the other consequences such as failure to satisfy the demand in the market and the failure to satisfy an export market may occur. It is for the national laws to decide such factors as the "reasonable terms" for granting licences, satisfactory fulfilment of the demand in the market and the export market needs.

The Indian Patents Act, 1970, for example, provides in Section 90 for the situations which may result in the "reasonable requirements of the public deemed not satisfied". Section 90 has five broad categories which *inter alia* deal with: (a) failure to work to an adequate extent and supply on reasonable terms within India; (b) conditions imposed by the patentee upon the grant of licences; (c) patented invention not being worked in India on a commercial scale; (d) demand for the patented article being met substantially by importation; and (e) the working of the patented invention on a commercial scale is prevented or hindered by importation. In the following discussion we shall consider in greater detail the first two requirements. The aspects relating to the working and importation of the patented product have already been considered in the earlier section.

### i. Failure to Adequately Manufacture and Lack of Supply of Patented Article on Reasonable Terms

One of the basic requirements of the patent grant is to "manufacture" "supply" the patented article to an adequate extent and on reasonable terms. If there is a lack of
supply of patented article on reasonable terms and if there is a failure to adequately manufacture the patented article, it may result in an abuse. But, the wordings of section 90(a) take into account many broader questions of far-reaching implications. To begin with, it would be worthwhile to look into clause (a). It provides that:

If, by reason of the default of the patentee to manufacture in India to an adequate extent and supply on reasonable terms the patented article or a part of the patented article which is necessary for its efficient working or if, by reason of the refusal of the patentee to grant a licence or licences on reasonable terms -

i) an existing trade or industry or the development thereof or the establishment of any new trade or industry in India or the trade or industry of any person or classes of persons trading or manufacturing in India is prejudiced; or

ii) the demand for the patented article is not being met to an adequate extent or on reasonable terms from manufacturers in India; or

iii) a market for the export of the patented article manufactured in India is not being supplied or developed; or

iv) the establishment or development of commercial activities in India is prejudiced.46

It is clear from the above provision that the default on the part of the patentee to "manufacture" or "supply" on reasonable terms should result in affecting the trade or industry; or that it should affect the export market existed for the patented article; and lastly, it should result in the impairment of establishment or development of commercial activities. These situations may also arise on account of the refusal of the patentee to grant licences on reasonable terms.

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46 Section 90(a), Indian Patents Act, 1970.
In the Indian context, for instance, the Indian Patent Office provides data for "the numbers of patents granted" and "the number of patents worked". Nevertheless, it merely points out in its Annual Report that

Pursuant to the provisions of sub-section (2) of Section 146 of the Patents Act, 1970, 2594 statements were received from the various patentees and licensees as to the extent to which the patented inventions were worked on a commercial scale during the calendar year 1991. All these statements were classified. Particulars of 1,763 patents which were not commercially worked in India were notified in the Official Gazette.47

Following tables concerning the patents granted and the patents actually worked shows us the number of patents not worked in the field mentioned below.

47"Patents, Twentieth Annual Report of the Controller General of Patents, Designs and Trade Marks, 1991-92, p.15; Section 146 of the Indian Patents Act, generally deals with the 'Power of Controller to call for information from patentees". And the sub-section (2) of section 146 provides that "...every patentee and every licensee (whether exclusive or otherwise) shall furnish in such manner and form and at such intervals (not being less than six months) as may be prescribed statements as to the extent to which the patented invention has been worked on a commercial scale in India"; Also see Report on the Revision of the Patents Law by Sri Justice N. Rajagopal Ayyangar, September 1959, p.65.
Table-8.3: Number of Patents Granted During the Last Five Years from 1987-88 to 1991-92 Under Various Fields of the Inventions

<table>
<thead>
<tr>
<th>Year</th>
<th>Chemical</th>
<th>Drug</th>
<th>Food</th>
<th>Electrical</th>
<th>Mechanical</th>
<th>General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>731</td>
<td>124</td>
<td>15</td>
<td>228</td>
<td>0489</td>
<td>517</td>
<td>2104</td>
</tr>
<tr>
<td>1988-89</td>
<td>704</td>
<td>300</td>
<td>44</td>
<td>608</td>
<td>1183</td>
<td>541</td>
<td>3380</td>
</tr>
<tr>
<td>1989-90</td>
<td>389</td>
<td>146</td>
<td>20</td>
<td>322</td>
<td>0692</td>
<td>321</td>
<td>1890</td>
</tr>
<tr>
<td>1990-91</td>
<td>339</td>
<td>087</td>
<td>10</td>
<td>285</td>
<td>0535</td>
<td>235</td>
<td>1491</td>
</tr>
<tr>
<td>1991-92</td>
<td>474</td>
<td>118</td>
<td>10</td>
<td>167</td>
<td>0181</td>
<td>726</td>
<td>1676</td>
</tr>
</tbody>
</table>


Table-8.4: The Number of Patents Worked During the Last Five Years from 1986 to 1990 with Classification in Different Fields.

<table>
<thead>
<tr>
<th>Year</th>
<th>Classification of Worked Patents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chemical</td>
</tr>
<tr>
<td>1986</td>
<td>107</td>
</tr>
<tr>
<td>1987</td>
<td>151</td>
</tr>
<tr>
<td>1988</td>
<td>155</td>
</tr>
<tr>
<td>1989</td>
<td>064</td>
</tr>
<tr>
<td>1990</td>
<td>080</td>
</tr>
</tbody>
</table>


It is possible to conclude from the above tables the following: in any given year the total patents granted and the patents actually worked differ considerably. For instance, in the year 1991-92 total patents granted were 1,676 and the actually worked patents in the same year were only 252. So, the percentage of totally worked patent to the patent actually granted varies between 20 to 30 per cent. So, in any given year nearly 80 per cent of the patents were not worked commercially. However, there is no data available to show that the non-working of these patents actually prejudiced trade and industry.
ii. **Conditions on the Grant of Licences**

In certain circumstances the conditions imposed by the patentee while licensing the use of the patented article or process may result in the reasonable requirements of the public not being met. The Indian Patents Act, 1970 does not define or outline the 'conditions" imposed by the patentee while granting licences. However, these conditions have generally been identified as abuses in different countries in patent licence agreements. These are: 

(a) territorial restrictions; (b) restrictions on purchases, output or sales on sources of supply of raw materials, spare parts, intermediate products, capital goods and/or competing technologies, on pattern of production, on sales and/or distribution; (c) Financial provisions such as payments for unused patents, package licensing, to pay royalties during the entire duration of manufacture of a product or the application of the process involved without any specification of time, or excessively long terms of enforcement. It also includes, price fixing, excessive prices, improper or discriminatory royalties or to transform royalties or fees into capital stock; (d) limitations on use of patented inventions or related knowhow once patent has expired or after termination of agreement and/or changing royalties; (e) limitations which affect the economy in general such as limitations on field of use, to use staff designated by licensor, absence of provisions regarding training of national personnel, grantback provisions, limitations on the research or technological development of licensee, limitations imposed on the management of the licensee; and (f) other practices include

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not to contest validity of patents, authentic text of contract in foreign language, foreign law governing the agreement and foreign jurisdiction in settlement of disputes arising from agreement.

Some of these practices should be briefly discussed. Most frequent clauses found in the licensing agreements relate to: (a) export prohibition clauses; (b) grantback clauses; (c) tying arrangements; (d) price fixing; (e) field of use restriction; (f) no challenge; and (g) minimum royalty payments.49

(a) Export Prohibition

The export prohibition clauses found in the licensing agreements are similar to territorial restriction clauses. In other words, these clauses seek to authorize the licensee only to sell the product of the patented article in a particular territory. It may be in certain circumstances limited to licensee’s territory or neighbouring countries. The reason for inclusion of such a clause is stated to be to preserve the markets of the licensor so that he does not face any competition. The other reason is stated to be the royalty it brings to the patentee or licensor by dividing the international market into various segments and lease the technology to each segment or territory. This kind of clauses prohibiting export curtail the export orientation of developing countries. However, as pointed out, much will depend on factors such as the productive and marketing capacities

of the firm, its relative competitive position in export markets and its export orientation.\textsuperscript{50}

According to a survey conducted by the RBI in the 1970s about onehalf of the total agreements by the private sector companies in India (of the 859 private sector companies) had one or the other type of export restriction. The proportion of agreements, as stated in this survey, with export restrictions to total varied between 49 per cent to 53 per cent where the collaborator was from the U.K., the US, and West Germany, the proportion varied from 39 per cent in the case of Switzerland to 60 per cent for Italy (See Table-8.5).

| Table-8.5: Countrywise Classification of Agreements with Export Restrictions (1970-73) |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Country                        | Subsidiaries | Minority Capital Participation | Technical Collaboration | Total |
|                                | Number of agreements | Number of agreements | Number of agreements | Number of agreements |
|                                | With export restrictions | Total | With export restrictions | Total | With export restrictions | Total | With export restrictions | Total |
| U.K.                           | 20 | 71 | 98 | 162 | 47 | 87 | 165 | 320 |
| U.S.A.                         | 11 | 26 | 63 | 122 | 32 | 69 | 106 | 217 |
| West Germany                   | 05 | 07 | 48 | 082 | 26 | 59 | 079 | 148 |
| Switzerland                    | 01 | 10 | 12 | 040 | 17 | 28 | 030 | 078 |
| Japan                          | 12 | 02 | 08 | 017 | 15 | 23 | 024 | 042 |
| France                         | 08 | 015 | 07 | 10 | 015 | 025 |
| Italy                          | 08 | 015 | 07 | 10 | 015 | 025 |
| Canada                         | 02 | 03 | 005 | 01 | 003 | 008 |
| Netherlands                    | 07 | 08 | 03 | 013 | 02 | 06 | 012 | 027 |
| Sweden                         | 05 | 08 | 014 | 05 | 08 | 016 | 027 |
| East European Countries        | 02 | 07 | 02 | 019 | 07 | 12 | 009 | 019 |
| Others                         | 01 | 11 | 020 | 08 | 19 | 019 | 041 |
| Total                          | 48 | 133 | 276 | 524 | 177 | 353 | 501 | 1010 |


\textsuperscript{x}Ibid.
The types of regulatory clauses shown in Table 8.6 and 8.7 indicate that nearly threefifths of the total export restrictive clauses related to prohibition of exports to certain countries. On the other hand, remaining onefifth required permission of the collaborator for exports. Generally, the countries to which the exports are prohibited comprise (i) country of collaborator; (ii) countries in which collaborator operates through branches/subsidiaries/affiliates or is having similar collaboration agreements, and (iii) countries other than those covered in (i) and (ii) above.

Table-8.6: Classification of Regulatory Clauses

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Regulatory Clauses</th>
<th>1977/81 (1)</th>
<th>1970/73 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Export clauses</td>
<td>312</td>
<td>326</td>
</tr>
<tr>
<td></td>
<td>Conditional payment clauses</td>
<td>013</td>
<td>077</td>
</tr>
<tr>
<td></td>
<td>Other restrictions</td>
<td>048</td>
<td>082</td>
</tr>
<tr>
<td></td>
<td>Total (1 to 3)</td>
<td>373</td>
<td>485</td>
</tr>
<tr>
<td></td>
<td>Total number of agreements with regulatory clauses</td>
<td>167</td>
<td>230</td>
</tr>
<tr>
<td></td>
<td>Total number of agreements</td>
<td>231</td>
<td>353</td>
</tr>
<tr>
<td></td>
<td>'A' as percentage of 'B'</td>
<td>72.3</td>
<td>65.2</td>
</tr>
</tbody>
</table>

### Table 8.7: Details Regarding Types of Regulatory Clauses (1977-81)

<table>
<thead>
<tr>
<th>Type of Regulatory Clauses</th>
<th>Number of clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Export Clauses of which:</strong></td>
<td></td>
</tr>
<tr>
<td>i. Total ban on export</td>
<td>003</td>
</tr>
<tr>
<td>ii. Prohibition of exports to countries in which the collaborator operates through branches/subsidiaries/affiliates or is having similar collaboration agreement.</td>
<td>125</td>
</tr>
<tr>
<td>iii. Prohibition of exports to collaborator's country</td>
<td>090</td>
</tr>
<tr>
<td>iv. Prohibition of exports in countries other than those covered in (ii) and (iii) above.</td>
<td>033</td>
</tr>
<tr>
<td>v. Permission of collaborator for exports is necessary</td>
<td></td>
</tr>
<tr>
<td>vi. Exports only through collaborator/his agents/distributors</td>
<td></td>
</tr>
<tr>
<td>vii. Exports restricted to certain types of products</td>
<td>030</td>
</tr>
<tr>
<td>viii. Prohibition on the use of trademarks for exports</td>
<td>007</td>
</tr>
<tr>
<td>ix. Restriction on the annual quantum of exports</td>
<td>001</td>
</tr>
<tr>
<td>x. Restriction on export prices</td>
<td>015</td>
</tr>
<tr>
<td>xi. Charging of higher royalty rate for that portion of output which is exported as compared to that on internal sales</td>
<td>001</td>
</tr>
<tr>
<td>xii. Any other export restriction</td>
<td>004</td>
</tr>
<tr>
<td><strong>Total I</strong></td>
<td>002</td>
</tr>
<tr>
<td><strong>Conditional payment clauses</strong></td>
<td></td>
</tr>
<tr>
<td>i. A fixed minimum payment to be made per year</td>
<td></td>
</tr>
<tr>
<td>ii. Payments conditional on achieving a given production target</td>
<td></td>
</tr>
<tr>
<td><strong>Total II</strong></td>
<td>006</td>
</tr>
<tr>
<td><strong>Other restrictions</strong></td>
<td></td>
</tr>
<tr>
<td>i. Restrictions on sources of supply of raw materials and plant and machinery</td>
<td></td>
</tr>
<tr>
<td>ii. Restrictions on production capacity imposed by the collaborator</td>
<td></td>
</tr>
<tr>
<td>iii. Restrictions on manufacture of products collaboration agreement</td>
<td></td>
</tr>
<tr>
<td>iv. Other restrictions</td>
<td></td>
</tr>
<tr>
<td><strong>Total III</strong></td>
<td>036</td>
</tr>
<tr>
<td><strong>Total (I + II + III)</strong></td>
<td>048</td>
</tr>
</tbody>
</table>

(b) **Grant Back Conditions**

This is one of the highly discriminatory clauses. It obliges the licensee to grant to the licensor, for a consideration or not, the rights to the use of improvements, variations or other new inventions that may be developed by the licensee in the process of utilizing the licensed invention. This clause particularly stifles the incentive of licensed firms to invent and innovate new techniques to modify the licensed technology. This will particularly hamper such adaptation exercises in the developing countries where the requirements of the licensed technology may need some modifications.3

(c) **Tying Arrangements**

The tie-in clauses are usually found in the licensing of patented technology in which licensor would insist that the licensee should acquire nonpatented goods from him exclusively or other specified sources as decided by the licensor. Similar practice is followed in the knowhow licensing agreements. Tied-in purchase clauses of this kind should normally pose no problem. Because, it may be necessary to initially buy goods from the licensor so as to smoothly put the licensed technology into use. On the other hand, tying arrangements become exploitative tools in the hands of licensor when he seeks to make maximum profits by pressuring the licensee to buy goods from him exclusively. An UNCTAD study states:

When contractual agreements tie part or all of the inputs to a single source of supply, developing countries are deprived of the possibility of

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exploiting market opportunities and are faced with a price structure determined by the unique supplier. Tied purchase provisions thus result in a monopoly control of the supply of equipment and other inputs by foreign enterprises, leading to what has come to be known as 'transfer pricing', 'transfer accounting' 'uneconomic output'. by reason of his exclusive position, the supplier is able to charge higher prices than for comparable equipment and other inputs that could otherwise be obtained elsewhere. Overpricing of inputs in this way constitutes a 'hidden' cost of the transfer of technology, the effects of which are much the same as those of aidtying.\(^2\)

(d) **Price Fixing**

In the Patent licensing agreements, licensor may impose restrictions concerning the sale price of patented products. These conditions restricting the licensee to fix the price taking into account production and marketing factors is a restrictive practice resulting in the abuse. If the fixed price is higher than the market price it is sure to affect the competitive aspect of the licensee's firm.

(e) **Restrictions on use**

This restrictive practice is employed by the licensor in the licensing agreements to determine the scope or field in which the licensed technology could be used. In other words, licensee is not allowed to engage in the manufacture or sale of products other than those covered by the licence.

\(^2\)Major Issues Arising from the Transfer of Technology to Developing Countries, UNCTAD, TD/B/AC.11/10, 18 December 1972; This study also pointed out that "Tied-purchase clauses connected with the transfer of technology not only affect production costs through the overpricing of inputs but also may have important indirect effects on the import substitution, export diversification and growth efforts of developing countries".
"No Challenge" or "No Contest" Clause

These clauses forbid the licensee from challenging the validity of the patent under which he is licensed during the life span of the agreement. According to one view, although this clause appears to be in accordance with the common law doctrine of estoppel whereby a party to a contract is estopped from denying or challenging the validity of a contract, it severely restricts the licensee's power to bargain while entering into the agreement. In other words, he is precluded from raising or contesting the validity of a patent grant.

The emphasis in the Indian law as regards adequate utilization of the patent is on its efficient "working" so as to meet the reasonable requirements of the market. It is, however, difficult to exactly pinpoint the contents of 'reasonable requirements of a market' in a country. It varies from country to country, depending upon the stability and strength of the internal structure of the economies. For these reasons, presumably, the Paris Convention gave failure to work as an example of an abuse which might result from the exercise of the exclusive rights conferred by a patent. It did not, however, define "working"; the definition, as it should be, would depend upon the relevant national law in each case. Furthermore, these concepts are generally defined in broader terms so as to include mandatorily manufacture of the patented product or industrial

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3Yanko, n.49, p.35; Also see Draft Code, n.49, p.8.
3Ibid.
3Article 5(2), Paris Convention for the Protection of Industrial Property.
application of the patented process. The Brazilian patent law, for instance has treated actual working as nonexistent where production was replaced or substantially supplemented by importation. The actual working must be proved by the patentee in the sense of continuous and regular working of the invention on an industrial scale through production by the patentee or under licence.

C. Interdependent Patents

One of the problems relating to disclosures arises from the practice of 'interdependent patents' or what could be also termed as 'network patents'. Interdependent patents can be described thus: "Where a patented invention cannot be worked without also using another invention for which a patent has been granted to another person on the basis of an earlier application (for instance, the later invention constitutes an improvement of the earlier invention), many countries give to the owner of the later patent the right to apply for a compulsory licence under the earlier patent to enable the later patent invention worked". Initially, when the idea of interdependent

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*The Role of the Patent System in the Transfer of Technology to Developing Countries, TD/B/AC.11/19/ Rev.1, 1975, p.11.

Role of Patents, n.48, p.13; The grant of interdependent patents was allowed during 1970s in the following countries: Algeria, Austria, Egypt, Hungary, Iraq, Israel, Mexico, Netherlands, New Zealand, Nigeria, Nordic countries, Peru, Switzerland, United Kingdom and USSR. The term used here, 'interdependent patents' does not specifically refer to international cartel agreements' in the area of patents. A Cartel is "an association of independent enterprises in the same or similar line of business which exists for the purpose of exercising some sort of control over competition". According to Anderfelt, 'If one inserts 'in two or more countries' after 'independent enterprises' one arrives at a definition of cartels binding enterprises across national boundaries"; See Ulf Anderfelt, International Patent Legislation and Developing Countries (Martinus Nijhoff, The Hague : 1971), p.153; E. Penrose, The Economics of the International Patent System (Baltimore, 1951), p.188.
patent was introduced, it was to facilitate the recognition of the so-called "improvement patent". Generally, the national legislations provided that the owner of such "improvement patent" could obtain a licence under the basic patent if he satisfied the conditions set forth in the statute, including the payment of appropriate compensation, affording proper security to the owner of the basic patent and demonstrating that the improvement patent constituted a notable technical advance.58 Further, it had been provided that "when the owner of the improvement patent obtains a licence under the basic patent, the owner of the basic patent is, as a rule, entitled to a crosslicence under the improvement patent".59

This provision, however, is being increasingly abused in two ways. Firstly, this has become a convenient way to extend the life of a patent grant beyond the prescribed term of protection. In other words, patented inventions with similar features could be continued to be patented as "improved patents". Secondly, in order to acquire this protection disclosures made in the patent specifications may not reflect the complete details. This practice has been given legitimacy in the Agreement on TRIPS. Clause (i) of Article 31 provides that,

where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:
(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the

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59 Ibid., This provision was applicable to situations where basic patents were not being exploited within the country.
invention claimed in the first patent; (ii) the owner of the first patent shall be entitled to a crosslicence on reasonable terms to use the invention claimed in the second patent; and (iii) the use authorized in respect of the first patent shall be nonassignable except with the assignment of the second patent.

According to one view the requirement that the invention claimed in the second patent should involve an "important technical advance of considerable economic significance in relation to the invention claimed in the first patent" will be used by the MNCs to extract huge royalties and to block the development of second generation technologies. This provision has effect on the inventions particularly relating to computer technology. In this field diffusion rate is so high that new software formulations appear very quickly. These new formulations are dependent in majority of the cases on the first generation patents. This will affect developing countries which are attempting to build their own software technology base. India, undoubtedly, is one such country. So, the foreign MNCs controlling these technologies are sure to seek compensation for such use. In the next section, we shall deal with the measures which could be adopted to regulate these abusive practices.

IV. Legal Safeguards Against Abuses of Patent Grants

The traditional notions of legal safeguards of patent abuses have undergone a complete change without really taking into account the priorities of developing countries.

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61 For the discussion on the "Patentability of Software-related Inventions", see Chapter Six.
Indeed, the preamble to the Agreement on TRIPS recognizes IPRs as "private rights". Albeit, it also seeks to recognize "the underlying public policy objectives of national systems for the protection of intellectual property rights including developmental and technological objectives". There is, however, a fundamental difference in the public policy objectives of developing countries on the one hand, and the developed countries on the other, particularly in the area of legal regulation of patent abuses. It is evident from the discussion in earlier chapters that developing countries since 1960 have been consistently attempting to bring into focus this dichotomy. Despite this, there has been a gradual erosion of the efficacious operation of these legal safeguards in the successive revision conferences of the Paris Convention.

In order to minimize abusive practices national patent laws generally included measures such as, compulsory licensing, licences of right, revocation and automatic lapse. Some national laws have also provided for the expropriation of patents by the State in certain circumstances, subject to the payment of compensation. In 1975, an UNCTAD Report had noted that the changes in national laws indicated a general trend towards conferring upon the State more extensive powers with regard to use of patented inventions and expropriation of patents. Significantly, during this period Australia, 

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62The Agreement on TRIPs, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (Marrakesh : GATT, 1994), p.320.
63Ibid.
64See Chapter Three for discussion on this aspect.
65The Role of Patent System, n.48, p.11.
France, Ireland and the Netherlands, had incorporated in their national laws a provision concerning "use and expropriation" of patented inventions.66

The Japanese patent law of 1952 (as amended), for instance, in Article 83 had provided for the granting of compulsory licence on the ground of nonworking.67 It required specifically the adequate and continuous working of a patented invention within three years. Similar provision was incorporated in the U.K. Patent Act of 1977. The U.K. enactment outlined list of grounds, and the applicant must show a case within one or more of them. One of the grounds specified that unless demand for a patented product was not being met on reasonable terms, a compulsory licence could be granted.68 The Chinese patent law of 1992 in Chapter VI of its enactment provides grounds upon which "compulsory licences for the exploitation of the patent could be granted."69

The Indian Patent Act, 1970 includes several legal safeguards against the abuse of patented inventions. It allows any person interested to make an application to work the patented invention upon the expiration of three years from the date of sealing of a patent to a specified government authority on the grounds that (a) the reasonable requirements

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66Compulsory licensing provisions were very much there in the patent laws of Australia, Canada, U.K., New Zealand and other major developed countries till early 1980s. Even some of them supported the idea of retaining compulsory licenses in one form or the other during the Diplomatic Conferences; see Chapter Four.


of the public with respect to the patented invention had not been satisfied; or (b) that the patented invention was not available to the public at a reasonable price. Further, Section 86 of the Act authorizes the Central government to make an application to the specified authority for endorsing the patent with the words "Licences of Rights". This application could be made on the same grounds as mentioned above for the compulsory licences and also within the same period as specified for the compulsory licences. In case of certain patents, the Indian Patents Act deems it to be endorsed with the words "Licences of Right". These patented inventions relate to (i) substances used or capable of being used as food or as medicine or drug; (ii) the methods or processes for the manufacture or production of any such substance; and (iii) the methods or processes for the manufacture or for production of chemical substances (including alloys, optical glass, semiconductors and intermetallic compounds). The effect of this deemed endorsement, as provided in the Indian Patent Act, would be that any person who is interested in working the patented invention might require the patentee to grant him a licence for the purpose on such terms as may be mutually agreed upon.

The Indian Patents Act also offers the remedy of "revocation". It provides in section 89 that:

Where, in respect of a patent, a compulsory licence has been granted or the endorsement of "Licences of right" has been made or is deemed to have been made, the Central Government or any person interested may, after the expiration of two years from the date of the order granting the first compulsory licence or, as the case may be, the date of the grant of the

\[\text{Section } 84, \text{ The Patents Act, 1970.}\]

\[\text{Section } 87, \text{ The Patents Act, 1970.}\]
first licence...apply to the Controller for an order revoking the patent on the ground that the reasonable requirements of the public with respect to the patented invention have not been satisfied or that the patented invention is not available to the public at a reasonable price. 72

It should be noted that the provisions incorporated in the Indian Patent Act were based on an extensive consideration of patent laws of U.K., U.S.A. and other major industrialized countries in different periods of economic growth. Justifying the necessity for provisions to safeguard against patent abuses, Justice Rajagopala Ayyangar correctly pointed out:

There is no uniformity in the economic problems which confront different countries at any time or even the same country at different periods of its history and account has therefore to be taken of the actual conditions in the matter of devising the precise adjustments which are needed to rectify the imbalance which the patent system is apt to produce if left uncontrolled. 73

As stated earlier, the Paris Convention does not specify any definite standards for the mode of implementation of legal safeguards against possible abuses of patented inventions. 74 It embodies compulsory licence as a proper remedy to prevent abuses derived from the exercise of the exclusive rights conferred by patents. It also provides for the forfeiture of patents only in such cases where compulsory licences failed to prevent the abuses. 75 Since 1970s new ways of regulating the increasing monopolization

73Ayyangar Report, n.47, p.22.
74See Chapter Three and Four for the formulation of compulsory licensing provisions in the Paris Convention.
75Article 5, Paris Convention for the Protection of Industrial Property.
of these new ideas and inventions have been evolving. Two such instruments evolved in the last two decades are nonvoluntary licensing and the provisions relating to anticompetitive practices.

A. **Non-Voluntary Licensing : An Equitable Regulatory Approach**

The word "non-voluntary licensing" connotes an act of authority with some sanctions. It was used initially during the Diplomatic Conference on the Revision of the Paris Convention. The Basic Proposals put forward for this Conference defined this term as "a license to work a patented invention without the authorization of the owners of the patent; it also means a license to work a patented invention given by the owner of the patent where the national law obliges him to give such a licence".

Till recently, nonvoluntary licences were considered crucial in effectively putting the invention work. Accordingly, they were inscribed in the national legislations of states. Their main purpose being to reduce the length of monopoly of the patentee so as to assist the national economies to get some benefit from new ways of generating material wealth. It was also considered to be an instrument of antitrust or competition policy. However, the gradual internationalization of patenting norms and standards has led to increasing pressures to dilute the vigour of nonvoluntary licences and its application.

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76WIPO, PR/DC/3, *Basic Proposals : Memorandum by the Director General, Geneva*, 4 February to 4 March 1980, p.44.

77Ibid.
i. Initial Phases

The basis of nonvoluntary licences should be considered from the point of view of fundamental objectives set by the patent system itself. Clearly, these objectives have been changing from time to time. Accordingly the features of nonvoluntary licences have also undergone significant changes. In European countries, for instance, during nineteenth century the priority objective of patent law was to ensure that the inventions patented were actually exploited within the national territory. Meanwhile, the growth of international trade modified the strongly held view that patent privilege granted would be of no value to the country unless it was locally exploited; some countries, realized the potential exploitation of a patent grant without really having to work it locally.

The longstanding concerns of developing countries could be considered on two grounds, namely, (a) foreign owners of inventions could, by refusing to exploit the patents prevent the development of national industries which might give employment to nationals and utilize national resources; and (b) that foreign patentees could, by excluding other producers of patented articles from the market, monopolize the export of such articles to the country and thereby exact higher prices from domestic consumers.

76For the discussion on the evolution of compulsory licensing and the subsequent changes sought to be incorporated into it, see Chapters Three and Four.

77Historical Trends in Protection of Technology in Developed Countries and Their Relevance for Developing Countries, UNCTAD/ITP/TEC/18, 26 December 1990, p.3.

Developed countries viewed the justification of employing nonvoluntary licences in national laws differently. Initially, they did not completely subscribe to the view that there was a linkage between foreign ownership of patents and domestic market. If, in their view there were any linkages, it was not in the interest of consumers as it might not be always viable to work the patents within the country. The cost of production might be very high, they argued. They did not even consider the advantages of transfer of technology by way of effective working of the patented invention. With the dilution of compulsory working requirements, the issue of real transfer of technology through patented invention could be regarded as doubtful. Developed countries, however, sought to justify the patenting without strict nonvoluntary licence provisions on the basis of the utility of disclosures. But, this aspect in no way diminishes the validity of nonvoluntary licences for the reasons as enunciated, for example, in the patent law of India in the section 22 of the Indian Patents and Designs Act, 1911 which *inter alia,* had provided that:*8

(a) that the patented invention, being capable of being commercially worked in India, has not been commercially worked herein or is not being so worked to the fullest extent that is reasonably practicable;

(b) that a demand for the patented article in India is not being met to an adequate extent or on reasonable terms, or is being met to a substantial extent by importation of the patented article from other countries;

(c) that the commercial working of the invention in India is being prevented or hindered by the importation of the patented article from other countries; that by reason of the refusal of the patentee to grant a licence or licences on

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*8*Paragraph 2, Section 22, Indian Patents and Designs Act, 1911.
reasonable terms: (i) a market for the export of patented article manufactured in India is not being supplied; or (ii) the working or efficient working in India of any other patented invention which makes a substantial contribution to the establishment or development of commercial or industrial activities in India is unfairly prejudiced; and

(d) 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 India is unfairly prejudiced".

The commercial exploitation of the patented invention was regarded as one of the basis for faster economic development given the benefits accruing in the form of greater utilization of domestic materials, employment and training of domestic labour and saving in foreign exchange etc.

ii. Compulsory Licensing: In the Paris Convention

There was, however, a gradual weakening of the nonvoluntary licence provisions in the evolutionary process of international patent system. In this regard, particular reference should be made to the Paris Convention. It is notable that the changes in the Paris Convention did not reflect the concerns embodied in the provisions of various national laws. The Paris Convention as adopted in 1883 had provided in Article 5 for the obligation to exploit the patent within the country in absolute terms. However, it had also provided that importation of patented products was not in itself a ground for forfeiture. The Washington Revision Conference in 1911 further narrowed the possibility of
forfeiture for nonworking. It stated that the patent could be forfeited only for failure, without good reason, to exploit locally the patent within three years from the date of filing of the application for it. At the Hague Revision Conference 1925, forfeiture on the grounds of nonexploitation was made conditional upon the prior granting of a compulsory licence, and although the time during which it could remain unexploited without good cause was maintained at three years it was counted from the date of granting of the patent. The London Revision Conference, 1934 stipulated that compulsory licences for failure to exploit the patent could be granted only for nonworking without legitimate reasons, and that too after a period of three years from the date of granting of the patent, and that forfeiture could be declared only after a lapse of two years from the granting of the first compulsory licence. Lastly, the Lisbon Revision Conference, 1958 raised the time which must elapse before compulsory licences were granted. It was now to be four years from the date of application for the patent or three years from the date of its granting whichever period expired last. Moreover, it added that a compulsory licence for failure to exploit could not be exclusive, nor be transferred independently of the enterprise or part thereof exploiting the licence granted.\(^2\) In view of these periodic changes in the Paris Convention, many developing countries, including India, have not acceded to the Paris Convention. They have held the view that Article 5A of the Paris

\(^2\)Historical Trends, n.79, p.3.
Convention should be revised in the sense that members of the Union be enabled to impose more stringent working obligations on foreign patent holders.  

iii. *In National Legislations*

The Indian Patents Act, 1970, with its major features drawn from the patent legislations of United Kingdom, outlines the objectives of nonvoluntary licences in the following way:

... (a) that patents are granted to encourage inventions and to secure that the inventions are worked in India on a commercial scale and to the fullest extent that is reasonably practicable without undue delay; and (b) that they are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article.

In order to realize these objectives it sets out in detail measures relating to compulsory licences, licences of rights and revocation. The preservation of "public interest" as against the dominant monopoly features of the patent right could be found in the national laws of almost every country. The degree of emphasis on the extent and scope of licensing patterns may, however, vary.

The recently formulated Chinese patent law in 1992 for example, provides for two grounds on which a compulsory licence can be issued. Firstly, any entity which is qualified to exploit the invention or utility model has to make requests for authorization

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*For the discussion on the evolution of the concepts such as 'compulsory licensing', 'working' and importation, see Chapters Three and Four. These chapters also discuss the role of countries in the evolution of international patent system.

*Section 83, The Patents Act, 1970.*
from the patentee to exploit the patent on reasonable terms and if such efforts fail to elicit a response within a reasonable period of time, the Patent Office is authorized to grant a compulsory licence. Secondly, the grant of compulsory licence is subjected to three overriding situations, such as "a national emergency or extraordinary state of affairs occurs, or where the public interest so requires". Unlike the Indian law, the Chinese patent law does not define "public interest". It also does not define the terms and conditions which should precede an authorization.

The Chinese patent law, in accordance with the latest compulsory licensing models, avoids making any specific reference to substantive aspects of granting compulsory licences. The change in its legal formulation is quite visible as it makes compulsory licence exploitation nonexclusive and provides for adjudication in cases of failure to reach an agreement. The linkage between compulsory licensing and revocation is also taken away. In other words, under Chinese law revocation cannot be invoked as a measure if Patents have not been exploited adequately. A patent is revokable within six months from the date of the announcement of the grant of the patent right on the ground that it was not in conformity with the relevant provisions of its patent law.

The Japanese patent law (of 1952), amended in 1987 on the other hand follows the Paris Convention formulation while providing for compulsory licences on the grounds

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*Ibid., Article 41. The earlier Chinese Patent Law had no provision for revocation. It, however, had a detailed re-examination procedure.
of nonworking by the patentee and of public interest. If a patented invention has not been
worked properly in Japan continuously for more than three years, any person who is
interested in the patented invention may enter into negotiation with the patentee or his
exclusive licensee for a grant of nonexclusive licence of the said patented invention.87
Similarly, compulsory licence is available when there is a strong need for exploiting a
patented invention for public interest. Japanese patent law does not in any way seek to
transgress the limits of patentees exclusive rights. Article 93 of the Japanese patent law
specifically provides,

when the working of a patented invention is specially necessary for the
public interest, anyone who desires to work the patented invention may
request the patentee or his exclusive licensee to negotiate for the granting
of a non-exclusive license.

If negotiations fail, the interested party may demand arbitration of the Ministry of
International Trade and Industry (MITI).88

A perusal of industrial property legislations in Asia and Africa shows that the
provisions relating to compulsory licensing continue to be provided on the grounds of
failure to work the invention locally.89 Some countries have provisions which allow

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88Ibid.

89With the exception of D.P.R. Korea, Mongolia and Nauru, the following countries in Asia, continue to grant compulsory licences for the exploitation of the patented invention or the revocation of the patent on the grounds that the patented invention is not being worked locally to an adequate extent or that the patentee refuses to grant licences on reasonable terms: Bangladesh, China, India, Indonesia, Iran (Islamic Republic of), Malaysia, Pakistan, the Philippines, the Republic of Korea, Singapore, Thailand and Vietnam. (continued...
the exploitation of patented inventions by the government or by designated entities on the
grounds of public interest.

The presence of provisions relating to nonvoluntary licences in the patent
legislations of developing countries should be examined in relation to its actual
effectiveness. Proponents of patentee's supremacy over public interest in regard to patent
rights point out the practical inefficacy of compulsory licensing provisions in developing
countries. They use the primary and simple yardstick of counting the number of
compulsory licences granted in a given period to subserve the interests of public. In
India, in the last two decades only two compulsory licences have been issued.90 But
every year, substantial number of patents are endorsed with the words "Licence of
Right".91 Nonissuance of greater number of compulsory licences may not reflect the
true utility of nonvoluntary licences provisions. For it may, act as an indirect catalyst
to adequate and effective working of patented inventions.92 The Trade and
Development Report, 1991 for instance notes that: "In this connection, statistics tending
to demonstrate the inefficacy of the compulsory licensing system remain unpersuasive,

90 (...continued)
Africa, the legislation of 22 countries provide for the grant of compulsory licences. See The Situation of

91 The first compulsory licence was issued in 1975 and the second one was issued in 1977.

92 During 1991-92, as reported, 787 patents were deemed to have been endorsed with the words Licences
of Rights; see, Twentieth Annual Report of the Controller General of Patents, Designs and Trademarks

because the very existence of those licences serves to induce patent owners to grant voluntary licences where they would not otherwise have considered doing so".93

iv. **TRIPS Formulations in Article 31**

The Agreement on TRIPS in Article 31 provides for what is termed as "Other Use Without Authorization of the Right Holder".94 The TRIPS formulation avoids the usage of the word "nonvoluntary licensing" and the "patentee" is denoted as the "right holder". It is significant, that the text eliminates the term "nonvoluntary licensing or compulsory licensing". It shows the change brought about in the emphasis hitherto accorded to 'nonvoluntary licensing'.95

Article 31 lays down detailed conditions which have to be respected while allowing other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government. These conditions and their implications may be briefly considered.

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95 For the evolution of compulsory licensing/non-voluntary licensing see Chapters Three and Four.
(a) **Authorization of Use on Individual Merits**

The first of the conditions emphasises the need to consider any authorization of 'other use' of a patent on its individual merits. The phrase "individual merits" has not been defined and it appears for the first time in the TRIPS text. It should be noted that the TRIPS text incorporates phrases the meanings of which may have to be interpreted under the national laws.

That is to say, it excludes any authorization of 'other use' on the basis of general determination. In the context of a developing country individual determination may be a difficult task. For instance, health care, availability of drugs and pharmaceutical products to its population in sufficient quantities are essentially policy matters. The IPA in Section 84, for example, authorises the Controller, before granting any compulsory licensing, to satisfy himself about the working of the patented invention in such a way as to meet the reasonable requirement of the public.

In certain sectors such as drugs and chemicals which are critical to the development of industry and commerce in developing countries, a provision may be made in their patent laws to obtain the licences voluntarily. In other words, these critical sectors may be deemed to have been endorsed with the automatic licensing, if it is proved that reasonable requirements of the public have not been met. The IPA, for example, in section 87 provides that the inventions relating to "(i) substances used or capable of being used as food or as medicine or drug; (ii) the methods or processes for the manufacture or production of any such substance; (iii) the methods or processes for

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*The phrase "individual merits" has not been defined and it appears for the first time in the TRIPS text. It should be noted that the TRIPS text incorporates phrases the meanings of which may have to be interpreted under the national laws.*

*This point has been discussed in the earlier section relating to "non-voluntary licensing".*
the manufacture or production of chemical substances (including alloys, optical glass, semiconductors and intermetallic compounds) shall be deemed to be endorsed with the words "Licenses of Right". The effect of such endorsement has been mentioned in section 88 as to require the patentee to grant any person who is interested in working the patented invention in India, a licence as may be mutually agreed upon. This provision relating to 'licences of right', it should be noted, is incompatible with the requirement of TRIPs text to consider the authorization on individual merits.

(b) Authorization in Certain Circumstances of Emergency or Urgency

The first part of clause (b) of Article 31 provides that "such use may only be permitted, if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time". Nowhere in the TRIPs text the word "reasonable commercial term" has been defined. It may differ from country to country, in particular between the developing and developed countries.

The second part of clause (b) of Article 31 makes this provision more ambiguous when it states that "This requirement may be waived by a Member in the case of a national emergency or other circumstance of extreme urgency or in cases of public noncommercial use". It should be noted that no national legislation defines or provides
for these circumstances. It is also difficult to outline the cases of public noncommercial use. It can, however, be interpreted as government use for noncommercial purposes. The national legislations of developing countries, including India, however, provide for the 'reasonable requirement of public", as a ground for issuance of nonvoluntary licensing. This ground, it should be noted, is not similar or includes the cases of "national emergency" or "extreme urgency". In other words, any measure relating to compulsory licensing will have to be considerably diluted, if it has to comply with the TRIPs formulations.

(c) Limitations on the Duration of the Use

The scope of and duration of the use is limited to the purpose for which it is authorized. In other words, the use cannot be authorised for an unintended purpose. The purpose of the intended use, on the other hand, should be specific.

(d) Use to be Non-Exclusive

A nonvoluntary licence is "exclusive" if "throughout the period of time during which that licence is in force no one other than the nonvoluntary licensee not even the owner of the patent may work the patented invention on the territory of the country whose authorities have granted the patent and the nonvoluntary licence".* On the other hand, where a nonvoluntary licence is nonexclusive, the patented invention may be

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*Basic Proposals, n.76, p.51.
worked concurrently by the owner of the patent, by any licensee of that owner and by the nonvoluntary licensee.99

The issue of nonvoluntary licence had been one of the most contentious between the developed and developing countries in the Diplomatic Conference. It may be recalled that the developing countries had argued in the Diplomatic Conference that a licensee from the developing country may not be able to compete with licensor from a developed country in working the patented invention. For this reason, the Basic Proposals of the Diplomatic Conference had provided a compromise text which *inter alia*, had provided that "A nonvoluntary licence shall generally be nonexclusive and shall not be transferable ... in special cases where exclusive licences are necessary to ensure local working such exclusive licenses maybe granted..." 100 The TRIPs text did not consider this compromise text while including the provisions relating to the 'nonvoluntary licensing'.

(e) Use Authorized Predominantly for the Supply of Domestic Market

The authorization of the other use is limited to "predominantly for the supply of domestic market of the Members authorizing such use". The Indian Patents Act, 1970, for instance, while referring to the scope of the provision "when reasonable requirements of the public deemed not satisfied" seeks to take into account such areas as the "development of an existing trade or industry", "a market for the export of the patented

99Ibid.

100Ibid., p.50.
article" and "the establishment or development of commercial activities in India". ¹⁰¹ This provision in the TRIPs Agreement is too narrow as it restricts the consideration of larger interests as pursued by the developing countries. In other words, it fails to take into account the developmental aspects of trade and industry as, for instance enunciated in the IPA.

(f) Termination of Authorization for Use

It is evident from the above discussion that the Agreement on TRIPs considers any authorization for use as a temporary one. The national legislations, particularly the Indian law does not envisage this. It is, in fact, the satisfaction of the Controller and that the reasonable requirements of the public have not been met which matters most. ¹⁰² The Agreement on TRIPs, on the other hand, provides that "authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances". ¹⁰³ The TRIPs formulation here relies on the competent national

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¹⁰¹Section 90, Indian Patents Act, 1970; also see discussion on these aspects in the earlier sections of this chapter.

¹⁰²This, it should be noted, is not completely a subjective criteria.

¹⁰³The phrase "motivated request" has not been defined.
authorities to determine the existence of certain circumstance. The termination of the authorization is dependent on this determination.

(g) **Adequate Remuneration to Right Holder**

It is provided that once the determination of authorization is made, "the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization". Further, the determination of "adequate remuneration" is dependent on the circumstances of each case. The primary question is with what criteria the 'economic value" should be determined.

The IPA provides some criteria in this regard. While settling the terms and conditions of compulsory licence, it seeks the Controller to secure the royalty and other remuneration, if any, reserved to the patentee or other person beneficially entitled to the patent; it should be reasonable having regard to the nature of the invention, the expenditure incurred by the patentee in making the invention or in developing it and obtaining a patent and keeping it in force and other relevant factors. It also considers whether patented invention has been worked to the fullest extent by the person to whom the licence is granted and with reasonable profit to him. And finally that the patented articles should be made available to the public at reasonable prices.104

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104Section 95, Indian Patents Act, 1970.
(i) Judicial Review:

Any decision relating authorization of the use is not complete in itself. In order to provide an objective criteria it is provided that "the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member". The provision for the judicial review of licensing is provided in the Paris Convention also. The main accusation against this provision is that it is generally misused by the licensor to delay such authorization of licences.105 Licensor or the patentee as the case may be, is generally a MNC and by seeking a judicial review it is possible to prolong the act of final authorization. So, it serves the purpose of avoiding the authorization of use for a considerable period.

(i) Judicial Review of Remuneration

The determination of remuneration to be paid on authorization has also been brought under the purview of judicial and independent review. It provides that "any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member". The determination of royalty, remuneration etc., are generally left to be decided by the executive. In the Indian context, it is the Controller who decides these

105 Article 5 of the Paris Convention provides that a compulsory licence may not be granted "....if the patentee justifies his inaction by legitimate reasons".
factors. A judicial or independent review to determine the adequacy of remuneration in the circumstances may delay the process of authorization further.

B. **Anti-Competitive Practices**

The provision relating to anti-competitive practices in Article 40 of the Agreement on TRIPs concerns generally with the licensing practices or conditions pertaining to IPRs which restrain competition or which may have adverse effects on trade and may impede the transfer and dissemination of technology. Clause (2) of Article 8 also provides that, "Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology". It should, however, be noted that measures relating to anti-competitive practices do not deal with the abuses of patent monopolies. They deal with such abuses which may result while licensing the patent grants. These practices, as noted above, may unreasonably restrain trade or adversely affect the international transfer of technology. Since developing countries are the recipients of the

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106 Section 95 of the Indian Patents Act, 1970 provides for the "Terms and Conditions of Compulsory Licences".

107 Clause (1) of Article 40, The Agreement on TRIPs.

108 Clause (1) of Article 8 provides for measures to be adopted "to protect public health and nutrition and to promote the public interest in sectors of vital importance" to Members. It will also be discussed in the next chapter in greater detail.
technology with no concrete bargaining strength, they are the ones which are affected most and exploited most.

To begin with, it is appropriate to describe what these anti-competitive practices are. Clause (2) of Article 40 provides some examples. According to it,

Nothing in this Agreement shall prevent members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights (IPRs) having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grant back conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.\textsuperscript{109}

The evolution of rules relating to anti-competitive and restrictive practices is crucial for developing countries as they have to apportion a greater part of their scarce resources to acquire these technologies and know-how. Accordingly, since 1970s developing countries have been making efforts to evolve some standards for the effective transfer of technology. Negotiations were undertaken under the auspices of UNCTAD to finalize a code of conduct on the transfer of technology.\textsuperscript{110} At the same time, developing

\textsuperscript{109}Some of these practices have already been discussed in the earlier sections of this chapter. Such practices, however, include -- grant-back provisions; unreasonable requirements of exclusive dealings; restrictions on independent research and the use of personnel; price-fixing conditions; limitations on advertising; obligations to pay after the expiration of industrial property rights; and other burdensome clauses including unreasonable cross-licensing constraints and post-contractual limitations; also see, \textit{Trade and Development Report, 1991} (New York: UNCTAD, 1991), p.189.

\textsuperscript{110}A note by the UNCTAD Secretariat points out that in the negotiations on an International Code of Conduct on the Transfer of Technology differences still remain on conceptual questions regarding the manner in which restrictive practices in transfer of technology transactions should be treated in an international code. There are also problems concerning 'applicable law' in so far as the contractual relations in the technology transfer mechanisms; see, \textit{Negotiations on an International Code of Conduct on the (continued...)}
countries succeeded in adopting a Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices. According to an UNCTAD Report, although these principles are not legally binding, they have the authority of an instrument representing the broad consensus of the international community on the fundamental importance of competition principles.¹¹¹

These practices as included in the Chapter 4 of the Draft Code of Conduct on the Transfer of Technology are: (i) Grant-back provisions; (ii) Restrictions on Research; (v) Restrictions on use of personnel; (vi) Price fixing; (vii) Restrictions on adaptations; (viii) Exclusive sales or representation agreements; (ix) Tying arrangements; (x) Export restrictions; (xi) Patent pool or cross-licensing agreements and other arrangements; (xii) Restrictions on publicity; (xiii) Payments and other obligations after expiration of industrial property rights; and (xiv) Restrictions after expiration of arrangement.¹¹²

Majority of the developing countries do not have anti-competitive or anti-trust laws to regulate such practices. The UNCTAD Secretariat has been preparing handbooks on restrictive business practices' legislation with a view to facilitate the work of the Intergovernmental Group of Experts on Restrictive Business Practices.¹¹³ So far it has

¹¹¹(…continued)


compiled 18 legislations of which developing countries were -- Brazil, Chile, Kenya, Pakistan, Poland, Republic of Korea, and Sri Lanka. Other developed and East-European countries include - Canada, Denmark, Germany, Finland, France, Poland, Portugal, Norway, Spain, Sweden, United Kingdom and United States of America.\textsuperscript{114}

Despite these provisions evolved after considerable negotiations, the TRIPs text in general and in particular Article 40 concerning anti-competitive practices failed to reflect the interests of developing countries. Developed countries, it is pointed out, were not inclined to incorporate these issues. On the other hand, they also had made 'extensive proposals' concerning the ways to combat the abuses of intellectual property rights. The possible future scenario in this regard has been succinctly summed by the UNCTAD report as "Although present trends thus indicate that the prospects for developing countries' access to foreign technologies are likely to present more difficulties than in the last two decades, the TRIPs negotiations fail to address the main issues and problems associated with access to and transfer of technologies".\textsuperscript{115}

C. The Exhaustion of IPRs:

There is a reference in Article 6 of the Agreement on TRIPs to the exhaustion of IPRs. It says, "For the purposes of dispute settlement under this Agreement, subject to

\textsuperscript{114}Ibid.

\textsuperscript{115}Trade and Development Report, 1991, n.108, p.190; However, in its subsequent analysis the UNCTAD Report points out, "However, the Agreement, in its final form, provides more ample safeguards against such abuses than might have been predicted at the outset of the Uruguay Round". See, Supporting Papers, n.110, p.200.
the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights". It is necessary, first of all, to understand the meaning of "exhaustion of IPRs" as this aspect is not widely discussed in patent related literature.

The exhaustion doctrine needs to be first looked at from the national level. One of the main features of IPRs is that the owner of an IPR can sue the person who infringes his right. These rights exist and are enforceable only as a matter of national law. However, even within the State many others may be authorized to exercise the right by the owner of the IPR. For instance, the owner may license his patented invention to someone to work and the person who works it may in turn market the patented product to a wholesaler; and the wholesaler may sell it to a retailer and the retailer to consumer. In this situation there are more than three persons who deal with the patented product. In simple terms, the exhaustion doctrine envisages no infringement action against any one of these. So, it has been noted that "In its original and simple form the doctrine of exhaustion developed against this national territorial background, and no doubt to begin with quite apart from any question of principles of justice, fairness or economic efficiency that the doctrine might be supposed to embody or promote, and was seen as a statement of obvious common sense and commercial necessity". And this doctrine

11Article 3 of the Agreement on TRIPS provides for "national treatment" and Article 4 deals with "Most-Favoured-Nation Treatment".

has been described in the following way: "the intellectual property rights held by a proprietor in a given state are exhausted (i.e., can no longer be enforced by an infringement action) in respect of any batch of goods once that batch of goods has been marketed in that state by that proprietor or with his consent").

The strict application of this doctrine territorially has created certain anomalies leading to abusive practices by MNCs. The territorial application of this doctrine, has benefitted MNCs which operate in more than one State. In other words, it would "permit a multinational to partition its world markets between its various subsidiaries and licensees and to maintain price differentials between such partitioned markets, by acquiring for its components intellectual property rights having a similar basis in each state to be insulated and then ensuring that parallel imports would be bound to infringe those rights under the national law of the importing state".

In order to regulate this practice by the MNCs there is a need to have an 'international' exhaustion doctrine concerning IPRs. Two examples are already there. GATT provided this in an indirect way. It provides in Article XI.1: "No prohibitions or restrictions other than duties, taxes or other changes, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party". In other words, this provision seeks no prohibition or restriction on

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"Ibid.

"Ibid. It has also been pointed out that these are far more valuable for MNCs as it is more profitable than attempting to prevent domestic piracy or the import of piratical foreign goods."
the importation of any product from the territory of any other contracting party. Article XX (d) of the GATT, on the other hand, creates an exception to this rule. It provides that,

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures...

...(d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of patents, trade marks and copyright, and the prevention of deceptive practices”.

Article XX while creating an exception prohibits such importation which would constitute a means of arbitrary or unjustifiable discrimination between countries. "Article XX (d) therefore constitutes a form of an international exhaustion doctrine intended to curtail the rights of multinationals to insulate high-price markets from parallel imports". The EEC also has similar provisions in its Treaty. Article 30 of the EEC Treaty prohibited "Quantitative restrictions on imports and all measures having equivalent effect". Article 36 does not "preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of...the protection of industrial and commercial property". Further, it also provided that, "Such prohibitions or restriction shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States”.

\(^{120}\)Ibid., p.55.
Coming to Article 6 of the Agreement on TRIPs, it recognizes the existence of exhaustion doctrine. However, it makes an exception as regards its application to dispute settlement mechanism under the Agreement. The one reason for such exclusion seems to be that the dispute settlement will have to consider in majority of the cases, the problems brought before it on the plea of existence of exhaustion doctrine. In other words, disputes based on prohibitions and restrictions (which will be many) may seek such justifications on the ground of exhaustion doctrine. So, the exclusion of this doctrine allows the DSB to look into the substantive aspects of the dispute in a clear way.\textsuperscript{121} This has certain implications for the developing countries. The exclusion of exhaustion doctrine from the purview of dispute settlement will allow MNCs to justify their practices to specify prices of patented products on a discriminatory basis. Probably, this cannot be taken as a ground for the violation of the Agreement on TRIPs. In other words, it further fortifies their monopolistic dealings and they can justify this on the basis of sufficient and adequate protection of IPRs.

V. \textit{Summation}

This chapter looked at various forms of abusive practices and the mechanisms evolved and applied to regulate these practices. One basic ingredient of these practices should be noted i.e., these practices do not become abusive \textit{ipso facto}. They become abusive only when societal interests are not met. For instance, a patent grant has to be

\footnotesize{\textsuperscript{121} NAFTA does not provide for any exhaustion doctrine on IPRs.}
disclosed sufficiently so that it could be worked at a latter date by someone upon the expiry of its term of protection. The objective criteria for a sufficient disclosure is always difficult to outline. Nevertheless, there are certain minimum requirements, such as that it should be understood by a reasonably skilled person. Even then, disclosures may be incomplete for various reasons. One such reason is that a patent may be useful only when it is taken together with the know-how attached to it. Know-how, on the other hand, has legitimate protection in trade secrecy laws. The TRIPs Agreement recognizes such a protection in the provision relating to "undisclosed information".

Importation of the products manufactured through patented invention may constitute an abuse in the context of a developing country. According to the TRIPs formulations importation is not only legitimate, it is also equivalent to working of the patented invention. On the other hand, national legislations, particularly the Indian Patents Act, emphasize on the working of the inventions so as to meet the reasonable requirements of the public. Actual working facilitates transfer of technology, a basic objective of the patent system.

There is also a possibility that a patented invention may not be adequately used. The Indian Patents Act, for instance, outlines in section 90 the situations which may necessarily constitute the criteria of inadequate use. These are: (a) to manufacture in India to an adequate extent and supply on reasonable terms; (b) hindrances in the development of existing trade or industry or the establishment of any new trade or
industry: (c) market for the export of the patented article not developed; and (d) demand for the patented article met to a substantial extent by importation.

The "non-voluntary licensing" system has been employed as one of the remedies to deal with the abusive practices. The evolution of this concept constitutes one of the principal themes of patent history. As shown in our discussion, the nature and content of non-voluntary licensing has undergone a substantive change which is not in the interest of developing countries. The Agreement on TRIPs only provides for "Other use without the authorization of the right holder". Here too, a series of conditions must be met before 'other use' is authorised. There is also a new and emerging interpretative matrix concerning the application of provisions relating to 'other use' which is not in the interest of developing countries as it seeks to consolidate the standpoint of the proprietors of technology.

Although there is a provision in the TRIPs Agreement concerning anti-competitive practices, it fails to consider the work done so far in this regard such as the Code of Conduct on Transfer of Technology and the identification of various Restrictive Business Practices. The doctrine of exhaustion of IPRs, a concept which has not been generally dealt with, has been considered, particularly outlining its implications. With the Agreement on TRIPs creating a uniform regime of patent protection, the options before the states need closer consideration. This is particularly crucial as the operation of the patent laws are essentially territorial. The next chapter will consider some of these aspects.