THE SUPREME COURT OF APPEAL OF SOUTH AFRICA

CASE NUMBER: 449/96

In the matter between:

SYNTHETA (PTY) LTD APPELLANT

previously DELTA G SCIENTIFIC (PTY) LTD

and

JANSSEN PHARMACEUTICA NV 1ST RESPONDENT

NOVARTIS AG 2ND RESPONDENT

previously CIBA-GEIGY AG

CORAM: **HARMS, SCOTT, ZULMAN, PLEWMAN JJA and FARLAM AJA**

DATE OF HEARING: **11 SEPTEMBER 1998**

DATE OF JUDGMENT: **21 SEPTEMBER 1998**

JUDGMENT

PLEWMAN JA

This appeal concerns an application in terms of s 56 of the Patents Act No 57 of 1978 (the Act) for a compulsory licence in respect of a registered patent in circumstances and on grounds which are somewhat unusual. The appellant, Syntheta (Pty) Ltd, formerly Delta G Scientific (Pty) Ltd, is a subsidiary of a substantial public company, Sentrachem Ltd,the main business of which is concerned with chemical products. What is sought in the application is a licence under South African Letters Patent No 75/7193 in respect of an invention entitled "Triazole Derivatives" (the patent). The first respondent, Janssen Pharmaceutica NV, a major Belgian research company with worldwide interests in pharmaceutical agricultural and veterinary products, is the inventor and registered proprietor of the patent. First respondent is a subsidiary of a large American Corporation. The second respondent, Novartis AG, formerly Ciba-Geigy AG of Basel, is the registered exclusive licensee under the patent. It is a well known multinational chemical company with large

interests in the field of agricultural chemical products. It will be convenient when referring to the parties to describe first respondent as "the patentee" and second respondent as "Ciba".

The patent was granted under the 1952 Patents Act (37 of 1952) on a convention application claiming priority on the basis of two applications filed in the United States of America. The normal term of the patent expired on 17 November 1991. However, a five year extension of term was granted to the patentee following an application for prolongation made under s 39(1)(a) of the 1952 Act on the ground that the patentee had not derived adequate remuneration from the patent during its normal term. The present s 56 application was filed on 30 August 1995 and set down in February 1996. Judgment was given on 23 April 1996. The extended term was due to expire on 17 November 1996. It therefore had of the order of six months to run at the time of judgment. Streicher J, sitting as Commissioner of Patents, refused the application with costs but granted leave to appeal to this

Court in October 1996.

The patent relates to a novel group of chemical compounds consisting of triazole derivatives characterized by the nature of the side chain attached to the triazole nitrogen atom. The chemistry is complex, the formulae intimidating and the structures of the various compounds intricate. Happily the resolution of the disputes in issue does not demand a profound understanding of the science concerned. There are seven process claims in which specific starting materials are used to produce compositions useful in agriculture as fungicides. There are twenty six product claims. While a number of compositions can be (and are) produced following the teachings of the patent the concern of the appellants is limited to a product, propiconazole - a fungicide used extensively to treat diseases in cereals, bananas and coffee.

S 56 of the Act must be viewed in the light of its underlying purpose in the scheme of the Act. Beyond noting the essential

rationale, however, it is not necessary in this case (for reasons I give later) to embark on a detailed analysis of either the Act or the section itself. It will suffice to note that it is part of the theory upon which our patent law is based that the limited statutory monopoly afforded a patentee is seen as a means of encouraging inventors to put their inventions into practice because by this means they obtain the financial rewards their inventive gifts warrant. But what perhaps requires more emphasis in so far as s 56 is concerned is that by encouraging inventors to put their inventions to use the benefit to the public (an essential *quid pro quo* of the theory) is served. S 56 finds a counterpart in the patent legislation in all major industrial countries. The precise focus of that legislation varies from country to country and, indeed, from time to time. In the present Act s 56 was amended in 1988 and more recently in 1997. This case is concerned with the Act as it stood in 1996. The most recent amendments must therefore be ignored.

The appellant advanced its case in the founding affidavits on the basis (only) of s 56(2)(a) and (d) of the Act. It will be convenient to set out those sections together with ss (1) (with which they must be read) and ss (7) and (8):

> "**56. Compulsory licence in case of abuse of patent rights.** - (1) Any interested person who can show that the rights in a patent are being abused may apply to the registrar in the prescribed manner for a compulsory licence under the patent.
>
> .....
>
> (2) The rights in a patent shall be deemed to be abused if -
>
> (a) the patented invention is not being worked in the Republic on a commercial scale or to an adequate extent, after the expiry of a period of four years subsequent to the date of the application for the patent or three years subsequent to the date on which that patent was sealed, whichever period last expires, and there is in the opinion of the commissioner no satisfactory reason for such non-working; [or]
>
> .....
>
> (d)by reason of the refusal of the patentee to grant

a licence or licences upon reasonable terms, the trade or industry or agriculture of the Republic or the trade of any person or class of persons trading in the Republic, or the establishment of any new trade or industry in the Republic, is being prejudiced, and it is in the public interest that a licence or licences should be granted;

.....

(7) In determining the conditions on which any licence is granted the commissioner shall have regard to any relevant facts, including the risks to be undertaken by the licensee, the research and development undertaken by the patentee and the terms and conditions usually stipulated in licence agreements in respect of the subject-matter of the invention, between persons who voluntarily enter into such agreements.

(8) Any order of the commissioner under this section shall be made with a view to avoiding the abuse found by the commissioner to have been established.

....."

Abuse of the patent rights is the cornerstone of the provision. A jurisdictional fact which the appellant was required to demonstrate under (2)(a) was thus that the "patented invention" was not being

"worked" in the Republic on and to the requisite scale or extent. With regard ss (2)(d) a jurisdictional fact to be proved was a "refusal" to grant a licence on "reasonable terms".

The general rule, which can so far as this appeal is concerned be stated in its broad formulation and without reference to its refinements, is of course that an applicant must make out its case in the founding papers. The case which the appellant sought to make out has, as indicated, some unusual features. The licence it sought was one to produce only the product "propiconazole" and only "for the purposes of export to countries where no (corresponding) patent exists". This is amplified by the statement that it "does not seek a licence to sell propiconazole or propiconazole - containing compositions for use in South Africa". This is stated twice. The affidavit also makes it clear that no licence was sought in respect of the processes claimed (as appellant asserted that it had devised its own process based on starting materials not considered in the patent).

Finally it is said that if it delayed manufacture until November 1996 (the expiry date) it would lose ground in the external "generic fine chemical market". Its anticipated success in that field was said to be vital to its straitened financial position (the result of an incorrect commercial decision taken by its distributor). Thus it proclaimed the grant of the licence was "critical for [its] survival". This hardly suggests that any benefit to the South African public was a serious consideration.

With that as a background one may turn to what is said in relation to the jurisdictional facts. The introduction is a statement that "propiconazole in the form of a commercially useful formulation is sold in South Africa by [Ciba]" which is recorded as an exclusive licensee - and that the "active ingredient" is not (to the best of the deponent's belief) manufactured by either Ciba or the patentee in South Africa. It is then said: "Thus the patented invention i.e. the process for the production of propiconazole and propiconazole so

produced, is not being worked in South Africa on a commercial scale or to an adequate extent, and there is ... no satisfactory reason for such non-working."

This amounts, in truth, to little more than a recitation of the words of the subsection and is not a statement of facts from which the necessary legal conclusion can be drawn. The uses of and need for the product by the South African public and the desirability and feasibility of local production are not addressed. In particular what is overlooked is the fact that ss (2) is a statutory code. Importation is a topic addressed in ss 2(b) and (e) (which are not invoked). For the purpose of ss (2)(a) it will suffice if the patentee can show working (in Afrikaans "ge-eksploiteer") in any form. Non-working of the process claims is irrelevant because no licence is sought for the processes. Working of the product claims by importation is conceded in the paragraphs quoted above.

It is, in any event, also plainly established in the answering

affidavits that the invention is being worked where it is said that the market in South Africa (in the case of propiconazole) is being met by the importation by Ciba of the active ingredient and the making up thereof into an emulsifiable concentrate in South Africa. The answering affidavits in fact go further to state that the patentee and its licensee are "able fully to supply the South African market on reasonable terms". For the sake of completeness I might add that in the answering affidavits it is also asserted that sound economic reasons underlie the decision not to manufacture the active ingredient locally. These considerations are of course only relevant to further inquiries which could arise if the initial allegation of abuse was made out.

Since what I have set out above from the founding affidavits fails to establish an abuse there is no need to consider the discretionary aspects of the inquiry which arise for example under ss (7) and (8). I am thus of the view that no abuse under ss (2)(a) has

been made out and that appellant failed to make out its case on this ground.

When it comes to ss (2)(d) the founding affidavit is again lacking in essential facts. All that is stated is that the patentee was requested to grant a licence. The founding affidavit reads - "A royalty of 6% of [appellant's] selling price was offered. If this was agreed to, [appellant] suggested a licence agreement incorporating this royalty and including the usual provisions for such agreements could be drawn ..... I submit that this was an offer for a licence on reasonable terms. [The patentee] refused to grant a licence on these terms."

Counsel for appellant conceded that the onus appellant bore included that of establishing as a jurisdictional fact the reasonableness of the terms. What has been said in relation to ss (a) above is apposite here. A bald assertion does not establish facts necessary for a legal conclusion.

Again, when regard is had to the answering affidavit, it is

established that Ciba enjoyed a licence which was subject to a royalty of 6% but that this was regarded as "low" and that it was concluded only because Ciba was to bear significant development and registration costs which the patentee would then not itself have to bear or recoup. In appellant's case, of course, the licensee's position would also have to be considered in determining what would be a reasonable royalty and the recoupment of such additional costs would have to form a component in the computation of a royalty for any other licensee. The patentee's denial that 6% was reasonable was thus supported by the terms of Ciba's licence and not the contrary as appellant asserted.

The decided cases (see for example *Hoffmann-La Roche & Co A G's Patent* [1973] RPC 601 at 606) suggest that it is normal that the calculation of an appropriate royalty at the very least involves taking into account three elements namely (a) the patentee's expenditure on research and development; (b) the patentee's expenditure on

promotion; and (c) a servicing of the capital element to allow a reasonable return on the capital employed in (a) and (b). This will normally call, in a case like the present, for evidence as to the practice of companies in the field as to how current research is financed and recouped. It is true that details of this nature are to a large extent the confidential information of, in this case, the patentee. But that does not mean that a bare assertion can shift a tactical onus to the patentee to prove that 6% is not reasonable. To revert to the founding affidavits, however, there is no reason why appellants could not have provided facts from which conclusions (even if tentative) could be made. Far from doing so not even the price of the product in South Africa (or indeed elsewhere) is set out nor is there any reference to appellant's own cost structure. Given that it was at least in a position to manufacture, this would seem to have been a source of potentially helpful information. In short no serious attempt has been made to prove the essential jurisdictional facts. It follows that here too no

case of abuse was made out.

The court below held, in the first place, that the conclusion to be drawn from the facts was that appellant did not want a licence to ensure an adequate working of the patent in the Republic during the term of the patent. This is a conclusion which would seem to me to be one which can reasonably be drawn. I do not read the judgment to suggest that the learned judge was unconscious of the importance of a finding that an abuse had to be shown. I read the observation to reflect on whether a licence can, in terms of the section, be given to a party whose avowed objects are wholly unrelated to the purposes of the section. In this it would seem to me that the learned judge's approach was both logical and in accordance with the overall purpose of the section and one to which he was driven by the facts. I, however, prefer to place the decision on a narrower ground and I leave open the broader considerations which seem to me to underlie the learned judge's conclusion on this point. The learned judge also

held that the appellant had failed to prove that a 6% royalty was reasonable. In this regard his conclusion is matched by my own.

What I have said renders it unnecessary to deal further with the reasoning of the court *a quo*. It also renders any further analysis of the section or any more detailed discussion of the philosophy which underlies it unnecessary. Similarly it becomes unnecessary to discuss questions relevant to the discretionary elements of the section or the role of ss (7) and (8) and problems which could have arisen from the fact that the patent has in the interim finally expired. The applicant failed to make out a case for the grant of a licence. The appeal must fail. The order is:

The appeal is dismissed with costs including the costs of two counsel.

C PLEWMAN JA

CONCUR:

HARMS JA)
SCOTT JA)
ZULMAN JA)
FARLAM AJA)