CHAPTER-IV

CONTROL OF ANTICOMPETITIVE TRADE PRACTICES THROUGH COMPULSORY LICENSES OF INTELLECTUAL PROPERTY RIGHTS
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4.1 Introduction

It is a myth that rights are ‘absolute trumps’ over majority preferences, aspirations or desires. In fact, most rights are not absolute.\(^1\) No rights are absolute under any legal system. IP legislations are not an exception to this philosophy. Abuse of the rights granted under IP laws is a common phenomenon in all countries. Abuse may be by way of refusing to work patent locally, refusing to license, imposing restrictive conditions on the use of patented goods on sale etc. To remedy this evil statutory grant of compulsory licenses and revocation of patents have been adopted in almost all countries.\(^2\) Justice Ayyangar observed that the provisions of the Patent law have to be designed, with special reference to the economic conditions of the country, the state of its scientific and technological advancement, its future needs and other relevant factors, and so as to minimize, if not to eliminate, the abuses to which a system of patent monopoly is capable of being put. Bearing in view the matters set above, he recommended retaining the patent system, but with a number of improvements.\(^3\) The adoption of TRIPs in 1994 has led to an expansion of IPRs into new fields and a significant strengthening of the titleholder’s legal position. The extension of intellectual property rights, especially in the patent field, and the enhanced powers conferred on title-holders, have raised concerns in developing countries about the extent to which the essentially commercial interests protected by IPRs

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may be given primacy over the public interest in general and consumer protection in particular. The TRIPS agreement, explicitly allows WTO members to include provisions to prevent the abuse of intellectual property rights in their local law.\(^4\) In the Indian context a compulsory license can be understood as a Government’s authorisation to a person for the exploitation of a patent without the consent of the patent holder. This obviously works against the interest of the patent holder but compulsory licenses are considered as a necessity in certain cases like cases of national emergency, health crisis and like. The patent law gives discretionary powers on the Controller under certain circumstances to decide on applications of compulsory licenses. It can be stated that most of the provisions of Indian patent law relating to compulsory licenses conforms to the TRIPS agreement.\(^5\)

There seems to be a paradox as regards the situation in developed and developing countries in this matter. With the adoption of TRIPs, developing countries are forced to go for massive changes in their IP systems. But developed countries paid little attention to the imbalances created by the enhanced protection to IPRs. The probable reason for this is that the developed countries like U.S.A. have solid tradition in the area of competition law and consumer protection. Moreover, whilst developed countries may have instruments within their IP system or outside of it to curb anti-competitive practices and other abuses by IP holders, most developing countries lack the capacity to have or use similar instruments. In other words, the anti-competitive effects of high IP standards in developing countries are serious, and may become even worse if they lose even policy

\(^4\) Art. 8(2) of TRIPS Agreement.
\(^5\) In view of the waiver of the requirement of domestic production under Art. 31(f) of TRIPS on August 30, 2003 decision, India enacted section 92A of Indian Patents Act, 1970.
space for using existing flexibilities due to further “upward harmonization” through new international treaties or through bilateral and regional trade and economic agreements.

IPRs can cause rise in prices due to monopoly power associated with them. Due to this the low income groups in developing countries may be deprived of access to crucial products. Generally the developing countries are unprepared to meet this contingency. The IP legislations have various measures including compulsory licenses to mitigate the impact of these exclusive rights.

Compulsory license has a long history as a measure for countries to combat misuse or non-use of intellectual property. The Paris Convention provided that each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work. Compulsory license can be described as an authorization given by a national authority to a person, without or against the consent of the title-holder, for the exploitation of a subject matter protected by a patent or other intellectual property rights. A compulsory license is a license granted by government to a third party without the permission of the patent holder.

In the area of copyright and neighbouring rights, "statutory licenses" is established. These are licenses ex lege\(^\text{8}\) that may be enjoyed by anyone without being specifically authorized, generally against the payment of compensation to the title-holder.

\(^6\) Art. 5A (2) of the Paris Convention, 1883
\(^8\) Ex lege means by the law; by force of law; as a matter of law as per Law Dictionary, available @ http://thelawdictionary.org/ex-lege/#ixzz2sKvk9DZP
There has always been a danger that the IP holder, especially the patentee will abuse the monopoly granted to him. The patent is granted not only for the benefit of the patentee, but also for the benefit of the public at large. It is quite possible that the prices of life saving drugs may become higher. The inventor of a revolutionary new algorithm discovers that his invention may infringe a previously held patent, whose owner does not use the invention but refuses to grant a license. A company holding a valuable patent can obtain multiple patents on similar technologies to prevent other companies from entering the market. The public interest in all these situations can be advanced by compelling the patentee to grant a license on the condition that a reasonable royalty is paid to him. Under the antitrust laws, conduct by a firm with market power may be illegal if the effect of that conduct is to tend to create or sustain a monopoly, and if that monopoly is not the consequence of superior skill, foresight, or business acumen, or historical accident. The Supreme Court has noted that compulsory licensing at reasonable royalty rates is a recognized antitrust remedy. Hence this kind of anticompetitive behavior requires regulation within the IP legislations only.

Compulsory licensing occurs when the state requires a patentee to license his patent to another. Although common in other countries, including India, Japan, Germany, and the United Kingdom, it is rarely applied in most countries including the United States. In other countries, compulsory licensing is typically allowed when the patent is

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11 Random House Kernerman Webster's College Dictionary,2010 defines antitrust as opposing or intended to restrain trusts, monopolies, or other large combinations of business and capital, esp. to promote competition
not being worked, when a dependent patent is being blocked, or when the patent relates to food or medicine. This chapter will explore the problems involved in the exclusive rights and reasons or circumstances for granting compulsory licenses and harmonise the two. Further an analysis is made about the legal consequences of non-use of the compulsory license granted.

4.2 Background, origin and the concept of compulsory licenses

Compulsory licensing, which basically means allowing a third party to make, use or sell a patented invention without the patentee’s consent, has been viewed as a way of neutralising the perceived ills of the patent system. There has always been a danger that the patentee will abuse the monopoly granted to him. The patent is granted not only for the benefit of the patentee, but also for the benefit of the public at large. To prevent such monopoly power, compulsory licenses are granted as a matter of balancing approach between private and public interests. The compulsory licenses not only cover situations where a patent is not being worked, but also available in other circumstances such as where demand for a product is not being met on reasonable terms. Abuse of the monopoly rights granted under a patent is a common phenomenon in all countries. It may take various forms like meeting the demand for the patented articles solely by importation from abroad and not by manufacturing the patented article locally, thereby discouraging and prejudicing the establishment of new trade or industry or the development of an existing trade or industry, refusing to grant licenses to work the patent locally, imposing unreasonable terms on licenses thereby discouraging voluntary

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15 Compulsory licensing was a component of a late nineteenth-century English patent reform Bill.  
16 David Bainbridge, supra note 9 p.88.
licensing, and imposing restrictive conditions on the use, sale or lease of the patented articles thereby prolonging the patent monopoly rights even after the patent has expired. To remedy this evil, a system of compulsory working of the patent by the grant of compulsory licenses by a statutory authority and revocation of the patent for non-working has been adopted in almost all countries.\(^{17}\)

In England, Statute of Monopolies, 1623\(^{18}\) introduced the obligation similar to compulsory licenses and this was recognized in many national patent laws during the XIX century. By this the patented invention was required to be worked locally. Some laws, such as the French law, even imposed the forfeiture of patent in the case of non-working. The granting of compulsory licenses was appeared to be in lieu of direct forfeiture. A system of compulsory licenses was statutorily adopted in UK by the Patent Act of 1883. This had a great influence on subsequent patent laws in UK and in other countries, as well as on the development of the International Convention for the Protection of Industrial Property (Paris Convention)\(^{19}\). After this a turbulent process of negotiation took place at the international level and the Conference held at the Hague in 1925 adopted compulsory licensing as the main means to ensure the exploitation of a patent. By now forfeiture of the patent would apply only when a compulsory license proved to be ineffective as a means of addressing the non-working of patent. Hence forfeiture became a subsidiary measure applicable only if a compulsory license had failed to remedy non-exploitation.

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\(^{18}\) The Statute of Monopolies of 1623 confirmed that monopolies were contrary to common law but made exceptions for patentable inventions

\(^{19}\) The Paris Convention for the Protection of Industrial Property, signed in Paris, France, on 20 March 1883, was one of the first intellectual property treaties
4.3 Compulsory Licenses; International Perspectives

Following is the analysis of compulsory licenses in international and Indian perspective.

4.3.1 Pre-TRIPS era and compulsory licenses

India is a party to several international agreements for the protection of intellectual property that have provisions regulating compulsory licensing. The earliest of these agreements is the Paris Convention for the Protection of Industrial Property, which was entered into in 1883. The purpose of the Paris Convention was to establish a system for inventors to protect their inventions internationally. Prior to this Convention, an inventor was required to submit a separate patent application in each country where protection was desired, and had to comply with the different procedural and substantive filing requirements of each country. To remedy this, the Paris Convention contains several provisions to promote uniformity in world patent law, including national treatment and right of priority. However, it deals only with compulsory licenses granted for failure to work. In India, the compulsory licensing provisions can be traced back to the Patents and Designs Act 1911. Under the existing law (the Patents Act 1970), a compulsory license can be granted under various provisions of the Act. Nationals of member countries have the same rights with regard to intellectual property in the other countries of the Paris Convention as the other countries own nationals. As of September 2013, the Convention has 175 contracting member countries and is administered by the

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20 The Paris Convention for the Protection of Industrial Property 1883, administered by the WIPO addresses the compulsory licensing of patents in Art. 5(A) under the heading “Patents: Importation of Articles; Failure to Work or Insufficient Working; Compulsory Licenses”


22 Supra note 6,Art. 2(1)
World Intellectual Property Organization. The WIPO aims at the harmonization of national intellectual property legislations and procedures. The fact that since the Paris Convention, there has been a steady move toward harmonization of world patent law this role of WIPO has become particularly important. The WIPO “administers 23 international treaties dealing with different aspects of intellectual property protection.”

Besides the Paris Convention, the WIPO also administers the Patent Cooperation Treaty entered into in 1970. The PCT allows an inventor to file an “international application” in one of several national patent offices and delay filing in individual countries, while retaining the priority date of his first patent application. This reduces the expense of obtaining patent protection in multiple regions. The PCT has resulted in the harmonization of the patent application process in the member countries. Compulsory licensing of patents is provided for under Article 5 of the Paris Convention in order to prevent patent abuse. Provisions relating to compulsory licensing are among the most controversial provisions of the Paris Convention. Article 5(A) (2) provides that each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work. Article 8 of the TRIPS also talks about the abuse of intellectual property rights by right holders or the

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25 Entered in Washington on June 19, 1970,
26 Art.8 (2) of the PCT.
28 Ibid.
29 Art. 5 of TRIPS Agreement.
resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. However, Article 5(A) further provides that the Convention Countries have the right to make laws providing for the grant of compulsory licenses in case of non-working of a patent. It is important to note that the Paris Convention clearly stipulates that a patent cannot be revoked unless the grant of compulsory licenses was not sufficient to work the patent, whereby making the grant of compulsory license as a precondition to the revocation of patent on grounds of non-working. Article 5(A) (3) of the Paris Convention also states that no proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license. Article 5(A) (4) of the Paris Convention states that a compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of 4 years from the date of filing of the patent application or 3 years from the date of the grant of the patent, whichever period expires last. It further provides that such an application shall be refused if the patentee justifies his inaction by legitimate reasons. It is fair to conclude that the legislation requiring local working of patents would not be in contravention of TRIPS in light of articles 7, 8 and 30 and explicit reference of Paris Convention under Article 2 of TRIPS.

4.3.2 TRIPS and compulsory licenses

The TRIPS agreement led to the adoption of a twenty-year patent term in India to achieve uniformity in patent terms throughout the world.\(^{31}\) India has also made changes in the Indian Patents Act of 1970,\(^{32}\) in order to comply with the requirement of TRIPS

\(^{31}\)TRIPS Agreement, Art. 33; The Indian Patents Act, 1970, s. 53.

agreement and which requires publication of patent applications after eighteen months.\textsuperscript{33} Recently, the WIPO proposed a new treaty, the Patent Law Treaty\textsuperscript{34} which will standardize and simplify application procedures and allow for electronic filing, which should eventually reduce the cost of obtaining a patent.\textsuperscript{35} The ultimate goal is “a broad administrative system allowing for a single patent application covering the entire world,” which is expected to be achieved within five to fifteen years.\textsuperscript{36} The TRIPS agreement places further limitations on the granting of compulsory licenses, providing that “members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.”\textsuperscript{37} Compulsory licenses are regulated under Article 31, which has the following requirements: (1) authorization must be considered on the individual merits; (2) the applicant has attempted to obtain a license from the patentee; (3) the use is nonexclusive and non assignable; (4) the use is primarily for the domestic market; and (5) the patentee receives adequate remuneration.\textsuperscript{38} TRIPS agreement allows the government to impose compulsory licenses as a remedy for “anti-competitive practices.”\textsuperscript{39}

In most countries, the government has the power to revoke or limit a previously granted exclusive patent right under specific circumstances. In many countries this power

\begin{thebibliography}{9}
\bibitem{33} Section 11A (i) of the \textit{Indian Patents Act}, 1970 and Rule 24 of the Patents Rules, 2003
\bibitem{34} Ibid.
\bibitem{36} Ibid.
\bibitem{37} Art. 30 of TRIPS Agreement.
\bibitem{38} Art.31f of TRIPS Agreement.
\bibitem{39} Art.31 (k) of TRIPS Agreement.
\end{thebibliography}
includes the ability to grant a compulsory license. The specific terms may vary from country to country but there are three basic situations under which the issue of compulsory license comes into question. They are: (1) where a dependent patent is being blocked, (2) the patent is not being worked, or (3) the invention relates to food or medicine.\footnote{Gianna Julian-Arnold, “International Compulsory Licensing: The Rationales and the Reality” 33 IDEA 349, 349–50 (1993), available @ http://ipmall.info/hosted_resources/IDEA/p349.Arnold.pdf, visited on 24-12-2013} These categories result from the limitations imposed on member countries by the Paris Convention and by the TRIPS agreement.

1. **Dependent Patents:** A dependent patent is one that cannot be used without infringing an earlier, existing patent.\footnote{Ibid.} This can result in an undesirable situation where neither party can efficiently use the invention: the second party’s invention would infringe the first party’s patent, while the first party cannot use the improved invention of the second inventor. If the parties are unable to come to a licensing agreement, the improved invention would not be used. The loss to the public would depend on how much the second invention improves upon the first invention.\footnote{Ibid.} If only the improved invention is commercially feasible, the public would be deprived of the invention. By having a compulsory licensing provision, the parties can be forced to either agree to royalty terms or cross-license each other’s patents so that the invention may be worked.

The TRIPS agreement allows member countries to provide for the granting of a compulsory license to the owner of a dependent patent (“the second patent”) which cannot be used without infringing another patent (“the first patent”), under the following conditions:
(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(ii) the owner of the first patent shall be entitled to a cross license 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 non assignable except with the assignment of the second patent.\(^43\) Thus, if the second invention is a significant advancement over the first invention, the second patentee can force the original patentee to come to an agreement so that the public will have the benefit of the improved, second invention.

2. Non-working of Patent: The second common provision for the granting of a compulsory license is where the patent is not being “worked.” Because the patent grant assumes that the invention will be used to benefit the public, the non-use of the invention by the patentee may be seen as a breach of this agreement, resulting in the loss of the exclusive right to the invention.\(^44\) The Paris Convention has specific provisions allowing compulsory licensing when the patent is not being worked.\(^45\) Provisions requiring working in the country have attempted to encourage use of the invention within the particular country and to prevent the unreasonable denial of new inventions to the public.\(^46\)

The definition of “worked” varies from country to country. Although “worked” may mean that the product must actually be produced in the country, in most countries it

\(^{43}\) Art.31 (1) of TRIPS Agreement.

\(^{44}\) Gianna Julian-Arnold, Supra note 40.

\(^{45}\) Art. 5 of TRIPS Agreement.

\(^{46}\) Supra note 44
merely means that the product must be available in the country, either produced within or imported from without. The availability requirement is justifiable; if the invention is not available in a country, other producers should be allowed to obtain a license so that the item is available to the public. However, if importation of the patented product does not qualify as “working,” then a country could freely grant licenses for any product that is not actually made in that country. This is hard to justify on any grounds other than protecting local industries; companies should be allowed to produce the products where it is cheapest for them to do so, since the public will ultimately benefit from a cheaper product. Even in countries which define working to include importation, administrative agencies may not properly enforce the law, which may force the patentee to do some final processing of the product within that country to avoid the possibility of compulsory licensing.

3. Food and Medicine Patents: The third major provision for the granting of a compulsory license is for inventions relating to food or medicine. There are several rationales for countries to permit compulsory licensing for these inventions: to protect national security by ensuring an adequate supply of medicine, especially to combat devastating diseases like AIDS; to avoid the high costs of new drugs which developing countries cannot afford; and to encourage the retention of scientists and the development

48 This reflects the roots of many countries’ patent systems, where patents were granted to non-nationals mainly to encourage the actual use of the invention within the country; the administration of the patent system was subject to the goal of effectively developing national industries.
49 Supra note 47
of a local pharmaceutical industry.\textsuperscript{51} There is inherent tension between the needs of developed and developing countries. The pharmaceutical industry of developed countries does not want to allow drugs, which cost millions or billions to research and develop, to be used in other countries without consent.\textsuperscript{52} Because they are generally users but not producers, developing countries are reluctant to grant patent rights to pharmaceutical products. Allowing patent protection for such products can cause prices to triple, decreasing their availability.

The different views on compulsory licensing can cause conflict between developed and developing countries. For example, South Africa introduced legislation to allow the issuance of compulsory licenses to reduce the cost of AIDS drugs to protect the health of the public.\textsuperscript{53} The United States saw that action as a violation of patent protection under the TRIPS agreement.\textsuperscript{54} Eventually, the United States agreed to allow the licensing, but it is not clear if the change in the United States’ position was an acknowledgement of the legality of compulsory licensing of pharmaceuticals or merely a concession to political pressure.\textsuperscript{55}

The pervasiveness of compulsory licensing in foreign countries is illustrated by a brief survey of the patent provisions of the major industrial nations. In the United Kingdom, for example, compulsory licensing may be ordered three years after the grant if the demand for the patented product in the U.K. “is not being met on reasonable terms,” or if the refusal to grant a license prejudices “the establishment or development of

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{51} Gianna Julian-Arnold, \textit{supra} note 44.
\item \textsuperscript{53} \textit{Ibid}.
\item \textsuperscript{54} \textit{Ibid}.
\item \textsuperscript{55} \textit{Ibid}.
\end{itemize}
\end{footnotesize}
commercial or industrial activities.” There is also a provision for dependent patents: if a patented invention represents “an important technical advance of considerable economic significance,” but its use is hindered by a previous patent, the owner of the dependent patent may obtain a compulsory license, and the original patentee may obtain a cross license. In Japan, compulsory licensing may be ordered if the patent is not worked in Japan for three consecutive years. Japanese law also permits compulsory licensing “where working is in the public interest.” In Canada, a compulsory license may be granted if three years after the grant, “the demand for the patented article in Canada is not being met to an adequate extent and on reasonable terms.” Canada previously allowed compulsory licenses for both non-use and pharmaceutical patents, but these provisions were abolished in 1993. Germany allows compulsory licenses if the patent is not worked within three years of the grant, or if the patentee refuses to license and permission to use the patent is “indispensable in the public interest.” Thus, in these major industrial nations, compulsory licenses may be granted in limited situations.

4.4 Compulsory Licenses under the Indian IP Laws

Compulsory licensing provisions are found in patent and copyright legislations of India. It has been well established that an intellectual property right owner cannot use his patent or copyright protection to unreasonably extend his power in the relevant market. Compulsory licensing acts as one of the solutions to ensure that intellectual property

57 Ibid. Section 48A(1)(b)(i), (4).
59 Ibid. Art. 93(1).
62 Ibid.p.58
63 The German Patent Law (West Germany), Art. 15.
owners do not monopolize a market or use their conferred protection to unfairly restrain trade.

4.4.1 Compulsory licensing of patents

‘Patent’ is a grant made by the government to an inventor, conveying and securing him the exclusive right to make, use and sell his invention for a term of 20 years. The object of the patent law has been explained by the Supreme Court in M/s. Bishwanath Parsad Radhey Shyam v. Hindustan Metal Industries as follows: The object of patent law is to encourage scientific research, new technology and industrial progress. The grant of exclusive privilege to own, use or sell the method or product patented for a limited period, stimulates new inventions of commercial utility. The price of the grant of the monopoly is the disclosure of the invention at the patent office, which after the expiry of the period of monopoly, passes into public domain. A patent is granted only for an invention which must be new and useful. It must have novelty and utility. The 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 reasonable practicable without undue delay. A system of patents serves many useful purposes. If the invention is commercially utilized, the patent ensures just reward in terms of money and recognition for the inventor, for all the time and effort, knowledge and skills, money and other resources invested to come up with the invention. The objective of a patent grant is not only to encourage creation of inventions but also to promote commercial working of such

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65 AIR 1982 SC 1444.
66 Supra note 16 .p.88.
67 See, Patents Act, 1970, Section, 89 (a).
68 Ibid. Section 83 (a).
inventions. For the society, commercial exploitation of an invention means new and better products, higher productivity, and more efficient means of production. Patents are granted to ensure that they are worked in the country. Their grant must not block production or hinder further research and development. A patent system encourages technological innovation and dissemination of technology. This in turn stimulates growth and helps the spread of prosperity and better utilization of resources. In an age when technology and knowledge are the greatest generators of wealth, the number of patents filed and granted nationally and internationally is a good indicator of the health of science and technology in a country. Patent is granted by a State and hence has territorial applicability. It is valid only in the country which grants the patent. There was no mechanism to obtain a global patent.

A patent confers on the patentee, his agent or assignee the exclusive right to the patented invention for a limited period to the exclusion of all others. The patentee not only gets a monopoly right over the said invention for a limited period to make or use the invention or to market it, but also the right to prevent others from making, using or marketing such invention during the period of protection. The justification for the granting patent right is discussed in detail in *Chiron corporation v. Organon Teknika Ltd.* *(No. 10)* , wherein it has been pointed out that “it is generally accepted that the opportunity of acquiring monopoly rights in an invention stimulates technical progress in at least four ways: First, it encourages research and invention; secondly, it induces an

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69 *Ibid.*, Section 83.
73 *Supra* note 64 p.45
inventor to disclose his discoveries instead of keeping them a secret; thirdly, it offers a reward for the expense of developing inventions to the state at which they are commercially practical and fourthly, it provides an inducement to invest capital in new lines of production which might not appear profitable if many competing producers embarked on them simultaneously…”

Encouragement, inducement and reward are the main factors underlying the patent system. The public interest although apparently jeopardized by the grant of monopoly, is secured by increased industrial activity, developing new technologies and disclosure of new and useful invention.75 Furthermore, patent law contains a number of safeguards, such as compulsory licensing and crown use, to curb any significant abuse of the patent monopoly.76 Article 30 of the TRIPS agreement defines the exceptions in broad terms, which allows for limited exception so long as these do not unreasonably conflict with the normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner. Under this provision there is considerable freedom for national legislation to define the kind and extent of exception to be granted. Among them, it is important to provide for exceptions relating to research and experimentation on the invention i.e. with regard to a person who in good faith uses the invention prior to the filing of a patent by a third party. These exceptions include the use of the patented invention. The options available are: 1) Acts done privately and on a non-commercial scale or for a non-commercial purpose;

Use of an invention for scientific research or teaching purposes; 2) Experimentation on the invention for commercial purposes, for instance to test it or

75 Supra note 66 .p.36
76 Ibid.
improve on it; 3) Preparation of medicines under individual prescriptions; and 4) Use of the invention by third party that had used it bonafide before the date of application for the patent.

The exclusive right of the patentee is limited by the provision for grant of compulsory licenses. The purpose of granting patents in India is to primarily secure that the inventions are worked in India on a commercial scale and not merely to enable patentees to enjoy a monopoly for the importation of the patented article. Patent rights are meant to encourage technological innovation and help transfer and dissemination of technology for the social and economic welfare. The benefit of the patented invention has to reach the people at a reasonably affordable price.

**4.4.1.1 Grounds for the grant of compulsory license**

Effective use of compulsory license and government use regimes depends mainly on two factors, viz. the potential users of compulsory license (generic industry) and the government’s ability to monitor the impact of patents on access to medicines. According to the Commission on Intellectual Property Rights (CIPR), “developing countries should establish workable laws and procedures to give effect to compulsory licensing and provide appropriate provisions for government use.” The Indian Patent Act provides a scheme of compulsory license which needs to be critically viewed in the present context. Under this Act any interested person can make an application for compulsory licensing on the following grounds, viz. the reasonable requirements of public have not been

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77 See, *supra* note 69, Section. 83 (b).
satisfied or the patented article is not available at an affordable price to the public or the patented invention is not working in the territory of India. A compulsory license is also available for dependent patents and in national emergency, extreme emergency and public noncommercial use. Further, a compulsory license is available to export to those countries having no or insufficient manufacturing facility in the pharmaceutical sector.

The Act provides an exhaustive list of circumstances in which the reasonable requirements of the public has not been satisfied. It also prescribes a procedure to decide the request for compulsory licences. After receiving the application, if the Controller of Patents is satisfied of prima facie reason to grant a compulsory licence, the Controller directs the applicant to give copies of application for compulsory licences to the patentee and any other interested person. The application is then published in the Patent Office’s official journal. Subsequently, the Controller takes a decision after hearing both the parties, i.e., the applicant and the opponent. The Controller has the right to set the terms and conditions of the compulsory licence in the order, and the order of the compulsory license will operate as a deed between the parties.

The Patents Act limits the scope of refusal to grant a license as a ground for a compulsory license. Hence the applicant has to prove any of the following to get a compulsory license issued in his favour.

(1) Refusal to provide a license will prejudice an existing trade or industry or the development thereof or the establishment of any new trade or industry in India.

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80 Supra note 77, Section 84.
81 Ibid., Section 91
82 Ibid. Section 92A.
83 Ibid. Section 87.
84 Ibid.
85 Ibid. Section 93.
(2) The trade or industry of any person or class of persons trading or manufacturing in India is prejudiced or the demand for the patented article has not been met to an adequate extent or reasonable terms.

(3) Third, a market for export of the patented article manufactured in India is not being supplied or developed, and the establishment or development of commercial activities in India is prejudiced.\(^86\)

The Act also has special provision for compulsory licenses on notifications by the central government in a case of national emergency, or of extreme urgency or of public non-commercial use.\(^87\) A compulsory license can be terminated on patentee’s request when the circumstances in which the grant was made no longer exist and are unlikely to recur. The holder of the compulsory license can of course object to the application and the Controller shall take into account that the licensee’s interest is not unduly prejudiced.\(^88\)

Thus the presence of a strong and effective patent system may bring numerous benefits such as the dissemination of information and providing an incentive to invest in the development of new products and process which will eventually fall into the public domain.\(^89\) With the introduction of a product patent regime in 2005 for pharmaceuticals,\(^90\) and the consequent increase in patent scope thereof, concerns of compulsory licensing have assumed great significance in India.

\(^{86}\) *Ibid*, Section 84(7) (a).

\(^{87}\) *Ibid*, Section 92.


\(^{89}\) P. Narayanan, *supra note 64*, p.43

\(^{90}\) The Indian patent regime, prior to 2005, only granted process patents for all inventions relating to pharmaceuticals, agrochemicals and all other chemically produced substances (s 5 of Patent Act 1970). However, as per obligations under TRIPS, grant of product patents became mandatory for these inventions from 2005.
4.4.1.2 Procedure for the grant of compulsory license

On an application for compulsory license the following procedure is granted.

a) Where the Controller is satisfied, upon consideration of an application for compulsory license, that a *prima facie* case has been made out, he shall direct the applicant to serve copies of the application upon the patentee and any other person appearing from the register to be interested in the patent in respect of which the application is made, and shall publish the application in the official journal.

b) The patentee or any other person desiring to oppose the application may, within two months from the date of publication of the application or within such further time as the Controller may on application (made either before or after the expiration of the prescribed time) allow, give to the Controller notice of opposition.

c) The notice of opposition shall include grounds on which the application is opposed and the terms and conditions of the license, if any, the opponent is prepared to grant to the applicant and shall be accompanied by evidence in support of the opposition.

d) The opponent shall serve a copy of his notice of opposition and evidence on the applicant and notify the Controller when such service has been effected.

e) No further statement or evidence shall be delivered by either party except with the leave of or on requisition by the Controller.

f) The Controller shall forthwith fix a date and time for the hearing of the case and shall give the parties not less than ten days notice of such hearing.
g) The procedure specified in sub-rules (2) to (5) of rule 62, shall, so far as may be, apply to the procedure for hearing under this rule as they apply to the hearing in opposition proceedings.

h) If, upon consideration of the evidence, the Controller is satisfied that a prima facie case has not been made out, he shall notify the applicant accordingly, and unless the applicant requests to be heard in the matter, the Controller shall refuse the application. The applicant shall make such a request within one month from the date of such notification.

i) If the applicant requests for a hearing within the time allowed, the Controller shall, after giving the applicant an opportunity of being heard, determine whether the application may be proceeded with or whether it shall be refused and issue a speaking order on the matter as expeditiously as possible.

The applications for compulsory licenses can be obtained only after three years from the date of grant of the patent.91 The only exemption is provided in a national emergency, extreme urgency and non-public commercial use. A three-year cooling period is required under the Paris Convention only when a compulsory license is granted on the ground of failure to work or insufficient working.92 There is no obligation under the TRIPS or the Paris Convention to give such cooling periods before the grant of a compulsory license. There is an argument that in the case of medicines this requirement may not be material, because the drugs get the marketing approval after 4–9 years from the date of grant of patents. In India the peculiar problem is that when patent applications are still in the mailbox, products become available in the market. Thus, the cooling period of three years

91 Supra note 87, Section 84(1).
92 Supra note 22, Art 4
delays the issuance of compulsory licenses and favours the patent holder to enjoy the patent monopoly through the abuse of monopoly.

Further, the Act gives much discretion to the Controller on the maintainability of the compulsory license applications. The Controller is required to take certain facts into consideration, while deciding the application for a compulsory license. The grant of compulsory license has to follow a cumbersome procedure. Both the Act and Rules do not prescribe any time limit for the conclusion of the proceedings. As a result, the final decision on the grant of a compulsory license can be the subject of indefinite delay. Certain exemptions with regard to procedural requirements are given if license is requested on the grounds of national emergency, extreme urgency and public non-commercial use. Even in such cases, the procedures under Section 87 of the Act normally apply. It is the discretion of the Controller to decide whether the procedures should be waived or not. Delay in the case of emergency situations defeats the purpose of compulsory license. As a result any final decision regarding the use of a patented invention can be challenged in court and seek an injunction to stop the use of a patented invention.

Further, the Patents Act does not provide ceiling on the royalties in case of a compulsory license and government use. The absence of a ceiling on royalties may give rise to higher claims for royalties and related litigation. Thus the absence of a ceiling on royalties brings great degree of uncertainty regarding the actual use of government use.

93 As per section 84(6) of the Patents Act 1970, the nature of invention, the time which has elapsed from the date of sealing of patent and efforts by the patentee to make use of the invention, the ability of the applicant to work the invention to the public advantage, and the capacity of the applicant to undertake risk in providing capital and working of the invention and including the efforts by the applicant to obtain the license on reasonable terms and conditions within reasonable period of time have to be considered by the Controller.
94 Supra note 91, Section 92.
95 Ibid., Section 92(2).
These gaps in the law take away the effectiveness of a compulsory license regime under the Patents Act. As a result, during the last five years only one application was filed for the issuance of a compulsory license in India. It was filed under Section 92 of the Patents Act, which provides compulsory license for exporting to countries, which do not have the manufacturing capability in the pharmaceutical sector. This application was rejected by the Patent Office due to non-fulfillment of statutory requirement, i.e., the request from the importing country.\textsuperscript{96} Since the inception of the TRIPs Agreement, increasing numbers of IP disputes have been brought before the dispute settlement mechanism. One issue that has not been argued before the DSB is that of compulsory licenses. It shows that there are no such international norms as regards the procedural complexities pertaining to compulsory licenses.

\subsection*{4.4.1.3 Modification, termination and revocation of the compulsory license}

Section 94 of the Patents Act provides for the termination of compulsory license under some circumstances. It provides that on an application made by the patentee or any other person deriving title or interest in the patent, a compulsory license granted under section 84 may be terminated by the Controller, if and when the circumstances that gave rise to the grant thereof no longer exist and such circumstances are unlikely to recur. Proviso attached to the section enables the holder of the compulsory license a right to object to such termination. It is also possible that the grantee of a compulsory license may make default in using the patent as stipulated in the grant or he may also abuse the rights granted to him. There are no clear provisions or decisions so far on this point in India. It is submitted that the provisions regarding the revocation and government use of patents are applicable mutatis mutandis to this situation. A patent may be revoked if it is not

worked in the territory of India after the grant of compulsory license. Application for revocation may be filed by any interested person or the CG after two years from the date of CL.\textsuperscript{97} Such an application may be on the grounds which are same for the grant of CL. Application for CL must contain the details regarding the interest of the applicant and facts in support of the plea for revocation.\textsuperscript{98} The controller will decide about the revocation within one year from the date of application and the will be published.\textsuperscript{99} But the liability of defaulting CL holder towards original patentee is not addressed under the Indian patent law.

**4.4.2 Compulsory licensing under copyright legislation**

Compulsory licensing is prevalent in the law and practice relating to copyrights also. This is granted to ensure the constant availability of copyrighted works in the market at reasonable prices. Section 31 of the Copyright Act enumerates the procedure for the issuance of CL to republish copyrighted works which are withheld from public. Such applications can be made to the Copyright Board. The Registrar of copyrights may be directed by the Copyright Board to grant CL. But in this process principles of natural justice are followed. The Act also provides for compulsory license to publish unpublished works.\textsuperscript{100} Such application may be made by any person or any broadcasting authority. In addition the Act also allows any person to approach Copyright Board to publish literary, scientific and artistic works if it is not made available within the country at reasonable rates. By looking to these statutory provisions and some of the decisions of Supreme Court and High Courts it appears that courts in India have adopted a purposive

\textsuperscript{97} Supra note 95, Section 85(1).
\textsuperscript{98} Ibid. Section 85(2).
\textsuperscript{99} Ibid. Section 85(4).
\textsuperscript{100} Section 31A of the Copyrights Act, 1957.
interpretation. It means the courts while granting CL in respect of copyrighted works have not only considered the work being withheld but also the possibility of its carrying and making it available to the public at large.

In addition, there are also provisions regarding statutory licensing mechanism under the Act. Under this provision any person is free to make and publish a sound recording of literary, dramatic or musical work already in circulation after paying the statutory royalty fixed by the Copyright Board to the copyright owner. But in this context an interesting question would arise viz., whether sound records created therein can be treated as separate copyrighted work. For example in *Super Cassettes Industries Ltd. v. Bhathia Cassette Industries Pvt. Ltd.* the plaintiff created a version recording to the song Chalo dildaar chalo from the film Paakija. The defendants attempted to create a version record of the same song following the same procedure. The plaintiff sued the defendants contending that their version was original. But the court rejected this contention without much discussion. The court observed, “The power under Section 31 to grant a compulsory license meant for avoiding the withholding of the republication or refuse to allow the performance in public of some “work” - is, essentially, for the benefit of the public. Commercial benefit to “publisher” is incidental. Unless, it is demonstrated that failure to imply such power to direct immediate republication or performance of a work in public would be detrimental to public interest, the power to grant ad hoc compulsory license, cannot be implied. In the absence of an express statutory grant, the power to grant an ad hoc compulsory license cannot be implied by way of interim order by the Copyright Board.” This decision goes to show that when a copyright is obtained

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101 *Ibid.*, Section 52(1) (j)  
102 AIR 1994 Del.237.
by making versions of the existing copyrighted works, the person making the versions cannot prevent the other persons who are willing to make further versions of that record.

In view of this it can be said that even copyright law contains anti-competitive trade practices provisions.

4.5 Assessment of the use of Compulsory Licenses as a device to regulate anticompetitive effects of the IPRs

It is already discussed that patents are justified on the grounds of promotion of innovations and their disclosure. Though the patent grant encourages inventions and innovations that might not otherwise be made, the patent system generates social costs, the most obvious of which is the increased cost due to monopolistic pricing of products that would have been available without patent protection.\(^{103}\) Also, enabling firms to have exclusive use of a given invention may discourage routine advances in production that would not be patentable and favour excessive investment in innovation and research. Multiple companies may waste resources in attempting to duplicate a certain invention; however, the public may also benefit from multiple options and variations of a certain technology.\(^{104}\) Although the patent system does have some inefficiencies, very few would argue for its outright abolition; the key is to strike a balance by giving enough protection to encourage innovation, but not so much protection that it imposes excessive social burdens. Hence IP in general and patents in particular need to be circumscribed by the regulatory mechanism. There are a number of factors that must be addressed in determining the scope of the patent grant in order to maximize the incentive effect. These factors include the length of the patent grant, what subject matter is patentable, whether

\(^{103}\) Edith Penrose, *supra* note 30, p.78
to have limitations such as the doctrine of equivalents and disclosure of the ‘best mode,’
and the application procedure.\textsuperscript{105} Allowing compulsory licensing is merely another
variable that can be adjusted in order to obtain the most efficient patent grant, that is, the
one that maximizes the incentive of inventors to develop new inventions. Compulsory
licensing has been opposed on the grounds that it would diminish the purpose of the
patent system by reducing inventors’ incentive to develop new technologies and
encouraging inventors to keep inventions secret.\textsuperscript{106} The possibility of a compulsory
license would reduce the value of the patent; therefore, inventors would be less likely to
invest money to develop a new invention because the return on investment would be
smaller.\textsuperscript{107} Inventors would be more likely to keep the invention secret, if feasible, rather
than patent it, to avoid the possibility of a license being granted. These two results would
defeat the main purposes of the patent system viz., promotion of innovation and
encouragement of disclosure of inventions. But these arguments are an overestimation of
the effects of the effects of a compulsory licensing system and would only occur in a
system that grants licenses very liberally. Virtually all systems give patentees a minimum
three- to five-year time period to exploit their invention before compulsory licensing is
granted. This allows the inventor sufficient time to determine whether the invention is
worth pursuing. Even after this time period, compulsory licenses generally would only be
granted only if the invention was not being used domestically, or if it was blocking a
dependent patent. Thus, inventors would be secure in the knowledge that they would still
have patent protection for any invention that they planned to use, or that they would be


\textsuperscript{107} Cole M. Fauver, \textit{supra} note 47
able to obtain a cross license for a blocking patent. Even if a compulsory license were allowed to be granted for one or the other reason, the patentee would still have the advantage of a head start over his competitors in bringing the product to market, and would still be entitled to reasonable royalties from the licensee. Therefore, it seems likely that compulsory licensing would not significantly discourage investment in innovation or encourage keeping inventions secret. Thus the compulsory license is not a threat to the basic objectives of IP grant. A related argument against compulsory licensing is that it reduces product competition. The competition between companies trying to develop the best product in order to control the market is what leads to the development of new products, to the benefit of the public. If a competitor could merely force a license for the patented invention, the incentive to develop new inventions is diminished. Also, if compulsory licensing is available, a competitor who thinks that his product may be infringing may opt for the license rather than risk being sued for infringement or trying to invalidate the patent. But this holds good when compulsory licenses are liberally granted. Otherwise a party would generally think of developing a new product than to rely on compulsory license.

The conclusion that compulsory licensing would not significantly impair the purpose of the patent system is supported by two studies of companies’ attitudes toward compulsory licensing. A study by Taylor and Silberston attempted to determine the effects of a worldwide compulsory licensing system on the economy of the United

108 Ibid.
110 Leroy Whitaker, supra note 106
Kingdom.\textsuperscript{111} Their proposed compulsory licensing system would have allowed licensing of all patents, with very little procedural or substantive requirements to obtain the license, and payment of “commercially reasonable” royalties. The evaluation was based on analysis of important industries and questionnaires completed by various industrial companies. Although the effect would vary depending on the type of industry, the authors concluded that this system would slightly discourage patenting and public disclosure of technology, and ultimately have a marginally adverse impact on the U.K. economy. Scherer et al. conducted another survey in 1958 of twenty-two large U.S. corporations to determine the importance to the companies of patent protection.\textsuperscript{112}

Regarding patent licensing, there was a general willingness to license patents, with reluctance to license patents covering the companies’ principal products. When questioned as to their response to a general compulsory licensing provision, over half of the companies said it would have no effect, while about a third said that they would decrease their research activity. Thus, it seems that a reasonable compulsory licensing provision would not have much negative impact on the goals of the patent system.

Compulsory Licensing is to Prevent Blocking of Important Inventions: The most compelling and perhaps least controversial, argument for having a compulsory licensing provision is to resolve the problem of blocking patents. Due to the recent increase in the number of patents granted and expansion of patents into new fields, there has been an increase in the number of situations where multiple parties have conflicting property claims and a license would be beneficial to all parties, but bargaining for “that license


would likely break down."¹¹³ One such situation is where there is a blocking patent. This is where one patentee (the “original”) has a patent on an invention and another patentee (the “improver”) has a narrower patent on an improvement of that invention. Because neither party could effectively use the improved version of the invention without infringing the other’s patent, if the parties are unable to come to a licensing agreement, the improved invention would not be used.¹¹⁴ Critics argue that compulsory licensing is unnecessary because any useful patent will be worked by its owner or licensed to another if the owner is unable to work the patent.¹¹⁵ However, this ignores the problem of blocking patents as well as the strategy of patent suppression, where the owner may obtain and hold the patent not to use it, but to prevent others from using it. Suppression may occur if the patented product would compete with a product that the owner already produces. Companies may assemble huge portfolios of patents in a given industry, but only use a small number of the inventions. Although the unused patents would presumably be economically inferior to the used patents - because otherwise they would be used - the company may be mistaken as to the most useful patent, or the unused patents may be useful to other companies.¹¹⁶ Thus, an invention which would be useful to the public is suppressed.

Critics also argue that even in countries with provisions for licensing when the patent is not being used, actual grants of compulsory licenses are rare. However, this argument ignores cases where the possibility of a compulsory license encourages the

¹¹⁵ See Cole M. Fauver, supra note 107
¹¹⁶ See F.M. Scherer, supra note 109, p.452.
parties to come to an agreement themselves as a preferable alternative to litigation.\textsuperscript{117} For example, there have been several instances in U.S. patent history where two patentees, the original inventor and the improver, have been unable to come to an agreement and the parties end up in litigation.

Theoretically, compulsory licensing for non-use would not cut into the patentee’s profits, because the patentee was unable to meet the demand in the first place and would be able to obtain a reasonable royalty from the licensee.\textsuperscript{147} This argument, however, ignores the financial benefit of the patentee’s original monopoly position. The holder of a monopoly can intentionally undersupply a product in order to maximize profits; these profits would be undercut by the holder of the license. Of course, if the patentee is not producing the product at all, these objections become irrelevant. Thus, a policy based on adequacy of supply must be carefully limited so that it ensures that a product is available to the public, without cutting into the patent monopoly of a legitimate producer.

In respect of blocking patents, the owner of the improvement patent would be able to obtain a license for the original patent under the conditions that the invention claimed in the second patent would have to be an important advance and economically significant compared to the invention covered by the first patent and the owner of the original patent would be able to obtain a cross license on reasonable terms to use the invention covered by the second patent. If the patentee had multiple patents on several similar patents with the same utility, but only chose to market a product based on one of the patents, this would not be considered nonuse because the public has access to the product. The applicant would not be able to apply for a license until four years after the date of filing.

of the patent application or three years after the date of the grant of the patent, whichever period expires last. If the patentee had legitimate reasons for not working the invention, such as long development times or the necessity of obtaining government approval, the applicant would be refused. The determination of proper royalty rates is theoretically difficult but practically easy because existence of a compulsory licensing provision would provide a strong incentive for parties to negotiate among themselves to reach an agreement. If the parties cannot reach an agreement, remedies for antitrust violations and patent infringement provide ample precedent for determining royalty rates by using expert testimony. The maximum royalty that could be set would be that which would enable the patentee to realize profits as large as if he still retained a monopoly. This would not adversely affect the patentee’s incentive to innovate. A royalty rate far below this would weaken incentives for innovation, and also permit strong price competition. Therefore, the royalty rate would be similar to the “reasonable royalty” rate of patent infringement suits: the amount that the licensee would be “willing to pay as a royalty and yet be able to make and sell the patented article, in the market, at a reasonable profit.”

With the introduction of a product patent regime in 2005 for pharmaceuticals, and the consequent increase in patent scope thereof, concerns of compulsory licensing have assumed great significance in India.

In terms of the current compulsory licensing regime and whether it can adequately cater to national concerns, the recent verdict in Bayer’s case is far from clear. The ‘local working requirement’, which seems to have been the cornerstone of the Indian compulsory licensing regime, still remains a controversial provision. Commentators point to the fact that there have been very few cases on compulsory licensing to suggest that the
‘local working’ mandate, has not served its purpose. However when one analyses the reasons further, one finds that the malady lies not with the principle itself, but with it’s working in actual practice. Irrespective of the merits or demerits associated with the compulsory license grant the number of such licenses is very less in India and in foreign countries. The reasons might be country specific but the fact remains the same.

**Some of the reasons for rarity of compulsory licenses include:**

i) Complexity of procedure

   History is replete with examples of cases of protracted litigation and proceedings before the Controller/court, as a result of which patents expired before or soon after the license itself was granted. However, with the recent increase in the period of patent protection to 20 years, such fears may be unfounded.

ii) Deterrent procedure

   As Ayyangar summarises in his report, the compulsory licensing provisions may themselves have acted as a strong deterrent and prompted the entering into of voluntary license arrangements. However, there are no statistics in this regard and this reason is at best a conjecture.

iii) The ‘voluntary negotiations’ as envisaged under the patent law is time consuming.

   The terms like ‘reasonable royalty rates’ could significantly slow down the compulsory licensing process. The main reason, however, may have been the low level of technological proficiency in India. The ‘local working’ mandate is feasible only the technological base strong. The level of technological sophistication in India had been quite negligible in the past, particularly in comparison to advanced economies such as the US and Japan. However, the
technological competence has been improving by leaps and bounds and India is acquiring international applause in the area of information technology. In the years to come, India is likely to provide a fertile ground for the emergence of sophisticated compulsory licensing jurisprudence.

In fact, one may argue that today, India should be characterized more appropriately as a ‘technologically proficient developing country’, as opposed to a mere developing country. A reasonably good indicator of this is the fact that as opposed to the years 1992-93, when the number of foreign patent applications was greater than the number of indigenous patent applications, the year 2001-2002 saw a near reversal in favour of Indian patent applicants. Consequently, India possesses better technological base to make compulsory licensing and local working mandates more feasible. However, despite India’s technological progress, concerns of public interest still remain paramount. India still has a number of public health related concerns that need to be addressed. The main concern is that unqualified patent protection for pharmaceuticals will result in substantially higher prices for medicines with adverse consequences for the health and well being of citizens. A strong compulsory licensing regime would ensure that patents on pharmaceuticals are not misused by patentees, and that public health concerns are adequately addressed. The trend of compulsory licensing is in fact catching on other intellectual property as well. Thus, for example in Music Broadcast Pvt Ltd & Ors v Phonographic Performance Ltd, the Court directed the defendant to grant a compulsory license to the plaintiff in a copyright matter. The plaintiff in this case had been granted permission to start an FM radio station. However, the defendant, a society administering the public performance rights of publishers of sound recordings, refused to

118 Decided on 19-11-2002, available @ http://www.indiankanoon.org/doc/1242789/
reduce their prohibitively high tariff, as a result of which the plaintiff could not procure a license from the defendant. The plaintiff, while applying to the Copyright Board for a compulsory license, also filed an action before the court seeking permission to broadcast sound recordings of the defendant on reasonable royalty rates. The Mumbai High Court observed that the current rate quoted by the defendant was prima facie excessive. The court directed the defendant to grant an interim license to the plaintiff, pending disposal of the compulsory license application before the Copyright Board. This order assumes importance, as a court cannot normally fix royalty rates and is not competent to grant a compulsory license under any of the intellectual property legislations in India. This incident would suggest that the compulsory licensing of IP may become popular in the years to come. But the actual construction of compulsory license provisions at the hands of the Patent Office and courts will finally determine the exact ambit and future of the compulsory licensing regime in India.

In a developing country such as India, compulsory licensing is probably the most effective safeguard against the potential abuse of monopoly by patentees. There is the Competition Act, to look after these kinds of unfair trade practices. But section 27(g) of the Competition Act will have lesser significance if courts in India interpret the words as ejusdem generis, i.e., general words following specific should be interpreted accordingly. It may not always within its competence for CCI to grant CL as a remedy for anti-competitive practices. However, Commission may ordain delinquent enterprise to slash down the cost of their product. This is within the mandate provided by the legislature. CLs must be given as a result of indulgence in anti-competitive behaviour by firms. But to avoid frictions between the statutory authorities and to achieve effective enforcements
of laws, it is desirable that the CCI carries out investigations and then makes directions to patent authorities to grant CL. Grant of CL should not be construed as a penalty for anti-competitive behavior. This implies that action under competition law can be taken even before the expiry of three years from the date of ceiling of patent. Though the reasons for grant of CL under Competition Laws and Patent Laws have the common objective of common welfare, they differ in as much as the scope of these two laws and authorities there under.

In the high-profile *Bayer Corporation v Union of India*\(^\text{119}\) case, the Intellectual Property Appellate Board made the following observations:

(i) The term ‘patented invention’ can mean only what the patentee or its licensee markets, nothing else.

(ii) The law is clear that the requirements and conditions for the grant of a compulsory license must be decided with reference to the patentee alone and not a party whose presence is litigious. Therefore, when deciding on the conditions of Section 84, the presence of the infringer shall not be taken into account.

(iii) The Patient Assistance Programme does not satisfy the working requirement – Section 84 is concerned only with the price at which the drug is made available to the public.

(iv) Nothing prevents the patentee from lowering the price and making its invention available to the public after a compulsory licence application has been filed.

(v) The patentee must show why a patent could not be manufactured locally. A mere statement to that effect is insufficient.

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\(^{119}\) M.P.Nos.74 to 76 of 2012 in OA/35/2012, decided on 14-09-2012.
(vi) ‘Working’ could in some cases mean only local manufacture or in other cases could mean only importation – it depends on the facts and evidence in each case.

It is clear from these observations that mere eye wash tactics by the patent holders to fulfill the local working requirement will not suffice. Further the Board has also made a clear cut distinction between the compulsory license proceedings and the infringement proceedings.

4.6 Conclusion

Citizens in a democratic polity demand, among other things that their government produce and distribute public goods. Such goods are of many different kinds; their common feature is that only government, not the market can supply them efficiently.\textsuperscript{120} For the present purposes public good is the availability of IP protected goods on reasonable terms. For this purpose the IP laws contain provisions regarding compulsory licenses. In a rigorous democracy, the precise nature and level of each of these public goods are matters of fierce debate and political struggle.\textsuperscript{121} After reviewing the provisions regarding compulsory licensing of IPRs, it is clear that it has an important role to play in legal system. A cautiously issued CL can enhance the public interest by retaining the incentive to develop new inventions. It is important that CL be used only to promote the public interest, without significantly reducing the incentive to develop new technology. Compulsory licensing ensures that a good number of producers or manufacturers are there to cater to the needs of society; it spurs competition and consumer welfare. There is argument against CL saying that it hinders incentive for innovation. But this argument ignores that a right is always accompanied by a corresponding duty, and failure to


\textsuperscript{121} Peter H. Schuck, “Courts in a Democracy”, \textit{Jindal Global Review}, Vol.1, 2009, pp.7-21, at p. 18
perform that duty might have its implications in law. Compulsory licensing is the most appropriate remedy to check the abuse of rights although it is used in exceptional circumstances only.

There is also a view that compulsory licenses are extremely powerful rights granted to governments, which must be used prudently. India also needs to be extremely careful about how to exercise discretion under Article 31 in granting compulsory licenses since the potential negative effects on R&D and new innovation are immense. A compulsory license restricts the rights of a patent holder by authorizing third parties to make, use, and sell patented products without the consent of the patent holder. Ever since the idea for compulsory licenses was first adopted by the 1883 Paris Convention, this tool has become a fixture in patent systems around the world, and has perpetually been a topic of controversy. Only under extraordinary circumstances should compulsory licenses be granted. A compulsory license is retroactive in nature. It means the product is already patented and the patent holder only loses his exclusive right over the patented product after a compulsory license is issued. In effect the funds are already invested into the product, and once a compulsory license is issued the investment cannot be taken away. Hence, the incentive to invest in the future will be reduced. In view of this the CL must always be used by considering its pros and cons. In any case, the provision has to be used rarely so that it should not significantly impact the incentive of parties to develop new technology.

As the above analysis indicates, the compulsory licensing system has become a typical feature of patent laws; it has also been widely adopted in other areas of

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intellectual property rights. Developed countries have largely relied on such licenses in order to limit exclusive rights and prevent or remedy abusive practices in several areas. There is a broad range of grounds under which compulsory licenses may be granted in both developed and developing countries.

The compulsory license system is not a vestige of the past, as proven by recent legislative changes in developed as well as developing countries. Though the number of applications for compulsory licenses related to patents is relatively small all through the world this does not mean that the system does not influence patent owners' behaviour. It is a tool that may be useful in a variety of circumstances in order to mitigate the restrictive effect of exclusive rights and strike a balance between the title-holders' interests and those of the public in the diffusion of knowledge and the access to, and affordability of the outcomes of, innovation and creativity.

The grounds and conditions on which compulsory licenses have been regulated and granted in developed countries is indication of the flexibility and potential of the compulsory licensing system to address a multiplicity of public interest requirements. Three main conclusions particularly relevant for developing countries may be drawn from the past experience.

First, compulsory licenses should be considered as an essential element in patent laws and other intellectual property regimes. Developing countries should disregard any attempts by developed countries to limit under bilateral or other agreements the scope of and grounds for compulsory licensing.

Secondly, the grounds and conditions for compulsory licenses should be carefully determined by national laws. The extent to which such licenses would be effective
depends on the provisions of national legislation and on its adequate administration by informed national authorities.

Thirdly, developing countries should preserve the maximum possible freedom under international rules to design their own compulsory licensing systems in accordance with their interests and needs, including the protection of health and the environment, and the promotion of transfer of technology and local industrialization. In the years to come the issue of compulsory licenses be included in the agenda of WTO negotiations. Developing countries should seek to clarifications about the scope for the granting of such licenses in non-exploitation. It is also desirable if a demand is placed to remove some of the restrictive conditions imposed by the said TRIPs Agreement, especially, under Article 31g.