The rise of compulsory licensing

There are many types of compulsory licensing. Some of them are recognised as legitimate under international treaty and law; others are not. But whatever kind it is, compulsory licensing seems to be on the rise, and for IP owners that is not good news

By **Bill Elkington**

The term "compulsory licensing" means different things to different people. In my limited experience, people often use it when referring to explicit patent licensing by a government. But what about the broader category of government-inspired licensing? What about all the other sorts of licensing that the executive, legislative, or judicial branches of government (when governments have all three branches) nudge companies towards? Should we use the term compulsory licensing to that too? Perhaps - but why don't we try a thought experiment? What if we were to come up with a different term entirely to refer to government-encouraged licensing outside the narrow context of government-licensed patents? Perhaps when governments get into the business of encouraging licensing for free or for highly discounted consideration, outside of government-licensed patents, we should give this a special name.

We could call it "coercive licensing", but that might seem pejorative. We could call it "encouraged licensing", but that might seem euphemistic. I prefer to remain neutral and call it "omitted-name licensing". So let's try that and see whether it might work.

Wide variety

There is a wide variety of omitted-name licensing. Countries in which counterfeits and illegally copied music, movies and software are widely tolerated, are - of course - practising omitted-name licensing. Countries in which courts regularly find against infringers, but order consideration that is not at all commensurate with the harm done, are certainly practising omitted-name licensing.

Countries in which IP law is comprehensive and consistently enforced, but which do not put effective policies in place to discourage counterfeiting and piracy of companies' products elsewhere, are practising what I would argue is omitted-name licensing as well. So are governments that do little when other countries or their private agents hack company computer networks and steal trade secrets within their jurisdictions. We might call both of these examples "special case cooperative omitted-name licensing".

Then there is something called "offset licensing". Offsets may be required when a company from a developed country is promised a contract award by a purchasing sovereign that may consider itself in the "developing country" category and, in order to receive the award, the company must source a certain percentage of the value of the purchase contract from companies headquartered in the developing country in question. The company hoping to make the sale then must often license a substantial amount of IP value (usually largely in the form of product designs, production processes and tooling, test and trouble-shooting procedures, know-how and software) to in-country companies to give them the basis for making sales on the contemplated contract. When meeting the

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The panellists

The four individuals debating the questions raised in this article are:

- Russell Levine, a partner with Kirkland & Ellis LLP, where he focuses his trial, appellate and alternative dispute resolution practice on patent infringement matters and disputes involving and related to technology transfer and patent licence agreements. His trial practice includes both jury trials and Section 337 proceedings before the US International Trade Commission (ITC). His appellate practice concentrates on appeals in the Court of Appeals for the Federal Circuit. His technology transfer and licensing practice includes structuring and negotiating both licensing-in and licensing-out transactions. He is the ILO Client Choice 2012 Award Winner for Litigation - United States and is named in *IAM Patent 1000: The World's Leading Patent Practitioners* and *IAM Strategy 300: The World's Leading IP Strategists*. He is also an author and frequent speaker on IP issues.
- Thomas Filarski, a partner with Steptoe & Johnson and a recognised leading trial lawyer, particularly in complex patent, Hatch-Waxman and ITC matters. He was named one of the World's Leading Life Sciences Patent Litigators by *IAM* , a Leading IP Lawyer by *Best Lawyer in America* and an Illinois Super Lawyer by *Intellectual Property Litigation*. He is currently president of LES (USA & Canada), Inc and also serves on the advisory board of the Clean Energy Trust, which connects entrepreneurs, researchers and early-stage companies with the expertise and capital needed to become sustainable enterprises.
- Brian O'Shaughnessy, a shareholder with the law firm of Buchanan Ingersoll & Rooney, PC and a registered patent attorney. He is a widely recognised leader in patent portfolio management, licensing and litigation, and has been recognised in *IAM 250: The World's Leading Patent & Technology Licensing Lawyers* (2010-2012), and *IAM Patent 1000: The World's Leading Patent Practitioners* (2012). In addition to portfolio management, licensing and litigation, his practice includes representation of clients in interferences and in providing expert witness testimony in contested licensing matters. He is a frequent author and lecturer on IP matters and has authored and made numerous faculty appearances in curriculum-based courses of the LES. He is the society's regional vice president (USA) and is responsible for its public policy outreach and education.
- Jeffrey Whittle, an IP and technology attorney with the international law firm of Bracewell & Giuliani LLP, where he is the international head of the technology law section. He has experience representing clients in various technology-based transactions, including licences, agreements for technology development, transfer, acquisition, joint development, product development, strategic alliance, collaboration and product distribution, as well as various other IP agreements in the software, e-commerce, energy, telecommunications, mechanical/electrical, financial and medical industries. In addition to his seat on the LES Board of Trustees, he serves as an international delegate to LES International, as well as vice chair of its Education Committee. He is a frequent speaker and author, nationally and internationally, on various licensing and technology topics, and is listed in *Chambers USA America's Leading Lawyers for Business* (Intellectual Property), *Legal 500* (Patent Prosecution: Litigation and Design Patents/Technology: Transactions), *IAM Licensing 250: The World's Leading Patent & Technology Licensing Lawyers* and *IAM Patent 1000: The World's Leading Patent Practitioners*.

offset requirement, licensing will typically need to be for free. So this is also arguably a case of omitted-name licensing.

Or a developing country may, in order to draw intellectual property out of companies from developed countries, require them - if they are to make sales in the country - to set up joint ventures with in-country companies. Such arrangements are similar to offsets, in that the company must license its technology to another in-country party to generate sales in the developing country. In other words, licensing is a condition of market access. If the developing country is not scrupulous about enforcing IP law and contract law, this licensing can result in IP escapes. And by this I mean that the licensed

intellectual property may be used in a manner or in fields not permitted by the licence - perhaps by entities that have not been licensed, without effective legal constraints. This also could be called omitted-name licensing.

A sovereign may choose to require supplier companies to license intellectual property for purposes that are damaging to the IP owner's business model and for consideration that is either free or unusually low. What would motivate a company to do this? The sovereign will link this requirement to a purchase contract for related products. For example, a sovereign may agree to purchase a company's hardware, but expect to get a source-code license to the embedded software for free. Further, that sovereign may demand the ability to provide that source code to the company's competitors in order to "level the playing field" on future procurements. While the long-term viability of a company that sells exclusively to the government marketplace may be questionable, where such a situation is often repeated, the fact is that a number of sovereigns take this approach. This also is a case of omitted-name licensing.

Sometimes a government requires a company (Company A) that owns patents that are being infringed by another company (Company B) that sells its infringing products to that government to file its complaint against the government itself, rather than against Company B. Most companies do not file suit against sovereigns because they themselves may sell products to such sovereigns (one does not want to bite the hand that feeds it), and because most sovereigns tend to be better funded and better resourced than most companies. In other words, in such situations the putative plaintiff may well decide that discretion is the better part of valour.

To put it differently, when sovereigns buy infringing products, in certain contexts they put pressure on the patent owner to grant a *de facto* licence to the infringer. They use their market power to avoid or to help the infringing supplier to avoid paying reasonable royalties. We might call this variant litigation-less omitted-name licensing.

Then there is the situation in which a sovereign decides that its own patent system has led to anti-competitive behaviour on the part of companies that have patented diligently. Such companies - with their substantial patent portfolios - may be perceived by certain government officials to be intimidating less innovative companies into not competing in a particular product market. In such cases, the sovereign may decide to persuade the innovative companies to license at below-market rates to all comers, in the interest of keeping prices down for consumers. What may be persuasive in this situation is the apparent willingness of the sovereign to launch antitrust litigation against the innovators.

Or an innovative company might plan to buy another innovative company, both with significant patent portfolios and market shares in the same market area. The sovereign in this case may decide that in order to give permission for the merger of the two companies, the combined entity must license its patents to all comers at below market rates. In both of these cases, we might call this behaviour antitrust omitted-name licensing. These are some of the government-encouraged licensing that I have come across. Perhaps you have come across others.

Finding a meaning

This article's focus is on compulsory licensing, and we will let our panel decide what that term means - whether it includes or excludes what I have called omitted-name licensing - and whether it is a reasonable practice.

I use the term "compulsory licensing" in the following questions in its broadest possible meaning and assume that it can include all of the omitted-name types of licensing that I have described above. But I leave it up to the panel to tell me that I have used the term incorrectly, if they believe that indeed I have.

I have assembled four remarkable IP attorneys from notable firms to answer my questions this time. They are all fellow members of the Licensing Executives Society (USA and Canada) (LES) Board of Trustees: Russell Levine is a partner with Kirkland & Ellis LLP; Thomas Filarski is a partner with Steptoe & Johnson; Brian O'Shaughnessy is a shareholder with the law firm of Buchanan Ingersoll & Rooney, PC; and Jeffrey Whittle is an IP and technology attorney with the international law firm of Bracewell & Giuliani LLP.
As you read on, please bear in mind that what we have to say are our own personal views and do not reflect the views of our employers or our employers' customers or clients. I find what they have to say very interesting and quite helpful; I trust you will too.

Brian O'Shaughnessy
"Compulsory licensing is a profound disincentive to innovation, both within a given jurisdiction and globally"

What are the effects of compulsory licensing?

Brian O'Shaughnessy: The limited exclusive right provided by every successful patent regime is fundamental to its success. That exclusive right is a powerful incentive that stimulates investment, ingenuity and industry. It rewards productive behaviour while conferring valuable resources upon society at the expiration of the limited exclusive right in a carefully balanced exchange that benefits both inventor and society. By removing that right and stripping inventors of the ability to choose how they might exploit their technologies, we diminish that incentive to innovate. The result is a ripple effect that diminishes and retards the growth and vitality of markets in the long term.

Even regimes that are carefully and reasonably designed to provide just compensation to the inventor represent a loss to the inventor, and therefore a diminishment of his or her assets and a reduced incentive to innovate and assume the attendant risks. Such regimes necessarily substitute the judgement of disinterested third parties for that of the inventor; and often reduce every innovation to a mere formula. The valuation of intellectual property is difficult enough between two well-informed, engaged and interested parties; it is nearly impossible for bureaucrats to get right. Moreover, as patented technology is, by definition, unique, the value of such an asset can never be reduced to a formula, even when applied within a single industry. Given the complexities of valuation, any notion that one can apply an effective regime for valuing technology in compulsory licensing setting strains credulity. Thus, one side or the other of any compulsory licensing deal is likely to get short changed. All of which operates as further disincentive to assume the risks and challenges of innovation and commercial development.

Jeffrey Whittle: I believe that the effects of compulsory licensing are mixed at best. I do believe that they are mostly a retardant to new technology development. The "mixed at best" perhaps comes into play where more IP owners are using technology as types of extreme monopolistic plays or alternative blocking plays for technology introduction to a market/country, especially where a particular competitor has had specific government enablement to establish its market. In those instances, however, I believe that laws that discourage extreme anti-competitive behaviour should be implemented and play more of a role instead of relying on compulsory licensing to operate in this regard. If an extreme anti-competitive behaviour is determined to have occurred, then yes, as a remedy, compulsory licensing can be a solution in some instances. To do otherwise implements a remedy before extreme anti-competitive actions have occurred (which may never happen). Not to act in an extreme anti-competitive situation, especially where it occurs with that nation-state's governmental assistance, can also create abusive and unfair situations and unfair market power.

To your question of whether they are positive, negative or a combination of the two, with respect to innovation and commercialisation, I would say they are generally negative as to incentives for innovation and commercialisation, unless a clear determination of extreme anti-competitive behaviour is determined to exist. This behaviour should not be viewed as simply trying to obtain or obtaining a return on investment dollars spent in researching, testing and developing technology such as is often extended/offered by effective patent protection. It is this continuous return and opportunity for return on investment that then, in turn, encourages the investment for the next cycle of unique and innovative technology and products.

Russell Levine: I don't believe that you can generalise or have a one-size-fits-all answer to this question. There certainly can be situations where compulsory licensing has a positive effect, such as commercialising an invention that is not being worked in a particular foreign country. But there are also situations where compulsory licensing has a negative effect by reducing the incentive to innovate and lowering the return on investment realised by the patent owner.

Thomas Filarski: A compulsory licence, such as the recent one pending in Indai, is positive to the extent that it increases awareness of technology transfer and the value of intellectual property. Its effect on innovation should not be significant in either direction, unless governments begin viewing a compulsory licence differently from in the past. Compulsory licences have been around for over 100 years, and the relatively recent recognition by the business community of the value of intellectual property has been growing regardless.

What do you take the term "compulsory licensing" to mean in the global context? Do you take the Doha Declaration on the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement and Public Health to be definitive, or do you understand "compulsory licensing" to be broader in concept?

Russell Levine (RL): To me, "compulsory licensing" means a licence granted by statute, ordered by a court or imposed by a government agency. In all such situations, the licence is being granted without the patent owner's consent. In response to the second part of your question, I believe that concept of "compulsory licensing" is broader than that in the Doha Declaration, since in some foreign countries non-public health related patents that are not "worked" may be subject to compulsory licensing. For example, under Section 49 of the Malaysian Patent Act 1983, a non-working patent is subject to compulsory licensing.

Tom Filarski (TF): "Compulsory licensing" is a broad term. It has been defined to include statutes and treaties that directly authorise its use, government-led action that mandates a party to license its technology as part of a remedy to alleged anti-competitive activity, and court rulings that essentially require a patent owner to license its patent to an entity that has been found to infringe.

Brian O'Shaughnessy (BOS): Compulsory licensing, to me, means action by a sovereign to withdraw the exclusive right afforded by its patent laws, but usually accompanied by a royalty regime to compensate the patent owner for the loss of exclusivity. Often, the compulsory licence scheme is justified on the basis of the public good, such as where certain therapeutics and/or native medicines are made available by the sovereign by statute to the local population in exchange for giving the patent holder the right to commercialise the patented product within its borders.

Alternatively, compulsory licensing schemes are justified on the rationale that the patented product is not being manufactured in the country imposing the compulsory licensing regime, and that the need for those jobs and/or skill sets is such that it justifies the sovereign in deviating from the social contract contemplated in most patent regimes – that is, an exchange of a limited exclusive right in exchange for disclosure of innovations that promote the

useful arts as contemplated in most patent regimes.

A form of *de facto* compulsory licensing might also arise where those engaged in government contracts for vital government services (eg, defence) contract away their exclusivity, or potential exclusivity, in exchange for contracting with the government to provide essential services or equipment, thereby affording the sovereign assurance that it will have ample, ready and suitably diverse resources for defence-oriented equipment and infrastructure, for example. However, such *de facto* compulsory licensing might be argued to be less than true compulsory licensing, as the patent holder enters into the agreement knowingly upfront, and can elect not to enter into such a contract if the loss of exclusivity is such that it runs contrary to the commercial purposes and/or strategies of the patent holder.

A similar analysis might be made with true compulsory licensing. However, true compulsory licensing is distinct from that scenario in one important respect. In the case of true compulsory licensing, the patent holder is not afforded a choice as to maintaining exclusivity by standing clear of the deal. There is no option to preserve and withhold one's intellectual property by refusing a licence, and thereby protect exclusivity, because the only option is to patent or not to patent. In a compulsory licensing jurisdiction, the result is the same – if one pursues patent protection, then the sovereign or its designees will dispossess the patent holder of its exclusivity; and if one does not pursue patent protection in that jurisdiction, then anyone within that jurisdiction may utilise the intellectual property.

Jeff Whittle (JW): I understand "compulsory licensing" to mean specific nation-state/country laws that require (compel) IP owners to license the owner's IP rights to third parties for manufacture, sale or use, especially where they are not otherwise being commercialised by the IP owner, and usually at a fixed price or a fixed royalty. This concept often carries with this requirement (compulsion) a philosophy that these actions are for the greater good or public interest of the citizens of (or those residing in) that country, or that the particular rights at issue are not being commercialised for the greater economic benefit of the citizens of that country. Often, nation-state governments can act independent of the IP owner to implement these licences.

I would agree with Russell that the concept of "compulsory licensing" is generally broader than that in the Doha Declaration. The "greater good" or "public interest" factors for the Doha Declaration seem to emphasise promotion of "access to medicines for all" in that instance, and especially as related to patents. The compulsory licensing concept, however, can apply to other technologies, different situations and many types of intellectual property.

Is compulsory licensing designed principally as an igniter to innovation and commercialisation, or is it a retardant to these activities?

TF: Its original intent seems to have been to protect the public interest in moments of significant need.

BOS: Compulsory licensing is a profound disincentive to innovation, both within a given jurisdiction and globally. The exclusive right is fundamental to the concept of IP protection. It is the foundational *quid pro quo* by which the sovereign incentivises innovation and disclosure, and it has been a principal element of every successful IP protection regime since the first known patent act of 15th century Venice. Moreover, it is fundamental to any free market that one enjoys freedom and discretion in extracting value from one's own property and the products of one's ingenuity. The exclusive right afforded by patent protection is emblematic of both such property interests. The right to exclude others affords great value that can be extracted in myriad ways. At the same time, the effective and efficient exploitation of intellectual property might require the opposite – that is, wide application and diverse exploitation of a particular technology or innovation. But the right to decide which is best utilised to exploit the fruits of one's endeavours is a fundamental tenet of the free market and stimulates the greatest investment and growth of the strongest markets, and builds wealth among the citizenry.

Where innovation is valued and suitably rewarded, creativity is stimulated, industry thrives and strong markets arise. While a particular jurisdiction might benefit anecdotally from compulsory licensing, the disincentives of such regimes will frustrate and deter the establishment of a thriving knowledge-based economy. Simply put, the smart money will go elsewhere. Such regimes discourage outside investment in

Jeffrey Whittle
"Stable, predictable and just governments generally encourage investments and growth for emerging economies"

creative and innovative enterprise; and diminish incentives for citizens to invest in creative enterprises and to apply their own ingenuity. As such, it will prevent the inception, growth and maintenance of strong markets in innovative enterprises within its own borders, and will drive investment away to more hospitable markets.

JW: I think compulsory licensing is generally regarded as a retardant for technology development, particularly due to the fact that it often takes significant amounts of capital to spawn new technology that is unique and innovative. If investors are not assured of some significant return on this capital investment, which is often associated with patent protection and which allows additional market barriers against entry from competitors, then being forced to license IP rights in the future and into certain markets reduces incentives for investors to take such risk in development of new technology.

This response especially applies where governments force a licence independent of the rights holder. So, instead of investing in new and better technology or emerging science, these same investors may have incentives to use the capital for alternative investments or to seek other barriers to entry where new technology development is less of a factor. Arguably, the end result is that these investors may be unwilling to invest in the next potential cure for a health problem, the next wave of technology to address higher-performance communication, the next technology that enhances production, distribution or alternative sources of energy, or higher-quality products in general.

I also think that compulsory licensing discourages companies from seeking patent protection and encourages companies to maintain technology as a trade secret. If this is true, then the "greater good" or "public interest" aspects of compulsory licensing can and often are thwarted, as the public never learns the "secret sauce" behind technology. This, in turn, can result in less competition and less technology development as access to information is limited (ie, being kept a trade secret).

RL: It depends, and there are arguments on both sides. For example, in a country that allows for compulsory licensing of non-worked patents, it is argued that compulsory licensing ignites commercialisation of the patented invention in that country.

Are the effects of compulsory licensing different in different regimes, or are the effects similar, no matter how different the application regime? And by "regime," I mean principally when compulsory licensing is used as a corrective in an M&A situation in which anti-competitive issues would otherwise arise; as a corrective in monopolistic situations; or a corrective in emerging economies when a life-saving technology is insufficiently available or is prohibitively expensive.

JW: In different regimes, compulsory licensing can indeed have different effects. For purposes of correcting extreme anti-competitive behaviour, such as in potential government-assisted monopolistic situations, however, compulsory licensing generally has similar effects across regimes. Following on Tom's point, for purposes of life-saving technology when national emergencies arise, limited compulsory licensing can be beneficial to the citizens/residents of that country, but these situations should be narrowed and limited. Arguably, when the emergency situation eases, the compulsory licensing should ease or be eliminated. Otherwise, not lifting or easing the restrictions forces companies or other entities to license technology or patents in a manner that risks governmental and third-party abuse - including unjust or no appropriate compensation to the licensing companies/entities. Markets - even in emerging economies - should still have many other options, such as introducing other market competitors, encouraging the development of alternatives, passing on usage of the technology altogether, further developing in-country resources to strengthen/enhance market purchasing power and the like, as well as enacting anti-competitive laws. Stable, predictable and just governments generally encourage investments and growth for emerging economies, and compulsory licensing is often perceived by those that invest in new and better technology as not being just and as a retardant to such investment and growth.

RL: I agree with Jeff that the effects of compulsory licensing are, and would be expected to be, different in different regimes. I think the effects would be different if compulsory licensing were mandated in order to obtain approval of a merger or acquisition (I would query whether such a mandate is compulsory licensing, since the parties could just call

off the merger), versus a situation where compulsory licensing arose from non-working of a patent in a particular foreign country.

TF: From my perspective, their effects are different. Compulsory licensing as a corrective measure for anti-competitive behaviour targets highly developed entities. The results typically reflect others that compete in this environment. Views differ as to whether those effects are positive for this community. In contrast, a compulsory licence that is used for a life-saving technology targets a suffering group that a government desires to protect. Its intent is to directly affect those in need by allowing access to life-saving technologies. Such a compulsory licence could indirectly affect others that use the technology if the technology owner passes the cost of the compulsory licence on to it. There is also a compulsory licence for government defence purposes, which affects a different group.

BOS: Generally, compulsory licensing regimes suffer the same defects and disincentives, differing largely in matter of degree. Consequently, the deleterious aspects of such regimes are largely the same. That said, however, it is possible in any such regime to tone down the pernicious effects and moderate the compulsory aspects to minimise damage and disincentive. Further, any system is subject to abuse, and patent systems are no different.

There is a historic tension between the aims of IP protection and antitrust law. Both have merit and worthy ideals. Often, the tension that prevails must be resolved in favour of one or the other. Careful case-by-case analyses of M&A activity can moderate the pernicious effects of compulsory licensing, particularly where each case is analysed independently, and the notion of compulsory licensing is but one of many possible tools used to minimise or neutralise monopolistic practices.

As for the healthcare scenario, many tools can similarly be used to address supply chain and cost issues. Numerous other and more affirmative incentives can be employed to achieve those ends. Each case will vary, but as with the antitrust scenario above, those affirmative incentives can be used more effectively to tailor an approach that is valuable to the citizenry, the sovereign and the patent holder; and is more likely to lead to a long-term and productive relationship between those stakeholders. Wholesale application of compulsory licensing as the sole means by which any sovereign might hope simultaneously to stimulate innovation, build vital markets and gain access to existing technology is misinformed and a profoundly superficial approach.

How ought we to think about balancing the need to motivate and cultivate innovation and commercialisation with the need to protect and nurture the health and wellbeing of humanity?

RL: The US Constitution gives Congress the power to pass laws to promote the progress of science and the useful arts. Exercising this power, Congress passed, and over the years has amended, a Patent Act. The Patent Act, as interpreted by the courts, balances the need to motivate and cultivate innovation with policy goals and objectives. For example, the Supreme Court has held that the public interest is a factor, among others, that a court should consider when deciding whether to grant preliminary or permanent injunctive relief. If there is a need to add to, or modify, the Patent Act, or to overturn a Supreme Court decision interpreting it, it should be done by Congress.

TF: The two needs are different. Protecting health and wellbeing is fundamental to any society and should be a priority for any government. Innovation and commercialisation should result from stability, long-term planning and commitment to sound trade and IP policy.

BOS: Existing patent regimes rely on an age-old paradigm for fostering industry and innovation. The inventor is granted a limited exclusive right to exploit the invention; in return, society gains the knowledge of how to make and use the invention, and upon the expiry of the term of that limited exclusive right, has full and free rein to exploit it. This regime is a deliberate and calculated answer to the guild system and the more ancient practice of trade secret protection. In both systems the emphasis, and the principal means for extracting value, was secrecy. When inventors died, their secrets and valuable inventions often died with them. Now, patent systems are widely employed and their value is beyond question. Society is the ultimate beneficiary, and it derives great value from the access afforded by these systems. By incentivising innovation and disclosure, the wellbeing of humanity is well served.

Thomas Filarski
"Innovation and commercialisation should result from stability, long-term planning and commitment to sound trade and IP policy"

Although the short-term deferral of unfettered access to patented technology is occasionally an inconvenience, society is rarely denied access to worthy inventions and is merely obligated to render unto the inventor his or her just rewards for the innovation. Moreover, the free market is itself a powerful tool to counter abuses practised by inventors. Monopolistic and unfair rates demanded by an inventor will generally spur others to innovate in the same space, and might well supplant the first inventor's product, thereby leading to a virtuous cycle of innovation, all of which operates to the benefit of society.

JW: I believe that much of innovation stems from individual property right ownership. By allowing individuals to own rights in inventions/innovation, these individuals in turn spawn and cultivate innovation out of both self-interest and greater societal good. Then that success in innovation motivates additional innovation - like building blocks or organic growth. In addition to individual IP ownership, nation-states should have IP laws that protect those individual IP rights and judicial systems for effectively, fairly and promptly enforcing the IP rights for those individuals, as well as for others entering the markets within those nation-states to encourage and stimulate local and foreign investment.

To what extent is compulsory licensing being used by governments as an economic *quid pro quo*?

TF: I am not sure. The question may be better answered by those who have authorised and participated in a compulsory licence. LES would be happy to host a forum on compulsory licensing to address the topic.

BOS: Compulsory licensing is often used by governments to coerce economic development and/or to drive down prices. The problem with that regime is that in any industry, and particularly healthcare, the development and successful exploitation of any invention often involves a panoply of skills, resources and innovations. The patented technology might be only a small portion of what makes the invention valuable or capable of efficient commercialisation. But extorting innovators to develop manufacturing capacity or to discount products is necessarily the use of a big stick rather than a carrot. Such practices rely upon an apparent imbalance of power between the innovator and the sovereign. However, the apparent imbalance of power is rarely the true state of affairs, and such tactics serve only to ensure that innovators will enter such countries only as absolutely necessary, and with minimal resources and economic development. Thus, governments engaged in such practices might win the battle, but lose the war in this increasingly knowledge-based economy.

JW: Some governments can and appear to use compulsory licensing as an economic *quid pro quo* in situations such as:

- Taxing ancillary products to pay IP owners under a compulsory licence instead of IP owners receiving revenues directly for the product itself and being able to set their own pricing schema.
- Discriminating between different categories of invention or technology and providing different incentives to these different categories.
- Enacting laws that allow resident individuals or other entities to apply for and obtain a compulsory licence, and whereby a government executive or panel makes a determination to grant the licence in efforts to benefit a local/resident industry without a requisite showing of extreme anti-competitive behaviour or national emergency.
- Concluding government-to-government agreements to benefit one industry or type of technology in one nation-state in exchange for another type of economic benefit to the other, or to restrict use of one nation-state's compulsory licensing laws in exchange for certain other economic benefits from the other.

These types of compulsory licensing incentive appear to be extensive and more prevalent in rising industrial economies where governments understand the role that this economic *quid pro quo* can play and attempt to take advantage of it, often to the detriment of rights holders. In my view, use of compulsory licensing can operate as an improper taking of private property and may not adequately compensate the rights holder.

RL: I don't understand what is meant by economic *quid pro quo*. I will say, however, that one could argue that in countries that subject non-working patents to compulsory licensing, the governments are effectively saying: "If we give you a period of exclusivity by granting you a patent, then you must provide economic benefit to our

country, and if you don't, we'll allow someone to do so."

What changes or improvements should be considered to compulsory licensing remedies that are currently in place? For example, should the concept of reasonable terms and conditions have a stricter definition?

BOS: The problem with any effort to construct a perfect compulsory licensing regime is that it necessarily becomes increasingly bureaucratic, burdensome and impractical. Innovative enterprises thrive in innovative environments and continually seek entrepreneurial solutions to existing problems. Imposing strict regulations and greater bureaucracy on such organisations is alone enough to discourage further development and innovation in any particular jurisdiction. It is antithetical to the innovator's mindset. To the extent that compulsory licensing is thought to be necessary, for whatever aims, efforts should be made to minimise bureaucracy and eliminate rigid adherence to rules of limited applicability; and instead to look at every situation from the perspective of the ultimate aims and how the sovereign can get to those aims most efficiently and creatively.

JW: I think that compulsory licensing remedies should be lifted when emergency or proven anti-competitive situations change any time after a compulsory licence has been implemented as a remedy. First, companies or other IP owners should be able to effectively enter markets - even emerging growth economies - without initial fear of being compelled to license the technology without proven and extreme anti-competitive behaviour. Second, if extreme anti-competitive behaviour is proven in a just manner and limited compulsory licensing is implemented as a remedy, then companies against which this remedy has been implemented should be allowed to demonstrate through judicial or administrative processes and within reason that the need for the compulsory licence has changed or that the terms of the licence are no longer reasonable. Improvements should centre on checks and balances within economies to enhance market development, investment and growth.

Yes, I think that stricter definitions of what are reasonable terms and conditions would enhance a company's ability to make such a showing by all means, as well as operate in less of a draconian manner where these checks and balances are not implemented. Some other changes to enhance the ability to make these showings can be, for example, availability of reasonable competitive alternatives, changed market conditions and divestiture of certain assets which has limited or eliminated the risk of anti-competitive behaviour.

RL: I am not aware of specific remedies and, again, believe that we should not have a one-size-fits-all solution. Each case and situation is different and the compensation to a patent owner should be different based on the reason(s) that the patent is being licensed on a compulsory basis. The remedies should be higher when the patent owner's return on investment is lowered as a result of the grant of the compulsory licence.

TF: Not at this time. It would be better to allow individual governments to work with the current guidelines.

With the fluidity of capital and talent these days, how defensible is compulsory licensing in emerging nations over decades-long periods? What level of responsibility should we allocate to national governments for fostering and developing a culture of innovation in their countries?

JW: I think long periods of time for compulsory licensing are misplaced and lead to abuse, especially by governments and third-party entities closely affiliated with governments. Generally, companies and individuals are willing to invest and take risks with innovation and commercialisation where governments are stable; where they support such investment with IP protection; where they have or implement fair and just laws; and where they offer fair and prompt implementation of judicial remedies when intellectual property or commercial contracts are being violated. Otherwise, actual or potential emerging economies will struggle for long periods of time with few or limited successes, and will often do so to the detriment of the citizens/residents of those economies or countries. Attracting local and foreign investment, improving manufacturing facilities and job skills, and increasing multinational company competitiveness should be central objectives in governments' efforts to enhance the lives of their citizens.

Russell Levine
"There certainly can be situations where compulsory licensing has a positive effect, such as commercialising an invention that is not being worked in a particular foreign country"

Under what circumstances would you consider compulsory licensing fair and reasonable?

Brian O'Shaughnessy: The only circumstances I can think of would be those where a government carefully and persuasively articulates reasoned goals for gaining access to certain technology, and demands that the patent holder devise a solution that might or might not involve licensing, but gives the patent holder the opportunity in the first instance to devise a solution. If, for example, a government can assert that it needs greater quantities of a particular product than the patent holder can or is willing to provide, then the government, under threat of compulsory licensing, might induce the patent owner to remedy the deficit, which solution might involve licensing, but on terms agreed to by the patent owner. Of course, the threat of compulsory licensing comes with the obvious need to enforce the threat, so the goals must be reasonable. But if the goals are reasonable, and the patent owner appreciates and acknowledges the need to meet those goals, then the inducement might be a good and fair result.

But just as some countries are complicit in IP theft and misappropriation, one can expect that some countries would abuse such a regime and go straight to an inducement of compulsory licensing in furtherance of irrational or self-serving goals. Thus, the ideal would be to establish some form of oversight where the government and the patent holder would have recourse to a disinterested third party to work towards a compromise that best suits both parties' needs. As with any negotiation, the only equitable and sustainable resolution to such conflicts is to strive towards a win-win situation that best achieves the goals of both parties.

Jeffrey Whittle: Compulsory licensing should be considered fair and reasonable as a limited remedy where a fair and just determination (eg, by a judicial panel) has been made that conduct of the IP owner has been monopolistic, fraudulent or otherwise grossly anti-competitive, especially where government assistance to an entity was provided to establish a market and then that entity establishes and abuses it market power in this manner.

There also are other perhaps foreseeable situations, for certain types of intellectual property (eg, drugs or medical treatments) needed in national emergencies or where significant damage to the health of the population of the country could be at risk, in which limited compulsory licensing may be fair and reasonable. Nevertheless, even in these circumstances, other avenues of obtaining the desired drug/medical treatment benefit without the need for a compulsory licensing law/programme should be sought and utilised prior to implementation of compulsory licensing measures – such as humanitarian or charitable appeals, nation-states purchasing or bartering for the drug/medical treatment, or some other creative alternative.

However, if these other avenues are not available, each nation-state operating as its own sovereign should have the ability to address these emergencies, and all market competitors should be considered - not just foreign competitors.

Russell Levine: Compulsory licensing might be fair and reasonable in circumstances involving national security. A limited-term compulsory licence might also be fair and reasonable in circumstances relating to the clean-up and recovery from a natural disaster.

Thomas Filarski: It would be a case-by-case development. In the past, a compulsory licence has been granted for compelling humanitarian reasons.

Intellectual property has been growing regardless.

RL: National governments should be encouraged to foster and develop a culture of innovation in their countries. This includes the development of a strong patent system and an effective court system for the enforcement of patent rights. Moreover, the remedies available in court to successful patent owners should be adequate to compensate the patent owner, and in no event less than a reasonable royalty. The patent owner should also be entitled to injunctive relief where appropriate.

TF: Compulsory licences have been around for over 100 years and appear mostly to have been used in times of severe public need, such as the crisis underlying the treatment of AIDS/HIV. Compulsory licensing does not appear to be a tool for fostering innovation.

BOS: The world is increasingly a knowledge-based economy. Nothing is as fluid across borders as the creative and innovative worker with skill sets that are in demand. Oppressive regimes and economies that suppress free markets and human rights have been, and will always be, losers in the competition for stable, robust and profitable enterprise. Governments that foster free enterprise, creativity and respect for private property and the right to contract will always prevail and prosper. Governments ignore those fundamental principles at their peril. Patent regimes and IP protection are but one small component, but are emblematic of those principles. Thus, governments that afford strong IP protection within a stable, predictable free market economy will always do better than those that do not.

Should the compulsory licensing right under the Doha Declaration be suspended in certain circumstances? What should those circumstances be?

RL: I'll let others answer this question.

TF: The World Trade Organisation (WTO) participants should give the Doha Declaration the opportunity to work.

BOS: The Doha Declaration is an agreement among WTO governments to clarify rights under TRIPs. As a duly negotiated agreement among governments, its provisions should be respected. However, its terms likewise deserve strict adherence. Among other things, the Doha Declaration states that TRIPs "can and should be interpreted and implemented in a manner

supportive of WTO Members' rights to protect public health and, in particular, to promote access to medicines for all". Read in light of TRIPs as a whole, this clarification would seem to limit the rights and privileges of the Doha Declaration to those circumstances threatening public health, and particularly preventing access to medicines. In other words, the spirit and framework of TRIPs cannot be wholly disregarded by the mere expedient of invoking public health and access to medicines.

Instead, TRIPs must be honoured to respect intellectual property; and this necessarily means that resort to compulsory licensing and the like should be made only as necessary to combat national emergencies or true public health crises. Read in that context, compulsory licensing should not be exploited to address mere inconveniences such as cost, but might properly be used as where important medicines are wholly unavailable or are the subject of discriminatory pricing.

Otherwise, governments should honour their obligations under TRIPs, respect IP rights and, as necessary, negotiate in good faith with patent holders to improve access to patented products in a manner that is fair and equitable for all. Such an approach holds the greatest long-term prospect for any country by fostering an economy that values innovation and thus the growth of strong markets.

Given all that, I am not sure that I would endorse wholesale abrogation of the Doha Declaration, but I might endorse the notion that resort to compulsory licensing should be subject to some form of judicial or WTO oversight where less onerous alternatives are thoroughly explored. As with any important and valuable property right, government action to take it away should be used sparingly, and should be subject to oversight and review to ensure that it is the least onerous path to achieve the stated aim.

JW: There are several situations where suspending compulsory licensing rights under the Doha Declaration makes sense. These situations can occur, for example, when economic or market conditions change; when a national emergency or other public health interest is abated; when abuse by governments or supposedly competitive companies (those to which a licence has been granted) occurs; when agreements of collaboration or other arrangements within nation states are in place that limit or eliminate the need for compulsory licensing requirements; and when quality/source of products becomes a problem/concern. Each of these examples of circumstances or situations can require a need to suspend the compulsory licensing right under Doha in order to correct what might be a short-term or long-term problem. I am sure there are other examples.

When nation-states embark on broad programmes of IP misappropriation (eg, through theft of trade secrets and tolerance of rampant counterfeiting and copying without compensation), and the national governments of the targeted companies do little by policy to stop this behaviour, is this not the most egregious and unkindest form of compulsory licensing?

TF: Such conduct exceeds the original intent of compulsory licensing.

BOS: Yes; but to elaborate further, governments that turn a blind eye to theft of intellectual property and misappropriation are complicit in that theft. As such, they are not to be trusted; and other responsible countries where the rule of law and respect for private property prevail should band together to use all of the resources at their disposal to stop such activities, and to ensure not only that such governments create reasoned and honourable IP regimes, but also that they strictly enforce those regimes and/or create civil systems of enforcement that are open, fair and transparent, regardless of the nationality of the complainant. Only then can such countries take a place among honourable and civilised societies dedicated to encouraging citizens to devote their talents and energies to elevating the wellbeing of their fellow man.

JW: Yes. I believe that national governments have an obligation to meet this type of compulsory licensing such as IP misappropriation with appropriate countermeasures, such as legislation, enhanced court system protections, injunctive relief, enhanced damages and remedies, state/commerce department-level negotiations, trade negotiations and other programmes to resist/fight against this improper type of compulsory licensing. In some instance, this arises to a level of becoming a national security threat for national governments of these targeted companies. This technique can also be used improperly by nation-states to enhance defence knowledge for their militaries, enhance contra-techniques to slow or fight

Action plan

What should senior IP management people in for-profit businesses do about the possible future risks posed by compulsory licensing? Or what should we do about current risks in this area? I am no expert on this, but here are a few suggestions for others like me:

- Become knowledgeable in the compulsory licensing risks to your business, and educate senior leadership in the nature and extent of these risks.
- Develop an organisational consensus around an action plan to address these risks.
- Become active in national standard and policy-setting organisations to make your company's concerns known.
- Engage in lobbying activity through a trade association.
- Support the filing of amicus briefs, where appropriate.
- Make your views known directly to relevant government officials.
- Publish articles on the importance of government's support of the infrastructure of innovation.

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against weapon system development, and enhance nation-state world economic standing to further some other deceptive or political agenda.

RL: One can certainly make this argument.

An active role

Governments play an active role in IP licensing. From the innovator's perspective, sometimes that role can be beneficial. Sometimes it can be detrimental. Sometimes it can seem short-sighted. Sometimes it can seem visionary.

Governments do seem to have an obligation to provide the enabling infrastructure for sustainable innovation (if not governments, then who?). And by infrastructure, I mean the law and the even-handed enforcement of the laws directly pertinent to innovation: IP law and contract law. Further, the necessary infrastructure includes an effective and efficient patent and trademark examination and granting system. And finally, the infrastructure to which I am referring includes a financial reporting and a capital investment system that gives investors clear visibility into the value of innovation-based products and services.

But do governments also have an obligation to compel or encourage licensing that does damage to individual innovators, and perhaps to innovation in general? Perhaps in certain circumstances they should, when a competing social good is ascendant.

But when is a competing social good convincingly and legitimately ascendant? Ah, now there is an interesting question... *iam*

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