SMITH KLINE & FRENCH LABORATORIES, LTD. PLAINTIFF-APPELLEE, VS. COURT OF APPEALS AND DANLEX RESEARCH LABORATORIES, INC., DEFENDANT-APPELLANT.

G.R. No. 121267. October 23, 2001

Ponente: KAPUNAN, J.

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KAPUNAN, J.:

This petition for review on certiorari assails the Decision dated January 27, 1995 of the Court of Appeals in CA-G.R. SP No. 33770[1] which affirmed the decision of the Bureau of Patents, Trademarks and Technology Transfer (BPTTT) granting a compulsory license to private respondent Danlex Research Laboratories for the use of the pharmaceutical product Cimetidine. Likewise assailed is the July 25, 1995 Resolution of the Court of Appeals denying the motion for reconsideration filed by petitioner Smith Kline and French Laboratories, Ltd.

Petitioner is the assignee of Letters Patent No. 12207 covering the pharmaceutical product Cimetidine, which relates to derivatives of heterocyclicthio or lower alkoxy or amino lower alkyl thiourea, ureas or guanadines. Said patent was issued by the BPTTT to Graham John Durant, John Collin Emmett and Robin Genellin on November 29, 1978.[2]

On August 21, 1989, private respondent filed with the BPTTT a petition for compulsory license to manufacture and produce its own brand of medicines using Cimetidine. Private respondent invoked Section 34 (1) (e) of Republic Act No. 165,[3] (the Patent Law) the law then governing patents, which states that an application for the grant of a compulsory license under a particular patent may be filed with the BPTTT at any time after the lapse of two (2) years from the date of grant of such patent, if the patented invention or article relates to food or medicine, or manufactured substances which can be used as food or medicine, or is necessary for public health or public safety.[4] The petition for compulsory license stated that Cimetidine is useful as an antihistamine and in the treatment of ulcers, and that private respondent is capable of using the patented product in the manufacture of a useful product.[5]

Petitioner opposed the petition for compulsory license, arguing that the private respondent had no cause of action and failed to allege how it intended to work the patented product. Petitioner further stated that its manufacture, use and sales of Cimetidine satisfied the needs of the Philippine market, hence, there was no need to grant a compulsory license to private respondent to manufacture, use and sell the same. Finally, petitioner also claimed that the grant of a compulsory license to private respondent would not promote public safety and that the latter was only motivated by pecuniary gain.[6]

After both parties were heard, the BPTTT rendered a decision directing the issuance of a compulsory license to private respondent to use, manufacture and sell in the Philippines its own brand of pharmaceutical products containing Cimetidine and ordered the payment by private respondent to petitioner of royalties at the rate of 2.5% of net sales in Philippine currency.[7]

Petitioner thereafter filed with the Court of Appeals a petition for review of the decision of the BPTTT, raising the

following arguments: (1) the BPTTT's decision is violative of the Paris Convention for the Protection of Industrial Property; (2) said decision is an invalid exercise of police power; (3) the rate of royalties payable to petitioner as fixed by the BPTTT was rendered without factual basis and amounts to an expropriation of private property without just compensation; (4) the petition for compulsory license should have been dismissed by the BPTTT for failure to prove the jurisdictional requirement of publication.[8]

On January 27, 1995, the Court of Appeals promulgated its Decision, the dispositive portion of which states:

> WHEREFORE, the petition is DENIED, and the decision of the Bureau of Patents, Trademarks and Technology Transfer is hereby AFFIRMED, with costs against the Petitioner.
>
> SO ORDERED.[9]

In affirming the decision of the BPTTT, the appellate court held that the grant of a compulsory license to private respondent for the manufacture and use of Cimetidine is in accord with the Patent Law since the patented product is medicinal in nature, and therefore necessary for the promotion of public health and safety.[10] It explained further that the provisions of the Patent Law permitting the grant of a compulsory license are intended not only to give a chance to others to supply the public with the quantity of the patented article but especially to prevent the building up of patent monopolies.[11] Neither did the appellate court find the royalty rate of 2.5% of net sales fixed by the BPTTT unreasonable, considering that what was granted under the compulsory license is only the right to manufacture Cimetidine, without any technical assistance from petitioner, and royalty rates identical to that fixed by the BPTTT have been prescribed for the grant of compulsory license in a good number of patent cases.[12] The Court of Appeals also ruled that contrary to petitioner's claim, private respondent complied with the requirement of publication under the Patent Law and had submitted proof of such compliance.[13]

Not satisfied with the appellate court's decision, petitioner filed a motion for reconsideration thereof as well as a motion for the issuance of a temporary restraining order against private respondent's sister company, Montreal Pharmaceutical, Inc. to refrain from marketing a product similar to Cimetidine, but both motions were denied by the Court of Appeals in its Resolution of July 25, 1995.[14]

Petitioner thus filed the present petition on September 15, 1995, with the following assignment of errors:

> - The respondent Court erred in upholding the validity of the decision of public respondent BPTTT which is an arbitrary exercise of police power and is violative of international law.
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> - The respondent Court erred in holding that compulsory licensing will not create a confusion that the patented product is the brainchild of private respondent Danlex and not of petitioner.
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> - Assuming that the grant of compulsory license is in order, the respondent Court still erred in holding that the BPTTT decision fixing the royalty at 2.5% of the net wholesale price in peso does not amount to expropriation of private property without just compensation.
>
> - The respondent Court erred in finding that the jurisdictional requirement of publication in a newspaper of general circulation for three (3) consecutive weeks has been complied with by private respondent Danlex.[15]

While petitioner concedes that the State in the exercise of police power may regulate the manufacture and use of medicines through the enactment and implementation of pertinent laws, it states that such exercise is valid only if the means employed are reasonably necessary for the accomplishment of the purpose and if not unduly oppressive.[16] According to petitioner, the grant of a compulsory license to private respondent is an invalid exercise of police power since it was not shown that there is an overwhelming public necessity for such grant, considering that petitioner is able to provide an adequate supply of Cimetidine to satisfy the needs of the Philippine market. Petitioner also claims that the grant of a compulsory license to private respondent unjustly

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deprives it of a reasonable return on its investment.[17] It argues further that the provisions of the Patent Law on compulsory licensing contravene the Convention of Paris for the Protection of Industrial Property[18] (Paris Convention), which allegedly permits the granting of a compulsory license over a patented product only to prevent abuses which might result from the exercise of the exclusive rights conferred by the patent,[19] or on the ground of failure to work or insufficient working of the patented product, within four years from the date of filing of the patent application or three years from the date of grant of the patent, whichever expires last.[20] Petitioner opines that the inclusion of grounds for the grant of a compulsory license in Section 34 of the Patent Law other than those provided under the Paris Convention constitutes a violation of the Philippines' obligation to adhere to the provisions of said treaty.[21]

It is also contended by petitioner that the grant of a compulsory license to private respondent will allow the latter to liberally manufacture and sell medicinal products containing Cimetidine without even extending to petitioner due recognition for pioneering the development and worldwide acceptance of said invention, and will unreasonably dilute petitioner's right over the patent.[22]

Petitioner likewise asseverates that the rate of royalty fixed by the BPTTT at 2.5% of net sales is grossly inadequate, taking into consideration its huge investments of money, time and other resources in the research and development, as well as marketing of Cimetidine. It is further alleged that such rate has no factual basis since the appellate court and the BPTTT relied solely on analogous cases and did not explain how such rate was arrived at.[23]

Lastly, petitioner claims that the appellate court erred in ruling that private respondent had complied with the requirement of publication of the notice of the filing of the petition for compulsory license because private respondent failed to formally offer in evidence copies of the notice of filing of the petition and notice of the date of hearing thereof as published and the affidavits of publication thereof. Thus, it says, the BPTTT did not properly acquire jurisdiction over the petition for compulsory license.[24]

In its Comment to the Petition, private respondent adopted the reasoning of the Court of Appeals in the assailed decision and prayed that the petition be denied for lack of merit.[25]

The petition has no merit.

The Court of Appeals did not err in affirming the validity of the grant by the BPTTT of a compulsory license to private respondent for the use, manufacture and sale of Cimetidine. The said grant is in accord with Section 34 of the Patent Law which provides:

> Grounds for Compulsory Licensing.--(1) Any person may apply to the Director for the grant of a license under a particular patent at any time after the expiration of two years from the date of the grant of the patent, under any of the following circumstances:
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> (a) If the patented invention is not being worked within the Philippines on a commercial scale, although capable of being so worked, without satisfactory reason;
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> (b) If the demand of the patented article in the Philippines is not being met to an adequate extent and on reasonable terms;
>
> (c) If, by reason of refusal of the patentee to grant a license or licenses on reasonable terms, or by reason of the conditions attached by the patentee to licensee or to the purchase, lease or use of the patented article or working of the patented process or machine for production, the establishment of any new trade or industry in the Philippines is prevented, or the trade or industry therein is unduly restrained;
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> (d) If the working of the invention within the country is being prevented or hindered by the importation of the

> patented article;
>
> (e) If the patented invention or article relates to food or medicine or manufactured substances which can be used as food or medicine, or is necessary for public health or public safety.
>
> (2) In any of the above cases, a compulsory license shall be granted to the petitioner provided that he has proved his capability to work the patented product or to make use of the patented product in the manufacture of a useful product, or to employ the patented process.
>
> (3) The term "worked" or "working" as used in this section means the manufacture and sale of the patented article, of patented machine, or the application of the patented process for production, in or by means of a definite and substantial establishment or organization in the Philippines and on a scale which is reasonable and adequate under the circumstances. Importation shall not constitute "working". (Emphasis supplied.)

The grant of the compulsory license satisfies the requirements of the foregoing provision. More than ten years have passed since the patent for Cimetidine was issued to petitioner and its predecessors-in-interest, and the compulsory license applied for by private respondent is for the use, manufacture and sale of a medicinal product. Furthermore, both the appellate court and the BPTTT found that private respondent had the capability to work Cimetidine or to make use thereof in the manufacture of a useful product.

Petitioner's contention that Section 34 of the Patent Law contravenes the Paris Convention because the former provides for grounds for the grant of a compulsory license in addition to those found in the latter, is likewise incorrect. Article 5, Section A(2) of the Paris Convention 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.[26]

This issue has already been resolved by this Court in the case of Smith Kline & French Laboratories, Ltd. vs. Court of Appeals,[27] where petitioner herein questioned the BPTTT's grant of a compulsory license to Doctors Pharmaceuticals, Inc. also for the manufacture, use and sale of Cimetidine. We found no inconsistency between Section 34 and the Paris Convention and held that:

> It is thus clear that Section A(2) of Article 5 [of the Paris Convention] unequivocally and explicitly respects the right of member countries to adopt legislative measures to provide for the grant of compulsory licenses to prevent abuses which might result from the exercise of the exclusive rights conferred by the patent. An example provided of possible abuses is "failure to work;" however, as such, is merely supplied by way of an example, it is plain that the treaty does not preclude the inclusion of other forms of categories of abuses.
>
> Section 34 of R.A. No. 165, even if the Act was enacted prior to the Philippines' adhesion to the Convention, fits well within the aforequoted provisions of Article 5 of the Paris Convention. In the explanatory note of Bill No. 1156 which eventually became R.A. No. 165, the legislative intent in the grant of a compulsory license was not only to afford others an opportunity to provide the public with the quantity of the patented product, but also to prevent the growth of monopolies [Congressional Record, House of Representatives, 12 May 957, 998]. Certainly, the growth of monopolies was among the abuses which Section A, Article 5 of the Convention foresaw, and which our Congress likewise wished to prevent in enacting R.A. No. 165.[28] (Emphasis supplied.)

Neither does the Court agree with petitioner that the grant of the compulsory license to private respondent was erroneous because the same would lead the public to think that the Cimetidine is the invention of private respondent and not of petitioner. Such fears are unfounded since, as the appellate court pointed out in the assailed decision, by the grant of the compulsory license, private respondent as licensee explicitly acknowledges that

petitioner is the source of the patented product Cimetidine.[29] Even assuming arguendo that such confusion may indeed occur, the disadvantage is far outweighed by the benefits resulting from the grant of the compulsory license, such as an increased supply of pharmaceutical products containing Cimetidine, and the consequent reduction in the prices thereof.[30]

There is likewise no basis for the allegation that the grant of a compulsory license to private respondent results in the deprivation of petitioner's property without just compensation. It must be pointed out that as owner of Letters Patent No. 12207, petitioner had already enjoyed exclusive rights to manufacture, use and sell Cimetidine for at least two years from its grant in November, 1978. Even if other entities like private respondent are subsequently allowed to manufacture, use and sell the patented invention by virtue of a compulsory license, petitioner as owner of the patent would still receive remuneration for the use of such product in the form of royalties.

Anent the perceived inadequacy of the royalty awarded to petitioner, the Court of Appeals correctly held that the rate of 2.5% of net wholesale price fixed by the Director of the BPTTT is in accord with the Patent Law. Said law provides:

> Sec. 35. Grant of License.--(1) If the Director finds that a case for the grant of a license under Section 34 hereof has been made out, he shall, within one hundred eighty days from the date the petition was filed, order the grant of an appropriate license. The order shall state the terms and conditions of the license which he himself must fix in default of an agreement on the matter manifested or submitted by the parties during the hearing.
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> Section 35-B. Terms and Conditions of Compulsory License. - (1) A compulsory license shall be non-exclusive, but this shall be without prejudice to the licensee's right to oppose an application for such a new license.
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> (2) The terms and conditions of a compulsory license, fixed in accordance with Section 35, may contain obligations and restrictions both for the licensee and for the registered owner of the patent.
>
> (3) A compulsory license shall only be granted subject to the payment of adequate royalties commensurate with the extent to which the invention is worked. However, royalty payments shall not exceed five percent (5%) of the net wholesale price (as defined in Section 33-A) of the products manufactured under the license. If the product, substance, or process subject of the compulsory license is involved in an industrial project approved by the Board of Investments, the royalty payable to the patentee or patentees shall not exceed three percent (3%) of the net wholesale price (as defined in Section 33-A) of the patented commodity/and or commodity manufactured under the patented process; the same rate of royalty shall be paid whenever two or more patents are involved; which royalty shall be distributed to the patentees in rates proportional to the extent of commercial use by the licensee giving preferential values to the holder of the oldest subsisting product patent.
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> x x x

Under the aforequoted provisions, in the absence of any agreement between the parties with respect to a compulsory license, the Director of the BPTTT may fix the terms thereof, including the rate of the royalty payable to the licensor. The law explicitly provides that the rate of royalty shall not exceed five percent (5%) of the net wholesale price.

The Court agrees with the appellate court's ruling that the rate of royalty payments fixed by the Director of the BPTTT is reasonable. The appellate court, citing Price vs. United Laboratories,[31] ruled as such, considering that the compulsory license awarded to private respondent consists only of the bare right to use the patented invention

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in the manufacture of another product, without any technical assistance from the licensor.[32] Furthermore, this Court had earlier noted in the Price case that identical royalty rates have been prescribed by the Director of the BPTTT in numerous patent cases.[33]

There was thus no error on the part of the Court of Appeals in affirming the royalty rate fixed by the Director of the BPTTT, since it was not shown that the latter erred or abused his discretion in prescribing said rate. The rule is that factual findings of administrative bodies, which are considered as experts in their respective fields, are accorded not only respect but even finality if the same are supported by substantial evidence.[34]

Finally, as to the alleged lack of jurisdiction of the BPTTT over the petition filed by private respondent for failure to comply with the publication requirement under Section 35-F of R.A. No. 165, the Court holds that petitioner is estopped from questioning the same since it did not raise the issue of lack of jurisdiction at the earliest possible opportunity, i.e., during the hearings before the BPTTT.[35] The Court notes that petitioner raised this contention for the first time when it appealed the case to the appellate court.

WHEREFORE, the petition is hereby DENIED for lack of merit and the Decision of the Court of Appeals is hereby AFFIRMED.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Pardo, and Ynares-Santiago, JJ., concur.

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[1] Smith Kline and French Laboratories, Ltd., Petitioner, vs. Hon. Director of the Bureau of Patents, Trademarks and Technology Transfer, and Danlex Research Laboratories, Inc., Respondents.

[2] See Decision of the Court of Appeals dated January 27, 1995, Rollo, pp. 32-33.

[3] The Patent Law (1947), as amended. Chapter VIII thereof on Licensing was amended by Presidential Decree No. 1263 in 1977, by including two types of licensing: voluntary licensing and compulsory licensing.

[4] Section 34 (1) (e), R.A. No. 165, as amended, infra.

[5] Decision of the Court of Appeals, Rollo, p. 33.

[6] Ibid.

[7] Id., at 34.

[8] Id., at 34-35.

[9] Id., at 41.

[10] Id., at 36.

[11] Id., at 37.

[12] Id., at 39-40.

[13] Id., at 40.

[14] Resolution of the Court of Appeals, Id., at 43.

[15] Petition, Id., at 13.

[16] Id., at 15-16.

[17] Id., at 17.

[18] 61 O.G. 8011.

[19] Article 5, Section A (2), Paris Convention for the Protection of Industrial Property, infra.

[20] Article 5, Section A, (4), Paris Convention for the Protection of Industrial Property reads as follows:

(4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license.

[21] Petition, Rollo, pp. 17-18.

[22] Id., at 20.

[23] Id., at 21-22.

[24] Id., at 24-28.

[25] Comment to Petition for Review on Certiorari, Id., at 60-66.

[26] 61 O.G. 8011, 8016 (1965).

[27] 276 SCRA 224 (1997).

[28] Id., at 237.

[29] Decision of the Court of Appeals, Rollo, p. 38.

[30] See Parke Davis & Co. vs. Doctors' Pharmaceuticals, Inc., 14 SCRA 1053, 1061 (1965).

[31] 166 SCRA 133, 137-138 (1988).

[32] Decision of the Court of Appeals, Rollo, p. 39.

[33] In Price vs. United Laboratories, supra, at 138, this Court noted:

Furthermore, as pointed out in respondent's comment on the petition, identical terms and conditions had been prescribed for the grant of compulsory license in a good number of patent cases (United Laboratories, Inc. vs. Boehringer Ingelheim, GMBH, IPC 929, July 27, 1981; United Laboratories, Inc. vs. Bristol-Myers Company, IPC 1179, Aug. 20, 1981; United Laboratories, Inc. vs. Squibb & Sons, Inc., IPC 1349, Sept. 30, 1981; United Laboratories, Inc. vs. Helmut Weber, et al., IPC 949, Dec. 13, 1982; Oceanic Pharmacal, Inc., vs. Gruppo Lepetit S.A., IPC 1549, Dec. 21, 1982; United Laboratories, Inc. vs. Boehringer Ingelheim, IPC 1185, June 8, 1983; United Laboratories, Inc. vs. Pfizer Corp., IPC 1184, June 10, 1983; Doctors Pharmaceuticals, Inc. vs. Maggi, et al., July 11, 1983; Drugmaker's Laboratories vs. Herningen, et al., IPC 1679, September 22, 1983; Superior Pharmacraft, Inc. vs. Maggi, et al., IPC 1759, January 10, 1984; United Laboratories, Inc. vs. Van Gelder, et al., IPC 1927, June 29, 1984; Drugmaker's Laboratories, Inc. vs. Janssen Pharmaceutical N.V., IPC 1555, August 27, 1984; United Laboratories, Inc. vs. Graham John Durant, et al., IPC 1731, August 14, 1987; United Laboratories, Inc. vs. Albert Anthony Carr, IPC 1906, August 31, 1987).

[34] Golden Thread Knitting Industries, Inc. vs. National Labor Relations Commission, 304 SCRA 568, 576

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(1999).

[35] Smith Kline & French Laboratories, Ltd.. vs. Court of Appeals, supra, at 241-242.

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