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Patent vs Pandemic: Ensuring Patents Save Lives

These are trying, stressful, and uncertain times, even for the optimist. As the number of confirmed cases of COVID-19 rise and hospitals begin to fill, the need for medicine and medical supplies is at the forefront of everyone's mind. The search is on for rapid and innovative solutions. But what if that brilliant solution treads on a patent?

While a scenario like this was recently misreported in Italy, it is a very realistic situation. Imagine this: Company A struggles to supply hospitals with medical equipment. Company B enters the picture and reverse engineers the original piece of equipment, finding a new way to make it using a faster process. But Company A has a patent on the medical equipment, granting them an exclusive right to make, use, and sell it. Can Company A sue Company B?

Similarly, on March 20, 2020, Prime Minister Justin Trudeau announced a plan to mobilize businesses to help fight the spread of COVID-19. Manufacturers that do not normally manufacture patented medical equipment might now have to. Do manufacturers need to negotiate a license?

A patent owner's rights do not dissolve in the face of a crisis. They must be respected. However, the Canadian government has anticipated the above scenarios and yesterday legislated a "fast-track" to authorizing use by the government or other person in this trying time. This means that, in my first example above, while Company A does have the right to sue Company B, the Canadian government can now stop that lawsuit in its tracks and step in to authorize use of the patented invention by Company B. In my second example, instead of protracted licensing negotiations between the patentee and new manufacturers, Canada can step in to authorize that use.

The New Legislation

The power described above can be found in *An Act respecting certain measures in response to COVID-19*, which received Royal Assent on March 25, 2020. The government has added a sub-section under s 19 of the *Patent Act*:

> 19.?4 (1) The Commissioner shall, on the application of the Minister of Health, authorize the Government of

> Canada and any person specified in the application to make, construct, use and sell a patented invention to the extent necessary to respond to the public health emergency described in the application.

Ordinarily, section 19 of the *Patent Act* allows the government to apply to the Commissioner of Patents for authorization to use a patented invention if the government has tried to negotiate a license from the patentee and failed. Section 19.1(2) does away with the need for the government to negotiate during cases of "national emergency or extreme urgency or where the use for which the authorization is sought is a public non-commercial use." The government may apply directly to the Commissioner, who will set the terms of use and reasonable renumeration owed to the patentee.

The new legislation now expands on this power in several ways. First, in its plain language, s 19 only allows the Commissioner of Patents to authorize use by a government body. The grant would then have to be extended to a third party by way of sub-license, by making the third party a Crown agent, or such similar mechanism. Under the newly enacted s 19.4(1), the Commissioner is now allowed to **directly** authorize the government and third party, such as a manufacturer.

Second, the new legislation also alters the renumeration owed to the patentee. While s 19(4) would ordinarily govern renumeration, the government has added s 19.4(5). Significant differences are bolded in the text below:

> 19.4 (5) The Government of Canada **and any person authorized under subsection (1)** shall pay the patentee any amount that the Commissioner considers to be adequate remuneration in the circumstances, taking into account the economic value of the authorization **and the extent to which they make, construct, use and sell the patented invention**.

The wording of s 19(4) of the *Patent Act* states that the "authorized user" shall pay the patentee, the authorized user either being the Government of Canada or the government of a province. Section 19.4 (5) now contemplates payment by the third party to the patentee.

On its face, this provision is logical. In the normal course of business, the direct user of the patent would have a license in place with the patentee. However, the COVID-19 crisis is hardly usual times. The government seems to have made an effort to avoid being the sole entity responsible in paying royalties to the patentee. In applications of the previous language of s 19, the government has made orders indemnifying a manufacturer for

infringement and obligating themselves to pay the patentee reasonable compensation after the fact. See for example *The Queen v The Secretary of State of Canada and Aluminum Company of Canada Ltd* (SCC); *The King v Irving Air Chute Inc*. , (SCC). Does the new section 19.4(5) avoid this scenario?

Practically, it might not. Persons named and authorized under the new section 19.4 will still be negotiating contracts for the supply of goods and can likely ensure in those contractual terms that they will be adequately compensated for any royalty payments. Where a difference may be felt is the resolution of any disputes arising from renumeration under this section. Patentees now may seek payment from the government as well as third parties.

The second major change to the renumeration under s 19 is the additional consideration that the Commissioner must look to when rendering adequate renumeration. Ordinarily, renumeration is to be decided “in the circumstances” and considering “the economic value of the authorization.” Now, the Commissioner must also consider the extent to which the authorized user makes, constructs, uses or sells the patented invention. Overall, this section allows the Commissioner to consider both the extent of the pandemic situation alongside the practical and economic value of such a license.

Where we can turn for guidance on renumeration is the application of the former s 19 during war times. Under the previous language of this section, the government was to provide “reasonable compensation.” Reasonable compensation was understood in the 1953 Supreme Court of Canada case of *The Queen v The Secretary of State of Canada and Aluminum Company of Canada Ltd* to be “an amount of money as would be arrived at between a willing licensor and a willing licensee bargaining on equal terms.” In that case, the Supreme Court applied principles of renumeration under s 19 of the *Patent Act,* to determine renumeration owed by the Crown with respect to a war-time Order-in-Council:

> In my opinion, where the product manufactured under the licence is, as was the case with aluminum in the recent war, required almost exclusively for war purposes, the licensor should not be permitted to exploit the necessity of the nation by exacting an excessive royalty. On the other hand, he should not be required to accept less than a fair remuneration by reason of the fact that he is dealing with the Crown and may, accordingly, by the exercise of legislative power be required to take such amount as Parliament may see fit to allow, or indeed be paid nothing.

However, the Honourable Justice Locke stated the fact that the country was at war, and that the Government was practically the sole customer for the patented invention, were matters to be considered in estimating what, under such circumstances, a willing licensor and a willing licensee would have agreed upon.

One could expect that these same principles would be applied when determining compensation for use of a patent after a pandemic.

Parliament has created a faster mechanism by which industry can mobilize to fight COVID-19 while still considering the rights of the patent holder. However, numerous questions remain unanswered. The quantum of appropriate renumeration to the patent holder will be an interesting area to watch.