THE PROCEDURE OF COMPULSORY LICENSING OF INVENTION IN UKRAINE: SOME LEGAL ASPECTS

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ABSTRACT

Description: The purpose of the article is to examine some legal aspects of the procedure of compulsory licensing of invention in Ukraine. The subject of the study: The subject of the study is the procedure of compulsory licensing of invention in Ukraine. Methodology: Research methods are chosen based on the object, subject and purpose of the study. The study used general scientific and special methods of legal science. Among them are: historical and legal method; epistemological method; structural and functional analysis method; analytical method; the method of generalization helped to formulate general conclusions and recommendations. The results of the study. The concept of "compulsory license" is considered. International and domestic legal acts regulating the issue of compulsory licensing are investigated. Practical implications: The condition which should be fulfilled for the implementation of the procedure of compulsory licensing of invention in Ukraine are studied and analyzed in detail. Value/originality: The concepts of "non-use" and "under-utilization" of invention are interpreted. The ways to prove the fact of unreasonable refusal by the patent holder to grant a license to use the invention are proposed.

Keywords: Compulsory Licensing, Invention, Non-Use, Under-Utilization, Royalties.

INTRODUCTION

From a legal point of view, compulsory licensing is a tool to restrict the property rights of intellectual property in order to ensure public health, State defense, environmental security and other public interests. By granting a compulsory license, the State provides a third party with the right to use the invention without the consent of the patent owner. Compulsory licensing mechanism is created to prevent situations where the right holder does not use or insufficiently uses the invention (within three years from the date following the date of State registration of the invention or from the date when the invention was discontinued), and prevents third parties from using it, resulting in limiting the supply of the relevant intellectual property right in the market. The State, with the help of the institution of compulsory licensing, obliges the right holder to

issue a license for the invention to a third party with the payment of fair compensation to the patent owner.

The development of the institution of compulsory licensing in modern international law is associated with the conclusion of the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter – the TRIPS Agreement) on April 15, 1994, and the subsequent adoption of the Declaration on the TRIPS Agreement and Health, 2001 (Doha Declaration) (World Trade Organization, 2001) with the subsequent implementation of the provisions of these international instruments by WTO Member States into national law. Our State is interested in processing and implementing an innovative development model that should promote a high and stable rate of sustained economic growth, as well as solve some social and environmental problems, will make the national economy competitive, enhance export security and increase its status in the European Union (Makhinchuk et al., 2021).

MATERIALS AND METHODS

The methodological basis for the article is general and special methods and techniques of scientific knowledge. Normative and dogmatic method is used in the process of studying international and domestic legal acts regulating the issue of compulsory licensing. Epistemological method is used to interpret the concept of "*compulsory license*". Monographic method is applied when considering the concept of "*compulsory license*" in the works of the scholars in this area. Comparative and legal method allows to compare the provisions of international legal documents and Ukrainian legal acts enshrining the procedure of compulsory licensing of invention. The method of grouping helps to identify the conditions which should be fulfilled for the implementation of the procedure of compulsory licensing of invention in Ukraine. Logical and legal method is used for interpreting the concepts of "*non-use*" and "*under-utilization"* of invention. The method of generalization is applied to formulate the relevant conclusions and suggestions.

The scientific and theoretical basis for the article are the scientific works of specialists in the area of general theory of State and law, financial law, criminal law and other branches of legal sciences. The normative basis for the research is the Constitution of Ukraine, laws, by-laws, draft laws and other normative and legal acts, which determine the legal bases for the activity of the National Police of Ukraine in ensuring economic security of the State.

RESULTS AND DISCUSSION

According to the legislation of Ukraine, a person who has patented his (her) invention has the right to use it at his own discretion, if such use does not infringe the rights of other patent holders.

The use of the invention, in accordance with the provisions of the Law "*On protection of rights to inventions and utility models"* (Law of Ukraine, 1993), is:

Manufacture of a product using a patented invention, use of such a product, offering for sale, including via the Internet, sale, import and other introduction into civil circulation or storage of such a product for these purposes;

Application of the process protected by the patent, or the proposal for its use in Ukraine, if the person proposing this process knows that its use is prohibited without the consent of the patent owner or, given the circumstances, it is already obvious.

The product is considered to be manufactured using a patented invention, if each feature included in the independent item of the invention formula or a feature equivalent to it is used.

The process protected by the patent is deemed to be applied, if each feature included in the independent item of the invention formula or a feature equivalent to it is used.

However, there are cases when the property rights of the patent holder may be limited. Thus, the Paris Convention for the Protection of Industrial Property (World Intellectual Property Organization, 1883) enshrines the right of each country of the European Union to take legislative measures to grant compulsory licenses to prevent abuses that may result from the exercise of the exclusive right conferred by a patent.

According to the definition provided by the World Trade Organization, a compulsory license is the issuance of licenses by the authorities for the use of patent rights (for the manufacture, use, sale or import of a patented product or product manufactured by a patented process) by legal entities or individuals who are not patent owners without the permission of the patent owner (World Trade Organization, 2021).

According to Trakhtenherts (1994), a compulsory license is a permit issued to an interested person by a competent public authority for the operation of an invention which has not been used by the patent owner himself (herself) within the time limits established by law without good reason. A compulsory license may be required if the patent owner refuses to issue a license or imposes unacceptable conditions for the licensee in terms of payment, etc.

Kryzhna and Yarkyna (2008) argue that compulsory license is a permit issued without the consent of the patent owner by a competent State body (court, commercial court or the Cabinet of Ministers of Ukraine) to an interested person to use an invention, utility model or industrial design. The same bodies shall determine the scope of such application in their decision, the term of validity of the permit, the amount and the procedure for payment of remuneration to the patent owner.

Compulsory license cannot be required for non-use or under-utilization before the expiration of the four-year period from the date of filing the patent application, or three years from the date of grant of the patent, and the term ending later shall apply; a compulsory license will be denied if the patent owner proves that his (her) inaction was due to important reasons. Such a compulsory license is a non-exclusive license and can be transferred even in the form of a sublicense, but just along with the part of the industrial or commercial enterprise that uses this license.

Please note, that under the legislation of Ukraine (Article 1108 of the Civil Code of Ukraine) (Law of Ukraine, 2003) a non-exclusive license does not preclude the licensor from using the object of intellectual property rights in the area limited by this license and issuing licenses to others for using this object in the specified area; that is, such a license provides for a limited right to use the object of industrial property (for example, in relation to the volume of products or territory), while the licensor retains all rights to both use and issue licenses to an unlimited number of persons. Therefore, non-exclusive license does not impose any restrictions on the licensor; the latter is authorized not only use the object of intellectual property to independently, but also to transfer the rights to use it to third parties.

The provisions of the Paris Convention are reflected in Art. 30 of the Law of Ukraine "*On protection of rights to inventions and utility models*", which provides that in case of non-use or under-utilization of the invention in Ukraine for three years from the date following the date of State registration of the invention or from the date when the invention was terminated, any person who is willing to use the invention may apply to the court for permission to use it in case of refusal of the right holder to enter into a license agreement.

Some researchers claim that in this case we are talking about the conclusion of a license agreement between the parties under duress; in fact, a license agreement is concluded, but its terms are determined not by the parties in the pre-contractual negotiations, but by the court (arbitration court) (Dmytryshyn, 2008).

However, such a justification, in our opinion, is not correctly formulated. According to Art. 627 of the Civil Code of Ukraine, the parties are free to enter into an agreement, choose a contractor and determine the terms of the agreement. Thus, the freedom of contract implies: the inadmissibility of coercion to enter into a contractual relationship; the possibility of free choice of the future contractor by the person willing to conclude the contract; the right of the parties to independently choose the type of future agreement; the contractors at their own discretion meet the essential and other terms of the contract, guided by the relevant acts of civil law.

In this situation we cannot speak of freedom of contract; on the contrary, a person who is willing to use the invention should justify his (her) right to obtain the appropriate license. After hearing the evidence of both parties, the court makes a decision, which gives the plaintiff the right to use the invention. There is no contractual relationship between the parties in this case.

At the same time, it should be noted that when making a decision, the court cannot go beyond the claims (Part 2 of Article 264 of the CPC of Ukraine) (Law of Ukraine, 2004). This means that if the person willing to obtain a license to use the invention does not specify in the statement of claim certain conditions of such use (method of use of intellectual property, territory and term of its use, amount, procedure and terms of payment for the use), then the court is not entitled to determine these conditions independently.

As it was already mentioned, in order for the court to rule in favor of the plaintiff, it should be proved that the invention has not been used for three years from the date following the date of State registration of the invention or from the date when the use of the invention ceased. It is the defendant (patent holder) who should prove that the reasons, for which the invention was not used, were valid.

The concepts of "*non-use*" and "*under-utilization*" are evaluative and are subject to proof taking into account the circumstances of the case in a single occasion. The assessment of the degree of "*non-use*" and "*under-utilization*" is done by confirming patentee's ownership of funds, logistics, skilled workers, raw materials, production / sales of the product, etc. Besides, the patent owner can provide evidence that he (she) did not use the invention due to certain force majeure circumstances that affected the production process, modernization of equipment, improvement of production, etc. Only arguments of a lawful nature (legal, technical and economic), confirmed by the competent authorities, can be considered valid reasons for non-use (insufficient use) of the patented invention.

The person willing to obtain a license to use the invention, in turn, should prove the existence of the efforts he (she) makes to obtain a license, his (her) willingness to use the object of intellectual property, the estimated scope of its use, size, procedure and terms of payments to the patent owner, etc.

Thus, a person's readiness to use the invention should be understood as possession of sufficient funds, other financial resources, raw materials, material and technical base, appropriate equipment, components, production area, skilled labor for efficient and full use of the patented intellectual property.

At the same time, Yurkiv (2018) emphasizes that non-use of the invention means the absence of any action to exercise intellectual property rights by the patent owner or the person to whom the rights were transferred by succession, for example, by contract or inheritance.

The author notes that under-utilization of the rights to the invention is not disclosed by the legislator, so the interpretation of this concept should be carried out taking into account the following principles of civil law: reasonableness, good faith and fairness. Insufficient use occurs when the owner of the rights to the invention makes some insignificant use of this object of intellectual property rights, which is characterized by both the volume of industrial use (almost not used in the production process by the patent owner or others) and the time of such use (short period), although the lack of legal provisions to specify the signs of under-utilization of the invention may lead to ambiguous application of this rule of law.

Let us remind that before going to court, a person willing to use the invention should offer to enter into a license agreement with the patent owner; if the latter refuses to sign the agreement on reasonable terms, the person concerned has the right to file a lawsuit.

In some cases, the patent owner is obliged to give permission (to issue a license) to use the invention to the owner of the previously issued patent; this situation occurs when the invention of the latter is intended to achieve another purpose or has significant technical and economic advantages and cannot be used without infringing the rights of the owner of a previously issued patent. Permission is granted to the extent necessary for the use of the invention by the owner of the issued patent. In this case, the owner of a previously issued patent has the right to obtain a license on acceptable terms for the use of the invention), which is protected by previously issued patent (Part 2 of Article 30 of the Law of Ukraine *"On Protection of Inventions and Utility Models"*).

This provision of the Law is the implementation into national legislation of the norms of international agreements, in particular, the Agreement on Trade-Related Aspects of Intellectual Property Rights. Thus, paragraph l), Art. 31 of the Agreement stipulates the compulsory granting of a patent to a third party if such use of the patent ("*second patent*") cannot be applied without infringement of another patent ("*first patent*"). In this case, the following additional conditions should apply:

1. The invention claimed in the second patent should include important technical advantages of great economic importance compared to the invention claimed in the first patent;
2. The owner of the first patent should be entitled to a cross-license with acceptable conditions of use of the invention claimed in the second patent;
3. The use permitted under the first patent shall not be transferred, except when the rights under the second patent are transferred.

The issue of compulsory licensing can also be decided by the Cabinet of Ministers of Ukraine. Thus, in order to ensure public health, State defense, environmental safety and other public interests, this executive body may allow the use of a patented invention to a person designated by him without the consent of the patent owner.

This provision is enshrined in paragraph b) of paragraph 31 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (World Trade Organization, 1994). Indeed, where a member's law allows other use of the patent object without the permission of the rights holder, in particular use by the government or third parties with the permission of the government, it should be borne in mind in order to obtain permission from the rights holder on acceptable commercial terms, and that such efforts have not been successful within a reasonable period of time. This requirement may be temporarily deferred by a member in the event of an emergency in the country or other circumstances of extreme necessity, or in cases of public non-commercial use.

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According to the legislation of Ukraine, in order to resolve the issue of compulsory licensing by the government, certain conditions should be met, in particular:

1. Permission for such use is granted based on specific circumstances;
2. The scope and duration of such use are determined by the purpose of the permission;
3. Permission for such use does not deprive the patent owner of the right to grant permits for the use of the invention to other persons;
4. The right to such use is not transferred, except in the case when it is transferred together with that part of the enterprise or business practice, in which this use is carried out;
5. Use is allowed mainly to meet the needs of the internal market;
6. The patent owner is notified of granting of permission to use the invention as soon as it becomes practically possible;
7. The permission for use is revoked if the circumstances, due to which it was issued, cease to exist;

8. The patent owner is paid adequate compensation in accordance with the economic value of the invention.

The paragraph on the circumstances under which a compulsory license is issued raises the most questions. The legislator does not provide a specific list of the circumstances that may cause certain problems in the practical application of this provision. In our opinion, they can be:

1. Non-use or under-utilization of the invention within the period specified by the legislation of Ukraine (according to the Law of Ukraine "*On protection of rights to inventions and utility models*" such period is 3 years from the date of publication of patent information or from the date of use of the invention has been discontinued);
2. Inadequate supply of the relevant object of intellectual property rights in the market;
3. Under-utilization of the patented invention as a reason for insufficient supply of the relevant object of intellectual property rights in the market;
4. Inconsistency of the conditions set by the patent owner with the conditions of licensing that have been developed in the market.

Besides, the person interested in using the invention should prove the fact of unreasonable refusal of the patent owner to issue a license to use this invention. It is not clear how exactly this circumstance should be proved. For example, the Resolution "*On Approval of the Procedure for Granting the Permission by the Cabinet of Ministers of Ukraine to Use a Patented Invention (Utility Model) Concerning a Medicinal Product*" (Order of the Cabinet of Ministers of Ukraine, 2013) states that the application for authorization to use patented invention, issued by the Cabinet of Ministers of Ukraine is accompanied by documentary evidence of unreasonable refusal of the patent owner to issue a license to use the patented invention at the request of the applicant.

However, as Klochko (2016) points out, it is actually quite difficult to simply provide documentary evidence without a court decision. For example, when it comes to making an offer to enter into an agreement, a person may make an offer to another person to enter into a license agreement in the form of a letter, for example, indicating the deadline for receiving a response. Acceptance of the offer will be a full and unconditional response to the person to whom the offer to enter into a contract is addressed, or if the person who received the offer to enter into a contract has acted in accordance with the terms of the contract within the deadline for the response.

The confirmation of the fact of submission of such a proposal can be, for example, a document certifying the fact of sending the relevant letter to the patent owner, or a printout of the relevant letter from an e-mail address. Such a document may confirm the fact that the person intended to enter into a license agreement and accordingly obtain the right to use the patent, and will certify the fact that the person who received such an offer refused, if he did not respond to the offer to enter into an agreement. This situation will indicate that a person has made every effort to obtain such permission from the patent owner before applying to the court or the Cabinet of Ministers of Ukraine for permission to use the invention without the permission of the patent owner. This fully corresponds to paragraph "*b*" of Art. 30 of the TRIPS Agreement, which we discussed above. In view of the above, we believe that the document confirming the application of a person for permission to use the invention (utility model) should also be taken into account when deciding on the use of the invention.

Another important issue in these legal relations is the payment of adequate compensation to the patent owner in accordance with the economic value of the invention. The legislator has

established that the amount of the fee for the use of intellectual property is set by choice of the parties in one of three forms: in the form of a fixed amount paid by the licensee at the end of the relevant calendar period (a lump sum payment; in the form of periodic payments (royalties), which is a license payment in the form of amounts paid periodically, depending on the volume of production or sales of products (goods, works, services) using the object of intellectual property rights; as a combination of lump sum payments and royalties (combined payment) (Order of the Cabinet of Ministers of Ukraine, 2007). The most common type of license fee for the use of the invention is royalties.

Note that the above resolution is mandatory for the application in the assessment of intellectual property rights; it describes the application of methodological approaches to property rights evaluation (income, expense, comparative), as well as discloses the specifics of certain stages of evaluation of intellectual property rights.

It should also be borne in mind that the government has set minimum rates for royalties (Order of the Cabinet of Ministers of Ukraine, 2003).

Thus, the peculiarities of the compulsory license, which allow to distinguish it from other types of licenses for the use of industrial property rights, are as follows:

1. Firstly, it is issued without the consent of the rights holder;
2. Secondly, it is issued in accordance with the conditions specified in the legislation in case of refusal of the patent owner to conclude a license agreement;
3. Thirdly, it is issued by the decision of the authorized body of State power;
4. Fourthly, it is a non-exclusive paid license;
5. Fifthly, it is issued in order to achieve a positive social effect, production development, introduction of new technologies, etc.;
6. Sixthly, it is used in relation to specifically defined objects of intellectual property rights (invention, utility model, industrial design, topography of integrated circuits) (Basai, 2014).

CONCLUSION

Ukraine is on the path of significant changes at the current stage of its development; the structure of economic relations is changing, which requires the necessity of paying special attention to the particular institutions of law (Kyslyi et al., 2020). One of these institutions is compulsory licensing. The possibility of applying compulsory licensing is enshrined at the international level (relevant agreements), and the corresponding provisions, which are contained in the national law of the WTO member countries. In Ukraine, the main document regulating this area in Ukraine is the Law of Ukraine "*On protection of rights to inventions and utility models*", Art. 30 of which details the procedure for granting permission to the interested person to use the invention in case when the latter is not used or under-utilized by the right holder.

Such restriction of the rights of the patent holder is possible in a judicial or administrative procedure.

In the first case, it should be proved that the invention has not been used or under-utilized in Ukraine for three years from the date following the date of State registration of the invention or from the date when the use of the invention was terminated. In addition, a person willing to obtain the right to use the invention should provide the court with documentary evidence of the unjustified refusal of the patent owner to issue a license to use the patented invention at the request of the applicant.

In the second case, the Cabinet of Ministers of Ukraine may decide on compulsory licensing in order to ensure public health, State defense, environmental safety and other public interests. In such a situation, certain conditions provided by the legislation of Ukraine should be met.

Thus, the use of the invention can be carried out without the consent of the right holder, but subject to compliance with all legal requirements. Compulsory license, which is issued contrary to the consent of the patent owner, although limits his (her) exclusive right to authorize the use of industrial property, but is aimed to prevent the abuse of the patent owner's rights, promotes the introduction of new, high-quality technologies, third parties, consumers and the State. General principles of issuing a compulsory license are defined in both international and national legislation.

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