

Compulsory Licenses in Austria

by Dr. Daniel Alge, March 2000

1.: Historical development of the regulations in the Patent Act:

The instrument of compulsory licenses has been provided with the first Patent Act of 1897 as a measure to counter the patent right in the case of (reasonable) public demand for a patented invention or misuse of the patent right, e.g. by non working an important invention in Austria. Another measure was revocation of the patent, which was relativated due to the amendment of the Paris Convention (PC) in 1925 (The Hague), when it was regulated in the law that revocation due to non-working is only possible, if the grant of compulsory licenses has not been successful for remedy of the situation (in accordance with Art. 5A PC (lit.1)).

From the very beginning, three possible constellations for compulsory licenses or – up to 1925 (resp. 1928, when this PC amendment was introduced into the Austrian Law) – revocation – have been addressed in the law:

1. dependency: if a younger patent (i.e. a patent with a younger priority) is dependant from an older patent and therefore cannot be worked without permission of the owner of the older patent, the owner of the younger patent may get a compulsory license for the older patent.
2. non-working: the invention is not worked in Austria
3. public interest: the grant of a compulsory license to an invention is in the public interest.

The regulations for compulsory licenses have been amended several times from 1899 to date, making substantive modifications to the law. Perhaps the most important and substantive amendments were made with the two TRIPs related amendments in 1996 and 1998, thereby taking full credit to TRIPs Art. 31. Especially with regard to the latest TRIPs connected amendments, Article 36 of the Austrian Patent Act (APA), which contains all the regulations with respect to compulsory licenses for Austrian patents, has - in its current state - not necessarily to be seen as the result of a continuous development of Austrian law and jurisdiction from 1899 up to now, but rather containing young law, clearly amending the „old“ Austrian law and practice (where it contradicted TRIPs).

2.: The comparison between „old“ and current law

(important changes are indicated by bold letters)

36: (1) The patentee of an invention of **considerable commercial or industrial significance** which cannot be worked without the use of an invention patented earlier (the earlier patent), may apply for a license to work the earlier patent. Where such license is granted, the earlier patentee may demand a license to work the later patent, to the extent that the two inventions are in fact connected.

(2) Where a patented invention is not worked sufficiently in Austria and where the patentee has not taken all steps required for such working, any person may apply for a license to work the **patent for the purposes of his business**, unless the patentee shows that the invention could not reasonably have been worked, or could not reasonably have been worked to a greater extent, in Austria owing to difficulties of exploitation.

(3) If a license for a patented invention is **required in the public interest**, any person may apply for such license **for the purpose of his business**.

(4) A license (paragraphs (1) to (3)) may not be applied for until four years after the filing of the application, or three years after publication of the grant, relating to the patent for which the license is sought, whichever period expires last. If the **patentee refuses to grant a license on reasonable terms**, the Patent Office shall, at the request of the applicant for the license, decide the matter under the procedure relating to the contesting of patents, and if the license is granted, **shall fix the royalty**, the security which may be required and any other terms governing use, having regard to the nature of the invention and the circumstances of the case.

(5) Paragraphs (1) to (3) shall not apply to patents of the federal administrative authorities.

36: (1) If a patented invention cannot be exploited without infringing on an invention with a better priority (earlier patent), the owner of the later patent shall have claim to a non-exclusive license in the earlier patent, if the invention protected by the later patent **constitutes an important technical advance of substantial economic significance relative to the invention protected by the earlier patent**. Where such license is granted, also the owner of the earlier patent shall have claim to a non-exclusive license in the later patent.

(2) If a patented invention is not worked to an adequate extent in Austria, **in which context importation also constitutes working**, and the patentee has not undertaken everything necessary for such working, anybody has a claim for his business to a non-exclusive license for the patent unless the patentee proves that the working of the invention in Austria cannot reasonably be expected at all or on a larger scale than actually effected, due to the difficulties opposing such working.

(3) If the grant of a license for a patented invention **is in the public interest**, anybody shall have a claim **for his business** to a non-exclusive license for the invention. With respect to the federal administrative authorities, such a claim is not bound to an undertaking.

(4) If the **person entitled to grant a license according to paragraphs (1) to (3) refuses grant of the same, although the applicant for the license has taken efforts to obtain his consent within a reasonable term and at reasonable conditions common in business**, the Patent Office shall, on request of the applicant for the license, decide in patent contestation proceedings. In case a license is granted, an **adequate compensation** is to be determined, wherein the economic value of the license is to be taken into consideration. The security, if necessary, as well as the other conditions of use shall be determined considering the nature of the invention and the circumstances of the respective case. The extent and the duration of the license according to paragraphs (1) to (3) shall be granted primarily for the supply of the market in Austria and shall have to be **limited to the purpose which has made them necessary**.

(5) The grant of a license according to paragraph 2 may not be requested until four years from the notification of the grant of a patent for which the license is sought; whichever period expires last.

(6) The requirement of obtaining the consent of the person entitled to grant a license may be disregarded in the case of paragraph (3), **if a state of national emergency or other circumstances of the uppermost urgency prevail**. In this case, a preliminary permission to use the invention shall be given by interim decision.

(7) A granted license according to paragraph (4) has to be **rescinded upon request** subject to a reasonable protection of the legitimate interests of the persons entitled, if and when the conditions which have led to the same cease to exist and are likely not to rise again. The Patent Office decides on such a request in the proceedings prescribed for the contestation of patents.

Indeed, these amendments have flawed many of the old decisions (indeed, most of the decisions to the prerequisites for compulsory licenses have been made not in decisions concerning the demand for compulsory licenses, but in cases where revocation of the patent was demanded, because the grounds were the same (this was especially “popular” in the years from 1900 to 1915).

With the latest amendments, it was made clear that “working in Austria” may also be performed by importation. Moreover, the possibility of taking back the compulsory license was written into the law. Other changes in the text may be regarded as clarifications resembling both, clarification of the Austrian practice as well as explicitly incorporating the exact wording of the TRIPs regulations contained in Art. 31.

3.: The current Law:

Interpretation of the current wording in view of the decisions and the legislative motives.

In the present analysis, the three types of possible compulsory licenses are viewed separately, because they essentially differ in their nature, legal and public motives and history. This is also the common position of jurisdiction, legislation and legal commentaries.

The decision practice in Austria does not regard the grant of a compulsory license as an expropriation, but something very close to it (termed as “compulsory lease” in decision Op 1/72 of the Austrian Supreme Patent and Trademark Senate)

“Certainly, the grant of a compulsory license is not an expropriation in the strict meaning of this term, because an assignment of property rights or other private rights from the current to another legal entity would be characteristic (..); however, it is a limitation of the patent right, namely an inventory contract, especially a compulsory lease.”

Background of the case according to the decision of the Supreme Patent and Trademark Senate (OPM) of 26 June 1972 in the case Op1/72: An Austrian firm A asked for a compulsory license for the Austrian patent 244.948 of the British company B concerning the production of Inderal® (propranolol hydrochloride). Inderal® was imported to Austria, but not produced (Austrian market: 69,74 kg (1966-1968); worldwide production: 9500 kg (1968); development costs up to 1969: 2,5 Mill. ATS). The Nullity Department granted the compulsory license with a license fee of 14,5 %. The OPM followed the patentee as appellant and rejected the demand for compulsory licenses, mainly because no misuse was connected with the sole importation of Inderal® (which was sold in Austria – according to the OPM’s opinion - to a “reasonable” price) and the production for Austria would be an uneconomical burden for the patentee. A public interest for a license under Art.36(2) APA, however, was not seen as necessary requirement – in contrast to a license under Art.36(3).

In this respect, some commentaries have distinguished between compulsory licenses due to dependency and non-working and those due to public interest. Whereas the first ones have been regarded as “legal servitude of the inventor ‘s neighbour right”,

the latter is often also defined as “expropriation of the right to use” (especially old comments to the Austrian Patent Act follow this opinion, which might be due to the fact that in the time before 1918 there was the possibility of the free use of patented inventions by the army under (the public interest aspect of) compulsory licenses).

Since the possibility of deciding whether one will exploit a right himself or let others exploit the right has been regarded (even by the European Court of Justice (ECJ)) as one of the main features of intellectual property rights, licenses by law or compulsory licenses have been excluded or been limited to severe exceptional cases.

It is therefore generally accepted that compulsory licenses are granted only in case of particularly serious reasons (“consensus with the public interest is necessary”, “justified only when general interests worthy of protection are given and not only interests of a licensee”, “a high standard has to be applied”).

This is also in line with the international practice, especially since the United Kingdom (1977) and Canada (1993) have changed their laws in this respect (see an article of S.Greif, GRUR Int. (1981), page 733).

A compulsory license may also be granted for only part of the patent, if a normal (“voluntary”) license is conceivable.

Another prerequisite for the grant of the compulsory license is that the patentee has refused to grant a license to the petitioner. It has been decided that a refusal of license does not have to be necessarily an explicit refusal; a corresponding behaviour of the patentee may be sufficient. An offer for a voluntary license which is offered after the filing of the demand for a compulsory license does not have to be considered by the applicant for the compulsory.

3.1: Compulsory licenses due to dependency (Art.36(1)):

Art. 36(1) clearly stipulates that a prerequisite for such a license is dependency, i.e. if the commercial use of an invention is unconditionally connected with infringement of the older.

A compulsory license due to dependency is only possible, if the invention of the later patent constitutes “an important technical advance of substantial economic significance relative to the invention protected by the earlier patent”. Whether an invention being “an important technical advance of substantial economic significance”(directly taken from TRIPs) is comparable to the former expression (invention of “considerable industrial importance”) remains to be clarified by the courts, the motives to the amendment and the TRIPs give no clear indication in this respect. What is accepted is that with the TRIPs wording, a new aspect is brought in due to the necessity that the significance should (also ?) be given vice versa the old patent.

In the Austrian practice, the “considerable industrial importance” was regarded as an “important progress in the respective field”. Therefore, the state of development of the specific line of business has to be examined, as well as the progress, which has

been achieved with the older invention (implying already an examination with respect to the older patent as required by TRIPs). This (commercial) progress (which the younger patent brings) must be large for the specific line of business and of far-reaching economic significance. A simplification or an enlargement in scope of the economical development potential of this field is not enough. Considerable industrial importance of an invention is not proven by the cheapness of an industrial.

3.2.: Compulsory licenses due to non-working (Art.36(2)):

It is mostly accepted that the regulations in the PC (Art.5A, para (2) – (4)) only refer to this type of compulsory licenses (see also: commentary of Bogenhausen to the PC). These regulations have always been interpreted to be measures to fight misuse of the patent right:

“From the motives [to the Patent Act Amendment 1928] follows with undoubtful clarity that the measure of compulsory licenses has been constructed against misuse of a monopoly status and that the reasons of inequity and lack of economy of domestic working of an invention have to be carefully considered.”

Some commentaries indicate that the prevention of abuses which might result from the exercise of exclusive rights conferred by a patent hold for all types of compulsory licenses. This, however, is in contrast to the memoranda to the PC, especially to the Lisbon amendment, and has also been doubted in the latest decision in Germany to compulsory licenses.

An important amendment has been introduced with the TRIPs adaptation, namely the clarification that working by importation is to be considered as working of the invention and thus excludes a compulsory license because of Art.36(2). Before this amendment, the fact that import into Austria has been taken place was considered in the context of misuse and excuses for non-working (see supra).

Another prerequisite for a compulsory license according to Art.36(2) is that the applicant has to have a business which allows him to work the invention both, technically and economically; this, however, does not exclude that partial works, preparative works, etc. are performed in other person's workshops.

With respect to the extent of the working of the invention it has been decided that it is irrelevant whether the patent covers a de luxe article or a necessary item. The duty of working is restricted to the patented invention and does not go beyond this invention (if a special part of a machine is subject matter of a patent, there is no duty to produce the whole machine). The working of the invention does not have to be extended to all alternatives covered by specific claims. The patentee has the choice between the possible ways to perform the invention.

The appropriateness of the working conducted by the patentee has to be examined due to the peculiarities of each single case. The complete activities of the patentee have to be considered. These activities should show an serious, purposeful, extensive and continual activity of the patentee in the direction of working.

Examples of working to a non-adequate extent have been regarded:

- advertisements looking for purchasers or licensees for the patent
- solely isolated selling or licensing offers in magazines
- isolated and schematic notices about the grant of licenses
- the mere willingness of the patentee to consider appropriate license offers through the initiative of third persons without acting positively on his own
- the isolated production of single components of a protected invention without a definite, purposeful plan and with long intermediates between
- the single activity for production of a patented subject matter; a continuing production has to be intended and all the preparations for such a continuing production have to be performed by the patentee
- production of only a limited amount of devices for the patentees own customers thereby preventing the use of the invention for other undertakings

Potential excuses for non-working (or only limited working) are:

- change of the patentee
- insurmountable obstacles i.e. obstacles which are not removable by serious assistance
- financial losses being higher than the typical losses at the, i.e. financially insurmountable obstacles
- continuing losses

The patentee holds the burden of proving the working to an adequate extent.

3.3. Compulsory licenses due to public interest (Art.36(3))

Under “public interest” all interests of legal, economic and social life are to be understood, especially such of public health (the difference between “general interest” (Allgemeininteresse; Art.36(1) and (2)) and public interest (öffentliches Interesse; Art.36(3)): general interest may even be present in single branches of economy, whereas a public interest has to be more than that).

A simple reduction in price of an industrial product is not sufficient for public interest justifying a compulsory license, but economic interests may also be considered. Reduction of unemployment does not justify a compulsory license in public interest. Public interest is not excluded by the fact that the grant of a compulsory license also satisfies the private interests of the licensee.

According to the latest German decision (BGH, X ZR 26/92) it has also to be considered whether such public interest may also be satisfied by other measures or possibilities than compulsory licenses (in Germany, public interest is necessary for all forms of compulsory licenses).

The facts around the German decision of the Federal Supreme Court (BGH) of 5 December 1995 (Case No. X ZR 26/92): The applicant for a compulsory license for a patent with product claims to γ -interferon. The licensee of the patentee already sold γ -interferon products (Actimmune and Imukin) for the treatment of chronic granulomatosis. The applicant had a Europe wide approval for the γ -interferon containing medicament Polyferon for treating rheumatoid arthritis and had unsuccessfully requested for a license for the product patent. Polyferon was the drug

with – by far the most promising results for treating rheumatoid arthritis; however, according to the patentee's own clinical results, this effect of γ -interferon does not seem to be finally proven. The first instance granted the compulsory license against a payment of 8 % license fee, because there was evidently public interest for this treatment. The patentee appealed and argued that a license fee of 40 % would be appropriate. The BGH overruled the first instance mainly because of the opinion of the court expert that the public interest for the demand for treatment of rheumatoid arthritis may also be satisfied by the γ -interferon products being already on the market. A doctor could prescribe Actimmune and Imukin also to patients with rheumatoid arthritis, if he regards it as successful.

Literature:

Article 5 PC

Article 31 TRIPs

IIC Studies, Volume 18, pages 202-208 (lit.4a) and 338-341

ÖBl.(1973), pages 4-9

GRUR Int. 1981, page 733

IIC 28 (1997), pages 242-250