Republic of the Philippines
SUPREME COURT
Manila

FIRST DIVISION

G.R. No. 82542 September 29, 1988

BARRY JOHN PRICE, JOHN WATSON CLITHERON and JOHN BRADSHAW, Assignors to ALLEN & HANBURYS, LTD., petitioners,

vs.

UNITED LABORATORIES, respondent.

Castillo, Laman, Tan & Pantaleon Law Offices for petitioners.
Teodoro B. Pison for respondent.

GRIÑO-AQUINO, *J.:*

The petitioners are the owners-assignees of Philippine Patent No. 13540 which was granted to them on June 26, 1980 for a pharmaceutical compound known as "aminoalkyl furan derivatives." On October 1, 1982, respondent United Laboratories, Inc. (or UNILAB) filed in the Philippine Patent Office a petition Inter Partes Case No. 1683, "United Laboratories, Inc. versus Barry John Price, John Watson CLITHERON and John Bradshaw, assignors to Allen & Hanburys Ltd.') for the issuance of a compulsory license to use the patented compound in its own brands of medicines and pharmaceuticals and to sell, distribute, or otherwise dispose of such medicines or pharmaceutical preparations in the country. The petition further alleged that the patent relates to medicine and that petitioner, which has had long experience in the business of manufacturing and selling pharmaceutical products, possesses the capability to use the subject compound in the manufacture of a useful product or of making dosage formulations containing the said compound.

After the hearing, the Philippine Patent Office rendered a decision on June 2, 1986, granting UNILAB a compulsory license subject to ten (10) terms and conditions No. 3 of which provides as follows:

> 3. By virtue of this license, petitioner shall pay the respondent a royalty on all license products containing the patented substance made and sold by the Petitioner in the amount equivalent to TWO AND ONE HALF (2.5) PER CENT OF THE NET SALES in Philippine currency. The terms 'net sales' means the gross billed for the product pertaining to Letters Patent No. 13540 less-
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> > a) Transportation charges or allowances, if any, included in such amount;
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> > b) Trade, quantity or cash discounts and broker's or agent's or distributor's commissions, if any, allowed or paid;
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> > c) Credits or allowances, if any, given or made on account with reflection or return of the product previously delivered; and
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> > d) Any tax, excise or government charge included in such amount, or measured by the production, sale, transportation, use or delivery of the products.

In case Petitioner's product containing the patented substance shall contain one or more active ingredients as admixed product, the royalty to be paid shall be determined in accordance with the following formula:

Net Sales on Value of
Admixed Product Patented Substance

Royalty = _____ x 0.025 x _____

(Value of Pa Value of
tended Substance) Active Ingredients

4. The royalties shall be computed after the end of each calendar quarter for all goods containing the patented substance herein involved, made and sold during the preceding quarter and to be paid by the Petitioner at its place of business on or before the thirtieth day of the month following the end of each calendar quarter. Payments should be made to Respondent's authorized representative in the Philippines; (pp. 35-36, Rollo.)

The patentees appealed the decision to the Court of Appeals (CA-G.R. No. SP-09308), which dismissed the appeal on December 4, 1987. They have come to his Court praying for a review of the Appellate Court's decision on the grounds that it erred:

1. in upholding the Director's unilateral determination of the terms and conditions of the compulsory license, without affording the parties an opportunity to negotiate the terms and conditions freely and by themselves;

2. in finding that the respondent possesses the legally required capability to make use of the petitioner's patented compound in the manufacture of a useful product;

3. in affirming the Director's award of the entire patent to the respondent, when only one claim of the patent was controverted and

4. in considering evidence that UNILABs capability to use the compound was acquired after, not before, filing its petition for compulsory licensing.

The first assignment of error has no merit. The terms and conditions of the compulsory license were fixed by the Director of Patents after a hearing and careful consideration of the evidence of the parties and in default of an agreement between them as to the terms of the license. This he is authorized to do under Section 36 of Republic Act No. 165 which provides:

Sec. 36. *GRANT OF LICENSE*.—If the Director finds that a case for the grant of license under Section 34, hereof made out, he may order the grant of an appropriate license and in default of agreement among the parties as to the terms and conditions of the license he shall fix the terms and conditions of the license in the order.

The order of the Director granting a license under this Chapter, when final, shall operate as a deed granting a- license executed by the patentee and the other patties in interest.

and under Section 35 of P.D. 1263, amending portions of Republic Act No.165 which reads:

Sec. 35. *GRANT OF LICENSE*.—(1)If the Director finds that a case for the grant of a license under Sec. 34 hereof has been made out, he shall within one hundred eighty (180) 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.

The Court of Appeals found that the 2.5% royalty fixed by the Director of Patents 'is just and reasonable.' We quote its observations hereunder:

> Respondent-appellant contends further that the 2.5% royalty rate is unfair to respondent-appellant as to amount to an undue deprivation of its property right. We do not hold this view. The royalty rate of 2.5% provided for by the Director of Patents is reasonable. Paragraph 3, Section 35-B, Republic Act No. 165, as amended by Presidential Decree No. 1263, provides:
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> > (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 per cent (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 per cent (3%) of the net wholesale price (as defined in Section 34-A) of the patented commodity and/or commodity manufactured under the patented process; the same rule 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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> Thus, said provision grants to the Director of Patents the use of his sound discretion in fixing the percentage for the royalty rate and We find that the Director of Patents committed no abuse of this discretion. Also, there is always a presumption of regularity in the performance of one's official duties.
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> Moreover, what UNILAB has with the compulsory license is the bare right to use the patented chemical compound in the manufacture of a special product, without any technical assistance from herein respondent-appellant. Besides, the special product to be manufactured by UNILAB will only be used, distributed, and disposed locally. Therefore, the royalty rate of 2.5% is just and reasonable. (pp. 10-11, CA Decision, pp. 44-45, Rollo)

Furthermore, as pointed out in the 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 Ingelhelm, GMBH, IPC 929, July 27, 1981; United Laboratories, Inc. vs. Bristol-Myers Company, IPC 1179, Aug. 20, 1981; United Laboratories, Inc. vs. E.R. 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 v. 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 1627, 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).

The Director's finding that UNILAB has the capability to use the patented compound in the

manufacture of an anti-ulcer pharmaceutical preparation is a factual finding which is supported by substantial evidence, hence, the Court of Appeals did not commit a reversible error in affirming it (Philippine Nut Industry, Inc. vs. Standard Brands, Inc., 65 SCRA 575; Sy Ching vs. Gaw Liu 44 SCRA 143; De Gala Sison vs. Manalo, 8 SCRA 595; Goduco vs. Court of Appeals, 14 SCRA 282; Ramos vs. Pepsi-Cola Bottling Company of the P.I., 19 SCRA 289. Of indubitable relevance to this point is the evidence that UNILAB has been engaged in the business of manufacturing drugs and pharmaceutical products for the past thirty (30) years, that it is the leading drug manufacturer in the country, that it has the necessary equipment and technological expertise for the development of solid dosage forms or for tablet, capsule, and liquid preparations, and that it maintains standards and procedures to ensure the quality of its products. Even if it were true, as alleged by the patentee (although it is denied by UNILAB), that its capability to use the patented compound was only acquired after the petition for compulsory licensing had been filed, the important thing is that such capability was proven to exist during the hearing of the petition.

The patented invention in this case relates to medicine and is necessary for public health as it can be used as component in the manufacture of anti-ulcer medicine. The Director of Patents did not err in granting a compulsory license over the entire patented invention for there is no law requiring that the license be limited to a specific embodiment of the invention, or, to a particular claim. The invention in this case relates to new aminoalkyl derivatives which have histamine H^2 blocking activity, having the general formula (I) and physiologically acceptable salts, Noxides and dehydrates thereof. The compound ranitidine hydrochloride named in Claim 45 is also covered by General Claim I and several other sub-generic claims. Therefore, a license for Claim 45 alone would not be fully comprehensive. In any event, since the petitioner will be paid royalties on the sales of any products the licensee may manufacture using any or all of the patented compounds, the petitioner cannot complain of a deprivation of property rights without just compensation.

WHEREFORE, the petition for review is denied for lack of merit.

SO ORDERED.

Narvasa, Cruz, Gancayco and Medialdea, JJ., concur.