

## **Compulsory Licensing in Relation to Unitary Patent Package**

Esa Savolainen 513768

Advanced Studies in Law and Information Society

University of Turku, Faculty of Law

Työn esittämisspävämäärä

## Contents

<b>Bibliography</b> .....	<b>IV</b>
<b>Abbreviations</b> .....	<b>X</b>
<b>1 Introduction</b> .....	<b>1</b>
1.1 Genesis .....	1
1.2 Material, methodology and structure .....	3
<b>2 Patents</b> .....	<b>6</b>
2.1 Legal basis, patentability and scope.....	7
2.2 Exclusive rights.....	8
2.3 The balancing act of competition law and patent protection .....	9
2.3.1 <i>Balancing in the EU</i> .....	11
<b>3 Unitary Patent Package</b> .....	<b>13</b>
3.1 Significance and changes .....	15
3.1 Towards harmonization?.....	16
3.2 European Patent Office .....	17
3.3 Unified Patent Court .....	18
3.4 CJEU .....	19
3.5 Argued weaknesses of UPP .....	20
3.5.1 <i>The problem of Brexit</i> .....	21
<b>4 Compulsory Licensing</b> .....	<b>23</b>
4.1 Innovation, exclusivity and necessary evils .....	25
4.2 Legal background – Paris, EU, TRIPS .....	27
4.2.1 <i>Paris Convention</i> .....	28
4.2.2 <i>EU policy</i> .....	29
4.2.3 <i>TRIPS</i> .....	30
4.3 Exceptions to rights provided by TRIPS.....	32
4.3.1 <i>Article 31 and compulsory licensing scenarios</i> .....	33
4.4 Different types of compulsory licenses.....	36
4.4.1 <i>Dominant-dependent relationship</i> .....	36
4.4.2 <i>Failure to work</i> .....	39

4.4.3	<i>Anticompetitive behavior</i> .....	41
4.4.4	<i>Prior user rights</i> .....	42
4.4.5	<i>Government use and national emergency</i> .....	43
4.4.6	<i>Misuse of compulsory licensing</i> .....	43
<b>5</b>	<b>Compulsory licensing in the Unitary Patent system</b> .....	<b>45</b>
5.1	Interest groups.....	45
5.2	Exclusion from UPP.....	47
5.3	Seeking a compulsory license under UPP.....	50
5.4	Compulsory licenses in litigation.....	54
5.4.1	<i>National courts and compulsory licenses</i> .....	54
5.4.2	<i>UPC's competence on compulsory licensing</i> .....	57
5.4.3	<i>UPC – effects of the court to EU legal landscape</i> .....	59
5.5	Potential issues of compulsory licenses under UPP.....	61
5.5.1	<i>The impact of CJEU on compulsory licensing under UPP</i> .....	62
5.5.2	<i>Compulsory licensing of medicines</i> .....	65
5.5.3	<i>Possible effects on innovation?</i> .....	66
5.5.4	<i>Need for a community-wide approach?</i> .....	67
5.6	Compulsory licensing, internal market and competition.....	70
5.6.1	<i>Compulsory licensing as a competition remedy?</i> .....	72
5.7	Solution? – Incentives to license?.....	72
<b>6</b>	<b>Conclusion</b> .....	<b>74</b>

## **BIBLIOGRAPHY**

### **Books**

- Ballardini, Rosa Maria – Norrgård, Marcus – Bruun, Niklas: European Patent Law: The Case for Reform, pp. 3-12 in Ballardini, Rosa Maria – Norrgård, Marcus – Bruun, Niklas (ed.): Transitions in European Patent Law: Influences of the Unitary Patent Package. Kluwer Law International, 2015
- Cottier, Thomas – Véron, Pierre: Concise International and European IP Law: TRIPS, Paris Convention, European Enforcement and Transfer of Technology. Wolters Kluwer Law & Business, 2008
- Dimopoulos, Angelos: An Institutional Perspective II: The Role of the CJEU in the Unitary (EU) Patent System, pp. 60-76 in Pila, Justine – Wadlow, Christopher (ed.): The Unitary EU Patent System. Bloomsbury, 2015
- EPO, European Patent Academy, Compulsory licensing in Europe: A country-by-country overview, 2019
- Gilbert, Richard: Compulsory Licensing: An Underrated Antitrust Remedy, Competition Policy International, 2019
- Ladas, Stephen P.: Patents, Trademarks, and Related Rights: National and International Protection. Harvard University Press, 1975
- Luginbuehl, Stefan: An Institutional Perspective I: The Role of the EPO in the Unitary (EU) Patent System, pp. 45-56 in Pila, Justine – Wadlow, Christopher (ed.): The Unitary EU Patent System. Bloomsbury, 2015
- Pila, Justine: An Historical Perspective I: The Unitary Patent Package, pp. 9-32 in Pila, Justine – Wadlow, Christopher (ed.): The Unitary EU Patent System. Bloomsbury, 2015
- Ullrich, Hanns: Harmonizing Patent Law: The Untamable Union Patent pp. 207-246 in Janssens, M.-Chr. –Van Overwalle, G. (eds.), Harmonisation of European IP Law: From European Rules To Belgian Law And Practice, Bruylant, 2012

Ullrich, Hanns: Select From Within The System: The European Patent With Unitary Effect  
pp. in Geiger, Christophe (ed.), *Quel droit des brevets pour l'Union européenne?/What  
Patent System for the European Union?*, Paris, Litec, 2013,

Ulrich, Hanss – Hilty, Reto M. – Lamping, Matthias – Drexl, Josef: *TRIPS plus 20: From  
Trade Rules to Market Principles*. Springer, 2016

van Dijk, Theodorus Willem Peter: *The Limits of Patent Protection*. Universitaire Pers  
Maastricht, 1994

*The EU Competition Rules on Intellectual Property Licensing*, Slaughter and May, 2016

### **Articles**

Abbas, Muhammad Zaheer – Riaz, Shamreeza: *Evolution Of The Concept Of Compulsory  
Licensing: A Critical Analysis Of Key Developments Before And After TRIPS*,  
*Academic Research International*, Vol. 4 No. 2, 2013, pp. 482-499

Bird, R.C.: *Developing Nations and the Compulsory License: Maximizing Access to  
Essential Medicines While Minimizing Investment Side Effects*, *Journal of Law,  
Medicine & Ethics* 37(2), 2009, pp. 209-221

Chien, Colleen: *Cheap Drugs at What Price to Innovation: Does the Compulsory Licensing of  
Pharmaceuticals Hurt Innovation*, *Berkeley Technology Law Journal* Vol. 18:853, 2003,  
pp. 853-907

Ebomoyi, William: *Impact of Globalization on HIV/Aids Pandemics and the Challenges of  
Compulsory Licensing and Parallel Importation*, *Journal of Applied Global Research*  
Vol. 3 Issue 7, 2010, pp. 23-39

Hilty, Reto M. – Jaeger, Thomas – Lamping, Matthias – Ullrich, Hanns: *The Unitary Patent  
Package: Twelve Reasons for Concern*, *Max Planck Institute for Intellectual Property  
and Competition Law*, 2012, pp. 1-9

Jaeger, Thomas: *The EU Patent: Cui Bono Et Quo Vadit?*, *Common Market Law Review* 47  
2010, pp. 63–115

- Jaeger, Thomas: All Back to Square One? – An Assessment of the Latest Proposals for a Patent and Court for the Internal Market and Possible Alternatives, Max Planck Institute for Intellectual Property and Competition Law Research Paper No. 12-01, 2012, pp. 1-26
- Janssens de Bisthoven, Nicolas: Patent Trolls and Abusive Patent Litigation in Europe: What the Unitary Patent Package Can Learn From the American Experience?, TTLF Working Papers, No. 19, 2013, pp. 1-85
- Kaesling, Katharina: The European Patent With Unitary Effect – A Unitary Patent Protection For A Unitary Market?, 2 UCL Journal of Law and Jurisprudence, 2013 pp. 87-111
- Lamping, Matthias – Ullrich, Hanns: The Impact of Brexit on Unitary Patent Protection and its Court, Max Planck Institute for Innovation & Competition Research Paper No. 18-20, 2018, pp. 7-179
- Mylly, Tuomas: Hovering Between Intergovernmentalism And Unionization: The Shape Of Unitary Patents, Common Market Law Review 54, 2017, pp. 1–46
- Petersen, Clement Salung – Riis, Thomas – Schovsbo, Jens: The Unified Patent Court (UPC), Compulsory Licensing and Competition Law, Nordiskt Immateriellt Rättsskydd (NIR), 4/2014, pp. 324–339
- Ragavan, Srividhya – Murphy, Brendan – Davé, Raj: Frand v. Compulsory Licensing: The Lesser of the Two Evils, 14 Duke Law & Technology Review, 2015, pp. 83-120
- Rudyk, Ilja: The License of Right, Compulsory Licensing and the Value of Exclusivity, 2012, Discussion Paper Series of SFB/TR 15 Governance and the Efficiency of Economic Systems 415, Free University of Berlin, Humboldt University of Berlin, University of Bonn, University of Mannheim, University of Munich, pp. 1-44
- Schovsbo, Jens – Riis, Thomas – Petersen, Clement Salung: The Unified Patent Court: Pros and Cons of Specialization – Is There a Light at the End of the Tunnel (Vision)?, International Review of Intellectual Property and Competition Law, Volume 46, Issue 3, 2015, pp. 271–274

Trimble, Marketa: Patent Working Requirements: Historical and Comparative Perspectives, 6 U.C. Irvine Law Review 483, 2016, pp. 483-508

Tudor, Jarrod: Compulsory licensing in the European Union, George Mason Journal of International Commercial Law VOL. 4:2, pp. 222-258

Yang, Deli: Compulsory Licensing: For Better or For Worse, the Done Deal Lies in the Balance, Journal of Intellectual Property Rights 17(1), 2012, pp. 76-81

### **Official sources**

The Agreement on a Unified Patent Court, 2013/C 175/01

AIPPI Yearbook 1991/I, - Question Q97 - Dependent patents and their exploitation, p. 287-288

Case C-30/90, Commission v United Kingdom, [1992] ECR I- 00829

Charter Of Fundamental Rights of The European Union (2000/C 364/01)

CJEU Case 19/84 [1985] ECR 2281, Pharmon v Hoechst

Code de la propriété intellectuelle, Law No 92-597 of 1 July 1992

Convention on the Grant of European Patents (European Patent Convention), 5 October 1973

Decision of the Select Committee of the Administrative Council of 15 December 2015 adopting the Rules relating to Fees for Unitary Patent Protection (SC/D 2/15)

Paris Convention for the Protection of Industrial Property of March 20, 1883

Patenttilaki 1967/550

Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (OJEU L 361, 31.12.2012)

TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994)

WTO, Canada – Patent Protection of Pharmaceutical Patents, WT/DS114/R, 17 March 2000

## **Other**

Biadgleng, Ermias Tekeste: TRIPS Post-Grant Flexibilities: Compulsory Licenses & Government Use, 2009

Blakeney, Michael: WIPO National Seminar On Intellectual Property - The International Protection Of Industrial Property: From the Paris Convention to the Trips Agreement, 2003

European Commission: Unitary Patent, [https://ec.europa.eu/growth/industry/intellectual-property/patents/unitary-patent\\_en](https://ec.europa.eu/growth/industry/intellectual-property/patents/unitary-patent_en) (Accessed 21.1.2019)

European Commission: Patent Protection in the EU, [https://ec.europa.eu/growth/industry/intellectual-property/patents\\_en](https://ec.europa.eu/growth/industry/intellectual-property/patents_en) (Accessed 7.10.2019)

Commission of the European Union, Twelve projects for the 2012 Single Market: together for new growth (Press Release, IP 11/469, 13 April 2011), [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_11\\_469](https://ec.europa.eu/commission/presscorner/detail/en/IP_11_469) (Accessed, 7.10.2019)

Luginbuehl, Stefan: Unitary Patent and Unified Patent Court: State Of Play

Mezher, Michael: European Commission Says Compulsory Licensing Can Only Happen at National Level – Regulatory Affairs Professionals Society – (26.6.2015), <https://www.raps.org/regulatory-focus%E2%84%A2/news-articles/2015/6/european-commission-says-compulsory-licensing-can-only-happen-at-national-level> (Accessed 22.1.2020)

OECD: Licensing of IP rights and competition law–Note by BIAC, DAF/COMP/WD(2019)35, 2019, [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD\(2019\)35&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD(2019)35&docLanguage=En) (Accessed 21.1.2020)

Silverman, Arnold B.: The Relationship Between Basic and Improvement Patents, 1995, <https://www.tms.org/pubs/journals/JOM/matters/matters-9501.html> (Accessed 21.1.2020)

Taylor, Jay: Compulsory licensing: A misused and abused international trade law, May 16, 2017, <https://catalyst.phrma.org/compulsory-licensing-a-misused-and-abused-international-trade-law> (Accessed 21.1.2020)

Vedres, Andràs: Patent policy for the European Union - International Federation of Inventors Association, Ref. No: VA127/2006, 2006

Von Braun, Johanna: Use of Compulsory Licenses Selected National Experiences

WIPO – Competition and Patents, <https://www.wipo.int/patent-law/en/developments/competition.html> (Accessed 8.10.2019)

## ABBREVIATIONS

AIPPI	International Association for the Protection of Intellectual Property
CJEU	Court of Justice of the European Union
CPC	Community Patent Convention
EPC	European Patent Convention
EPO	European Patent Office
EU	European Union
FRAND	Fair, reasonable, and non-discriminatory
IP	Intellectual Property
IPR	Intellectual Property Rights
R&D	Research and development
SPC	Supplementary patent certificates
TFEU	Treaty on the Functioning of the European Union
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UP	Unitary patent
UPC	Unified Patent Court
UPCA	Agreement on a Unified Patent Court
UPP	Unitary Patent Package
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

# 1 INTRODUCTION

## *1.1 Genesis*

Intellectual property can be described being relatively new in the field of law and the importance of rights related to intellectual property has seemed to only grow since the inception of the concept. The patenting system has sometimes been argued to be a ‘necessary evil’, yet efficient instrument to ensure innovation and incite the development of new products, though it can be argued that it encourages monopolization and overpricing. The amount of debate which patents ignite makes it justifiable to consider it imperfect. Consequently, the exclusive rights, which patent protection can provide, have been proven to need a counterforce. Competition rules have established themselves as a comparatively proportional way of countering the imbalance patent regimes can create. The increasing importance of intellectual property rights (IPR) has made the connection to competition law very clear and both enjoy a quite symbiotic relationship in the modern legal landscape.

Consequently, much has had to undergo changes and new instruments have had to be created. An instrument which allows the patentholder to benefit from the fruits of its labor and ensure the income to cover the research and development costs of the acquired patent; yet opens it up for further development and makes it more available to the market to benefit competition. Hence, compulsory licensing was created as a necessary evil to counter and help balance the necessary evil of patent protection. ‘Evil’, of course is very subjective and used here very laxly, yet it still is a figuratively apt characterization as compulsory licensing directly violates the exclusive rights of the patent holder. Compulsory license is quite a self-explanatory term, as it signifies a licensing agreement which the patentholder had to mandatorily make, against its own volition, with the licensee. In a common situation, this non-voluntary license is granted by a court.

Ergo, compulsory licenses encompass the field of antitrust and without a doubt, competition law and compulsory licenses are highly important instruments in balancing patents rights.<sup>1</sup> It is worthy to note, that a compulsory license can create access to further development and

---

<sup>1</sup> Petersen – Riis – Schovsbo, 2014, pp. 324–339

innovation while providing the patentholder with adequate remuneration for the use of the patent. To illustrate this, compulsory licenses can create further innovation through dependent patents, which essentially require a license to be exploited in the first place as they incorporate at least parts of a preceding patented invention. However, compulsory licenses cover only the territory of the granting Member State.

To continue with a cliché, the legal landscape is ever-changing and facing the effects of globalization. Accordingly, this is no different regarding patents, licensing and competition law. Hence, it could be described as being unsurprising that the European Union has a potent interest in harmonizing and creating legal tools which surpass domestic boundaries. The EU has attempted this with patents in the past, but failed. Yet finally, the EU has drawn closer to achieving a European patent regime than ever before in the form of Unitary Patent Package (UPP), albeit it being through enhanced cooperation. The UPP created a new European patent with unitary effect, which would be uniformly protected in all participating Member States and tried in a Unified Patent Court to ensure this uniform protection, all while streamlining the scattered field of patent laws and reducing costs to benefit innovation and market.

As is to be expected, this has not been without its issues, partly due to the ever-looming shadow of Brexit rearing its indecisive head. Yet, even without the “help” of Brexit, scholars have had their hands full with potential concerns regarding UPP.

This paper gets its hands dirty in one of the pressing matters relating to UPP, which is the fact that compulsory licensing has been almost completely forgotten from the package. Essentially, compulsory licensing has been reduced to a side note which could jeopardize compulsory licensing altogether and perhaps, consequently create distortions in the internal market, which the functioning the EU so dearly protects. This ‘side note’ refers to the Recital 10 in the Regulation which created the Unitary Patent, which claims that compulsory licenses related to unitary patents should be governed by Member States’ legislations. Leaving this to a mere recital is capable of creating conflict in the patent regime as this recital by itself is not enough for national law to overcome the primacy of EU law, which is the formal basis of the exclusive rights of the unitary patent. The questions which presents itself here is whether or not there is a feasible way to circumvent this issue without forcing UPP back to its drawing board.

As it was mentioned, a new court for the patent regime was created in the form of Unified Patent Court (UPC), which ultimately has exclusive competence in respect of most actions related to unitary patent, but not over compulsory licenses. Accordingly, national courts remain competent concerning compulsory licenses. However, national courts cannot overrule the primacy of EU law and even UPC would share this similar issue if it were to “take” competence over the matter. Even if this issue could be bypassed, it remains questionable as to which court would best be suited to handle compulsory licenses of unitary patents.

Thusly, there are several issues that may arise regarding compulsory licensing under the Unitary Patent Package and so, there have to be several ways these issues could be solved. The EU has not been keen on creating a Union-wide compulsory licensing scheme, yet its feasibility could be worth examining and evaluating possibilities to harmonize compulsory licensing to benefit innovation and competition on the internal market. However, The European Commission (hereafter ‘the Commission’) has stated that compulsory licensing can take place only on national level. Could territorial compulsory licensing even be possible anymore and how could the situation be amended to benefit dependent patentholders?

### *1.2 Material, methodology and structure*

The material of the thesis consists of international treaties, EU treaties, EU regulations and publications from EU institutions. On top of these official sources, this paper analyses the topic with the help of judicial literature surrounding and directly relating to the subject. This is done with the intention to shed light on different aspects while creating a thorough understanding of the relation the described issues have and making a critical analysis with the help of the material.

As views on compulsory licensing vastly vary between scholars and also states, it is pivotal to display these notions in the context of the UPP. The EU has been attempting a patent reform for a long time and as it seems to be finally achieving this, it still seems to lack in regard of compulsory licensing and the various effects it might have. Partly, for this reason the paper takes a slight general and historical look to present the significance of compulsory licensing. However, compulsory licensing is inseparably connected to patents rights and competition, thus these topics receive attention to a proper extent in paper, while avoiding unnecessary fragmentation. The objective is to create a complete picture, which allows the reader to understand the characteristics of the field to a convenient extent.

The aim of this thesis is to provide a critical analysis of the issues surrounding compulsory licensing and the issues that may arise with the introduction of the UPP and the UPC. The methodology used is mainly dogmatic, as the paper attempts to interpret the systematic connections created by the EU legal framework. Most prominently, the efforts are focused on analyzing questions of competence of courts and effects of the UPP, while attempting to create solutions to the arising issues. The approach to these issues is mainly done from the aspect of dependent patentholders and with the intent to maintain an undistorted internal market.

The structure of the thesis is vaguely linear, as it first lays the basic background of the topic, before moving forwards to more complex themes and finally reaches the crux chapter of the paper. Chapter 2 scratches the surface of patents, their most relevant characteristics and the relationship of patents and competition law, all of which lay a foundation for further examination of the topic.

Chapter 3 takes the concept of patents further by introducing relevant legislation on the subject and the new bodies it creates, while analyzing the effects of the harmonization and raising several issues that might need further inspection.

Finally, chapter 4 is able to present the concept of compulsory licensing in full glory. This chapter starts off with an explanation of the concept, its reasoning and justifications, before taking a look into its historical and legal background. The thesis goes into detail with different types of compulsory licensing scenarios to highlight the importance of the subject.

Chapter 5, the aforementioned “crux chapter”, conjoins contents from all the previous chapters to paint a picture of the complex issue of compulsory licensing under the UPP. To begin with, the chapter presents the relevant interest groups, before explaining the exclusion of compulsory licensing from the UPP and considering the topic from a practical aspect of a party seeking a compulsory license.

Afterwards, the competence of different courts to rule on cases of compulsory licenses is presented and the potential issues that may arise from granting a national compulsory license on a multilateral patent. Potentially, this could have adverse effects on the market and innovation in the EU, thus the paper attempts to analyze the benefits and disadvantages of a community-wide compulsory licensing regime.

As the theoretical connection of patents, competition and compulsory licensing has been established earlier, the paper continues in the same vein, but with a more practical approach towards the adverse effects compulsory licensing under UPP may have, while considering the possibility of using compulsory licensing of patents more prominently as a competition remedy in the EU. Afterwards, in light of all these issues, the paper takes a stab at creating alternative solutions, before finishing in the final chapter concluding this thesis.

## 2 PATENTS

*“Patents are a key tool to encourage investment in innovation and encourage its dissemination. The European Commission constantly monitors the need for and effects of patent-related legislation across the EU. It is working to introduce cost-saving, efficient uniform patent protection across Europe and is looking at measures to enhance patent exploitation.”<sup>2</sup>*

The first thing that will be looked at in this paper with relative depth is the base layer of the whole topic, which is a patent; its relevant basics, legislation and policies. As most readers of this paper will already know, the patent is one of the most common forms of intellectual property with a long history, and it essentially grants the patentholder an exclusive right to benefit from an invention for a limited time period. In the EU, this period of protection is limited to 20 years from the date of filing. Its legal protection allows the patentholder to enforce their rights by, for example, preventing unauthorized use of the invention by third parties. The rights a patent confers are transferrable and can thus be licensed, as should be expected from the topic of this paper.

Rather than dwelling in the simple examination of the concept, one should know that patents serve an important purpose to society, business and competition in general. Thus, simple questions that could be made here are; why do we have patents and what purpose do they serve in the European Union? More specifically, what is the significance of patents to the EU and its competition policies? How do they effect innovation?

So, why do we have patents? The importance of patents and intellectual property in general can be highlighted as one of the most important factors in competition in general. The Commission has reported that of all resources of European businesses, 44% to 75% are connected to intellectual property.<sup>3</sup>

Regarding the interests of society and market, a simple reasoning behind patents is that they encourage innovation. Patent protection allows inventors to go public with their innovations with a decreased risk of idea theft. This also allows new information to become accessible

---

<sup>2</sup> [https://ec.europa.eu/growth/industry/intellectual-property/patents\\_en](https://ec.europa.eu/growth/industry/intellectual-property/patents_en)

<sup>3</sup> Commission of the European Union, Twelve projects for the 2012 Single Market: together for new growth (Press Release, IP 11/469, 13 April 2011)

faster, rather than have the creator sitting on the invention. New information has the tendency to spawn further innovation. Thus, it acts as a motivator to create something new; products, inventions, designs or processes to name a few.

On the market, innovation tends to translate to development and economic growth and increasingly, many of the European companies' highest value assets are somehow connected to intellectual property. This also tends to lead to increased welfare, which could be argued to be the main goal of patent protection from the aspect of society.

However, this creates challenges for modern patent law. The increasing importance of intellectual property rights in different sections of the market and society requires higher adaptability from patent laws than before. Each sector of the market has its own individual features, which has served to build up the need for a patent reform in the European Union. Essentially, this has reflected onto the Unitary Patent and has pushed the process forwards.<sup>4</sup>

From the inventor's standpoint, patents protect their moral and economic rights. The invention has spawned from the mind of the creating individual and thus, it is argued to be justifiably a protectable form of property. The right to property is a fundamental right in the European Union and it naturally covers intellectual property as well.<sup>5</sup> The ability to patent an invention allows the inventor to more easily benefit from the fruits of one's labor as it provides the owner with certain exclusive rights.

### *2.1 Legal basis, patentability and scope*

Most countries recognize four types of protectable intellectual property: copyright, trademark, trade secret and patent. Patents, though intangible, share some same attributes as tangible property, as they can be licensed, sold, assigned and transferred respectively. However, intangible forms of property tend to need an extra layer of protection which is why IPRs are widely recognized around the world.

Reasoning behind protecting inventions with patents has been discussed in this paper, but what is patentable subject matter in essence? In practice, an invention must fulfill basic

---

<sup>4</sup> Ballardini – Norrgård – Bruun, 2015, p. 3

<sup>5</sup> Charter Of Fundamental Rights of The European Union (2000/C 364/01) – Article 17

criteria for it to be eligible to be granted a patent: Novelty, non-obviousness, utility and industrial applicability. Here ‘invention’ means the creation of something that did not exist before. ‘Invention’ is often compared to ‘discovery’, which could be described as referring to detection of something relatively new, unknown or unrecognized, yet has existed prior to the discovery.

Interestingly, The European Patent Convention (EPC) Article 52 provides these commonly recognized criteria, yet leaves them open for slight interpretation. However, it guides the matter by directly excluding some in a non-exhaustive list: discoveries, scientific theories and mathematical methods; aesthetic creations; schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers; presentations of information.<sup>6</sup>

The scope of protection also has interesting aspects due to the intangible nature of inventions. Traditional legal analysis usually does enough justice for tangible property as the boundaries of the property in question are not much of a concern. This is not the case with such abstract concepts that intellectual property tends to encompass, and the criteria of patentability do not give a comprehensive answer to the scope of protection either.

Patent claims are essential for defining the scope of the patent and its protection. The EPC Article 84 states that claims essentially define the protected matter and Article 69 states that the extent of protection is defined by these claims as well. The claims are often evaluated as through the eyes of a ‘person skilled in the art’, rather than a judge’s interpretation on the subject matter.

## 2.2 *Exclusive rights*

Perhaps the main element of a patent, especially in regards to compulsory licensing, is the aforementioned exclusivity it provides to the owner of the patent. Basically, the patentholder can exclude others from exploiting the patent if they so choose. This exclusive right can prove to be financially beneficial, as it can give the inventor an edge on the market and as such, work as an incentive to innovate. Although it must be noted that the financial gain is obviously dependent on the invention itself and how it is exploited.

---

<sup>6</sup> European Patent Convention, Article 52

Thus, patents do not give their owners monopolies or guarantee profits, as other actors on the market can innovate around the patent and create competition, which then again provides for increased innovation. Then again, it is possible that the exclusiveness of a patent creates a temporary monopoly for its owner. Generally speaking, monopoly situations are not beneficial for a well operating market and can basically have negative effects on the welfare of consumers and society.<sup>7</sup>

The idea of patent granting monopolies is quite a common misconception. On occasion, it could be argued that such monopoly situations could imply patent protection being too strong. Furthermore, it is not uncommon for competitors to invent around a patent without infringing it. This usually leads to drawing lines that limit the boundaries of patent protection. Certain inventions can, to an extent, mimic the patented product or process and it could still be allowed by a court.<sup>8</sup>

Thus, there are limits and restrictions to the exclusive rights a patent gives its owner and of course, one of these restrictions is compulsory licensing. Licensing, obviously, is not always compulsory. Generally, it is within the rights of the owner of the patent to choose to license the invention or not. Usually, it is dependent on the position of the patentholder. There is an incentive to license the invention if there are strong implications of increasing profits or other monetary gain.

### *2.3 The balancing act of competition law and patent protection*

As stated earlier, patents serve an important purpose in society, thus it should come as no surprise that patent policy also works as a balancing factor on related issues. Hence, it is feasible to process the effects of patent policies, mainly concentrating on the balance of patents, competition and innovation. These three, all of them being vital parts of a properly oiled machine that is the internal market, affect each other and require a dynamic balance struck between them. It should also be highlighted here, that compulsory licensing also plays an important role in this balancing act and the elements it brings to this equation will be under closer scrutiny later in this paper.

---

<sup>7</sup> Rudyk, 2012, p. 1

<sup>8</sup> van Dijk, 1994, p. 8

Firstly, the base layer of the topic, the balance of competition and patents has to be examined here. Competition policy's main concern is to maintain an undisturbed market where businesses have similar chances to flourish without making it excessively difficult to enter the market. To elaborate on this with other words, the goal of competition law is to create welfare while ridding the market of unnecessary restraints it may otherwise have.<sup>9</sup>

Patents, on one hand, seek to benefit its owner with a competitive advantage over competition. If patent protection is considered to be too strong, it may hinder competition as it gives the patentholder an unfair advantage. Stronger protection may prevent competing goods from entering the market and consequently, create disproportionate market power for the rightholder.

Yet, on the other hand, if the protection is not strong enough, the patent does not necessarily offer the rightholder much of a benefit and competitors might be able to unfairly benefit from the rightholder's research and development (R&D). Consequently, such a situation may hinder incentives to innovate as well as decrease investments on research and development as there could be an increased chance that R&D would not create sufficient returns for it to be financially justified and sustainable.

Competition rules generally work to balance this situation and try to achieve a fair market by implementing policies that complement intellectual property rights. Then again, competition policies can also have retrograding effects on IPRs as they tend to limit the extent of patent rights, but essentially the aim is to discourage anticompetitive behavior.<sup>10</sup> However, it is good to note that also the IPR rules aim to complement competition rules. It can be argued that patents are inherently pro-competitive as patents, even though intangible, are important and protectable assets of undertakings.

It can be argued that intellectual property rights can be quite monopolistic by nature, patents in particular. However, it has been established in this paper that having exclusive rights to a patent does not create a monopoly or even directly translate to power over the market. More often than not, patented products have to compete with other goods and services that can even

---

<sup>9</sup> Petersen – Riis – Schovsbo, 2014, pp. 324–339

<sup>10</sup> WIPO – Competition and Patents

be directly substituted with the patented one. Fair level of patent protection can be argued to improve inventing around a patented invention without taking advantage of its substance.

Thus, patents do not deter competition, but work as a deterrent towards direct attempts to copy the intellectual property one has researched and developed. To remain competitive, the competitors on the market must focus on their own innovativeness. This protection works to initiate more innovation and the inventors tend to have more potential to cover the costs of research and development and further enjoy the fruits of one's labor. The effect of increased innovation is generally recognized in competition law, as well.<sup>11</sup>

Regarding the balancing act from a patentholder's perspective, the main goal is to increase the value of the patented invention to the maximum and perhaps, one of the best ways to achieve this is by incorporating the invention in question to a level where it is considered a standard in its industry. In some cases, this can lead the invention to become a universally accepted standard, more specifically a standard essential patent. This situation tends to create a substantial amount of licensing opportunities, thus creating revenue for the patentholder. Interestingly, even though industry standards benefit the patentholder and perhaps eventually the market as a whole, it may have some issues as the standardization process must be fair and it might create some financial strain to competitors and their research and development. Consequently, this could possibly hinder innovation in the field and cause unnecessary barriers for smaller enterprises to profit on the market.

### 2.3.1 Balancing in the EU

Evidently, the balancing act never seems to be complete and conflicting situations between IPRs and competition law are often expected as these closely connected fields are on the same level in legal hierarchy. However, it is clear that that they do not innately conflict with one another, but pursue similar goals and essentially, complement each other.

In the EU, competition and patent policies share similar aims, yet their tools differ. Both aim to promote consumer welfare and efficient allocation of resources. Competition policy does this through protecting the internal market and reducing barriers to cross-border trade and

---

<sup>11</sup> Petersen – Riis – Schovsbo, 2014, pp. 324–339

patent policy through encouraging and rewarding innovation.<sup>12</sup> Both serve to create dynamic competition, while safeguarding the legitimate interests of involved parties.

---

<sup>12</sup> Slaughter & May, 2016, p. 1

### 3 UNITARY PATENT PACKAGE

As it might be expected, this paper is only getting started on its most relevant topics. One of the major ingredients in this topic is the Unitary Patent Package (UPP), which could surely be described as an ambitious endeavor by the European Union, albeit achieved through enhanced cooperation. As many ‘packets’ of such scale, the UPP is comprised of many layers; two EU regulations under enhanced cooperation and the Agreement on a Unified Patent Court (UPCA). Regarding enhanced cooperation, Spain and Croatia have opted out of participating in the UPP, yet the possibility to join in the future is kept open.

The Unitary Patent Package consists of four legal instruments:

1. Council Decision of 10 March 2011 authorizing enhanced cooperation in the area of the creation of unitary patent protection (2011/167/EU)
2. Regulation (EU) No. 1257/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection
3. Regulation (EU) No. 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements
4. Agreement on a Unified Patent Court and Statute of 11 January 2013 Doc. 16351/12

So, what essentially is the UPP? The Unitary Patent Package is the European Union’s most recent attempt at harmonizing patent legislation in the Member States. This is an example of enhanced cooperation in the EU as 26 Member States are taking part in the initiative. Although not the first attempt at harmonizing, it can easily be considered the most successful one since the EPC, even if the UPP is yet to be brought into force in practice.

The patent application is made to the EPO under the aforementioned EPC and it is enforceable in all the participating states. The harmonization and unitary protection do not, however, render national patents obsolete nor makes them invalid. Simply put, the Unitary Patent essentially creates a somewhat parallel patent system alongside national patents.

To slightly touch on the core of the paper, compulsory licensing was left out of the UPP with a mere recital stating national legislations as relevant sources of law, thus it is supposed to be done territorially within the Member States. A patent license can also even cover all the contracting states if it is agreed as such with the contracting parties, but domestic courts do not have the jurisdiction make rulings on compulsory licensing cases. Though in ‘traditional’

licensing situations, nothing stops the parties from expanding the license as it first has been established in one Member State.

One of the main advantages of the package is that it allows a patentee to receive unified patent protection in all contracting states with a single patent application filed to the EPO, whereas the situation before would offer a bundle of national patents, each of which is protected by the respective national legislations. As the new unitary patent steps in, it is to be expected that the costs of acquiring a patent, which covers all these states, is to become less than before and as a consequence, the Commission believes that the UPP will stimulate research, development and investment in innovation thus improving economic growth in the EU.<sup>13</sup>

The UPP also involves the implementation of a dedicated court system for the unitary patent, which also is a remarkable change to the current state of affairs, where the patent holder must seek enforcement from the specific domestic courts with jurisdiction over a national patent. The planned centralized system can possibly make the process of patent protection less tedious for the patentholder, especially in cases where one looks to protect their patent in several contracting states simultaneously. This Unified Patent Court has an exclusive jurisdiction over infringement and revocation patent cases that fall under the scope of the UPP.

‘How strong is the protection under unitary patent considered to be?’ is a question that should be asked in regards to this topic. The Commission at least claims that, on top making the overall topic simpler and easier to manage, it also provides a better protection than the current system in power.<sup>14</sup> This is argued to be established through the diminished costs of patenting, for which has been the reason some inventors have patented their inventions only in a handful of countries. This is argued to diminish the value of the IP as it could possibly allow the invention to be somewhat easily copied in countries where the invention does not enjoy the same level of protection. The Unitary Patent attempts to offer the same level of protection throughout the partaking Member States, yet it does not profusely draw the full picture, especially when compulsory licensing is drawn in the discussion.

---

<sup>13</sup> [https://ec.europa.eu/growth/industry/intellectual-property/patents/unitary-patent\\_en](https://ec.europa.eu/growth/industry/intellectual-property/patents/unitary-patent_en)

<sup>14</sup> Ibid.

### *3.1 Significance and changes*

So, what is the significance of the Unitary Patent Package and how will it change the legal landscape of patents? The most distinct consequence of the package is the Unitary Patent itself, which changes the nature of the so-called “EU patent”. Hitherto, the EU patent has referred to a bundle of national patents, which consequently were governed by national legislations and were under the jurisdiction of appropriate national courts. This concept is not scrapped by any means, but the unitary patent creates perhaps a more efficient alternative to the table. Effectively, the Unitary Patent is a single patent in contrast to the aforementioned “patent bundle”, which is also granted by the EPO and its protection covers all the participating Member States. The granted unitary effect replaces the validation need in all participating Member States.

The new concept of European patent with unitary effect will effectively co-exist with the current patent systems, yet there is no double protection within the participating Member States by a classic European patent and a unitary patent. Interestingly enough, double protection by a unitary patent and a national patent is open and will be decided at the national level. Also, the unitary patent will be in effect retroactively as from the date of publication of the mention of granting of the European patent in the Member States taking part.<sup>15</sup> Also, unitary effect can be requested for European patents using the same set of claims and are protected in the participating Member States.

The “transition” from controlling multiple national patents to a single (almost) EU-wide patent system attempts to create a more swift and unified system for proceedings in general. Consequently, this does not solely mean the existence of a single patent, but a more centralized system in general, which basically begins from sending a single application to the EPO. This leads to a centralized examination in the EPO, which, when accepted, will lead to granting a European Patent with Unitary Effect that is applicable in all part-taking Member States. Upon granting the patent, it must be registered with EPO.

As continuity, also litigation is a unified aspect of the package as the Unified Patent Court is established to deal with all unitary patent related judicial issues.

---

<sup>15</sup> Luginbuehl: Unitary Patent And Unified Patent Court: State Of Play

As a consequence to the centralized nature of a single unitary patent, a significant element is also the reduction of costs compared to the previous system.

### *3.1 Towards harmonization?*

The EU is constantly striving towards creating an internal market with less and less barriers to trade. Yet, considering intellectual property in the EU, it could be argued that patent legislation has been somewhat dragging behind compared to other forms of IP as current patent protection is largely covered by national legislation and affected by supranational treaties.

The UPP is definitely a step towards harmonizing patent law in the EU, yet it remains to be seen how well it achieves this task. Its harmonizing effect in the EU is arguable as the initiative was done through enhanced cooperation and the UPP still offers the ‘bundle’ patent as an option, even if only for a while. This essentially leaves the Unitary Patent system open for criticism and arguably fragmented. However, it could work in its aim to mitigate differences between national patent laws.

Of course, for the UPP to be considered successful, it has to benefit the internal market with its unitary protection. The much discussed unitary effect requires the patent to provide equal effect and uniform protection in all participating Member States. Essentially, this also entails that the revocation, limitation or transfer of the patent covers in all participating Member States. Limiting or revoking a patent with unitary effect essentially dismantles the unitary effect, also retroactively.

Regarding the internal market, the UPP could offer a decent solution with its uniformity as multinational cases involving patent rights do not need to apply territorial protections covering multiple Member States. This also deflects the need for several questions about choice of law and court. In contrast to the current patent system, this harmonization simplifies infringement litigation in the internal market.<sup>16</sup>

---

<sup>16</sup> Jaeger, 2019, p. 69

### 3.2 *European Patent Office*

Policy wise, the EPO has had a central role in current patents. This is not to change in the face of UPP, as the new system is strongly rooted in the ‘old’ one. This is partly a consequence of the nature of the ‘traditional’ European Patent, as national courts’ jurisdiction is solely limited to deciding on the validity of said patents in that Member State. This also has limited the impact of national case law on the EPO practices.<sup>17</sup>

The EPO, as well as the UPC, will continuously apply uniform substantive European patent law as set in EPC Articles: the validity grounds (Art. 138 and 139(2)), the scope of protection (69) and the right to a European patent (60). Understandably, it has been argued that true uniformity can only be achieved if substantial law is applied in a consistent manner by the authorities.<sup>18</sup>

One of the changes brought by the UPP is that it allows patentholders to attribute the new unitary effect towards the “old” EU patents (the “bundles”). This is essentially done to help the transition period and so, application routines do not effectually change in the face of the new system. The patent applicants can effectively apply for the bundle patent from the EPO and later by request attribute the unitary effect to it as it will eventually be possible post grant. This can also help to ease the burden and costs of validation of the patent in Member States.<sup>19</sup>

The unitary patent also makes the EPO’s role more centralized than before as its tasks will include “keeping a register of unitary patents, including the grant, limitations, licensing, statements on licensing, and patent transfers; collection of the application, as well as other fees; publication of translations”.<sup>20</sup> Thus, matters burdening the unitary patent, such as compulsory licenses will be registered by the EPO.

A unitary patent can be opposed similarly to previous European patents and if necessary the unitary effect could be revoked by the EPO. The EPO’s decisions on unitary patents are appealable to the Unified Patent Court as the EPO’s Boards of Appeal does not have

---

<sup>17</sup> Ballardini – Norrgård – Bruun, 2015, p. 8

<sup>18</sup> Luginbuehl, 2015, p. 53

<sup>19</sup> Ballardini – Norrgård – Bruun, 2015, p. 8

<sup>20</sup> Ibid. See also Jaeger, 2012, p. 9

jurisdiction over EPO decisions on unitary patent administrative tasks.<sup>21</sup> Thus, a relationship can be seen to form between the EPO and the UPC, though both are separate and independent institutions.

### 3.3 *Unified Patent Court*

The complex system the UPP provides requires a centralized common court to ensure harmonized interpretation, a high level of legal certainty, efficiency and relatively prompt litigation. Thus, to serve these aspects further, the Unitary Patent system comes with a centralized legal entity in the form of UPC, which is formed by the Court of First Instance, Court of Appeal and a registry.<sup>22</sup>

Understandably, the decisions of the Court of First Instance are appealable to the Court of Appeal, which will be located in Luxembourg.<sup>23</sup> Also, the UPC follows EU law with respect to its primacy, thus it must request legal precedents from the CJEU interpreting EU law and the legality of its decisions can be examined by the CJEU.

Essentially, UPC has exclusive competence for most topics related to unitary patents, European patents and related supplementary patent certificates (SPC). UPC also handles actions related to EPO. However, UPC does not have competence over national patents or SPCs related to them.<sup>24</sup> Compulsory licensing falls under shared competence between UPC and national courts.<sup>25</sup>

The law which UPC applies in its cases is established in Article 24 of the UPCA. These are EU law, the two regulations related to UPP, UPCA, the EPC, other international agreements applicable to patents and binding on all the Contracting Member States and national law. The application of national law, such as compulsory licensing rules, is relatively interesting, as it can potentially cause disharmony in the protection of the unitary patent. Basically, this could

---

<sup>21</sup> Luginbuehl, 2015, p. 52

<sup>22</sup> UPCA, Article 6(1)

<sup>23</sup> UPCA, Articles 9 and 10

<sup>24</sup> Ballardini – Norrgård – Bruun, 2015, p. 9

<sup>25</sup> UPCA, Article 32

conceivably place patentholders from different Member States on unequal footing through the differences of national legislations.

Consequently, UPC will play an important role in the legal landscape of the EU, as it will have to apply new regulations, other EU law and national legislation as well. Effectively, its competence will cause it to make decisions on matters which traditionally have been left almost exclusively to national courts. This, combined with the abstract nature of patent law, could challenge the UPC and legal certainty, while the UPC still tries to establish itself as an independent legal entity and the (perhaps ostensible) final decider on patent matters.

### 3.4 *CJEU*

Inevitably, the CJEU will play a role in the new Unitary Patent system, yet the extent is still arguably uncertain. As the main overseer and reviewer of judicial issues, the CJEU does hold competence in the patent system. Furthermore, with the concerns about the incompatibility of the UPC with EU law and the exclusion of compulsory licensing from the package, the CJEU likely ought to intervene in some capacity.

However, the competence of the CJEU on patent law does not seem to come without its limitations. Seemingly, the UPC is intended to be the main jurisdictional authority on unitary patent issues and the UPP has been created with the intention of limiting the CJEU's competence to what it has been currently. Though, the new system is not separate from EU law, it seems to have been established with the aim of being its own body of jurisdiction with little outside interpretation provided. Still, as the CJEU is no stranger as it comes to patent law, it is hard to imagine this limiting the jurisdiction of CJEU as the final judicial authority. Before the UPP, questions of patent validity and infringement have been generally left outside EU law, yet the creation of the unitary patent allows the CJEU to expand its scope of jurisdiction over patents. However, this jurisdiction is limited to the participating Member States.<sup>26</sup>

Thus, the relationship of CJEU and UPC will likely be a point of discussion down the line. The UPC must apply relevant legislations in accordance with the EU law and cooperate with the CJEU when necessary. Essentially, the CJEU must ensure the uniform interpretation of

---

<sup>26</sup> Dimopoulos, 2015, p. 60

EU law and the UPP. However, this does not mean that the CJEU would act as an appeal court to the decisions of the UPC. National legislations play a part in the new patent system, yet the jurisdiction of the CJEU is limited merely to EU law and compliance with EU law.<sup>27</sup>

### 3.5 *Argued weaknesses of UPP*

There are several concerns and argued weaknesses regarding the UPP as is to be expected from such a grand and complex scheme. One concern is that the protection of the unitary patent does not necessarily truly harmonize the field of patents in the EU, but causes fragmentation in protection territorially. As UPP is a spawn of enhanced cooperation, not all Member States are aboard the ‘unitary protection train’ and this could risk innovation in the non-participating Member States and also, could cause fragmentation on the internal market. On top of this, the transition period and the existence of national patents can create four overlapping levels of patents in the EU.<sup>28</sup>

The fragmentation can potentially go even further as the UP regulation does not provide an exhaustive list of infringements and some of these ‘holes’ could be filled by national legislation, which could lead to a situation where a national rule would essentially apply in all Member States in a certain case of a unitary patent. Also, this can potentially create issues with interpretations of competences of courts and it would seem that the agreements do not offer much consolidation.<sup>29</sup>

Furthermore, it has been argued that the UP regulation does not sufficiently answer to the current needs of patent law. For example, general research exception or compulsory licenses for biotechnological research tools have not been assessed in the regulation. In general, it has been pointed out that the regulation lacks exception and limitations, causing it to essentially seem unbalanced.<sup>30</sup>

---

<sup>27</sup> Ibid.

<sup>28</sup> Hilty – Jaeger – Lamping – Ullrich, 2012, p. 1

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

In essence, the UPP can be argued to be lacking on several fronts. The seemingly hastily created enhanced cooperation has spawned a unitary patent which is to face many issues on its first steps. Questions that should have been addressed in earlier phases are yet to be answered and the multilayered legal structure is not ideal to create a clear system to serve legal certainty. It could be argued that the UPP is not perhaps as compatible with EU law as one would expect from such level of harmonization and the implications of these issues will certainly employ legal scholars for the foreseeable future.

### 3.5.1 The problem of Brexit

The process to have the unitary patent system properly running is yet to be concluded. This is due to several reasons, one of which is the continuous issue of Brexit. The risk of Brexit is still lurking around the corner and it will surely have its implications on the UPP. The consequences and effects are widely discussed, yet still remain unclear to an extent, but the separation from the EU would effectively mean that UP regulation could cease to apply in the UK. However, some scholars believe that the UK could stay as a contracting state to the UPP, though some adaptation would have to take place.<sup>31</sup> Interestingly, the central division of the UPC is supposed to be located in London.

The UK has issued a statement of its intention to explore the possibility of staying in the unitary patent and UPC system. The UK's inclusion post-Brexit is argued to be possible with a public international agreement. However, the original basis of Brexit for the UK was to restore their regulatory autonomy. This, undoubtedly, should entail that the UK still needs to respect the primacy of EU law in regards of the unitary patent. How this constrains the UK remains to be seen. It could be plausible, that the UK could apply national compulsory licensing on unitary patents, though its applicability for Member States is questionable and will be discussed later in this paper. Abandoning the UPP, would essentially enable the UK to apply national compulsory licensing of unitary patents.

However, there would still remain some issues to be resolved. The UPP would no longer rest solely on EU law, but international public law. A single patent system in two legal environments has the potential to cause friction and fragmentation of the system. Particularly,

---

<sup>31</sup> Lamping – Ullrich, 2018, p. 7

this would be the case if the UK separates from the internal market. This could be conceivably harmful to the uniformity of patent protection as it has been aimed for the single market of the EU, rather than two separate ones, if the UK establishes sovereign control of its market. Essentially, the effect of the unitary patent could be inconveniently different in the two different territories if UK began to create patent policies independently from the EU.

The effect of Brexit on all economic sectors and laws regulating the internal market is undeniable. As the Unitary Patent system and the UPC are inherently conjoined with the internal market, they cannot be effectively shielded from the impact of Brexit, regardless of the outcome. Then again, an unresolved Brexit constrains the UPP in its own way.

## 4 COMPULSORY LICENSING

Compulsory licensing<sup>32</sup> is perhaps not the most prevalent topic in regards to patent law, yet it can still be described as being quite significant, essentially, as it creates flexibility in the field of patents by allowing a party to exploit a patent to an extent without the consent of the patentholder. This chapter takes a look at the historical aspects and attempts to explain what compulsory licenses are in general, different scenarios where compulsory licensing might come into question, and how one can receive a compulsory license.

The basic idea for the creation of intellectual property is the principle that a creator of an intellectual contribution should have an exclusive right to enjoy the realization of the accomplishment, in other words, the fruits of their labor. Usually, the exclusivity does not create a monopolistic situation or market power by itself. The exclusive right has roots in both human rights law and competition law. It can seem quite logical that one should be allowed to benefit from their work, but as it has implications towards competition and the market, there has always been a need for safeguards to ensure the rights conferred by the patent are not misused.<sup>33</sup>

To exemplify, the rightholder can exclude other parties from taking advantage of the invention, but if deemed advantageous, the rightholder may offer licenses to third parties to use the patent for a fee. Yet, the exclusivity in most cases does not translate to a monopoly and neither does the protected right directly translate to power and/or presence on the market. Products and services in direct competition can still, and in many cases, will appear. Still, intellectual property protection obviously has many connection points with competition and other laws, thus certain safeguards have been deemed necessary for the benefit of the market and consumers.

One of these aforementioned safeguards is, of course, compulsory licensing, which essentially “is a license issued by a state authority to a government agency, a company or other party to use a patent without the patent holder’s consent”<sup>34</sup>. To define this in further detail, compulsory license means an authorization to use a patent during its term of protection

---

<sup>32</sup> *Also known as non-voluntary licensing*

<sup>33</sup> Abbas – Riaz, 2013, p. 2

<sup>34</sup> Paris Convention, 1883

without the authorization of the patent right holder and it is granted by a competent authority, which commonly is a court or government. The compulsory license is not in any shape or form public domain, but it is granted to a government agency or a private entity.<sup>35</sup>

Granting a compulsory license to a government, or a third party working with it on behalf of the government, is generally called “government use”. The distinctive differences between licensing to a private entity and a government agency are the beneficiaries and operations, which more heavily tend to lean on public interest as it may involve non-commercial use, which could also lead to non-exclusivity.

The patentholder will, however, be compensated for the license in a fair and reasonable manner, while the licensee can enjoy the right to manufacture, sell and/or import the product of the patent. It is worth noting here, that the patentholder does not lose their right to the licensee. In other words, the license does not give the licensee any exclusivity over the patent, as the patentholder can continue to benefit from the patent (e.g. producing). Compulsory licensing agreements also usually include a prohibition to export.

Compulsory licensing, as expected, is regulated to be used in certain situations where it is considered a necessity for the third party to be able to access the patent under specific circumstances. To exemplify this, an urgent demand for a patented medicine to react to a public health concern, such as a pandemic, or in a situation where the third party may not use its own patent as its utilization may rely on an earlier patented invention. The latter situation describes a dominant and dependent patent relationship, which will be covered later in this paper.

Quite obviously, this right cannot be legitimately abused as there has to be relevant grounds determined for each case, yet these grounds are generally determined by the government, while in accordance with relevant international agreements, such as TRIPS.

Some examples of grounds for granting a compulsory license include:

- *failed negotiations to obtain a license on reasonable terms,*
- *public interest,*
- *national emergencies,*

---

<sup>35</sup> Biadgleng, 2009, p.3

- *failure to exploit or insufficiency of working,*
- *to remedy anticompetitive practices,*
- *to establish pharmaceutical industrial base or in line with trade/industrial policy objectives*<sup>36</sup>

This list should not be considered exhaustive, yet it displays the diversity of cases where a compulsory license may be granted.

The first of the examples on this list is generally required to apply for a compulsory license in the first place. In other words, the party seeking a license must be able to prove that they have attempted to obtain a license with reasonable conditions from the patent holder. Though this is a general requirement, in some situations preceding negotiations are not necessary. Exceptionally, a compulsory license may be issued in cases of national emergency, crisis involving public health (e.g. pandemic as mentioned earlier) or as a remedy against anti-competitive practices in the market (e.g. cases falling under TFEU Articles 101 and 102).

The second item on the list, public interest, could be used to define the rationale behind compulsory licenses and to describe the necessity of granting any compulsory licenses, as compulsory licenses could be stated to be granted only when the public interest in broader access to patented invention exceeds the private commercial interest of the patentholder. Thus, in the end the patentholder will be forced to tolerate the exploitation of the patented invention by another party for the welfare of the general public, society or market.

#### *4.1 Innovation, exclusivity and necessary evils*

It could be stated that quite frankly, humans do not act unless they have a proper motivation. Why would anyone invent something new if it did not benefit them or others in some manner? People innovate out of motivation, yet the motivation may differ: could it be out of necessity or perhaps “merely” monetary gain? Regarding business and competition, the answer tends to be the latter one, but it can even be both in many cases. Yet, the monetary gain could be reduced or be nonexistent if competitors were allowed to take the work of others. Consequently, this would most likely demotivate the innovator as the achievable gains compared to the work put in would not match.

---

<sup>36</sup> Von Braun: Use of Compulsory Licenses Selected National Experiences

For this reason, patents basically work as a safeguard to ensure that the inventor can enjoy the fruits of their labor. Furthermore, this also works as a continuous motivator to innovate; not only for a patentholder, but for anyone who aspires to create something new. There is a strong incentive for governments to protect patent rights as this continuous innovation and new products are essential for a striving market and competition. As stated before, the lack of patent protection would allow competitors to copy or steal innovations, which would nullify the monopolistic trait a protected invention would otherwise have and such situation tends to drive prices down almost automatically, all the while innovation and the market would significantly suffer.<sup>37</sup>

It is quite often argued that patents are an imperfect instrument, but a “necessary evil” to protect innovation and the rights of the inventor. In some cases, patent rights have been conferred on products which can be essential for human life. A vast array of medicines creates their income through their monopolistic trait, the exclusivity. The research and development on the field are usually quite burdensome, thus patent protection is a vital necessity to keep innovation alive on the field which can have vast effects on human life. However, there is an understandable public interest towards patented medicines, as in certain circumstances, access to a patented medicine may have adverse effects on the socio-economic development of a country. The exclusivity of a patent may cause an increase in price and decrease the supply under demand. In case of a pandemic or an alternative life threatening disease, there can be huge public interest to increase the supply of essential medicine and a national emergency may make the availability of necessary medicine quite uncertain. Consequently, the Doha Declaration recognizes the right of access to affordable medicines.<sup>38</sup>

Evidently, compulsory licenses as well could be described as a “necessary evil”. In the previously described scenario, the government would have to act and try to negotiate a license for the patent. This does not always yield results, thus compulsory licensing would allow the government to have a tool to counter the exclusivity of a patent. To put this in other words, the flexibility provided by the Doha Declaration on such situations could act as a bargaining chip for the government and ensure sufficient access to patented medicines. It should be noted, that a national emergency is not the sole basis to issue a compulsory license as the

---

<sup>37</sup> Abbas – Riaz, 2013, p.2

<sup>38</sup> Ibid.

Doha Declaration provides its member states to freely regulate the grounds to issue a compulsory license. Consequently, there is international variation between compulsory licensing regulations from country to country, though some international standards have taken place on the matter.<sup>39</sup>

#### 4.2 Legal background – Paris, EU, TRIPS

As the case is with patents, the idea of compulsory licensing is not new either. Patents though, as might be expected, have been around much longer than compulsory licenses; deemed to be dating back to 1474, through the Venetian Patent Statute. In comparison, one of the earliest legislations to incorporate the concept of an involuntary license is the English Statute of Monopolies from 1623 and eventually became a more popular concept in the UK around the 1850s. In the modern era, the concept of compulsory license has become a common element in most patent systems around the world.<sup>40</sup>

It is arguable that ‘early’ (or rather ‘traditional’) patent protection was not very complex and as such, not very effective by today’s standards. This is supported by arguments, that patent enforcement was not a priority at the time, which caused patent regimes to be relatively weak. Historically, patent protection made advancements as industrialization began and technology became a larger component in trade and business. This trend can be seen to be continuous and as such, also compulsory licensing has become more and more prevalent. In the 1980s, trade concerns relating to intellectual property reached a level where states opened their eyes more to the need for enhanced global intellectual property protection.<sup>41</sup>

Prior to this though, the first international approach on patents was made 1873 with the Congress of Vienna for Patent Reform. The aim of the conference was, perhaps quite ambitious as it may sound, to achieve uniform patent legislation among the participants. Yet, international law was only touched slightly, by stating “*the necessity to reform is evident, and it is of pressing moment that Governments should endeavor to bring about an international*

---

<sup>39</sup> Ibid.

<sup>40</sup> Ibid. p.3

<sup>41</sup> Bird, 2009, pp. 209-221

*understanding upon patent protection as soon as possible*".<sup>42</sup> Furthermore, in order to protect the incentive to innovate, the conference befittingly supported the principle of patent protection. Also, compulsory licensing was also mentioned as an appropriate safeguard to counter possible monopoly right abuses. Thus, patent critics could accept the concept of compulsory licensing as a "strategic compromise".<sup>43</sup>

Interestingly, the concept of compulsory licensing has been described as perhaps the most controversial principle at the conference. A principle which would allow inventions protected by patents to be used "by all suitable applicants for adequate compensation". It has been said to reflect a strong influence of German delegates, who could demonstrate in debates how abusive patent monopolies could be mitigated within the German patent system.<sup>44</sup> Eventually, this led to the initial major intellectual property convention in Paris, which conceived the Paris Convention of 1883 and yielded compulsory licensing to become a common component of most patent systems.

#### 4.2.1 Paris Convention

In 1967, the World Intellectual Property Organization (WIPO) was established under the UN as an international agency to govern and protect intellectual property rights, while also aiming to encourage creative activity. Under WIPO's governance, several international treaties on intellectual property have been created and also revised, one of which has been the aforementioned Paris Convention, which will be discussed further.<sup>45</sup> For example at the Stockholm Revision Conference, some key issues were the definition of developing country, translation rights and also the main topic of this paper, compulsory licensing.<sup>46</sup>

Historically, the many rights of patentholders have been recognized globally for a long time. They can to a large extent control prices, usage and supply, yet these rights were generally confined merely to their representative home countries. For this reason, many of these

---

<sup>42</sup> Ladas, 1975, p. 60

<sup>43</sup> Chien, 2003, p. 858

<sup>44</sup> Blakeney, 2003, p. 3

<sup>45</sup> Abbas – Riaz, 2013, p. 3

<sup>46</sup> Blakeney, 2003, p. 11

countries had a hard time protecting their own innovators' rights from infringements in other countries. The main purpose of the Paris Convention was to create an international system, which would allow patentholders to protect their innovations on a global scale. The Article 5A(2) was created with the intention of preventing the abuse of exclusive patent rights through compulsory licensing. To exemplify this in more detail, a compulsory license can be used to solve the issue of underutilized patents. This refers to the issue of "failure to work" which will be discussed later in this paper. In a 1925 revision in The Hague, the fourth paragraph of Article 5A, nonetheless, was amended to state that legitimate reasons to justify the inaction of the patentholder can be grounds to refuse the compulsory license.

The Paris Convention has been criticized for its uncertain nature and broad provisions. As an example, the term "abuse" of a patent has been perceived as undefined and vague. As a consequence, it can be regarded as an issue from the perspective of legal certainty. Furthermore, as key terms were left to be defined by the member states of the convention, it could create a situation where established international standards could be argued to be vague as well. Regardless, the Paris Convention has been considered to be a success in its own right and carries relevance to this day.<sup>47</sup>

#### 4.2.2 EU policy

The issue of compulsory licensing in the European Union is complex as it is comprised of the national legislations as well as policies created in the decision-making bodies of the EU. Then again, the field of intellectual property is decently harmonized in the Union and the upcoming UPP will attempt to take it further, though compulsory licenses were not 'properly' included in this package. As mentioned, they basically received attention arguably as a side note stating that compulsory licenses should be governed by the national laws of participating Member States.<sup>48</sup>

Basically, this result can be partly attributed to a claim the Commission has made previously. In essence, the Commission has stated that compulsory licensing can only happen on the

---

<sup>47</sup> Abbas – Riaz, 2013, p. 4

<sup>48</sup> Regulation (EU) No 1257/2012, (10)

national level.<sup>49</sup> Then again, this statement does not claim that it has never been considered, as this is not the first time the European Union has attempted to initiate a harmonization of patent legislation, such as had been done with the Community Patent Convention. These previous attempts have failed as one can expect from the subject matter of this paper.<sup>50</sup> The future of UPP and potential emergence of compulsory licensing situations should either bolster or dispute the Commission's claim. However, the EU has effectively left compulsory licenses to be handled territorially by the court of the respective Member State.

Despite the aforementioned claim, there unsurprisingly exists an international legal framework regarding compulsory licenses, perhaps most importantly the WTO treaty 'TRIPS' (Trade-Related Aspects of Intellectual Property Rights) and compulsory licenses have been a part of it since it came into force in 1995. More specifically, compulsory licenses are handled under Article 31.<sup>51</sup> Yet, this is merely to create a possibility for a party to apply for a compulsory license in a situation which could require it and some Member States have adopted their approaches from TRIPS.

#### 4.2.3 TRIPS

As stated earlier, in the 1980s technology had started to take its current position of importance in business and trade, which caused concerns relating to intellectual property rights. An enhanced approach was required and it arrived in 1995 in the form of The Agreement on Trade-Related Aspects of Intellectual Property Rights, more commonly known as TRIPS.

Quite comfortably, TRIPS could be described as the most important multilateral instrument regarding international intellectual property laws. Its ratification is a mandatory requirement to join the World Trade Organization (WTO). The main objective of the TRIPS agreement is to minimize the distortions to global trade through strengthening intellectual property protection on a global level. Essentially, the TRIPS agreement sets minimum standards for intellectual property protection and all WTO member states must take necessary steps to conform to these standards. This is usually done by either modifying national legislations or

---

<sup>49</sup> Mezher, 2015

<sup>50</sup> Pila, 2015, pp. 9-32

<sup>51</sup> TRIPS, article 31.

implementing new rules, but ultimately national legislations must be in accordance with the rules set by the TRIPS agreement.<sup>52</sup>

In relation to the Paris Convention, TRIPS did not nullify it, but rather incorporated it under Article 2(1) which stated that “*In respect of Parts II, III, and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19 of the Paris Convention*”. Furthermore, it can be stated that TRIPS expanded further and provided higher standards to intellectual property rights. Fundamentally, the TRIPS agreement requires signees to protect inventions, both products and processes, on any field of technology without discrimination. Interestingly, before 1995 and the coming into force of TRIPS, many countries had excluded the patentability of pharmaceuticals.<sup>53</sup> The TRIPS agreement, consequentially, abolished this possibility for exclusion. Accordingly, the subject of patentability, under TRIPS Article 27(1), came down to three basic conditions which are used to evaluate the inventions right for protection. Firstly, the invention must be new. Secondly, it must include an inventive step. As the third and final condition, the invention must have an industrial application.<sup>54</sup>

Article 28 conferred exclusive rights to the patentees, which allows them to prevent third parties from making, using, offering for sale, selling, or importing the patented subject matter without their consent. However, Article 28(3) confers patentees “*the right to assign, or transfer by succession, the patent and to conclude licensing contracts*”. Additionally, Article 33 set the minimum term of protection to twenty years starting from the filing date.<sup>55</sup>

To conclude so far, it could be argued that up until now, the field of patent law has been mainly governed by national legislations, though there are some harmonizing effects from different treaties (Paris and Berne conventions) and the WTO, to which all Members States are part of.

---

<sup>52</sup> TRIPS Agreement (1995)

<sup>53</sup> Ebomoyi, 2010, pp. 23-39

<sup>54</sup> TRIPS – Section 5, Article 27

<sup>55</sup> TRIPS – Section 5, Article 28

### 4.3 *Exceptions to rights provided by TRIPS*

In many cases, national legislations on licensing based on dependency are quite similar due to the TRIPS agreement. There are some minor differences to assess specific situations, but it seems that the outcome and approaches are quite similar throughout the European Union. On the other hand, not all Member States participating in the UPP have their own provisions regulating compulsory licensing. Furthermore, the TRIPS agreement does not specifically mention ‘compulsory licenses’, yet the patentholder’s exclusive rights protected by the agreement are the subject of compulsory licensing. As TRIPS is directly applicable towards its Member States, it is feasible to delve deeper into the Articles of TRIPS agreement in order to look at a more international approach on the topic.<sup>56</sup>

The framework set by TRIPS allows member states to deviate from the exclusive rights (see Article 28) of the patent owners conferred by the Agreement through exceptions. First of all, the Article 30 of TRIPS provides exceptions to the rights conferred by the Agreement:

*“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.”<sup>57</sup>*

It can be seen, that this Article established the criteria for the conditions for its application. The Article can be divided into three sections and these three criteria have been found to apply cumulatively. In other words, they can be seen as a separate and independent requirement that must be satisfied in order for the exception to apply. Firstly, the exception must be ‘limited’. Secondly, the exception must not ‘unreasonably conflict with normal exploitation of the patent’. Thirdly, the exception must not ‘unreasonably prejudice the legitimate interests of the patent owner, taking account of legitimate interests of third parties’. If all three criteria are not met, the exception cannot be allowed under TRIPS Article 30. The three criteria are to be interpreted in relation to one another as it is possible that the question

---

<sup>56</sup> For example: Spanish patent act – Article 89, Finnish patent act – Article 46, German patent act – section 24

<sup>57</sup> TRIPS – Section 5, Article 30

of exception can fulfill one or two criteria, yet ultimately fail to meet a third one. When such a situation occurs, the exception would not apply.<sup>58</sup>

#### 4.3.1 Article 31 and compulsory licensing scenarios

As the observant readers may have noticed, there are several differing situations for a compulsory license to be issued. Though the terms compulsory license or involuntary license are not directly mentioned in the TRIPS Agreement, compulsory licensing is, however, included in Article 31 under the title “Other Use Without Authorization of the Right Holder”. Basically, this Article lists situations where compulsory licensing may come into question and how the license is to be treated. This section will take a look at different scenarios where a compulsory license could come into question. The topic will be approached through TRIPS Article 31, which is perhaps the core of compulsory licensing in an international context.

To begin with, the Article states that “*Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected*”. This could be argued to mean that a government does not need to have set rules for compulsory licenses and fundamentally does not need to provide a chance for compulsory license. In comparison to the previous chapter, this approach could be considered to be confirmed by inspecting the wording of Article 30 (“*Members may provide...*”). Ultimately, Article 31 seemingly only binds the members who wish to offer the possibility of compulsory licensing.

Article 31(a) states that “authorization of such use shall be considered on its individual merits”, which essentially highlights the case-by-case nature of the field of compulsory licensing.<sup>59</sup> In other words, case law presumably cannot be used as a basis to receive a compulsory license. Therefore, the courts handling such actions must look at each individual case’s details in that specific context. This legislative approach can make it quite difficult to create area or field specific legislation for compulsory licenses (for example: chemistry and

---

<sup>58</sup> Panel Report, Canada – Patent Protection of Pharmaceutical Patents, paras.7.20-7.21

<sup>59</sup> TRIPS – section 5, Article 31(a)

technology). Nevertheless, it can be considered to be generally agreed that patent rights are non-discriminatory when it comes to a certain field of technology.<sup>60</sup>

Secondly, the Article 31(b) highlights the demand of attempting to reach a license deal without judicial intervention. It is quite general and thus allows national authorities to use their margin of discretion regarding each case.

*“such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time.”<sup>61</sup>*

However, the same part of the Article allows governments to waive the requirement in cases of national emergency or other extreme urgency. This allows the government to grant itself a compulsory license for a non-commercial use.

Furthermore, a compulsory license does not give the licensee free rein on the patent itself as TRIPS requires the license to limit the scope and duration to the authorized purpose. This likely should be interpreted as a requirement of proportionality to disrupt the rights of the patentholder as little as reasonably possible, of course, regarding each situation by its own merits. To entertain this idea further, this could also be interpreted in such a way that analogical and comparative evaluation between different compulsory licensing situations may be considered unfitting in most cases.<sup>62</sup>

Section (d) and (e) note that the use without an authorization from the patentholder must be non-exclusive and non-assignable.

The next part, Article 31(f), has been a topic of conversation in some situation. It specifies that the scope of the compulsory license is authorized to predominantly supply the domestic market of the Member granting the license. Interestingly, in Germany, not only the domestic market is emphasized, but also the origin of the supply. German patent law states the following:

---

<sup>60</sup> Cottier – Véron, 2008, p. 98

<sup>61</sup> TRIPS – section 5, Article 31(b)

<sup>62</sup> TRIPS – section 5, Article 31(c)

*“If the practicing of the patented invention by the patentee is not or predominantly not from Germany, a compulsory license in the context of paragraph 1 may be granted to ensure an adequate supply of the domestic market with the patented product. Importation equates to domestic working of the patent.”<sup>63</sup>*

The topic of domestic market and the scope of compulsory licenses will be discussed further on in this paper when the context of Unitary Patent and the EU internal market can be properly applied.

Article 31(h) benefits the patentholder as it requires them to be paid an adequate remuneration for the compulsory license. This is also done on a case-by-case basis and the economic value of the authorization will be taken into account as well.<sup>64</sup> The decision of adequate remuneration is done by the authorities of the country in question and the patent owner is given the right to appeal the decision.

Generally, this topic usually encompasses so called “FRAND”-terms, which is an abbreviation of “fair, reasonable, and non-discriminatory” terms for licensing. FRAND-licensing is occasionally compared to compulsory licenses and the topic will be touched on slightly in this paper as well. Generally, it is considered that a FRAND-license offers the licensee reasonable terms, which would prevent high royalties to the rightholder, whereas compulsory license is usually seen as to benefit the public to access the invention, which otherwise could be unobtainable.<sup>65</sup>

An exception is set at Article 31(k), which states that conditions set in paragraphs (b) and (f) do not have to be obliged in cases where action is taken as a remedy to anti-competitive behavior. This, of course, must be done through judicial or administrative process. Compulsory licensing in relation to competition and as a competition law remedy will be inspected closer later in this paper.

---

<sup>63</sup> Translated from Patentgesetz §24(5)

<sup>64</sup> TRIPS – section 5, Article 31(h)

<sup>65</sup> Ragavan – Murphy – Davé, 2015, pp. 83-120

#### *4.4 Different types of compulsory licenses*

Compulsory licenses can be granted under differing situations, depending on the circumstances. The main goal, however, tends to be to serve the welfare of the public, regardless whether the question is of health or economic welfare. These compulsory licensing types have different prerequisites as each of them might serve a different purpose. Some have the aim to protect competition and foster innovation in the local economy. Other scenarios aim to protect public health in the granting state or to ensure the access to affordable medicine in a developing country. As they can be quite a harsh limitation on the exclusive rights of the patentholder and usually granted under somewhat exceptional circumstances, it is worth inspecting the essential elements of these scenarios.

##### **4.4.1 Dominant-dependent relationship**

As creating a market for one's product or invention can be a very difficult task, many parties rely on improving upon existing innovations. Potentially, the improvement can be worthy of acquiring a patent for itself. Obviously, it has to fulfill the basic prerequisites of patentability: the invention has to be eligible for patent-protection, novel, it has to involve an inventive step (non-obviousness) and the invention has to have an industrial application, in other words, it has to be useful as a tool in the market. The new invention does not necessarily have to be an improvement per se, but merely apply the previously existing innovation. Simply put, there should be at least some kind of a binding relation between the two innovations to establish dependency.

This is where the legal relationship of dependent and dominant patent could be considered to begin. The aforementioned patentability should be reviewed and assessed in regard to its relation to the dominant patent, for example: is the improvement or new application obvious regarding the dominant patent.

Hence, a common situation regarding compulsory licenses is the dominant-dependent patent relationship. To describe this, a situation may arise where a patented invention cannot be utilized without the exploitation of an earlier protected patent. In other words, the new innovation, which improves, relies on or applies a patented invention, creates a situation where it cannot be properly exploited without falling within the scope of protection of an earlier patent (dominant patent) and infringing related exclusive rights.

Here, it is worth noting that a patent cannot infringe upon another patent per se, but only a product or a process can do so. This scenario can also be used to disprove the familiar misconception that a patent would give a right to manufacture a product. Therefore, a license needs to be obtained to utilize the dependent patent, as without it, the manufactured product would likely constitute an infringement of the dominant patentholder's rights.

In the described situation, the holder of the first patent (dependent) must attempt to receive said license for the latter (dominant) from its rightholder. In case the license is not granted, the owner of the dependent patent has a possibility to seek an authorization to use the earlier patent; ergo a compulsory license could be obtained through judicial proceedings.

Understandably, receiving a compulsory license is not self-evident in many situations and applying for it is not the first course of action. To elaborate, the holder of the dependent patent has to attempt to receive a patent license through 'traditional' means; meaning negotiations with the dominant patent holder to voluntarily obtain the license.

Consequently, as the rightholder of the dependent patent should attempt to negotiate the license for the dominant patent and these negotiations do not yield results, the rightholder has the possibility to attempt to acquire a license through judicial procedure; effectively apply for a compulsory license. This negotiation is a prerequisite to apply for a compulsory license and the license has to be attempted under reasonable terms and a reasonable time for negotiations had to be used.<sup>66</sup> On the other hand, the judicial proceeding can also spring from the initiation of the dominant patent holder, accusing the latter patent holder of infringement.

When a compulsory license is issued, it does not mean that the exclusivity and other relevant rights connected to the patent are figuratively 'torn up to pieces'. The rightholder of the dominant patent maintain their rights to the full extent, including the right of being fairly and adequately compensated for the use of their patent under a license. Considering the patents are not governed by the UPP, this adequate compensation would be evaluated by the competent national authorities, who would also handle the case of the compulsory license application.

In order to clarify, it is good to clear a somewhat common misconception that the existence of the dependent patent would infringe upon the dominant one intrinsically. This is not the case,

---

<sup>66</sup> TRIPS – Article 31

as the patent is a negative right. Essentially, this means that it does not permit the patent holder the right to utilize the invention per se, but actually gives the possibility to prevent others from making use of the invention. In this case, meaning that the use of a dependent patent (e.g. producing the innovation for market purposes) can likely infringe upon the dominant patent. To avoid these potential problems, a license for the exploitation of the dominant patent should be issued for the dependent patent holder to truly benefit from the patented innovation.<sup>67</sup>

Specifically on dependency licenses, TRIPS states the following:

*“where such use is authorized to permit the exploitation of a patent (“the second patent”) which cannot be exploited without infringing another patent (“the first patent”), the following additional conditions shall apply:*

- (i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;*
- (ii) the owner of the first patent shall be entitled to a cross-licence 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.”<sup>68</sup>*

The keywords this part provides are in some cases almost directly quoted in national legislations, such as: *“an important technical advance of considerable economic significance”*. Also quite commonly, some WTO Member States have amended the TRIPS conditions almost identically to their respective national legislation.<sup>69</sup> Yet, it provides a necessary framework for many national authorities to assess the situations of dependency licenses.

The International Association for the Protection of Intellectual Property (AIPPI) holds the view that compulsory licensing based on dependency is a “serious derogation from the

---

<sup>67</sup> Silverman, 1995

<sup>68</sup> TRIPS Article 31(l)

<sup>69</sup> Ulrich – Hilty – Lamping – Drexler, 2016, p. 584

fundamental right of the patentee”, which also creates a risk of this right to be dwindled down solely to a right of compensation. While opposing the principle of compulsory licensing based on dependency, AIPPI considers such licenses to be granted only under “extremely” strict conditions. AIPPI argues that these rules should be harmonized and include the following rules for the basis of granting a compulsory license:

- a) considerable importance of the invention of the dependent patent;
- b) that the invention of the dependent patent cannot be worked at all without the licence;
- c) payment of fair compensation to the owner of the dominant patent having regard to the particular circumstances of the case, which compensation should be higher when the two patents are worked in competition with each other;
- d) that the licence be non-exclusive and not freely transferable;
- e) grant of a licence on the dependent patent to the proprietor of the dominant patent if the latter so wishes.<sup>70</sup>

#### 4.4.2 Failure to work

Another common situation, which may warrant the use of compulsory licensing is commonly referred to with the terms ‘failure to work’ or ‘insufficient working’. As the name suggests, it refers to a situation where the rightholder does not adequately use the patent in a certain timeframe. The expiration period is four years from the date of filing for the patent or three years from the date of the grant of the patent, depending on which date expires last.<sup>71</sup>

Historically, being unable to fulfill the requirement of working could lead to retracting the patent. In its severity, this is not commonplace in the field of modern IP rights and could be argued to not be very proportional as a chance of forfeiting the patent in its entirety would likely be a hindrance to innovation in general.<sup>72</sup> However, this was done with the interest of

---

<sup>70</sup> AIPPI Yearbook 1991/I, - Question Q97 - Dependent patents and their exploitation, p. 287-288

<sup>71</sup> Paris Convention, Article 5A(4)

<sup>72</sup> Janssens de Bisthoven, 2013, p. 36

promoting local industries by requiring the patents to be worked locally. Thus, the aforementioned forfeiture has been replaced by compulsory licensing.<sup>73</sup>

Effectively, this tends to work as an instigator for the rightholder to exploit their patent as failure to work could risk giving up exclusive rights to the patent. To sort of turn this around, though patent protection gives its owner a ‘right’ to exclusively exploit the invention, it could here also be argued to be an ‘obligation’ to a degree to exploit the patent to avoid the chance of facing compulsory licensing as a consequence.<sup>74</sup>

The aforementioned Paris Convention Article 5 A(2) States:

*“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.”*<sup>75</sup>

Consequently, many countries have provisions to require the working of a patented invention and the provision might also revoke the patent or require the patentholder to license the invention to other parties. As confirmed earlier in this paper, a proper justification for the rightholder’s inactivity may be used as grounds to refuse compulsory licensing. Generally, inactivity is not desirable from the perspective of public interest as it has the tendency to benefit patent trolls who sit on their patents, with the sole aim of accusing market actors of patent infringement for monetary gain.

In some occasions, ‘failure to work’ has been used to properly supply national markets of the patented invention.<sup>76</sup> Interestingly, there could be argued to be some differences in interpretation of the provision, differing between WTO member states. However, it is clear that nowadays the consequences of “failure to work” are not as drastic as they used to be. Moreover, as failure to work does not necessarily require the patent to be worked locally (e.g. manufactured in the territory of the patent), but importing is seen to fulfill the requirement of

---

<sup>73</sup> Trimble, 2016, p. 488

<sup>74</sup> Ibid.

<sup>75</sup> Paris Convention, Article 5A(2)

<sup>76</sup> *E.g. in New Zealand, compulsory licenses can be allowed if “a market for the patented invention is not being supplied, or is not being supplied on reasonable terms.”*

local working.<sup>77</sup> In Europe, due to the nature of the internal market, it can be seen essential to put importations and local working on equal terms, as is done through competition rules set by the TFEU.

#### 4.4.3 Anticompetitive behavior

The Paris Convention's Article 5 A(3) states the following:

“When a compulsory license is granted to remedy anticompetitive practices, the restriction on predominant supply of the domestic market does not apply, and remuneration may take into account the remedial nature of the licence (Article 31(k)).”

To exemplify, in a situation where the unwillingness to license by a patentholder could be argued to be anticompetitive in nature, a compulsory license could be granted to a third party by an authorized entity. The Article seemingly also takes the chance of remedy even further by allowing the remuneration for the license to be arguably less than adequate. In practice, anticompetitive behavior is a wide umbrella term as it encompasses many forms of conduct on the market.

In the TFEU, the relevant articles here are 101, which prohibits anticompetitive agreements, and 102, which covers the abuse of a dominant position. Licensing of patents is done through agreements, which makes Article 101 the principle instrument from the perspective of competition rules.<sup>78</sup>

However, Article 101 is hard, if not near impossible; to apply towards compulsory licensing as it requires an agreement to exist between two undertakings. This is applicable to the majority of licensing agreements, yet in situations that might warrant a compulsory license; no actual agreement has taken place. Agreement here would be understood as an ‘offer’ and an ‘acceptance’ of the offer. It could be argued that the Article should have a broader interpretation on an agreement for it to be applicable towards compulsory licensing.

Basically, for Article 101 to apply, an agreement between two undertakings should take place which would not allow a third party to license a patent. Furthermore, this agreement to

---

<sup>77</sup> Janssens de Bisthoven, 2013, p. 36

<sup>78</sup> The EU Competition Rules on Licensing – Slaughter & May, p. 1

exclude a potential licensee should cause distortions in the internal market, or in other words, affect trade between Member States. Here, issuing a compulsory license could be a proper remedy for anti-competitive practice, yet compulsory licenses are limited to the territory of the granting Member State.

Article 102, on the other hand, can be used in a scenario where a dominant undertaking refuses to license its patent to a third party, where this third party could not benefit from their later patent without access to the patent of the dominant undertaking as in a common dominant-dependent patent scenario. There are a number of cases where the circumstances have been established where a refusal to license could be considered to constitute abuse.<sup>79</sup>

Firstly, for Article 102 to apply, the court must establish that the undertaking in question holds a dominant position on the relevant product and geographical market. Secondly, the refusal of license must constitute an abuse of the dominant position. This demands a case-by-case approach as there are grounds where refusal to license is legitimately acceptable. Yet, it is important to note here that the CJEU has not been active on forcing a dominant undertaking to grant licenses for patents. Most of the effective ‘landmark’ cases have been dealing with copyrights, designs or other topics. Yet, it is hardly arguable that some rules from these cases could be used for compulsory licensing of patents as the subject matter essentially differs harshly from patent licensing situations.

#### 4.4.4 Prior user rights

An interesting situation can sometimes happen, which can also require compulsory licensing to be resolved and is related to prior user rights. This can refer to a situation where a party (the ‘prior user’) is already commercially working an invention, at which time a patent application has been filed by another party. In the event of successful application, the prior user could be allegedly infringing upon the patent, but understandably the fact that the invention has been worked prior to the application could allow the user to have rights protecting them.

Basically, the prior user can be entitled to a compulsory license, yet it can require special reasons and the prior user must not have had knowledge of the application and could not have

---

<sup>79</sup> Ibid.

been reasonably expected to have obtained knowledge of it. Also, this prior user scenario can apply when there have been substantial preparations for commercial exploitation of the invention.<sup>80</sup>

Interestingly, prior user rights suffered the same fate as compulsory licensing as they have not been regulated in the UPP either.<sup>81</sup>

#### 4.4.5 Government use and national emergency

As already discussed, the TRIPS Agreement allows granting a compulsory license to the government or to a third party assigned by the government. Generally, this is done in public interest for public and non-commercial use, which could, for example, mean a situation regarding public health demanding a fast response from the government. According to TRIPS Article 31(b) in such an urgent situation the need for prior negotiations to license is waived and the patentholder would receive an effective notification of the action at the first practical convenience. Furthermore, under Regulation 816/2006, governments are also able to grant a compulsory license for the purpose of exporting a patented medicine to a country in need. However, a state of emergency does not negate the patentholder's right for fair remuneration.

In some Member States, health is not necessarily the only justification government use. For example, French patent law allows the state to ask for a compulsory license in the interest of national defense, in which case no further justifications are required.<sup>82</sup>

#### 4.4.6 Misuse of compulsory licensing

A healthy dose of cynicism is welcome, as it is can be expected that a regulation, which allows for the use of IP by a third party, could very well attract abuse. As compulsory licensing may be used for renewing a healthy and competitive market, it could in some cases be used to gain an unfounded advantage over competition through abusive practices.

---

<sup>80</sup> European Patent Academy, 2019, p.41

<sup>81</sup> Hilty – Jaeger – Lamping – Ullrich, 2012, p. 5

<sup>82</sup> Art. L. 613-19 IPC (Intellectual Property Code)

Some undertakings strongly oppose to the use of compulsory licenses and see it as an unfair way to impede IPRs. Some have argued that the threat of compulsory licensing is occasionally being used as a negotiating-tool to bully undertakings in order to counterbalance the negotiations. However, it is worth noting that such situations usually involve the government of another country and quite often the question is about emerging economies and developing countries.<sup>83</sup>

---

<sup>83</sup> Taylor, 2017

## 5 COMPULSORY LICENSING IN THE UNITARY PATENT SYSTEM

Finally, the paper has reached the ultimate core of its topic. How do compulsory licenses work in the Unitary Patent system and what kind of effects compulsory licensing issues may have in general? Naturally, as the nature of patents and surrounding matters are quite complex, this question may sound merely quite general and simplified. For now, this is for the reader to tune in easier.

In truth, seeing that compulsory licensing was left out of the UPP, the topic is understandably quite more complex than the previous paragraph suggests. Consequently, it is safe to assume that there has to be multiple “sub-questions” that need answering. The existence of several interest groups, multiple national legislations, centralized patent office, Unified Patent Court, Brexit, FRAND terms, antitrust, internal market and possible effects on innovation create a truly multilayered issue that could challenge the “untouched” and new patent system vastly in unexpected ways.

Therefore, this chapter attempts to illustrate and highlight on these topics and issues, while also trying to answer some emerging questions regarding them. Yet, the moderate novelty of the subject matter may cause some questions to receive a practical answer in the future. Many of the issues are intertwined and may have strong effects on one another. All in all, the chapter aims at answering a highly simplified question: where does compulsory license fall in this entire jumble?

### *5.1 Interest groups*

As a first proper stop on this chapter, it could be suitable to look at some of the interest groups that play apart in this matter. As technology continues to develop, the interest in intellectual property tends to only increase. As stated earlier, currently 44% up to even 75% of resources of businesses are connected to some form of intellectual property, making it ultimately as important as raw materials or industrial base in comparison.<sup>84</sup> Consequently, this also increases the importance of certain groups which tend to have something (or in some cases even everything) at stake regarding the issues at hand.

---

<sup>84</sup> Commission of the European Union, Twelve projects for the 2012 Single Market: together for new growth (Press Release, IP 11/469, 13 April 2011)

In 2006, the International Federation of Inventors Association released a good summarization of these interest groups while making recommendations to a new EU Patent Policy. The five interest groups with decisive interest on the matter were listed to be: society as a whole, the inventor, the owner of patent rights, patent office, and patent attorneys. Their interests are also specified here:

- *The interest of society is the provision of sufficient food, energy, and health for all.*
- *The interest of the inventor is creation itself.*
- *The interest of the owners of patent rights is profit.*
- *The interest of patent attorneys is profit.*
- *The interest of patent offices is revenues.*

...And how these interests can be met:

- *Society needs inventions to satisfy needs*
- *Inventors need simple and cheap legal protection that ensures the realization of inventions.*
- *The interests of enterprise in addition to profit depends on their size. Large enterprises, as owners of patent rights, aim at high-cost patents to bar competitors from entry. Small and medium sized enterprises desire low cost and simple protection*
- *National patent offices strive with high revenues and extended influence, with minimal responsibilities and workload.*
- *Patent attorneys desire a complicated and cumbersome patenting process that renders their services inevitable.*<sup>85</sup>

They also argued that a single EU wide patent is not an interest that all these aforementioned groups share. It was argued that it would speed up innovation and thus, it would benefit society. Also, for smaller scale ‘players’, such as the inventor and small and medium sized enterprises, this would also be beneficial. Yet, large enterprises, patent attorneys and national patent offices are not in favor of an EU patent system over the current one.<sup>86</sup>

Though, it is now clear that most policy creators opted for a unitary system, these alleged views are not completely outdated or not important as they provide viable points when

---

<sup>85</sup> Vedres, 2006

<sup>86</sup> Ibid.

evaluating the Unitary Patent system and the issues that come with compulsory licensing. As said, it is a delicate balancing act.

## 5.2 *Exclusion from UPP*

As we know by now, compulsory licenses were excluded from the package, yet this paper has been relatively vague on why it was purposefully left out. Indeed, the UPP is not the first attempt at creating a supranational community-wide patent system.

Earlier attempts have taken place and compulsory licensing has played a part in them. One of which culminated at the Community Patent Convention (CPC) in 1975, which sought to build a foundation for supranational patent litigation and compulsory licensing. This was sought to be achieved through a community patent, which too attempted to grant patent protection throughout the European Economic Community without the requirement of separate validation from each Member State. In this case as well, the compulsory licenses were left to Member States and their respective courts.<sup>87</sup>

However, this convention and the community patent never took effect as the EEC did not have the competence to create this new patent and it was dependent on the Member States ratifying for it to take effect. It could be assumed that therein laid the problem of it as ratification in some instances would have required referendums, even modifying the constitution and more issues could have arisen with new Member States. Additionally, there were other potential issues that hindered the viability of the convention.<sup>88</sup> All in all, this attempt was ultimately a failure, but in its ambitiousness, it was the first true attempt to create unified patent protection in Europe.<sup>89</sup>

Originally, the UPP was intended to include rules on compulsory licenses and prior user rights. The exclusion of these rules can be argued to defy the level of harmonization of the package as the result was the usage of national laws to regulate these. The lack of a single

---

<sup>87</sup> Pila, 2015, p. 10

<sup>88</sup> *E.g. Burdensome language regime, uncertain economic impact, jurisdiction.*

<sup>89</sup> Pila, 2015, p. 11

court with jurisdiction to grant compulsory licenses is arguably a proof of imbalances in the UPP.<sup>90</sup>

One reasoning behind the exclusion of compulsory licensing from the UPP is the Commission's statement that compulsory licensing can only happen on the national level.<sup>91</sup> This can be argued to be in line with TRIPS Article 31 as compulsory licenses are meant to be issued under national legislation and confined to the state in question. This, however, does not clear the question of the UPC's jurisdiction which will be examined later in this paper. Moreover, issuing compulsory licenses territorially does not necessarily mean that there is not any 'spillage' as compulsory licenses may have an effect on IPRs on the international level, innovation and the internal market. Arguably, this statement merely rules out the potential of a community-wide compulsory licensing regime in the near future.

As it is known, first steps towards creating a unitary patent system were taken in 2012 with Regulation 1257/2012 which began the implementation of enhanced cooperation. In regards to licensing, recital 7 acknowledges that:

*"It should be possible for a European patent with unitary effect to be licensed in respect of the whole or part of the territories of the participating Member States."*<sup>92</sup>

Article 3 establishes this slightly further:

*"(European patent with unitary effect) may only be limited, transferred or revoked, or lapse, in respect of all the participating Member States. It may be licensed in respect of the whole or part of the territories of the participating Member States."*<sup>93</sup>

Interestingly, the Article implies that limitations may only be done in all Member States simultaneously, yet such limitations to exclusive rights such as licenses can be done on the national scale or even the community wide scale. However, the Article does not exclude compulsory licensing of unitary patents, but in respect of the wordings of the Regulation, compulsory licensing probably should be considered a wholly different issue of its own, in

---

<sup>90</sup> Jaeger, 2012, p. 8

<sup>91</sup> Mezher, 2015

<sup>92</sup> Regulation 1257/2012, rec. 7

<sup>93</sup> Regulation 1257/2012, Art. 3

comparison to ‘traditional’ licensing. Understandably, the earlier recital 10 of this regulation promptly expressed that:

*“Compulsory licences for European patents with unitary effect should be governed by the laws of the participating Member States as regards their respective territories.”<sup>94</sup>*

This, too, strongly implies that such exceptions to the exclusive rights shall be confined in their scope to the territory of the Member State in question. Some have argued that the reasoning behind this recital would also leave compulsory licensing cases to the national courts’ jurisdiction, yet the recital does not refer to jurisdiction, but solely to the relevant source of law on the topic.

Essentially, the approach of the Regulation towards compulsory licenses is quite understandable as some Member States have withheld from implementing compulsory licensing rules in their respective legislations. On the other hand, this means that the lack of harmonization regarding compulsory licenses could possibly cause a situation whereby a patent with unitary protection may receive differing treatment in one Member State compared to another. Arguably, this could be seen as problematic from the perspective of creating a patent which aims to unify and harmonize the level of protection of intellectual property rights.

The statement from the Commission and the Recital set some limits to compulsory licensing, yet neither truly answers all the questions that may arise. To specify, the answers given solely express directly that source of law in regards to compulsory licensing is national legislation and compulsory licenses can, as it currently stands, only be done within the confines of the territory of a Member State. Thusly, it is worth examining further later in this thesis as the UPC shall use national legislations as a legal source in its proceedings. Furthermore, the nature of the internal market in relation to the community-wide patent generates a situation worth exploring.

---

<sup>94</sup> Regulation 1257/2012, rec. 10

### 5.3 *Seeking a compulsory license under UPP*

Likely, it will be fascinating to witness how national compulsory licensing regulation will end up dealing with patents with unitary protection. Evidently, all the patents dealt with in the UPP have the same level of protection, yet there are some differences between national regulations where granting a compulsory license can come into question. Logically, it could be presumed that national licensing policies do not necessarily differ regardless whether the questions is of a national patent or a patent with unitary protection. This presumption is based on the fact that the basis for handing out a compulsory license has not been subject to change in national legislations as it has been supposedly left under the competence of national jurisdictions. This presumption may turn out to be questionable as processes may differ in Member States, which could arguably be counterproductive from the perspective of harmonization, and there exists the possibility that the UPC might eventually take an active role on compulsory licensing of unitary patents. The possible role of UPC will be discussed later in this paper.

Even though compulsory licenses have not been regulated on an EU level, it is worth noting that the CJEU has affirmed that compulsory licensing of patents is possible.<sup>95</sup> Consequently and to reiterate, as the EU has not truly used its legislative powers in this regard, compulsory licenses are, ultimately, governed by national legislations. Yet, the question remains, how will this affect the parties involved?

Often, national patent legislations designate a competent authority with jurisdiction to grant a compulsory license. This could be seen to imply that the UPC would not have authority to grant compulsory licenses, but as the decisions are appealable, could it eventually be possible to see a case reach a “European” level? As noted earlier, compulsory licenses have been touched upon by the CJEU before.

All licenses, including compulsory licenses, must be registered with the EPO. If a patent holder registers a willingness to license to anyone with the EPO, the rightholder is entitled to

---

<sup>95</sup> Case C-30/90, *Commission v United Kingdom*, [1992] ECR I- 00829.

yearly renewal fees reduced by 15%.<sup>96</sup> This can work as an incentive for patentholders to license their inventions.

For a party seeking a license, the issue seems to be quite similar as before for the time being, at least. The requirements and conditions for acquiring a compulsory license have not, and likely do not, change in the face of UPP. This can be argued to be likely, as it has been established by the Commission that compulsory licensing can only happen on a national level. Thus in a “basic” scenario, the party in question must attempt to negotiate a license before applying for a compulsory license.

In certain situations, some Member States allow compulsory licensing to satisfy the demand of an invention in their territory. In other words, the Member State can secure the supply of a patented invention in its own market. Basically, this is done on the basis of “failure to work” reasoning. This, however, could be questionable in regards to the unitary patent protection and the internal market. It could be argued to be overriding the unitary protection of the patent with local patent legislation for the sake of the domestic market.

Nonetheless, these are merely simplified approaches on the topic, though international agreements have had a slight harmonizing effect, as Member States have the authority to define the grounds and requirements for granting a compulsory license. The requirements of necessary public interest and justifications on the matter might differ between Member States, which could ultimately be the explanation for the exclusion of compulsory licensing from UPP.

As this paper has already established, there are several different types of situations that might warrant compulsory licensing and it would be unfeasible to assume that these would be dealt with in similar manners throughout the Member States. It is quite likely that differences exist also in how each Member State approaches each of the compulsory license types. The likelihood of receiving a compulsory license also differs between Member States with some being more likely to grant them, whereas others grant them very rarely.<sup>97</sup>

---

<sup>96</sup> Decision of the Select Committee of the Administrative Council of 15 December 2015 adopting the Rules relating to Fees for Unitary Patent Protection (SC/D 2/15) – Article 3, and Regulation 1257/2012, rec. 15

<sup>97</sup> Kaesling, 2013, p. 108

As there is no community-wide compulsory licensing, receiving a compulsory license to cover all the Member States would be a gruesome task for the party seeking a license. As it is not possible for a centralized approach, as is the case with the bundle of patents through the EPO, this would require the party seeking a license to apply separately in each Member State. Essentially, this could easily become a costly procedure for that party and all the Member States involved.<sup>98</sup> Nonetheless, this does not seem to be a different procedure from how it has been before the UPP. Accordingly, it does not show any real improvement, but on the other hand, it does not seem to be any worse. Conceivably, this could be the chance for the UPC to take part in granting compulsory licenses as a more centralized organ.

However, the economic result of this situation may cause the potential licensee to give up on plans of applying for a compulsory license or at least choose not to apply in economically less significant Member States.<sup>99</sup> Also, the differences in the likelihood of receiving a license between Member States make it difficult to create a community-wide approach. Some scholars seem to argue that a centralized approach would reduce costs, shorten the procedural duration, create better access to compulsory licenses and increase legal certainty.<sup>100</sup>

Somewhat commonly, compulsory licenses tend to include a prohibition to export for the licensee. Basically, this means that the original patentholder can block the licensee from exporting their product to other territories, essentially being bound to the Member State where the compulsory license has been issued. In essence, it has been established in CJEU case law that the proprietor of a patent can prevent the marketing of product in a Member State, where it holds a parallel patent, even if the product has been manufactured in a Member State where it has been granted a compulsory license.<sup>101</sup>

Basically, this confirms that the rights of the patentholder are not exhausted in regards to the whole internal market. Yet, it is worth noting that in this case, the patents being discussed are two separate ones governed by those Member States in question. In light of future research, it could be worth exploring whether exhaustion is dealt with differently as both Member States

---

<sup>98</sup> Ibid. p.109

<sup>99</sup> Ibid. p. 109

<sup>100</sup> Jaeger, 2010, p. 71

<sup>101</sup> CJEU Case 19/84 [1985] ECR 2281

are governed by a single patent. Furthermore, would the single unitary patent be handled characteristically as a separate parallel patent in the other Member State?

From a certain view, it would seem that the proprietor of the patent holds the right to prohibit exportation to other Member States under UPP as well. This can be argued as such, as in the opinion of the Advocate General is indicated that the right to prohibit exportation in such situations is not in conflict with the rules of free movement of goods.<sup>102</sup> Generally, this can be argued to mean that exhaustion in one Member State does not imply exhaustion in respect of other Member States.

In regards to the unitary patent, it could be argued to be likely that exhaustion under the UPP is not contingent upon a compulsory license in a Member State, as has been the case before the UPP. Additionally, it is hard to imagine a situation, such as the one described earlier, to be dealt with much differently under the UPP in light of the fact, that the EU has shown little to no interest in incorporating a community-wide compulsory licensing regime and basically, restricting the application of compulsory licenses territorially to each Member States' jurisdictions. As the CJEU is likely to maintain its stance on the topic, it is hard to imagine the UPC deviating from this approach.

However, the UPP can be considered as advancement even without the inclusion of harmonizing compulsory licensing rules. It benefits the free movement of goods while it does not hinder the position of parties seeking a compulsory license. One of the questions that may arise is whether the unitary patent protections suffer in some Member States that are more willing to award compulsory licenses to applicants?

To consider this further, the question of uniform compulsory licensing rules emerges as the current system could possibly place the unitary patent on unequal footing on differing national markets, in regards to compulsory licensing. This would most likely be unbeneficial for the development of the single market. Especially, in the case of dependent patents a community-wide solution would be an advance in the internal market as the unwillingness to license is not generally contingent upon the territory in question. It has been argued, that a basic patent

---

<sup>102</sup> CJEU Case 19/84 [1985] ECR 2281, Opinion of AG Mancini para. 5

should not be able to be used to prevent the exploitation of innovation as it bares the potential to discourage innovation even further.<sup>103</sup>

The potential benefits and downfalls of a unitary compulsory license system will be further discussed later in this paper. A community-wide approach demands an active role from a court as well, for which it is necessary to discuss their roles beforehand.

#### *5.4 Compulsory licenses in litigation*

To begin with, this part has been a real ‘nut to crack’ regarding this topic as the exclusion of compulsory licenses with a single recital leaves quite a few questions hanging. These questions relate to jurisdiction and competency between the UPC and national courts. To take this even further, it is not necessarily impossible that the CJEU would have something to say on this matter. The CJEU has commented on compulsory licenses before as has been already established in this paper. Does the UPP change the landscape of judicial proceedings regarding compulsory licenses?

Regarding the Commission’s comment on compulsory licensing and its territorial nature, it could be considered likely that compulsory licenses will be handled by local authorities of the Member States, at least to begin with. As established earlier, some scholars vouch for a community-wide approach and this would likely require a centralized organ to handle compulsory licensing cases. In the case of patents with unitary protection, the UPC would seem to be the most reasonable choice. In any case, the competence for the UPC to rule on compulsory licenses has not been ruled out in the current situation.

##### *5.4.1 National courts and compulsory licenses*

As the situation stands, the national court of Member States hold competence on compulsory licensing cases regarding patents with unitary effect, similarly to other issues that do not fall under the exclusive competence of the UPC.<sup>104</sup> However, before Regulation 1257/2012 and the UPCA, the competence of national courts to handle compulsory licensing cases had been

---

<sup>103</sup> Kaesling, 2013, p. 110

<sup>104</sup> Article 32(2) - UPCA

questioned by some scholars. This view was based on the fact that the exclusivity of the unitary patent derives from EU law and not from national legislations and that notion of compulsory licensing in the UPP “pretends to rely on national legislations” through a recital, rather than giving national authorities any actual competence on the matter.<sup>105</sup>

Though, this acknowledges policies and legislations of respective Member States, it was argued that there is no practical or legal way to make compulsory licenses available on unitary patents as the Member States would not have the power to weaken the exclusivity provided by EU law.<sup>106</sup> Nonetheless, this interpretation does not exclude the possibility for the UPC to rule on compulsory licenses regarding unitary patents, yet the intentions that have been implied in the agreements would suggest that compulsory licenses are not aimed at being dealt with by the UPC. This interpretation would have made possible that patents with unitary protection could be safe from compulsory licenses, if national courts were to be deemed to lack competence and the UPC would be unwilling to take the matter under its control.

It could be argued that such a deadlock would be less than desirable from the aspect of the internal market and innovators, especially those with dependent patents. In essence, such a situation could seemingly stop compulsory licensing altogether. This could also mean that a patentholder could withhold patents if it was in its own interest, which would prevent dependent patents from being worked and as such, hinder, or even to a certain extent block innovation in the internal market.

Eventually, this would likely cause an unbearable imbalance between patent protection and competition rules and thusly, could be seen as an unlikely outcome of the UPP and compulsory licensing. Luckily, the UPCA grants jurisdiction to national courts on issues outside the UPC’s exclusive competence, hence such authorization could now be considered to be more than mere “paying lip-service” to the availability of compulsory licenses through national court systems.

Even though national courts have been given the jurisdiction, this does not mean that Member States’ courts’ territorial handling of compulsory licenses is not without its issues, as it breaks the ‘illusion’ of proper harmonization into a multilayered structure with a lack of clear

---

<sup>105</sup> Ullrich, 2013, p. 28

<sup>106</sup> Ibid.

guidelines and limits between these layers. Here, one possible outcome for patent applicants is the possibility to “cherry-pick” between a patent with unitary protection and the so-called EU bundle patent. This will be possible during the so-called transitional period in implementing the UPP to de facto use.<sup>107</sup>

Ultimately, this caters to the interests of owners of these patent rights as they could attempt to build an optimized protection regime for themselves. This could be done to avoid hindering the overall protection of the unitary patent caused by a compulsory license, as different Member States’ courts have different approaches to compulsory licenses and initially it is possible that these differences become more highlighted in the face of the unitary patent. Effectively, this causes the Unitary Patent system to seem more scattered than the situation previously which can be deemed to be a failure from the aspect of harmonization.<sup>108</sup> All in all, this might not be a viable option for smaller businesses as cost efficiency of the Unitary Patent system would still likely be an attractive prospect.

This kind of fragmented protection is not what is intended with the UPP and it is likely that certain measures would be taken to avoid the possibility to abuse the system. Fragmented protection carries the likelihood of creating imbalance in the internal market, yet it seems to be a likely issue with compulsory licenses regardless of how the situation is managed. Territorial compulsory licenses granted by local authorities could eventually cause distortions on certain parts of the internal market and also, essentially have differing effects on innovation geographically.

Initially, there does not seem to be an issue for Member States’ courts to take on cases involving unitary patents. Their competence has been somewhat challenged by some, yet it could be argued to be established properly by the UPCA Article 32(2). Compulsory licenses have not been treated as a pressing matter and it seems that the intention, as far it goes with national authorities, is to allow the compulsory licensing landscape to remain somewhat similar to prior. That is, until it were no longer considered to be appropriate, cases involving unitary patents would be dealt with by the UPC.

---

<sup>107</sup> Ibid. p. 29

<sup>108</sup> Ibid.

Cutting the competence of national courts would surely increase the workload of the UPC. Furthermore, it would take decision making of a territorial nature further away from the location where the decision would be implemented. On top of this, the ability of the UPC to make decisions on compulsory licensing cases could be questioned, due to the fact that compulsory licenses are governed by national legislations.

All in all, national courts currently have competence and also, would seem like a proper instance to handle territorial compulsory licensing, but a question of their competence to grant one remains slightly open as the legislation used cannot necessarily overcome the primacy of EU law.<sup>109</sup> In a worst case scenario, an otherwise competent national court could take on a compulsory licensing case and eventually reach a conclusion where it could deem itself unable to grant a compulsory license due to lack of competence of national legislation. A situation like this would most likely require a precedent from the CJEU to clarify. Interestingly, the CJEU has not been involved with patent cases to a large extent, with exception to cases regarding the free movement of goods and antitrust issues.<sup>110</sup>

#### 5.4.2 UPC's competence on compulsory licensing

The UPC has been established to settle “disputes relating to European patents and European patents with unitary effect”<sup>111</sup>, yet it does not carry an exclusive competence regarding cases of compulsory licenses. Of course, there are numerous actions to which the UPC has an exclusive competence which are listed in the UPCA Article 32(1). Interestingly, Article 32(2) states that national courts remain competent for actions which do not fall directly under the UPC's exclusive competence; such is the case with compulsory licenses.

This could be argued to imply that national courts have shared competence regarding these ‘not-on-the-list’ actions, but the extent of competence remains somewhat unclear. However, the actions excluded from the list cannot be directly interpreted to fall under the exclusive competence of national courts. Consequently, this creates an interesting issue regarding the competence of handling compulsory license cases as it does not void the UPC of competence

---

<sup>109</sup> See 5.5.1

<sup>110</sup> Schovsbo – Riis – Petersen, 2014, p. 272

<sup>111</sup> Article 1 - UPCA

regarding cases outside its exclusive jurisdiction. This can be argued to be the case, as compulsory license actions can also be defined as disputes relating to unitary patents.<sup>112</sup>

And once more, to take this situation further, the CJEU is generally the final establishment to interpret the regulation and solve the question of jurisdiction. Thus, it could be considered quite likely that the CJEU will eventually have to take part in this one way or another. This and the impact of the CJEU will be discussed soon thereafter.

These are issues that must be dealt with in a proper manner for the whole system to work reliably. Historical evidence shows that international courts sometimes have a tendency to expand their jurisdiction further than originally has been intended. Currently, it can be argued that the vague sentences of UPCA Article 32 do not properly answer the questions of jurisdiction. Furthermore, the relationship and balance between the UPC and national courts has not been established in a clear manner and it apparently is not governed by EU law, thus even the CJEU may not be able to clear the issue as one might hope. This could have potential to create a situation where the UPC could seize the competence of national courts which would prove to be very challenging or perhaps even impossible to overrule in domestic instances.<sup>113</sup>

Though the aforementioned situation is possible, it could still be considered quite farfetched, yet an issue that might need to be analyzed. Such an occurrence could be described as being controversial and somewhat threatening towards the unitary patents system's reliability; though a single governing instance could perhaps serve towards legal certainty and congruent decisions. On the other hand, this might be hard to establish, as there is no uniform regulation or practice on compulsory licenses.

When it comes to controversy, such action would allow the UPC to be competent in areas that have been exclusively governed by national legislations. These areas would include European patents as property, patent license agreement disputes and compulsory licenses. Interestingly, this probably would harmonize European patent law much further than the UPP has intended in the first place, which could conceivably cause some disapproval from some instances. Also, it is worth noting that the UPP does not attempt to remove the competence of national

---

<sup>112</sup> Petersen – Riis – Schovsbo, 2014, p. 335

<sup>113</sup> Petersen – Riis – Schovsbo, 2014, p. 335.

courts to this extent, even though the UPC does use relevant national laws dealing with different cases.<sup>114</sup>

Obviously, the UPC's involvement in compulsory licensing cases could create a conflicting situation regarding the competence of national courts. More so, as the UPC might be required to heavily rely on national legislations while solving the matters, as in some cases, national legislation may require a specific institution or administrative authority of the Member State to grant the compulsory license.<sup>115</sup>

This analysis could be used to argue that the UPC possibly should not extend its competence over the actions listed in the Article 32(1); hence the UPC would not be redeemed as a viable option to deal with compulsory licensing cases. This would mean that a party seeking to be granted a compulsory license would have to take action in a national instance. On the other hand, the UPC should play an active role if a community-wide compulsory licensing regime would eventually take place. Then again, it is arguable whether the UPC is able to answer the territorial public interest that is strongly connected to compulsory licensing currently.

Currently, it seems that the UPC will not have competence to hear applications of compulsory licenses or grant compulsory licenses per se. However, related competition and national rules could be applied as balancing instruments in cases involving other actions, which would force the UPC to deal with compulsory licensing in essence.<sup>116</sup>

#### 5.4.3 UPC – effects of the court to EU legal landscape

Even though it would seem that the UPC should not necessarily deal with compulsory licensing cases, it is still possible that in certain situations it might have to, as was discussed in the previous chapter. The UPC's exclusive competence includes infringement actions on the basis of Article 32(1) and these actions can sometimes have the defendant base their stance on competition rules or even have a counterclaim demanding the patentholder grant a license. Article 32(1) states that the UPC has exclusive jurisdiction in respect of "*actions for*

---

<sup>114</sup> Ibid.

<sup>115</sup> Ibid.

<sup>116</sup> Ibid. p. 339

*actual or threatened infringements of patents and supplementary protection certificates and related defences, including counterclaims concerning licences*". This can be argued to be seen as a reference towards compulsory license scenarios as well.

Furthermore, though this does not directly state competition law defenses, it can be argued that the UPC should take defendants positions into account in such cases, e.g. defendant invoking abuse of a dominant position under the TFEU Article 102. Consequently, this would allow all the issues and facts relating to the case to be handled in the same court rather than requiring the defendant to seek a separate case in a national court. Forcing the defendant to seek a separate case would also not serve procedural efficiency and would risk creating judgments with varying results and possible discrepancies.

The defendant may be inclined to make a counterclaim for granting a license with the basis of competition rules or national compulsory licensing rules, yet it could be described doubtful at current time. This is based on the aforementioned article, which causes the UPC to not have exclusive competence over such counterclaims and as such, national courts could also hold competence over such counterclaims.

As already discussed earlier, the competence of the UPC exceeds the exhaustive list of exclusive competence matters in Article 32(1), yet it leaves blanks for questions on competence regarding other issues, e.g. whether the UPC carries parallel competence to make decisions on other matters. In a certain situation, such as the aforementioned, it can be argued that a counterclaim is so closely connected that it should be considered to be part of the main dispute at hand, thus it would be beneficial to be tried in the same court simultaneously.

This argument leads to the assumption that the UPC's competence to apply relevant law over other matters would not only be practical due to procedural efficiency, but it would also be a necessity regarding counterclaim cases as a whole. This would also mean that the UPC would be competent to rule in cases where the governing law could be exclusively based on national legislations, such as compulsory licenses. Interestingly, this has been argued to fall outside the intentions "*for establishing the UPC to decide these other claims*" and the institutional design of the UPC does not appear to be specifically suited to decide such counterclaims.

### *5.5 Potential issues of compulsory licenses under UPP*

The whole topic of compulsory licensing of unitary patents could be seen as an unsolved issue that has been cast aside to be dealt with a later moment in time. As there is a somewhat ambiguous indication as to which court will be properly competent to handle compulsory licensing cases, there could surface several potential issues and questions which eventually should be answered thoroughly. For now, it is a safe assumption that compulsory licenses will be dealt with by national courts initially at least, though some arising issues may require a wider perspective that could be offered by the UPC or the CJEU. Nevertheless, there still is the somewhat conflicting situation where national law is used to govern a legal item created by the EU. (5.5.1)

Additionally, due to the territorial nature of national compulsory licensing rules, the issued compulsory license will only cover the territory of a single Member State. Regardless of the nature of the Unitary Patent which covers all participating states, the licensee can only benefit from the license in that particular Member State. Consequently, a large part of the EU internal market is out of the licensee's reach. This is due to the situation, where the patent protection still holds up to its usual extent with the exception of one fraction of the market. Essentially, this excludes the licensee from properly entering the internal market as compulsory licenses tend to have a prohibition on exporting. In certain cases, it is quite possible that this does not suffice for the needs of the licensee and could hinder innovation as a whole. (5.5.3)

Consequently, the situation might require the licensee to seek further national compulsory licenses in other Member States to cover the rest of the internal market, which could burden a part of license-seekers disproportionately. Due to this, some questions may be necessary to be asked. Could the UPC be a proper instance to consider dealing multiple compulsory license claims at once and granting multiple compulsory licenses under national legislations? On the other hand, as compulsory licensing rules may distinctively vary between Member States, could a uniform set of rules for compulsory licensing come into question to avoid multiple prolonged processes in a case where a party seeks a compulsory license to cover the whole internal market? (5.5.4)

To give a simple answer to the question of uniform EU rules on compulsory licensing, it can be deemed improbable to happen with the current state of affairs. First of all, compulsory licensing was specifically excluded from the package as was the will of some Member States

taking part and it is difficult to imagine their standing on the topic to have distinctively changed given that the Unitary Patent is not in full effect as of early 2019. Secondly, some of the Member States do not have national legislations that outright govern compulsory licensing and it could be mooted as being a farfetched assumption that a direct EU level approach on that area would receive very much support initially. Even if an EU level compulsory licensing regime on Unitary Patents could be considered as one of the answers to the issues raised in this paper, it could be seen as an unlikely approach for now at least, until it could be clearly deemed to be the most advantageous for tackling the aforementioned issues.

### 5.5.1 The impact of CJEU on compulsory licensing under UPP

As has been established in this paper, the initial cases of compulsory licenses will be dealt with by competent national authorities. However, it does not clear the air completely, as compulsory licensing requires the use of domestic rules. The unitary patent bears the element of exclusivity, as other patents do as well. Yet, this exclusivity is granted by EU legislation which, simply put, is above national legislations in hierarchy. Surely, compulsory licenses have been left to be dealt with Member States' rules, but can these rules be applied to weaken or cripple the exclusivity donned by EU law's primacy?

Basically, governing an object of EU law with national legislation seems somewhat flawed to begin with, even though the intention to do so has been explicitly stated in the UPP. Implicitly, the EU seems to have attempted to bypass norm hierarchy in the simplest way it could present to the Member States without risking the UPP and without thoroughly displeasing certain interest groups. It has been argued that limiting the exclusivity of the unitary patent would require authorization from an EU-legislator. Arguably, the mere recital in the UPP does not fulfill the requirement to do so otherwise.<sup>117</sup>

Such authorization has been given to the national courts, yet compulsory licensing has been brushed aside with recital merely stating that they should be governed by national laws in relation to their respective territories. Actions to amend this recital into national patent legislations have been taken in Member States.<sup>118</sup> However, legal hierarchy and the primacy

---

<sup>117</sup> Ullrich, 2013, p. 43

<sup>118</sup> e.g. In Finland: Patentilaki 1967/550, 70 x §

of EU law can cause this to be a mere formality, unless the amendment has a strong legal basis in EU law. Evidently, it would seem that the recital is all compulsory licensing gets for the moment.

It has been argued that Member States have no competence left under TFEU, if the topic of compulsory licensing falls under the umbrella of shared competence at all. Furthermore, it has been said that the CJEU case law does not allow Member States to invalidate or detract from acts originating from EU law. It has been argued that the UP regulation does not provide such exception for the Member States regarding compulsory licenses.<sup>119</sup>

Thus, even though compulsory licensing is governed by national legislations, it is not out of the CJEU's jurisdiction. As the underlying issue is the potential conflict with EU law primacy, the CJEU will eventually have to decide whether or not the Recital 10 of the UP regulation is compatible with EU law, seeing that several scholars have argued that the recital is not enough for national legislations to restrict the exclusivity of unitary patents.

This also means that the CJEU would have to expand its jurisdiction more towards the field of substantial national patent law as primary and secondary EU laws are evidently lacking. The issue could have its effects on the single market and the free movement of goods, which have been in center focus in CJEU jurisprudence.<sup>120</sup>

By themselves, treaties and agreements cannot justifiably allow derogations from EU law and accordingly, the CJEU has not been favorable with regards to allowing national legislations to surpass the primacy of EU law. As it stands, the exclusivity of the unitary patent is granted by EU law, thus accordingly, the CJEU has to solve national compulsory licensing of unitary patents' compatibility with EU law as the mere recital cannot provide an answer. Arguably, some interpretations exist that could alleviate the situation.

Basically, such actions where Member States' legislation is being used to topple EU law have been deemed infringing and inconsistent with EU law without fail. However, CJEU could possibly examine the compliance of this situation with the rules set in the EU Fundamental Rights Charter. Essentially, regarding Article 47 (effective judicial protection) and Article 17

---

<sup>119</sup> Hilty – Jaeger – Lamping – Ullrich, 2012, p. 5

<sup>120</sup> Dimopoulos, 2015, p. 62

(right to property) respectively.<sup>121</sup> Effectively, it could be argued that the availability of compulsory licensing ensures the fundamental rights of owners of dependent patents. The application of fundamental rights to patent law would also highlight the differences between a highly specialized UPC and the more general approach of the CJEU.

Yet, this is not necessarily an option which the EU wishes to take to amend the situation, as facilitating national measures over EU regulation could have further issues. This would allow the Member States to apply national standards of fundamental rights, given that the EU standard is not higher. Also, it has to be noted that stating the aforementioned compliance would not necessarily be without its issues either as this application of fundamental rights by the Member States has to be done without risking the primacy of EU law, its uniformity and effectiveness.<sup>122</sup>

The CJEU's case law has confirmed that a patentholder can prevent a licensee from entering markets where it holds a parallel patent.<sup>123</sup> Arguably, this confirms the territorial limits of compulsory licenses. Thus, even if the CJEU's interpretation of the UPP allowed compulsory licensing of unitary patents, the compulsory licenses would still remain confined to the territory of the granting Member State. To this extent, the unitary patent would likely be treated as a national patent in the granting state, yet the unitary effect would still be enforced in other Member States.

Effectively, the CJEU's decision to allow national compulsory licenses could have a deteriorating effect on the uniformity of the patent system and cause territorial fragmentation in the internal market. This fragmentation could have more general effects on competition in general, which could lead to the CJEU having to take a more active role in the application of substantial patent law. In essence, this could also weaken the significance of the UPC.

Another issue would arise, if CJEU was not able to find a path to approve national compulsory licensing of unitary patents. The inapplicability of compulsory licensing to unitary patents could make follow up inventions and dependent patents unworkable in worst case scenarios, which could carry lasting negative effects on innovation in the EU.

---

<sup>121</sup> Mylly, 2017, p. 39

<sup>122</sup> Ibid.

<sup>123</sup> CJEU Case 19/84 [1985] ECR 2281

To guide the analysis, the interpretation of the compulsory licensing exception could be argued to be derived from competition policy rather than patent law. Though, the exclusivity of the unitary patent is touched upon, the main purpose of the exception could be seen to be securing innovation and competition on the market. Thus, the CJEU's evaluation should likely be done with a wider perspective on the basis of fundamental rights and competition in general rather than solely on patent policy. In the European court system, the UPC cannot be completely autonomous, yet arguably, the aforementioned perspective could also safeguard the somewhat independent position of the UPC as the single specialized patent court in the EU.

However, the result will show how convoluted and complex the multilayered system essentially is. The CJEU might eventually have to make decisions on obstacles concerning the UPP in general, which could harm the effectiveness and efficiency of the Unitary Patent system. Yet, the extent of the CJEU's involvement in the UP system and its effects will remain to be seen.

Arguably, the lack of clarity of compulsory licensing rules under the UPP is able to create fragmentation in the markets. Furthermore, the possible scenario whereby compulsory licensing rules cannot be applied to unitary patents can create an issue of patent trolls in the EU. 'Sitting on' patents could be possible as failure to work-situations would not be amendable with compulsory licenses.

### 5.5.2 Compulsory licensing of medicines

Luckily, this problematic situation does not affect all compulsory licensing of pharmaceutical products as the Regulation 816/2006 is binding in all EU Member States. In essence, the regulation implements paragraph 6 of the Doha Declaration. It creates a harmonized procedure of compulsory licenses on pharmaceutical patents and SPCs relating to the manufacture of pharmaceutical products for export to countries with public health problems. Effectively, this could allow Members States to grant compulsory licenses in public interest to provide essential medicines with affordable prices to tackle public health concerns. Article 4(b) allows any member state of the WTO to be an 'eligible importing country' if a notification of intention is made to the Council pursuant to TRIPS.

### 5.5.3 Possible effects on innovation?

In essence, patent legislation needs to work as a framework for promoting innovation, while also supporting the dynamic structure of an undistorted market. On the EU scale, this is not an easy task especially as certain aspects have been left to be handled by national courts and this bears the possibility to highlight differences between Member States. Ultimately, these differences can lead to different interpretations of the Unitary Patent and possibly put it in an unequal position depending on the State in question, which then can create territorial inequality on innovation on the internal market.

Some actors on the market hold the belief that compulsory licenses are likely to deter innovation rather than promote it. Furthermore, it is argued to lessen the spreading of know-how and technology.<sup>124</sup> Yet, it is arguable that this is a narrow-minded view on the issue rather than proper evaluation of the whole concept, as it seemingly disregards the necessity of compulsory licensing in cases of refusal to license on dependent patent situations.

True innovation does not always require total originality, as in inventing around patent protected subject matter, but it can be achieved through improving and employing existing technology, processes and inventions. Also, a compulsory license of a dominant patent, essentially includes the possibility for cross-licensing with the dependent patent, which enables more access for the public, which in turn, has the tendency to improve public welfare. Furthermore, it has been argued that undertakings with compulsory licensing obligations can feel pressured to innovate further to sustain their advantage over the competition.<sup>125</sup>

The unavailability of compulsory licensing under the new patent system would make the research and development on existing patented subject matter much riskier, thus leading to a discouragement of innovation. Furthermore, this could bare the possibility of territorial fragmentation as it would likely be a larger hindrance to smaller economies of the EU.

Also, the unintended situation of no compulsory licensing of unitary patents would make the uniform protection stronger than desirable in the internal market. It would essentially stifle following innovation, possibly causing distortions in the market. The mere risk of compulsory

---

<sup>124</sup> OECD: Licensing of IP rights and competition law–Note by BIAC

<sup>125</sup> Deli Yang, 2012, p. 80

licensing could have positive effects on innovation and the market as it compels undertakings to be inclined towards licensing.

Though, compulsory licensing is occasionally argued to be harmful to innovation, the reality is essentially quite different. Larger undertakings that have been forced to license have not stopped investing in research and development and licenses arguably promote more competition and harness innovation in undertakings that lean on licensed inventions.<sup>126</sup>

However, in order for compulsory licensing to foster innovation, the circumstances for its granting should be exceptional and quite strict. Consequently, EU competition policy must be vigilant and ensure that compulsory licensing in each scenario would benefit the market. On one hand, easily accessible compulsory licenses could discourage innovation on the market. Yet, on the other hand, allowing anticompetitive practices, caused by the lack of compulsory licensing in the new patent system would make the UPP look like a substantial failure, while having adverse effects on innovation.

As a general rule, the treatment of dependent patents should be in a relatively privileged position as they, by nature, open doors for further innovation and thus, should be largely accessible in all Member States under the Unitary Patent system. However, compulsory licensing is quite an unpredictable instrument, as the future projections of sales and adequate remuneration to the patentholder have some concerns and thus, can have effects on innovation as whole.<sup>127</sup>

Interestingly, it seems that territorial compulsory licenses could cause fragmented protection of Unitary Patent and a complete lack of compulsory licensing could cause territorial fragmentation on innovation and create imbalances between economies. Perhaps, it would be feasible to look into a third option to solve the matter.

#### 5.5.4 Need for a community-wide approach?

Even though the idea of uniform EU rules on compulsory licensing has been deemed improbable in this paper, it is still feasible to take a look at how this type of system could look

---

<sup>126</sup> Gilbert, 2019, p.7

<sup>127</sup> Yang, 2012 p.78

like and how it could perhaps answer some of the questions left hanging about the UPP. Especially, as the idea of EU-wide compulsory licensing for unitary patents has been considered.<sup>128</sup> So, to address the problems of national legislations, interpretations of national courts and the possible territorial imbalances on market and innovation, the EU could possibly consider a community-wide compulsory licensing regime to adjoin the UPP.

Effectively, a simple approach to create a uniform compulsory licensing regulation would be to create it on the basis of TRIPS Article 31, yet it could be modified and fitted better to suit the context of the UPP and the internal market. One could have reasonably expected the UPP to involve rules on compulsory licensing, yet the EU has proven that it is less than eager to regulate the issue. Community-wide compulsory licensing rules were originally included in the proposal, but it was ultimately left out, causing some scholars to question what could have been.

One of the issues of the UPP is surely the wide array of national legislations that needs to be applied in different scenarios. Licensing a multinational patent can require extensive knowledge from many Member States' legislations and attempting to receive a compulsory license could even prove to be excessively difficult or even not an available option as some scholars have suggested. A multilayered system can be described as burdensome and not ideal for a single patent.

So, the need for a community-wide compulsory license with uniform conditions has been argued for as its unavailability would put third parties looking to access patented inventions at a critically weak position compared to unitary patent holders, as they hold a possibility to have their rights enforced before a single court.

It is arguable that the parties seeking compulsory licenses should be allowed to enjoy the single court in the same vein as owners of unitary patents. Centralization of compulsory licensing would benefit follow-up inventors and help to create access to the internal market. A community-wide compulsory license could be argued to be a necessity for the holders of dependent patents, as access to the internal market is a justifiable necessity for the invention to reach its market potential and allow the invention the same commercial benefits as the

---

<sup>128</sup> Jaeger, 2010, p.70

dominant patent.<sup>129</sup> In this regard, a national compulsory license can be argued to be ineffective.

A single court interpreting a single uniform legislation would serve legal certainty while properly taking into account the notable elements of the single market. As it has been argued in this paper, compulsory licenses serve a purpose for innovation and competition. Thus, added legal certainty arguably would help innovation and competition in smaller markets, while leveraging the power of larger undertakings with restricted licensing policies.<sup>130</sup>

Additionally, such a compulsory licensing regime could also be used to solve jurisdictional issues that could be posed by the UPP in its current form. The uniformity of Unitary Patent system effectively can suffer from having multiple national legislations and national courts having jurisdiction over compulsory licenses.

Also, territorial compulsory licenses would likely cause fragmentation to the uniform protection, which a regulated community-wide compulsory licensing would solve. Compulsory licensing would be equally available to all parties regardless of their respective Member State's legislation. To discuss the previous paragraph further, Member States, with their varying rules on compulsory licensing, can have different interpretations of adequate remuneration and balancing of interests, among others, which is likely to cause fragmentation of uniform protection and put parties on unequal footing. Consequently, national authorities and legislations can hardly be argued to be adequate to evaluate some cases of compulsory licensing a unitary patent. Clarification and setting a "European standard" could go a long way in benefitting the Unitary Patent system.

The system could also benefit the internal market as well, as territorial compulsory licensing would not be implemented on unitary patent scenarios. Essentially, this would tear down barriers to enter the internal market and increase the geographical reach of inventions covered by dependent patents. The prohibition to export included in the license would not affect cross border trade in the European Union, thus sufficiently meeting the interests of the public and society. Increasing the geographical reach could also serve the owner of the dependent patent's interests as a larger market can create additional revenue.

---

<sup>129</sup> Ullrich, 2013, p.34

<sup>130</sup> Jaeger, 2010, p.70

However, the community-wide compulsory license would not necessarily be an ideal response to every situation. The required public interest for granting a license would likely limit the scope of the idea as a community-wide compulsory license is arguably disproportional in cases where the public interest could be deemed territorial, yet the nature of the unitary patent would need an equally efficient and balancing countermeasure.

#### *5.6 Compulsory licensing, internal market and competition*

Regarding antitrust rules in the EU, the general approach is to ensure seamless operation of firms and Member States alike, creating a well-functioning liberal economy without excess constraints, restrictions or distortions on competition. In relation to compulsory licensing, the Articles relevant towards compulsory licensing are found in the TFEU. More specifically, Articles 34, 36, 101 and 102 lay down the scope and limitations of the matter.<sup>131</sup>

As stated earlier, one of the goals of EU competition policy is to ensure that the players on the market can act in a liberal economy without excess restrictions and limitations and this is exhibited, for example, by establishing the free movement of goods. Then again, there is no international compulsory license regime in place and national compulsory licenses are restricted to be exploited merely at the domestic level. Essentially, this restricts a holder of a dependent patent from entering the international markets with the innovation. It could be argued, that territorial limitations of compulsory licenses of unitary patents are inconsistent with the free movement of goods. Overcoming the territorial limitations would require compulsory licenses from each Member State.

Ultimately, this situation creates several barriers to enter the international market. The dependent patent owner cannot truly sell its potential product on the internal market as it would infringe the dominant patent in the other countries where it still enjoys the unitary protection and applying for licenses in these market areas could essentially mean another round of required negotiations and, if unsuccessful, possible applications for compulsory licenses. This can become quite an expensive venture for a business and as this area is not truly harmonized on the EU level, the dependent patent owner cannot rely on any kind of mutual recognition of decisions or enforcement of the compulsory license. The differing

---

<sup>131</sup> Tudor, 2012, p. 2

national terms on granting compulsory licenses can lead to varying results, though the patent in question does not truly change. This would disproportionately play to the hand of the unwilling patentholder as the process could be quite burdensome for the party seeking a license.

It has been argued that granting any national compulsory license would nullify the unitary effect of the patent, which would be clashing with the free trade rules of the internal market.<sup>132</sup> On the other hand, the inability to be granted a compulsory license could have distorting effects on the internal market as well. Some of EU's key competition policies relating to intellectual property are to "protect competition in markets across the EU and reduce barriers to cross-border trade".<sup>133</sup>

It is arguable that a profound EU level look at compulsory licensing could be in order, even if it did not allow community-wide licenses by virtue. It would present the opportunity to study the effect of compulsory licensing on competition on a whole new scale, which would certainly be in the interest of the internal market. This would reasonably require the acquisition of a general opinion that compulsory licensing promotes innovation in the public interest and its benefits outweigh the interests of patentholders. Essentially, it should be expected that the issue should be regulated on the level where the issues may arise.<sup>134</sup>

A situation where compulsory licensing is not possible could create barriers to enter the market and could open doors for anticompetitive behavior by patentholders. The CJEU has had cases of abusing a dominant position, but the lack of compulsory licensing could mean there could be one tool less to utilize. However, it is acknowledged that some cases may require the dominant undertaking to license their invention.<sup>135</sup>

---

<sup>132</sup> Hilty – Jaeger – Lamping – Ullrich, 2012, p. 5

<sup>133</sup> Slaughter & May, 2016, p. 1

<sup>134</sup> Ullrich, 2012, p. 248

<sup>135</sup> Ibid. p. 225

### 5.6.1 Compulsory licensing as a competition remedy?

In certain cases, there may be strong grounds to grant a compulsory license from a competition law perspective; yet national courts would not be able due to the primacy of EU law. This could constitute a question which would have to be referred to the CJEU to adjudicate. The possibility to use Article 102 of the TFEU has been discussed earlier in this paper, but could there be more options for compulsory licensing as a competition remedy in other unitary patent scenarios?

Compulsory licensing of standard essential patents could still be regarded as possible under the UPP as the basis for granting such license could be deemed to originate from EU law.

To conclude, it would seem that compulsory licensing could be a possible remedy in cases involving Article 102. It can be said, that this does not solve compulsory licensing under the UPP altogether as using Article 102 to ensure compulsory licensing is arguably a harsh measure to mitigate the situation and every refusal to license is not to be considered anticompetitive practice by nature. Additionally, the dominance of the refusing undertaking must be established for Article 102 to apply.

### 5.7 *Solution? – Incentives to license?*

As a community-wide compulsory licensing regime seems improbable at the moment, it would be appropriate to examine other options to avoid the fragmentation national compulsory licenses could do to the European patent system and internal market. One possible solution to alleviate these aforementioned issues could be to make licensing a properly lucrative option for patentholders. These incentives to license their innovations could probably be achieved by several measures.

Creating incentives to license would help mitigate issues that could be caused by territorial compulsory licensing as well as issues that would be caused by compulsory licensing not being allowed due to the primacy of EU law. Furthermore, it would be beneficial for the working of the internal market as a whole as licensing deals would allow the parties involved to forge an agreement which would respond to the needs of both parties and benefit further innovation and development on patent protected inventions. Licensing agreements do not necessarily cover the whole internal market, but parties can negotiate the territories where the licensee can use the patent.

As it has been noted in this paper, the interest of the patentholder is generally to profit from the invention. In a situation, where compulsory licensing is not a threat to the patentholder, the uniform protection can be argued to be quite strong and exclusivity relatively untouchable. This situation would make it difficult to satisfy the needs of other interest groups to the extent that the ‘bundle’ patent system has been able to. The lower costs of the Unitary Patent system seemingly benefits undertakings of different sizes. Thus, the incentives to license would ultimately have to aim to benefit the patentholders even further.

One measure which works as an incentive to license has been already mentioned in this paper, which is the 15% reduction of yearly renewal fees as the patentholder registers their willingness to license their invention with the EPO.<sup>136</sup>

Of course, as compulsory licensing would not necessarily be a real threat for the patentholder, further encouragement to license could be in order. To avoid abusive licensing agreements and demands a licensee could not agree to, the EU could create a reward system for licensing. However, the decreased renewal fees are already a small incentive and creating a new tool to promote licensing without hurting overall patent protection could be a difficult, if not near-impossible task. General promotion of licensing benefits could likely be a lost cause with enterprises which do not need the returns of licensing profits.

In conclusion, the simplest method for the EU to tackle this issue would be to ensure that compulsory licenses could be granted when the situation so requires.

---

<sup>136</sup> Decision of the Select Committee of the Administrative Council of 15 December 2015 adopting the Rules relating to Fees for Unitary Patent Protection (SC/D 2/15) – Article 3, and Regulation 1257/2012, rec. 15

## 6 CONCLUSION

This thesis began with a look at patents and competition in the current EU landscape and the significance of compulsory licensing. Undeniably, the portrayed balancing act is essential for a thriving market, yet a seeming unbalancing factor is looming over, as the European Patent with Unitary Effect is closer to actuality. The field of patents in the EU had been relatively untouched until the long expected Unitary Patent Package came along and brought further steps of harmonization to the picture. Though, as many legislative endeavors of such scale are, the UPP is also arguably lacking in some regards, which make it seemingly a work-in-progress with much learning to do.

This thesis has argued for the necessity of compulsory licenses to ensure the balance of patents and competition, while also safeguarding innovation and the rights of follow-up inventors. Leaving compulsory licensing to Member States' legislations has caused a yet unresolved issue of EU law primacy, which could have adverse effects on what compulsory licensing is used to achieve. Furthermore, territorial compulsory licensing does not seem to be ideal for answering the needs of the internal market and the newly harmonized patent system.

The convoluted system that the unitary patent currently proves to be suffers from several layers of legislations and courts. Though, it is indicated that the courts of Member States hold the authority to grant compulsory licenses on unitary patents, closer inspection reveals that it might not be so simple. Member States' courts might hold jurisdiction, but they effectively seem to lack competence to grant compulsory licenses, whereas the position of the UPC is somewhat unclear as it is yet to practice its powers. However, the UPC cannot grant compulsory licenses with national legislations either, at least until the question of EU law primacy is dealt with. The only thing that remains certain is that the CJEU will have to deal with the question relating to EU law primacy in near the future. The legitimacy of national compulsory licenses would have come from EU law.

The result of the CJEU's view on national compulsory licensing of unitary patents could hold an answer to several questions. Yet, the effects of it will raise several more. The situation where national compulsory licensing of unitary patents is not possible will make the unitary patent protection more uniform, yet it could bear negative effects on innovation. Furthermore, the lack of compulsory licensing for failure to work could open doors for patent trolls in the internal market.

Examining the UPP makes it seem, however, that evidently the intention is not to exclude compulsory licensing from the patent system. The aim has rather been to leave it as it has been before, yet it already seems distinctively outdated from the perspective of harmonization. However, compulsory licensing should be expected to be eventually available for unitary patents.

As this thesis has discussed, this also seems to complicate things rather than resolve them. National compulsory licenses may cause territorial fragmentation on innovation and in the market, which makes them arguably inconsistent with the uniformity of the unitary patent and the internal market. Appropriately reaching the internal market would be as much of a burden for owners of dependent patents as it has been during the European ‘bundle’ patent.

In a situation where compulsory licensing does fall out completely, the EU would have to take legislative measures to ensure its availability. Effectively, this would mean an EU level regulation on compulsory licensing of unitary patents. Regarding the position the Commission has held on the topic, it could be expected to merely ensure national compulsory licensing, however, the prospect of such regulation would open doors for further harmonization of patent law in the EU.

Though, this thesis took a view on the possibility and effects of a uniform community-wide compulsory licensing regime, which in the current light of things, could be deemed improbable. Despite the likelihood, it could essentially go a long way resolving many of the issues raised in this thesis. Arguably, a community-wide regulation would be in the interest of the internal market and uniformity of the unitary patent, while avoiding the aforementioned territorial fragmentation. Also, it could be deemed effective to ensure the rights of follow up inventors as it would create more access to the internal market.

In the end, it is important to bear in mind that the issue is not merely about compulsory licensing. The policy makers have many tools at hand and the pictured balancing act is a delicate affair. Essentially, the tipping of scales the UPP might cause needs to be assessed. Especially, as the issues that are being dealt with here can be described as something larger than just compulsory licensing; it is but the rights of follow up inventors, innovation and competition as a whole. Coherent patent policy requires wider inspection than the rights of patentholders as there are multiple interest groups at play.